

EFG-Hermes - KSA

Risk Department

Qualitative Disclosure for Risk Management according to Pillar III



EFG-Hermes KSA
March 2023

INTRODUCTION

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.

Credit Risk Capital requirement

EFG Hermes KSA has adopted the Standardized Approach for measuring minimum capital requirement for credit risk. Under this approach, exposures are assigned to portfolio segments based on the type of counterparty. The major portfolios defined are banks, retail, equity, and others (including high net worth individuals). Each segment has counterparty risk weights ranging from 0% to 150% depending on ratings assigned by qualified external credit assessment agencies, if any.

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.

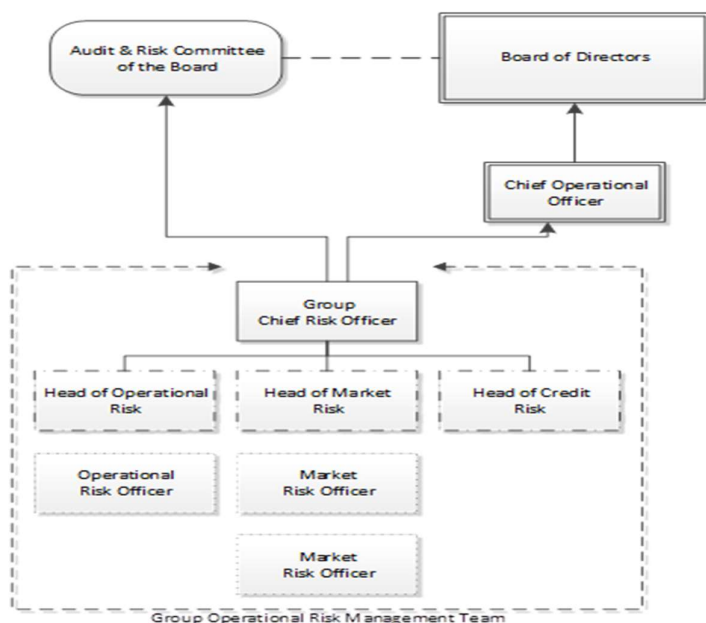
II – OPERATIONAL RISK

Operational Risk capital Requirement

In compliance with CMA requirements, the Firm has adopted the Expenditure based approach (EBA). This is a more conservative approach as it leads to a higher capital charge than the Basic Indicator Approach (BIA).

- 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.



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- 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:
- Identify key threats to business objectives
 - Determine the effectiveness of controls
 - Mitigate outstanding gaps

III – MARKET RISK

Market risk is minimal due to the following:

- EFG KSA does not have a trading book. FY2022 exposure is zero
- Our currency risk is limited to our US dollar exposure which as of 31 December 2022 stands at USD 0.5 million, this exposure subjects us to market risk in the event SAR appreciate against USD, we believe however that this is a remote possibility since SAR is pegged to USD. All cash position is held in current accounts.
- Commodities exposure is zero. We don't have appetite or limits for commodities.

IV - OTHER TYPE OF RISKS

- Non-trading activities (Margin trading) FY2022 exposure was SAR 3.9 million collateralized with SAR 23.9 million of liquid stocks. non-Trading Activities are subject to credit risk capital requirements
- Liquidity Risk: EFG Hermes KSA maintains its liquidity in form of Cash only with Banks. As of December 31, 2022, the Cash position is sufficient to cover the whole company current Liabilities 4.93 times. No gap or mismatch between our Assets & Liabilities.
- Counterparty Risk: the minimum capital requirement for our counterparty is subject to credit risk capital requirement, all our Saudi Counterparties are rated investment grade by International Rating Agencies.
- EFG Hermes KSA and its Holding company does not have any material or legal impediments affecting the prompt transfer of capital or repayment of liabilities



App 1: Illustrative Disclosure on Capital Base

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	86,530
Audited retained earnings	20,518
Share premium	
Reserves (other than revaluation reserves)	2,647
Tier-1 capital contribution	
<u>Deductions from Tier-1 capital</u>	
Goodwill and intangible assets (-)	-979
Total Tier-1 capital	108,715
<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	108,715

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
<i>Credit Risk</i>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	60,082	60,082	12,016	1,682
Corporates	36,271	36,271	258,972	36,256
Retail	-	-	-	-
Investments	-	-	-	-
Securitisation	-	-	-	-
Margin Financing	3,907	3,907	5,861	821
CCP - Margin collateral	23,960	23,960	-	-
Other Assets	4,664	4,664	19,513	2,732
Total On-Balance sheet Exposures	128,884	128,884	296,363	41,491
<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	128,884	128,884	296,363	41,491
Prohibited Exposure Risk Requirement	-	-	-	-
Total Credit Risk Exposures	128,884	128,884	296,363	41,491
<i>Market Risk</i>	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	2,004	232.96-		35
Commodities risks.				
Total Market Risk Exposures	2,004	232.96-		35
<i>Operational Risk</i>				9,610
Minimum Capital Requirements				51,136
Surplus/(Deficit) in capital				57,579
Total Capital ratio (time)				2.13

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	CCP receivables - current	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%					23,960						32,555		23,992.58	0
20%			60,082										60,082.02	12,016
50%													0.00	
100%													0.00	
150%				3,907									3,907.47	5,861
200%													0.00	
300%											3,274		3,273.91	8,192
400%													0.00	
500%													0.00	
714%						36,271					1,357		37,627.94	13,062
Average Risk Weight			20%	150%	0%	714.00%			150%		338.00%		128,883.91	39,131
Deduction from Capital Base			12,016	5,861	-	258,972			-		19,513		0.00	-



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		60,082						-
Corporates		-						36,271
Retail		-						-
Investments		-						-
Securitisation		-						-
Margin Financing		-						-
Other Assets		-						-
Total	-	60,082	-	-	-	-	-	36,271
Exposure Class	Short term Ratings of counterparties							
	Credit quality step	1	2	3	4	Unrated		
	S & P	A-1+, A-1	A-2	A-3	Below A-3	Unrated		
	Fitch	F1+, F1	F2	F3	Below F3	Unrated		
	Moody's	P-1	P-2	P-3	Not Prime	Unrated		
	Capital Intelligence	A1	A2	A3	Below A3	Unrated		
On and Off-balance-sheet Exposures								
Governments and Central Banks								
Authorised Persons and Banks								
Corporates								
Retail								
Investments								
Securitisation								
Margin Financing								
Other Assets								
Total								

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
<i>Credit Risk</i>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	-	-	-	-	-	-
Authorised Persons and Banks	60,082	0	0	0	0	60,082
Corporates	36,271	0	0	0	0	36,271
Retail	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Securitisation	0	0	0	0	0	0
Margin Financing	3,907	0	0	0	3,907	3,907
Other Assets	4,664	0	0	0	0	4,664
Total On-Balance sheet Exposures	104,924	0	0	0	3,907	104,924
<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	104,924	-	-	-	3,907.47	104,924
* Refer to Chapter 2 of Annex 3.						

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