



ITHRAA CAPITAL COMPANY

Pillar 3 Disclosure

As at 31 March 2017



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1. Overview

Ithraa Capital is a Saudi Joint Stock Company which has been in business in the Kingdom of Saudi Arabia since 2008. The Company is authorized and regulated by Capital Market Authority license# 06040-03. **Ithraa Capital Company** operates under Commercial Registration Number: 1010253987 dated 24/07/1429 and office is located at Mohammadiya area, King Fahad Street, P.O. Box. 64230, Riyadh 11536, Kingdom of Saudi Arabia.

The Pillar III disclosures related to Ithraa Capital Company for the year ended 31 March 2017 and are being made in line with CMA's Prudential Rules. Ithraa Capital believes that these disclosures will enable readers to assess the Company's capital, risk exposures, risk assessment processes and consequently its capital adequacy and promote comparability amount Authorized persons.

2. Scope of Application

2.1. Pillar 1 – Minimum capital requirements

Pillar 1 describes the minimum capital requirements for credit, market and operational risks. Various approaches are available to determine the minimum capital requirements under Pillar I. The choice of an appropriate approach will depend on the capability of the systems and its suitability to the AP's business. The Company calculates the minimum capital requirements for credit, market and operational risks as per the provisions of Part 3 of the prudential rules.

Ithraa Capital Company applies the standardized approach to calculate the capital required for credit risk. The capital requirements for market risk is calculated separately for each category within this risk type and then aggregated. As a starting point, Ithraa Capital uses the expenditure-based approach to determine capital required for its operational risks. A factor of 25% is applied to the most recent financial year's audited overhead expenses.

The Capital Market Authority's implementation of the Basel II framework consists of three pillars: Pillar 1 "minimum capital requirements", Pillar 2 "supervisory review process" and Pillar 3 "market discipline".

This document sets out the Pillar 3 qualitative and quantitative disclosures for Ithraa Capital Company as required by the CMA. These disclosures are not required to be, and have not been, audited by our auditors.

3. Capital Structure

Ithraa Capital Company's capital base consists of share capital of 10 million shares of SAR 10 each. The remainder of the capital base consists of retained earnings and a statutory reserve representing 10% of cumulative annual net income which can't be distributed to Shareholders.

The table below shows Ithraa Capital Company's own funds and capital ratio as at March 31, 2017 based upon the audited financial statements.

Table 1: Own Funds

(In SAR thousands)

Paid up Share Capital	100,000
Statutory Reserve	1,421
Retained Earnings	(34,043)
Goodwill/Intangible Assets	(85)
Unrealized Losses from AFS Investments	42
Tier One Capital	67,335
Tier Two Capital	0
Total Own Funds	67,335
Tier One Capital Ratio	3.58

The entity's minimum capital requirement, as calculated by the monthly Capital Adequacy Model submitted to the CMA, was SAR 18.8 million as at 31 March, 2017. As of March 31, 2017, Tier 1 capital was SAR 67.3 million, which is 3.58 times the minimum capital requirement. Ithraa Capital Company has Tier 2 capital for the sum of SAR 42K. Capital Market Authority guidance requires that an entity's total base shall always exceed a ratio of 1 times the minimum capital requirement. We continue to monitor this ratio to ensure that our total capital base always exceeds the requirement.

4. Capital Adequacy

The level and composition of Ithraa Capital Company is principally determined by its regulatory capital requirements, but it may also be influenced by the business environment, conditions in the financial markets and assessments of potential future losses due to extreme and adverse changes in Ithraa Capital Company's business and market environment.

Requirements for the minimum capital level are fulfilled. See table below for Ithraa Capital Company's minimum capital requirement as of March 31, 2017.

Table 2: Capital Requirement

(in SAR thousands)

Credit Risk & Prohibited Exposure Risk	15,556
Market Risk	117
Operational Risk	3,154
Total Minimum Capital Requirement	18,827
Capital Surplus	48,508

5. Risk Management

Effective risk management is of primary importance for Ithraa Capital Company. These risks include credit, market, operational, liquidity, legal, regulatory and reputational risks. Ithraa Capital ensures it is conservatively capitalized relative to its risk levels as well as external requirements and benchmarks. The directors maintain a range of conservative risk mitigation procedures to ensure compliance with regulatory requirements at all times and to meet any future capital or liquidity needs. Ithraa Capital has zero tolerance towards fraud, money laundering, and behavior detrimental to the reputation of Ithraa Capital Company and non-compliance with regulations.

Our objectives and guidelines for mitigating risk are in the strategies and procedures included in monitoring the two following elements of risk:

- Element 1. Risks primarily covered by capital

- Element 2. Risks covered by capital and other mitigates

The Company has a strong control environment and mitigates in place to monitor, assess and ensure compliance with regulatory and corporate governance requirements at all times.

The monitoring and management of risk in Ithraa Capital Company is the responsibility of the Chief Financial Officer and Chief Executive Officer, who submit risk assessments to the Compliance Committee. The Compliance Committee reports to Board of Directors. The Board of Directors meet on a quarterly basis and reports covering the elements of risk aforementioned and the risk components of those elements will be discussed and reviewed by BOD.

5.1. Credit Risk:

Ithraa Capital has exposures to Saudi banks, Gulf banks and Saudi corporate customers. Ithraa Capital uses the most conservative credit rating.

Table 3: Total Gross Credit Exposure

Total gross credit risk exposures broken down by major types of credit exposures are provided in the table below.

(in SAR thousands)

Risk Weights	Authorized Persons and Banks	Corporates	Other Assets	Total Gross Exposure	Total RWA	Capital Requirement - Credit Risk
0%						
20%	44,346			44,346	8,869	1,242
50%						
100%						
150%	22,002		517	22,519	33,778	4,729
150%						
200%						
300%	564		757	1,321	3,963	555
400%						
500%						
714%		4,952		4,952	35,357	4,950
Prohibited Risk				22,002		4,078
Total	66,912	4,952	1,274	95,140	81,967	15,556

5.2. Operational Risk:

Ithraa Capital uses the higher of the Basic Indicator Approach and the Expenditure-based approach to measure its capital requirements to address the risk of operational losses. A factor of 15%, per the CMA Prudential Rules, is applied to a three year rolling average of gross revenues. A factor of 25% is applied to the most recent financial year’s audited overhead expenses. The higher of the two amounts is taken as the capital requirement for operation risk.

Ithraa Capital ensures it has a strong governance and control framework in place, encompassing compliance monitoring, anti-money laundering processes, new business and product approvals, financial and regulatory reporting, tax monitoring, human resources strategy, information security and controls, Business continuity planning and regular BOD meetings.

Table 4: Operational Exposure

Expenditure-Based Approach	Overhead Expenses	Risk Capital Charge (25%)
Operational Expenditure – Expenditure-Based Approach (Year 1)	12,616	3,154

5.3. Market Risk:

Ithraa Capital has placed fund in Modarabah Deposit with one of the Gulf banks for the sum of USD 5.86 million. Therefore, exchange risk rate is calculated for 2% towards market risk on total deposit which will be amounted for the sum of USD 117.

5.4. Liquidity Risk

The BOD has approved a liquidity risk policy and procedures for analyzing, forecasting and monitoring liquidity risk. Quarterly cash flow projections and liquidity reporting to the CEO ensure that Ithraa Capital has sufficient liquidity to meet its cash obligations.



Ithraa Capital's liquidity risk policy sets out a comprehensive and conservative set of liquidity and funding policies. Our principal objective is to enable our core business to continue to serve clients and generate revenues, even under adverse circumstances. We maintain a good level of overnight balances with a local bank, and there have been no significant day-to-day variances in the last 8 years.

Ithraa Capital maintain a level of cash that exceeds the Operating Cash Target. Operating Cash Target is a minimum cash balance and is calculated as the quarterly average of the prior two quarters. Operating expenses excluding non-cash expenses such as depreciation, plus 10% buffer. Operating Cash Target is reviewed and approved both quantitatively and qualitatively on a quarterly basis by the Board of Directors.

Our liquidity risk management policies are designed to ensure that we have a sufficient level financing. The entity has a Liquidity Reserve in the form of a pool of cash, which is maintained via the Operating Cash Target approved by the Board of Directors. This cash will be used as an initial source of funding in the case of any future contingent need. As of 31 March, 2017, Ithraa Capital holds SAR 66.3 million of cash in bank accounts. With current liabilities of SAR 3.7 million and total liabilities in SAR 5.7 million, the entity has sufficient liquid assets to fulfil all of its current and non-current liabilities.

It is considered unlikely that Ithraa Capital would ever come under severe liquidity strain given its considerable excess cash and the nature of its revenues and balance sheet.