

Investcorp Saudi Arabia Financial Investments Co.

CMA LICENSE NUMBER: 07088-36

PILLAR III Disclosure

**AS OF JUNE 30, 2021
FISCAL YEAR 2021**

INVESTCORP SAUDI ARABIA FINANCIAL INVESTMENTS CO.			
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1 Overview

This report is prepared by Investcorp Saudi Arabia Financial Investments Co. ("ISAFIC" or the "Company") in accordance with the requirements of Article 68 of the Prudential Rules issued by the Saudi Arabian Capital Market Authority ("CMA").

The capital adequacy ratios/figures presented in this report correspond to the capital adequacy information as reported in note 16 of the ISAFIC audited financial statements for the fiscal year 2021.

This document is supported by Investcorp's Risk Management Department ("Risk Management") pursuant to the amended Support Services Agreement between the Company and Investcorp Holdings B.S.C ("Investcorp").

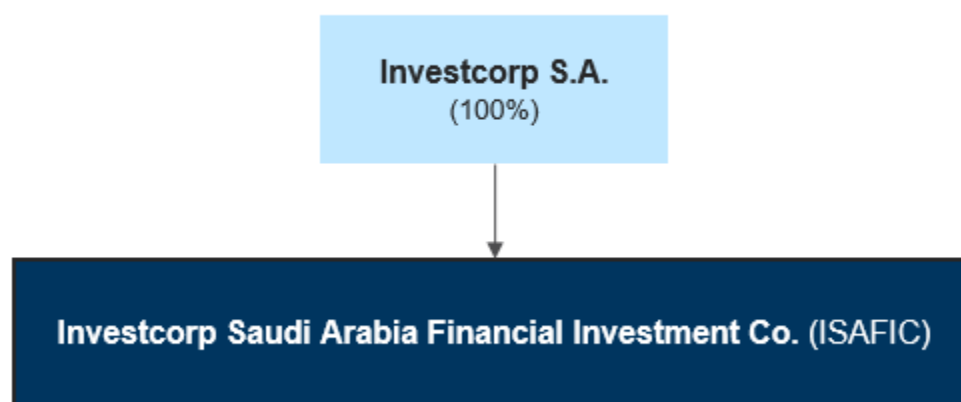
1.1 Background

Investcorp Saudi Arabia Financial Investments Co. is a Saudi Arabian joint stock company registered in Riyadh, Saudi Arabia under commercial registration number 1010254275 dated 1 Sha'aban 1429H (corresponding to 3 August 2008) and licensed by the CMA under license number 07088-36 dated 4 Dhul-Qadah 1428H (corresponding to 9 November 2007). The Company is licensed by the CMA to carry on Arranging, Advising, Managing and Custody services (as defined by the CMA) in connection with investments by clients in alternative investment products (including investment funds) offered on a private placement basis by Investcorp Management Services Limited (IMSL) in Saudi Arabia.

1.2 Shareholding structure

The company is owned 100% by Investcorp S.A. The company's share capital amounts to SR 55,876,000 divided into 5,587,600 shares of SR 10 each.

The shareholding structure is as follows:



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2 Capital Structure

The Company's share capital amounts to SR 55,876,000 divided into 5,587,600 shares of SR 10 each.

2.1 Tier-1 Capital

Tier-1 Capital comprises paid-up capital, audited retained earnings; and reserves (other than revaluation reserves). As of June 30, 2021 ISAFIC Tier-1 Capital is as follows:

Investcorp Saudi Arabia Financial Investments Co.	SAR '000
Paid up Capital	55,876
Audited Retained Earnings	4,207
Reserves	1,288
Tier-1 Deductions – Deferred Tax Assets	(32)
Total Tier-1 Capital as at June 30, 2021	61,339

2.2 Tier-2 Capital and Total Capital Base

As of 30 June 2021, the Company does not have Tier 2 capital as per article 4 and 5 of the Prudential Rules.

The total eligible capital (Tiers 1 and 2) calculated in accordance with CMA guidelines as of June 30, 2021 is as follows:

Investcorp Saudi Arabia Financial Investments Co.	SAR '000
Tier-1 Capital	61,339
Tier-2 Capital	-
Total Capital base *	61,339

* Further information on capital structure is set out in Appendix 1

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3 **Capital Adequacy**

The Prudential Rules are based on three pillars. Pillar 1 regulates the minimum capital requirements for credit risk, market risk and operational risk, as well as large and excess exposures and liquidity requirements. Pillar 2 regulates the authorized person's internal capital assessment, risk management and governance. Pillar 3 regulates how information regarding risk management, capital requirements, capital adequacy should be made public.

The total capital ratio shall not be allowed to be lower than 1. Whenever the ratio is lower than 1, the Company shall decrease its exposures or increase its capital base. The Company will consistently maintain its capital adequacy ratio well above the regulatory minimum of 1x.

The Company seeks to maintain a capital base to cover risks inherent in its business operations. The adequacy of capital is actively managed and monitored using, among other measures, the rules and ratios established under the Prudential Rules set by the CMA. The Company meets in full the minimum capital requirement as defined by the CMA in their Prudential Rules. Furthermore, the Company is fully compliant in adopting the strategies and methods for determining and maintaining capital requirements in accordance with the Prudential Rules.

The Company has developed an Internal Capital Adequacy Assessment Process (ICAAP) to help fulfill its obligation with respect to Pillar II requirements and to measure, monitor and report all material risks that are not adequately covered by Pillar I and adopt an efficient capital planning process to ensure sufficient capital is available to meet the usual business activities and any unforeseen contingencies.

In order to conduct business over the long run in varying economic environments, Risk Management evaluates how the risk profile of various asset classes may impact overall balance sheet earnings. Capital should be sufficient to allow ISAFIC to be in a position to conduct its activities even through unfavorable investment environments. An internal economic capital allocation ("Economic Capital") and planning represent a complement to the regulatory capital requirements as determined by the CMA.

ISAFIC adopts a static Economic Capital approach to assess appropriate levels of Economic Capital. The static Economic Capital is given as the linear sum of independently assessed risk capital charges for each type of asset based on the most appropriate method for that asset class. As Economic Capital is a measure of potential value at risk, total capital should typically exceed the assessed level of Economic Capital.

ISAFIC's Board of Directors carries the ultimate responsibility for the management of risk within ISAFIC. The CEO and Finance Manager are responsible for updating the Board regarding risk management actions and policies.

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ISAFIC's capital requirement is calculated based on CMA's Prudential Rules. The Tier-1 capital ratio is 5.48x with surplus capital of SR 50.2 million as of June 30, 2021. The ratio is comfortably in excess of the CMA's regulatory minimum requirement of 1x. The table below summarizes the regulatory capital and the risk asset ratio calculation as set out full in Appendix II:

	2021 SR '000	2020 SR '000
Capital base:		
Tier 1 Capital	61,339	58,019
Total Capital base	61,339	58,019
Minimum capital requirement:		
Credit risk	5,732	5,996
Operational risk	5,453	5,162
Total minimum capital required	11,185	11,158
Total Capital ratio (times)	5.48	5.20
Tier 1 Capital ratio (times)	5.48	5.20
Surplus in the Capital	50,154	46,861

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4 Risk Management

4.1 General Qualitative Disclosure for Risks

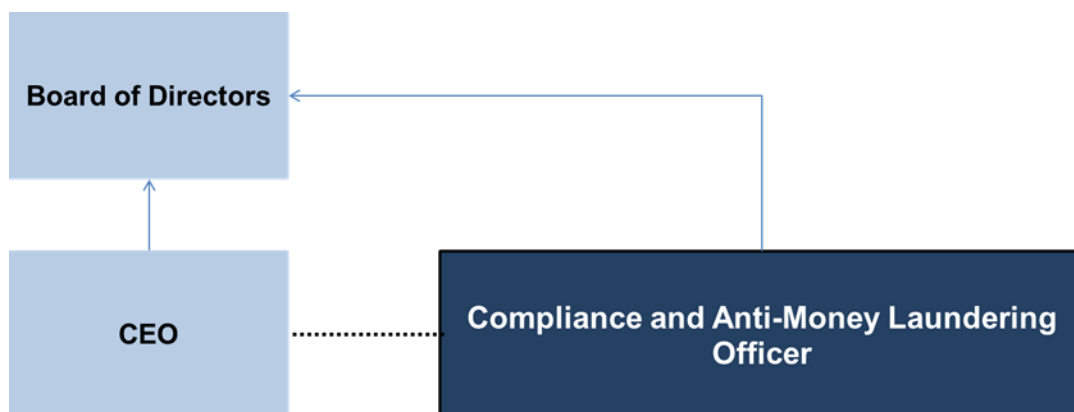
Risk is an inherent part of ISAFIC's business activities. At the Group level, the risk management and control principles are implemented through a risk management and control framework. This framework comprises qualitative elements such as policies, procedures and authorities, and quantitative components including risk measurement methodologies and risk limits. The framework is dynamic and continuously adapted to our evolving businesses and the market environment.

ISAFIC employs a holistic approach to risk management to ensure the broad spectrum of risk types are considered in managing its business activities. ISAFIC is subject to certain balance sheet risks, operational risks and reputational risks. In addition, ISAFIC is subject to regulatory capital requirements as well as requirements to (i) ensure that it has sufficient capital to support all of the material risks to which it is exposed by its business and (ii) integrate capital planning and capital management into its overall risk management culture and approach. ISAFIC's risk management is supported by Investcorp's Risk Management Department pursuant to the amended Support Services Agreement between Investcorp and ISAFIC.

The Board of ISAFIC approves risk policies compliant with the laws and regulations of Saudi Arabia.

4.1.1 Compliance

The Compliance team acts as a direct contact with authorities as well as with Investcorp policies. ISAFIC's compliance officer reports to the CEO of ISAFIC and also attends the Company's quarterly compliance committee meetings of the Board.



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4.1.2 Board of Directors

ISAFIC has a well-established framework for good corporate governance which provides a solid basis for an effective relationship between the Company, its Board of Directors, its shareholders and other stakeholders. This framework ensures equitable treatment for the shareholders and ensures the availability of timely and precise information in all material matters concerning the Company along with the accountability of the Board to the shareholders. In discharging its duties and responsibilities the Board is supported by the following Board Committees: the Audit Committee, the Nomination and Remuneration Committee and the Compliance Committee. The Audit Committee is responsible, among other things, to supervise the outsourced internal audit function to ensure its effectiveness and review the internal audit report and oversee the implementation of corrective measures in respect of the comments in the report. It is also required to supervise the activities of the external auditor and approves any proposed activity by the external auditor beyond the scope of the audit work assigned to it. The Compliance Committee oversees ISAFIC's compliance with legal and regulatory requirements, codes and business practices and the implementation of the Company's Compliance Monitoring Program by the Compliance Officer. The Nomination and Remuneration Committee advises on the balance between executive and independent non-executive directors and makes recommendations regarding employee policy.

4.2 Credit Risk Disclosure

Credit Risk includes risk of loss arising from counterparty default and rating migration. ISAFIC uses the credit quality steps approach for credit risk in non-trading activities for regulatory capital reporting. The RWAs are calculated by multiplying the credit exposure by a risk weight factor dependent on the remaining maturity of asset exposure and the credit quality of underlying asset.

Operational and deposit accounts are held with local banks rated not less than "A" with major rating agencies (term deposit of SR 58,079,171 and SR 1,356,539 is held with the local banks as of June 30, 2021). The receivable accounts are held with Investcorp with a credit rating of BB.

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As at June 30, 2021 the capital requirement for credit risk is assessed at SR 5.7 million, based on a 14% capital requirement outlined in Article 21 of Annex 3 of the Prudential Rules.

Investcorp Saudi Arabia Financial Investments Co.	SR '000		
	Exposure Amount	RWA	Capital requirement (14%)
Exposure to Authorized Persons and Banks			
Deposits /current accounts with local banks	59,436	20%	1,664
Other Items			
Other receivables	10,681	200%	2,991
Tangible fixed assets	1,830	300%	769
Prepaid Expenses and accrued income	735	300%	308
Total Credit Risk as at June 30, 2021			5,732

4.2.1 Exposures to Authorized Persons and Banks

Total "Current Account" Exposure of SR 1,356,539 with local banks plus "Term Deposit" of SR 58,079,171 with a local bank as well; therefore a credit quality of 1 corresponding to a risk weight of 20% is used.

Credit quality step	1	2	3	4	5	6
Risk weight	20%	20%	20%	50%	50%	150%

	1	2	3	4	5	6
Standards & Poors	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below
Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caaf and below

There are no past due claims or provisions on ISAFIC balance sheet. No collateral or netting has been taken in support of any transaction to date.

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4.2.2 Exposure to other items

- **Other receivables** – Balances due from Investcorp, as per annex 3 section 10 exposure with corporates with available credit rating shall be assigned in accordance with the below table. Since Investcorp credit rating falls under credit quality 4 a corresponding risk weight of 200% is used.

Credit quality step	1	2	3	4	5	6
Risk weight	20%	50%	100%	200%	400%	714%

- **Tangible fixed assets** – as per annex 3 section 24, tangible assets are assigned a risk weight of 300%.
- **Prepaid Expenses and accrued income** – As per annex 3 section 25, prepaid expenses are assigned a risk weight of 300%

Further information on credit risk is set out in Appendix III & IV.

4.3 Credit Risk Mitigation Exposure

Credit risk is principally controlled by establishing and enforcing authorization limits. Investcorp's risk management and treasury functions actively monitor counterparty exposures, including their credit ratings, and amends the approved list of counterparties when appropriate.

ISAFIC's CEO and Finance Manager monitor the balance sheet risks areas covering: Counterparty Credit Risk, Funding Liquidity Risk, Foreign Currency Exchange Rate Risk and Interest Rate Risk. The CEO and Finance Manager shall report to the Board of Directors to seek approval for any corrective action that is recommended by Risk Management with regards to the management of the risks mentioned above.

The Company did not undertake transactions with credit risk exposure class covered by guarantee or credit derivatives or other eligible collaterals during the fiscal year 2021. No netting has been taken in support of any transactions to date.

Further information on Credit Risk Mitigation is set out in Appendix V.

4.4 Counterparty Credit Risk

ISAFIC has counterparty credit risk exposure to any bank with which it has any deposit arrangement. To mitigate this risk, ISAFIC has adopted counterparty credit risk limits approved by the Board of Directors. ISAFIC's Finance Manager monitors and reports the counterparty credit risk limits to the Board of Directors.

For internal capital calculation, credit risk exposures to investment grade counterparties (S&P rating of AAA to BBB-) for 3 months or less maturity will be charged 2.8% (risk weight of 20% X capital requirement of 14%). For other ratings, regulatory capital treatment will be used.

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The Company did not undertake transactions with derivatives during the fiscal year 2021 and does not have off-balance sheets assets or liabilities.

4.5 Market risk

Market risk includes risk of loss arising from movements in market prices. ISAFIC currently does not have any regulatory capital requirement towards market risk as it does not engage in any trading activities in FX derivatives or interest rate sensitive assets or liabilities. There could be a potential net foreign exchange open position from receivables in US Dollars ("USD") which will require a zero regulatory capital charge as the Saudi Arabian Riyal ("SAR") exchange rate is pegged to the USD.

ISAFIC receives fees from IMSL ("Investcorp Management Services Limited") under the Sub-Placement Agreement in US Dollars, while many of its operating expenses are in Saudi Arabian Riyals. In addition, ISAFIC currently is required to make payments to Investcorp in US Dollars pursuant to the Secondment Agreement between Investcorp and ISAFIC.

ISAFIC currently does not have any foreign currency exchange rate risk on its cash flows to Investcorp and from IMSL because the Saudi Arabian Riyal exchange rate is pegged to the US Dollar. Hence there will be no Economic Capital charge against FX Market risk.

In the case of any future exposure to any foreign currency that is not hedged, the market risk Economic Capital charge on the FX net exposure will be calculated using a VaR model.

4.6 Operational Risk

Operational risk is inherent in ISAFIC's activities and can manifest itself in various ways including fraudulent acts, business interruptions, inappropriate behavior of employees, and failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damage to ISAFIC. The goal is to manage operational risk at appropriate levels, in light of the characteristics of ISAFIC's businesses, the market in which it operates, and the competitive and regulatory environment to which it is subject.

ISAFIC believes that its operational risk is dominated by legal risk, given the nature of its business, as opposed to actual operational failures. ISAFIC is insured against the legal risks arising from the conduct of its business activities under the US\$60 million Investcorp Errors and Omissions ("E&O") Insurance Program. Any excess legal liability will have to be borne by the operating net income for the year in which any excess liability is assessed and only as a last measure will existing equity capital be impacted.

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The capital requirement for operational risk is determined based on both its income (basic indicator approach or standardized approach) and expenditures (expenditure-based approach). The total capital requirement for operational risks is the highest capital requirements calculated for the above applicable approaches.

As at June 30, 2021 the operational risk capital requirement is assessed at SAR 5.45 million.

27. Operational Risks			Latest available audited year			
1. Basic Indicator Approach ¹	2019	2020	2021	Average	Risk charge (%)	Capital requirements (SAR '000)
Operating income (SAR '000)	19,422	22,077	26,103	22,534	15	3,380
2. Standardised Approach						0
Corporate Finance (SAR '000)				0	18	0
Research & Advisory (SAR '000)				0	18	0
Trading & Sales (SAR '000)				0	18	0
Custody (SAR '000)				0	15	0
Asset Management (SAR '000)				0	12	0
3. Expenditure-based approach ²			2021			
Overhead expenses (SAR '000)			21,811		25	5,453
Total Operational Risks						5,453

4.7 Liquidity Risk Disclosure

Liquidity risk is the risk that ISAFIC will not be able to meet efficiently both expected and unexpected current and future cash flows needs without affecting either daily operations or the financial condition of the Company.

The nature of the business model translates to low levels of liquidity risk. The Company manages its liquidity risk by ensuring that sufficient cash and cash equivalent are available to meet liabilities as they arise.

For liquidity purposes, the Company can draw on a revolving credit facility in place with Investcorp as a contingency liquidity funding plan. Contingency plans to deal with unexpected events are the responsibility of the CEO and the Finance Manager, subject to the review and approval by the Board.

ISAFIC monitors its Funding Liquidity Risk on a monthly basis and reports to the Board of Directors and seeks its approval for any corrective action that is recommended with regards to the management of Funding Liquidity Risk.

The Company manages its liquidity in the form of placements held with banks or drawing from the revolving credit facility with Investcorp. A positive liquidity gap has been defined for the balance sheet to monitor the difference between the amounts of assets that can be liquidated and liabilities that will be due within the next 12 months.

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As of June 30, 2021 the liquidity gap is as follows:

June 2021 (SAR '000)	Up to 1 week	>1 week up to 1 month	>1 month up to 3 months	>3 month up to 6 months	>6 month up to 12 months	>12 months	Total
ASSETS							
CURRENT ASSETS	1,358	-	68,820	-	675	-	70,853
Cash and cash equivalents	1,358	-	-	-	-	-	1,358
Prepayments and other receivables	-	-	-	-	675	-	675
Accrued special commission income	-	-	60	-	-	-	60
Due from a related party	-	-	10,681	-	-	-	10,681
Deposit with a bank local	-	-	58,079	-	-	-	58,079
NON-CURRENT ASSET	-	-	-	-	-	1,862	1,862
Tangible Fixed Assets	-	-	-	-	-	1,830	1,830
Deferred tax assets	-	-	-	-	-	32	32
TOTAL ASSETS	1,358	-	68,820	-	675	1,862	72,716
LIABILITIES							
CURRENT LIABILITIES	-	7,419	-	1,670	-	1,241	10,330
Accounts payable and accruals	-	7,419	-	-	-	-	7,419
Zakat and income tax	-	-	-	1,670	-	-	1,670
Lease Liability	-	-	-	-	-	1,241	1,241
NON-CURRENT LIABILITY	-	-	-	-	-	1,015	1,015
Employees defined benefit liabilities	-	-	-	-	-	1,015	1,015
TOTAL LIABILITIES	-	7,419	-	1,670	-	2,256	11,345
Liquidity Gap (discrete)	1,358	(7,419)	68,820	(1,670)	675	(393)	
Liquidity Gap (Cumulative)	1,358	(6,061)	62,759	61,089	61,764	61,371	TRUE

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Appendix I - Illustrative Disclosure on Capital Base

("SAR '000")

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	55,876
Audited retained earnings	4,207
Share premium	-
Reserves (other than revaluation reserves)	1,288
Tier-1 capital contribution	-
Deductions from Tier-1 capital	(32)
Total Tier-1 capital	61,339
<u>Tier-2 capital</u>	-
Subordinated loans	-
Cumulative preference shares	-
Revaluation reserves	-
Other deductions from Tier-2 (-)	-
Deduction to meet Tier-2 capital limit (-)	-
Total Tier-2 capital	-
TOTAL CAPITAL BASE	61,339

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Appendix II - Illustrative Disclosure on Capital Adequacy (“SAR ‘000”)

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<u>Credit Risk</u>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks				
Authorised Persons and Banks	59,436	59,436	11,887	1,664
Corporates	10,681	10,681	21,362	2,991
Retail				
Investments				
Securitisation				
Margin Financing				
Other Assets	2,565	2,565	7,695	1,077
Total On-Balance sheet Exposures	72,682	72,682	40,944	5,732
<i>Off-balance Sheet Exposures</i>				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments				
Other off-balance sheet exposures				
Total Off-Balance sheet Exposures				
Total On and Off-Balance sheet Exposures	72,682	72,682	40,944	5,732
Prohibited Exposure Risk Requirement				
Total Credit Risk Exposures	72,682	72,682	40,944	5,732
<u>Market Risk</u>	Long Position	Short Position		
Interest rate risks	-	-		-
Equity price risks	-	-		-
Risks related to investment funds	-	-		-
Securitisation/resecuritisation positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	-	-		-
Commodities risks.	-	-		-
Total Market Risk Exposures	-	-		-
<u>Operational Risk</u>				5,453
Minimum Capital Requirements				11,185
Surplus/(Deficit) in capital				50,154
Total Capital ratio (time)				5.48

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Appendix III - Illustrative Disclosure on Credit Risk's Risk Weight
(“SAR ‘000”)

Risk Weights	Exposures after netting and credit risk mitigation												Total Risk Weighted Assets
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	
0%													
20%			59,436									59,436	11,887
50%												-	-
100%													
150%													
200%					10,681							10,681	21,362
300%										2,565		2,565	7,695
400%													
500%													
Deduction from Capital Base			1,664		2,991					1,077		5,732	5,732

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Appendix IV - Illustrative Disclosure on Credit Risk's Rated Exposure ("SAR '000")

Exposure Class	Long term Ratings of counterparties						
	Credit quality step	1	2	3	4	5	6
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below
On and Off-balance-sheet Exposures	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below
Governments and Central Banks							Unrated
Authorised Persons and Banks		59,436					Unrated
Corporates					10,681		Unrated
Retail							Unrated
Investments							Unrated
Securitisation							Unrated
Margin Financing							Unrated
Other Assets							2,565
Total		59,436			10,681		2,565

Exposure Class	Short term Ratings of counterparties				
	Credit quality step	1	2	3	4
	S & P	A-1+, A-1	A-2	A-3	Below A-3
	Fitch	F1+, F1	F2	F3	Below F3
	Moody's	P-1	P-2	P-3	Not Prime
On and Off-balance-sheet Exposures	Capital Intelligence	A1	A2	A3	Below A3
Governments and Central Banks					
Authorised Persons and Banks		59,436			
Corporates					10,681
Retail					
Investments					
Securitisation					
Margin Financing					
Other Assets					2,565
Total		59,436			10,681

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Appendix V - Illustrative Disclosure on Credit Risk Mitigation (CRM)

("SAR '000")

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
<u>Credit Risk</u>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks						
Authorised Persons and Banks	59,436					59,436
Corporates	10,681					10,681
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets	2,565					2,565
Total On-Balance sheet Exposures	72,682					72,682
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments						
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures						
Total On and Off-Balance sheet Exposures	72,682					72,682