Rana Investment Company

Pillar III Disclosures

Year ended 31 December 2015

March 2016

This report contains 34 pages

Pillar III Disclosures V1 4 – Final

Contents

Glossary

BCP	Business Continuity Plan
BIA	Basic Indicator Approach
CAR	Capital Adequacy Ratio
CEO	Chief Executive officer
CMA	Capital Market Authority
CR	Capital Requirement
CRM	Credit Risk Mitigation
DRP	Disaster Recovery Plan
FX	Foreign Exchange
GCC	Gulf Cooperation Council
ICAAP	Internal Capital Adequacy Assessment Process
IT	Information Technology
KSA	Kingdom of Saudi Arabia
LRM	Liquidity Risk Management
MENA	Middle East and North Africa
NOP	Net Open Position
OR	Operational Risk
OTC	Over The Counter
PR	Prudential Rules
ROG	Red Orange Green
RWA	Risk Weighted Assets
S&P	Standard & Poor's
SA	Standard Approach
SAR	Saudi Arabian Riyal
UK	United Kingdom
US	United States Of America
USD	Us Dollar

1 Scope of Application

1.1 Scope

Rana Investment Company (hereinafter referred to as "RANA" or "the Company") was established as limited liability company registered in the kingdom of Saudi Arabia under commercial registration No. 1010063670 dated 1 Safar 1407H (Corresponding to October 5, 1986).

During the year 2006, the Company's shareholders decided to convert the company from a limited liability company to a Saudi Closed Joint Stock Company with restricted subscription to shareholders in accordance with the Ministerial resolution number 92 dated 19 Dhul Hijjah 1427H (Corresponding to January 9, 2007). The above stated company's commercial registration number and date remain unchanged. The Company obtained the capital market authority license on May 7, 2006 to engage in the following security activities:

1. Act as principal and provide cover
2. Manage and establish mutual funds and portfolios
3. Provide arrangement services
4. Provide advisory services
5. Provide custodial services for the purposes attributable to mutual funds and management of international equity portfolios.

The Pillar III Disclosure Report (hereinafter referred to as "Pillar III Disclosure") is prepared and issued in accordance with the Article 68 of the Capital Market Authority (CMA) Prudential Rules (PRs). The Pillar III disclosures have been prepared to explain the basis on which the Company has prepared and disclosed capital requirements and information pertaining to the management of its risks and is in accordance with the "Suggested Format for Pillar III Disclosure" published on 15 December 2014, which sets the minimum requirements for the annual market disclosure of information as referred to by the Article 68 of the Prudential Rules (PRs).

1.2 Group Structure

During the year 2015, Rana Real Estate Development Company was incorporated as a limited liability company under commercial registration number 1010412386 dated 28 Jumada II 1435H corresponding to April 29, 2014) with a total share capital of SAR 50,000 out of which 99% is held by the Company. Rana Investment Company does not have any other subsidiary for the purpose of consolidation as part of the financial group. The group includes Rana Investment Company (Parent entity) and its subsidiary, Rana Real Estate Development Company. The consolidated financial statements include the financials statements of Rana Investment Company (the Company), Rana Real Estate Development Company and the funds that the Company has the ability to direct their financial and operating activities.

1.3 Capital Transferability

There are no restrictions, or other major impediments, on transfer of funds or regulatory capital with the Group.

2 Capital Structure

RANA has a basic capital structure consisting of:

Capital Items	Details
Share capital	The share capital of RANA, amounting to SAR 300 million is fully paid and is divided into 30 million shares at a nominal value of SAR 10 per share.
Retained Earnings	This represents the accumulated undistributed profits that are available for future dividend distributions as recommended by the Board and approved by the shareholders at the Annual General Meeting or to be eventually capitalized.
Statutory Reserves	In accordance with RANA's Article of Association and the Regulation for Companies in the Kingdom of Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of the net income until the reserve equals 50% of capital. The reserve is not available for dividend distribution.

The capital of RANA is composed of only Tier 1 Capital as mentioned in the below section.

2.1 Tier 1 and Tier 2 Capital

The components of Tier 1 and Tier 2 capital for RANA as of 31 December 2014 are as follows:

Capital Base	SAR '000	
	2015	2014
Tier 1 Capital		
Paid-up capital	300,000	300,000
Audited retained earnings	(94,471)	50,610
Share premium	-	-
Reserves (other than revaluation reserves)	130,871	130,871

Capital Base		**SAR '000**
	2015	**2014**
Tier 1 capital contribution	-	-
Deductions from Tier 1 capital	(10,289)	(47,100)
Total Tier 1 Capital	**326,111**	**434,380**
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	**326,111**	**434,380**

The Company does not have Tier 2 capital as at 31 December 2015 in its capital structure.

2.2 Total Capital Base

The total capital base of the Company net of deductions as at 31 December 2015 is SAR 326,111,363 (rounded to nearest thousand).

3 Capital Adequacy

RANA is adequately capitalized with respect to the minimum capital requirement of the Prudential Rules of the CMA i.e. the requirements for the minimum level of capital are fulfilled and RANA management ensures that adequate capital is retained at all times to support the risks the Company undertakes in the course of its business and its expansion plans. Capital Adequacy indicates the ability of RANA to ensure efficient utilization of capital in relation to its business requirements and growth, risk profile and shareholder returns and expectations.

The Company recognizes that earnings are the first line of defense against losses arising from business risks. However, since capital is vital to ensure continued solvency, the Company's objective is to maintain sufficient capital such that there is a buffer above regulatory capital adequacy requirement, in order to meet risks arising from fluctuations in asset values, business cycles, expansion and future requirements. The Company's Internal Capital Adequacy Assessment Process ("ICAAP") identifies risks that are material to its business and the capital that is required to be set aside for such risks. Since its incorporation, RANA's capital has increased over years by the retention of its dividends. RANA plan to continue increasing its risk appetite by retaining profits in line with the business plans.

The Company seeks to achieve the following goals by implementing an effective capital management framework:

- Maintain sufficient capital to support overall business strategy;
- Integrate capital allocation decisions with the strategic and financial planning process;
- Enhance Board and senior management's ability to understand how much capital flexibility exists to support the overall business strategy;
- Enhance the Company's understanding on capital requirements under different economic and stress scenarios;
- Build and support linkage between risks and capital and tie performance to both of them; and
- Meet the regulatory capital adequacy ratios and have a prudent buffer.

3.1 Strategy and Approach for ICAAP

RANA has developed an ICAAP Policy to measure, monitor and report all material risks and adopt an efficient capital planning process to ensure sufficient capital is available to meet usual business activities as well as any unforeseen contingencies. Whilst the company is exploring opportunities in expansion, the company will continue to hold capital to cover those risks specified by CMA (under Pillar I) and hold additional capital to cover other risks (Pillar II), supporting its business activities while ensuring a comfortable buffer is held for capital requirement. The Company is sufficiently capitalized over the capital planning horizon and can support the planned growth and expansion of the business.

RANA has established a monitoring and reporting system that allows the senior management and the Board to:

- evaluate the level and trend of material risks and their effect on capital levels;
- evaluate the sensitivity and reasonableness of key assumptions used in the Company's business projections;
- determine that the Company holds sufficient capital against the various risks and is in compliance with established capital adequacy goals; and
- assess its future capital requirements based on the Company reported risk profile and make necessary adjustments to the Company's strategic plan accordingly.

The Company's capital management is aimed at maintaining optimum level of capital, enabling it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory capital requirements as well as internal capital requirements calculated.

3.2 Capital Requirements and Capital Adequacy Ratio

The capital requirements for credit risk, market risks, operational risks, foreign exchange risks and commodity risk in accordance with the Prudential Rules is provided in the table below:

Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
		2015		
				SAR '000
Credit Risk				
On-balance Sheet Exposures	-	-	-	-
Governments and Central Banks	-	-	-	-
Authorized Persons and Banks	74,989	74,989	15,619	2,187
Corporates	86	86	613	86
Retail				
Investments (AFS and Investment in Associate)	134,343	134,343	537,371	75,232
Securitization				
Margin Financing				
Investment funds	2,140	2,140	6,421	899

Exposure Class	Exposures before CRM		Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
			2015		
					SAR '000
Investments (Listed Shares)	99,015		99,015	148,523	20,793
Real Estate					
Other Assets	24,177		24,177	72,530	10,154
Total On-Balance sheet Exposures	334,750		334,750	781,077	109,351
Off-balance Sheet Exposures	-		-	-	-
OTC/Credit Derivatives					
Repurchase agreements					
Securities borrowing/lending					
Commitments	113,547		113,547	378,684	53,016
Other off-balance sheet exposures					
Total Off-Balance sheet Exposures	113,547		113,547	378,684	53,016
	-		-	-	-
Total On and Off-Balance sheet Exposures	448,298		448,298	1,159,761	162,366
Prohibited Exposure Risk Requirement	-		-	98,628	13,808
Total Credit Risk Exposures	448,298		448,298	1,258,388	176,174
Market Risk	***Long Position***	***Short Position***			
Interest rate risks	-	-	-	-	-
Equity price risks	30,098				5,418
Risks related to investment funds					
Securitization / re - securitization positions					

Exposure Class	Exposures before CRM		Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
2015					
					SAR '000
Excess exposure risks					
Settlement risks and counterparty risks					
Foreign exchange rate risks	10,366				470
Commodities risks.					
Total Market Risk Exposures	40,464				5,888
<u>Operational Risk</u>	-	-	-	-	7,775
Minimum Capital Requirements	-	-	-	-	189,837
					-
Surplus/(Deficit) in capital	-	-	-	-	136,274
Total Capital ratio (time)	-	-	-	-	1.72

Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
2014				
				SAR '000
Credit Risk				
On-balance Sheet Exposures	-	-	-	-
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	147,527	147,527	39,701	5,558
Corporates	114	114	812	114
Retail	-	-	-	-
Investments (AFS and Investment in Associate)	171,910	171, 910	303,605	42,505
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Real Estate	126,744	126,744	506,975	70,976
Other Assets	1,684	1,684	5,052	707
Total On-Balance sheet Exposures	447,979	447,979	856,145	119,860
Off-balance Sheet Exposures	-	-	-	-
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	169,083	169,083	297,827	41,696
Other off-balance sheet exposures	-	-	-	-
Total Off-Balance sheet Exposures	169,083	169,083	297,827	41,696
Total On and Off-Balance sheet Exposures	617,062	617,062	1,153,972	161,556

Exposure Class	Exposures before CRM		Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
		2014			
					SAR '000
Prohibited Exposure Risk Requirement	45,020		45,020	253,913	35,548
Total Credit Risk Exposures	662,082		662,082	1,407,885	197,104
Market Risk	***Long Position***	***Short Position***			
Interest rate risks	-	-	-	-	-
Equity price risks	22,068	-	-	-	3,965
Risks related to investment funds	-	-	-	-	-
Securitization/ re securitization positions	-	-	-	-	-
Excess exposure risks	-	-	-	-	-
Settlement risks and counterparty risks	-	-	-	-	-
Foreign exchange rate risks	29,173	-	-	-	1,648
Commodities risks.	-	-	-	-	-
Total Market Risk Exposures	51,241	-	-	-	5,613
Operational Risk	-	-	-	-	8,091
Minimum Capital Requirements	-	-	-	-	210,808
Surplus/(Deficit) in capital	-	-	-	-	223,573
Total Capital ratio (time)	-	-	-	-	2.06

4 Risk Management

4.1 Risk Management Objectives

RANA assumes a variety of risks in undertaking its business activities. The risk management objective for each area of risk is to adopt the best practices available to adhere to Prudential Rules requirements i.e. to identify, capture, monitor and manage different dimensions of risk with the aim of protecting asset values and income streams. RANA is able to maximize returns intended to optimize the Company's shareholder return, while maintaining its risk exposure within defined parameters.

4.2 Risk Management framework

4.2.1 Structure and Organization

The Company's senior management is responsible for understanding the nature and level of risk being taken by the Company and how this risk relates to adequate capital levels. Senior management is responsible for formulating the Company's risk appetite, strategy and approves the limit structure for different types of risks faced by the Company. The Board of Directors of the Company has overall responsibility for establishing the risk culture and ensuring that an effective risk management framework is in place. Compliance & Risk Committee – a subcommittee of the Board have also been established to assist the Board in ensuring effective implementation of risk management framework across the organisation. The Internal Audit provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

4.2.2 Risk Management Strategy

The Company's risk strategy, backed by appropriate limit structures, is expressed through Risk Management policies. These policies provide an enterprise-wide integrated risk management framework in the Company. The risk policies identify risk objectives, policies, strategies and risk governance both at the Board and the management level.

The Company is in the process of enhancing its capabilities in the risk measurement. Risk monitoring and reporting framework is also formalized to provide timely and periodic update to the senior management on the risk exposures of the Company for any required actions. Based on the risk appetite of the Company, the Company has put in place various risk limits. These limits have been approved by the Board of Directors. Any limit breaches are reported by the finance function to the Board of Directors. The limits are reviewed and revised, if necessary at least annually or earlier if necessary.

5 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets which are potentially subject to concentration of credit risk, consists principally of cash at bank and accounts receivable.

With respect to credit risk arising from other financial assets of the company, including cash and cash equivalent, the Company's exposure to credit risk arises from the default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

RANA investments' credit exposures can be categorized as:

- Risk against placement with the banks;
- Risk against corporate receivables;
- Risk against AFS investments;
- Risk against Real Estate;
- Risk against accrued income and pre-paid expenses; and
- Risk against off-balance sheet commitments.

Currently, RANA uses the Standardized Approach prescribed under the Pillar I requirements of the CMA Prudential Rules to calculate regulatory capital for the credit risk faced by it. The Company's cash and investments are placed with banks and third parties of repute and hence the credit risk is limited. The credit risk with respect to other receivables is limited as the total amount receivable is spread over a number of accounts.

5.1 Credit Risk Disclosures

5.1.1 Past due claims

At RANA, all invoices are payable within 60 days of issuance Any invoice outstanding for more than 60 days but less than 180 days is classified as past due. Invoices outstanding for more than 180 days are fully provided for. A provision may be created before 180 days where the Business Units identify issues around collectability at an earlier stage.

5.1.2 Provision against doubtful receivables

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

5.1.3 Impaired assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. For assets carried at cost, impairment is determined as difference between cost and the present value of future cash flows discounted at the current market rate of return for similar financial assets.

5.1.4 Total Gross Credit Risk Exposure

Total gross credit risk exposures broken down by major types of credit exposure is provided in table below:

Risk Weights	**Governments and central banks**	**Administrative bodies and NPO**	**Authorized persons and banks**	**Margin Financing**	**Corporates**	**Retail**	**Past due items**	**Investments**	**Investment fund**	**Securitization**	**Investment funds underlying**	**Real Estate**	**Other assets**	**Off-balance sheet commitments**	**Total Exposure after netting and CRM**	**Total RWA**	**Total RWA**
SAR '000																	
																2015	**2014**
0%																	-
20%			74,512												74,512	**14,902**	27,937
50%														65,067	65,067	**32,534**	66,285
100%																	-
150%			477					99,015	-		-				99,492	**149,239**	242,187
200%									-		-						-
300%									2,140		-		24,177		26,317	**78,952**	5,052
400%								134,343	-		-				134,343	**537,371**	580,155

Risk Weights	**Governments and central banks**	**Administrative bodies and NPO**	**Authorized persons and banks**	**Margin Financing**	**Corporates**	**Retail**	**Past due items**	**Investments**	**Investment fund**	**Securitization**	**Investment funds underlying**	**Real Estate**	**Other assets**	**Off-balance sheet commitments**	**Total Exposure after netting and CRM**	**Total RWA**	**Total RWA**
500%									-		-						-
*714%**					86				-		-			48,480	48,566	**445,391**	232,356
Average Risk Weight			74,989		86			233,358	2,140		-		24,177	113,547	448,298	**1,258,388**	1,153,972
Deduction from Capital Base			-		-			10,289	-		-	-	-		10,289		

**include prohibited exposure*

5.1.5 Geographic Distribution of Credit Risk

The table below provides break-up of credit exposure in geographic areas:

Credit Risk Exposure	Geographic area					
Portfolio	**Saudi Arabia**	**UK**	**Singapore**	**MENA**	**Others**	**Total Amount**
						SAR '000
Balances with Authorized Persons and Banks	74,512	-	-	-	477	74,989
AFS Investments	102,465	2,140	5,524	1,008		111,137
Receivables from Corporate	86	-	-	-	-	86
Real Estate	124,360					124,360
other assets	24,177	-	-	-	-	24,177
Total	325,600	2,140	5,524	1,008	477	334,750

5.1.6 Residual Contractual Maturity Breakdown

	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
			SAR'000			*SAR'000*
	2015			2014		
Cash & Cash Equivalent	74,989	-	74,989	139,788	-	139,788
Accounts Receivable	86	-	86	114	-	114
Due from related party	-	-	-	7,739	-	7,739
Prepaid expenses and other assets	23,878	-	23,878	1,180	-	1,180
Held for trading investments	30,098	-	30,098	22,067	-	22,067
Available for sale investments	-	111,138	111,138	-	173,279	173,279
Investment in an associate	-	-	-	-	4,203	4,203
Total Assets	**129,051**	**111,138**	**240,189**	**170,888**	**177,482**	**348,370**
	-	-	-	-	-	-
Accounts Payable	18	-	18	18	-	18
Accrued Expenses and other liabilities	2,277	-	2,277	2,243	-	2,243
Provision for Zakat	24,511	-	24,511	25,316	-	25,316
End of service Indemnities	-	2,437	2,437	-	2,136	2,136
Total Liabilities	**26,806**	**2,437**	**29,243**	**27,577**	**2,136**	**29,713**
Net	**102,246**	**108,701**	**210,946**	**143,310**	**175,346**	**318,656**

5.1.7 Past due and impaired exposures

No receivables were in past due as of 31 December 2014. Account receivables quality was assessed as good and no allowance for doubtful receivables was made by RANA as of 31 December 2015.

An assessment was carried out at the balance sheet date to determine whether there is any objective evidence that a specific financial asset or a group of financial assets may be impaired. No such evidence existed as at 31 December 2015 and hence no impairment loss was recognized by the Company.

5.1.8 Credit Risk Protection

Exposure amounts before and after credit risk protection associated with each credit quality step in regards to non-trading activities, as well as the exposure amounts that are deducted from capital are detailed in tables 5.1.8.1, 5.1.8.2 and 5.1.8.3 below:

5.1.8.1 Long term Ratings of counterparties

2015								
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		-	-	-	-	-	-	-

2015								
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
Other Assets		-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-

5.1.8.2 Short term Ratings of counterparties

2015						
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
<u>On and Off-balance-sheet Exposures</u>		-	-	-	-	-
Governments and Central Banks		-	-	-	-	-
Authorised Persons and Banks		74,512*	-	-	-	-
Corporates		-	-	-	-	86
Retail		-	-	-	-	-
Investments		-	-	-	-	-
Securitisation		-	-	-	-	-
Margin Financing		-	-	-	-	-
Other Assets		-	-	-	-	-
Total		**74,512**	-	-	-	86

* Deposit with local Saudi Banks

2014								
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								171,910
Securitisation								
Margin Financing								
Other Assets								
Total								**171,910**

2014						
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		139,684*				7,843
Corporates						114
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets						
Total		**139,684**				**7,957**

* Deposit with local Saudi Banks

5.1.8.3 Credit Risk Mitigation Exposure

RANA credit risk exposure comprises mainly of placements with local banks and account receivables from corporates, AFS investments, accrued income and pre-paid expenses and off balance sheet commitments. Details of the exposure covered by collateral is provided in table below:

2015						
Exposure Class - Credit risk	**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**	**Net Exposures after CRM**
						SAR '000
Credit Risk						
On-balance Sheet Exposures	-	-	-	-	-	-
Governments and Central Banks	-	-	-	-	-	-
Authorized Persons and Banks	74,989	-	-	-	-	74,989
Corporates	86	-	-	-	-	86
Retail		-	-	-	-	
Investments (AFS and Investment in Associate)	134,343	-	-	-	-	134,343
Securitization		-	-	-	-	
Margin Financing		-	-	-	-	
Investment funds	2,140	-	-	-	-	2,140
Investments (Listed shares)	99,015	-	-	-	-	99,015
Real Estate		-	-	-	-	
Other Assets	24,177	-	-	-	-	24,177
Total On-Balance sheet Exposures	**334,750**	-	-	-	-	**334,750**
Off-balance Sheet Exposures		-	-	-	-	-
OTC/Credit Derivatives	-	-	-	-	-	
Repurchase agreements	-					
Securities borrowing/lending	-					

2015						
Exposure Class - Credit risk	**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**	**Net Exposures after CRM**
Commitments						113,547
Other off-balance sheet exposures	-					
Total Off-Balance sheet Exposures						113,547
						-
Total On and Off-Balance sheet Exposures	**334,750**					**448,298**

2014						
Exposure Class – Credit Risk	**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**
On-balance Sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks	147,527					147,527
Corporates	114					114
Retail						
Investments (AFS & associate)	171,910					171,910
Securitisation						
Margin Financing						
Real Estate	126,744					126,744

2014						
Exposure Class – Credit Risk	**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**
Other Assets	1,684					1,684
Total On-Balance sheet Exposures	**447,979**					**447,979**
Off-balance Sheet Exposures						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments	169,083					169,083
Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	169,083					169,083
Total On and Off-Balance sheet Exposures	**617,062**					**617,062**

5.1.8.4 Off-Balance Sheet Disclosure

2015			
Credit Risk	**Principal Amount**	**Credit Equivalent Amount**	**Risk Weighted Assets**
Off-balance Sheet Exposures			*SAR '000*
Security Pledging	65,067	65,067	32,534
Exposure in the form of commitments – Letter of Guarantee	58,691	48,480	346,150
Total Off-Balance sheet Exposures	**123,758**	**113,547**	**378,684**

2014			
Credit Risk	**Principal Amount**	**Credit Equivalent Amount**	**Risk Weighted Assets**
Off-balance Sheet Exposures			*SAR'000*
Security Pledging	132,570	132,570	66,285
Exposure in the form of commitments – Letter of Guarantee	36,513	32,429	231,543
Total Off-Balance sheet Exposures	**169,083**	**164,999**	**297,828**

6 Market risk

Market risk is the potential of losses in earnings or an adverse change in the value of RANA's assets and liabilities in response to changes in their respective market prices.

For the Company, market risk may arise from movements in commission rates, foreign exchange markets or equity markets. A single transaction or financial product may be subject to any number of these risks.

Commission Rate Risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company has no significant interest bearing long term assets and has no interest bearing liabilities as at 31 December 2014.

Foreign Exchange Risk is the risk that the value of a financial investment will fluctuate due to change in foreign exchange rates. Currency or foreign exchange risk arises from an open position, either long or short, in a foreign currency, creating exposure to a change in the relevant exchange rate. This may arise from holding of assets in one currency funded by liabilities in another currency, or from a spot or forward foreign exchange trade, currency swap, currency future or currency option which is not matched with an offsetting contract.

Management closely monitors the exchange rate fluctuations and believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals with Saudi riyal.

Equity Risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions, either long or short, in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity or equity instrument. This exposure may arise from holding actual equities, from an equity derivative, or from an index arbitrage. In addition to Company performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

The Company's investments are susceptible to market price risk arising from uncertainties about future prices. The Company manages this risk through diversification of its investments portfolio in terms of geographical distribution and industry concentration.

Finance is responsible for measurement of market risk on a periodic basis. Finance will ensure that all the parameters and assumptions regarding market risk are adequately defined and appropriate measurement reports are generated. Reports will be provided to the CEO detailing the market risks and the management of limit structures.

RANA is calculating Market Risk on Held for Trading portfolio and Currency Risk. The Company assesses the market risk to its listed investments (both on the Trading and Non Trading Activities) based on historical Value at Risk (VaR) and compare it with the Pillar I Capital charge for those assets. Value at risk is computed over one day period at a 99% confidence interval.

The Company will use a combination of limits to control its market risk exposures. Finance keeps a daily check on the market risk limits and generates an alert whenever a limit is breached.

6.1 Capital Requirements

6.1.1 Trading Book Business

2015			
Risk	**Exposure**		**Capital Requirement**
			SAR '000
	Net long	Net Short	
Interest Rate Risk	-	-	-
Equity Price Risk	30,098	-	5,418
Investment Fund Risks	-	-	-
Securitisation/Re securitisation positions	-	-	-
Excess exposure risk; and	-	-	-
Settlement Risk	-	-	-
Counterparty risk	-	-	-
Total Capital Requirement	**30,098**		**5,418**
2014			
Risk	**Exposure**		**Capital Requirement**
			SAR '000
	Net long	Net Short	
Interest Rate Risk	-	-	-
Equity Price Risk	21,707	-	3,907
Investment Fund Risks	361	-	58
Securitisation/Re securitisation positions	-	-	-
Excess exposure risk; and	-	-	-

Settlement Risk	-	-	-
Counterparty risk	-	-	-
Total Capital Requirement			**3,965**

6.1.2 Business Activities

2015			
Risk	**Position Subject to Capital Charge**		**Capital Requirements**
			SAR '000
	Net long	Net Short	
Foreign Exchange Rate Risk	10,366	-	470
Commodity Risk	-	-	-
Total Capital Requirement			**470**
2014			
Risk	**Position Subject to Capital Charge**		**Capital Requirements**
			SAR '000
	Net long	Net Short	
Foreign Exchange Rate Risk	29,173	-	1,648
Commodity Risk	-	-	-
Total Capital Requirement			**1,648**

7 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition excludes reputational and strategic risk.

Currently, RANA uses the capital calculated under the Basic Indicator Approach (BIA) as well as expenditure based approach (whichever is higher) for calculating its internal capital requirement for operational risk. The Company has established guidelines which have been classified into major factors that give rise to the operational risk including people risk, process risk, system risk and external events and manage them accordingly.

People risk: The Company assesses the current and future human resource needs of the Company, which will be implemented through Board approved policies and procedures for staff hiring, termination and resignation. The Company has established a code of conduct, which are to be read and signed by all employees and strict measures shall be taken in case of non-compliance.

Process risk: Each business unit/support function will ensure the adequacy of its internal controls against each activity, in co-ordination with the Internal Audit, and reports any issues to the Finance for further analysis and evaluation. The Company reviews the internal control policies and procedures periodically and update changes while considering internal and external conditions.

System risk: The Company's strategic plan caters to current and future IT needs, in line with business objectives. Senior management reviews the strategic plan catering to IT needs periodically and make amendments where required, while considering environmental changes, internal resources and future dependency on IT. All new systems will be approved by authorized personnel, after going through an evaluation process (i.e., suitability, feasibility and acceptability of the new system), and will be purchased from a list of authorized suppliers;

External events: The Company is in process of establishing appropriate Business Continuity and Disaster Recovery Plan to effectively manage emergency situations and utilize its resources effectively, directing them where they are needed most. As part of these plans, the Company will have policies in place for the insurance of valuable and vital assets and the application of these policies will be assigned to appropriate function within the Company.

Management oversight at top management level is one of the key requirements to demonstrate commitment to risk management by the Company. In order to support adequate management oversight, regular, objective and independent reporting on the status of operational risks has been made mandatory. Formal reporting is done to keep the top management apprised of the state of risks within the Company.

7.1 Risk mitigation and control

The business units/support functions, in consultation with the Finance and Risk Management Function, determine all material operational risks and decide whether to use appropriate procedures to control and/or mitigate the risks, or accept the risks. For those risks that cannot be controlled, the

Company will decide whether to accept these risks, reduce the level of business activity involved, transfer the risk outside the Company or withdraw from the associated activity completely.
The Company is in the process of developing Risk Control and Self-Assessment framework and going forward, the Company will carry out a Risk Control and Self-Assessment (“RCSA”) exercise to identify its major operational risks and assess the likelihood of occurrence as well as severity of each risk.

7.2 Capital Requirements

The Company based its internal capital requirement for operational risk on the Basic Indicator Approach as it provides higher capital charge than capital charge under Expenditure based approach. The capital requirement was assessed at SAR 8,091,000 in nearest thousands.

7.2.1 Basic Indicator Approach

Operational Risk	Gross Operating Income			Average Gross Operating Income	Risk Capital Charge	Capital Requirement	
	2013	2014	2015			2015	2014
	SAR’000				%	SAR’000	
Basic Indicator Approach	55,869	47,797	-110,506	51,833	15	7,775	8,091

7.2.2 Expenditure Based Approach

Operational Risk	Overhead Expenses (Year-1)	Average Gross Operating Income	Risk Capital Charge	Capital Requirement	
				2015	2014
	SAR’000		%	SAR’000	
Expenditure Based Approach	14,380	N/A	25	3,595	3,299

8 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its liabilities as they fall due.

RANA pursues a policy of maintaining a high level of liquidity through active and prudent management of assets and liabilities. Since RANA has limited or insignificant liabilities and the majority of assets are placed with the Financial Institutions for short term. RANA does not have significant exposure to liquidity risk. RANA monitors its cash flow movements for day to day management.

In the event of a liquidity stress, RANA could utilize the financing facility/ arrangements with local financial institutions. RANA monitors the liquidity risk through Liquidity and funding risk management policy framework that:

- Ensures that the liquidity profile of RANA is managed and maintained in a manner that is commensurate with the RANA's asset risk profile and risk tolerances; and
- Formalizes the governance structure for liquidity risk oversight by specifying the roles of the RANA's Board of Directors, Compliance & Risk Committee and RANA Management Team in the liquidity risk management process.

8.1 Sources of liquidity risk

The sources of liquidity risk can broadly be categorized in the following:

- **Funding Risk –** Risk of inability to fund net outflows due to unanticipated withdrawal of capital or deposits;
- **Call Risk –** Risk of crystallization of a contingent liability; and
- **Event Risk** – Risk of rating downgrades or other negative public news leading to a loss of market confidence in the Company.

8.2 Funding and liquidity risk strategy

The Company collates the projected cash flow and liquidity profiles of its financial assets and liability. It maintains a portfolio of short term liquid assets to cover requirements, largely consisting of certain liquid placements with financial institutions. The Finance Department is responsible for the day-to-day liquidity management process of the Company. On the basis of the budgeted cash flows and investment commitments, the finance department tracks the immediate liquidity needs of the Company on a daily basis. Liquidity is dependent upon numerous variables and its daily management constitutes an important relationship with the ongoing Treasury activities.

The company will establish a contingency liquidity plan to meet urgent liquidity requirements in stressed conditions that will address how funding liquidity will be managed if either the specific financial conditions were to decline or broader conditions created a liquidity problem. The plan will be reviewed and updated regularly.

8.3 Stress testing

The finance team will update the stress testing assumptions on periodic basis. It will then be reviewed by CEO before being reported to and approved by the Board.

Analytical processes exist to evaluate and report periodically the liquidity risk exposures of RANA. RANA performs stress testing that models stressed market environment scenarios over a 12 months horizon on a semiannual basis. Shocks can result from market-driven financial distress and/or a credit event. The liquidity stress testing models following distinct types of contingencies, as detailed below:

- Contractual: fulfilling requests based on contractual obligations; and
- Discretionary: RANA reserves a buffer to preserve the franchise to honor client requests where no contractual obligation exists.

8.4 Contingency funding plan

In the event of a liquidity stress, RANA will utilize its Contingency Funding Plan, which will describe the internal responsibilities, information flows, escalation procedures, and execution of potentials contingency actions.

8.4.1 Liquidity Ratio

RANA will use following liquidity risk assessment dashboard to assess its liquidity risk.

Liquidity Ratio* (times)	Rating
> or equal to 1.5	Green
> or equal to 1 but less than 1.5	Orange
< 1	Red

*Liquidity Ratio: Current Assets / Current Liability

RANA has demonstrated strong liquidity position during 2015. As at 31 December 2015 the liquidity ratio (Current Assets/ Current Liabilities) was 4.8 times **(SAR 129,051,451/ SAR 26,805,728)**.

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