



RIYAD CAPITAL

**CONTROL ASSURANCE REPORT – INSTITUTIONAL
BROKERAGE**

For the period 01 January 2023 to 31 December 2023

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1. Auditor's Assurance Report



12 August 2024

RSM Allied Accountants Professional Services

Avenue Mall, King Fahd Rd, 12262

INDEPENDENT ASSURANCE REPORT ON INTERNAL CONTROLS OF RIYAD CAPITAL

This report is made solely for the use of the management, of Riyadh Capital ("the Organisation"), and solely for the purpose of reporting on the internal controls of the Organisation, in accordance with the PO # 64358 dated 11 October 2023.

Scope

We have been engaged to report on the Organization's control description of its Institutional Brokerage Department for the period 1 January 2023 to 31 December 2023 and on the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.

Use of report

Our work has been undertaken so that we might report to the management those matters that we have agreed to state to them in this report and for no other purpose. This report is released to the Organisation on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

The purpose of this report is to provide assurance on the agreed control description of Institutional Brokerage Department. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights against RSM Allied Accountants Professional Services for any purpose or in any context. Any party other than the Organisation that obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Allied Accountants Professional Services will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage, or expense of whatsoever nature that is caused by any person's reliance on representations in this report.

Riyad Capital's Responsibilities

The Organization is responsible for:

- specifying the control description set out in section 4 of this report;
- providing the services covered by the description; and
- designing, implementing and effectively operating controls to achieve the related control objectives stated in the description.

Our Responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in that description. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 and 3402. The standard and guidance requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description, throughout the period 1 January 2023 to 31 December 2023.

Our work involved performing procedures to obtain evidence of the description, design and operating effectiveness of the Institutional Brokerage Department's controls.

Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description.

Our procedures also included testing the operating effectiveness of those controls that are necessary to achieve the objectives stated in the description.

An assurance engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Inherent Limitations

The Organization's control description is prepared to meet the common needs of a broad range of users and may not, therefore, include every aspect of the Organization's activities and controls that each individual user may consider important in its own particular environment. Also, because of their nature, Control Activities at an Organization may not prevent or detect and correct all errors or omissions in processing or reporting transactions or identification of the function performed by the Organization or system.

Our opinion is based on historical information and the projection to future periods of any evaluation of the fairness of the presentation of the Description, or opinions about the suitability of the design or operating effectiveness of the Control Activities would be inappropriate.

Opinion

In our opinion, in all material respects:

1. The Control Activities related to the Control Objectives stated were suitably designed to provide reasonable assurance that the specified Control Objectives would be achieved if the described Control Activities operated effectively throughout the period from 1 January 2023 to 31 December 2023, and
2. The controls that we tested were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives stated in the description were achieved throughout the period 1 January 2023 to 31 December 2023.

Description of Tests of Controls

The specific controls tested and the nature, timing, and results of those tests are detailed in section 4 of this report.

We have no responsibility to update this letter for events and circumstances occurring after the date of this letter.

2. Introduction and Background of the Institutional Brokerage Department

Institutional Brokerage (IB) Department:

The Institutional Brokerage Department at Riyadh Capital is dedicated to providing brokerage execution services, using top-of-the-line platforms, to institutional clients, including local, regional, and international investors aiming to invest in the Saudi equity market. The department plays a crucial role in facilitating efficient and effective trading and investment management across various asset classes and markets. The Institutional Brokerage's goal is to handle client investment flows into the Saudi stock market with utmost care.

Client Base and Reach

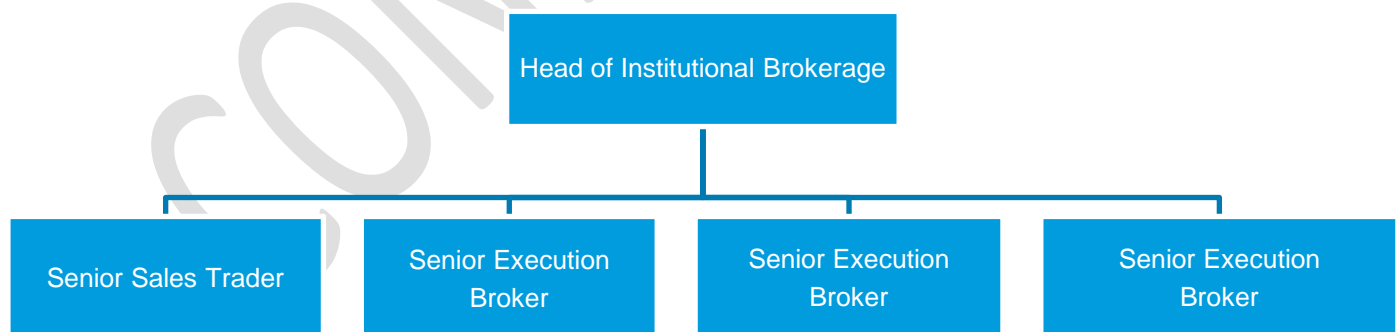
- **Direct Institutional Clients:** The department supports 95 direct institutional clients, including major investment funds, asset managers, and financial institutions, providing them with direct access to comprehensive brokerage services.
- **Indirect Clients:** Through regional brokers, the department extends its services to over 400 sub-clients. These sub-clients benefit from the department's brokerage capabilities, facilitated via intermediary brokers, thus broadening its market impact and reach.

Portfolio Management

- **Client Portfolios:** The department manages a diverse range of portfolios for local, regional, and international institutional clients. These portfolios include direct investments, SWAP agreements, and other financial instruments.
- **Portfolio Types:** It handles both cash market portfolios and those under the Independent Custody Model (ICM) as well as non-ICM sectors. This includes overseeing asset custody arrangements, whether managed through independent custodians or internal systems.

The department is staffed by a team of 5 professionals, who are responsible for managing client relationships, executing trades, and ensuring the seamless operation of brokerage services.

Departmental Structure:



Key Processes of Institutional Brokerage:

The Institutional Brokerage Department encompasses several key processes: Account Opening & Client Onboarding, Transaction Processing, and Client Reporting. Below is a brief overview of these major processes:

1. Client Onboarding and Account Opening

The client onboarding and account opening process begins when the department receives client interest through email, call, or direct contact. The IB Department collects and verifies the required KYC documents, including identity verification, financial background, brokerage agreement, etc. as required by regulation.

The Operations Department of RC is responsible for verifying the documents and creating the client profile in the Integrated Operations Management and Settlement System (IOMSS) through an automated workflow with maker-checker controls. Subsequently, the Compliance Department of RC reviews and approves the client profile. Upon approval, clients are notified of their successful onboarding and are provided with their account details and access information.

2. Transaction Processing

The IB Department receives buy/sell orders from clients via registered email, call, or direct system access for transaction processing. Trader / Broker of IB Department ensures that order details are matched and aligned with client instructions before execution.

The system prescribes all traders' access and order limits to avoid any unauthorized transaction.

Once orders are executed, confirmations and transaction details are sent to clients. The IB Department ensures that trade settlements are completed within the stipulated time frame by coordinating with custodians and clearinghouses as needed.

3. Client Reporting

Client reporting involves generating and sending periodic statements and reports to clients, detailing their portfolio performance, transaction history, and account balances. In response to client requests for customized reports, the Head of IB Department coordinates with the Business Technology Department to create and deliver reports as per client specifications. Additionally, the department ensures that all client reports comply with regulatory requirements, providing accurate and timely dissemination of information. Client feedback is collected and addressed to continuously improve the reporting process and client satisfaction.

3. Summary of Control of Objectives

This section provides summary information and assurance on the design, description, and operation of the control procedures for the Institutional Brokerage Department in Riyadh Capital, for the following sub-processes:

1. Client Onboarding & Account Opening
2. Transaction Processing
3. Client Reporting
4. Governance

| Control Objective | Audit Finding |
|--|---------------------|
| 1. Client Onboarding & Account Opening | |
| a) Ensure all necessary client financial information, investment objectives, and investment experience are collected and documented as per Article#39: Know Your Client of Capital Market Institution Regulation (CMIR) to maintain compliance. | No exception noted. |
| b) Implement a systematic control to ensure client credentials are updated every 3 years to comply with Part C of Article#39: Know Your Client of Capital Market Institution Regulation (CMIR) and maintain current client information. | No exception noted. |
| c) Ensure the archiving and storage of all onboarding and client acceptance documents for up to 10 years to comply with Article 16: Record Keeping of CMIR | No exception noted. |
| d) Ensure all brokerage service agreements are reviewed for alignment with CMA regulations and are signed and approved by the client. | No exception noted. |
| e) Implement verification processes to ensure accurate data entry and reduce the risk of operational inefficiencies and compliance issues. Additionally, ensure proper classification of clients to comply with Article 36: Client Classification of Capital Market Institution Regulation. | No exception noted. |
| 2. Transaction Processing | |
| a) Implement robust settlement processes to minimize delays or failures and ensure smooth operations. | No exception noted. |
| b) Ensure timely suspension or closure of Institutional Brokerage (IB) client portfolio based on CMA instruction, | No exception noted. |

| Control Objective | Audit Finding |
|--|---------------------|
| client's death or expired KYC to prevent unauthorized transaction. | |
| c) Ensure discounts on trading commissions are only given to eligible customers and within approved limits. | No exception noted. |
| d) Implement procedures to promptly address and compensate for errors in customer orders. | No exception noted. |
| e) Ensure trader financial operation limits are within approved thresholds and obtain relevant approvals for any increases. Implement robust controls to prevent unauthorized trades. | No exception noted. |
| f) Ensure timely cancellation of expired orders to prevent operational disruptions. | No exception noted. |
| g) Ensure brokers do not provide direct trade advice to customers to comply with Article 42: Understanding Risk of Capital Market Institution Regulation and implement procedures to retain telephone recordings for the required 10-year period as per Article 51: Recording Telephone Calls of CMIR. | No exception noted. |
| h) Ensure a track record of client order amendments is maintained for future reference. | No exception noted. |
| 3. Client Reporting | |
| a) Develop the capability to create customized reports tailored to client needs, ensuring their satisfaction. | No exception noted. |
| b) Ensure timely production and delivery of trading order reports to support clients' decision-making. | No exception noted. |
| c) Implement security measures to ensure that sensitive client information is accessible only to authorized traders, thereby preventing breaches and unauthorized access. | No exception noted. |
| d) Implement comprehensive cybersecurity measures to protect client data from cyberattacks | No exception noted. |
| 4. Governance | |

| Control Objective | Audit Finding |
|---|--|
| a) To ensure adherence with regulations, there exist a regular review and update schedule for policies and procedures in every 3 years. | No exception noted. |
| b) To ensure that all new employees are fully aware of and committed to adhering to the company's policies, ethical standards, and regulatory requirements as outlined by the Capital Market Authority. | No exception noted. |
| c) To ensure accurate and timely monitoring of trading activities and client contributions, enabling the Institutional Brokerage Department to identify key customers and trends, thereby supporting strategic decision-making and optimizing revenue generation. | No exception noted. Recommendation: Implementing an automated dashboard to access concentration and commercial client information in real-time for enhanced efficiency and monitoring. Please refer to section 4 for the details. |

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4. Control Procedures and Audit Testing

This section outlines the control objectives, descriptions, and audit testing procedures for sub-processes i.e. Client Onboarding & Account Opening, Transaction Processing, Client Reporting & Governance within Institutional Brokerage (IB) department.

Each sub-process consists of control objectives that ensure the process operates effectively, efficiently, and in compliance with relevant regulations. The control descriptions provide mechanisms in place to achieve these objectives, while the audit testing details the methods used to evaluate the adequacy and effectiveness of the control's description provided by management.

1. CLIENT ONBOARDING AND ACCOUNT OPENING:

| CONTROL OBJECTIVE | |
|--|---|
| <p>a) Ensure all necessary client financial information, investment objectives, and investment experience are collected and documented as per Article#39: Know Your Client of Capital Market Institution Regulation (CMIR) to maintain compliance.</p> | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>For all newly onboarded institutional clients, the Institutional Brokerage Department ensures the collection of all required documents as per the internal checklist. This includes, but is not limited to, KYC forms, Brokerage Agreements, and the company's general information such as the commercial registration (CR) certificate.</p> <p>To comply with CMA regulations, the Compliance Department updates the Institutional Brokerage Department with the latest KYC forms. The following sections in the KYC template fulfill the necessary information requirements prescribed by CMA regulations:</p> <ul style="list-style-type: none"> ▪ Financial Information – Section #1 ▪ Investment Objectives – Section #9 ▪ Investment Experience – Section #7.5 | <ul style="list-style-type: none"> ➤ <u>KYC Template alignment with CMA Regulations:</u> We reviewed a sample of the KYC form and agreements used during client onboarding and compared the information in these documents with the requirements outlined in KYC annexure prescribed in the Capital Market Institution Regulation (Article#39: Know Your Client - Annex 5.3 A). ➤ <u>Testing of Client documentation:</u> During our review of a sample Institutional Brokerage client, we performed testing to ensure that the Institutional Brokerage gathered all required documents as per the checklist. This includes but is not limited to the following: <ul style="list-style-type: none"> ▪ KYC form; ▪ Signed brokerage agreement; ▪ Company information such as type of entity, CR#, date of incorporation, certificate of incorporation, commercial license, etc.; ▪ FATCA self-certification form and relevant questionnaire; ▪ AML questionnaire; ▪ Investment account opening request; and ▪ Shareholding pattern. <p>Exception: No</p> |
| CONTROL OBJECTIVE | |
| <p>b) Implement a systematic control to ensure client credentials are updated every 3 years to comply with Part C of Article#39: Know Your Client of Capital Market Institution Regulation (CMIR) and maintain current client information.</p> | |

| CONTROL DESCRIPTION | AUDIT TESTING |
|--|--|
| <p>The Investment Order Management & Settlement System (IOMSS) system includes a systematic control featuring a KYC review date field.</p> <p>This field is set based on the client's creation date and is scheduled for review every three years, as mandated by CMA regulations.</p> <p>If the KYC is not updated within this timeline, the client's portfolio will be disabled automatically.</p> | <p>During our walkthrough, we verified existence of KYC review date field for the selected Institutional Brokerage clients. (Refer to Annexure 5 A for the sample snapshot)</p> <p>Exception: No</p> |

CONTROL OBJECTIVE

c) Ensure the archiving and storage of all onboarding and client acceptance documents for up to 10 years to comply with **Article 16: Record Keeping** of CMIR.

| CONTROL DESCRIPTION | AUDIT TESTING |
|---|--|
| <p>The archiving process begins once documents are received from the Operations Department.</p> <p>The Archiving team under Operations Department verifies the completeness of the documents by matching the hard copies with the system (IOMSS). Two employees, assigned as a maker and checker, ensure accuracy and completeness.</p> <p>Each customer's documents are assigned a box/carton number in the IOMSS system. Subsequently, the documents are sent to Tejoury Company, where they are scanned into the FileNet archiving system. The Archiving team then verifies the completeness of the scanned documents.</p> | <p>We performed a walkthrough for a sample client to ensure that the Archiving Department implements dual control (maker and checker) in the IOMSS system.</p> <p>After verifying the documents, we observed carton number detail assigned on the IOMSS client data. Subsequently, all scanned documents were available and verified in the FileNet system using the same carton number, with the client's digital documents attached. (Refer to Annexure – 5 B i, ii, iii)</p> <p>Exception: No</p> |

CONTROL OBJECTIVE

d) Ensure all brokerage service agreements are reviewed for alignment with Capital Market Institution Regulation (CMIR) and are signed and approved by the client.

| CONTROL DESCRIPTION | AUDIT TESTING |
|--|---|
| <p>Any amendments or modifications to client agreements are initiated via an email from the Compliance and Legal Department upon revisions in applicable regulations / law to ensure they meet all regulatory and legal requirements.</p> <p>The email notification from Compliance / Legal Department will identify to Institutional Brokerage or relevant department regarding necessary changes. Accordingly, the Institutional</p> | <p>During our testing, we verified a sample email trail illustrating an example relating to an amendment from the regulation.</p> <p>The email was initiated by the Compliance Department, requiring the Institutional Brokerage to incorporate the amendment into the client agreement. After making the</p> |

| | |
|--|--|
| <p>Brokerage Department then drafts the updated brokerage agreement and submits it to Compliance for review before final incorporation into brokerage agreement.</p> | <p>changes, the Institutional Brokerage then shared the draft with Compliance for review and approval.</p> <p>Exception: No</p> |
|--|--|

CONTROL OBJECTIVE

e) Implement verification processes to ensure accurate data entry and reduce the risk of operational inefficiencies and compliance issues. Additionally, ensure proper classification of clients to comply with **Article 36: Client Classification** of Capital Market Institution Regulation.

| CONTROL DESCRIPTION | AUDIT TESTING |
|---|--|
| <p>Client accounts are established in the IOMSS system by the Operations Department upon receiving all necessary documents and information from the Institutional Brokerage Department. Based on the documentation and credentials provided, Operation Department classify each client accordingly in the IOMSS system.</p> <p>The Operations Department inputs data into the IOMSS system, which requires the completion of mandatory fields that differentiate between companies and individuals. Additionally, client information is also integrated into the Securities Depository Center Company (EDAA system).</p> <p>As a control measure, data entry is performed by one Operations Department member and verified by another through a structured workflow to avoid any inaccuracies.</p> <p>Additionally, the archiving process also includes verification and approval through systematic workflow of particular onboarded client.</p> | <p>During our review, we conducted a walkthrough of the IOMSS system related to onboarding process for an Institutional Brokerage client's by examining a sample of client accounts.</p> <p>Our review included verification of the dual control procedure, where one employee is responsible for creating the system ID and another employee approves it ensuring accuracy client details and classification. (Refer to Annexure – 5 C)</p> <p>We also observed the compliance approval workflow within the IOMSS system.</p> <p>Subsequently, we observed that documents are forwarded to the Archiving Department for verification before they are officially archived. (Refer to Annexure – 5 B)</p> <p>During this phase, the Archiving Department again matches client information in IOMSS system with hard documents provided to them.</p> <p>This ensures all client classification is accurately recorded and that all necessary documentation is in place before the final archiving process.</p> <p>Exception: No</p> |

2. TRANSACTION PROCESSING:

| CONTROL OBJECTIVE | |
|---|--|
| a) Implement robust settlement processes to minimize delays or failures and ensure smooth operations. | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>The Operations Department performs daily reconciliations for trade settlements between the EDAA system, MUQASSA system, and RC system.</p> <p>As a control measure, settlement statuses of all transactions at the end of each day is traced from Riyadh Capital (RC) system to EDAA & MUQASSA system. This process identifies any transactions that remain unsettled in EDAA & MUQASSA. which are then promptly addressed by Operations Department to ensure timely settlement.</p> | <p>During our review, we conducted a walkthrough of the reconciliations performed by the Operations Department between the Riyadh Capital (RC), EDAA, and MUQASSA systems to trace any transactions with unsettled statuses in system.</p> <p>We reviewed some samples of trade scenarios, covering both settled and unsettled statuses. For the unsettled trades, we check their latest status and reviewed that they were subsequently settled (Refer to Annexure - 5 D)</p> <p>Exception: No</p> |
| CONTROL OBJECTIVE | |
| b) Ensure timely suspension or closure of Institutional Brokerage (IB) client portfolio based on CMA instruction, client's death or expired KYC to prevent unauthorized transaction. | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>Accounts may be suspended for several reasons, such as instructions from the CMA, client death, or expired KYC. If client KYC becomes outdated, the system will automatically suspend the account.</p> <p>For specific instructions from the CMA or in the event of a client's death, Riyadh Capital employees must manually upload the list of suspended clients into the system.</p> | <p>During our review, the Operations Department informed us that there have been no instances where the CMA instructed the suspension of any client or notifications of client deaths leading to the suspension.</p> <p>Additionally, we conducted a walkthrough of a sample case where due to an automated control in the system requiring a KYC update every three years, a sample client accounts with outdated KYC information was suspended.</p> <p><i>Exclusion: Please note that we did not perform procedure to check system configuration pertaining to an automated control of client suspension due to KYC expiry.</i></p> <p>(Refer to Annexure - 5 E)</p> <p>Exception: No</p> |

CONTROL OBJECTIVE

c) Ensure discounts on trading commissions are only given to eligible customers and within approved limits.

| CONTROL DESCRIPTION | AUDIT TESTING | | | | | | | | | | |
|--|---------------------------------------|------------------------|----------------------|----------------------------|----------------------|---------------------------------------|----------------------|-----------|-----------------------|----------|--|
| <p>Riyad Capital employs stringent controls to process discounts on trading commissions for Institutional Brokerage customers, ensuring that each discount is applied on a case-by-case basis in response to specific business requests.</p> <p>An authority matrix is in place to limit authorization at various levels of management, ensuring that only designated personnel can approve discounts</p> <p>Each discount request is processed with dual responsibility, meaning that approvals provided by the business are thoroughly verified by two independent parties before the discount is applied.</p> <p>This rigorous approach guarantees accuracy, accountability, and adherence to company's internal controls in the discount process.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Authority</th> <th style="text-align: center;">Authority Exercised by</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">To approve up to 50%</td> <td style="text-align: center;">Manager Institutional Desk</td> </tr> <tr> <td style="text-align: center;">To approve up to 75%</td> <td style="text-align: center;">Manager – Brokerage and Alt. Channels</td> </tr> <tr> <td style="text-align: center;">To approve up to 85%</td> <td style="text-align: center;">DCEO – RC</td> </tr> <tr> <td style="text-align: center;">To approve up to 100%</td> <td style="text-align: center;">CEO – RC</td> </tr> </tbody> </table> | Authority | Authority Exercised by | To approve up to 50% | Manager Institutional Desk | To approve up to 75% | Manager – Brokerage and Alt. Channels | To approve up to 85% | DCEO – RC | To approve up to 100% | CEO – RC | <p>During our review, we tested 2 samples of IB clients where discounts were applied on the request of the Institutional Brokerage Department.</p> <ul style="list-style-type: none"> ▪ Sample #1 – 50% Discount: We reviewed an email from the IB Department requesting a 50% discount, which was approved by the Head of Brokerage. We then confirmed in the IOMSS system that the 50% discount was applied to the customer. ▪ Sample #2 – 100% Discount: We reviewed an email from IB Department requesting a 100% discount, which was approved by the CEO. We then confirmed that the 100% discount was applied in the IOMSS system for the respective customer. <p>Exception: No</p> |
| Authority | Authority Exercised by | | | | | | | | | | |
| To approve up to 50% | Manager Institutional Desk | | | | | | | | | | |
| To approve up to 75% | Manager – Brokerage and Alt. Channels | | | | | | | | | | |
| To approve up to 85% | DCEO – RC | | | | | | | | | | |
| To approve up to 100% | CEO – RC | | | | | | | | | | |

CONTROL OBJECTIVE

d) Implement procedures to promptly address and compensate for errors in customer orders.

| CONTROL DESCRIPTION | AUDIT TESTING |
|--|--|
| <p>RC has controls in place to ensure accurate execution of customer orders. Most clients have system integration, where any orders they place are received in our workorder system and executed based on specific instructions.</p> | <p>During our walkthrough of the system, we noted that orders are placed through emails and with system integration in IOMSS.</p> <ul style="list-style-type: none"> ▪ For the email scenario, we noted that an order received via email was correctly placed in the IOMSS system. We reviewed a screenshot of the received email and the corresponding order |

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|--|---|
| <p>Additionally, some clients have direct market access, leaving no room for error.</p> <p>For clients who place orders via email or call, the trader verifies the details by repeating the client's instructions, including the company name, unique code, and quantity, to avoid miscommunication.</p> <p>If an error still occurs, the trader raises an incident report, which is approved by the Head of Brokerage and forwarded to the Risk Department.</p> | <p>details in IOMSS, confirming that orders can be tracked through statuses such as cancelled, filled, and approved.</p> <ul style="list-style-type: none"> For the integrated system scenario, we noted that orders placed through the client's integration with IOMSS were accurately recorded and executed as instructed. <p>Further, based on our walkthrough of the system, we created the exception / error report and confirmed that no error has occurred during our review period.</p> <p>Furthermore, based on our discussion, we were informed that there are no recent instances of error in customer orders / incident report during our review period. Moreover, we were provided with the latest incident report that were issued in December 2022.</p> <p>Exception: No</p> |
|--|---|

CONTROL OBJECTIVE

e) Ensure trader financial operation limits are within approved thresholds and obtain relevant approvals for any increases. Implement robust controls to prevent unauthorized trades.

| CONTROL DESCRIPTION | AUDIT TESTING |
|--|---|
| <p>All traders have preset limits that cannot be exceeded due to system controls.</p> <p>In case of trade limit enhancements, a trader submits a request form which follows an approval protocol and is then emailed to the Information Security Department to incorporate the changes into the system.</p> <p>For new traders, an authorization form is similarly emailed to Information Security to embed their limits in the system.</p> <p>Since Institutional clients are onboarded under a unique branch code that can only be accessed by the desk Team. Similarly, for new trader, unique profiles are assigned to them, ensuring that access is restricted to the respective profile only.</p> <p>For trader resignation, the trader cancellation form is then emailed to Tadawul to cancel the employee's trading order. A request is also sent to the Information Security Department to immediately revoke the employee's user privileges.</p> | <p>During our review, we noted the below scenarios:</p> <ul style="list-style-type: none"> Limit Enhancement: We reviewed on samples, 3 traders whose limit enhancement forms were executed. Upon review, we noted that limits up to 3 million were signed by the Director of Brokerage, while those above 3 million were signed by the CEO. Each enhancement included a justification. Trader Access: We verified a sample case where the trader's profile was changed. The form was approved and emailed to the IS Department to grant access to the Institutional profile in the IOMSS system. Trader Resignation: Based on our discussion, we were informed that that there have been no instances of trader resignation in our review period. Further, we corroborated the same by reviewing the signed JDs of existing traders and confirmed that the JDs were signed at least two years ago. <p>Exception: No</p> |

| CONTROL OBJECTIVE | |
|--|--|
| f) Ensure timely cancellation of expired orders to prevent operational disruptions. | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| The IOMS system has an automated control measure that cancels all expired orders at the end of the day or as specified in the system. | <p>During our review, we noted an evidence showing that expired orders are automatically canceled by the system at the end of the day.</p> <p>However, we did not perform testing on system configuration and application controls related to cancellation of orders.</p> <p><i>(Refer Annexure – 5 F)</i></p> <p>Exception: No</p> |
| CONTROL OBJECTIVE | |
| g) Ensure brokers do not provide direct trade advice to customers to comply with Article 42: Understanding Risk of Capital Market Institution Regulation and implement procedures to retain telephone recordings for the required 10-year period as per Article 51: Recording Telephone Calls of CMIR. | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>Quality Control (QC) Department adheres to a strict Quality Assurance Procedure to monitor broker calls daily. Approximately 40% of calls are reviewed by the QC Department, using the Verint System for recording and playback. On a monthly basis, QC evaluate sample of 10 calls as per the SOP.</p> <p>Any recommendations or issues identified are reported to the relevant department head for corrective action.</p> <p>All recorded calls are archived for 10 years in compliance with CMA regulations.</p> | <p>During our review, we noted that call recording and the option of playback exist in the Verint System for call recording and the option of playback.</p> <p>Further, to verify control measures, we checked that feedback from monthly evaluations for a sample of employees was documented based on a prescribed form, covering a random selection of 10 calls.</p> <p>Additionally, we reviewed a sample recording for year 2014 (10 years ago) and found them to be available ensuring 10 years record availability as well.</p> <p>Exception: No</p> |
| CONTROL OBJECTIVE | |
| h) Ensure a track record of client order amendments is maintained for future reference. | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| There is a systematic control measure in place within the IOMSS system that logs any modifications or cancellations | During our walkthrough of the system, we observed, sample IB clients, that comprehensive system logs were available for each type of transaction performed on their orders. |

executed by traders. All system logs are retained for reference purposes.

The system log includes orders being cancelled or approved at different time intervals. **(Refer to Annexure - 5 G)**

Exception: No

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3. CLIENT REPORTING:

| CONTROL OBJECTIVE | |
|---|---|
| a) Develop the capability to create customized reports tailored to client needs, ensuring their satisfaction. | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>As a control measure, if a client requires a customized or tailored report, they contact the Institutional Brokerage (IB) Department via call or email.</p> <p>The IB Department then submits the request to the Business Technology (BT) Department through the Remedy system and emails to them to ensure the report is created according to the client's specifications.</p> <p>Once the BT Department prepares the reporting in the requested format, they share a draft with the Institutional Brokerage (IB) Department for confirmation.</p> <p>Upon confirmation, the Remedy ticket is closed by the BT Department, and the finalized report send to the client.</p> | <p>We reviewed a sample IB client, where a request for a customized change in the reporting format was made via email.</p> <p>This request was routed to the BT Department through email and a ticket was created in the Remedy system. Once the IB Department approved the reporting format provided by the BT Department, the tailored report was sent to the client.</p> <p>Exception: No</p> |
| CONTROL OBJECTIVE | |
| b) Ensure timely production and delivery of trading order reports to support clients' decision-making. | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>For all newly onboarded clients, a request is raised by the Institutional Brokerage (IB) Department to Business Technology (BT) to share periodic standard reports to clients on daily basis.</p> <p>This request is raised on the remedy system. Once raised by the user, there is a workflow in system that triggers approval to IB Head.</p> <p>Once approved by IB head the workflow is directed toward IB Department for action.</p> <p>All notifications from the remedy system are also send to IB Department via email to trace the completion of request raised.</p> | <p>During our review, we examined a sample client onboarding case. We observed that the IB Department initially submits a request to Business Technology (BT) Department via the Remedy system to ensure standard reports are sent to the client daily.</p> <p>Once the BT Department completes the request, an auto-confirmation email is sent to the IB Department regarding the completion of request.</p> <p>The IB Department then notifies the client about their onboarding only after receiving the final confirmation from the system regarding the standard report setup.</p> <p>Exception: No</p> |
| CONTROL OBJECTIVE | |
| c) . Implement security measures to ensure that sensitive client information is accessible only to authorized traders, thereby preventing breaches and unauthorized access. | |

| CONTROL DESCRIPTION | AUDIT TESTING |
|--|--|
| <p>At Riyadh Capital (RC), Information Security (IS) Department has established for managing trader access to IOMSS systems, ensuring that access to client's information and data is restricted to authorized users only.</p> <p>As a control measure, traders must submit a request via a form, which is then reviewed and approved by line managers and the Brokerage Service Manager. This process ensures that system access is granted only to authorized traders.</p> | <p>During our review, we noted that access changes or amendments of IB traders were processed through an access request form.</p> <p>The form was initiated by the user and approved by the Head of the Department.</p> <p>It was then emailed to the Information Security (IS) Department for implementation in the IOMSS system.</p> <p><i>Exclusion: Please note that we did not perform testing on system for access management.</i></p> <p>Exception: No</p> |

CONTROL OBJECTIVE

d) Implement comprehensive cybersecurity measures to protect client data from cyberattacks

| CONTROL DESCRIPTION | AUDIT TESTING |
|--|---|
| <p>As control measures for cyber-attacks, the following measures are applied:</p> <ul style="list-style-type: none"> ➤ Preventive Measures: <ul style="list-style-type: none"> ▪ Conduct annual penetration testing and security testing for changes; ▪ Perform regular independent information security audits. ➤ Reactive Measures: <p>Maintain an Incident Response Plan to handle and mitigate cyber attacks</p> ➤ Disaster recovery (DR) and business continuity (BC) simulations are performed annually to validate the effectiveness of the plans. | <p>We performed a walkthrough for below control measures:</p> <ul style="list-style-type: none"> ▪ Penetration Testing: We reviewed a sample of penetration tests conducted by the Head of Penetration Testing & Cyberattacks. <p>The reports, which include observations, ratings, and recommendations, are shared with the Information Security Department and then with the Head of Solution Delivery & Development.</p> <ul style="list-style-type: none"> ▪ Security Audit: We reviewed a sample compliance check performed by an external firm, which assessed system testing related to Tadawul compliance, including Business Continuity, Information Security, Technical Connectivity, and Audit & Compliance. ▪ Incident Plan: We reviewed the latest updated incident response plan, conducted in May 2023, which includes a plan including workflows, processes, and escalation procedures for mitigating cyber-attacks. ▪ Business Continuity & Disaster Recovery: We reviewed a sample of Business Continuity simulations, noting that the results were documented in the prescribed format of Riyadh Capital. Additionally, we reviewed a sample of Disaster Recovery testing conducted in March 2024. <p>Exception: No</p> |

4. GOVERNANCE:

| CONTROL OBJECTIVE | |
|---|---|
| <p>a) To ensure adherence with regulations, there exist a regular review and update schedule for policies and procedures in every 3 years.</p> | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>Policies and procedures (P&P) are reviewed and updated every three years to meet regulatory requirements.</p> <p>The Monitoring & Control (M&C) Department keeps a detailed tracking sheet to log the dates of the last updates and schedule upcoming reviews.</p> <p>Annually, emails are sent to all departments to inquire about updates or new procedures relevant to their areas, ensuring timely adherence to regulations.</p> <p>Based on feedback from process owners, a revision plan is created, prioritizing updates due to major changes, audit findings, or CMA regulations.</p> <p>M&C ensures that the relevant department updates policies and procedures as per plan and incorporates the same into the tracking sheet.</p> | <p>We reviewed the tracking sheet maintained by the Monitoring & Control (M&C) Department, which includes name of Policies and Procedures (P&P), their respective process owners, and the recent update dates.</p> <p>From this tracking sheet, we selected a sample related to the Institutional Brokerage (IB) department and reviewed the corresponding documentation to verify the P&P review and approval process.</p> <p>Additionally, we reviewed the emails sent by the M&C Department in year 2023 and 2024, inquiring with department heads about any required updates or amendments to the P&P for their respective areas.</p> <p>Exception: No</p> |
| CONTROL OBJECTIVE | |
| <p>b) To ensure that all new employees are fully aware of and committed to adhering to the company's policies, ethical standards, and regulatory requirements as outlined by the Capital Market Authority.</p> | |
| CONTROL DESCRIPTION | AUDIT TESTING |
| <p>For new employee / joiners, following terms are signed as part of their employment contract & code of conduct:</p> <ul style="list-style-type: none"> ▪ Employee Contract (9th Article): The second party acknowledges its awareness of the rules and regulations issued by the Capital Market Authority and its commitment to them, as well as its adherence to the company's work organization regulations, the official working hours and the rules of ethical and professional conduct for the company's employees, which include not using the company's logo or tools in publishing by any means, including networks. Social networking, and other duties and prohibitions stipulated in the company's policies in general. | <p>We reviewed signed employment contract, code of conduct and formal acknowledgement for 2 sample employees.</p> <p>Furthermore, we verified that stated terms and condition are included as part of their employment contract & code of conduct and formal annual declaration is being obtained.</p> <p>Exception: No</p> |

| | |
|---|--|
| <ul style="list-style-type: none"> ▪ Code of conduct: At the time of onboarding, every employee signs the code of conduct and annually submits the declaration of the same. The code of conduct includes but not limited to: Gifts and Inducements Policy, whistleblowing policy, dealing with customer / regulators, bribery and corruption policy, etc. | |
|---|--|

CONTROL OBJECTIVE

c) To ensure accurate and timely monitoring of trading activities and client contributions, enabling the Institutional Brokerage Department to identify key customers and trends, thereby supporting strategic decision-making and optimizing revenue generation.

| CONTROL DESCRIPTION | AUDIT TESTING |
|---|--|
| <p>As a control measure, currently IB Department receives a trade status report on a daily basis indicating volume, revenue, and a percentage representation from each client.</p> <p>Using the report, they analyze top customers on a monthly and yearly basis.</p> | <p>During our review, we verified the annual reporting for the year 2023, consisting of the client's order count, total trade amount, and percentage representation.</p> <p>Exception: No</p> <p>Recommendation: To ensure automated dashboards are in place which allows IB Department to have real-time visibility relating to concentration risk & other client's business information.</p> |

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5. Annexures

A. KYC UPDATE FIELD – IOMSS SYSTEM

Update KYC Organization

KYC Review Date

Relationship Manager

B. ARCHIVING PROCESS – DUAL CONTROL & DOCUMENT RETENTION AS PER REGULATIONS

i. VERIFIED USER:

Track Account Migration/Redemption Process

Customer# PF Trans. ref Carton No. Issue Date Range/User Migration Verify Confirm

Record Type Account Number Verify Confirm Brn.

Channel Order Number Tel. Status

| Record Type | Trans. Ref# | Customer PF | CCY | Account Number | Carton | Issue | Verify | Verified User |
|----------------------|------------------|-------------|-----|----------------|--------|-------|--------|---------------|
| Brokerage Services | 3253986130 | 2214848 1 | SAR | [REDACTED] | 67134 | | Y | 1006000 |
| New Member Account | TDWPF221484801 | 2214848 1 | SAR | [REDACTED] | 67134 | | Y | 1006000 |
| New Customer | 48-1720338956941 | 2214848 | | [REDACTED] | 67134 | | Y | 1006000 |
| MF Suitability Score | 48-1720338966932 | 2214848 | | | | | Y | SYSTEM |

Employee

Employee Id Name Location Status Search

Clear

| Employee Id | Name | Branch | Location | Status |
|-------------|-------------------------------|--------|-----------------|----------|
| 1006000 | Fatimah Abdulrahman ALQahtani | 920 | INVESTMENT BRAN | Approved |

ii. APPROVAL USER:

Track Account Migration/Redemption Process

Customer# PF Trans. ref Carton No. Issue Date Range/User Migration Verify Confirm

Record Type Account Number Verify Confirm Brn.

Channel Order Number Tel. Status

| Record Type | Trans. Ref# | Customer PF | CCY | Account Number | Carton | irm | Confirm User | Confirm Dat |
|----------------------|------------------|-------------|-----|----------------|--------|---------|--------------|---------------|
| Brokerage Services | 3253986130 | 2214848 1 | SAR | [REDACTED] | 67134 | 0506009 | | 10/07/2024 11 |
| New Member Account | TDWPF221484801 | 2214848 1 | SAR | [REDACTED] | 67134 | 0506009 | | 10/07/2024 11 |
| New Customer | 48-1720338956941 | 2214848 | | [REDACTED] | 67134 | 0506009 | | 10/07/2024 11 |
| MF Suitability Score | 48-1720338966932 | 2214848 | | | | SYSTEM | | 07/07/2024 10 |

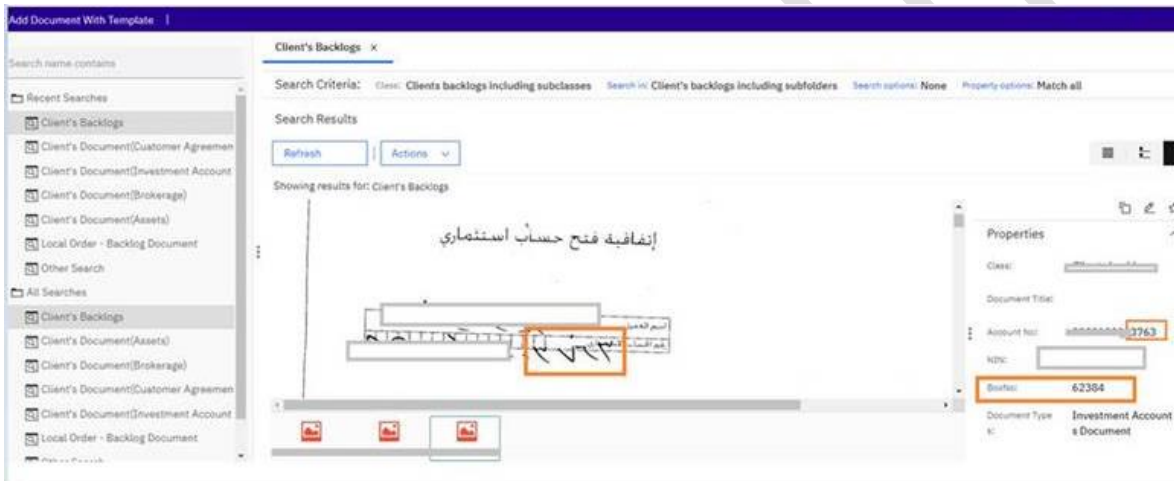
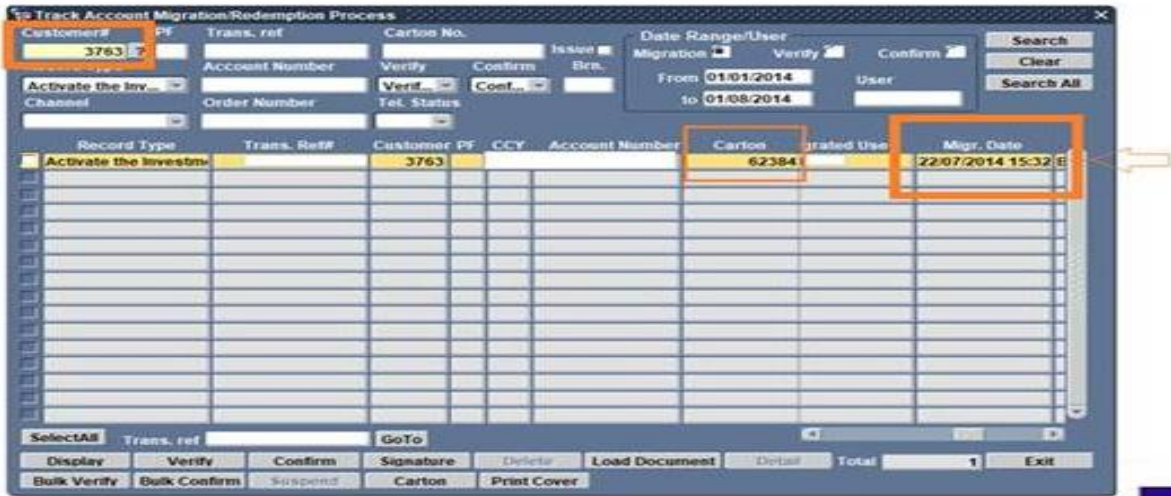
Employee

Employee Id Name Location Status Search

Clear

| Employee Id | Name | Branch | Location | Status |
|-------------|-----------------|--------|-----------------|----------|
| 0506009 | Areej M Al-Saab | 920 | INVESTMENT BRAN | Approved |

iii. 10 YEARS DOCUMENT IN FILENET SYSTEM:



C. ONBOARDING BY OPERATION DEPARTMENT – DUAL CONTROL IN IOMSS SYSTEM

i. DUAL CONTROL – CREATED & APPROVED



ii. CREATOR – USER ID

| Employee Id | Name | Location | Status |
|-------------|----------------|----------|-----------------|
| 8103101 | Salem Alotaibi | 920 | INVESTMENT BRAN |

iii. APPROVED - USER ID

| Employee Id | Name | Branch | Location | Status |
|-------------|----------------|--------|-----------------|----------|
| 4493559 | Tariq Alqasaby | 920 | INVESTMENT BRAN | Approved |

D. RECONCILIATION OF TRADE SETTLEMENTS IN SYSTEM:



Reconciliation Scenarios

E. KYC EXPIRY – CLIENT PORTFOLIO SUSPENSION:

| Customer Nb | Customer Name | NIN Number | Status | ID Status | KYC Status |
|-------------|---------------|------------|----------|-----------|------------|
| 1349430 | [Redacted] | [Redacted] | Approved | Expired | Expired |

Customer (Entity) Details

Customer: 1349430 Mode: DISPLAY

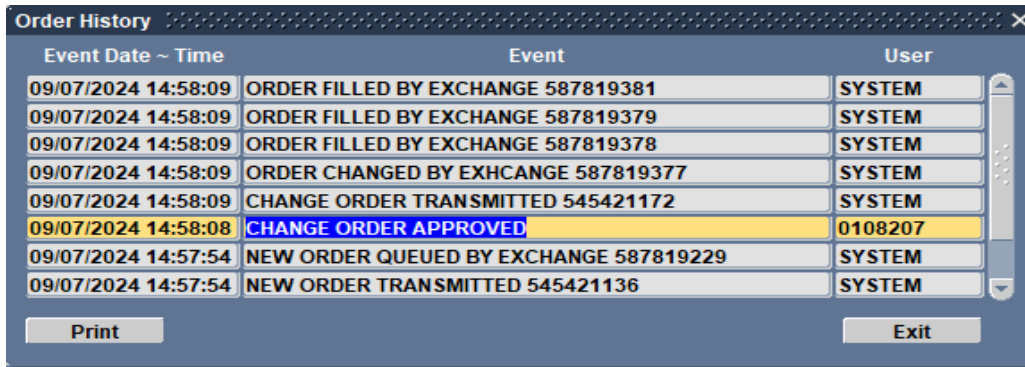
Customer Type: Retail Entity

Customer Category: ICM.Client Grade: 95-HighNet

F. EXPIRED ORDER:

| Stock | Quantity | Traded | Exp. Trade | Avg Price | Volume | Channel | Price | Status |
|-------|----------|--------|------------|-----------|---------|---------|--------|---------|
| 2280 | 342,425 | 16,396 | 0 | 60.0000 | 416,594 | RCA | 60.20 | Deleted |
| 4142 | 16,211 | 443 | 0 | 100.0000 | 178,474 | RCA | 97.60 | Deleted |
| 4015 | 14,978 | 3,728 | 0 | 154.9155 | 233,098 | RCA | 151.60 | Deleted |

G. SYSTEM LOG OF ORDER:



| Event Date ~ Time | Event | User |
|---------------------|--|---------|
| 09/07/2024 14:58:09 | ORDER FILLED BY EXCHANGE 587819381 | SYSTEM |
| 09/07/2024 14:58:09 | ORDER FILLED BY EXCHANGE 587819379 | SYSTEM |
| 09/07/2024 14:58:09 | ORDER FILLED BY EXCHANGE 587819378 | SYSTEM |
| 09/07/2024 14:58:09 | ORDER CHANGED BY EXHCANGE 587819377 | SYSTEM |
| 09/07/2024 14:58:09 | CHANGE ORDER TRANSMITTED 545421172 | SYSTEM |
| 09/07/2024 14:58:08 | CHANGE ORDER APPROVED | 0108207 |
| 09/07/2024 14:57:54 | NEW ORDER QUEUED BY EXCHANGE 587819229 | SYSTEM |
| 09/07/2024 14:57:54 | NEW ORDER TRANSMITTED 545421136 | SYSTEM |

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