

Emirates NBD Capital KSA
Pillar III Disclosure
As of 31st December 2014

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1. EXECUTIVE SUMMARY:

1.1. INTRODUCTION:

Emirates NBD Capital KSA is a Saudi Limited Liability Company and it is wholly owned by Emirates NBD Group, Dubai (ENBD PJSC) under commercial registration number 1010248476 and Capital Market Authority (CMA) license number 7086-37. The objective of the Company is to provide full range of Investment Banking, Corporate Finance, Brokerage and Asset Management services covered by dealing, arranging, managing, advising and custody licenses. ENBDC does not have any subsidiaries as on 31st Dec 2014.

1.2. PURPOSE OF THE REPORT :

The Pillar III disclosure report has been prepared in accordance with the prudential rules issues in December 2012 and Pillar III disclosure guidelines issued in December 2014 by the Capital Market Authority (CMA). The purpose of this disclosure is to inform market participants about Emirates NBD Capital's (ENBDC) capital, risk exposures, risk assessment process and the capital adequacy.

2. CAPITAL STRUCTURE:

2.1. Terms & Conditions:

As per Article 7 of Articles of Association of the company, the Capital of the Company may be increased with the unanimous consent of the shareholders if the increase in the Company's capital is affected by either raising the nominal value of the shares or issuing new shares compelling the shareholder to pay their full value in proportion to their respective participation in the company's capital. Apart from the two cases referred to above, the capital of the Company may be increased with the consent of shareholders representing three fourths (3/4) of the capital. Further, the capital of the company may also be decreased by a decision of the shareholders, provided that the capital may not become less than the minimum amount allowed, and in accordance with the following guidelines:

(i) If the capital is decreased because it is in excess of the Company's needs, the Company's creditors must be notified pursuant to a notice to be posted in a paper published in the city where the head office of the Company is established. The creditors may object to such decrease within sixty (60) days of the publication date. In the event one of the creditor's objects and presents to the Company documents supporting its claim within the above mentioned period of time, the Company must either pay the debt if it is due at that time or provide an adequate guarantee of payment if the debt is due at a later date.

(ii) In the event the Company has incurred losses totaling half (1/2) of its capital, its capital may not be decreased.

There are no other terms & conditions applicable to the current capital items except that in accordance with Article 180 of the Regulations for Companies in the Kingdom of Saudi Arabia, ENBDC Board has passed the resolution that the shareholders shall cover the losses of the Company from their own funds and will continue to support the operations of the Company.

2.2. Capital Base:

ENBDC's capital base as of 31st December 2014 as required by appendix 1 of the Pillar III guidelines of CMA is provided below:

(As of 31/12/2014)	
Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	80,000
Audited retained earnings	-73,621
Share premium	0
Reserves (other than revaluation reserves)	0
Tier-1 capital contribution	0
Deductions from Tier-1 capital	0
Total Tier-1 capital	6,379
<u>Tier-2 capital</u>	
Subordinated loans	15,000
Cumulative preference shares	0
Revaluation reserves	0
Other deductions from Tier-2 (-)	0
Deduction to meet Tier-2 capital limit (-)	-11,810
Total Tier-2 capital	3,190
TOTAL CAPITAL BASE	9,569

3. CAPITAL ADEQUACY:

3.1. Minimum Capital Requirement:

ENBDC KSA's capital base as at 31st Dec 2014 had a surplus of SAR 4.78 Million upon covering all materials risks of the company and meets the minimum capital requirement with a capital ratio of 2 xs against CMA requirement of 1x. The Company intends to maintain a healthy capital ratio with a view to have a capital buffer to cater future business growth and resulting escalation in risk exposure.

3.2. Capital Adequacy Assessment:

A comprehensive capital planning is done as part of the ICAAP process whereby three years (2015 to 2017) capital needs and sources are discussed and target ratio's set. On each Internal Capital Adequacy Assessment Committee (ICAAC) meeting Finance team presents the available capital position and current capital ratios. The impact of any business decision and relevant exposure to capital adequacy are being discussed and the best solution is arrived at to maintain sound capital.

3.3. Capital Charge Calculation:

Credit Risk: ENBDC KSA calculates capital requirement for credit risk according to standardized approach as adopted by CMA which requires exposure to be assigned to various segments based on the nature of underlying exposure. Please refer **Appendix II** for capital requirement calculation.

Market Risk: As of now, ENBDC does not maintain Proprietary Trading book, hence the current exposure to Market Risk is NIL.

Operational Risk: Operational risk capital charge is calculated under Expenditure based approach and details are captured in section 4.6.

3.4. Capital Requirement & Total Capital Ratio:

For quantitative disclosure of capital requirement and capital ratio, refer to **Appendix II**.

4. RISK MANAGEMENT

4.1 General Qualitative Disclosure for Risks:

I. Strategies and processes for risk management and compliance function:

Risk Management & Compliance functions within ENBDC KSA is an independent function reporting functionally to Risk & Compliance Committee of ENBDC, which in turn reporting to Board of Directors of ENBDC. ENBDC's Corporate Governance frameworks are developed to reduce risk and provide balanced approach to achieve its strategic objectives.

The Board is the highest level approval body that performs its functions in accordance with its terms of reference outlined in the Corporate Governance charter. ENBDC has four Board Committees (Risk & Compliance Committee, Executive Committee, Audit Committee and Nomination & Remuneration Committee) which have separate terms of reference approved by the Board.

Transparency and accountability are focal points to ENBDC's business, ensuring that the controls necessary for effective risk management in all areas of risk including Credit, Market and Operational Risk and robust regulatory compliance are in place. Emirates NBD Capital is committed to be in line with the international best practice.

ENBDC aims to promote strong risk management culture through a comprehensive set of process that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors and Senior Management are involved in the establishment of material risk processes and the periodic oversight and guidance of ENBD Group risk management function.

Risk management is within Risk & Compliance department, performing risk reviews and risk assessments on any new product/process/change initiative documents and provides necessary sign off from the risk management perspective. In the process of risk assessment and identification, the business & support units are provided with appropriate solution for mitigation of identified risk.

According to Pillar I prudential rules, ENBDC is subject to Credit Risk and Operational Risk and provide below the brief outline of the same:

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 financial loss.

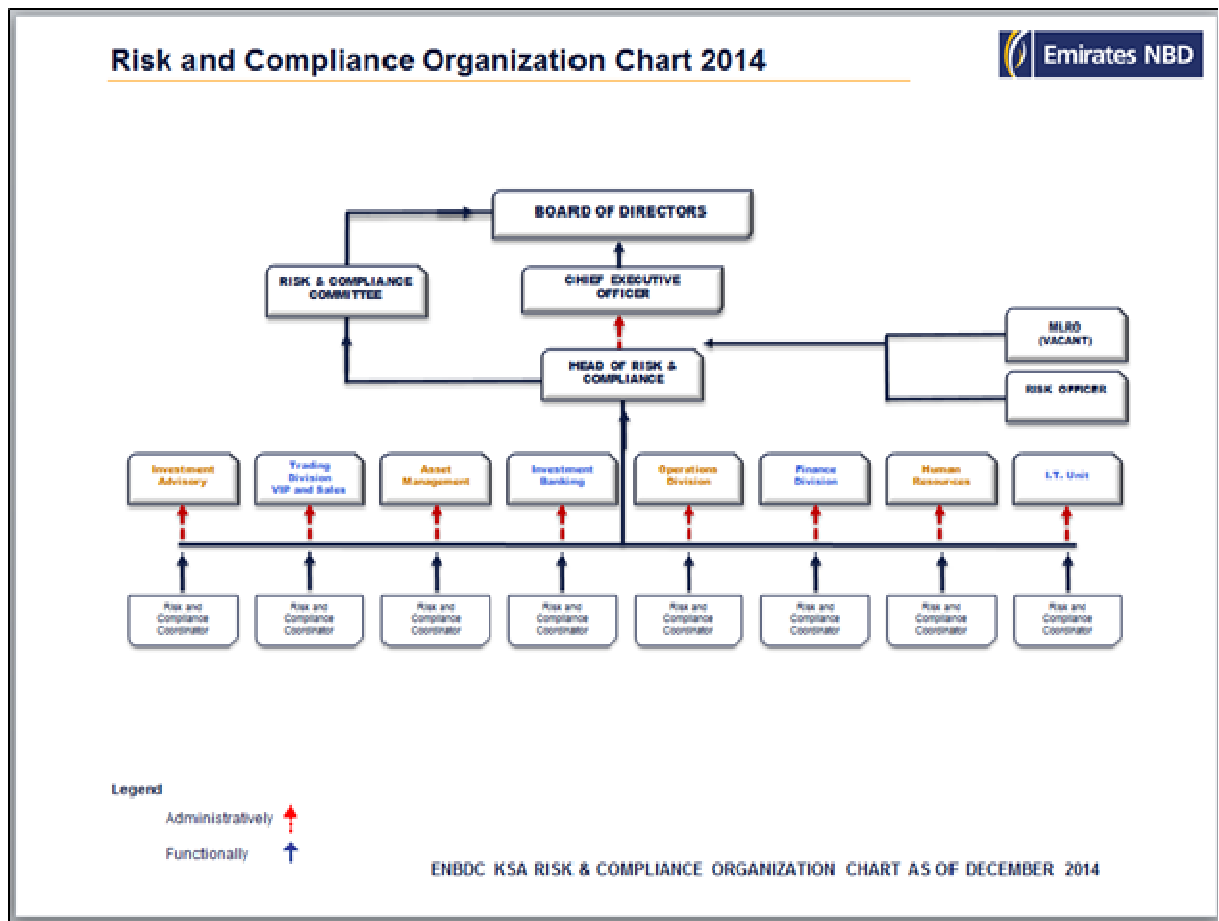
With the current structure of ENBDC balance sheet, the company has not proposed to take any exposure on customer related credit risk into the balance sheet. However, as Pillar I of Prudential guidelines, the amount deposited with the local banks & receivable/accruals will attract specific Risk weight and Capital charge. As such ENBDC's exposure is limited to these factors.

Operational Risk:

According to prudential guidelines, the Company is following the expenditure based approach which is detailed further in 4.6 of this report.

II. The structure and organization of the risk management and compliance function:

The function of risk & compliance is embedded into each department through a risk & compliance coordinator (at the moment, Head of each department) who is shouldering the responsibility. However, each and every staff member of ENBDC is aware it is the everyone’s responsibility.



III. The scope and nature of risk reporting and measurement systems:

The Risk & Compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry and which are issued by legislative and regulatory bodies relevant to ENBDC-KSA’s businesses, or by ENBDC-KSA Corporate Compliance Risk Management. The Risk & Compliance Function actively has been

ENBD Capital KSA Pillar III Disclosure Report

established to educate and support each business & support line in managing the related associated risk such as Anti-Money laundering, preventing terrorist financing, conflicts of interest, sales and trading conduct as well as customer interest and protection.

Risk & Compliance Committee is reporting regularly to the Board of Directors. Risk & Compliance department is highly planned to utilize some of the available compliance management & reporting systems and tools in order to enable them to fulfill reporting function effectively and efficiently.

Risk & Compliance department is developing internal solution to harvest all steps in the compliance process, tracking responsibilities and due dates for compliance obligations. The solution includes the ability to map compliance requirements and obligations to an organizational hierarchy, with the ability to manage obligations derived from:

Risk & Compliance committee is provided with the Breach Assessment regular basis and any other reports on internal control findings as well as Regulatory audit/inspection/review update on regular basis.

IV. Policies/guidelines for hedging and mitigating risk, and strategies and processes for monitoring the continuing effectiveness of hedges and mitigations of risks.

Currently, ENBDC is not exposed to Market risk. However, appropriate policy would be framed prior taking out any exposure or taking initiative in dealing with any derivative instruments or hedging instruments.

4.2 Credit Risk Disclosure:

Type of Disclosure	Disclosure Requirement
Definition of Past due claims and impaired liabilities.	Past due item shall refer to an exposure where, interest or principal are more than 90 days past due, calculated from the original agreed payment date, however ENBDC has no exposure to past due claims and impairments.
Approaches adopted to determine impairments and specific provision	Not Applicable.
Names of Credit Rating Agencies (CRA)	Not Applicable.
Types of exposure classes for which CRA is used	Not Applicable.
Mapping between the credit rating from each CRA	Not Applicable.
Quantitative Disclosure: Total gross credit risk exposure	Details are provided in Appendix III.
Amount of impaired exposures and past due exposures provided separately	Not Applicable.
Changes for impairments and specific provisions during the period.	Not Applicable. The Company is exposed to credit risk on its bank balances, term deposits with local bank (parent bank – ENBD KSA) only.
Geographic distribution of credit risk exposures	Not Applicable.
Residual contractual maturity breakdown of credit risk exposure	Not Applicable.
A reconciliation report for changes in impairment and specific provision for impaired exposures.	Not Applicable.
Exposure amounts before and after credit risk protection	Not Applicable – Appendix IV Nil.

4.3 Credit Risk Mitigation Exposure:

Type of Disclosure	Disclosure Requirement
Qualitative Disclosures: Credit Risk Mitigation Exposure.	As per Prudential guidelines of CMA, the amount deposited with the local banks & receivable/accruals will attract specific Risk weight and Capital charge. As such ENBDC's exposure is limited to these factors. The Company does not extend any credit facilities to its clients; hence exposure on this score is NIL.
Quantitative Disclosures	Based on the facts above, the Appendix V is Nil.

4.4 Counterparty Credit Risk (CCR)¹ and Off-Balance Sheet Disclosure:

Not applicable as of 31st December 2014.

4.5 Market Risk Disclosure:

Presently, ENBDC does not maintain Proprietary Trading book, hence the current exposure to Market Risk is NIL.

4.6 Operational Risk Disclosure:

Type of Disclosure	Disclosure Requirement								
General Disclosure	<p>Operational Risk is defined as loss resulting from inadequate or failed internal processes, people, systems and/or external events. This definition includes legal risk but excludes strategic and reputational risk. It may also arise from potential disruptions of business processes associated with the delivery of products or services to customers. Operational Risk is managed through ensuring that adequate internal processes, systems and people are in place in the respective business areas.</p> <p>Policy & procedure documents are maintained with each business/support units of ENBDC for necessary compliance. Head of departments are ensuring adherence to both internal and external regulatory guidelines. Further, Business Continuity Plan is designed to ensure that the processes are in place for continued effective delivery of all Products & Services at all times from ENBDC.</p>								
Approach adopted for Operational Risk Capital Assessment	<p>The Operational risk Capital charge is calculated as higher of the amounts under the following two approaches:</p> <ul style="list-style-type: none"> a) Basic Indicator Approach: Under the Basic Indicator Approach, 15 % capital charge is calculated on average operating income of the last three audited financials; b) Expenditure Based Approach: Under Expenditure Based Approach, 25 % capital charge is calculated on all overhead expenses (such as write-offs) as per the most recent audited financial statements. 								
Quantitative Disclosures: Summary of Operational risk Capital requirement.	<table border="1"> <thead> <tr> <th data-bbox="526 1331 971 1402">Particulars</th> <th data-bbox="971 1331 1170 1402">2014 (Amount in SAR'000s)</th> </tr> </thead> <tbody> <tr> <td data-bbox="526 1402 971 1549"> Basic Indicator Approach (15 % capital charge on average operating income of the last e years audited financials) </td> <td data-bbox="971 1402 1170 1549" style="text-align: center;">869</td> </tr> <tr> <td data-bbox="526 1549 971 1654"> Expenditure Based Approach (25% capital charge on last year audited overhead expenses) </td> <td data-bbox="971 1549 1170 1654" style="text-align: center;">3,546</td> </tr> <tr> <td data-bbox="526 1654 971 1730"> Operational Risk charge for 2014 (max. of the above 2 approaches) </td> <td data-bbox="971 1654 1170 1730" style="text-align: center;">3,546</td> </tr> </tbody> </table>	Particulars	2014 (Amount in SAR'000s)	Basic Indicator Approach (15 % capital charge on average operating income of the last e years audited financials)	869	Expenditure Based Approach (25% capital charge on last year audited overhead expenses)	3,546	Operational Risk charge for 2014 (max. of the above 2 approaches)	3,546
Particulars	2014 (Amount in SAR'000s)								
Basic Indicator Approach (15 % capital charge on average operating income of the last e years audited financials)	869								
Expenditure Based Approach (25% capital charge on last year audited overhead expenses)	3,546								
Operational Risk charge for 2014 (max. of the above 2 approaches)	3,546								

4.7 Liquidity Risk Disclosure:

Type of Disclosure	Disclosure Requirement
Strategies and guidelines for liquidity risk management.	<p>Liquidity risk is the risk that the company will be unable to meet its obligation as they become due, without adversely affecting AP's financial conditions. Liquidity risk can be caused by market disruptions which may impact certain sources of funding.</p> <p>Liquidity requirements are monitored on a monthly basis and ENBDC management ensures that sufficient liquid funds are available to meet any commitments as they arise.</p>
Stress Test	<p>Liquidity stress testing has not been carried out, as entire client money (funds) held with the custody of the parent entity, a branch of ENBD Dubai operating in Kingdom of Saudi Arabia.</p>
Quantitative Disclosures: Liquidity Position	<p>Not Applicable.</p>

APPENDICES**Appendix I: Illustrative Disclosure on Capital Base**

(As of 31/12/2014)

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	80,000
Audited retained earnings	-73,621
Share premium	0
Reserves (other than revaluation reserves)	0
Tier-1 capital contribution	0
Deductions from Tier-1 capital	0
Total Tier-1 capital	6,379
<u>Tier-2 capital</u>	
Subordinated loans	15,000
Cumulative preference shares	0
Revaluation reserves	0
Other deductions from Tier-2 (-)	0
Deduction to meet Tier-2 capital limit (-)	-11,810
Total Tier-2 capital	3,190
TOTAL CAPITAL BASE	9,569

Appendix II: Illustrative Disclosure on Capital Adequacy

					(As of 31/12/2014)
Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000	
<u>Credit Risk</u>					
<i>On-balance Sheet Exposures</i>	-	-	-	-	
Governments and Central Banks	-	-	-	-	
Authorised Persons and Banks	26,296	26,296	5,259	736	
Corporates	-	-	-	-	
Retail	-	-	-	-	
Investments	-	-	-	-	
Securitisation	-	-	-	-	
Margin Financing	-	-	-	-	
Other Assets	1,191	1,191	3,573	500	
Total On-Balance sheet Exposures	27,487	27,486	8,832	1,236	
<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	0	27,486	8,832	1,236	
Prohibited Exposure Risk Requirement	-	-	-	-	
Total Credit Risk Exposures	0	27,486	8,832	1,236	
<u>Market Risk</u>					
	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	-	-	-		
Commodities risks.	-	-	-		
Total Market Risk Exposures	-	-	-		
<u>Operational Risk</u>					
					3,546
Minimum Capital Requirements					4,782
Surplus/(Deficit) in capital					4,787
Total Capital ratio (time)					2

Appendix III: Illustrative Disclosure on Credit Risk’s Risk Weight

(As of 31/12/2014)													
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%													
20%			26,296									26,296	5,259
50%													
100%													
150%													
200%													
300%										1,191		1,191	3,573
400%													
500%													
714% (include prohibited exposure)													
Average Risk Weight			20%							300%		32%	
Deduction from Capital Base			736							500		1236	

Appendix IV: Illustrative Disclosure on Credit Risk’s Rated Exposure

								(As of 31/12/2014)	
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		
On and Off-balance-sheet Exposures	-	-	-	-	-	-	-	-	
Governments and Central Banks	-	-	-	-	-	-	-	-	
Authorised Persons and Banks	-	-	26,296	-	-	-	-	-	
Corporates	-	-	-	-	-	-	-	-	
Retail	-	-	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	-	-	
Securitisation	-	-	-	-	-	-	-	-	
Margin Financing	-	-	-	-	-	-	-	-	
Other Assets	-	-	-	-	-	-	-	-	
Total	-	-	26,296	-	-	-	-	-	
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	-	137,391	-	-	-	-			
Corporates	-	-	-	-	-	-			
Retail	-	-	-	-	-	-			
Investments	-	-	-	-	-	-			
Securitisation	-	-	-	-	-	-			
Margin Financing	-	-	-	-	-	-			
Other Assets	-	-	-	-	-	-			
Total	-	137,391	-	-	-	-			

Appendix V: Illustrative Disclosure on Credit Risk Mitigation

(As of 31/12/2014)						
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
<i>Credit Risk</i>						
<i>On-balance Sheet Exposures</i>	-	-	-	-	-	-
Governments and Central Banks	-	-	-	-	-	-
Authorised Persons and Banks	26,296	-	-	-	-	26,296
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Total On-Balance sheet Exposures	26,296	-	-	-	-	26,296
<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	26,296	-	-	-	-	26,296
* Refer to Chapter 2 of Annex 3.						