Pillar III Disclosure Report
as of
December 31, 2020

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BACKGROUND

Saudi Economic and Development Securities Company (SEDCO Capital); ("SC" or "the Company") is a Saudi unlisted joint stock company registered in Jeddah under Commercial Registration number 4030194994 on 1 Thul-Hujja 1430 (November 18, 2009).

The Company obtained the approval of the Minister of Commerce and Industry via Decree number 328/K, dated 1 Dhul-Qa'adah 1430 (October 20, 2009) to establish the Company.

The Company is a Capital Market Institution ("CMI") as defined in the capital market institution regulations issued by the Capital Market Authority ("CMA"). The principal activities of the Company are managing, arranging, advising, dealing as principle and custody services with respect to the financial securities business as per license issued by the Capital Market Authority (CMA) number 09135-36 dated 23 Rabi'II 1430 (April 19, 2009) and number 11157-37 dated 3 Thul-Hujja 1430 (October 30, 2011). The Company obtained the CMA approval to commence conducting its approved activities starting March 29, 2010.

SC is headed by an effective Board of Directors which meets regularly and directs and controls the Company. The SC Board is responsible for providing governance, guidance and oversight to senior management. Management is responsible for carrying out board directives, including implementing strategies and policies and establishing an effective system of internal controls. It is the joint responsibility of the SC Board and management to promote integrity and high ethical standards, and to establish a culture within the organization that emphasizes to all levels of personnel the importance of internal controls.

In fulfilling its responsibilities, the SC Board chose to delegate some of these responsibilities to committees as and when required.

Investment Committee: The purpose of this Committee is to fulfill its oversight responsibilities for the investment assets of the clients and the Company's assets. The SEDCO Capital Investment Committee is responsible for formulating, reviewing, and monitoring adherence to the overall investment policies of the Company. Additionally, the Committee would review and advise on deals in the pipeline as well as approve investments and/or deal with issues that may arise during due diligence stage of investments, monitor underperforming investments and recommend actions.

Compensation and Nomination Committee: The purpose of this committee is to assist the Board of Directors in reviewing and approving the compensation to be provided to SEDCO Capital's Board Members, CEO and employees. In addition, the Committee is responsible for overseeing human development as well as screening and nominating qualified individuals for membership of the Board.

Audit Committee: The purpose of the Committee is to oversee, monitor, direct and manage the audit process of SC in line with established policies, procedures, and audit programs and in accordance with CMA requirements and regulations. It is also responsible for improving the effectiveness of SC's audit, providing assurance on significant business processes, helping the senior management in understanding, and controlling business risks to protect and enhance shareholders' value. The Audit Committee has the responsibility of reporting to the Board of Directors regularly regarding audit issues, status and related recommendations, as well as review performance of statutory auditors, discuss their findings and recommend their appointment.

Risk & Compliance Committee: The purpose of the Risk & Compliance Committee is to assist the Board of Director's in exercising its oversight of the operational activities of SC and the timely identification, mitigation, and management of those risks that could have a material impact on SC. Also, the committee assists in fulfilling its risk management responsibilities as defined by applicable laws and regulations. The committee also oversee monitor, direct and review the management of SC compliance and monitoring of its security business in line with the SC's established policies, procedures and program in accordance with CMA requirements and regulations.

Management, in supporting the SC Board and its committees, has a number of key responsibilities:

- Implement strategies and policies approved by the board.
- Develop processes that identify, measure, monitor and control risks being incurred by the company.
- Maintain a risk management organizational structure that clearly assigns responsibility, authority and reporting relationships and avoids conflict of interest situations.
- Ensure that delegated responsibilities are effectively carried out.
- Set appropriate internal control policies.
- Monitor the adequacy and effectiveness of the internal control system.
- Review and approve departmental strategies.

Management, while ultimately responsible to the SC Board, executes its responsibilities by appointing competent and efficient personnel to the various types of risk functions and delegating appropriate responsibilities.

An essential element of an integrated Risk Management Framework is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate where policy violations and other deviations are detected. Clearly written, distributed and readily available procedures are fundamental to the detection and communication of risk issues.

1. Scope of Application

This Pillar III disclosure is prepared and issued by SC in accordance with the requirements of Article 68 of the Prudential Regulations issued by the CMA. These rules include guidelines for the annual market disclosure of the Company's capital and risk management information required to be published on SC's website.

The preparation of Pillar III disclosure is based on the Audited Financial Statements of SEDCO Capital, the capital adequacy figures reported in this report corresponds to the capital adequacy information as reported under section Capital Management in note "26" of the audited financial statements for year-end 2020 duly approved by the SC Board.

1.1. Pillar I – Minimum Capital Requirement

Pillar I sets minimum capital requirements to meet credit, market and operational risk as contained in the Part 3 chapter 4 to 16 of the Prudential Rules.

- SC uses the Standardized Approach in the calculation of the capital required for Credit risk.
- The capital charge for market risk is assessed for trading book portfolio and Foreign exchange positions in the books.
- The capital charge for operational risk is based on the expenditure indicator approach, which is calculated by applying 25% to the expenses.

1.2. Pillar II – Internal Capital Adequacy Assessment Requirement

The Internal Capital Adequacy Assessment Process is introduced under Pillar II of the Prudential Rules, which is contained in Part 6 (Article 66) and Annex 9 of the Prudential Rules.

Pillar II requires Capital Market Institution's (CMI) to perform a thorough review of all material risks, extensive stress testing, strategic capital planning, the internal control framework and the roles and responsibilities of departments/ individuals that are critical to the implementation of framework.

The Company has taken various initiatives to implement the Internal Capital Adequacy Assessment Process ("ICAAP") and assess capital requirements in accordance with the Company's risk profile, size and complexity of business.

1.3. Pillar III – Market Discipline

Pillar III aims to provide a detailed and transparent reporting framework that enhances market discipline to operate as sharing of information facilitates assessment of the CMI by others, including investors, analysts, customers, and rating agencies, which leads to an improved corporate governance.

The information provided here has been reviewed and validated by the Management and is in accordance with the rules in force at the time of publication, covering both the qualitative and quantitative items. SC intends to publish the Pillar III disclosures on its website annually.

1.4. Material or Legal Impediments between SC and its Subsidiaries

SC does not have any current or foreseen material or legal impediments for transfer of capital.

2. Capital Structure

For regulatory purposes, capital is categorized into two main classes. These are Tier 1 and Tier 2, which are as described below.

2.1. Tier 1 Capital

Tier-1 capital of SC consists of paid-up capital, reserves (other than revaluation reserves) and audited retained earnings and has deductions in the form of intangible assets and loss from AFS investments. As of December 31, 2020 the total Tier I capital of the Company is around SAR 292.7 M.

(Amount in 000's)

Tier-1 capital (SAR '000)	Dec-20	Dec-19
Paid-up capital	200,000	200,000
Reserves (other than revaluation reserves)	20,588	18,861
Audited retained earnings	76,567	85,406
Deductions (-)	(4,465)	(3,637)
Total Tier-1 capital	**292,690**	**300,631**

Table 1 - Tier 1 Capital

2.2. Tier 2 Capital

The total Tier 2 capital of the Company is as follows.

(Amount in 000's)

Tier-2 capital (SAR '000)	Dec-20	Dec-19
Revaluation reserves	37	9
Total Tier-2 capital	**37**	**9**
TOTAL CAPITAL BASE (Tier-1 & 2)	**292,727**	**300,640**

Table 2 - Tier 2 Capital and Total Base

Please refer to Appendix 1 on page # 22 for the detailed disclosure on capital base.

3. Capital Adequacy

SC defines "Minimum Capital" as the resource necessary to cover unexpected losses and thus the Company, maintains adequate level of capital to cover risks inherent in its business operations and to support current & future activities.

3.1. Capital Adequacy Ratio and Minimum Capital Requirements

The Company is adequately capitalized with a Tier I capital ratio of 1.58X and similarly a total capital ratio of 1.59X which is above CMA's minimum regulatory requirement of 1.00X.

Following table provides the Company's capital adequacy ratio:

(Amount in 000's)

Particulars	Dec-20	Dec-19
Tier 1 Capital	292,690	300,631
Tier 2 Capital	37	9
Total Tier-1 and Tier 2 capital	**292,727**	**300,640**

Minimum Capital Required	Dec-20	Dec-19
Market Risk	9,327	16,076
Credit Risk	154,428	80,817
Operational Risk	20,910	24,509
Total	**184,664**	**121,402**

Tier 1 Capital Ratio	**1.58**	**2.48**
Total Capital Ratio	**1.59**	**2.48**
Surplus (Deficit) in Capital Base	**108,063**	**179,238**

Table 3 - Capital adequacy and Capital numbers

Please refer to Appendix 2 on page # 23 for the details.

3.2. ICAAP

SC has an Internal Capital Adequacy Assessment Process ("ICAAP"), by which the Company examines its risk profile from both regulatory and internal risk capital point of view.

The ICAAP describes the Company's business strategy its risk appetite and the assessment of specific risk exposures, their mitigation and the capital allocated to these risks. In effect, the ICAAP is a crucial part of the Company's strategic decision-making process and risk management framework.

3.3. Scenario Analysis and Stress Testing

Stress Testing refers to various techniques (quantitative and / or qualitative) used by a firm to gauge their vulnerability to exceptional but plausible events. It is a risk management technique used to evaluate the potential impact of a specific event, and/ or movement in a set of financial variables, on the firm's broader financial condition.

- The Company uses stress tests for understanding its risk profile and, where necessary, communicating the same to the management, for setting risk limits; allocating capital for various risks; managing their risk exposures; that may arise under adverse circumstances.
- The Company identifies an appropriate range of realistic adverse circumstances and events in which the identified risk crystallizes and estimate the financial resources needed by it under each of the circumstances to:
    - Meet the risk as it arises and for mitigating the impact of manifestation of that risk;
    - Meet the liabilities as they fall due; and
    - Meet the minimum Capital Adequacy requirements on an ongoing basis.
- The results of the various stress tests may be reported to the management for approval, as they may carry results that are essential for making a well informed decision on liquidity, pricing, etc. or other management decision making parameters.
- The company documents the stress tests undertaken and the underlying assumptions and the results may be used for corrective action to be undertaken where felt necessary.
- SC runs stress tests at least once a year, in line with regulatory guidelines, and the assumptions underlying the stress tests will be reviewed as and when such testing is carried out. Such periodic reviews are necessary to ensure the integrity, accuracy, and reasonableness of the stress-testing framework.
- During 2020, in view of the global spread of the coronavirus and volatile financial markets, SC performed variety of scenario analysis to assess the potential impact on the portfolios. The ultimate goal of this exercise was to understand sensitivities and correlations to possible scenarios as well as historic and generic stress tests in order to consider the insights for decision making.

3.4. Contingency Plan

The Company is in a well-capitalized position as of December 31, 2020, and according to the requirement. Projected budgets depict that the Company remaining well capitalized through the end of 2023. The Company expects profitability to consistently grow over the next three years. However, should SC experience reduction in Capital Adequacy Ratio (“CAR”) below minimum standards to be considered inadequately capitalized as defined by the CMA, the Company may have to raise capital. Reduction in capital ratios could be caused by substantial asset growth, high credit concentration levels or an increased volume of adversely classified assets. The Company’s primary source of contingent capital would be its existing and prospective shareholders. Furthermore, given the Company’s good repute in the local market, it can tap into the debt market in order to raise capital as deemed necessary.

The Company’s management and Board of Directors intend for this plan to serve as guidance for the management of its capital resources. As stated above, the Company’s objectives are to provide for safe and sound business practices as required by CMA, to adequately fund the expansion and growth of the SC, and to provide a reasonable return to shareholders.

4. Risk Management

4.1. Scope of Risk Management

Risk management covers all risks including credit, market, and operational risk. It involves the processes from origination to approval and the ongoing control, review, maintenance and optimization of exposures.

Control activities is the integral part of the day-to-day activities at SC, these activities include:

Top-level reviews: This is achieved by the BoD and management receiving presentations, periodical submissions of positions, compliance and exception, and performance reports.

Activity and physical controls: Conducted more frequently than the top-level reviews and contain more details covering review of risk activities, positions and performance, and exception reports.

Compliance with exposure limits: Setting limits and ensuring they are adhered to is a fundamental risk-control function. For example, credit concentration is avoided by applying portfolio limits.

Approvals and Authorizations: Approval and authorization for transactions over certain limits, are incorporated within delegations and discretions, ensures that risk-taking is approved at the appropriate levels of management that establishes accountability for actions.

Verifications and Reconciliations: Verification and reconciliation is an important control as it is designed to detect problems in activities and/or errors. The results as required are escalated to the appropriate levels of management, and in doing so; ensures reduction in risk.

An effective internal control system ensures the following:

- An appropriate segregation of duties exists;
- Personnel are not assigned conflicting responsibilities;
- Areas of potential conflict of interest are identified, minimized and subject to thorough independent scrutiny
- Formal well-documented escalation procedures exist and have been implemented throughout the company.

4.1.1. Risk Management Strategies and Process

The Risk Management Framework which SC relies on is a well-proven methodology wherein all activities giving rise to risk are identified, measured, managed and monitored. Thus, risk management may be viewed as a “lifecycle” that includes the following four cycles:

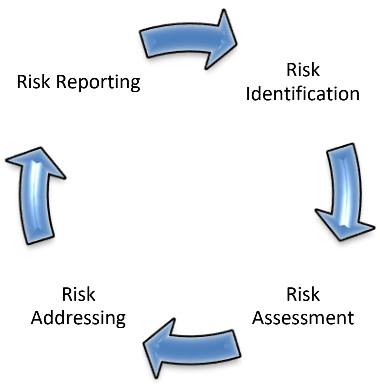

Figure 1 - Risk Management lifecycle

Risk Identification:	▪ Risks and sources of risks to which SC is exposed are continually identified and defined. ▪ The company's "appetite" for risk is described based on SC business objectives.
Risk Assessment:	▪ Measurement processes is comprehensive enough to cover all significant sources of risk exposure. ▪ Measurement processes is responsive to the needs of those who use the information. ▪ Identified risks are assessed in terms of their probability of occurrence and impact on SC should they occur.
Risk Addressing:	▪ Proper risk management strategies are defined to either reduce the probability of risk occurrence or reduce the impact should they occur. ▪ Risk limits are consistent with SC policies and authorized exposures. ▪ Risk management ensures that operational activities do not expose SC to losses that could threaten its viability.
Risk Reporting:	▪ Reports provided are relevant, accurate and timely information about risk exposures. ▪ Individuals monitoring risks is independent of those taking positions (incurring risks). ▪ Risks are reported and regularly reviewed across different organizational hierarchy and during each stage of the risk management cycle.

4.1.2. Structure and Organization of Risk Management and Compliance Functions

The Risk & Compliance functions independently are responsible for the day-to-day oversight of the operational activities concerned to various risks and regulatory compliance. Risk function is responsible for timely identifying, assessing, addressing and reporting of those risks that could have a material impact on SC and in fulfilling its risk management responsibilities as defined by applicable laws and regulations. Risk Management is an independent function, the Chief Risk Officer reports directly to the CEO, with the responsibility for developing adequate risk policies and promoting the risk culture across the company.

The Compliance function monitor, direct and review the management of SC compliance and monitoring of its securities business in line with the SC's established policies, procedures and program in accordance with CMA requirements and regulations.

SC's Risk Management Structure:

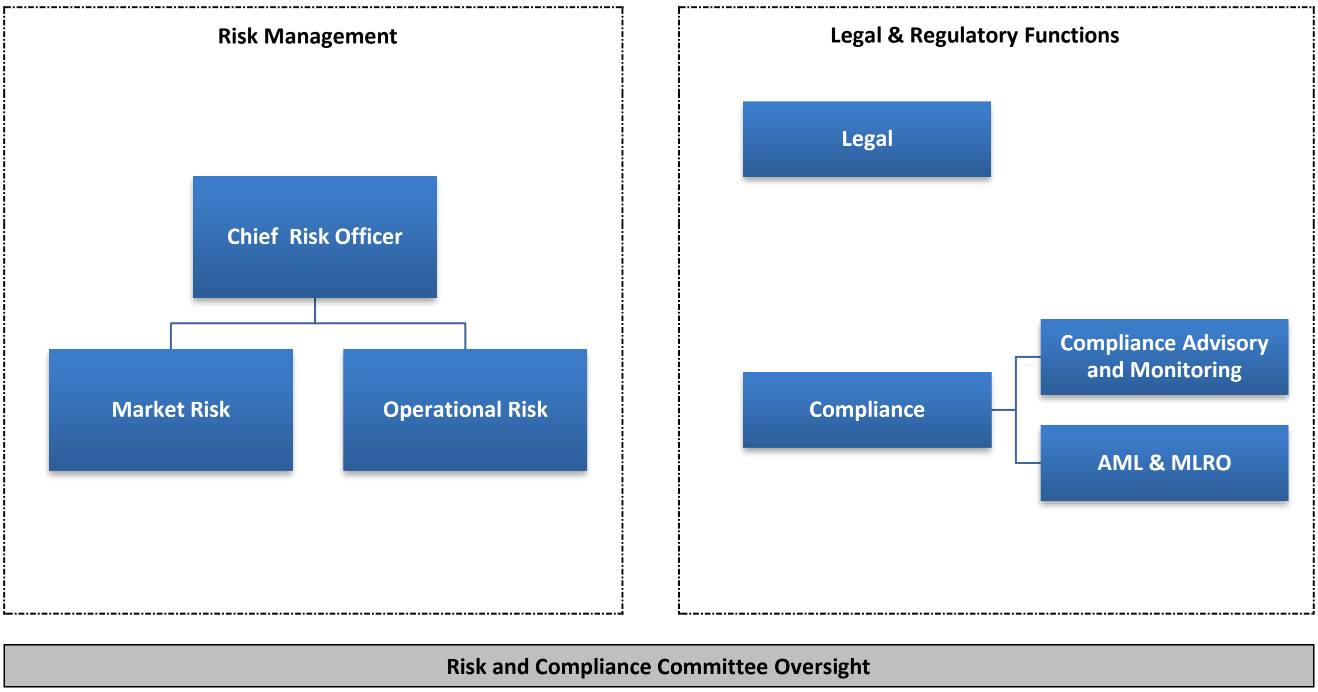

Figure 2 - Risk Management Structure at SEDCO Capital

4.1.3. Scope and Nature of Risk Reporting and Measurement Systems

The primary goal of risk management is to ensure that SC's asset and liability profile, its credit and operational activities do not expose it to losses that could threaten the viability of the Company. Risk management helps ensure that risk exposures do not become excessive relative to the Company's capital position and its financial position.

SC's risk monitoring therefore contains internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant for decision making. The reports reflect any identified problem area and motivate timely corrective action on outstanding issues.

Internal control deficiencies, whether identified by the risk function self-review; an internal audit, compliance division or other personnel, are reported in a timely manner to the appropriate management level and addressed accordingly. Any major deficiencies are reported to the Management and escalated to appropriate levels. The reports are analyzed with a view to improve existing risk management performance as well as to develop new risk management policies and procedures.

SC periodically reviews their risk limitations to ensure that the overall effectiveness in risk management remains aligned to a changing organization. Risk management policies and procedures are constantly reviewed and updated. The review covers objectives and strategies, as well as, changes relating to products, people, processes and systems.

4.1.4. Policies and Guidelines for Monitoring and Mitigating Risks

SC has established Risk policies and limits to monitor risks across the Company. Risk limits are defined to monitor the actual risk exposure and the breaches of the defined limits will deviate from the Company's Risk Appetite. Exceeding risk limits typically requires escalation at appropriate level for action. Changes in the regulatory requirements (e.g. new capital or liquidity requirements) can fundamentally lead to a revision of the Risk Appetite.

4.2. Credit Risks

Credit risk is defined as the risk of loss resulting from a drop in credit worthiness of issuers of securities, counterparties and any debtors to which Capital Market Institutions are exposed. It is the potential risk of a counterparty failing to meet its obligations in accordance with agreed terms.

4.2.1. Credit Risk Exposures

SC has complied with CMA regulations and used the Standardized Approach in the calculation of the capital required for Credit risk.

Major types of credit exposures are detailed in Appendix 3 on page number 24.

4.2.2. External Ratings

For exposures, the relevant counterparties' rating bands are also considered as per the rating of external agencies. SC uses ratings from Credit Rating Agencies ("CRA") mentioned in the Prudential Rules.

4.2.3. Credit Quality Steps

In compliance with CMA regulations, SC uses credit quality steps to determine appropriate risk weight for credit risk exposures for capital charge calculations. To identify the credit quality step the Company uses the following correspondence table between the credit rating agency's credit ratings and the steps in the credit quality scales as prescribed by the CMA. Credit quality step 1 has been applied to all local bank deposits / current accounts with maturity period ≤ 1 year

Credit Quality Step >>>	1	2	3	4	5	6
Standard & Poor's	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
Capital Intelligence	AAA	AA to A	BBB	BB	B	C and below

Table 4 - Credit Quality Steps and CRA Rating Mapping

Please refer to Appendix 4 on page 25 for the details. Note that SC considers only long-term ratings for Capital Charge calculation.

4.2.4. Past Due

Past due claims are amounts that have not been settled by the counterparties on time. Generally, SC invoices are settled within 45-60 days. Management considers any amount remaining unsettled after 180-365 days as past due. As of December 31, 2020, there are no past dues for the period.

4.2.5. Impairments and Specific Provisions

If the sum of all discounted cash flows is less than the carrying value of the asset, then SC considers the asset to be impaired and would then written down to its fair value. SC adopts the following approach to determine impairments and specific provisions:

4.2.5.1. Impairment of accounts and other receivables

The Company follows an expected credit loss ("ECL") model for the impairment of trade and other receivables, this requires the Company to take into consideration certain estimates for forward looking factors while calculating the probability of default.

Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due. The total closing balance of the allowances for doubtful debts as of December 31, 2020 was SAR 1.9 M.

4.2.5.2. Impairment in Financial Assets

Impairment of financial assets IFRS 9 replaces the 'incurred loss' model in pre-convergence GAAP with an 'expected credit loss' model (“ECL”). IFRS 9 requires the Group to record an allowance for 'expected credit loss' (ECL) for all financial assets exposed to credit risk that are not held at FVTPL. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

4.2.5.3. Impairment in non-Financial Assets

The Company reviews the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset’s fair value less cost to sell and value in use.

4.2.6. Geographic Distribution of Exposures

About 57.2% of the assets of SC are in Kingdom of Saudi Arabia (“KSA”). Outside KSA, they are spread across USA, UK, and rest of the world. The following table below details the geographic distribution of the Company’s balance sheet across various regions.

(Amount in 000’s)

Exposure Class	Total	KSA	GCC	UK	US	Rest of the World
On-balance Sheet Exposures						
Capital Market Institutions and Banks (incl. cash)	44,809	24,097	-	288	-	20,424
Corporates	38,476	28,917	-	-	6,323	3,235
Retail	3,195	3,195	-	-	-	-
Past Due Items	-	-	-	-	-	-
Investments	257,713	129,645	-	-	111,923	16,144
Other Assets	37,697	31,798	-	0	1,906	3,993
Total On-Balance sheet Exposures	**381,889**	**217,652**	**-**	**288**	**120,153**	**43,797**
Off-balance Sheet Exposures						
Other off-balance sheet exposures	1,823	1,823	-	-	-	-
Total Off-Balance sheet Exposures	**1,823**	**1,823**	**-**	**-**	**-**	**-**
Total On and Off-Balance sheet Exposures – 2020	**383,712**	**219,475**	**-**	**288**	**120,153**	**43,797**
Total On and Off-Balance sheet Exposures – 2019	**263,541**	**177,257**	**-**	**935**	**72,504**	**12,845**

Table 5 - Distribution of exposures by Geography

4.2.7. Residual Contractual Maturity Breakdown

The table below exhibits an analysis of the residual maturity profile of SC’s assets separating them in different maturity buckets.

(Amount in 000’s)

Exposure Class	Total	1 Day to 1 month	> 1 month to 3 months	> 3 months to 6 months	> 6 months to 1 year	> 1 year	Non Maturity
On-balance Sheet Exposures							
Capital Market Institutions and Banks (incl. cash)	44,809	28,307	16,502	-	-	-	-
Corporates	38,476	38,476	-	-	-	-	-
Retail	3,195	-	3,195	-	-	-	-
Past Due Items	-	-	-	-	-	-	-
Investments	257,713	-	58,202	-	199,511	-	-
Other Assets	37,697	29	34,521	-	-	-	3,147
Total On-Balance sheet Exposures	**381,889**	**66,812**	**112,420**	**-**	**199,511**	**-**	**3,147**
Off-balance Sheet Exposures							
Other off-balance sheet exposures	1,823	-	-	-	-	-	1,823
Total Off-Balance sheet Exposures	**1,823**	**-**	**-**	**-**	**-**	**-**	**1,823**
Total On & Off-Balance sheet Exposures 2020	**383,712**	**66,812**	**112,420**	**-**	**199,511**	**-**	**4,970**
Total On & Off-Balance sheet Exposures 2019	**263,541**	**30,896**	**125,298**	**35,395**	**4,049**	**63,294**	**4,609**

Table 6 - Residual Maturity Analysis

4.3. Credit Risk Mitigation

Any credit risk mitigation related transaction comes under purview of Risk Management Department, risk function conducts an internal credit assessment before engaging in transactions with any counterparty. Guidelines at SC ensure that limits are approved for only those counterparties that meet the appropriate credit criteria and credit assessment is conducted annually.

4.3.1. Credit Risk Exposures Before/ After Credit Risk Mitigation

Please refer to Appendix 5 on page 26 for the details.

4.4. Counterparty Credit Risk and Off Balance Sheet Exposures

SC does not have exposures to securities borrowing/lending; hence, this section does not have any disclosure on counterparty credit risk.

In terms of off-balance sheet items, SC has SAR 1.8 M as off-balance sheet as of December 31, 2020, these are future commitments arising from leasehold commitments amounting to SAR 1.8 M.

4.5. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

4.5.1. Market Risk Management

SCs' exposure to financial risk is limited by the nature of its business, the fact that it manages assets on a fiduciary basis, does not trade securities on its own account and does not underwrite issues of financial instruments on a firm commitment basis.

However, Market risk is actively monitored through periodic analysis of the impacts from changes in market risks. The Company manages Market Risk through the establishment of risk limits. These risk limits are established using a variety of risk measurement tools, including sensitivity analysis and stress test methodologies.

SC is exposed to foreign currency risk exposure and is monitored periodically.

4.5.2. Market Risk Capital Charge

In compliance with CMA guidelines, SC has used Standardized approach to determine capital requirement for the Market risk. Capital required for FX Risk and Fund Risk amounts SAR 9.3M.

4.6. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

4.6.1. Operational Risk Management

The Company's operational risk is its primary source of risk and arises mainly through the investment process, distribution channels, product development, information technology and operations, including potential risks arising from business disruption and reliance on third party suppliers and outsourcing partners.

The Company considers breakdowns in internal controls and corporate governance as the most important aspect of Operational risk as such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner. The Company recognizes that good Management Information Systems ("MIS") and a strong internal control culture and contingency planning are all crucial elements of effective operational risk management and takes measures to continually develop procedures and systems to support such requirements.

Operational risks are reviewed quarterly to delete expired risks and add newly emerging risks in order to ensure that internal controls are proactively realigned to mitigate these emerging risks. Individual Head of Departments/Divisions along with the Head of Operational Risk are responsible for identifying and assessing the operational risks area.

The Company follows a structured method to identify and mitigate Operational Risk and this includes identifying, assessing, addressing and reporting.

The Company has developed a comprehensive Business Continuity Management ("BCM") program in order to maintain and enhance the operational resilience within SC. Various plans and procedures are in place to deal with the continuity of critical Business processes and support functions that form part of the BCM framework.

Employees of SEDCO Capital were mandated to work from home as part of the de-crowding plan. Therefore, the Company developed a secure and comprehensive plan including enhanced monitoring to deal with Cybersecurity risks during these times. Various Covid - 19 related awareness campaigns took place as part of the plan.

The Company had performed scenario analysis on all asset classes to assess the potential impact on Client portfolios. Throughout the crisis the Executive team met more frequently to assess the developments and to strategize or make necessary changes in the portfolios. Clients were provided with regular updates on the market and their portfolios.

4.6.2. Operational Risk Capital Charge

In compliance with CMA requirements, the Company 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"). The summary is in the below table.

(Amount in 000's)

Approach 1	Year	Gross Income	Avg. Gross Income	Risk Capital Charge (%)	Capital Required Dec-20	Capital Required Dec-19
Basic Indicator Approach (BIA)	2018	175,323	139,397	15%	20,910	22,552
	2019	136,649				
	2020	106,221				
Approach 2	**Year**	**Expenses**	**Risk Capital Charge (%)**		**Capital Required – 2020**	**Capital Required – 2019**
Expenditure Based Approach (EBA)	2020	81,483	25%		20,371	24,509
Capital requirement for Operational Risk *(Maximum of BIA or EBA)*					**20,910**	**24,509**

Table 7 - Operational Risk Capital

4.7. Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

4.7.1. Liquidity Risk Management

The overall liquidity adequacy requires SC at all times to maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The primary liquidity risk arises when the nature of illiquid investments held within SC's cash and cash equivalents, and other assets may prevent efficient investment exit strategies being adopted, especially in a downturn situation.

The Company at all times maintain liquidity resources which are adequate, both as to the amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

4.7.2. Liquidity Reserves

Significant portion of the assets (defined as cash in hand and banks, due from financial institutions and quoted investments) to total assets at December 31, 2020 are highly liquid in nature with a maturity period between 1 day to one month. In an adverse financial situation, the maturity period can be reduced to 1 to 5 days.

4.7.3. Funding Sources

SC has no significant short-term liabilities and earning assets are funded by equity. The Company does not use debt or other instruments to fund its assets.

Although the analysis of the impact of future plans does not highlight any expected pressure on the SC's capital adequacy position. A one-off exceptional loss event may have capital adequacy implications. It is still important, therefore, that SC has available options to increase its capital in the event of a shortfall in supporting its future operating plans. Future share capital increases remain an option.

5. Appendices

5.1. ***Appendix 1*** – Disclosure on Capital Base

(Amount in 000's)

Capital Base (SAR '000)	Dec-20	Dec-19
Tier-1 capital		
Paid-up capital	200,000	200,000
Audited retained earnings	76,567	85,406
Share premium	-	-
Reserves (other than revaluation reserves)	20,588	18,861
Tier-1 capital contribution	-	-
Deductions from Tier-1 capital	(4,465)	(3,637)
Total Tier-1 capital	**292,690**	**300,631**
Tier-2 capital		
Subordinated loans	-	-
Cumulative preference shares	-	-
Revaluation reserves	37	9
Other deductions from Tier-2 (-)	-	-
Deduction to meet Tier-2 capital limit (-)	-	-
Total Tier-2 capital	**37**	**9**
Total Capital Base (Tier 1 & Tier 2)	**292,727**	**300,640**

5.2. *Appendix 2* – Disclosure on Capital Adequacy

(Amount in 000's)

SAR '000

Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement Dec-20	Capital Requirement Dec-19
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks	-	-		-	-
Capital Market Institutions and Banks (inc. cash)	44,809	44,809	8,962	1,255	3,857
Corporates	38,476	38,476	274,716	38,460	24,628
Retail	3,195	3,195	9,586	1,342	1,739
Past Due Items	-	-	-	-	-
Investments	257,713	257,713	679,244	95,094	37,087
Securitization	-	-	-	-	-
Margin Financing	-	-	-	-	-
Other Assets	37,697	37,697	117,539	16,455	11,116
Total On-Balance sheet Exposures	381,889	381,889	1,090,046	152,606	79,427
Off-balance Sheet Exposures					
OTC/Credit Derivatives	-	-	-	-	-
Repurchase agreements	-	-	-	-	-
Securities borrowing/lending	-	-	-	-	-
Commitments	-	-	-	-	-
Other off-balance sheet exposures	1,823	1,823	13,013	1,822	1,390
Total Off-Balance sheet Exposures	1,823	1,823	13,013	1,822	1,390
Total On and Off-Balance sheet Exposures	383,712	383,712	1,103,059	154,428	80,816
Prohibited Exposure Risk Requirement	-	-	-	-	-
Total Credit Risk Exposures	**383,712**	**383,712**	**1,103,059**	**154,428**	**80,816**

Market Risk	**Long Position**	**Short Position**			
Equity Risk	-	-		-	-
Fund Risk	-	-		-	14,240
Interest Rate Risk	-	-		-	-
Commodities Risk	-	-		-	-
FX Risk	173,779	-		9,327	1,836
Underwriting Risk	-	-		-	-
Excess Exposure Risk	-	-		-	-
Settlement Risk	-	-		-	-
Total Market Risk Exposures	**173,779**	**-**		**9,327**	**16,076**

Operational Risk	**20,910**	**24,509**
Minimum Capital Requirement	**184,664**	**121,402**
Surplus/ (Deficit) in Capital	**108,063**	**179,238**
Total Capital Ratio (time)	**1.59**	**2.48**

5.3. *Appendix 3* – Disclosure on Credit Risk's Weight

(Amount in 000's)

Risk Weights	Exposures after netting and credit risk mitigation								
	Capital Market Institutions and banks	Corporates	Retail	Past due items	Investments	Other assets	Off-balance sheet commitments	Total Exposure after netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	29	-	**29**	-
20%	44,809	-	-	-	-	-	-	**44,809**	8,961.71
50%	-	-	-	-	-	-	-	**-**	-
100%	-	-	-	-	-	-	-	**-**	-
150%	-	-	-	-	137,212	-	-	**137,212**	205,818
200%	-	-	-	-	-	-	-	**-**	-
300%	-	-	3,195	-	8,578	36,573	-	**48,346**	145,038
400%	-	-	-	-	111,923	-	-	**111,923**	447,693
500%	-	-	-	-	-	-	-	**-**	-
714% *(include prohibited exposure)*	-	38,476	-	-	-	1,095	1,823	**41,393**	295,549
Total Risk Weighted Assets	**8,962**	**274,716**	**9,586**	**-**	**679,244**	**117,539**	**13,013**	**1,103,059**	

Deduction from Capital Base 2020	**1,255**	**38,460**	**1,342**	**-**	**95,094**	**16,455**	**1,822**	**154,428**
Deduction from Capital Base 2019	**3,857**	**24,628**	**1,739**	**-**	**38,087**	**11,116**	**1,390**	**80,816**

5.4. ***Appendix 4*** – Disclosure on Credit Risk's Rated Exposure

(Amount in 000's)

									SAR '000
Exposure Class	**Long Term Ratings for Counterparties**								**Total**
	Credit Quality Step	**1**	**2**	**3**	**4**	**5**	**6**	**Unrated**	
	Standards & Poor's	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		-	-	-	-	-	-	-	-
Capital Market Institutions and Banks		24,097	-	20,711	-	-	-	-	44,809
Corporates		-	-	-	-	-	-	38,476	38,476
Retail		-	-	-	-	-	-	3,195	3,195
Past Due Items		-	-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	257,713	257,713
Securitization		-	-	-	-	-	-	-	-
Margin Financing		-	-	-	-	-	-	-	-
Other Assets		-	-	-	-	-	-	37,697	37,697
Other off-balance sheet exposures		-	-	-	-	-	-	1,823	1,823
Total On and Off-Balance sheet Exposures 2020		**24,097**	**-**	**20,711**	**-**	**-**	**-**	**338,903**	**383,702**
Total On and Off-Balance sheet Exposures 2019		**95,142**	**7,225**	**-**	**-**	**-**	**-**	**161,174**	**263,541**

5.5. *Appendix 5* – Disclosure on Credit Risk Mitigation

(Amount in 000's)

						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**
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks	-	-	-	-	-	-
Capital Market Institutions and Banks (including cash)	44,809	-	-	-	-	44,809
Corporates	38,476	-	-	-	-	38,476
Retail	3,195	-	-	-	-	3,195
Past Due Items	-	-	-	-	-	-
Investments	257,713	-	-	-	-	257,713
Securitization	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	37,697	-	-	-	-	37,697
Total On-Balance sheet Exposures	381,889	-	-	-	-	381,889
Off-balance Sheet Exposures						
OTC/Credit Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Securities borrowing/lending	-	-	-	-	-	-
Commitments	-	-	-	-	-	-
Other off-balance sheet exposures	1,823	-	-	-	-	1,823
Total Off-Balance sheet Exposures	1,823	-	-	-	-	1,823
Total On and Off-Balance sheet Exposures 2020	383,712	-	-	-	-	383,712
Total On and Off-Balance sheet Exposures 2019	263,541	-	-	-	-	263,541