SHUAA Capital Saudi Arabia CJSC
Pillar III Disclosure
2022

SHUAA

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1. GENERAL

SHUAA Capital Saudi Arabia (the "Company") is a Saudi closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010243538 dated Muharram 21, 1429H (corresponding to January 30, 2008). The Company is licensed by the Capital Market Authority ("CMA") to conduct financial investment business services including underwriting of securities and other corporate finance activities, investment advisory services, asset and portfolio management and brokerage as per license number 07056-37, dated Safar 27, 1429H (corresponding to March 5, 2008).

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 the Company's capital, risk exposures, risk assessment processes and its capital adequacy.

Form of ownership: SHUAA Capital Saudi Arabia 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 investment services including but not limited to 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 for those stated in the Regulations for Companies in the Kingdom of Saudi Arabia and company's bylaws which includes that the Company should transfer 10% of the annual net income to a statutory reserve account until such reserve equals 30% of its share capital. During the year, no transfer was made as the company has a loss (FY 2021: SAR 219,930). This reserve is currently not available for distribution to the shareholders of the Company.

The capital base for FY 2022 & FY 2021 is as follows.

Capital Base	**SAR'000**	**SAR'000**
	2022	**2021**
Paid-up capital	50,000	50,000
Share premium	-	-
Reserves (other than revaluation reserves)	6,377	6,377
Audited Retained earnings / (Accumulated losses)	(8,419)	2,021
Other negative equity items	(583)	(488)
Total Tier-1 capital	**47,375**	**57,910**
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	**47,375**	**57,910**

3. CAPITAL ADEQUACY

Minimum Capital Requirement

The Company's capital base as of December 31, 2022, covers all material risks of the Company and meets the minimum capital requirements with the capital ratio of 1.23 (2021: 3.06) The Company intends to maintain a healthy capital ratio with a view to have a capital buffer to cater future business growth which will result in increasing risk exposure.

Internal Capital Adequacy Assessment Process (ICAAP)

The Company 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 report describes the Company's business strategy, 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. The ICAAP is updated on annual basis and reviewed by Audit Committee and Board of Directors.

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Risk Exposures, Capital Requirements and Total Capital Ratio

The risk exposures, capital requirements and total capital ratio of the Company as of December 31,2022 are as follows:

Exposure Class	Exposures before CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk			
Banks	590	118	17
Corporates	9,645	68,866	9,641
Investments	42,446	127,337	17,827
Other Assets	1,634	7,008	981
Total On-balance sheet Exposures	54,315	203,329	28,466
Off-Balance sheet Exposures	-	-	-
Total	54,315	203,329	28,466
Prohibited Exposure		52,836	7,397
Total Credit Risk		256,165	**35,863**
Market Risk Exposures			-
Operational Risk			**2,659**
Minimum Capital Requirements			**38,522**
Surplus/(Deficit) in capital			**8,853**
Total Capital ratio (time)			**1.23**

The risk exposures, capital requirements and total capital ratio of the Company as of December 31, ,2021 are as follows:

Exposure Class	Exposures before CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk			
Banks	37,688	7,538	1,055
Corporates	2,475	17,672	2,474
Investments	23,849	71,547	10,017
Other Assets	2,148	7,642	1,070
Total On-balance sheet Exposures	66,160	104,399	14,616
Off-Balance sheet Exposures	-	-	-
Total	66,160	104,399	14,616
Prohibited Exposure		12,288	1,720
Total Credit Risk		116,687	**16,336**
Market Risk Exposures			-
Operational Risk			**2,573**
Minimum Capital Requirements			**18,909**
Surplus/(Deficit) in capital			**39,001**
Total Capital ratio (time)			**3.06**

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. Based on the current business activities, the Company is mainly exposed to credit risk and operational risk. Group risk management department uses a risk and control framework to identify, measure, manage and monitor risks within the group and ensure adherence to group wide policies.

The Audit Committee 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 Company has developed a risk-based approach to assist 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 the Company may need to extend some form of credit to a client or provide financial support to its managed funds. 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 second 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.

Please refer to Appendix 1, 2 and 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 set limits and rules to prevent market risk exposure to exceed a material amount relative to the Company's capital base. Currently, the company doesn't have any exposures or market risk.

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 supported with relevant document and 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 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 most relevant management committee 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; and
- **Uncollateralised bank facilities** – overdraft facilities can be considered as long as any collateral required is not included as 'liquid securities'.

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, consequently limits are set to prevent the Company from having a material exposure to rate movements.

Corporate Policy

All corporate borrowing requires approval for the Company's 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 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.

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 on 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.

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5. Appendices

Appendix 1

Disclosure on Credit's Risk Weight, as of December 31, 2022, is provided below:

Risk Weights	CMIs and banks	Corporates	Investement Funds	Other exposures	Total Exposure	Prohibited exposures	Total Risk Weighted Assets
0%					-		
20%	590				590		118
50%					-		-
100%					-		-
150%					-		-
200%					-		-
300%			42,446	1,125	43,571		130,713
400%					-		-
500%					-		-
714% (include prohibited exposure)		9,645		509	10,154	52,836	125,336
Average Risk Weight	118	68,865	127,338	7,009	203,331		256,167

Disclosure on Credit's Risk Weight as of December 31, 2021 is provided below:

Risk Weights	CMIs and banks	Corporates	Investement Funds	Other exposures	Total Exposure	Prohibited exposures	Total Risk Weighted Assets
0%					-		
20%	37,688				37,688		7,538
50%					-		-
100%					-		-
150%					-		-
200%					-		-
300%			23,849	1,859	25,708		77,124
400%					-		-
500%					-		-
714% (include prohibited exposure)		2,475		289	2,764	12,288	32,023
Average Risk Weight	7,538	17,672	71,547	7,640	104,397		116,685

Appendix 2

Disclosure on Credit Risk's exposure and maturity, as of December 31, 2022, is provided below:

Exposure and Maturity							
	1	2	3	4	5	6	Unrated
On and Off-balance-sheet Exposures							
Banks	590						
Corporates							9,645
Investments							42,446
Other Assets							1,634
Total	590	-	-	-	-	-	53,725

Disclosure on Credit Risk's Rated Exposure, as of December 31, 2021, is provided below:

Exposure and Maturity							
	1	2	3	4	5	6	Unrated
On and Off-balance-sheet Exposures							
Banks	37,688						
Corporates							2,475
Investments							23,849
Other Assets							2,148
Total	37,688	-	-	-	-	-	28,472

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Appendix 3

Disclosure on Credit Risk Mitigation (CRM), as of December 31, 2022, 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
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks	590					590
Corporates	9,645					9,645
Retail						
Investments	42,446					42,446
Securitisation						
Margin Financing						
Other Assets	1,634					1,634
Total On-Balance sheet Exposures	54,315					54,315
Off-balance Sheet Exposures						
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	54,315					54,315

Disclosure on Credit Risk Mitigation (CRM), as of December 31, 2021, 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
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks	37,688					37,688
Corporates	2,475					2,475
Retail						
Investments	23,849					23,849
Securitisation						
Margin Financing						
Other Assets	2,148					2,148
Total On-Balance sheet Exposures	66,160					66,160
Off-balance Sheet Exposures						
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	66,160					66,160

Appendix 4

Operational Risk

	2022	2021
Basic Indicator Approach		
Gross Income 3 Years Average	12,679	17,126
Risk Capital Charge %	15%	15%
Capital Required	1,902	2,569
Expenditure Based Approach		
Overhead Expenses (Year1)	10,638	10,293
Risk Capital Charge %	25%	25%
Capital Required	2,660	2,573
Capital Required for Operation Risk	**2,660**	**2,573**