



4.3 Credit Risk Mitigation

Itqan only enters transactions with financial institutions having an investment grade credit rating. Itqan's cash balances are maintained with regional and global banking institutions, which have a credit rating of BBB and above, by S&P. The banking institutions credit rating is subject to regular internal review. Other liquid assets are in the form of short term (which are well diversified) and intercompany receivables. All trades are executed with highly rated counterparties. The main concentration to which Itqan is exposed arises from counterparty credit risk on real estate investments, listed equities, sukuk, cash and cash equivalents and other receivable balances.

For real estate investments, the management reviews the investment proposal from the investment manager and share them with the Board for their endorsement. All approved real estate investments are mainly related to seeding in-house funds in which Itqan is the fund manager. The fund manager performs proper due diligence to satisfy the established criteria related to the real estate selection, post-acquisition management and eventual sale.

4.3.1 Credit Risk Exposures before/ after Credit Risk mitigation

Credit risk is identified and measured after reviewing the Company's investment portfolio, balance sheet structure and capital adequacy and any additional credit risk reports. For credit risk exposure classes, please refer to Appendix V. Please refer to appendix IV for exposure amounts before and after credit risk protection associated with each credit quality step regarding non-trading activities, as well as the exposure amounts that were deducted from capital.

Equity Price Risk

The Company has non-trading positions in equities. Itqan manages the equity risk through diversification and selection of securities and other financial instruments within specified limits. Itqan's equity investments are publicly traded and are included in the related Index. Itqan's policy requires that the overall market position is monitored daily by the Investment Manager and is reviewed on a quarterly basis by the Investment committee.

Itqan also manages its exposure to price risk by analysing the investment portfolio by sector and benchmarking the sector weighting to that of the related Index. Itqan's policy is to concentrate the investment portfolio in sectors where management believes Itqan can maximize the returns derived for the level of risk to which Itqan is exposed.

An independent risk function performs an internal credit review before engaging in transactions with a potential counterparty. Credit guidelines at Itqan ensure that limits are approved for only those counterparties that meet the appropriate credit criteria and credit review is conducted annually. As of December 31, 2022, Nil (December 31, 2021: Nil), Itqan does not have any exposures that are covered by financial collateral, guarantees or netting agreements.

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

The Company does not have exposures to OTC derivatives, repos or reverse repos, or securities borrowing/lending, and off-balance sheet items; hence, this section does not have any disclosure on counterparty credit risk. For more details, please refer to Appendix



4.5 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.

4.5.1 Market Risk Management

The Company classifies exposures to market risk as either trading or non-trading portfolios. The non-trading portfolio is included under equity price risk in the credit risk section.

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. Itqan manages Market Risk through the establishment of risk limits. These risk limits are established using a variety of risk measurement tools, including sensitivity analysis, and value-at-risk methodologies.

4.5.2 Market Risk Capital Charge

The following table indicates the capital requirements disclosed separately for the risks in respect of the trading books business:

As of 31st December 2022

(Amounts in SAR'000)

Market Risk	Long Position	Short Position	Capital requirement
Interest rate risks	-	-	-
Equity price risks	-	-	-
Risks related to investment funds	-	-	-
Securitization/re-securitization positions	-	-	-
Excess exposure risks	-	-	-
Settlement risks and counterparty risks	-	-	-
Foreign exchange rate risks	306	-	43
Commodities risks.	-	-	-
Total Market Risk Exposures	306	-	43

As of 31st December 2021

(Amounts in SAR'000)

Market Risk	Long Position	Short Position	Capital requirement
Interest rate risks	-	-	-
Equity price risks	-	-	-
Risks related to investment funds	-	-	-
Securitization/re-securitization positions	-	-	-
Excess exposure risks	-	-	-
Settlement risks and counterparty risks	-	-	-
Foreign exchange rate risks	485	-	68
Commodities risks.	-	-	-
Total Market Risk Exposures	485	-	68



4.6 Operational Risk

Operational risk is the risk of financial losses or damaged reputation due to failure attributable to technology, employees, procedures, or physical arrangements including external events and legal risks. Itqan is exposed to risks arising from failures in their internal controls involving processes, people, and systems. The existing controls should provide reasonable assurance of the soundness of operations and reliability of reporting. Itqan is exposed to risks relating to *Shariah* non-compliance and risks associated with Itqan's fiduciary responsibilities towards different fund providers. These risks expose Itqan to fund providers' withdrawals, loss of income or voiding of contracts leading to a diminished reputation or the limitation of business opportunities. While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, and procedures are in place, as well as trained and competent staff members are employed throughout the Company.

4.6.1 Operational Risk Management

The Company considers breakdowns in internal controls and corporate governance as the most important aspect of Operational risk as such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner. The Company recognizes that good management information systems (MIS) and a strong internal control culture and contingency planning are all crucial elements of effective operational risk management and takes measures to continually develop procedures and systems to support such requirements. Operational risks are reviewed annually to identify newly emerging risks in order to ensure that internal controls are proactively realigned to mitigate these emerging risks. Itqan has also developed a comprehensive Business Continuity plan (BCP) to maintain and enhance the operational resilience within the Company. Various plans and procedures like Business Continuity, Business recovery plans and strategy are in place to deal with the continuity of critical Business processes for complete line of Business and support functions.

4.6.2 Operational Risk capital charge

In compliance with CMA requirements, Itqan 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 2,021k for operational risks for the year ended 31 December 2022 (2021 SAR 1,973k).

4.7 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. This can be caused by market disruptions or credit downgrades. Often, liquidity risk arises due to mismatch in the maturity pattern of assets and liabilities. In the case of surplus situation, liquidity takes the form of opportunity cost in the form of loss of income due to investment of idle funds in low yield assets rather than higher yielding assets.

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4.7.1 Liquidity Risk Management

Itqan's Liquidity Management Strategy is characterized by the following elements:

- Preserving the liquidity by investing excess liquidity in Itqan's own money market fund or, alternatively, only with approved counterparties using short-term deposits or Murabaha.
- The company relies on operating cash flows, capital resources and proprietary investments as the key sources of funds on a going-concern basis; and
- The Finance Department in coordination with the Audit Committee has the responsibility to ensure that Itqan has sufficient liquid resources available to meet its liabilities as they fall due.

Itqan's liquidity position remained strong in 2022, as the Company manages its liquidity risk by maintaining enough balances of cash, cash equivalent, and listed securities to cover its committed statement financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Liquidity risk reporting takes place in the form of regular weekly and monthly reporting as well as immediate escalation should the need arises. Moreover, ad-hoc reports are provided in cases where liquidity risks are realized unexpectedly. Stress testing is based on Itqan's expected cash inflows and outflows during the twelve-month horizon. The Target Liquidity Requirement is then calculated by applying the stress scenario on the expected cash inflows and outflows. Itqan has defined an internal contingency plan to define relevant actions and responsibilities should Itqan encounter a serious liquidity crisis. The activation of the contingency plan considered if the survival horizon drops below nine months, there is a crisis of a significant general market disruption occurs.

4.7.2 Liquidity Reserves

Itqan holds cash required for day-to-day operational cash requirements in a current deposit account as this can be accessed instantly. The Company actively manages its daily funding obligations through several measures including availability of surplus cash and daily monitoring of Asset Management funding requirements.

4.7.3 Funding Sources

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

4.7.4 Risk Measures and Ratios

Itqan 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 of 31 December 2022:

Liquid Assets: Total Assets	27.11%
Liquid Assets: Total Liabilities	193.09%
Short-term Assets: Short term liabilities	432.37%

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The table below summarizes the Company's balances of cash, cash equivalent and listed securities:

As of 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	450	-	-	450
Investments in money market funds	13,419	-	-	13,419
Investments in Murabaha	-	2,642	-	2,642
Investments in listed securities	-	-	-	-
Investment in sukuk	-	-	-	-
Total	13,869	2,642	-	16,511

As of 31st December 2021 (Amounts in SAR'000)

Exposure Class	Less than 3 months	3 to 12 months	Over 1 year	Total
Cash and cash equivalents	1,714	-	-	1,714
Investments in money market funds	14,125	-	-	14,125
Investments in Murabaha	-	2,528	-	2,528
Investments in listed securities	-	-	-	-
Investment in sukuk	-	-	-	-
Total	15,839	2,528	-	18,367

The table below summarizes the maturities of the Company's financial liabilities on 31 December 2022 and 2021 based on contractual payment dates.

As of 31st December 2022 (Amounts in SAR'000)

Exposure Class	Less than 3 months	3 to 12 months	Over 1 Year	Total
Accounts payables and accruals	2,271	3,285	71	5,627
Total	2,271	3,285	71	5,627

As of 31st December 2021 (Amounts in SAR'000)

Exposure Class	Less than 3 months	3 to 12 months	Over 1 Year	Total
Accounts payables and accruals	-	2,846	3,212	6,058
Total	-	2,846	3,212	6,058

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5 Appendices

5.1 Appendix 1- Disclosure on Capital Base

(Amounts in SAR'000)

Capital Base	31 Dec 2022	31 Dec 2021
<u>Tier-1 capital</u>		
Paid-up capital	56,042	56,042
Audited retained earnings.	(3,684)	(7,803)
Share premium.	-	-
Reserves (other than revaluation reserves)	-	-
Tier1- capital contribution	-	-
Deductions from Tier-1 capital	-	-
Total Tier-1 capital	52,358	48,239
<u>Tier-2 capital</u>		
Subordinated loans	-	-
Cumulative preference shares	-	-
Revaluation reserves	-	-
Other deductions from Tier-2 (-)	-	-
Deductions to meet Tier-2 capital limit (-)	-	-
Total Tier-2 capital	-	-
Total Capital Base	52,358	48,239

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5.2 Appendix 2 - Disclosure on Capital Adequacy As of 31st December 2022

(Amounts in SAR'000)

Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
<u>Credit Risk</u>				
On-balance Sheet Exposures				
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	3,092	3,092	2,823	395
Corporates	2,276	2,276	11,904	1,667
Retail	-	-	-	-
Investments	52,991	52,991	138,568	19,400
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	2,549	2,549	9,717	1,360
Total On-Balance Sheet Exposures	60,909	60,909	163,013	22,822
<u>Off-balance Sheet Exposures</u>				
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	60,909	60,909	163,013	22,822
Prohibited Exposure Risk Requirement			69,919	9,789
Total Credit Risk Exposures	60,909	60,909	232,932	32,610
<u>Market Risk</u>				
	Long Position	Short Position		
Interest rate risks	-	-		-
Equity price risks	-	-		-
Risks related to investment funds	-	-		-
Securitization/re-securitization positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	306	-		43
Commodities risks	-	-		-
Total Market Risk Exposures	306	-		43
<u>Operational Risk</u>				2,021
Minimum Capital Requirement				34,674
Surplus/ (Deficit) in Capital				17,684
Total Capital Ratio (time)				1.51



5.3 Appendix 3 - Disclosure on Credit's Risk Weight As of 31st December 2022

(Amounts in SAR'000)

Risk Weights	Exposures after netting and credit risk mitigation												Total Risk Weighted Assets
	Government 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	
0%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	29	-	-	-	-	-	-	-	-	-	29
50%	-	-	153	-	-	-	-	-	-	-	-	-	153
100%	-	-	2,641	-	-	-	-	-	-	-	-	-	2,641
150%	-	-	-	-	-	-	20,406	-	-	-	-	-	20,406
200%	-	-	-	-	1,691	-	-	-	-	-	-	-	1,691
300%	-	-	-	-	-	-	118,162	-	6,148	-	-	-	124,309
400%	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	10,213	-	69,919	-	3,569	-	-	-	83,702
Average Risk Weight	-	-	2,823	-	11,904	-	208,487	-	9,717	-	-	-	232,932
Deduction from Capital Base	-	-	395	-	1,667	-	29,188	-	1,360	-	-	-	32,610

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5.4 Appendix 4 - Disclosure on Credit Risk's Rated Exposure As of 31st December 2022

(Amounts in SAR'000)

Exposure Class	Long Term Rating of Counterparties							Unrated
	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	Baa TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa+ and below	
Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below		
ON and Off-balance-sheet Exposure								
Governments and Central Banks	-	-	-	-	-	-	-	
Authorised Persons and Banks	-	145	-	-	2,947	-	-	
Corporates	-	-	-	-	-	-	2,276	
Retail	-	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	52,991	
Securitisation	-	-	-	-	-	-	-	
Margin Financing	-	-	-	-	-	-	-	
Other Assets	-	-	-	-	-	-	2,549	
Total	-	145	-	-	2,947	-	57,817	

(Amounts in SAR'000)

Exposure Class	Short Term Rating of Counterparties					Unrated
	Credit quality step	1	2	3	4	
	S&P	A-1+, A-1	A-2	A-3	Below A-3	
	Fitch	F1+, F1	F2	F3	Below F3	
	Moody's	P-1	P-2	P-3	Not Prime	
Capital Intelligence	A1	A2	A3	Below A3		
ON and Off-balance-sheet Exposure						
Governments and Central Banks	-	-	-	-	-	
Authorised Persons and Banks	-	145	-	-	2,947	
Corporates	-	-	-	-	-	
Retail	-	-	-	-	-	
Investments	-	-	-	-	-	
Securitisation	-	-	-	-	-	
Margin Financing	-	-	-	-	-	
Other Assets	-	-	-	-	-	
Total	-	145	-	-	2,947	

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5.5 Appendix 5 - Disclosure on Credit Risk Mitigation (CRM) As of 31st December 2022

(Amounts in SAR'000)

Exposure Class	Exposure before CRM	Exposure covered by Guarantees/ Credit derivatives	Exposure covered by Financial collateral	Exposure covered by Netting Agreement	Exposure covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-Balance Sheet Exposures						
Governments and Central Banks	-	-	-	-	-	-
Authorised Persons and Banks	3,092	-	-	-	-	3,092
Corporates	2,276	-	-	-	-	2,276
Retail	-	-	-	-	-	-
Investments	52,991	-	-	-	-	52,991
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	2,549	-	-	-	-	2,549
Total On-Balance Sheet Exposures	60,909	-	-	-	-	60,909
<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 Exposure	-	-	-	-	-	-
Total Off-Balance Sheet Exposure	-	-	-	-	-	-
Total On and Off-Balance Sheet Exposure	60,909	-	-	-	-	60,909

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