SHUAA Capital Saudi Arabia
Pillar III Disclosure
2014

SHUAA

Contents

Appendices

1. INTRODUCTION AND SCOPE OF APPLICATION

Company: Shuaa Capital Saudi Arabia (the "Company") or ("SCSA"). The Company 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 issued in December 2012 and Pillar III disclosure guidelines issued in December 2014 by the Capital Market Authority (CMA). The purpose of this disclosure is to inform market participants about SC's capital, risk exposures, risk assessment process and the capital adequacy.

Form of ownership: SHUAA Capital Saudi Arabia is a Saudi closed joint stock company. SCSA in fully owned by SHUAA Capital psc, a UAE's premier publicly listed financial services firm which offers a broad range of asset management, corporate finance advisory, capital markets and credit services including lending to regional 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 50% of the share capital. During 2014 the Company transferred SR 1,090,887 to the statutory reserve. This reserve is not available for distribution.

Capital Base	**SAR'000**
Paid-up capital	75,000
Audited Retained earnings*	11,597
Share premium	-
Reserves (other than revaluation reserves)	-
Tier-1 capital contribution	-
Deductions from Tier-1 capital	-
Total Tier-1 capital	**86,598**
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	**86,598**

* These are audited retained earnings and therefore have been included as part of the Tier I Capital.

3. CAPITAL ADEQUACY

Minimum Capital Requirement

SCSA's capital base as at 31st December 2014 sufficiently covers all material risks of the Company and meets the minimum capital requirement with the capital ratio of 1.93x 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, its 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

Exposure Class	Exposures before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk					
On-balance Sheet Exposures	-		-	-	-
Governments and Central Banks	-		-	-	-
Authorised Persons and Banks	29,821		29,821	35,964	5,035
Corporates	145		145	1,034	145
Retail	-		-	-	-
Investments	-		-	-	-
Securitisation	-		-	-	-
Margin Financing	-		-	-	-
Other Assets	975		975	4,836	676
Total On-Balance sheet Exposures	**30,941**		**30,941**	**41,834**	**5,856**
Off-balance Sheet Exposures	-		-	-	-
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	**30,941**		**30,941**	**41,834**	**5,856**
Prohibited Exposure Risk Requirement	60,000		35,651	35,651	35,651
Total Credit Risk Exposures	**90,941**		**66,592**	**77,485**	**41,507**
Market Risk	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	-	47			1
Commodities risks.	-	-			-
Total Market Risk Exposures	-	**47**			**1**
Operational Risk					**3,401**
Minimum Capital Requirements					**44,909**
Surplus/(Deficit) in capital					**41,689**
Total Capital ratio (time)					**1.93**

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.

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 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 Board 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 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 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 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, consequently limits are set to prevent the company have a material exposure to rate movements.

Corporate Policy

All deposits and corporate borrowing requires approval for 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

All business activity must be approved by the Board of Directors who must also assess and above any concentration risk.

CAPITAL PLANNING AND STRESS TESTS

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.

Stress Testing

The Board of the Company and Group Asset and Liability Committee require various stress tests and scenario analysis to be undertaken annually to validate the capital base. Also, the Board at any time can request any additional stress tests all scenarios to be included in the analysis.

5. Appendices

Appendix 1

Disclosure on Credit's Risk Weight as of 31 December 2014 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	Total Risk Weighted Assets
0%												-	
20%			29,821									29,821	5,964
50%			24,349									24,349	30,000
100%												-	-
150%												-	-
200%												-	-
300%										513		513	1,539
400%												-	-
500%												-	-
714% (include prohibited exposure)			35,651		145		109			353		36,258	258,882
Average Risk Weight			71,615		1,034		778			4,057		77,485	296,385
Deduction from Capital Base													

Appendix 2

Disclosure on Credit Risk's Rated Exposure as of 31 December 2014 is provided below:

Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks								
Authorised Persons and Banks		29,821				60,000		
Corporates								145
Retail								
Investments								
Securitisation								
Margin Financing								
Other Assets								975
Total	-	29,821	-	-	-	60,000	-	1,120

Exposure Class	Short term Ratings of counterparties					
	Credit quality step	1	2	3	4	Unrated
	S & P	A-1+, A-1	A-2	A-3	Below A-3	Unrated
	Fitch	F1+, F1	F2	F3	Below F3	Unrated
	Moody's	P-1	P-2	P-3	Not Prime	Unrated
	Capital Intelligence	A1	A2	A3	Below A3	Unrated
On and Off-balance-sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks		29,821			60,000	
Corporates						145
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets						975
Total	-	29,821	-	-	60,000	1,120

Appendix 3

Disclosure on Credit Risk Mitigation (CRM) as of 31 December 2014 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	89,821					89,821
Corporates	145					145
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets	975					975
Total On-Balance sheet Exposures	90,941					90,941
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	90,941					90,941