



مجموعة النفيعي للإستثمار
AL-NEFAIE INVESTMENT GROUP

PILLAR III DISCLOSURES
AL- NEFAIE INVESTMENT GROUP CO.

31 December 2022

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Introduction

This document fulfils the requirements for the annual market disclosure of information related to Pillar III as stipulated in the Prudential Rules issued by the Capital Market Authority (CMA), Saudi Arabia.

The purpose of Pillar III Disclosure is for the market participants to assess the key pieces of information on the scope of application, capital, risk exposures, risk assessments

t processes, and hence the capital adequacy of AL-Nefae Investment Group Co (NIG).

Scope of Application

Al-Nefae Investment Group (NIG) is a closed joint stock company established and registered as a financial services company under the Saudi capital market authority (CMA) regulations, license number 07082-37, dated 26/08/2007. Our headquarters based in Jeddah in KSA Tahliah St., Bin Homran Center.

NIG services and products adhere strictly to the Sharia principles; accordingly, we provide our clients with the above-mentioned financial services in a full conformity with sharia principles and provisions in coordination with our sharia committee (an independent body).

we are offering a full array of financial services pursuant to the five CMA licenses: Dealing as principal and agent, (underwriter), Asset Management, arranging, advisory and Custody.

(NIG) has five main business lines , as follows:

(1) Brokerage services

We are dealing as principal and agent and we determined to serve the needs of our individuals & institutional investors with the distinct brokerage services.

Providing fast, secure and multi- trading methods& systems which are operational (24) hours that allow our clients to buy & sell equity at any time and from anywhere in privacy , confidentiality and with approved technical protection just by logging in their accounts.

Besides, it is up to you whether you prefer to trade independently on line, with the help of our dedicated staff or through one of the other additional trading channels provided by NIG as detailed below:

NIG offers its clients online trading platform in addition to other trading channels as detailed below:

- ▶ Al-NefaeTadawul.
- ▶ Al-Nefae Phone.
- ▶ Al-Nefae Mobile.
- ▶ Trading Lounges with privacy and screens that provide the clients with market information.

NIG brokerage services are managed by a specialized team of experienced professionals who track down the global brokerage services and opportunities, study them and identify investment with the greatest return potential. All its concerns are to satisfy its customers and offer quality financial services.

Local Brokerage

NIG has uniquely succeeded in the provision of stock trading in the Saudi market; we have access to the market through various confidential trading channels as mentioned above, where customers can trade stocks by selling or buying in a comfortable easy, secure and appropriate way.

Our brokerage services are made available to our privileged clients, allowing them to tap into the most promising opportunities in the Saudi equity market, and soon will cover several regional & international markets and several instruments (equity& Islamic Bonds/Sukuk).

(2) Asset management,

NIG's Asset Management services consist of investment funds and discretionary portfolio management (DPM) mainly focusing on Saudi markets with coverage to GCC and international market as well. NIG's asset management services are fully Shariah compliant and its terms and conditions are strictly governed by the Saudi Capital Market Authority (CMA) rules and regulations.

NIG's Asset Management services success over the years stems from hiring & retaining experienced professionals with more than (20) years of experience who equipped with the highly developed Asset Management systems to provide its clients with the best investment services that match with their investment requirements , expectations and risk & return profiles.

The Asset Management (AM) Division includes the following Units:

***Investment Funds Management Unit:**

NIG will be offering to its individual and institutional clients a number of public and private investment funds that are strictly Shariah compliant and fully adhered to the Saudi Capital Market Authority (CMA) regulations.

***Discretionary Portfolios Management (DPM) Unit :**

DPM investment portfolio services will be offered to high net wealth individuals (HNWIs) and institutional clients.

The main objective of the discretionary investment services is to determine together with the client the investment objectives, goals and risk –return profiles.

DPM services agreements would be structured between the client and NIG in accordance with the applicable laws and regulations of Saudi Arabia namely, CMA and SAMA regulations respectively.

(3) Advisory services,

We offer personalized and comprehensive financial counseling.

We help our clients to evaluate their current business and identify non-strategic assets for divestment. The release capital can be better used for other more promising opportunities.

Business Expansion Advisory, we help fast-growing business to determine their future capital requirements and finding the best options for financing their growth.

(4) Arranging

Raising equity finance through IPOs' and private placements.

Arranging and raising debt financing via banks loans and syndications.

Arranging and raising financing through Islamic Sukuk. Al-Nefae Investment Group with its foreign partners will combine a strong Shariah structuring and execution capabilities in the area of local and international Sukuk transactions considerations and executions.

***IPO's :**

We facilitate access for private business to the capital markets through Initial Public Offerings (IPOs) and, for public companies, through follow-on offerings.

***Mergers & Acquisitions:**

We provide support for business seeking growth through acquisitions, as well as those seeking merger opportunities with complementary businesses.

***Debt Finance:**

We assist business needing additional capital to find, evaluate and secure Islamic financing.

***Private Equity :**

NIG provides investors with investment opportunities in private equity, which is considered an effective instrument for financing and business development.

***Debt Restructuring:**

We provide advice how to best manage company's capital structure by using optimal levels of debt and equity financing.

(5) Custody services,

Efficient and safe record keeping, dividend and coupon collections and stock splits services.

Hold the fund asset and portfolio security separately from the group assets and handle the dividends collections and distributions

The existing business support and governance functions of NIG are organized into the following units:

Marketing

Research

Compliance and Anti-Money Laundering

Internal Audit

Quality Assurance

Human Resources

Risk Management

Finance & Support Services Department:

Finance

Information Technology

Operations

Capital Structure

Shareholders' Equity consists of the following:

- 1- **Paid-up share capital:** consisting of share capital of 6 million shares of SR 10 each.
- 2- **Audited Retained earnings:** comprises of the net profit of previous year(s) which to be distributed to the shareholders or retained.
- 3- **Reserves:** consist of Statutory Reserve which represents the accumulated appropriations of profit.

Please refer to appendix I for more information on the capital base (Tier-1 and Tier-2).

Capital Adequacy

NIG provides CMA with a monthly report which details its current capital adequacy position, and it submits a forward-looking Internal Capital Adequacy Assessment Process (ICAAP) report on an annual basis. The ICAAP details the current capital position, significant capital plans for the future and stress tests of the NIG's capital position under plausible yet severe scenarios. NIG has a reasonably adequate capital position under these scenarios. In accordance with CMA's minimum capital requirements, NIG provides capital for the core financial services risks (Credit, Market and Operational Risk) in accordance with Pillar 1 of the prudential rules. As depicted below NIG has consistently maintained a strong Capital Adequacy

Appendix II represents the quantitative disclosure of capital requirements for credit risks, market risks, operational risks and foreign exchange risks in addition to the capital ratio in accordance with the prudential rules

NIG also provides additional capital for risks not directly covered in Pillar I, under the Pillar II requirements of the prudential rules. These include settlement risk, regulatory risk, strategic risk, reputation risk, concentration risk and liquidity risk. NIG's capital position is the total of Pillar I and Pillar II Capital requirements, plus any additional capital requirements determined by the Regulator.

Risk Management

General Qualitative Disclosure

The Board of Managers of NIG has approved the Risk Management Policy Manual which includes Risk Management Committee Charter, Credit Risk Policy, Market Risk Policy, Operational Risk Policy, Liquidity Risk Policy, ICAAP Policy and the Risk Appetite Statement. NIG has established the Risk Management Unit to implement and monitor all aspects of the Risk Management Framework.

NIG's risk management strategy is to support its corporate and strategic objectives by assisting business and support units to effectively and efficiently:

Identify risk

Assess the level of risk

Accept, manage, mitigate, transfer or avoid risk

Monitor and report on risks

Escalate risk issues to management where risks exceed established limits or warning/threshold levels

Implement effective controls and assess the strength of these on a continual basis.

The Audit and Compliance Committee (ACC) oversees the Internal Audit, Compliance, and Anti-Money Laundering functions. ACC supervises the establishment and implementation of the Frameworks for the above functions to ensure effective identification, management and mitigation of risks resulting from non-compliance with regulatory requirements.

The Compliance and AML (Anti-Money Laundering) Department is responsible for implementing the Framework to ensure NIG compliance with regulatory requirements through performing the functions of compliance advisory, compliance assessment and monitoring, and reporting. The Compliance and AML Department reports directly to the ACC and also meet annually with Board of Managers.

Credit Risk Disclosure

At present, the most common source of credit risk for NIG is exposure to counterparty credit risk through its investments. Based on the CMA rules, given that NIG is aware of all positions included in that investment, it may be treated as if it is held directly by NIG which is the primary source of credit risk at present since NIG does not offer any type of lending.

NIG's Credit Risk Policy aims to identify the sources of Credit Risk and establishes the standards for defining, monitoring, reporting and measuring such risk. In addition, the policy also defines the roles and responsibilities of the Board of Managers, Risk Committee and Risk Management Unit.

NIG complies with the Pillar I capital requirements of CMA and uses the Standardized Approach to arrive at the credit risk capital charge. Credit risk capital assessment is calculated by extracting all credit risk exposures and risk categories and mapping this to appropriate credit quality steps and asset classes. The results of the credit risk charge computation as on 31st December 2018 are shown in Appendix III.

Credit Risk Mitigation Exposure

This is applicable since the company is in the business of margin lending
Counterparty Credit Risk (CCR) Disclosure .

NIG's Credit Risk Policy aims to identify the sources of Credit Risk and establishes the standards for defining, measuring, monitoring, and reporting such risk. In addition, the policy also defines the roles and responsibilities of the Board of Managers, Risk Committee and Risk Management Unit. As stated above, the most common sources of credit risk for . NIG is only counterparty credit risk through its investments.

Operational Risk Disclosure

NIG's Operational Risk Policy outlines principles which facilitate operational risk oversight via the establishment of a comprehensive process for detection, reporting and tracking operational loss events, enabling the business and support units to control and mitigate operational risks, develop training and awareness programs for understanding of operational risk in NIG and ensure that there is clear assignment of roles and responsibilities for management of operational risk.

NIG conducts Risk and Control Self-Assessment of its business units periodically and defines the Key Risk Indicators for management of the operational risk and has a process for the recording of loss events. NIG has adopted the Basic Indicator Approach for operational risk

capital adequacy assessment. In this approach, expenses Operational Risk charge computation as on 31st December 2022 is SAR 3.5 million.

Appendix 1: Disclosure on Capital Base

Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	60,000
Audited retained earnings	(22,084)
Share premium	
Reserves (other than revaluation reserves)	
Tier-1 capital contribution	
Deductions from Tier-1 capital	
Total Tier-1 capital	37,916
Tier-2 capital	
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	37,916

Appendix 2: 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	13,492	13,492	2,698	378
Corporates				
Retail	5,215	5,215	15,645	2,190
Investments	25,150	25,150	100,600	14,084
Securitisation				
Margin Financing	3,111	3,111	3,728	522
Other Assets	914	914	2,742	384
Total On-Balance sheet Exposures	47,882	47,882	125,413	17,558
<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				
Prohibited Exposure Risk Requirement				

Total Credit Risk Exposures				-	-	-	-
<u>Market Risk</u>	Long Position	Short Position					
	132						24
Total Market Risk Exposures							24
<u>Operational Risk</u>							3,558
Minimum Capital Requirements							21,140
Surplus/(Deficit) in capital							16,776
Total Capital ratio (time)							1.79

Appendix 3: Disclosure on Credit Risk's Weight

Risk Weights	Exposures after netting and credit risk mitigation												Total Risk Weighted Assets
	Government s and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corp orate s	Retail	Past due items	Investments	Securitisation	Other assets	Off- balance sheet commit ments	Total Exposure after netting and Credit Risk Mitigation	
0%													
20%			13,492	722									2,843
50%													
100%													
150%				2,389									3,584
200%													
300%						5,215				914			18,387
400%								25,150					100,600
500%													
714% (include prohibited exposure)													
Average Risk Weight			20%	150%		300%		400%		714%			
Deduction from Capital Base			398	502		2,574		14,084					17,558

Appendix 3: 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	
<u>On and Off-balance-sheet Exposures</u> Governments and Central Banks Authorised Persons and Banks Corporates Retail Investments Securitisation Margin Financing Other Assets								
Total								

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	13,492	13,492				
Retail	5,215					5,215
Investments	25,150					25,150
Securitisation						
Margin Financing	3,111					3,111
Other Assets	914					914
	47,882	13,492				34,390

pp 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	13,492					13,492
Corporates						
Retail	5,215					5,215
Investments	25,150					25,150
Securitisation						
Margin Financing	3,111					3,111
Other Assets	914					914
Total On-Balance sheet Exposures	47,882					47,882
<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	47,882					47,882

* Refer to Chapter 2 of Annex 3.