

Risk Management

Overview

Seera has adopted an enterprise-wide risk management approach. Risk Management is considered as an ongoing source of competitive advantage throughout the investment process, and enforced by the Risk Management Group (“RMG”). RMG comprises of senior professionals with extensive experience covering various tenets of risks the bank is inherently exposed to.

Risk is usually defined by the adverse impact on profitability of one or several distinct sources of uncertainty, such as changes in financial market variables or counter party creditworthiness.

Risk is inherent in banking, and Seera will make choices about the amount of risk it will take, keeping in mind the trade off between risk and return. Therefore, the bank will only accept risk when it perceives the probable rewards to be commensurate with the level of risk involved. The risk decisions made by Seera are primarily a function of policies and practices laid down by the Board of Directors, underpinned by the strength and clarity of the corporate culture and the efficiency of internal control systems.

The key risks that are considered to be material for Seera are defined below:

(a) Reputation Risk

Adverse performance of investments originated by Seera may place the bank’s reputation at risk. To mitigate this risk all investments are subjected to extensive due diligence and understanding of the investment thesis prior to undertaking any commitment.

(b) Investment Risk

Investment risk is the risk of potential losses from an adverse change in the performance of Seera’s investments.

The adverse change may be due to:

- Unforeseen risk materialising;
- Occurrence of sudden or unexpected events;
- Changes in regulations;
- Error in the computation of the financial model;
- Error in initial valuation.

The adverse change in the performance of the investment may not only have an impact on the available capital of the bank but could also have a direct bearing on the reputation of the bank. The Bank has put in place an extensive approval process during which

investment fundamentals are independently validated and challenged through both qualitative and quantitative assessment of risks inherent in a transaction.

(c) Credit Risk

In broad terms, credit risk is the risk that a loss will be incurred if a counterparty to a transaction does not fulfill its financial obligations in a timely manner. More precisely, it is the risk of financial loss arising out of holding a particular investment or contract e.g. Ijara, Sukuks, Murabaha receivable etc. The bank is implementing an internal rating framework to assign a comparative rating for such risks.

(d) Liquidity Risk

Liquidity risk refers to the inability to meet the obligations when they are due. This is caused by maturity mismatch of assets and liabilities. This mismatch is referred to as the liquidity gap. Liquidity management is the continuous process of raising new funds, to cover cash shortfalls, or investing excess funds to maximize returns.

(e) Legal Risk

The risk that a counter party to a transaction will not be able to meet its obligations under law. This may be the case for a variety of reasons. Most fundamentally the transaction must be sufficiently well documented to be enforceable in a court of law. To ensure that Seera and its investors' interests are protected, the Bank's in-house legal counsel is involved throughout the investment acquisition process.

(f) Currency Risk

The risk that an adverse movement in a currency against the US\$ may have an unfavorable impact on Seera. The reporting currency of Seera is US\$ and an investment other than in the reporting currency will cause an open position. Where possible and practical this position is hedged using Islamically acceptable methods.

(g) Shari'a Risk

All activities undertaken by Seera must be in strict compliance to Shari'a. All transactions are extensively reviewed by the Bank's internal Shari'a advisor and approved by the bank's Shari'a Supervisory Board, assets and liabilities. This mismatch is referred to as the liquidity gap. Liquidity management is the continuous process of raising new funds, to cover cash shortfalls, or investing excess funds to maximize returns.