Basel III- Pillar III disclosures

As at 31 December 2016

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1. Background

This document fulfils the requirements for the annual market disclosure of information related to Pillar III as stipulated in the Prudential Rules issued by the Capital Market Authority (CMA), Saudi Arabia. The purpose of Pillar III Disclosure is for the market participants to assess the key information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of Maceen Capital.

Maceen Capital ("Maceen" or "the Company"), founded in 2010, provides its clients with a range of Real Estate investment opportunities. Maceen conducts securities business including, dealing as principal, underwriting, managing, arranging, and advisory and custody and is regulated by Saudi Arabia's CMA (license number 08132-37).

2. Executive Summary

The Capital Adequacy and Risk Management Report for MACEEN CAPITAL "The Company" has been prepared in accordance with the public / market disclosure requirements and guidelines in respect of Pillar 3 of Basel III, as per the prudential rules published in December 2012 by Capital Market Authority "CMA" of the Kingdom of Saudi Arabia.

The purpose of this disclosure is to inform market participants of the key components, scope and effectiveness of MACEEN's risk management systems, risk measurement processes, risk profile and capital adequacy. This is accomplished by providing consistent and understandable disclosure of MACEEN's risk profile in a manner that enhances comparability with other institutions.

Pillar III is adopted by MACEEN in 2014 for the first time.

MACEEN has adopted the Standardized Approach for Credit Risk and highest of Basic Indicator Approach and Expenditure approach for Operational Risk. These approaches have been discussed in detail in the following pages of this report. The Company had no market Risk as at 31 December 2016 since it had no debt or equity investments in the trading book and accordingly no Market Capital charge was allocated.

This Capital Adequacy and Risk Management Report provides details on MACEEN's risk profile with business volumes by risk asset classes, which form the basis for the calculation of our capital requirement.

In accordance with the minimum capital requirement calculation methodology as prescribed under Basel III, MACEEN capital adequacy as at 31st December 2016 and a comparison thereof with the figures as of 31st December 2015 is as follows:

	As of 31 December 2016	As of 31 December 2015
Total Capital Adequacy Ratio (including Pillar II and stress tests impact)	1.04	1.08

It is clear that total capital ratio (including Pillar II and stress tests decreased from 1.08 as of 31 December 2015 to 1.04 as of 31 December 2016 which is greater than 1 and in line with CMA requirements.

As of 31st December 2016 total Risk Weighted Assets (RWA) amounted to 561,694 which comprised of 91.63 % Credit Risk and 8.37 % Operational Risk.

Capital adequacy assessment details as of 31st December 2016 are shown in the below table:

CAPITAL ADEQUACY ASSESSMENT SUMMARY – 31st December 2016		
Particulars	**Regulatory Capital – Pillar I**	**Risk Capital – (Pillar I + Pillar II)**
Credit Risk	74,811	74,811
Market Risk	-	-
Operational Risk	6,832	6,832
Pillar I Total	**81,643**	81,643
Liquidity Risk	-	1,633
Reputation Risk	-	612
Business/Strategic Risk	-	408
Project Management Real Estate Risk	-	408
Pillar II Total		3,061
Additional capital to cover stress testing		11,080
ICAAP Capital Requirement		95,785
Capital Base	**99,308**	**99,308**
Surplus (Deficit) in Capital Base	17,665	3,523
Capital Ratio	**1.22**	**1.04**

N.B: it is worth to be noted that all figures and amounts being reflected in this report are in Saudi Riyals and rounded to the nearest thousand.

3. Basel III Components

In December 2012, CMA issued a circular requiring financial institutions operating in the Kingdom of Saudi Arabia to report their capital adequacy requirements according to the Basel III guidelines. Basel III is an international initiative (adopted by CMA) with a view to ensure adequate capitalization of financial institutions on a more robust risk-sensitive basis providing a framework for assessment of risk and calculation of regulatory capital requirement, i.e. the minimum capital that an institution must hold, given its risk profile. Basel III framework is intended to strengthen risk management practices and processes within financial institutions.

CMA's Basel II / III framework describes the following three pillars which are designed to be mutually re-enforcing and are meant to ensure an adequate capital base which corresponds to the overall risk profile of the financial institution:

- ✓ Pillar 1: Calculation of capital adequacy ratio based on charge for credit, market and operational risks stemming from business operations.
- ✓ Pillar 2: Supervisory review process which includes:
    - Internal Capital Adequacy Assessment Process (ICAAP) to assess incremental risk types not covered under Pillar 1;
    - Quantification of capital required for these identified risks; and
    - The assurance that the Company has sufficient capital cushion (generated from internal / external sources) to cover these risks over and above the regulatory requirement under Pillar 1.
- ✓ Pillar 3: Market discipline through public disclosures that are designed to provide transparent information on capital structure, risk exposures, risk mitigation and the risk assessment process.

These concepts are further described in the following pages.

This report represents the Company's market disclosures, under the Pillar 3 requirements, of its risk profile and capital adequacy as at the end of 31st December 2016.

3.1 Pillar I – Minimum Capital Requirements

Basel II / III, as adopted and implemented by CMA, cover the minimum regulatory capital requirement for financial institutions for credit, market and operational risks stemming from its business operations. It also sets out the basis for consolidation of entities for capital adequacy reporting requirements, the definition and calculations of Risk Weighted Assets (RWA) and the various options given to financial institutions to calculate these Risk Weighted Assets.

The regulatory capital requirements are calculated according to the following formula (expressed as a percentage):

$$\text{Minimum Capital Requirements} = \frac{\text{Capital Base}}{\text{RWA}}$$

The Minimum Capital Requirements is to be greater or equal to 14 %.

The table below describes the approaches available for calculating the RWA for each of the aforementioned risk types:

Credit Risk	Market Risk	Operational Risk
Standardized Approach	N/A	Highest of Basic Indicator approach and Expenditure based approach

a) Credit Risk

The Company uses the Standardized Approach at the consolidated level for regulatory reporting purposes. This approach differs from the Basel I regulations in that it allows the use of external ratings, where available, from accredited ratings agencies for the determination of appropriate risk weights, and also includes a wider range of eligible financial collaterals.

b) Market Risk

The Company had no market Risk as at 31 December 2016 since it had no debt or equity investments in the trading book and accordingly no Market Capital charge was allocated.

c) Operational Risk

The Company uses the higher of Basic Indicator Approach and Expenditure Based Approach.

Basic Indicator Approach related capital charge is the average of the last 3 gross operating Income multiplied by 15 %.

Expenditure Based Approach related capital charge is the total expenditure multiplied by 25 %.

3.2 Pillar II – Supervisory Review Process

The Supervisory Review Process (SRP) under Pillar II requires financial institutions to employ an Internal Capital Adequacy Assessment Process (ICAAP) aimed at:

a) Quantifying the Company's own internal assessment of the level of capital that it deems appropriate to adequately cover all material risks that it is exposed to; and

b) Instituting a comprehensive process for business and capital planning to ensure that adequate capital is always available to cover its risk exposures. Companies are also required to identify sources for raising additional capital in case of need and to provide documented plans thereof. As part of this process financial institutions are required to ascertain whether credit, market and operational risk capital charges calculated under Pillar I are adequate to cover Companies' internal assessment of these risks or not. Furthermore, they are expected to ascertain additional capital requirements (over and above the Pillar I requirements) for the Pillar II risks that Companies are exposed to (examples of some risks are liquidity risk, reputation risk, business strategic risk and Real estate project management risk). The ICAAP has to be designed to ensure that companies have sufficient capital cushion to meet regulatory and internal capital requirements during periods of systemic / cyclical economic downturns or during times of financial distress - which involves employing stress testing and scenario analysis techniques.

In compliance with the regulatory requirements, MACEEN has submitted its detailed ICAAP Plan for the year 2013 and 2014.

3.2 Pillar III – Market Discipline

Under Pillar 3, CMA prescribes the qualitative and quantitative disclosures which are required to be made to external stakeholders of the Company. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite, risk exposures and risk profile. It encourages the move towards more advanced forms of risk management.

4. Risk and Capital Management

In this chapter the consolidation principles for capital base within MACEEN are described, as well as the principles adopted for the management and control of risk and capital.

4.1 Group Structure

MACEEN follows the Accounting Standards generally accepted in the Kingdom of Saudi Arabia.

The consolidated financial statements as at 31st December 2016 include the financial statements of the Company and its following subsidiaries.

MACEEN Logistics Projects Company

Maceen Logistics Projects Company is a limited liability company registered in Riyadh, Saudi Arabia under commercial registration number 1010293905 dated 15 Ramadan 1431H (Corresponding to 25 August 2010).

The Company is controlled by Maceen Capital Company and has been set up for the purpose of purchase of land for the construction of buildings and investment such building by sale or lease for the benefit of the company, managing and maintenance and development of property buy and own the property for the benefit of the company, buying and selling and exploitation of real estate and land for the benefit of the company, implementation of contracts and installation work and operation and maintenance of computers and preparation of related programs i.e. system applications and databases.

Shumou MACEEN Company

Shumou Maceen Company is a limited liability company registered in Riyadh, Saudi Arabia under commercial registration number 1010299910 dated 1 January 2011 (Corresponding to 26 Muharram 1432H).

The Company is controlled by Maceen Capital Company and has been set up for the purpose of installation work and maintenance of computers, preparation of related programs i.e. system applications and databases, purchase of land for the construction of buildings investment such building by sale or lease for the benefit of the company, managing and maintenance and development of property, buy and own the property for the benefit of the company, buying and selling and exploitation of real estate and land for the benefit of the company.

Hey Villa Te Company

Hey Villa Te Company is a limited liability company registered in Riyadh, Saudi Arabia under commercial registration number 1010299916 dated 23 Muharram 1432H (Corresponding to 29 December 2010).

The Company is controlled by Maceen Capital Company and has been set up for the purpose of installation work and maintenance of computers, preparation of related programs i.e. system applications and databases, purchase of land for the construction of buildings investment such building by sale or lease for the benefit of the company, managing and maintenance and development of property, buy and own the property for the benefit of the company, buying and selling and exploitation of real estate and land for the benefit of the company.

4.2 Risk and Capital Management Process

MACEEN is exposed to a broad range of risks in the normal course of its business. The Company's risk and capital assessment policies are designed to identify and quantify these risks, set appropriate limits in line with defined risk appetite, ensuring control and monitoring adherence to the limits. The principal risks associated with the Company's business are liquidity risk, reputation risk, business strategic risk and Real estate project management risk.

Audit & Compliance Committee

The objective of the Audit & Compliance Committee is to assist the BOD in fulfilling its responsibilities with respect to the internal control system of the Company and to ensure the effectiveness of the internal controls and make recommendations to the BOD in the benefit of the internal control of the Company and its shareholders.

Remuneration and Compensation Committee

The objective of Remuneration and Compensation Committee is to put a nomination system for BOD membership and clear policies for the Company's BOD and senior executives' remunerations and compensations in a discussed and approved recommendation form by the BOD.

BOD

The primary responsibility of the Board is to provide effective oversight over the Company's affairs for the benefit of its Shareholders and to balance the interests of its stakeholders, such as its customers, employees, suppliers and local communities. The Board is responsible for reviewing the development and execution of strategies, reviewing the selection, performance and compensation of the Chairman, Managing Director (MD) / Chief Executive Officer (CEO) and senior executives and ensuring transparency of communication and disclosure of financial and non-financial information, including establishing an effective audit process.

Risk Management department

The mission of Risk management at MACEEN Capital is to develop and maintain programs that protect the Company from unanticipated loss by providing systematic risk analysis, developing techniques to reduce potential exposure to loss, and procuring and administering insurance and self-insurance programs in accordance with MACEEN Capital's Risk Management Policy.

Specifically, Risk management's primary goal is to minimize the adverse effects of accidental losses by either stopping losses from happening using risk control techniques, or paying for those losses that unavoidably occur, using risk financing or risk transferring techniques.

Internal Audit

The Internal audit for 2016 was performed by "UTC International" firm.

Compliance

Major duties and responsibilities for Compliance department are:

- ✓ Stays abreast of changes to regulations affecting the management, operations, and product offerings of the establishment;
- ✓ Check all newly opened accounts to ensure appropriate KYC procedures and standards;
- ✓ Cooperate with compliance audits, internal Audit and obtain satisfactory audit results;
- ✓ Report findings to Audit Committee and follow up with related departments for resolution on outstanding issues and violations;
- ✓ Report to the financial investigation unit on any occurrence of suspicious transactions;
- ✓ Ensure that all staff are properly informed and trained in respect to combating money laundering matters as well as reporting them; and
- ✓ Check all transaction done in Asset Management and company portfolio to ensure as accordance to mandate and investment portfolio policy.

5. Regulatory Capital Requirements

This chapter describes MACEEN's capital requirements, calculated on the basis of regulatory guidelines. The risk types under Pillar I are in accordance with Basel II / III guidelines issued by CMA and contain credit, market and operational risks.

As at 31st December 2016 the Company's overall regulatory capital requirements under Pillar I can be broken down as follows.

Risk Type	Capital Requirement	% of Total Requirement
Credit Risk	74,811	91.63%
Market Risk	-	-
Operational Risk	6,832	8.37%
Total	**81,643**	**100%**

5.1 Capital Requirement for Credit Risk

MACEEN calculates the capital requirements for credit risk according to the Standardized Approach. Under this approach, exposures are assigned to portfolio segments based on the type of counterparty and/or the nature of the underlying exposure.

The major portfolio segments as defined by the Basel guidelines adopted by CMA where each segment has a defined risk weight ranging from 0% to 714% depending on tenor, type of exposure, asset class, whether the counterparty has an external rating and whether the exposure is past due.

The following table describes the amount of exposures subject to credit risk and the related capital requirements, by portfolio.

Asset Class	Exposure 1	Risk Weights 2	Effective RWA 3= 1 * 2	Capital Requirement 4= 3 * 14 %
Exposure to APs and Banks	444	20%	89	12.43
Exposure to Corporates	7,505	714%	53,589	7,502
High Risk Investments	42,617	400%	170,468	23,866
Investment Funds – Exposures	23,534	150%		
Investment Funds – Exposures	8,300	300%	60,201	8,428
Other Exposures:				
Tangible assets	2,714	300%		
Deferred expenditure /accrued income	9,395	300%		
Retail Exposures	1,458	300%		
Past Due Items	29,122	714%	248,635	34,809
Off-Balance Sheet Commitments	194	714%	1,385	194
Total	125,284		534,366	74,811

5.2 Capital Requirements for Market Risk

The Company had no market Risk as at 31 December 2016 since it had no debt or equity investments in the trading book and accordingly no Market Capital charge was allocated.

5.3 Capital Requirements for Operational Risk

The Company uses the higher of Basic Indicator Approach and Expenditure Based Approach.

Basic Indicator Approach related capital charge is the average of the last 3 gross operating Income multiplied by 15 %.

Expenditure Based Approach related capital charge is the total expenditure multiplied by 25 %.

The capital charge requirements for operational risk are detailed in the table below.

Basic Indicator Approach					
Gross Operating Income			Average Gross operating Income	Risk Capital Charge	Capital Requirement
2014	2015	2016			
13,594	15,511	7,988	12,364	15%	1,855

Expenditure Based Approach		
Overhead expenses (2016)	Risk Capital Charge	Capital Requirements
27,328	25%	6,832
Maximum of Basic Indicator Approach and Expenditure Based Approach		**6,832**

5.4 Capital Structure

The total eligible capital (Tier I and II) calculated in accordance with CMA guidelines is as follows.

CAPITAL BASE	SAR '000
Tier-1 Capital	
Paid-up capital	159,516
Share premium	0
Reserves	3,384
Audited retained earnings	(45,128)
Verified previous year profit/(loss)	0
Verified interim profit/(loss)	(18,464)
Loss offsetting against capital reduction	0
Tier-1 adjustment *	
Unverified interim loss (-)	*0*
Unverified previous year loss (-)	*0*
Goodwill and intangible assets (-)	*0*
Unrealised losses from HFT investments (-)	*0*
Unrealised losses from AFS investments (-)	*0*
Deferred zakah assets (-)	*0*
Dividend expense from retained earnings (-)	*0*
Zakah expense from retained earning (-)	*0*
Other negative equity items (-)	*0*
Other deductions from Tier-1 (-)	
Deductions (-)	0
Tier-1 capital	99,308
Tier-2 Capital	
Subordinated loans	0
Tier 2 debt securities	0
Cumulative preference shares	0
Revaluation reserves	0
Tier-2 adjustment *	
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	0
Tier-2 capital	0
CAPITAL BASE	**99,308**

6. Credit Risk

6.1 Credit Exposure

6.1.1 Asset Classes

Asset Class	Exposure 1	Risk Weights 2	Effective RWA 3= 1 * 2	Capital Requirement 4= 3 * 14 %	
Exposure to APs and Banks	444	20%	89	12	*
Exposure to Corporates	7,505	714%	53,589	7,502	Unrated
High Risk Investments	42,617	400%	170,468	23,866	
Investment Funds – Exposures	23,534	150%	60,201	8,428	
Investment Funds – Exposures	8,300	300%			
Other Exposures:					
Tangible assets	2,714	300%	248,635	34,809	
Deferred expenditure /accrued income	9,395	300%			
Retail Exposures	1,458	300%			
Past Due Items	29,122	714%			
Off-Balance Sheet Commitments	194	714%	1,385	194	
Total	**125,284**		**534,366**	**74,811**	

* Details of APs and Banks' related credit ratings are described in the following table.

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MACEEN CAPITAL

Bank	Exposure	Risk Weights	Effective RWA	Capital Requirement	Credit Rating	Credit Agency
Saudi Fransi Bank	144	20%	28	11	A	Standard & Poor
Al Jazirah Bank	298	20%	60	1	A3/P-2	Moody
Exposure to APs and Banks	**442**	**20 %**	**88**	**12**		

6.1.2 Credit Exposures by MACEEN and its subsidiaries

More than 99% of credit risk exposure is being derived from MACEEN Capital.

6.1.3 Allocation of on and off balance sheet exposures to risk weight buckets

An analysis of the portfolio by the regulatory risk weight buckets is presented in the table below:

Portfolio	Risk Buckets					Total
	20 %	150 %	300 %	400 %	714 %	
Exposure to APs and Banks	444	-	-	-	-	444
Exposure to Corporates	-	-	-	-	7,505	7,505
High Risk Investments	-	-	-	42,617	-	42,617
Investment Funds – Exposures	-	23,534	8,300	-	-	31,834
Other Exposures:						
Tangible assets	-	-	2,714	-	-	2,714
Deferred expenditure /accrued income	-	-	9,395	-	-	9,395
Retail Exposures	-	-	1,458	-	-	1,458
Past Due Items	-	-	-	-	29,122	29,122
Off-Balance Sheet Commitments	-	-	-	-	194	194
Total	**444**	**23,534**	**21,867**	**42,617**	**36,822**	**125,284**
Total Related Capital Charge	**12**	**4,942**	**9,184**	**23,866**	**36,807**	**74,811**

6.2 Receivables' Ageing

Receivables	Not Yet Due	0-90 days	More than 90 days	Total as of 31 December 2016
Exposures related to Corporates	7,505	-	-	**7,505**
Investment Funds - Exposures	23,534	-	-	**23,534**
Other Exposures – Retail Exposures	1,458	-	-	**1,458**
Other Exposures - Past Due Items	-	-	29,122	**29,122**
Total	**32,498**	**-**	**29,122**	**61,620**

No provision was accounted for during 2016 as the Company's Management believes that all receivables are collectable.

7. Market Risk

Market risk is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors. The standard market risk factors are stock prices, interest rates and foreign exchange rates. The associated market risks are:

- ✓ Equity risk, the risk that stock prices and/or the implied volatility will change.
- ✓ Interest rate risk, the risk that interest rates and/or the implied volatility will change.
- ✓ Currency risk, the risk that foreign exchange rates and/or the implied volatility will change.

The Company had no market Risk as at 31 December 2016 since it had no debt or equity investments in the trading book and accordingly no Market Capital charge was allocated.

8. Operational Risk

It is a risk of monetary losses resulting from inadequate or failed internal processes, people, and systems or from external events. It includes legal risk, but excludes strategic and reputational risks.

Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. It arises out of the legal implications of failed systems, people, processes or external events.

Information Technology Risk, an integral part of Operational Risk arises out of failure in systems or non-adherence to laid-down processes or misuse by staff apart from external events.

Measurement

The Operational Risk Capital Charge for Maceen is calculated as higher of the Basic Indicator Approach (BIA) and Expenditure Based Approach under Pillar I as stipulated by CMA's prudential rules.

Basic Indicator Approach					
Gross Operating Income			Average Gross operating Income	Risk Capital Charge	Capital Requirement
2014	2015	2016			
13,594	15,511	7,988	12,364	15%	1,855

Expenditure Based Approach		
Overhead expenses (2016)	Risk Capital Charge	Capital Requirements
27,328	25%	6,832
Maximum of Basic Indicator Approach and Expenditure Based Approach		6,832

The capital charge for operational risk is the higher of the two above approaches of which is the Expenditure based one amounting to 6.83 M.

9. Other Risks (Pillar II)

Pillar II objectives are to cover risks not covered under Pillar I (which will be illustrated in details in this section) along with additional capital charge resulting from stress tests.

9.1 Liquidity risk

Liquidity risk is defined as the company's inability to meet its obligations. The analysis of liquidity risk requires to measure the liquidity position of the company and to examine how funding sources are likely to evolve under various scenarios. Liquidity risk usually arises from short term liabilities that have a short contractual maturity such as non-interest bearing accounts and are generally dealt by keeping a cash buffer to serve the liquidity needs.

Measurement

Liquidity Risk Charge at Maceen has been calculated using a comprehensive analysis of qualitative as well as quantitative factors that Maceen is exposed to and the average between the two were considered for the related liquidity risk capital charge calculation.

The qualitative assessment of Liquidity Risk is based on the requirements defined in section 11 of annex 8 of CMA prudential rules based on which the liquidity management of Maceen is analysed. The factors considered are as follows:

- ✓ How liquidity management shall be organized.
- ✓ How the assets and liabilities are put together.
- ✓ Distribution of various maturities and currencies.
- ✓ Transfer of liquidity among different currencies.
- ✓ Use of borrowing instruments to enhance cash flows.
- ✓ Possession of realizable assets.
- ✓ Preparedness for uneven intraday cash flows

For quantitative assessment of Liquidity Risk, the maturities of assets and liabilities have been divided into the following:

- ✓ 0 to 6 Months
- ✓ Over 6 Months

Furthermore, the structural liquidity ratios have been calculated as required by section 6 of annex 8 of the CMA prudential rules. These ratios are outlined in the table below:

Ratio	Formula	Result	Score
Current Ratio	Total Current Assets / Total Current Liabilities	2.7x	2
Cash Ratio	Cash and cash equivalents/ Total Current Liabilities	0.02x	1
Illiquid Assets and Long term investments as a percentage of Total Assets	(Illiquid Assets + Long term investments) / Total Assets	0.96x	1
Cumulative Gap as a % of Total liabilities	(Total Assets - Total Liabilities) / Total Liabilities	184x	3
Liquidity Coverage Ratio	High Quality Liquid Assets / Net Cash Outflows for 30 day period	0.35x	1

Since the final score for liquidity risk is 51.66 % which is the average between the qualitative score of 50 % and quantitative score of 53.3 %, therefore the applicable capital charge for liquidity risk is 2 %.

Score Grade	Min	Max	Applicable Capital charge
75-100	75	100	1.00%
50-74	50	75	2.00%
25-49	25	50	4.00%
0-24	0	25	8.00%

Liquidity Risk Score	51.66
Applicable % of Liquidity Risk	2 %
Pillar I Capital Charge ('000)	**81,643**
Liquidity Risk Capital Charge ('000)	**1,633**

So the liquidity Capital charge is 1.6 M.

It is worth to be noted that Basel has not addressed explicitly the requirement for setting aside capital charge for liquidity risks.

9.2 Reputation risk

Reputation risk is the current and prospective impact on earnings and capital arising from negative public opinion. This may arise from market rumors, severe regulatory sanctions, or heavy financial losses. Such negative publicity, whether true or not, may impair public confidence, result in costly litigation, or lead to a decline in its client base/ business.

Maceen is a recognised name in the industry and has not faced any major adverse publicity, investor run or regulatory penalties over its history. As an employer, the company's remuneration is in line with the industry. The policies for various risks are well documented and are reviewed regularly. Risk and Compliance function at Maceen ensures that business is conducted within the applicable legal and regulatory framework. The HR function focuses on developing ethical and moral values in the employees.

Measurement

The factors that primarily have an impact on the reputation of Maceen have been identified based on which a scorecard based methodology has been adopted. These factors are outlined in the table below:

#	Risk Drivers
1	Loss Event Identification
2	Peer Group Comparison
3	Information Reporting Accuracy
4	Staff Competence and Support
5	Corporate Culture
6	Risk Management & Control Environment
7	Financial Soundness
8	Business Practices
9	Customer Satisfaction
10	Legal and Compliance Risk
11	Contagion Risk
12	Crisis Management
13	Transparency & Accountability

The scorecard is administered by the Senior Management for measuring the impact of the above mentioned factors on the company's reputation. A risk mapping table has been developed and adopted by Maceen to link the score to the amount of capital that needs to be kept aside.

The scores obtained from the scorecard are then calculated based on weight given to responses within each area and aggregated to arrive at a final score for Reputational Risk. The score obtained for Reputational Risk assessment is 74.1 out of 100. This score is then Calibrated with Pillar I capital charge as mentioned below:

Score Grade	Min	Max	Applicable Capital charge
75-100	75	100	0.50%
50-74	50	75	0.75%
25-49	25	50	1.50%
0-24	0	25	3.00%

Reputation Risk Score	74.1
Applicable % of Reputation Risk	0.75%
Pillar I Capital Charge ('000)	**81,643**
Reputation Risk Capital Charge ('000)	**612**

So the reputation Capital charge is 0.61 M.

9.3 Business / Strategic risk

Business / Strategic risk refer to the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. It arises from formulation and implementation of strategic plan, business plan, which is inappropriate and inconsistent with internal factors and external environment that may affect earnings, capital fund or viability of the business.

Maceen has defined vision and mission statements which are in line with its business objectives. i.e. as follows:

Vision:

To rise with the kingdom plans in elevating the financial market maturity through developing solid financial solutions that empowers the needs of individual and institutional investors.

Mission:

It is part of our conviction to enforce an unconventional way of thinking. Nurturing the knowledge of our investors to identify growth and become part of it.

Strategy at Maceen is as follows:

- ✓ Strategy Planning
- ✓ Formulation of Overall Business and Corporate Objectives
- ✓ Business and Economic Environment Scan
- ✓ Investor Profiling
- ✓ Real Estate Profiling
- ✓ Technology Management Planning
- ✓ Strategy Implementation

Measurement

The factors that primarily have an impact on the strategies / business of Maceen have been identified based on which a scorecard based methodology has been adopted. These factors are outlined in the table below:

#	Risk Drivers
1	Formulation of Overall Business and Corporate Objectives
2	Business Environment Scan
3	Economic Environment Scan
4	Investor Profiling
5	Real Estate Profiling
6	Business Planning
7	Staff Management - Strategic implementation plans
8	Technology Management - Strategic / Business implementation plans

A scorecard is used which attempts to rate the efficacy of each of the above defined areas to evaluate the effectiveness. Each of the areas is assigned weightage to arrive at a final score.

The scores obtained from the scorecard are then calculated based on weights given to response within each area and are aggregated to arrive at a final score for Business / Strategic Risk. The score obtained for Business / Strategic Risk assessment is 82.3 out of 100. This score is then calibrated with Pillar I capital charge as mentioned below:

Score Grade	Min	Max	Applicable Capital charge
75-100	75	100	0.50%
50-74	50	75	0.75%
25-49	25	50	1.50%
0-24	0	25	3.00%

The score of 81.25 calibrates to 0.50% of Pillar I Charge.

Business / Strategic Risk Score	82.3
Applicable % for Business / Strategic Risk	0.50%
Pillar I Capital Charge	81,643
Business / Strategic Risk Capital Charge	408

So the Business / Strategic Risk Capital Charge is 0.4 M.

9.4 Real Estate Project Management risk

Real Estate Project Management Risk refers to the risk that the Real Estate projects undertaken by Maceen for development result in losses due to construction errors and project slippage due to scheduling or cost over runs. Since Real Estate investments form a major portion of Maceen's total investments therefore this is considered a vital risk for Maceen which can effect on Maceen's reputation. The primary risk factors for Real Estate Project Management Risk are described in the table below:

#	Risk Drivers
1	Construction Competitiveness
2	Strategic Alliance
3	Sales and Marketing Strategy
4	Pricing and Evaluation

Measurement

A scorecard based approach is used by Maceen in order to assess its Real Estate Project Management Risk.

The scores obtained from the scorecard are then calculated based on weights given to response within each area and aggregated to arrive at a final score for Real Estate Project Management Risk. The score obtained for Real Estate Project Management Risk assessment is 90.2 out of 100. This score is then calibrated with Pillar I capital charge as mentioned below:

Score Grade	Min	Max	Applicable Capital charge
75-100	75	100	0.50%
50-74	50	75	0.75%
25-49	25	50	1.50%
0-24	0	25	3.00%

The score of 90.2 calibrates to 0.50% of Pillar I Charge.

Real Estate Project Management Risk Score	90.2
Applicable % of Real Estate Project Management Risk	0.50
Pillar I Capital Charge	**81,643**
Real Estate Project Management Risk Capital Charge	**408**

So the Real estate project management risk capital charge is 0.4 M.

9.5 Capital Planning and Stress Tests

Maceen evaluates strategic options on the grounds of market attractiveness and growth possibilities along with the assessment of internal sources to exploit the opportunities which results in an informed decision backed by a business rationale.

Based on the evaluation of strategic options, Maceen will continue operating under the scope of existing product/service licenses obtained from CMA but at the same time an effort will be made to develop new products and services and enhance the client experience for the existing products. The Board has directed the management to restructure the existing product mix so as to explore new opportunities. With an expectation of high growth in operations, Maceen will require continuous investment in working capital to support this growth.

As mentioned earlier, Maceen has sketched out a comprehensive business plan and has set out key targets and milestones for its business lines to complement its growth. Maceen has aligned its capital planning with its business plan.

Currently, the minimum capital requirement for Maceen as at December 31, 2016 was 95.7 M (After Pillar II and stress testing scenarios) and the associated Capital Ratio was 1.04 times which is above the minimum regulatory requirement of 1x.

Stress Testing Scenarios

Overview

Stress Testing refers to various techniques used by the APs to measure their vulnerability to exceptional but plausible events. Stress testing is an important part of the risk management process in Maceen and is considered as an integral part of ICAAP under Pillar II. Maceen has already adopted CMA's Prudential Rules, for guideline on stress testing and endeavors to improve upon by adding further scenarios to the stress testing framework.

Maceen will apply stress tests at varying frequencies dictated by business requirements and relevance. It will undertake fresh stress tests when there are significant modifications in the underlying assumptions. The results of the various stress tests will be reported to the senior management and Board of Director's Audit and Risk Committee and will be an essential ingredient of Maceen's risk management systems.

The company will document the stress tests undertaken, the underlying assumptions, the results and the corrective action to be undertaken.

Detailed Stress Testing Scenarios

The technique for stress testing employed at Maceen is according to the size, nature & profile of the company. The method is derived from guidelines provided by CMA and comparable industry practice. The stress testing technique employed at Maceen consists of scenario analyses, which will be carried out for the major risks that are faced by the company's credit risk, market risk and operational risk.

The results of stress tests are analyzed for net change in required capital. The impact is quantified for the purpose of stress testing only where additional capital is required under a specific scenario.

Scenario 1 - Stress Testing of receivable deterioration

Stress Testing for receivable deterioration assess the impact of default by debtors of the company resulting in a deterioration of receivable to past due receivables thereby affecting the capital adequacy position. With respect to receivable deterioration, the company has undertaken stress testing considering stress situations of low, medium and high intensity to assess the impact on the capital ratio.

The following stress testing scenarios have been assumed:

- ✓ **Low:** 25% of the total receivables under risk bucket 150% and 300 % convert to Past Due Receivables for which the risk bucket is 714%
- ✓ **Medium**:40% of the total receivables under risk bucket 150% and 300 % convert to Past Due Receivables for which the risk bucket is 714%
- ✓ **High:** 50% of the total receivables 150% and 300 % convert to Past Due Receivables for which the risk bucket is 714%

Summary	Low	Medium	High
Receivable under investment fund exposure – 150 % Risk Weights (1)	23,534	23,534	23,534
% of Conversion of Receivables to Past Due (2)	25 %	40 %	50 %
Amount of Past Due Receivable (1*2)	5,884	9,414	11,767
Increase in Capital Charge (1*2*(714%-150%)*14%)	**4,646**	**7,433**	**9,291**
Receivable "other exposures – Retail Exposure" – 300 % Risk Weights (A)	1,458	1,458	1,458
% of Conversion of Receivables to Past Due (B)	25 %	40 %	50 %
Amount of Past Due Receivable (A*B)	365	583	729
Increase in Capital Charge (A*B*(714%-300%)*14%)	**211**	**338**	**423**
Total Increase in Capital Charge	**4,857**	**7,771**	**9,714**

Scenario 2 – Stress Testing of increment in operational expenditure

Stress Tests for Operational Risk assess the impact of change in overhead expenses on the company's capital adequacy position (since the Expenditure based approach was the maximum between the two approaches as mentioned in section (8) of this report). With respect to Operational Risk the company has undertaken stress testing of low, medium and high intensity situations to assess the impact on capital ratio.

The following stress testing scenarios have been assumed:

- ✓ **Low:** Direct increase in expenditures by 5%
- ✓ **Medium:** Direct increase in expenditures by 10%
- ✓ **High:** Direct increase in expenditures by 20%

The results of the additional capital requirements are shown in the table below:

Summary	Low	Medium	High
Expenditures	27,328	27,328	27,328
% Increase in Expenditures	5%	10%	20%
Amount of Increased Expenditures	1,366	2,733	5,466
Capital Charge %	25%	25%	25%
Increase in Capital Charge	**342**	**683**	**1,366**

Total additional Capital Charge:

Total additional capital charge assuming high scenarios for the above stress tests is 11.08 M which brings the capital ratio to a minimum level of 1.04 times as of December 31, 2016.