FAB Capital Financial Company (CJSC)

Operating under CMA license number **18188-03**

Pillar III Disclosures

31 December 2021

Table of Contents

1. Overview

FAB Capital Financial Company (hereinafter referred to as “FAB Capital” or “the Company”) is operating as a Single Shareholder Company in the Kingdom of Saudi Arabia under Commercial Registration No. 1010448608 dated 20 Shaban 1439 (corresponding to 6 May 2018).

The Company operates under Saudi Arabia General Investment Authority License No. 10211390781969 dated 5 Rajab 1439 (corresponding to 22 March 2018) and Capital Market Authority (CMA) License No. 18188-30 dated 19 Jumada al-Ula 1439 (corresponding to 5 February 2018) to provide a full range of financial services including dealing as a underwriter, arranging, advising and acting as custodian of financial securities.

As of 31 December 2021, the share capital of the Company is SAR 52,500,000 divided into 5,250,000 fully paid shares of SAR 10 each and are 100% owned by First Abu Dhabi Bank P.J.S.C.

The Pillar III disclosures relate to FAB Capital for the year ended 31 December 2021 and are being made in line with CMA’s Prudential Rules. FAB Capital believes that these disclosures will enable readers to assess the Company’s capital structure, risk exposures, risk management processes and capital adequacy.

2. Scope of Application

2.1 Pillar I – Minimum capital requirements

Pillar I describes the minimum capital requirements for credit, market and operational risks. Various approaches are available to determine the minimum capital requirements under Pillar I. The choice of an appropriate approach will depend on the capability of the systems and its suitability to the CMI’s business. The Company calculates the minimum capital requirements for credit, market and operational risks as per the provisions of Part 3 of the Prudential Rules.

The Company determines its Pillar I capital requirement for operational risk using the higher of a) 15% of the average last three year audited operating income or b) 25% of the last year’s audited overhead expenses. In line with supervisory guidelines, the Pillar I capital requirement for operational risk is maintained at 25% of the Company’s overhead expenses as laid down under expenditure based approach

2.2 Pillar II – Internal Capital Adequacy Assessment Process (ICAAP)

Pillar II refers to the process by which APs undertake a comprehensive assessment of their risks and determine the appropriate amount of capital to be held against these risks where other suitable mitigants are not available. It also refers to the additional capital, over and above Pillar I, determined to be required by this assessment. The risk and capital assessment is commonly referred to as the Internal Capital Adequacy Assessment Process (“ICAAP”). The range of risks that are covered by the ICAAP is much broader than Pillar I, which covers only credit, market and operational risks. Other risks such as liquidity, concentration, strategic and reputational risk are covered under Pillar II.

FAB Capital has developed an ICAAP framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained.

2.3 Pillar III – Disclosure and reporting

Pillar III refers to the part of the regulatory regime which aims to provide a consistent and comprehensive disclosure framework that enhances comparability between CMIs and further promotes improvements in risk practices. The qualitative and quantitative information provided here as a part of the Pillar III requirements, has been reviewed and validated by senior management and is in accordance with the rules in force at the time of publication.

In accordance with CMA regulation, FAB Capital publishes its Pillar III disclosures on an annual basis at its website www.fabcapital.com

2.4 Material or legal impediments

Since FAB Capital does not have any subsidiaries, there are no material or legal impediments to the prompt transfer of capital or repayment of liabilities. Accordingly, the figures presented in this report reflect the position of FAB Capital only.

3. Capital Structure

The Company's capital structure is typically consist of Tier 1 capital and Tier 2 capital from a regulatory perspective. While the Tier 1 capital comprises paid up share capital, reserves (excluding revaluation reserve) and audited retained earnings, the Tier 2 capital usually consists of subordinated loan (which is limited to an amount equivalent to 50% of Tier 1 capital) and any revaluation reserves on listed shares not held for trading. FAB Capital has no tier 2 capital.

The Company's capital base as of 31 December 2021 is summarised in the table below:

SAR '000

Capital Base Summary	
Tier-1 Capital	
Paid-up capital	52,500
Share premium	15,000
Reserves	2,100
Audited retained earnings	24,752
Deferred zakah assets (-)	(13)
Zakah expense from retained earning (-)	(2,500)
Deductions (-)	(2,513)
Tier-1 capital	91,839
Tier-2 Capital	
Subordinated loans	0
Tier 2 debt securities	0
Cumulative preference shares	0
Revaluation reserves	0
Tier-2 adjustment *	0
Other deductions from Tier-2 (-)	0
Deduction to meet Tier-2 capital limit (-)	0
Tier-2 capital	0
CAPITAL BASE	**91,839**

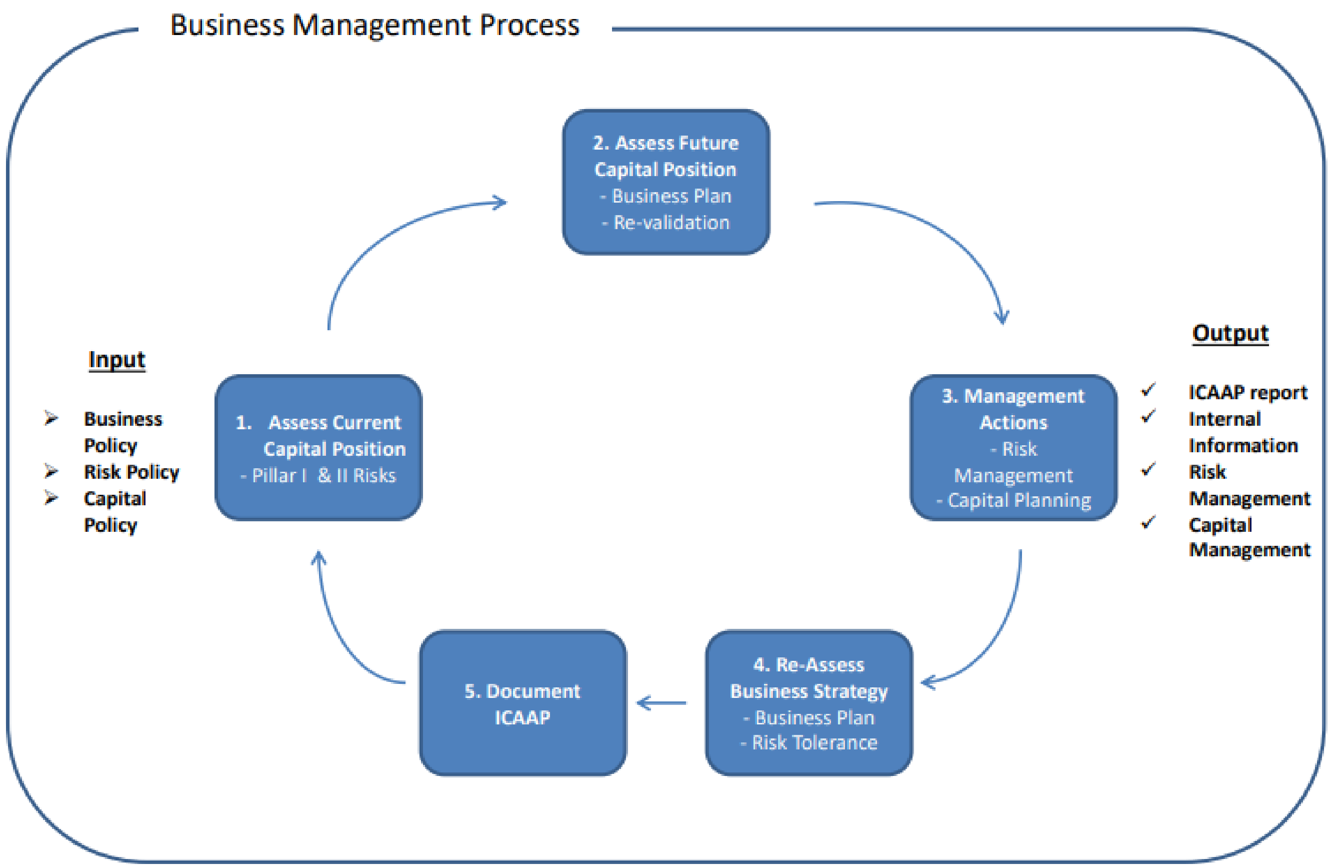
4. Capital Adequacy

FAB Capital assesses its capital adequacy at all times in line with CMA's Prudential Rules. This assessment takes into account the inherent risks in FAB Capital's nature of business as well as its current and anticipated future business activity levels.

FAB Capital strives to maintain a balanced capital base that is consistent with its business operations, growth plans and to address potential extreme stress conditions. The regulatory requirements for capital adequacy always underpins FAB Capital assessment of its capital base.

FAB Capital has developed an ICAAP framework that supports its capital adequacy assessment. The framework takes into account the risk profile of the Company both from a regulatory perspective and its internal risk exposure and appetite. The ICAAP describes the Company's assessment of the level of capital that the Company's Board considers adequate to cover the various risks to which the Company is, and could potentially be, exposed in the short to medium term. This assessment takes into account the Company's forecasted activity and financial position over a three year horizon. Material risks are identified and assessed in accordance with the Prudential Rules as well as through extensive management discussions. The ICAAP framework forms a critical part of the Company's strategic decision making and risk management process.

The Company's ICAAP process follows four primary steps and culminates in its documentation:



The Company's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future business developments. The Company manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans approved by the Board of Directors. The capital structure may be adjusted if the company's core business along with management foresees an opportunity for growth.

A policy of maintaining strong capital remains complementary to its activities and provides FAB Capital with a robust platform for future growth. FAB Capital plans to grow in a focused manner in select target segments and along with improvement in the overall financial performance and returns to the shareholders.

FAB Capital has picked up the momentum and has seen a growth in its business since inception in 2018 with government/GRE segment being a priority. FAB Capital has maintained adequate capital buffers during the year; which stands well above the regulatory threshold.

The table below summarises the Company's capital adequacy position as of 31 December 2021:

	SAR '000
Tier-1 capital	91,839
Tier-2 capital	0
CAPITAL BASE	**91,839**
Market Risks	**0**
Credit Risks	**6,376**
Operational Risks	**2,572**
MINIMUM CAPITAL REQUIREMENTS	**8,948**
CAPITAL RATIO (time)	**10.26**
SURPLUS / (DEFICIT)	**82,891**

5. Risk Management

The Risk Management is an essential element of the company's business. A key tenet of the risk management culture of FAB Capital is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing those business activities.

FAB Capital risk management is underpinned by their ability to identify, measure, aggregate and manage the different types of risks they face. In addition to its own processes, the company adheres to the risk management practices to effectively manage its risks.

5.1 Risk Management Strategy and Processes

The Risk Management control process is managed on a global basis by the parent company (FAB Bank PJSC) and is based on a detailed structure of the policies and procedures, and comprehensive risk management for the identification, control, monitoring and reporting of risks. The risk management framework is guided by an

evaluation of risk appetite (expressed in terms of business), risk oversight, independent of business units and a thorough risk assessment.
The company maintains a prudent and disciplined approach to risk taking by maintaining a set of policies and processes applied throughout the company's activities with an appropriate framework of governance and oversight. The company management reports to the Board of Directors, which is the highest governing body. The company actively promotes a culture of sound risk management at all levels by employing professional, qualified and suitably experienced people with appropriate skills and by providing appropriate training.

The company's primary asset is the short-term deposits maintained with the parent bank, to manage these exposures, the company has in place suitable strategies and processes to maintain adequate capital, considering the nature and projected level of risk exposure. The risk function along with other function such as HR, IT, internal audit is outsourced to FAB bank the parent company through a service level agreement.

The company's management regularly and methodically addresses the risk surrounding its business activities by continuously focusing on its client base. It places emphasis on creating a risk awareness culture and considers this to be a highly effective way to minimize unexpected losses and by maintaining a highly client focused approach in its business dealings. Regular and pro-active consultation with regulators reinforces this risk management approach in which the reputational risk is considered to be the most significant risk element.

FAB Capital is in the process of reviewing the SLA relating to its Risk Appetite metrics in co-ordination with Group ERM team and has on boarded external consultants for the same in 2022

5.2 Major Types of Risk

The major risks associated with the company's business activities are Credit, Market, Operational, and Liquidity Risks. These risks together with a commentary on the way in which the risks are managed and controlled are set out in the following sections:

5.2.1 Credit Risk: Exposures to CMIs and banks, other on balance sheet exposures are the main drivers of credit risk set by the CAR models/Basel accords. The credit risk associated with the company balance sheet arises principally on cash balance at the Bank, short term deposits and accounts receivable.

The management believes that the company has no significant exposure to Credit Risk in respect of short term deposits and cash balance at banks as these amounts are kept with FAB bank & Riyad Bank in Saudi Arabia. The ultimate exposure is to the parent bank which has a respective credit rating from international rating agencies.
The credit risk with respect to accounts receivable is limited as these balances are also associated with FAB Bank the "parent company".

FAB Capital undertakes the calculation of Credit risk as per the standardised approach of Basel framework. The company follows CMA guidelines in classifying its credit risk exposures, assigning credit risk weightings, rating its credit risk exposures and applying credit risk mitigation factors to determine the related capital requirement.

Large part of FAB Capital credit risk exposure is towards the cash in banks, other assets (obligation arising from third party rent agreement) and off-balance sheet guarantee. The capital risk charge for this exposure is also calculated in accordance with CMA guidelines.

The table below summarises FAB Capital credit risk exposures by asset class and the related RWA's as at 31 December 2021.

In SAR'000

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET	RISK WEIGHTED ASSETS
Receivables - Governments	109	-	22
Banks	118,411	-	23,682
Other exposures (Tangible assets, prepayments & rights-of-use assets)	1,935	-	5,806
Guarantee	-	50,000	10,000
TOTAL	**120,455**	**50,000**	**39,510**

5.2.2 Market Risk: FAB Capital didn't undertake any activities which would attract Market risk capital charge as at end of 31 December 2021.

5.2.3 Operational Risk: FAB undertakes the calculation of Operational risk as per the Basic Indicator Approach of Basel. The table below provides a detailed breakup of the Operational Risk RWA as of 31 December 2021.

In SAR'000

27. Operational Risks						
	2019	2020	Latest Audited Year 2021	Average	Risk Charge (%)	Capital Requirement
Basic Indicator Approach[1]						
Operating income	8,531	19,908	23,003	17,147	15	**2,572**
Standardised Approach						**0**
Corporate Finance income				0	18	0
Research and Advisory income				0	18	0
Trading and Sales income				0	18	0
Custody income				0	15	0
Asset Management income				0	12	0
Expenditure-based approach[2]			2021			
Overhead expenses			9,721		25	**2,430**
Total Operational Risks						**2,572**

5.2.4 Liquidity Risk: Liquidity Risk is the risk that sufficient funds are not available to meet the company's financial obligations on a timely basis as they fall due. The risk arises from the timing differences between the maturity of the company's Assets and Liabilities.

FAB Capital is not a deposit taking institution. On the liability side, it has long term liabilities due to FAB KSA branch and Head Office. There are no deposits raised from the market i.e. from Corporates, FIs or individuals which could be a cause of concern. Hence, it is currently assessed that there is no Liquidity Risk capital charge required under Pillar II.

Also, the company maintains sufficient buffers in order to meet its net cash outflows over a 30-day period.

6. Internal Audit

The role of Internal Audit is to provide independent assurance to the Company's Audit Committee and Board of Directors on the effectiveness of the risk management, control and governance processes as dictated by the FAB Group, the group also outscored this locally to external auditor "Deloitte" as service provider. It does this by carrying out a series of risk based audits, which are designed to cover all the material risks that arise from the Company's activities and to provide assurance that the Company's assets are safeguarded. The outsourced service provider, report to the Group head of audit.

This involves ensuring that controls are in place and working effectively in accordance with the Company policies and procedures as well as with laws and regulations.

In addition, when required, Internal Audit performs special investigations and may, from time to time, undertake work requested by regulators. The Audit Committee approves the annual audit plan and also receives regular reports of the results of audit work.

7. Compliance

FAB Capital manages compliance related risks through comprehensive due diligence processes, institution-wide review of policies and procedures, assessment of compliance check-lists etc.

Update on Fines imposed				
FAB Capital – Year to date	Penalties imposed with SAR equivalent		Status	Year
Nil	Nil	Nil	NA	2021
Nil	Nil	Nil	NA	2020
Nil	Nil	Nil	NA	2019

8. Appendix

Appendix 1: Disclosure on Capital Base

Disclosure on capital base as of 31st December 2021 and 2020 are provided below:

Value in SAR '000

CAPITAL BASE		
Tier-1 Capital	**2021**	**2020**
Paid-up capital	52,500	52,500
Share premium	15,000	15,000
Reserves	2,100	979
Audited retained earnings	24,752	14,701
Deferred zakah assets (-)	(13)	(13)
Zakah expense from retained earning (-)	(2,500)	(2,152)
Deductions (-)	(2,513)	(2,165)
Tier-1 capital	91,839	81,015
Tier-2 Capital		
Subordinated loans	0	0
Tier 2 debt securities	0	0
Cumulative preference shares	0	0
Revaluation reserves	0	0
Tier-2 adjustment *	0	0
Other deductions from Tier-2 (-)	0	0
Deduction to meet Tier-2 capital limit (-)	0	0
Tier-2 capital	0	0
CAPITAL BASE	**91,839**	**81,015**
MINIMUM CAPITAL REQUIREMENT		
Market Risks		
Total Market Risk	**0**	**0**
Credit Risks		
Exposures to governments, central banks	3	2
Exposures to CMIs and banks	3,315	2,786
Other on-balance sheet exposures	1,658	2,009
Off-balance sheet commitments	1,400	1,400
Total Credit Risk	**6,376**	**6,197**
Operational Risks		
Total Operational Risk	**2,572**	**2,133**
MINIMUM CAPITAL REQUIREMENTS	**8,949**	**8,330**
CAPITAL RATIO (time)	**10.26**	**9.73**
SURPLUS / (DEFICIT)	**82,891**	**72,685**

Appendix 2: Disclosure on Capital Adequacy - 2021

Value in SAR '000

Exposure Class	*Exposure before CRM*	*Net Exposure after CRM*	*RWA*	*Capital requirements*
Credit Risk				
On-balance sheet Exposures				
Governments and central banks	*109*	*109*	*22*	*3*
CMIs and banks	*118,411*	*118,411*	*23,682*	*3,315*
Others exposures	*1,935*	*1,935*	*11,842*	*1,658*
Total On-balance sheet Exposures	***120,455***	***120,455***	***35,546***	***4,976***
Off-balance Sheet Exposures				
Commitments	*50,000*	*50,000*	*10,000*	*1,400*
Total Off-balance sheet Exposures	*50,000*	*50,000*	*10,000*	*1,400*
Total On & Off-balance sheet Exposures	***170,455***	***170,455***	***45,546***	***6,376***
Prohibited exposures	*0*	*0*	*0*	*0*
Total Credit Risk Exposures	***170,455***	***170,455***	***45,546***	***6,376***
Market Risk	*0*	*0*	*0*	*0*
Total Market Risk Exposures	***0***	***0***	***0***	***0***
Operational Risk				***2,572***
Total Operational Risk	***0***	***0***	***0***	***2,572***
Minimum Capital Requirements				***8,948.5***
Surplus/(Deficit) in capital				***82,891***
Total Capital ratio (time)				***10.26***

(**Continued): Disclosure on Capital Adequacy – 2020**

Value in SAR '000

Exposure Class	*Exposure before CRM*	*Net Exposure after CRM*	*RWA*	*Capital requirements*
Credit Risk				
On-balance sheet Exposures				
Governments and central banks	*64*	*64*	*13*	*2*
CMIs and banks	*99,507*	*99,507*	*19,901*	*2,786*
Others exposures	*2,246*	*2,246*	*14,348*	*2,009*
Total On-balance sheet Exposures	***101,817***	***101,817***	***34,262***	***4,797***
Off-balance Sheet Exposures				
Commitments	*50,000*	*50,000*	*10,000*	*1,400*
Total Off-balance sheet Exposures	*50,000*	*50,000*	*10,000*	*1,400*
Total On & Off-balance sheet Exposures	***151,817***	***151,817***	***44,262***	***6,197***
Prohibited exposures	*0*	*0*	*0*	*0*
Total Credit Risk Exposures	***151,817***	***151,817***	***44,262***	***6,197***
Market Risk	*0*	*0*	*0*	*0*
Total Market Risk Exposures	***0***	***0***	***0***	***0***
Operational Risk				***2,133***
Total Operational Risk	***0***	***0***	***0***	***2,133***
Minimum Capital Requirements				***8,330***
Surplus/(Deficit) in capital				***72,685***
Total Capital ratio (time)				***9.73***

Appendix 3: Disclosure on Credit Risk Weighted Assets - 2021

Value in SAR '000

Risk Weights	Exposures after netting and credit risk mitigation					
	Governments and central banks	*CMIs and banks*	*Other assets*	*Off-balance sheet commitments*	*Total Exposure after netting and Credit Risk Mitigation*	*Total Risk Weighted Assets*
0%						
20%	109	118,411		50,000	168,520	33,704
50%					0	0
100%					0	0
150%					0	0
200%					0	0
300%			477		477	1,431
400%					0	0
500%					0	0
714%			1,458		1,458	10,411
Average Risk Weight	20%	20%	612%	20%	27%	45,546
Deduction from Capital Base	3	3,315	1,658	1,400	6,376	45,546

(Continued): Disclosure on Credit Risk Weighted Assets – 2020

Value in SAR '000

Risk Weights	Exposures after netting and credit risk mitigation					
	Governments and central banks	*CMIs and banks*	*Other assets*	*Off-balance sheet commitments*	*Total Exposure after netting and Credit Risk Mitigation*	*Total Risk Weighted Assets*
0%						
20%	64	99,507		50,000	149,571	29,914
50%					0	0
100%					0	0
150%					0	0
200%					0	0
300%			408		408	1,224
400%					0	0
500%					0	0
714%			1,838		1,838	13,123
Average Risk Weight	20%	20%	639%	20%	29%	44,262
Deduction from Capital Base	2	2,786	2,009	1,400	6,197	44,262

Appendix 4: Disclosure on Credit Risk's Rated Exposures - 2021

Value in SAR '000

Exposure Class	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			109					
Authorized Persons and Banks		118,411						
Corporates								
Investments								
Securitization								
Margin Financing								
Other Assets								
Total		118,411	109	0	0	0	0	0

(Continued): Disclosure on Credit Risk's Rated Exposures – 2020

Value in SAR '000

Exposure Class	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			64					
Authorized Persons and Banks		99,507						
Corporates								
Investments								
Securitization								
Margin Financing								
Other Assets								
Total		99,507	64	0	0	0	0	0