بيت المال الخليجي

Bait Al Mal Al Khaleeji (BMK)

PILLAR 3 REGULATORY CAPITAL DISCLOSURES

For the period ended December 31, 2021

ص.ب: 9177 الدمام 31413
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مرخص من هيئة السوق المالية رقم الترخيص ٠٨١٢٣-٣٧
شركة مساهمة مقفلة سعودية . رأس المال المدفوع ٨٠ مليون ريال سعودي . س.ت 2050065112

Pillar III Disclosure:

This disclosure is presented by Bait Al Mal Al Khaleeji ("BMK") licensed by Capital Market Authority ("CMA") license number 08123-37.

Overview:

This disclosure sets the minimum requirements for the annual market disclosure of information as referred to by the article 68 of the Prudential Rules (PRs).

Purpose:

The purpose from this disclosure is for the market participants to assess the key pieces of information on the scope of application, capital, risk exposure, risk assessment processes, and hence the capital adequacy of the APs.

Capital Structure:

Amount of Tier I capital:

Description	**Amount 2021**	Amount 2020
Paid-up capital	80,000,000	80,000,000
Audited retained earnings	(30,153,144)	(30,677,173)
Intangible Assets	-	(97)
Total amount of Tier 1 capital	**49,846,856**	**49,322,730**

Amount of Tier II capital:

Description	**Amount 2021**	Amount 2020
Credit risk	24,027,300	27,934,900
Market risk	124,699	2,768,065
Operational risk	1,197,358	1,429,250
Total Tier 1	25,349,357	32,132,215
Concentration risk	11,584,014	7,139,777
Legal risk	50,000	-
Strategic risk	214,292	171,433
Reputational risk	2,035,000	1,887,000
Total Tier 2	13,883,306	9,198,210
ICAAP capital requirement	39,232,663	41,330,425
Additional capital required	(695,234)	(753,891)
Capital Base	49,846,856	49,322,730
Surplus (Deficit) in Capital Base	9,918,959	7,238,414
Capital Ratio	1.25	1.17

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Capital Adequacy:

Risk appetite is defined as the magnitude of all risks that the Company is willing to undertake in order to achieve its desired business objectives. Risk appetite is reflected by risk indicators, and is managed by well-defined risk limits based on the risk area.

Currently, the ICAAP represents the capital requirements that are minimally required to meet the business needs and cover future losses that may arise to the Company.

The business strategy of the Company will be defined in alignment with the risk strategy and appetite of the Company keeping in view the same action plan that the Company is following the foregoing approach.

Timing

- The effective date of ICAAP calculations for the purpose of its submission to authorities is 30 May 2022. The events during the intervening period have been considered for their potential impact on the ICAAP. The major events noted during the period were swap of equity investment with the unit of mutual funds (equity based) under management. The plan to dispose real estate investments. These events do not expect to have any change in the model or basis on which ICAAP has been prepared because swap of investment is just another form of investment responsive to same risk profile. However, investment in real estate is still considered as a high risk exposure because it is being the quantum of investment involved in it.

- The capital has been assessed over a horizon of one year either using a historical data or budgeted growth factors. Since, the Company is being engaged in asset management business and most of its assets either in the short term category or planned to be utilized in the same horizon as such: equity investments, later swapped with mutual fund investments, are being held primarily for trading purposes and real estate investments have been planned to be diluted in upcoming period.

Risk Management:

Pillar 1 (Credit risk, market and Operational risk) & Pillar 2 (Concentration risk, liquidity, legal, strategic, and Reputational risk) are monitored and controlled according to agreed policies and procedures which handle large exposures. Other risks are identified and monitored by the Board, the Chief Executive Officer and Management team by identifying and subject to regular review at a frequency reflecting the nature of the risk and degree of business threat.

BMK over-riding approach to risk is to safeguard the assets of its customers, treating customers fairly, BMK Mission Statement highlights the objective of delivering an increasing return to its shareholders.

The Company's assessment of risk profile led to the identification of following risk under:

1) Pillar I

   a) Credit risk;
   b) Market risk; and
   c) Operational risk.

2) Pillar II

   a) Concentration risk;
   b) Liquidity risk;
   c) Legal risk
   d) Strategy risk; and
   e) Reputational risk

The characteristics, assessment and methodology followed in assessment of each of the above risks are detailed hereunder:

Organizational Structure of Risk and Compliance Department:

The Policies and Procedures Manual provides the Company with guidelines, policies and procedures for risk management. Moreover, this Policies and procedures are reviewed periodically.
As all new clients are reviewed through relationships Customers, compliance, compliance and back office, and during this process extensive measurement of customer suitability is done and creditworthiness in advance.
This team is responsible for the approval decisions on the credit capacity of the customer Including selection, implementation, performance and supervision. In the event that the principal credit amount exceeds a certain amount, the management committee must also approve it.
Noting that the politicians of Bait Al Mal Al Khaleeji Financial Company do not follow the policy of granting credit facilities to customers.

Scope & nature of risk reporting and measurement systems:

Credit risks fall within the first pillar of the financial adequacy rules issued by the Capital Market Authority and include Real Estate Investment, banks and direct investments in investment portfolios, and appropriate risk weights are applied. In accordance with the rules of financial adequacy in such exposures.(Which included at Audited CAM 2021)
BMK Company puts its liquidity in local banks and uses capital directed at credit risks as an alternative to internal capital requirements that fall under the second pillar of the adequacy rules Finance (Pillar 2).

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BMK House Company is currently using the methodology defined in the requirements of the rules of the Financial Efficiency Regulations of the Capital Market Authority to calculate the regulatory capital for credit risk.
BMK Company has implemented the framework of the internal capital adequacy assessment process (ICAAP).
In accordance with the Capital Market Authority's standards for measuring exposure to risks, the growth of the statement of financial position has been measured, along with
the guidelines of the Authority's Financial Adequacy Regulations The financial market to ensure that the capital and sufficient liquidity are in place to support its business
activities.

a) Credit risk

The Company does not regularly make investments in any of the categories other than HFT. Hence, credit risk is identified pertaining to its only investment in real estate sector, which mainly comprises of land.

The Company calculates the capital charge for credit risk by applying the Standardized Approach as used in regulatory return for Pillar I. In using this approach, all balances (Company and others assets) and investments, excluding the trading portfolio, are categorized into the relevant buckets as prescribed in guidelines. Appropriate risk weights, based on credit ratings of counterparties are applied to determine the Company's overall credit risk weighted assets. The Investment portfolio of the Company includes investments in shares of land i.e. real estate, which have been classified as investment properties being held to be used in the business. The investment property is carried at cost and is subject to credit risk under the standardized approach as promulgated by CMA through its regulation.

ICAAP purposes it is taken at regular level and has been taken into account in the concentration risk. Additionally, the management has commenced the available option to utilize the land into business opportunity and the fair value as per the valuation from two independent evaluators is higher than its book value. Accordingly, in the presence of viable utilization plan it is not considered a direct high credit risk item. This is despite the rise in the cost of capital from SR 39,232,663 (2020: SR 41,330,425) to SR 25,349,357 (2020: SR 32,132,215). Following is the GAP Analysis schedule:

S No	Description	Balance as at 31 Dec 2021	Maturity 0-30 days	1 - 3 months	3 - 6 months	6 months - 1 year	1 year - 2 years	2 years - 5 years	more than 5 years
	ASSETS								
	Cash & cash equivalents	2,070,257	600,000	400,000	1,070,257	-	-	-	-
	Financial Assets at fair value through profit and loss- Non current	18,163,130	-	18,163,130	-	-	-	-	-
	Prepayments and other receivable	1,159,400	350,000	420,000	389,400	-	-	-	-
	Right of use assets	849,345	30,000	90,000	90,000	180,000	360,000	99,345	-
	Financial Assets at fair value through profit and loss- Current	692,774	50,000	150,000	-	250,000	242,774		
	Receivable - Amount due from related parties	6,709,473	-	-	5,640,000	1,069,473	-	-	-
	Investment properties	28,572,214	-	-	-	28,572,214	-	-	-
	Property and equipment	1,676	-	-	-	1,676	-	-	-
	Total assets	58,218,269	1,030,000	19,223,130	7,189,657	30,073,363	602,774	99,345	-
	Total assets after 5% stress of run offs	55,307,356	978,500	18,261,974	6,830,174	28,569,695	572,635	94,378	-

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LIABILITIES									
Accrued and other liabilities	765,535	243,153	260,000	262,382	-		-	-
Zakat payable	232,985	-	-	232,985	-	-	-	-
Short term borrowings	6,320,435	-	-	6,320,435		-	-	-
Lease liability	283,116	28,000	72,000	183,116	-	-	-	-
Lease liability - non current	566,229	35,000	105,000	105,000	210,000	111,229	-	-
Employee termination benefits	203,113	-	-	-	50,000	153,113	-	-
Total liabilities	8,371,413	306,153	437,000	7,103,918	260,000	264,342	-	-
Net gap		672,347	17,824,974	273,744-	28,309,695	308,293	94,378	-
Cumulative net gap		672,347	18,497,321	18,223,577	46,533,272	46,841,565	46,935,943	46,935,943
Operational cashflows available stressed at 10%		168,162	16,706,817	5,271,316	387,000	542,497	89,411	-
Net GAP after cashflows		840,509	34,531,791	4,997,572	28,696,695	850,790	183,788	-
Average funding requirement upto 1 year		-	-	-	-			
Total annual funding requirement					-			

App III: Illustrative Disclosure on Credit Risk's Risk Weight

Risk Weights	Governments and central banks	Administrative bodies and NPO	CMIs and banks	Margin Financing	Corporates	Investments	Securitization and resecuritisation	Investment funds	Listed shares	Deferred expenditure / accrued income	Other assets	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%													
20%			2,070									414	58
50%													
100%													
150%									18,163			27,245	3,814
200%													
300%										7,869		29,676	4,155
400%						28,572						114,289	16,000
500%													
714%											849		
Average Risk Weight												171,624	
Deduction from Capital Base												24,027	

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b) Market risk

The market risk of the Company lies in Held for Trading "HFT" equity investments. This risk is being assessed as per its risk management policy manual using a Value at Risk "VaR" model. The Company's HFT exposure's VaR is computed based on 1 year historical data using a 99% confidence level with the assumption of 1 day holding period.

For the purposes of ICAAP a conservative approach is following this VaR which is compared with regulatory capital requirement and higher amount is considered. Currently, the VaR is lower than regulatory allocated capital. Hence, the regulatory charge is also considered as internal capital requirement as well.

VaR is a widely used measure for the assessment of portfolio risk. However, it has a drawback of excusing risk correlation co-efficient, but it is still widely used so far has proven to be an appropriate measure of portfolio analysis and management.

c) Operational risk

Operational Risk within the Company mainly originates from the following events:
a) Fraud (internal and external);
b) Error resulting from the direct or indirect actions of staff;
c) Risk of information systems failure;
d) Absence of standard operating procedures; and
e) Non-adherence to policies and procedures;

The Company has a well-defined policies and procedures manual duly approved by the Board of Directors. Policies and procedural manual is designed in such a way to prevent, detect and correct inherent risks in the business.

Operational risk, being moderately significant, is effectively managed through control processes established in standard operating procedures for each business line, obtaining insurance where appropriate, as well as a comprehensive internal audit and review process.

Assessment of the operational risk is performed through event/instance analysis on the basis of criteria included in its risk management policy framework. The management of operational risks in the three infrastructural elements namely: People, Systems and Processes of the Company.

The approach for operational risk followed is same as used in regulatory return. Since, the budgeted position of the Company is growing, the capital charge allocated for regulatory purposes is considered to be the best representative of its appetite.

d) Concentration risk

The financing and investment portfolio of the Company consists of exposures in two economic sectors namely equity portfolio/investment funds and real estate. Since all the equity investments are classified as HFT and individually none of those hold a significant value or excessive exposure only investment in land is considered for the purposes.

Any exposure over and above the 25% of the total available capital of the Company is considered as highly concentrated and is considered for risk measurement. The resultant amount is factored by 14% to arrive at capital charge.

The capital limit is taken from regulatory guidelines as the Company is allowed to have an exposure over and above this amount.

e) Liquidity risk

The Company's liquidity risk is assessed through mismatch of assets and liabilities maturities over at least next one year's horizon.

The liquidity risk is assessed using the maturity ladder approach which involves analyzing liquidity gaps in different time periods. This approach enables the Company in assessing the gaps between the inflows and the outflows so that remedial measures could be taken in time.

The negative gaps due to mismatches between the maturities of the assets and liabilities are taken and adjusted with operational cash flows that are already stressed at 10%. An annual average funding requirement is computed using the net negative gaps and a cost of fund is arrived at. This cost is taken as capital charge because it is presumed to have direct effect on the earning.

Measurement of Liquidity Risk:

Liquidity risk is the risk that the company will not be able to meet its contractual obligations when they fall due or Emergency crises. The company ensures that it has the right amount of liquidity in addition to making sure that Composition and liquidity must be WA in the backing of its assets.

The impact of Liquidity Risk on capital adequacy, further impacts considered for Liquidity Risk by balancing between illiquid investments vs liquid to ensure the impacts on short- and medium-term liquidity needs. The company maintains healthy liquid assets to avoid any liquidity risk.

The following table summarizes the liquidity ratios as of 31 December 2021:

Liquid assets to total assets	18.27%
Short term assets to short term liabilities	1.39%

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Currently, the maturity mismatch of the Company is in positive condition, hence, the measured amount of risk is also Nil.

Currently the liquidity is monitored by the management and BOD through projected cash in certain future period.

f) Legal risk

Legal risk is arising from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. Legal risk also includes risk arising from the lack of proper documentation of contracts.
The Company assesses the extent of legal risk by monitoring certain indicators which are indicative of risk concerns. The indicators are:
a- Internally identified erroneous non-compliances;
b- History of non-compliance events identified by CMA;
c- No. of cases filed against the company;
d- Duration of time for each case;
e- Strength of documentation of each case. e.g. the strength of collateral documentation;
f- Value of the claim; and
g- Complexity involved in the case i.e. regulatory concerns, cross-border cases.

The risk is measured by taking the un-avoidable and covered legal cases against the Company. These are factored at business growth factor to arrive at capital charge amount.

g) Strategic risk

Strategic risk arises from inaccurate business decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the economic environment.
The sources of strategic risk are categorized into 3 components:
a- Strategic governance and oversight;
b- Strategic formation; and
c- Strategic implementation

Strategic risk is assessed using the negative variance between actual return on assets and budgeted return on assets which using a 99% confidence level are used to compute the worst case loss. This loss after dividing with budgeted net asset employed provides the worst loss case capital charge. This capital charge is decayed over a score where the average score from a survey within the organization is used to choose the relevant charge.
Those factors used for scoring are also used to analyse the qualitative aspect of strategy alignment.

h) Reputational risk

The reputation risk can arise from following sources:
a- No. of complaints lodged by customers;
b- Failure to comply with regulatory or legal obligations;

c- Failure to deliver minimum standards of service and product quality to customers;
d- Unethical practices in the conduct of business;
e- Failure to achieve financial performance targets;
f- Association with suppliers, partners and alliances with poor reputations; and
g- Employee dissatisfaction and negative publicity by media.

Due to limitation of data and any other measure in the absence of the Company's market capitalization the following steps are used to qualitatively keep the risk under controlled.
- Effective communication with stakeholders; and
- Enforcement of controls on governance, business and legal compliance.

i) Capital planning and stress tests:

The company started applying stress tests in 2016, which is an integral part of risk management procedures and capital, which is one of the most important exchanges for understanding and absorbing the risk capital that the company may be exposed to in certain circumstances Somewhat difficult which may arise due to economic, strategic, political and other factors related to the environment the work.

The strong capital position is a very important factor for the implementation of the Company's business strategy and to create a competitive strength.

The company's strategy focuses on the company's long-term capital, which aims to build investments or financial activities.

The company aims to maintain sufficient capital limits to achieve the following objectives:
-To bear the risks necessary for the company's business.
-Increased growth.
-Meet the capital requirements that arise from market shocks and stress situations.

The company has developed strategic plans and an internal estimation of the capital value on an annual basis.
And that these plans
It included a risk assessment based on the company's policy and on the ability to take risks and control adequate lines
Capital to support the company's strategy. **First take into account the following points:**
- The main activities of financing and investment based on the business plans of the various business units.
- The structure and sources of financing, liabilities, and shareholder equity to support asset growth, taking into account
The need to maintain strong liquidity.

- Maintaining the requirements of capital adequacy ratios and regulatory capital.

It also deals with the process of internal evaluation of the capital needed to face the risks that the company is exposed to in many areas
Cases of planning and assessment of capital adequacy and types of assessment of adequacy of risk materials and analysis of capital requirements according to
For different stress scenarios and the capital required to cover all types of material risks arising from
Current data, future work, internal organization and ways to manage the above on an ongoing basis.

Defines the general framework for the internal assessment process for the capital required to meet the risks at the company and corporate level.

Capital required to support current activities and expected risk to capital under normal circumstances
Under pressure, and issuing a report on the process of internal evaluation of the capital required to face the risks that pass

It is carried out by the company on an annual basis and is approved by the executive management and the board of directors.

To identify and measure the following types of risks, according to the method of internal assessment of the capital required to face

The risks to which the company is exposed:
- The risks that are used in the first pillar (credit risk, operational risk and risk market).
- Risks that are not fully utilized in the first pillar (reputational risk and liquidity risk concentration risk and strategic risk).
- External factors, including changes in the economic environment and regulations.

The company realizes that if they are unable to meet the minimum capital required by the Market Authority Finance will seek to find alternative ways to solve the problem, such as pumping more capital.