



**SHUAA Capital Saudi Arabia CJSC
Pillar III Disclosure
2019**

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1. INTRODUCTION AND SCOPE OF APPLICATION

Company: SHUAA Capital Saudi Arabia cjsc (the “Company” or “SCSA”) is authorized and regulated by the Capital Market Authority license # 07056-37. It is licensed to provide investment activities; act as an underwriter; manage investment funds and client portfolios; arrange, advise and act as custodian.

The Pillar III disclosure report has been prepared in accordance with the Prudential Rules and Pillar III disclosure guidelines issued by the Capital Market Authority (CMA). The purpose of this disclosure is to inform market participants about SCSA’s capital, risk exposures, risk assessment process and capital adequacy.

Form of ownership: SHUAA Capital Saudi Arabia cjsc is a Saudi closed joint stock company. SCSA is fully owned by SHUAA Capital psc, a publicly listed financial services firm in the United Arab Emirates (UAE), which offers a broad range of asset management, corporate finance advisory, capital markets and credit services including lending to regional small and medium enterprises (SMEs).

2. CAPITAL STRUCTURE

There are no conditions applicable to the current capital items except that, in accordance with Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Company, a minimum of 10% of the net income for the year is required to be transferred to a statutory reserve until this reserve equals 30% of the share capital. During the year ended 2019, no transfer was made the statutory reserve compared to SAR 794,955 in 2018. This reserve is not available for distribution.

Capital Base	SAR'000	SAR'000
	2019	2018
Paid-up capital	50,000	50,000
Share premium	-	-
Reserves (other than revaluation reserves)	5,544	5,544
Audited Retained earnings	(4,869)	7,683
Other negative equity items	(71)	(17)
Total Tier-1 capital	50,604	63,210
Subordinated loans	-	-
Cumulative preference shares	-	-
Revaluation reserves	-	-
Other deductions from Tier-2 (-)	-	-
Deduction to meet Tier-2 capital limit (-)	-	-
Total Tier-2 capital	-	-
TOTAL CAPITAL BASE	50,604	63,210

3. CAPITAL ADEQUACY

Minimum Capital Requirement

SCSA's capital base as at December 31, 2019 sufficiently covers all material risks of the Company and meets the minimum capital requirement with the capital ratio of 1.08x compared to 2.21x as at December 31, 2018 against the CMA requirement of 1x. The Company intends to maintain a healthy capital ratio with a view to have a capital buffer to cater future business growth and resulting increase in risk exposure.

Internal Capital Adequacy Assessment Process (ICAAP)

SCSA has an Internal Capital Adequacy Assessment Process (ICAAP) by which it examines its risk profile from both regulatory and internal risk capital point of view. The ICAAP describes the Company's business strategy, forecasts for the next three years for risk weighted assets, its risk appetite and the assessment of specific risk exposures, their mitigation and the capital allocated to these risks. In effect, the ICAAP document is a crucial part of the Company's strategic decision-making process and risk management framework. Within the framework of the ICAAP, the annual Capital Plan is reviewed by Senior Management and the Audit Committee. The ICAAP is updated and reviewed by the Board of Directors on an annual basis. The assessment draws on the results of existing risk management techniques and reporting.

Risk Exposures, Capital Requirements and Total Capital Ratio As at December 31,2019

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<u>Credit Risk</u>				
<i>On-balance Sheet Exposures</i>	-	-	-	-
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	2,900	2,900	580	81
Corporates	6,050	6,050	43,197	6,048
Retail	-	-	-	-
Investments	50,920	50,920	152,761	21,387
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	2,609	2,609	10,017	1,402
Total On-Balance sheet Exposures	62,479	62,479	206,555	28,918
<i>Off-balance Sheet Exposures</i>	-	-	-	-
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-
Total On and Off-Balance sheet Exposures	62,479	62,479	206,555	28,918
Prohibited Exposure Risk Requirement	-	-	102,413	14,338
Total Credit Risk Exposures	62,479	62,479	308,968	43,256
<u>Market Risk</u>	Long Position	Short Position		
Interest rate risks	-	-		-
Equity price risks	-	-		-
Risks related to investment funds	-	-		-
Securitisation/resecuritisation positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	-	-		-
Commodities risks.	-	-		-
Total Market Risk Exposures	-	-		-
<u>Operational Risk</u>				3,470
Minimum Capital Requirements				46,726
Surplus/(Deficit) in capital				3,878
Total Capital ratio (time)				1.08

As at December 31, 2018

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<u>Credit Risk</u>				
<i>On-balance Sheet Exposures</i>	-	-	-	-
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	36,900	36,900	7,380	1,033
Corporates	11,600	11,600	82,824	11,595
Retail	-	-	-	-
Investments	18,843	18,843	56,530	7,914
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	4,503	4,506	23,606	3,305
Total On-Balance sheet Exposures	71,846	71,846	170,340	23,847
<i>Off-balance Sheet Exposures</i>	-	-	-	-
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-
Total On and Off-Balance sheet Exposures	71,846	71,846	170,340	23,847
Prohibited Exposure Risk Requirement	-	-	4,940	692
Total Credit Risk Exposures	7,846	71,846	175,280	24,539
<u>Market Risk</u>	Long Position	Short Position		
Interest rate risks	-	-		-
Equity price risks	-	-		-
Risks related to investment funds	-	-		-
Securitisation/resecuritisation positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	-	-		-
Commodities risks.	-	-		-
Total Market Risk Exposures	-	-		-
<u>Operational Risk</u>				4,053
Minimum Capital Requirements				28,592
Surplus/(Deficit) in capital				34,619
Total Capital ratio (time)				2.21

4. RISK MANAGEMENT

Risk Management and Compliance Functions

The inherent risk relating to the Company's activities is managed through a process of ongoing identifications, measurement and monitoring, subject to risk limits and other controls. The Company is exposed to credit risk, liquidity risk, market risk (comprising, interest rate risk, foreign exchange risk and equity prices risk) and operational risk. Group Risk Management use a risk and control framework to identify, measure, manage and monitor risk through the Group and ensure adherence to group wide policies.

The Board of Directors is ultimately responsible for identifying and controlling risk relating to the Company's activities and recognizes the importance of managing risk in line with shareholder risk appetite.

The Compliance department has developed a risk-based approach to assist SCSA in supervision of its regulatory monitoring. The risk assessment is conducted in each area individually based on experience and internal audit findings.

Credit & Counterparty Risk

The Company recognises the risk of being exposed to third parties due to lending or due to counterparty exposure. Consequently, rules must be in place to define the Company's credit risk appetite and enable the Company to manage and control exposure.

Corporate Policy

To facilitate business and client relationships, there are times when SHUAA Capital Saudi Arabia cjsc may need to extend some form of credit to a client. However, this exposes the Company to credit and liquidity risk; therefore, to manage and mitigate this risk there must be strict adherence to the rules in this policy.

The primary objective of this policy is to:

- define the rules and controls to prevent the Company taking excessive credit and liquidity risk; and
- ensure adherence to regulatory requirements.

The secondary objective of this policy is to:

- optimise the return generated from fee and interest income relative to the risk taken and capital utilised; and
- to improve efficiency and client service by clarifying the rules.

Please refer to Appendix 1, 2 & 3 for the details.

Market Risk

The Company recognises the risk of being exposed to local and international securities including equities, fixed income and foreign exchange rate ("FX"), along with fund investments. Consequently, the Company's Board of Directors sets limits and rules to prevent market risk exposure to exceed a material amount relative to the Company's capital base.

Corporate Policy

Currently, the Company is not allowed to hold any market positions without Board approval.

Operational Risk & Internal Control

The Company recognises the need to have a structured Internal Control Framework ("ICF") and Operational Risk Management Framework ("ORMF") in place to maintain a sound internal control environment and to proactively manage operational risk in line with the corporate strategy and shareholder expectations.

An ICF is required to maintain and enhance the Company's control environment, thereby preventing material issues i.e. operational failures, fraud and errors, which may lead to unexpected financial losses. Also, the ICF aims to provide assurance that control weaknesses and policy breaches are being identified and rectified in an appropriate and timely manner.

The objective of the ORMF is to identify measure, manage and monitor operational risks within the Company and ensure there is a mechanism in place to determine and implement the optimal enterprise wide solution.

The group wide corporate policy for each department is to undertake an operational risk and operational control self-assessment at least annually to determine the effectiveness of the ORMF and ICF respectively.

This requires each department agreeing their key activities and controls and assigning owners.

- Operational Risk - each activity owner must report any known operational risks and where relevant document an action plan;
- Internal Control - each control owner must undertake an internal control review and report the effectiveness of each control and any known weaknesses and the related action plan.

A summary of any operational risk or control weakness is then reported to the most relevant committee to agree whether any further action is required.

For subsidiaries, instead of completing an operational risk management and control self-assessment, a summarised risk management register can be used, and that is the Risk Register ("Register"). This Register includes a summary of all risk categories in a single template including key control risks and operating risks along with reputational and people risks.

The Register must include a rating based upon the departmental managers' ability to manage each risk. If it is not fully within their control to manage the risk, then the issue is raised to the most relevant management committee to agree on required actions, accept the risk, or raise to a management committee at a higher level.

The completeness and accuracy of all self-assessments and Registers is then validated based upon known events and independently assessed by Internal Audit.

Event Reporting

The Company's Escalation and Event Policy requires all unexpected events to be formally recorded. This includes a description of the event and consequences along with any known operational risks or control weaknesses that had previously been reported.

The report is sent to the relevant management to assess and agree on any required action plan.

Liquidity Risk

Liquidity is defined as the ability to fund capital requests and meet all obligations as they fall due. The consequences of not having funds available when required can be extremely serious and could lead to material financial or reputational losses for the Company.

Consequently, the Company has policies in place to define sound liquidity management to ensure the Company maintains access to sufficient liquid funds to meet all expected and unexpected obligations.

Corporate Policy

Short Term Requirements:

Liquidity must be forecasted on a daily basis to ensure there is sufficient liquidity available over the next five working days by account and currency to meet all known liabilities.

Medium Term Requirements:

Over the next three (3) months, the Company must have sufficient liquidity to meet all known liabilities.

Long Term Requirements:

On a monthly basis liquidity must be forecasted to ensure there are sufficient liquid resources available of the next twelve (12) months to meet all known liabilities.

Liquid resources include:

- **Cash / Term deposits** – cash held with banks which can be recovered within normal course of business within the required timeframe;
- **Liquid securities** – the value of any bonds, equities or funds that could be easily liquidated within the required timeframe i.e. not pledged or illiquid.
- **Uncollateralised bank facilities** – overdrafts and repo facilities can be considered as long as any collateral required is not included as 'liquid securities';
- **Other** – any other source of cash that can legally be utilised without impacting normal day to day business activity i.e. monthly net cash inflow from normal operating activities.

Unexpected Events & Crisis Management:

Even if liquid resources and liabilities can be estimated accurately, the Company must be able to cover liabilities if an unexpected event occurs. It is impractical to hold sufficient liquid resources at all times to cover for all events, however, there must be sufficient liquidity to cover for likely scenarios and major events.

Interest Rate Risk

The Company recognises the risk to profitability due to movements in interest rates, and as such, limits are set to prevent the Company having material exposure to rate movements.

Corporate Policy

All corporate borrowing requires approval of the Board of Directors.

Concentration Risk

The Company recognises the risk to profitability and capital if heavily exposed to a single entity. Consequently, rules must be in place to ensure concentration risk is recognised and approved accordingly.

Corporate Policy

The Board of Directors must assess and approve all business activity of the Company, including in relation to any concentration risk.

CAPITAL PLANNING***Strategic Risk***

The Company recognises that although the capital base may be sufficient for current business requirements it may not be sufficient in the longer term given the corporate strategy and potential initiatives. Consequently, the Company anticipates future capital requirements in the annual business plans to identify any potential material changes.

Corporate Policy

The corporate policy is that the Board must review and approve the annual business plan. This business plan must include an estimation of any potential changes in strategy and the impact upon the capital base.

Where future plans show that additional capital may be required or where the current capital base may be placed under strain, there must be a capital plan. The capital plan must provide an explanation as to how the capital base might be increased along with the impact analysis in case capital raising is unsuccessful.

5. Appendices

Appendix 1

Disclosure on Credit's Risk Weight as of December 31, 2019 is provided below:

Risk Weights	Exposures after netting and credit risk mitigation													Total Exposure after netting and Credit Risk Mitigation	Prohibited exposures	Total Risk Weighted Assets
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments					
0%												-				
20%			2,900									2,900		580		
50%												-		-		
100%												-		-		
150%												-		-		
200%												-		-		
300%								50,920		2,080		53,000		159,000		
400%												-		-		
500%												-		-		
714% (include prohibited exposure)					6,050					529		6,579	102,413	149,387		
Average Risk Weight			580		43,197			152,760	-	10,017	-	206,554		308,967		
Deduction from Capital Base																

Disclosure on Credit's Risk Weight as of December 31, 2018 is provided below:

Risk Weights	Exposures after netting and credit risk mitigation													
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Prohibited exposures	Total Risk Weighted Assets
0%												-		
20%			36,900									36,900		7,380
50%												-		-
100%												-		-
150%												-		-
200%												-		-
300%								18,843		2,064		20,907		62,720
400%												-		-
500%												-		-
714% (include prohibited exposure)					11,600					2,439		14,039	4,940	105,179
Average Risk Weight			7,380		82,824			56,529	-	23,606	-	170,339		175,279
Deduction from Capital Base														

Appendix 2

Disclosure on Credit Risk's Rated Exposure as of December 31, 2019 is provided below:

Exposure Class	Long term Ratings of counterparties						
	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	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below
On and Off-balance-sheet Exposures							
Governments and Central Banks							
Authorised Persons and Banks		2,900					
Corporates							6,050
Retail							
Investments							50,920
Securitisation							
Margin Financing							
Other Assets							2,609
Total	-	2,900	-	-	-	-	59,579

Exposure Class	Short term Ratings of counterparties				
	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 Exposures					
Governments and Central Banks					
Authorised Persons and Banks		2,900			-
Corporates					6,050
Retail					
Investments					50,920
Securitisation					
Margin Financing					
Other Assets					2,609
Total	-	2,900	-	-	59,579

Disclosure on Credit Risk's Rated Exposure as of December 31, 2018 is provided below:

Exposure Class	Long term Ratings of counterparties						
	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	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below
On and Off-balance-sheet Exposures							
Governments and Central Banks							
Authorised Persons and Banks		36,900					
Corporates							11,600
Retail							
Investments							18,843
Securitisation							
Margin Financing							
Other Assets							4,503
Total	-	36,900	-	-	-	-	34,946

Exposure Class	Short term Ratings of counterparties				
	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 Exposures					
Governments and Central Banks					
Authorised Persons and Banks		36,900			-
Corporates					11,600
Retail					
Investments					18,843
Securitisation					
Margin Financing					
Other Assets					4,503
Total	-	36,900	-	-	34,946

Appendix 3

Disclosure on Credit Risk Mitigation (CRM) as of December 31, 2019 is provided below:

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
<u>Credit Risk</u>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks						
Authorised Persons and Banks	2,900					2,900
Corporates	6,050					6,050
Retail						
Investments	50,920					50,920
Securitisation						
Margin Financing						
Other Assets	2,609					2,609
Total On-Balance sheet Exposures	62,479					62,479
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments						
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures						
Total On and Off-Balance sheet Exposures	62,479					62,479

Disclosure on Credit Risk Mitigation (CRM) as of December 31, 2018 is provided below:

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
<u>Credit Risk</u>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks						
Authorised Persons and Banks	36,900					36,900
Corporates	11,600					11,600
Retail						
Investments	18,843					18,843
Securitisation						
Margin Financing						
Other Assets	4,503					4,503
Total On-Balance sheet Exposures	71,846					71,846
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments						
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures						
Total On and Off-Balance sheet Exposures	71,846					71,846

Appendix 4

Operational Risk		
	2019	2018
Basic Indicator Approach		
Gross Income 3 Years Average	23,136	25,461
Risk Capital Charge %	15%	15%
Capital Required	3,470	3,819
Expenditure Based Approach		
Overhead Expenses (Year1)	12,985	16,211
Risk Capital Charge %	25%	25%
Capital Required	3,246	4,053
Capital Required for Operation Risk	3,470	4,053