GFH CAPITAL S.A.
PILLAR III DISCLOSURES

AS OF 31ST DEC, 2022

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1. Scope of Application

GFH Capital Saudi Arabia (hereby referred to as ("Company" or "GFH") is a Saudi Closed Joint Stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010593423 dated 3 Muharram 1441H (corresponding to September 09, 2019) in accordance with Capital Market Authority's license No. (30-19200) on Ramadan 07, 1441H (corresponding to May 12, 2019).

The principal activities of the Company are to conduct arranging, advising and managing investments and operating funds activities. The company started arranging and advising activities in accordance with Capital Market Authority's letter dated Jumada Al-thani 26, 1441H (corresponding to February 20, 2020). In addition, the company started managing investments and operating funds activity on Jumada Al-Awwal 12, 1443H (December 16, 2021) in accordance with Capital Market Authority's letter.

The CMA Prudential Rules comprise of three 'Pillars':

- Pillar 1 sets minimum capital requirements to meet credit, market and operational risk;
- Pillar 2 requires firms and their supervisors to consider whether additional capital should be held to cover risks not covered by Pillar 1 requirements; and
- Pillar 3 seeks to improve market discipline by requiring firms to disclose certain information on their risks, capital and risk management.

The Pillar 3 disclosures contained herein relate to the period ended December 31, 2022, all numbers where audited by statutory auditor. The purpose of this disclosure is to inform relevant stakeholders about the company's capital, risk management and capital adequacy.

2. Capital Structure:

The current total capital base is SAR 88.308 million, while the paid-up capital is SAR 20 million.
For regulatory purposes, capital is categorised into two main classes. These are Tier 1 and Tier 2, which are described below:

2.1 Tier 1 capital

Tier 1 capital consists of paid-up capital, Audited retained earnings, statutory reserves, general reserves.

Capital Base	***SAR '000***
Tier-1 capital	
Paid-up capital	20,000
Audited retained earnings	62,308
Share premium	-
Reserves (other than revaluation reserves)	6,000
Tier-1 capital contribution	-
Deductions from Tier-1 capital	-
Total Tier-1 capital	**88,308**

2.2 Tier 2 capital

Tier 2 capital consists of revaluation reserves. Currently non existent.

Capital Base	***SAR '000***
<u>Tier-2 capital</u>	
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 (Tier-1 & 2)	**88,308**

3. Capital Adequacy

GFH's policy is to maintain strong capital base so as to cover any unexpected losses, maintain investor, creditor and market confidence and to sustain the future development of the business.

GFH aims to maximize shareholders' value through an optimal capital structure that protects the stakeholders' interests, and provides sufficient capacity for growth whilst ensuring compliance with the regulatory requirements and meeting shareholders' expectations.

3.1 Capital Adequacy Ratio and Minimum Capital Requirements

GFH is well capitalised with a Tier 1 capital ratio and a total capital ratio (time) of 3.59, against a minimum regulatory requirement for capital ratio of 1.

Particulars	***SAR '000 2022***
Tier I Capital	***88,308***
Tier II Capital	-
Total	***88,308***
Credit Risk	13,486
Market risk	1,852
Operational risk	9,277
Total	**24,615**
Capital adequacy ratio	***3.59***
Surplus (Deficit) in Capital Base	**63,693**

Please refer to **<u>Appendix 1</u>** for the details

3.2 Scenario Analysis and Stress Testing

Scenario analysis and stress testing shall be performed to assess GFH's exposure to extreme events to ensure that GFH can meet its capital requirements at all times in a forward looking manner and appropriate mitigation measures are put in place. The results of the stress tests assist GFH in ascertaining whether it has sufficient capital in periods of stress.

Senior Management shall be regularly informed of the stress test outcomes to ensure that the company has sufficient capital in place and that any unacceptable risks are mitigated. These scenarios shall be regularly reviewed and updated to account for changing market dynamics.

The company's capital plan shows that its current and projected capital is adequate to bear any stressed losses, to support its current activities, future strategies and operational plans.

4. Risk Management Framework

GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. GFH will continue to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

The primary objectives of the risk management framework of GFH are to:

- Manage risks inherent in GFH's activities in line with its risk appetite;
- Strengthen GFH's risk management practices to reflect the industry best practices; and
- Align internal capital requirements with risk materiality

4.1 Risk Management Types

GFH is exposed to various types of risk:

- Credit Risk
- Operational Risk
- Market Risk
- Liquidity Risk
- Reputation Risk
- Strategic Risk
- Regulatory Risk

The risk management framework addresses the identification, measurement, reporting and mitigation of the above risks.

4.2 Governance Framework

GFH's Corporate Governance – the system of procedures and principles governing how GFH organizes its leadership, its management and its operations – is fundamental to GFH's successes and that of its stakeholders. GFH 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.

4.3 Risk Management Process

Risk Management practice is collective responsibility of all personnel as first line of defence and monitored by risk management department, senior management and the Board. Also, GFH will continue to enhance and improve upon its existing risk management framework and methodologies to keep it aligned with changing business environment, CMA regulations and global best practices.

4.4 Compliance Function

The Compliance function is responsible for mitigating and managing regulatory risk by ensuring alignment of the company with local laws and regulations in all jurisdictions where it operates.

5. Credit Risk

Credit risk can be defined as the likelihood that a counterparty will not meet its obligations in accordance with the agreed terms. The magnitude of the credit risk depends on the likelihood of default by the counterparty, and on the potential value of the exposure with the client at the time of default. Credit risk arises in assets shown on the balance sheet as well as off the balance sheet (such as through contingent obligations).

GFH does not provide credit or credit facilities and on the basis of the nature and level of its current business activities and scope of license, it has exposure to credit risk on account of its bank deposits, client receivables, advances (if any) and prepayments made during the normal course of its operations.

5.1 Credit Risk Management

The principal objective of credit risk management is to ensure a high quality credit portfolio and the minimization of losses.

For Capital Requirement purposes, GFH assigns the risk weights to its Credit Risk Exposures as per standardized approach of the CMA Prudential Rules, and calculates the risk weighted assets and required Regulatory Capital for Pillar 1.

5.2 Credit Risk Rating

In compliance with CMA prudential requirements, GFH uses external credit ratings credit quality steps to determine appropriate risk weights for credit risk exposures for capital charge calculations.

To identify the credit quality step GFH uses the following correspondence table between the credit rating agency's credit ratings and the steps in the credit quality scales as prescribed by CMA.

Credit quality step	**1**	**2**	**3**	**4**	**5**	**6**
S & P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below
Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below

5.3 Exposures

Please refer to **Appendix 2** for the details.

5.4 Residual Contractual maturity

The residual contractual maturity of GFH's exposures is given in the table below:

(Amounts in SAR'000)

Exposure Class	**Maturity**				
	Less than 3 months	**3- to 12 months**	**1 to 5 years**	**over 5 years**	**Total**
Credit Risk					
On-balance Sheet Exposures	-	-	-	-	-
Governments and Central Banks	714	-	-	-	714

Authorised Persons and Banks	14,610	82,520	-	-	97,130
Corporates	-	-	-	-	-
Retail	-	-	-	-	-
Investments	-	-	-	-	-
Securitisation	-	-	-	-	-
Margin Financing	-	-	-	-	-
Other Assets	-	-	3,549	-	3,549
Total	**15,324**	**82,520**	**3,549**	**-**	**101,393**

5.5 Geographic Distribution

As at Dec 31, 2022 GFH has about 20% of its assets in the Kingdom of Saudi Arabia.
The following table below shows the geographic distribution of the Company's financial assets having credit risk exposure across various regions as follows:

(Amounts in SAR'000)

	Geographic location			
Exposure Class	**Saudi Arabia**	**GCC**	**Rest of the World**	**Total**
Credit Risk				
On-balance Sheet Exposures	-	-	-	-
Governments and Central Banks	714	-	-	714
Authorised Persons and Banks	14,610	82,520	-	97,130
Corporates	-	-	-	-
Retail	-	-	-	-
Investments	-	-	-	-
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	3,549	-	-	3,549
Total	**18,873**	**82,520**	**-**	**101,393**

5.6 Credit Risk Exposures by Credit Quality

Please refer to **Appendix 3** for the details.

6. Credit Risk Mitigation

GFH has controls in place to ensure that reporting and meaningful risk-reducing action take place when limits are exceeded. Some of the common ways of reducing exposures will consist of: freezing any new business with counterparty and letting current deals to expire, assigning transactions to other counterparties for diversification, and restructuring transactions to limit potential exposure and manage their sensitivity to market volatility. The company does not have currently and deal or activity, which has collateral as a security for credit risk mitigation. For the land and real estate related documentation of Real Estate funds, proper legal checks would be performed and would be kept in safe custody.

Limits are established at the parent level (GFH Financial Group or "Group") on the risk exposure which are taken into consideration with the limits being set on the amounts and types of transactions authorized. The Group engages a Management Information System to monitor the exposures and track the limits, which provides credit information to Senior Management and the Board of Directors. Please refer to **Appendix 4** for the details.

7. Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities resulting in a loss to earnings and capital.

7.1 Market Risk Management

The Company classifies exposures to market risk as either trading or non-trading portfolios.
The Company has limited exposure to foreign exchange risk as its Foreign Exchange (FX) risk exposure is mostly to USD and GCC currencies, which are pegged to the USD. GFH manages Market Risk through the establishment of risk limits at the Group level. These risk limits are established using a variety of risk measurement tools, including sensitivity analysis, and value-at-risk methodologies.

7.2 Capital requirement for market risk

The capital requirement for Market risk exposures was calculated based on the regulatory requirements in Pillar I of the prudential rules issued by CMA. The table below shows there is no Market Risk exposures along with the required capital as of December 31, 2022:

(Amounts in SAR'000)

Market Risks	Exposure	Amount
Equity Risk	1,122	202
Fund Risk	-	-
Option Risk	-	-
Interest Rate Risk	-	-
Commodities Risk	-	-
FX Risk	82,520	1,650
Underwriting Risk	-	-
Excess Exposure Risk	-	-
Settlement Risk	-	-
Total Market Risk	**83,642**	**1,852**

8. Operational Risk

Operational Risk is defined as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including internal and external frauds". Operational risk can be categorized into three main types: general risks, legal risks and Shari'a non-compliance risks.

8.1 Operational Risk Management

The Company's operational risk management framework consist of the following arrangements and measures:

- Strong internal compliance culture that gives due importance to operational risk management and internal control culture through a well-defined compliance arrangements;
- Effective monitoring and internal reporting through regular risk assessment;
- Establishment of effective corporate governance arrangements;
- Contingency and business continuity plans and arrangements;
- Requirement of Insurance protections;
- Establishment of foul proof IT Security arrangements and assessment of its efficiency;
- Clearly defined set of policies, process and procedures for outsourcing arrangements; and
- Periodic assessment of the operational risk and regulatory operational risk capital requirement as per the CMA requirements

8.2 Operational Risk - Capital

In compliance with CMA requirements, GFH has adopted the Expenditure Based Approach (EBA) for calculating the minimum capital requirements for operational risks. Under this approach, the operational risks are calculated as 25% of the overhead expenses, which equated to a capital requirement of SAR 9.277 million for operational risks for the year ended 31 December 2022.

9. Liquidity Risk

Liquidity risk is the inability of an organization to honour payment commitments when they are due and replace funds when they are withdrawn in a timely and cost effective manner. This can be caused by market disruptions to credit downgrades or fall in asset prices with low demand. Effective liquidity risk management therefore helps to ensure the Company's ability to meet its cash flow obligation and in maintaining diverse funding sources to the Company.

9.1 Liquidity Risk Management

In respect of its liquidity, GFH may meet its overall liquidity requirements and obligations by ensuring that:

- It holds sufficient immediately available cash or assets which are readily marketable or otherwise realisable;
- It is able to generate funds from those assets in a timely manner;
- It maintains a prudent funding profile in which its assets are of appropriate maturities, taking account of the expected timing of its liabilities;
- It is able to secure future growth of its assets through raising appropriate funding as and when required

GFH's liquidity is managed at the Parent level which covers the assessment, monitoring, contingency plan and reporting of Liquidity Risk as a part of the Group Liquidity risk profile.

9.2 Liquidity Reserves

GFH's liabilities comprise majorly of operating costs (relatively fixed), The company holds its cash in a current deposit account as this can be accessed instantly by it.

9.3 Funding Sources

GFH has no significant short-term liabilities and earning assets are funded by equity.

9.4 Risk Measures and Ratios

GFH prepares a statement of expected cash flows arising at the time of settlement of its assets and liabilities and allocates them in different time intervals in which they are expected to occur. The following are the key liquidity ratios that reflect the liquidity position of the Company as at 31 December 2022:

Liquid Assets: Total Assets	15%
Liquid Assets: Total Liabilities	111%
Short-term Assets: Short term liabilities	115%

The table below summarizes the Company's balances of cash, cash equivalent and listed securities as at 31st December 2022:

(Amounts in SAR'000)

Exposure Class	Less than 3 months	3- to 12 months	Over 1 Year	Total
Cash and Cash equivalents	14,610	-	-	14,610
Investment in listed securities	1,122	-	-	1,122
Total	**15,732**	**-**	**-**	**15,732**

Exposure Class	Less than 3 months	3- to 12 months	Over 1 Year	Total
Accounts payables and accruals	-	12,141	1,893	14,034
Total	**-**	**12,141**	**1,893**	**14,034**

APPENDIXES

Appendix 1: 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	714		714	-	-
Authorised Persons and Banks	97,130		97,130	85,442	11,962
Corporates					
Retail					
Investments					
Securitisation					
Margin Financing					
Other Assets	3,549		3,549	10,884	1,524
Total On-Balance sheet Exposures	**101,393**		**101,393**	**96,326**	**13,486**
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	**101,393**		**101,393**	**96,326**	**13,486**
Prohibited Exposure Risk Requirement	-				
Total Credit Risk Exposures	**101,393**		**101,393**	**96,326**	**13,486**
Market Risk	Long Position	Short Position			
Interest rate risks					
Equity price risks	1,122				202
Risks related to investment funds					
Securitisation/resecuritisation positions					
Excess exposure risks					
Settlement risks and counterparty risks					
Foreign exchange rate risks	82,520				1,650
Commodities risks.					
Total Market Risk Exposures	**83,642**	**-**			**1,852**
Operational Risk					**9,277**
Minimum Capital Requirements					**24,615**
Surplus/(Deficit) in capital					**63,693**
Total Capital ratio (time)					**3.59**

Appendix 2: Disclosure on Credit's

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%	714											714	-
20%			14,610									14,610	2,922
50%												-	-
100%			82,520									82,520	82,520
150%												-	-
200%												-	-
300%										3,492		3,492	10,475
400%												-	-
500%												-	-
714% (include prohibited exposure)										57		57	409
Average Risk Weight												-	-
Deduction from Capital Base												-	-

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
On and Off-balance-sheet Exposures								
Governments and Central Banks								714
Authorised Persons and Banks		14,610				82,520		
Corporates								
Retail								
Investments								
Securitisation								
Margin Financing								
Other Assets								3,549
Total	-	**14,610**	-	-	-	**82,520**	-	**4,263**

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						714
Authorised Persons and Banks		14,610			82,520	
Corporates						
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets						3,549
Total	-	**14,610**	-	-	**82,520**	**4,263**

Appendix 4: 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
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks	714					714
Authorised Persons and Banks	97,130					97,130
Corporates						-
Retail						-
Investments						-
Securitisation						-
Margin Financing						-
Other Assets	3,549					3,549
Total On-Balance sheet Exposures	**101,393**	**-**	**-**	**-**	**-**	**101,393**
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	**101,393**	**-**	**-**	**-**	**-**	**101,393**