Saudi Venture Capital Investment Company

Pillar III Disclosure

Year ending 31st December, 2018

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1. Introduction

The purpose of this document is to report Pillar III in order to comply with Capital Market Authority issued Article 68 of the Prudential Rules and under Circular number 06367/6 dated 13/11/2013, the purpose of Pillar III is for the market participants to assess the key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the APs.

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 AP by others, including investors, analysts, customers, and rating agencies, which leads to an improved corporate governance.

The Company shall publish the Pillar III disclosures at its website http://www.saudi-vc.com

2. Scope of application

Saudi Venture Capital Investment Company (the "Company") is a Saudi closed joint stock company, registered in Riyadh, Kingdom of Saudi Arabia. The Company has obtained a license number 09139-36 dated 29 Jumada Thani 1430H (corresponding to 22 June 2009) from the Capital Market Authority (CMA). Subsequently the company has obtained a new license number 12165-37 dated 25 Muharam 1434H (corresponding to 9 December 2012).

The Company is registered under commercial registration number 1010300351 dated 1 Safar 1432H (corresponding to 5 January 2011) and the ministerial resolution number 6-Q dated 5 Muharram 1432H (corresponding to 11 December 2010). The Company was authorised by CMA to commence business on 12 Rajab 1432H (corresponding to 14 June 2011).

The Company is licensed to provide dealing (as principal and underwriter), managing, advisory, arranging and custodial services.

3. Shareholding structure

The authorized, issued and paid up share capital consists of 10,125,000 shares of SR10 each, shares owned by 32 shareholders majority is from Kingdom of Saudi Arabia and GCC, with 75.48% of the ownership is represented by 5% ownership and above

4. Capital structure

4.1 Tier-1 Capital

Tier-1 Capital comprises of

- Paid up capital,
- Audited retained earnings,
- Unrealised losses from available for sale investments,

At 31 December 2018, SVCIC Tier-1 Capital was as follows:

Tier-1 Capital	**SAR '000**
Paid-up capital	101,250
Audited retained earnings	(44,510)
Verified previous year profit/(loss)	-
Unrealised losses from AFS investments (-)	*(1,361)*
Deductions (-)	(1,361)
Total Tier-1 capital	**55,379**

4.2 Tier-2 Capital and Total Capital Base

All components of Tier-2 capital are null therefore the company reports no Tier-2 capital as of 31st December, 2018

	SAR '000
Tier-1 Capital	55,379
Tier-2 Capital	-
Total Tier-2 capital	**55,379**

5. Capital adequacy

5.1 Minimum Capital Requirement

SVCIC fully meets the minimum capital requirement as defined by the CMA in Prudential Rules. The company is also fully compliant in adopting the strategies and methods for valuing and maintaining capital.

5.2 Capital management

SVCIC's strategy is to invest in transactions that offer superior risk-adjusted returns, are in line with SVCIC's internal know-how and capabilities, and will generate strong investors demand upon placement.

SVCIC's strategy continues to be based on building a well-diversified portfolio in terms of its geographic and industry sectors.

SVCIC's capital management is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholders' value, whilst always meeting regulatory capital requirements as well as internal capital requirements.

SVCIC aims at achieving its capital strategy objectives by ensuring the presence of on-going supervision over capital levels and continuously monitoring the capital adequacy ratios. This will be done to make certain that CAR is both within the limits set by the regulator and is favourable for SVCIC and the achievement of its strategies.

a) Capital requirement for credit risk, operational risk, and market risk

As at 31 December 2018, the minimum capital requirement for credit risk, operational risk and market risk was as follows:

SVCIC		**SAR '000**
Market Risk	2,894	
Equity & Fund Risk		-
FX Risk		*2,894*
Credit Risk	38,153	
Credit Risk (exculding Prohibited Exposure Risk)		*33,539*
Prohibited Exposure Risk		*4,615*
Operational Risk		926
Total minimum capital requirement		**41,974**

b) Capital ratio

As At 31 December 2018, Total capital ratio was computed as below:

SVCIC	SAR '000
Capital base	
Tier-1 capital	55,379
Tier-2 capital	
Total capital base	55,379
Total minimum capital requirement	41,974
Surplus/(Deficit) in Capital	13,405
Total capital ratio (time)	**1.32**
Tier-1 capital ratio (time)	1.32

6. Risk management

6.1 Overview

SVCIC has established a risk management framework by formulating a set of policies, procedures, guidelines; risk limits and an effective risk governance structure.

SVCIC has a BoD approved Risk Management policy in place, which introduces and defines the risk management practices associated with its business activities. This policy outlines the risk management control framework that allows SVCIC to identify, assess, monitor, manage, mitigate and control exposure to all major risks inherent in its business activities. The purpose of the manual is to establish and communicate the risk policy guidelines and control parameters related to risk and to direct activities conducted on behalf of SVCIC. The risk management policy will help to achieve the following objectives:

- Full transparency in communicating risk policy to enhance the decision-making process;
- Solidify the enterprise wide risk management culture across business lines;
- Proactive Risk Management with sophisticated modelling and technical analysis;
- Enhance shareholders' value through maximizing risk-adjusted return on capital;
- Establish a solid framework for adequate Economic Capital, and full compliance with regulatory capital requirements;
- Establish a framework for a fully independent risk management function with reporting line to the Risk & Audit Committee of the Board and with direct lines of communications with all functions within SVCIC.
- RM has formulated a comprehensive and detailed Enterprise Risk Management Framework to oversee the implementation of the risk management policies and practices at SVCIC. The framework includes the risk identification process, risk measurement process and on-going risk monitoring and control process.

SVCIC has a risk limit matrix in place, covering limits stipulated by the CMA and SVCIC's internal limits for parameters, including but not limited to credit portfolio/facilities, capital, liquidity, concentration limits and regulatory limits.

6.2 Risk profile

Risk profiling is a process for finding the optimal level of investment risk considering the risk required, risk capacity and risk tolerance, where,

- Risk required is the risk associated with the return required to achieve the goals from the financial resources available,

- Risk capacity is the level of financial risk the SVCIC can afford to take, and
- Risk tolerance is the level of risk SVCIC is comfortable with.

A risk profile can be constructed in a number of ways:

- A group of "subject matter experts" can be convened to debate, assess and quantify their views on how much risk the firm faces, typically reducing their output to the well-known green/orange/red "heat-map" structure – despite much scepticism, this highly visual mechanism highlights where experienced people consider their risk to be.
- The organisation can define different severity bands, based on economic capital applied to individual business units as well as their respective loss history, then can ask business managers and even subject matter experts to express their views on the likely frequency of the risk manifesting itself, the likelihood of such a manifestation and then a range of severity impacts, covering worst case, most probable case and average case. These can then be interpreted through weighted equations to arrive at a less subjective low/medium/high risk profile.
- Individual inputs based on changes in loss data, risk/performance indicators, scenario assessments, audit points and risk/control assessments can be weighted to drive a dynamic "real-time" profile.

6.3 Risk governance

SVCIC's Corporate Governance – the system of procedures and principles governing how the SVCIC organizes its leadership, its management and its operations – is fundamental to SVCIC's successes and that of its stakeholders. SVCIC has designed its corporate governance to produce an efficient, entrepreneurial decision-making structure that is fair, transparent and accountable, and that aligns the profits of investors, management and employees with those of its shareholders, financiers and investors.

6.4 Credit risk

Credit risk is defined as the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Company is exposed.

SVCIC is not involved in the granting of credit facilities in the normal course of its business activities and its exposure to credit risk all comes from private equity investments.

As at 31 December 2018 the total credit risk for SVCIC was as below:

Non-trading activities/RWA	20%	150%	300%	400%	714%	RWA	Capital Requirement
Exposures to authorized persons and banks							
On balance sheet - Deposit/receivable	536	11,719				17,686	2,476
Exposures to corporates							
On balance sheet - Receivable		12,364				18,546	2,596
Retail exposures							
On balance sheet exposure		63				95	13
VC & PE Unlisted Invst							
On balance sheet exposure				50,602		202,408	28,337
Real estate investments							
On balance sheet exposure						-	-
Other items							
Tangibe assets			141			827	116
Defferred expenditure/accrued income			135				
Credit risk (excluding Prohibited Exposure Risk)						**239,561**	**33,539**
Prohibited Exposure Risk							**4,615**
Credit risk							**38,153**

6.5 Counterparty risk

The company did not undertake significant transactions with counterparty credit risk and off-balance sheet during the year.

6.6 Market risk

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and commodity prices will affect the income or the value of its holdings of financial instruments. Market risk comprises equity position risk, profit rate risk, commodities risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The company is not exposed to commodities or price risk as there is no commodities holding either in the non-trading or trading book. Market risk for the company arises only on account of its foreign exchange exposure.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the transactions completed by the company are in US dollar.

Position are monitored regularly, and the company is not exposed to any significant currency risk.

As at 31 December 2018 the total market risk for SVCIC was as below:

Foreign Exchange Rate Risk	Exposure	Charge	Capital Requirement
USD and GCC currencies	34,915	2%	698
GBP	15,687	14%	2,196
Capital requirement			2,894
Equity Price Risks			
General risk	-	14%	-
Other equities than high quality, liquid and diversified portfolios	-	4%	-
Capital requirement			-
Market Risks			**2,894**

6.7 Operational risk

Operational risk is defined as the risk of direct and indirect losses resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risks. Operational risk differs from other banking risks in that it is not directly taken in return for an expected reward but exists in the natural course of corporate activity, which in turn affects the risk management process.

SVCIC uses the Expenditure Based Approach under the Basel II Framework for measuring its operational risk. Currently, it conducts its business from a single location. Accordingly, the number of client relationships and volume of transactions at SVCIC are lower than at institutions having multi-location or retail operations.

SVCIC's operations are conducted according to defined processes and procedures. These process and procedures include a broad system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction. SVCIC also engages in subsequent monitoring of accounting records, daily reconciliation of cash, bank and securities accounts and other checks to enable it to detect, on a timely basis, any erroneous or improper transactions which may have occurred.

6.8 Liquidity risk

Liquidity risk is defined as the risk that SVCIC may have insufficient funds to meet its obligations as they fall due i.e. risk of being unable to satisfy claims without impairment of its financial capital.

As part of its strategy, SVCIC does not have any long term borrowings or other commitments which may expose it to significant funding liquidity risk - as SVCIC primarily funds its assets through internal accruals and shareholders' equity. However, SVCIC may assume short term interbank borrowing to bridge any cash flow mismatch towards its commitment to invest in an asset.

SVCIC monitors its liquidity position; SVCIC adopts Basel III prescribed liquidity ratios, namely,

a. the Liquidity Coverage ratio - which serves as a short term liquidity measure dictating the level of high quality assets to be held at all times and representing a 30 day stressed funding scenario; and
b. Net Stable Funding ratio - which serves as a structural liquidity measure defining a minimum acceptable amount of stable funding based on the liquidity characteristics of SVCIC's assets and activities over a one year horizon.

7. Appendices

7.1 Appendix: Illustrative Disclosure on Capital Base

Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	101,250
Audited retained earnings	(44,510)
Share premium	
Reserves (other than revaluation reserves)	
Tier-1 capital contribution	
Deductions from Tier-1 capital	(1,361)
Total Tier-1 capital	**55,379**
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	55,379

7.2 Appendix: Illustrative Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks					
Authorised Persons and Banks	536		536	107	15
Authorised Persons and Banks	11,719		11,719	17,579	2,461
Corporates	12,364		12,364	18,546	2,596
Retail			-	-	-
Investments	50,602		50,602	202,408	28,337
Investment funds	63		63	95	13
Cash or gold	3		3	-	-
Margin Financing					
Other Assets	276		276	828	116
Total On-Balance sheet Exposures	75,563		75,563	239,562	33,539
Off-balance Sheet Exposures					
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					33,539
Prohibited Exposure Risk Requirement					4,615
Total Credit Risk Exposures					38,154
Market Risk	Long Position	Short Position			
Interest rate risks					
Equity price risks					-
Risks related to investment funds					
Securitisation/resecuritisation positions					
Excess exposure risks					
Settlement risks and counterparty risks					
Foreign exchange rate risks	50,602				2,894
Commodities risks.					
Total Market Risk Exposures	50,602				2,894
Operational Risk					926
Minimum Capital Requirements					41,974
Surplus/(Deficit) in capital					13,405
Total Capital ratio (time)					1.32

7.3 Appendix: Illustrative Disclosure on Credit Risk's Risk Weight

Risk Weights	Exposures after netting and credit risk mitigation												
	Governments and central banks	**Administrative bodies and NPO**	**Authorised persons and banks**	**Margin Financing**	**Corporates**	**Retail**	**Past due items**	**Investments**	**Securitisation**	**Other assets**	**Off-balance sheet commitments**	**Total Exposure after netting and Credit Risk Mitigation**	**Total Risk Weighted Assets**
0%										3			-
20%			536									536	107
50%													
100%													
150%					24,083			63				24,146	36,219
200%													
300%										276		276	827
400%								50,602				50,602	202,408
500%													
714% (include prohibited exposure)								32,962				32,962	32,962
Average Risk Weight													
Deduction from Capital Base													

7.4 Appendix: Illustrative Disclosure on Credit Risk's Rated Exposure

Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks								
Authorised Persons and Banks								
Corporates								
Retail								
Investments								50,602
Securitisation								
Margin Financing								
Other Assets								
Total	-							50,602

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		536				
Corporates						24,146
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets	3					276
Total	3	536				24,422

7.5 Appendix: Illustrative Disclosure on Credit Risk Mitigation

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						
Authorised Persons and Banks	536					536
Corporates	24,146					24,146
Retail						-
Investments	50,602					50,602
Securitisation						
Margin Financing						
Other Assets	279					279
Total On-Balance sheet Exposures	75,563					75,563
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						
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures						
Total On and Off-Balance sheet Exposures	75,563					75,563
* Refer to Chapter 2 of Annex 3.						