

Basel II, Pillar III Disclosures  
For year ended 31 December 2020

**Arbah Capital Company**  
**Authorized by Capital Market Authority**  
**License Number (07083-37)**  
[www.arbahcapital.com](http://www.arbahcapital.com)

**Basel II, Pillar III Disclosures**  
**31 December 2020**

أرباح المالية  
Arbah Capital



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**1. Scope of application**

**(a) Introduction about this document**

This document is a summary of the annual market disclosure report that was undertaken for the closing year-end position of 31 Dec 2020.

The report also includes background information concerning Arbah capital structure, risk exposures, the policies that support Arbah risk assessment and risk management systems as referred to by Article 68 and set out in Annex 10 of Prudential Rules (PRs) issued by the Board of the Capital Market Authority (the "CMA") pursuant to its resolution number 1-40-2012, dated 17/2/1434H corresponding to 30/12/2012G based on the Capital Market Law issued by Royal Decree No. M/30 dated 2/6/1424H, in addition to suggested disclosure requirements.

The purpose of this Pillar 3 report is to provide updated information as of Dec 31, 2020 on our implementation of the Basel capital framework and risk assessment processes in accordance with the Pillar 3 requirements.

**(b) Organization**

Arbah Capital Company is a Saudi closed joint stock company registered in Dammam, Kingdom of Saudi Arabia under Commercial Registration No. 2050059020 dated 4 Rabi' I, 1429H corresponding to March 12, 2008. The Company operate with a capital of SR 142,780,000 fully paid and is divided into 14,278,000 shares at SR 10 par value each. All of them are ordinary shares. Arbah Capital have two operative Subsidiary companies (Sorouh Arbah Real Estate Co.) with (100%) ownership and Hadiq Al Saeed for Real Estate development Co. with (50%) ownership, the remaining ownership is agreed to be acquired by Arbah capital through a settlement agreement dated on 4<sup>th</sup> February 2021 and the implementation of the agreement is still in progress.

Arbah is authorized and regulated by the Capital Market Authority (the "CMA") as per license of the ("CMA") number 37-07083.

The main activities of the Arbah Capital are Dealing as principal and agent, Underwriting, Managing (establishment and management of mutual funds and portfolio management trading), Arranging, providing advisory and custody services for administrative arrangements and procedures relating to investment funds, portfolio management.

Arbah Capital is a single branch investment bank, whose principal function is to provide Investment banking and wide services to a range of private, business, institutional and HNW investors' customers, it also provides Investment banking services to its owning shareholders.

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**(c) Legal Contingencies**

There are no material neither current nor pending legal actions which involve potential liability to Arbah Capital.

**2. Capital Structure**

- (a) The primary objective of the "Arbah Capital" capital management is to ensure that Arbah maintains adequate risk capital, complies with the capital requirements laid down by the CMA and maintains a healthy capital ratio in order to support its business and maximize shareholder value.
- Arbah Capital manages the capital base to cover risks inherent in the business. The adequacy of the capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision adopted by the CMA.
  - Arbah Capital Banking book is maintained, the majority of assets are denominated in Saudi Riyal, consisting of development properties, equities, mutual fund units, and investments in subsidiaries companies, while minor portion is denominated in USD & GBP.
  - Trading book is maintained, the majority of assets and liabilities are denominated in Saudi Riyal.
  - Regulatory capital consists of Tier 1 capital (core capital) and Tier 2 capital (supplementary capital).
  - Arbah Tier 1 comprises share capital, statutory reserves, and audited retained earnings, less (intangible assets and unrealized losses from FVTOCI investments).

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**Table – 1. Capital structure (illustrative Disclosure on Capital Base)**

The following table summarizes the capital base after deductions for CAM calculation as of 31 December 2020:

**App 1: Illustrative Disclosure on Capital Base**

Capital Base	SAR '000
<b>Tier-1 capital</b>	
Paid-up capital	142,780
Audited retained earnings	5,727
Share premium	
Reserves (other than revaluation reserves)	3,792
Tier-1 capital contribution	
Deductions from Tier-1 capital	-2,694
<b>Total Tier-1 capital</b>	<b>149,605</b>
<b>Tier-2 capital</b>	
Subordinated loans	
Cumulative preference shares	
Revaluation reserves	
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	
<b>Total Tier-2 capital</b>	<b>0</b>
<b>TOTAL CAPITAL BASE</b>	<b>149,605</b>

**3. Capital Adequacy**

Arbah Capital approach to assessing capital adequacy has been in line with its risk appetite aligned with its current and future activities.

To assess its capital adequacy requirements in accordance with the CMA prudential requirements, Arbah adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Expenditure Based Approach for its Operational Risk.

"Arbah Capital" capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined based on expectations for each business, expected growth in future sources and uses of funds.

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App II: Illustrative 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
<b>Credit Risk</b>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks				
CMLs and Banks	9,896		1,979	277
Corporates	12,063		86,130	12,058
Retail				
Investments	130,547		497,707	69,679
Securitisation				0
Margin Financing	1,548		2,322	325
Other Assets	15,944		78,336	10,967
<b>Total On-Balance sheet Exposures</b>	<b>169,998</b>		<b>666,474</b>	<b>93,306</b>
<i>Off-balance Sheet Exposures</i>				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments				
Other off-balance sheet exposures				
<b>Total Off-Balance sheet Exposures</b>	<b>0</b>		<b>0</b>	<b>0</b>
<b>Total On and Off-Balance sheet Exposures</b>	<b>169,998</b>		<b>666,474</b>	<b>93,306</b>
<b>Prohibited Exposure Risk Requirement</b>	<b>0</b>		<b>0</b>	<b>0</b>
<b>Total Credit Risk Exposures</b>	<b>169,998</b>		<b>666,474</b>	<b>93,306</b>
<b>Market Risk</b>				
	Long Position	Short Position		
Interest rate risks				
Equity price risks	9,824			1,768
Risks related to investment funds				
Securitisation/resecuritisation positions				
Excess exposure risks				
Settlement risks and counterparty risks				
Foreign exchange rate risks	38,031			2,750
Commodities risks.				
<b>Total Market Risk Exposures</b>	<b>47,855</b>			<b>4,518</b>
<b>Operational Risk</b>				
				4,405
<b>Minimum Capital Requirements</b>				<b>102,229</b>
<b>Surplus/(Deficit) in capital</b>				<b>47,375</b>
<b>Total Capital ratio (time)</b>				<b>1.46</b>

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As of 31 December 2020, Arbah capital result showed that the capital adequacy coverage ratio and surplus in capital are 1.46 times and SAR 47,375,000, respectively.

The following table summarizes the capital base held, compared with regulatory requirements, in terms of minimum capital requirements, capital adequacy coverage ratio and surplus in capital as of 31 December 2020:

	SAR '000
<b>Capital Base</b>	<b>149,605</b>
Tier-1 capital	149,605
Tier-2 Capital	0
<b>Minimum capital requirements</b>	<b>102,230</b>
<b>Capital adequacy coverage ratio (times)</b>	<b>1.46</b>
<b>Surplus in Capital</b>	<b>47,375</b>

## 4. RISK MANAGEMENT

Fundamental to our business is the prudent taking of risk in line with our strategic priorities. The primary objectives of risk management are to protect our financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value. Our risk management framework is based on transparency, management accountability and independent oversight.

### Risk Management Policies & Procedures

Credit risk, market and liquidity risk are monitored and controlled according to agreed policies and procedures which handle large exposures. Other risks are identified and monitored by the Board, the Chief Executive Officer and Management team by identifying and subject to regular review at a frequency reflecting the nature of the risk and degree of business threat.

### Risk Appetite and Polices

Arbah unique position, being wholly owned by well-known wealth experienced families in the eastern region, has necessitated a risk adverse approach to business.

Arbah over-riding approach to risk is to safeguard the assets of its customers, treating customers fairly, principles have always been given the highest priority by Arbah throughout its history.

## Arbah Capital Company J.S.C.

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Whilst Arbah Mission Statement highlights the objective of delivering an increasing return to its shareholders, achieving this objective is governed by Arbah ethical basis. Arbah key focus is to provide tailored and high-quality investment banking services to its clients.

Arbah offers quality investment banking products and services that give the customer a fair deal with the assurance that their assets will be looked after responsibly, consequently, Arbah is very selective about both the products and services it offers and its investment decisions.

However, within these parameters, Arbah is professional in seeking an increasing profitable return through alert management of cost/income ratios.

### Liquidity Policy

In view of Arbah strong liquidity and the strength of its balance sheets, Arbah has no need for funding or borrowing from other financial institutions and the shareholders have no intention of ever going down this route unless strong fundamental economic opportunities arise.

Liquidity policy is set out in Arbah Policy Statement. It is the responsibility of the Executive Officer, supported by the Management team and overseen by the Board of Directors, to ensure that adequate liquidity is always maintained.

The objective of Arbah liquidity policy is to ensure the management of net maturing liabilities in a controlled fashion and in a way that is consistent with the investment policy of Arbah and its ability to raise funding.

The policy will be affected by adopting a two-dimensional approach to liquidity management by:

- Control over net maturing assets and liabilities; and
- Holding investments in the form of liquid assets which can be easily realized to meet funding needs.

#### i. Liquidity Risk Tolerance

Liquidity mismatch positions across various time periods are deemed an appropriate basis for setting risk tolerance levels. Arbah ensures that it has sufficient maturing/realizable assets kept meeting all liabilities as they fall due. Liquidity mismatch positions consider all available inflows and potential outflows, with early warning indicators are set for liquidity mismatch positions, so even applying the most severe stress tests, no illiquid positions circumstances are foreseen so far.



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ii. Management

Arbah acquires and holds investments easily realizable securities – duly discounted where appropriate. These securities, together with Arbah balances of cash holdings, give significant cover across varying time periods, so Arbah ensures that it has sufficient maturing assets to meet outflows, based on its knowledge of liabilities which on a day-to-day basis, have responsibility for reinvesting maturing liquid assets.

The Management's ALCO Committee, they determine the liquidity profile of Arbah before re-investing in the market.

The nature of the Arbah liquidity arrangements and current investments, together with the types of business in which it is engaged, means that it is difficult to envisage a situation whereby there would be insufficient funds to meet a liquidity shortfall.

iii. Monitoring

The Chief Financial Officer calculates mismatch a position across varying time periods on a monthly basis and this is reviewed by the Chief Executive Officer and the Management's ALCO Committee. Any possible mismatches that approach early warning indicator levels are reported to the Board of Director and corrected before tolerance levels are breached. There have been no liquidity mismatch breaches with these controls in place.

**4.1 Credit Risk**

The key risks facing Arbah have been identified with details of how management measures those risks and what controls and mitigates are in place to limit those risks.

Throughout Arbah Risk Assessment process, simple internal stress and scenario testing is employed to try and ascertain what Arbah key sensitivities are and to try and ensure that adequate capital is in place to cover stressed scenarios, if any.

**4.1.1 Identification & measurement**

The risk faced by Arbah is the failure of one or more of its major counterparties. A simple breakdown of credit exposures categorized according to the current investments' exposures, with 20% fall scenario applies to measure it for the coming quarters.

**4.1.2 Controls & Mitigation**

Credit risk is principally controlled by establishing and enforcing investment authorization limits, including set-off limits, and by defining exposure levels to counterparties. Daily monitoring of positions ensures that prudential limits are not exceeded. Arbah continues to adopt a conservative investment policy, which has resulted in a low investment default record.

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The majority of Arbah's propriety invested in unrated Saudi listed companies as well as unrated real estate's projects and funds.

#### Maturity breakdown of credit exposures:

The following table summarizes the residual contractual maturity breakdown of the whole credit portfolio, broken down by major types of credit exposure as of 31 December 2020:

	Overdue	Up to 1 month SAR 000	1 month to 6 months SAR 000	6 months to 1 year SAR 000	1-5 years SAR 000	Total SAR 000
CMI's and Banks		9,896				<b>9,896</b>
Listed Equity		9,824				<b>9,824</b>
Investments Funds		3,918		9,839		<b>13,757</b>
Unlisted Equity					42,104	<b>42,104</b>
Receivables and Accrued Income		7,939	4,220	16,018	4,846	<b>33,023</b>
Development Proprieties					69,839	<b>69,839</b>
Other Assets					1,443	<b>1,443</b>
		<b>31,577</b>	<b>4,220</b>	<b>25,857</b>	<b>118,232</b>	<b>179,886</b>

#### Credit Risk – Geographic Breakdown

The following table summarizes the geographic distribution of the whole credit portfolio, broken down into significant areas by major types of credit exposure as of 31 December 2020:

	KSA	BAHRAIN SAR 000	UK SAR 000	USA SAR 000	TOTAL SAR 000
CMI's and Banks	9,896				<b>9,896</b>
Listed Equity	9,824				<b>9,824</b>
Investments Funds	13,757				<b>13,757</b>
Unlisted Equity	17,022	2,072	11,194	11,816	<b>42,104</b>
Receivables and Accrued Income	14,968	1,094	5,388	11,573	<b>33,023</b>
Development Proprieties	69,839				<b>69,839</b>
Other Assets	1,443				<b>1,443</b>
	<b>136,749</b>	<b>3,166</b>	<b>16,582</b>	<b>23,389</b>	<b>179,886</b>

As shown above, around 76% of Arbah assets are in KSA, while the remaining diversified in UK, USA and Bahrain.

The below appendices (III, IV, V) are illustrative disclosure on credit risk's risk weight, rated exposure, and credit risk mitigation (CRM).

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

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App III: Illustrative Disclosure on Credit Risk's Risk Weight													
Risk Weights	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administrative bodies and NPO	CMI's 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%			9,896									9,896	1,979
50%												0	0
100%												0	0
150%				1,548			3,918					5,466	8,199
200%													
300%							14,685			8,576		23,261	69,783
400%							111,944					111,944	447,776
500%													
714% (include prohibited exposure)					12,063					7,368		19,431	138,737
Average Risk Weight			1,979	2,322	86,130		497,707			78,336		666,474	666,475
Deduction from Capital Base			277	325	12,058		69,679			10,967		93,306	

App IV: Illustrative 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
<b>On and Off-balance-sheet Exposures</b>								
Governments and Central Banks								
CMI's and Banks			9,896					
Corporates								12,063
Retail								
Investments								130,547
Securitisation								
Margin Financing								1,548
Other Assets								15,944
<b>Total</b>			9,896					160,102
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			
<b>On and Off-balance-sheet Exposures</b>								
Governments and Central Banks								
Authorised Persons and Banks			9,896					
Corporates						12,063		
Retail								
Investments						130,547		
Securitisation								
Margin Financing						1,548		
Other Assets						15,944		
<b>Total</b>			9,896			160,102		

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App V: Illustrative 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
<b>Credit Risk</b>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks						
CMI and Banks	9,896					9,896
Corporates	12,063					9,419
Retail						
Investments	130,547					130,547
Securitisation						
Margin Financing	1,548					1,548
Other Assets	15,944					15,944
<b>Total On-Balance sheet Exposures</b>	<b>169,998</b>					<b>167,354</b>
<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						0
*Other Off-Balance sheet Exposures						0
<b>Total Off-Balance sheet Exposures</b>	<b>0</b>					<b>0</b>
<b>Total On and Off-Balance sheet Exposures</b>	<b>169,998</b>					<b>167,354</b>
* Refer to Chapter 2 of Annex 3.						

## 4.2 Market Risk

### 4.2.1 Identification & measurement

Arbah has market risk given that it operates a trading book; Arbah holds securities in the local stock market. Arbah does not have open positions in Commodities at the reporting date.

Arbah mainly deals in local currency Saudi Riyal and United States Dollar. Since Saudi Arabian Riyals is pegged to US Dollars, therefore the exposure to foreign currency risk is not significant.

Arbah has an investment in Arbah Sauchiehall/Glasgow amounting to GBP 2.194 million in SAR 11.19 million. Arbah manages exposures to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows.

The following table summarizes the equity price risks; the risks related to investment funds; and foreign exchange rate risk of the whole trading book portfolio as of 31 December 2020:

<b>Market Risk</b>	Long Position	Short Position
Interest rate risks		
Equity price risks	9,824	1,768
Risks related to investment funds		
Securitisation/resecuritisation positions		
Excess exposure risks		
Settlement risks and counterparty risks		
Foreign exchange rate risks	38,031	2,750
Commodities risks.		
<b>Total Market Risk Exposures</b>	<b>47,855</b>	<b>4,518</b>

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#### 4.3 Liquidity Risk

##### 4.3.1 Identification & Measurement

Care is taken to ensure the maturity of liabilities is matched with liquid investments. In terms of the impact of Liquidity Risk on capital adequacy, further impacts considered for Liquidity Risk by balancing between illiquid investments vs. liquid to ensure the impacts on short- and medium-term liquidity needs. No illiquid positions circumstances are foreseen so far. The company maintains healthy liquid assets to avoid any liquidity risk.

The following table summarizes the liquidity ratios as of 31 December 2020:

Liquid assets to total assets	17.55%
Short term assets to short term liabilities	331.4%
Liquidity Coverage Ratio	169.74%

Formula is as follows:

- Liquid Assets to total assets = (Cash and bank balances + Listed Equity and Investments Funds)/total assets
- Short term assets to short term liabilities = Assets with up to one-year maturity/liabilities with up to one-year maturity.
- Liquidity coverage ratio is calculated by dividing high quality liquid assets by short term obligations. A liquidity coverage ratio of greater than 100% is considered satisfactory. LCR reflects that the Company has sufficient high-quality liquid assets to cover the net cash outflows over next 90 days.

#### 4.4 Concentration Risk

Arbah follows the CMA guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the PRs for CMIs.

Arbah does not have a concentration of risk to individual counterparties in excess of prescribed threshold limit of 25% as at 31 December 2020.

#### 4.5 Economic Risk

It is important for Arbah to understand how sensitive its business is to the boom-and-bust phases of the economic cycle.

##### 4.5.1 Identification & measurement

Periods of high economic growth are likely to see more significant increases in customer products and services and, potentially, higher than budgeted as confidence in the kingdom economy which massively reliance on oil production and prices.

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In considering the impact of a recession, several severe impacts have been modeled simply and simultaneous events have been laid over to arrive at a range of stressed scenarios. It is highly unlikely that these would all occur at the same time, but they have been linked together to fully test Arbah business model on top of the current base case.

The common impacts for a severe economic downturn are as follows:

- An increase in default rates
- Property prices down

The alternative scenarios applied are as follows:

1. Arbah / Customer investments to fall
2. Arbah /Client Investments to remain at budgeted levels
3. Combined economic stress with the sustained low interest rate scenario

With the various scenarios applied collectively, when considering capital adequacy there is an element of double-counting given that we assess many of the associated risks separately and hold capital against those individual risks – credit risk, interest rate risk, strategic risk, third party dependency, fraud etc. Arbah self-assessment of capital requirements exceed any worst-case scenario capital requirements.

#### 4.5.2 Controls & mitigation

Arbah quick reaction to any impact in a recession case served it very well in the past through the change of its business plan, conservative investment and asset allocations, and offering many alternative investments to client prove that economic stress would be less likely to affect the company expectations.

#### Operational Risk capital charge

In compliance with CMA requirements, Arbah has adopted the Expenditure Based Approach (EBA) in order to estimate the required capital charge for operational risk as it leads to a higher capital charge than the Basic Indicator Approach (BIA).

*(All amounts in '000 SAR)*

Approach 1	Year	Gross Income	Average Gross Income	Risk Capital Charge (%)	Capital Required
Basic Indicator Approach (BIA)	2018	21,394	22,782	15%	3,417
	2019	22,218			
	2020	24,735			
Approach 2	Year	Overhead Expenses	Risk Capital Charge (%)		Capital Required
Expenditure Based Approach (EBA)	2020	17,620	25%		4,405
<b>Maximum of (BIA or EBA)</b>					<b>4,405</b>

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**4.6 Strategic Risk (OR)**

Arbah consider the implications if it fails to meet the business development targets or if the strategy, it pursues were to encourage their main customer.

**4.6.1 Identification & measurement**

For assessing strategic risk, the following scenarios have been analyzed:

- Fail to invest Arbah own properties.
- Decline in client numbers (Dealing, Managing, and Advisory).
- Zero growth / 50% decline in asset under management (AUM).

**4.6.2 Controls & mitigation**

Performance against strategic plans and budgets is monitored closely by the executive and investment committee on a monthly basis. A financial review is presented to the Board at each Board Meeting.

In terms of the consequences of strategic risk on capital adequacy, Arbah planning options represent potential actions as it is flexible to change the strategy according to market and business changes.

Arbah has set limits for its business; limits are also broken down into business sector limits to ensure Arbah is not over-exposed in any single business sector.

**4.7 Business Continuity (DR)**

Physical disasters affecting Arbah premises and continued operations could come in many different forms – fire, flood, terrorism, failure of IT systems, etc. Each of these different threats presents a risk to Arbah. However, the impact of these different threats materializing will have many common implications – all of which will require the invocation of Arbah disaster recovery and business continuity plan.

**4.7.1 Identification, measurement, controls and mitigates**

Arbah disaster recovery and business continuity plan provides both protection to the Arbah continued operations following physical disasters and an assessment of potential costs. Business continuity contingency plans are tested, at least annually, with any identified failings in plans highlighted and priority given to resolving those failings. The invocation of the Disaster Recovery and Business Continuity Plan in the event of a severe disaster with widespread implications has been considered, although the circumstances of invoking the plan are likely to be less severe. However, in the event of a catastrophe or sequence of events that could prove terminal, Arbah would proceed in accordance with its crisis planning. Third party local Islamic Insurance does provide some mitigation against this risk.

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**4.8 Third Party Dependency (OR)**

There are some key dependencies that Arbah has in terms of some of its suppliers, particularly, in terms of the maintenance and support of its banking software and solutions.

**4.8.1 Identification & measurement**

Estimates of the cost of replacing key suppliers are arrived at by maintaining awareness of alternative suppliers.

Consideration is given to fat tail events when assessing potential impacts.

**4.8.2 Controls & mitigation**

The Chief Executive Officer, the Chief Financial Officer and IT services Manager Conduct annual reviews of the financial accounts of key suppliers. Close working relationships are maintained with all key suppliers and management ensures that service levels are acceptable.

**4.9 Fraud (OR)**

**4.9.1 Identification & measurement**

In assessing fraud, a distinction is made between 'detected' and 'undetected' fraud. 'Detected' fraud is a regular occurrence and past experience can be used as the basis for its assessment.

'Undetected' fraud could involve significant amounts, although this is deemed unlikely given the controls that Arbah has in place. A conservative view has been taken on its estimation. All events, including fat tail events, would be mitigated significantly by the professional indemnity insurances that are in place.

**4.9.2 Controls & mitigation**

There are numerous controls to guard against fraud and errors, including:

- Account opening, mandate & account maintenance controls
- Anti-Money Laundering controls
- IT systems & security arrangements
- Segregation of duties
- Independent audit of IT security
- The professional indemnity insurances (partial mitigation)
- Payment controls

Arbah continues to refine its controls in light of detected fraud attempts, if any.



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**4.10 IT Security (OR)**

The integrity of IT systems and data security is given a high focus by management. Many high-profile failings of other organizations have hit the headlines in recent years.

**4.10.1 Identification & measurement**

Estimates have been made of system replacement costs, emergency support costs, legal fees and fines should a serious breach occur.

**4.10.2 Controls & mitigation**

Independent IT security audits guard against potential failures and security threats. IT security officer monitor the effectiveness of systems and controls.

Arbah protects its network; procedures also ensure that data is adequately backed up in tapes and placed in disaster recovery servers.

Means of tightening controls are frequently reviewed due to the critical importance of ensuring our data is kept secured.

**4.11 Key Staff (OR)**

**4.11.1 Identification & measurement**

Arbah recognizes that due to its small size there is an operational dependency on key individuals. This risk is measured in terms of the estimated cost of replacing key individuals at short notice due to unforeseen circumstances. This includes the cost of employing an interim manager(s), recruiting replacement staff and the cost of extra working for other staff that might be required until the replacement gets up to speed.

**4.11.2 Controls & mitigation**

It is Arbah policy to rotate roles and overlap responsibilities where appropriate, consistent with maintaining a segregation of duties. As a result, cover for periods of long absence, such as annual leave, has proved effective.

A comprehensive log of operational procedures is maintained and regularly audited. This is a valuable reference point for all staff and is a key training resource. A training plan is incorporated into Performance Appraisal plans for all staff and the company Services Manager, in liaison with other managers, schedules training appropriately.

Arbah Disaster Recovery Plan lists those key roles that would need to be covered if the Disaster Recovery Plan were invoked.

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The Chairman and the Chief Executive Officer, in consultation with senior executives, are responsible for succession planning for key posts, such as the appointment of key staff once required.

#### 4.12 Reputational Risk

Reputational risk is the risk of loss arising from the adverse perception of the image of Arbah by customers, counterparties, investors, or regulators. This is particularly relevant on two fronts: firstly, with the ethical standpoint that Arbah takes and, secondly, the fact that small investment banks have to convince customers that they are credible and can offer at least the basic, secure services expected of other big reputable investment banks.

##### 4.12.1 Identification & measurement

This risk can be seen as a knock-on effect of other risks materializing. It compounds the effect of other risks, such as strategy, fraud, and regulatory risk. Reputational risk has not been modeled in isolation but is considered throughout Arbah ongoing risk review process and is built into the assessment of other risk.

##### 4.12.2 Controls & mitigation

The operational systems and controls in place help to mitigate this risk. The loyal customer base also provides some immunity although this would be challenged in the event of Arbah reputation suffering.

#### 4.13 Other Operational Risks

(OR) Risks listed in the table below have been assessed as posing a lower degree of threat in terms of combined frequency and impact:

Risk	Description	Observations
<b>Residual Risk</b>	The risk that credit risk measurement/mitigation techniques may prove less effective than expected.	This risk is incorporated in the assessment of other risks, such as, Economic Risk, Concentration Risk and Collateral Risk.
<b>Regulatory/ Compliance / Conduct</b>	Failure to comply with regulatory requirements and obligations (including the failure to act with Integrity).	Arbah keeps up to date of CMA regulations. Arbah culture is closely aligned with the Shariah committee and shareholders.
<b>Competence/ administration</b>	Failure due to human error, incompetence, lack of training etc.	Assessment part-based on previous years' track record of past losses.

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<b>Risk</b>	<b>Description</b>	<b>Observations</b>
<b>Physical Security</b>	Risk of theft of holdings, documentation, equipment, etc.	Documents are kept into a fireproof cabinet. Staff are kept aware of security procedures.
<b>Reporting Risk</b>	Linked to Regulatory Risk, but specifically concerned with potential failings in Arbah internal and external reporting.	All reports are subject to various reasonableness checks. Internal and external audits are also conducted.
<b>Technology Risk</b>	The risk of new technologies (products and systems) giving other banks a competitive advantage.	Technology in the investment banking sector is constantly changing. Arbah has a loyal customer base. Assessment considers the potential loss of business and the cost of viable new technologies.
<b>Legal Risk</b>	The risk of legal action being taken against Arbah and/or Arbah having to seek legal advice/action.	Treating customer fairly principles are central to the Arbah operations. A planned building maintenance program is in place. Estimates made of potential costs.
<b>Insurance Risk</b>	Uncertainty as to the amount and timing of insured liabilities.	Risk reflects unexpected internal events (e.g. fraud) and industry-wide events (e.g. terrorism) that could impact premiums.