

Credit Suisse Saudi Arabia Pillar 3 disclosure – 2021

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1. Scope of Application

1.1 Scope

The scope of the Pillar 3 Disclosure report applies to Credit Suisse Saudi Arabia (CSSA), a CMA licensed entity number 0810437.

1.2 Group Structure

Credit Suisse Saudi Arabia does not have any corporate ownership interests inside or outside Saudi Arabia.

2. Capital Structure

2.1 Tier 1 and Tier 2

Capital: CSSA Capital Base as of 31 December 2021 comprise of only Tier 1 Capital.

Tier 1 Capital components for CSSA comprise only of Share Capital and Audited Accumulated losses that are defined as follows:

Capital: The Company's issued and fully paid capital is SAR 737,500,000 comprising 73,750,000 shares of SAR 10 each, as of 31 December, 2021.

Audited Accumulated Losses: Represent Audited Accumulated Losses since CSSA inception. CSSA Audited Accumulated Losses as of 31 December 2021 is SAR 322,451,843.

There are no Tier 2 capital components with balances as of 31 December 2021. For full disclosure, please refer to Disclosure on CSSA Capital Base (Appendix I).

3. Capital Adequacy

3.1 Strategy and Approach for the ICAAP

CSSA applies the Internal Capital Adequacy Assessment Process (ICAAP) annually as required by CMA. The ICAAP is designed to ensure that management adequately identifies and measures all material risks, including Pillar 1 and Pillar 2 types of regulatory risks. It should also ensure that CSSA maintains sufficient internal capital relative to its risk profile and that it applies and develops adequate risk management systems.

Governance Body Oversight

CSSA's Board is responsible for understanding the nature and level of risk being taken by CSSA and how this risk relates to adequate capital levels. The roles and responsibilities of the Board, the Audit Committee, Capital Adequacy & Risk Measurement Committee (CARMC), CEO and other departments with regards to the capital management at CSSA are outlined below in this document.

Sound Capital Assessment

The purpose of this stage is to identify and record the risks to which CSSA is exposed. The CARMC has identified the material risks in CSSA as part of the ICAAP exercise. CARMC will carry out a periodic review of these risks which will cover changes in existing risks, emergence of new risks in existing business or on account of introduction of new products/ business lines. The next step is to allocate internal capital to the risks identified in the previous step and where a decision has been made to provide capital against these risks. This allows senior management to make decisions regarding CSSA's risk-bearing capacity within the framework of the ICAAP.

To summarize this process, the CMA has already established the minimum requirements for Pillar I risks (credit, market and operational risk). In addition to Pillar I risks, CSSA identifies additional risks which will also need to be capitalized (Pillar II). The inclusion of Pillar II risks ensures that an appropriate level of internal capital is held in relation to CSSA's risk profile. The next step is then to apply these to business plans for the future and also to perform stress testing. Stress testing enables CSSA to determine the capital buffer that it should maintain.

Comprehensive Assessment of Risks

Once risks have been identified and quantified, individual risks and the associated capital requirements are aggregated to determine CSSA's overall capital requirement for the purpose of ICAAP.

Monitoring and Reporting

The risk monitoring process ensures that CSSA's risk profile remains in line with its risk appetite and framework. Legal entity finance must ensure that there is regular reporting to the CEO, Audit Committee, CARMC and the Board regarding the capital adequacy of CSSA. The limits defined in the Risk Appetite Statement are monitored and reported on a bi-monthly basis.

3.2 Capital Requirements and Capital Ratio

The Pillar 3 disclosure report requires disclosure of Pillar 1 types of risks as well as the minimum required regulatory capital. Based on the assessments of all material Pillar 1 types of risks (Credit, Market and Operational), that apply to CSSA, the minimum level of regulatory capital required is SAR 28.6 m. When netting the required minimum regulatory capital, based on the Pillar 1 types of risks, against the CSSA capital base (SAR 415.0 m) as at 31 December 2021, the excess regulatory capital is calculated as

SAR 386.4 m. The CSSA regulatory capital ratio is 14.5 times the minimum regulatory capital required to meet the Pillar 1 types of risks.

This demonstrates CSSA has adequate minimum regulatory capital as at 31 December 2021.

For full details, please refer to Disclosure on Capital Adequacy as at 31 December 2021 in Appendix II.

4. Risk Management

4.1 Risk Management Objectives

CSSA Capital Risk Management objective is to ensure that CSSA has adequate capital to meet the ICAAP (Pillar 1 and Pillar 2) types of risks, additionally; stress testing is applied to ensure adequate regulatory capital under stress scenarios.

4.2 Risk Management Framework

This section describes the roles and responsibilities of the governing body, senior management committees, and departments specific to the capital management process at CSSA. The roles and responsibilities discussed in this section will be applicable throughout this Policy.

Board of Directors (The Board)

The Board is responsible for the following:

- Approve the ICAAP Policy recommended by the Audit Committee, CARMC and CEO;
- Approve the Risk Appetite of CSSA as part of the risk framework;

Audit Committee

The Audit Committee will be responsible for the following:

- Review the ICAAP that outlines CSSA's current capital needs and anticipated capital requirements to ensure alignment with the overall business strategy of CSSA on an annual basis or earlier;
- Recommend it to the Board for approval;
- Review the internal capital adequacy level, in relation to the regulatory capital Standards and compliance with the Board approved targets and report the results to the Board; and
- Oversee the results of the quality assurance process of the Internal Audit on the robustness of the ICAAP framework and the reasonableness of the assumptions.

Capital Allocation and Risk Management Committee (CARMC)

The CARMC is responsible for the following:

- Review the reports and assess that CSSA operates within the approved risk appetite

- Monitor risk exposure with regard to key risk metrics and limits
- Review breaches and propose actual remediation measures

The CEO shall have the overall responsibility over the ICAAP and will be responsible for the following as well:

- Ensuring that ICAAP is an integral part of the business environment;
- Ensuring that COO, CRO, Legal Entity Finance, Legal and Compliance performs their roles and responsibilities;

COO is responsible for the following:

- Oversee the preparation of the annual budget based on the strategic plan to be submitted to the Board for approval in consultation with business lines
- Lead the annual ICAAP report preparation in terms of aligning the various stakeholders and ensuring the report is submitted on timely basis
- Ensure that the capital measurement is aligned with the compliance standards/requirements of the CMA
- Assess the future capital requirements based on CSSA's reported risk profile and if required, suggest necessary adjustments to CSSA's strategic plan

CRO is responsible for the following:

- Review of the ICAAP framework on an annual basis
- Challenge the assumptions and data used in the ICAAP assessment, if required
- Identify and assess the level and trend of material risks under Pillar II and their effect on capital levels
- Evaluate the key assumptions used in the capital assessment measurement process
- Suggests update to the ICAAP document in line with significant changes in existing risks, emergence of new risks in existing business or on account of introduction of new products/ business lines

Legal Entity Finance is responsible for the following:

- Prepare the annual budget based on the strategic plan to be submitted to the Board for approval in consultation with business lines;
- Compute and monitor the regulatory capital adequacy level under Pillar I on a monthly basis;
- Conduct stress tests on an annual basis and assess/report on the impact to the capital adequacy in the ICAAP;
- Monitor the internal capital adequacy level on a periodic basis and escalate to CARMC, the Audit Committee, and the Board, of any breaches.

5. Credit Risk

Credit concentration risk is defined as one of the principal risks that CSSA faces. Credit risk is the risk of loss arising out of failure of counterparties to meet their financial or contractual obligations when due.

5.1 Risk Mitigation and Control

CSSA's credit exposures can be categorized as:

- Risk against placement with the banks
- Risk against corporate receivables
- Risk against accrued income/deferred expenditure
- Risk against Margin Loans

CSSA credit exposure is low as the majority of its credit exposure relate to the placement of its capital with a local bank regulated by SAMA.

Credit risk mitigation is currently managed by Legal Entity finance for placement with bank and other receivables. Though CSSA credit exposure is low, it is mitigated by placing CSSA capital with a grade 1 credit quality rated local bank, the dependence on its CS AG affiliate credit rating for its corporate receivables and by way of sufficient collateralization of margin loans.

5.2 Capital Requirements

Currently, CSSA uses the Standardized Approach prescribed under the Pillar I requirements of the CMA Prudential Rules to calculate minimum regulatory capital for the credit risk faced by it. The calculated credit risk minimum regulatory capital will also be taken as a proxy for the internal capital requirement under Pillar II.

CSSA credit exposure relate to all on-balance sheets exposures and off-balance sheet commitments. The risk weighted assets for all on-balance sheets exposures and off-balance sheet commitments amount to **SAR 121.8 m** with a calculated required minimum capital of **SAR 17.05 m** as of 31 December 2021 and as based on the CMA Standardized Approach capital calculation.

For full credit risk disclosure, Please refer to the following tables in the Appendix:

- Disclosure on Credit Risk's Risk Weight (Appendix III)
- Disclosure on Credit Risk's Rated Exposure (Appendix IV)
- Disclosure on Credit Risk Mitigation (Appendix V)

6. Market Risk

Market Risk is the potential for losses in earnings or an adverse change in the value of CSSA's assets and liabilities in response to changes in their respective market prices. Currently, CSSA does not hold any equity positions in the trading book.

6.1 Risk Mitigation and Control

CSSA's market risk exposure is restricted to its foreign exchange exposures. As CSSA has limited exposure outside the GCC currencies which are already pegged to the US Dollar, foreign exchange volatility levels are negligible.

6.2 Capital Requirements

CSSA uses the Pillar I requirements for the calculation of the capital requirement for Currency Risk based on the Net Open position of currencies. CSSA's foreign exchange risk capital requirement as of 31 December 2021 was **SAR 364K**.

The Pillar I Market risk Capital requirement is considered adequate for Pillar II assessment as well.

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.

7.1 Risk Mitigation and Control

CSSA operational risk is considered to be low. CSSA mitigates its operational risk by applying good corporate governance practices to promote a well-controlled environment. CSSA corporate governance practices involve regular local management meetings, Board and Sub-Board committee meetings to escalate issues and risks for resolutions. CSSA is also a subject to Credit Suisse internal audit as required by the CMA. Credit Suisse Internal Audit reviews the entities businesses and shared services functions local practices against best practices and standards to ensure that all types of risks including operational risks are mitigated to the extent possible. The Internal Audit team continues to closely engage with the local management and remain informed of changes in the regulatory landscape and material developments related to the entity

7.2 Capital Requirements

Currently, CSSA 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 its operational risk, as stipulated by the CMA Pillar 1 Capital Adequacy Model (CAM). As a result, CSSA operational risk regulatory capital requirement as of 31 December 2021 was **SAR 11.2m**

8. Liquidity Risk

Liquidity risks are the risk of CSSA not being able to, or have sufficient funds to meet all contractual and regulatory obligations.

CSSA has a Board approved policy to address Liquidity Risk Management

8.1 Liquidity Risk Management Objectives and Strategy

CSSA liquidity risk management objectives are to ensure:

- Sufficient liquid assets should exist to cover maturing liabilities and/or short term operational expenses.
- Short-term funding, if applicable, should not be relied upon heavily.
- Funding sources, counterparties, currency, region and term of funding should be diversified, as part of the CS Liquidity Management Framework.
- Funding for adverse (stress) market or specific conditions should be anticipated and available through contingency planning.

The Liquidity risk management strategy includes assessing liquidity risks and performing liquidity stress tests to ensure liquidity risk management objectives are met.

8.2 Liquidity Risk Assessment

CARMC on a monthly basis, assess the liquid asset positions of the entity to ensure availability of enough funds for routine operations.

In addition, a liquidity risk assessment is done annually to summarize, monitor and assess the overall liquidity risk of CSSA.

CSSA models three types of contingencies, as detailed below:

- Contractual: fulfilling requests based on contractual obligations
- Behavioral/counterparties actively reduce exposure to the Bank, resulting in outflows.
- Working capital is to be maintained for normal daily operations, as well as unplanned events.

The CSSA Liquidity risk assessment is based on forecasting CSSA's Net Cash Inflow/Outflow position over an 18 month period to result to a Net Cash Flow position at the end of the 18 month period under a "Business as Usual" scenario that assumes static revenues and operating expenses over the forecasted period.

In addition, revenues stressed assumed scenarios are developed over the 18 month forecast period but keeping operating expenses flat to arrive at the resultant Net Cash Position at the end of the forecast period.

8.3 Stress Testing results and Liquidity Ratio

At the end of February 2022, CSSA was assessed with a Net Positive Cash flow of **SAR 342m**, under an extreme 100% loss of revenue for the 18 months forecast cash flow period.

The CSSA liquidity ratio (Current Assets to Current Liabilities) was at 36.3 times as of 28 February 2022.

The above results show that CSSA has adequate liquidity to meet its contractual obligations.

8.4 Contingency Funding Plan

In the event of any negative cash flow forecast at any stress testing scenarios, CSSA legal entity finance should:

- Report to regional finance, treasury and local management (Country CEO/COO).
- Depending on the discussions, legal entity finance will determine if additional steps should be taken to provide additional liquidity into CSSA, the amount of funding needed and the timeline for having this achieved.
- External Auditors/local tax consultants/Local Compliance should advise for any local regulatory requirement.
- The CARMC needs to be updated with steps taken by management to address the funding need of CSSA
- The Board will be presented with the case to fund liquidity into CSSA and the options available for the funding for their approval.
- The General Assembly needs to authorize the amount of funding before additional steps are implemented.
- After the General Assembly approval, treasury, cash management and the legal entity finance should discuss steps to have the required and approved funding in place.

APPENDICES

Appendix I: Disclosure on CSSA Capital Base

31 December 2021

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	737,500
Audited retained earnings/(accumulated losses)	(322,452)
Share premium	-
Reserves (other than revaluation reserves)	-
Tier-1 capital contribution	-
Deductions from Tier-1 capital	-
Total Tier-1 capital	415,048
<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	415,048

Appendix II: Disclosure on Capital Adequacy as at 31 December 2021				
Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SAR '000	Capital Requirement SAR '000
<u>Credit Risk (Non Trading Activities)</u>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks				
Administrative bodies and NPO	-	-	-	-
Authorised Persons and Banks	420,589	420,589	84,117	11,776
Corporates	-	-	-	-
Retail	5,968	5,968	17,904	2,507
Investments	-	-	-	-
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	6,580	6,580	19,739	2,763
Total On-Balance sheet Exposures	433,137	433,137	121,760	17,046
<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	433,137	433,137	121,760	17,046
Prohibited Exposure Risk Requirement	-	-	-	-
Total Credit Risk Exposures	433,137	433,137	121,760	17,046
<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	6,979	-		364
Commodities risks.	-	-		-
Total Market Risk Exposures	6,979	-		364
<u>Operational Risk</u>				11,217
Minimum Capital Requirements				28,627
Surplus/(Deficit) in capital				386,420
Total Capital ratio (time)				14.50

Appendix III: Disclosure on Credit Risk's Risk Weight as at 31 December 2021 (SAR'000)

Non - Trading Activities

Risk Weights	Exposures after netting and credit risk mitigation												Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
	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			
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	420,589	-	-	-	-	-	-	-	-	-	420,589	84,117
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
200%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	5,820	-	-	-	6,728	-	12,548	37,643	
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	
500%	-	-	-	-	-	-	-	-	-	-	-	-	-	
714% (include prohibited exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Average Risk Weight	-	-	420,589	-	-	5,820	-	-	-	6,728	-	433,137	121,760	
Deduction from Capital Base	-	-	11,776	-	-	2,444	-	-	-	2,826	-	17,046	17,046	

Appendix IV: Disclosure on Credit Risk's Rated Exposure as of 31 December 2021 (SAR'000)								
Non- Trading Activites								
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	-	-	-	-	-	-	-	-
Administrative bodies and NPO	-	-	-	-	-	-	-	-
Authorised Persons and Banks	-	396,525	24,064	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	5,820	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	6,728
Total	-	396,525	29,884	-	-	-	-	6,728
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	-	-	-	-	-	-		
Corporates	-	-	-	-	-	-		
Retail	-	-	-	-	-	-		
Investments	-	-	-	-	-	-		
Securitisation	-	-	-	-	-	-		
Margin Financing	-	-	-	-	-	-		
Other Assets	-	-	-	-	-	-		
Total	-	-	-	-	-	-		

Appendix V: Disclosure on CSSA Credit Risk Mitigation (CRM) as at 31 December 2021 (SAR'000)

Credit Risk on Non-Trading Activities

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	-	-	-	-	-	-
Administrative bodies and NPO	-	-	-	-	-	-
Authorised Persons and Banks	420,589	-	-	-	-	420,589
Corporates	-	-	-	-	-	-
Retail	5,820	-	-	-	-	5,820
Investments	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	6,728	-	-	-	-	6,728
Total On-Balance sheet Exposures	433,137	-	-	-	-	433,137
<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	433,137	-	-	-	-	433,137

* Refer to Chapter 2 of Annex 3.