

EFG-Hermes - KSA

Risk Department

Qualitative Disclosure for Credit & Operational Risk according to Pillar III



EFG-Hermes KSA
March 2020

INTRODUCTION

Credit Risk Management services is provided to EFG-Hermes KSA through EFG-HERMES HOLDING SAE. EFG-Hermes KSA, a closed joint stock company established under license number 06016-37 issued by the Capital Market Authority in Saudi Arabia whose registered office is in Sky Towers, Northern Tower, Olaya, Riyadh, Saudi Arabia, which is regulated by the Saudi Arabian Capital Market Authority

Purpose

The purpose of the qualitative disclosure for KSA risk management is to show how EFG Hermes manage and monitor its risk exposure through:

- i. Establishing an appropriate risk environment
- ii. Operating under a sound of granting process
- iii. Ensuring adequate controls over credit risk.

I - CREDIT RISK

Definition of Credit Risk

Credit risk is simply defined as the potential that a bank or firm borrower or counterparty will fail to meet its financial obligations.

Objectives

The main objectives of Credit Risk are:

A. Risk Reduction :

Our primary objective of credit risk is to reduce the risks inside the Firm as much as possible with the help of:

- i. Credit analysis and reviews; through gathering information to determine the risks involved in the lending.
- ii. Detailed information about the credit approval process, suspensions & alert notifications.

B. Internal communication and departmental coordination :

Building strong internal communication and coordination between credit risk team and other relevant parties inside the Firm such as: Front office team, Operations, Compliance, Internal Audit...Etc.

This allows and helps us to fulfil all the obligations in risk reduction, also allows operating more efficiently by providing clear instruction on how we should perform or act.

Responsibilities

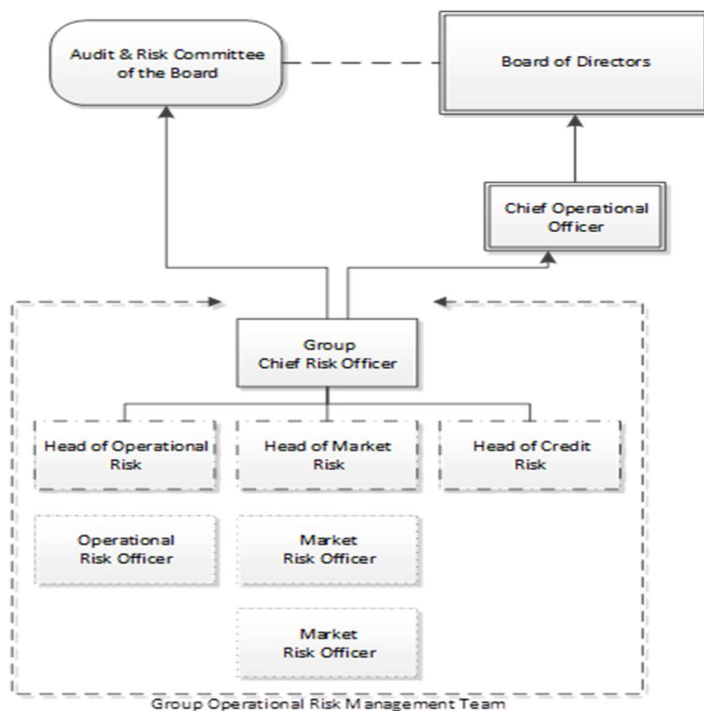
- Due Diligence process and Credit Risk Analysis overview using quantitative and qualitative factors, for all our Counterparties.
- Monitoring overdraft & Margin trading portfolio on a daily basis.

- Measures and monitors concentration limit in Margin trading's individuals and portfolios.
- Prepare the Quarterly Highly Liquid Stocks used for Margin trading business in Saudi Stock Market.
- Report and escalate all breaches and findings to Top Management
- Make recommendations to chief risk officer, front office teams, or top Management if required.
- Gauging clients' risk appetite through risk tolerance questionnaire assess clients' reaction to market volatility & their financial resources adequacy.

II – OPERATIONAL RISK

- I. EFG Hermes has established a Group Operational Risk Framework that focuses on the coordination of consistent policy, tools and practices throughout EFG Hermes Group for the management, measurement, monitoring and reporting of relevant operational risks. This team is also responsible for the overall operational risk measurement methodology, and knowledge and experience are shared throughout the Group to maintain a coordinated approach. We adopt a risk-based approach to the design and implementation of our internal control framework.

II.



- III. Operational Risk & Control Assessment provides an understanding of the operational risk profile of the entity in question, and to determine the effect of mitigating controls in the assessed entity. Risks are identified, assessed and prioritized by operational risk team and entity's managers. A formal annual assessment is carried out in each function with the assistance of the Operational Risk Function. The aim of this assessment is to produce a risk map for the division. The register contains the output from the process. Each risk that has been identified must be categorized with reference to Basel II categorization of operational risk embedded in SWORD "Operational Risk System".

Risk Control Assessments (RCAs) play an essential role in an effective operational risk framework. The goal of RCAs is to enable organizations proactively and efficiently:

- a. Identify key threats to business objectives
- b. Determine the effectiveness of controls
- c. Mitigate outstanding gaps

App 1: Illustrative Disclosure on Capital Base

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	86,530
Audited retained earnings	-13,900
Share premium	
Reserves (other than revaluation reserves)	
Tier-1 capital contribution	
Deductions from Tier-1 capital	
Total Tier-1 capital	72,630
<u>Tier-2 capital</u>	
Subordinated loans	
Cumulative preference shares	
Revaluation reserves	0
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	
Total Tier-2 capital	0
TOTAL CAPITAL BASE	72,630

App II: Illustrative Disclosure on Capital Adequacy				
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	70,019	70,019	14,004	1,961
Corporates	17,597	17,597	57,470	8,046
Retail	-	-	-	-
Investments	1,123	1,123	1,685	236
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	3,993	3,993	16,514	2,312
Total On-Balance sheet Exposures	92,732	92,732	89,673	12,555
<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	0	0	0	0
Total On and Off-Balance sheet Exposures	92,732	92,732	89,673	12,555
Prohibited Exposure Risk Requirement	-	-	-	-
Total Credit Risk Exposures	92,732	92,732	89,673	12,555
<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	2,155	-		43
Commodities risks.				
Total Market Risk Exposures	2,155	-		43
<u>Operational Risk</u>				6,750
Minimum Capital Requirements				19,348
Surplus/(Deficit) in capital				53,282
Total Capital ratio (time)				3.75

App III: Illustrative Disclosure on Credit Risk's Risk Weight													
Risk Weights	Exposures after netting and credit risk mitigation												
	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	Total Risk Weighted Assets
0%										39		39	
20%			70,019		9,823							79842	2,236
50%												0	
100%												0	
150%								1,123				1123	236
200%												0	
300%										2,830		2830	1,189
400%												0	
500%												0	
714%					7,774					1,124		8898	8,894
Average Risk Weight			20%	150%	326.59%			150%		413.60%		92,732	12,555
Deduction from Capital Base			14,004	0	57,470			1,685		16,515		-	-

App V: Illustrative Disclosure on Credit Risk Mitigation (CRM)						
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	70,019	0	0	0	0	70,019
Corporates	17,597	0	0	0	0	17,597
Retail	0	0	0	0	0	0
Investments	1,123	0	0	0	0	1,123
Securitisation	0	0	0	0	0	0
Margin Financing	0	0	0	0	0	0
Other Assets	3,993	0	0	0	0	3,993
Total On-Balance sheet Exposures	92,732	0	0	0	0	92,732
<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	92,732	-	-	-	-	92,732
* Refer to Chapter 2 of Annex 3.						

App IV: Illustrative Disclosure on Credit Risk's Rated Exposure								
Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks		-						-
Authorised Persons and Banks		70,019						-
Corporates		9,823						7,774
Retail		-						-
Investments		-						1,123
Securitisation		-						-
Margin Financing		-						0
Other Assets		-						
Total	-	79,842	-	-	-	-	-	8,897