مشاركة
Musharaka

Musharaka Capital Company

Pillar III Disclosure Report

31.12.2018

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Overview:

These discourses have been prepared by Musharaka Capital Co (the "Company") a Saudi Arabian closed joint stock company with commercial registration number 2051056409 dated 29 Rabie Alawwal 1435H (corresponding to 30 Jan, 2014), licensed by Saudi Capital Market Authority ("CMA" or the "authority") to conduct securities business in:

- Dealing as principal,
- Managing mutual funds
- Advisory
- Arranging
- Custody
- Discretionary Portfolio Management

Under license number 13169-27 dated 2nd Dhu Al-Hejjah 1434H (corresponding to 7 Oct, 2013). The company started its operations based on the commencement letter from CMA dated 13 Rajab 1435H (corresponding to 12 May, 2014). The company's paid up capital is SAR 65 million. The company's activities necessitate full compliance with the three "Pillars" of the Capital Requirements as defined in Prudential Rules ("PRs"). These are:

- Pillar 1, which sets out the minimum amount of capital that Musharaka needs in order to meet its basic regulatory obligations;
- Pillar 2: requires Musharaka to determine whether Pillar 1 capital is adequate to cover these risks and additional defined risks. This is achieved through the Musharaka's risk based Internal Capital Adequacy Assessment Process ("ICAAP") and is subject to annual review.
- Pillar 3, which require Musharaka to disclose key information about the underlying risks, risk assessment, management, controls and capital position hence the adequacy of capital.

The purpose of this document is to adhere to Pillar 3 requirements. Musharaka confirms there are no actual or foreseen legal impediments or liability that may affect the capital or require provision.
All disclosures hereunder were prepared based on the company's financial period starting from 1.1.2018 up to 31.12.2018.

The organization structure of the financial groups as the following:

- Musharaka IPO Fund:
  A Sharia'h compliant open-ended fund that invests in Initial Public Offerings (IPOs) and companies' shares newly listed in Saudi equity market. The Fund aims to achieve capital growth over the medium term. The company owns 72.10% of the fund's total outstanding units.

- Musharaka Real Estate Income Traded Fund:
  A Sharia'h compliant close-ended fund that invests in income generating properties. The Fund aims to achieve capital growth and annual dividend over the medium term. The company's investment representing 4.56% of the fund's total outstanding units 4,012,515.

- Tanseeq Al-Ola Trading Company (A Saudi Limited Liability Company) (“Tanseeq”) is registered in Al Khobar under commercial registration number (2051213542) dated 3 Ramadan 1438H corresponding to 28 May 2017. The main activities of the Tanseeq are to purchase, sale and lease of land and real estate, real estate development and investment activities, building construction, and export, commercial and marketing commitments on behalf of others. Tanseeq did not carry out any operation since its inception.

- ARMAS Company Limited (A Saudi Limited Liability Company) ("ARMAS") is registered in Al Dammam under commercial registration number (2050028436) dated 7 Rabi I 1415H corresponding to 13 August 1994. ARMAS is engaged in the wholesale and retail trade in marble, industrial granite, wooden pallets, and wooden and metal furniture. During the year the Company purchased a 25% of the associate for a cost of SR. 3,500,000 which included a premium of SR. 1,775,000.

- Kafaat Al Taqa Company during the year 2018 the Company has paid the binding commitment subscription for acquiring the 25.93% share in Kafaat Al Taqa Company (a company under formation) for ETA-max project. ETA-max Company ("ETA Max") is a Jordanian company working in the solar power industry. Musharaka Capital Company signed an exclusive Memorandum of Understanding ("MoU") with ETA-max to acquire an equity stake and establish the associate in Saudi Arabia to perform the same business model for the Saudi market.

- Tanseeq Al Taqa Investment Company (A One Person Company Limited) ("Al Taqa") is registered in Al Khobar under commercial registration number (2051223419) dated 20 Rabi'I 1440H corresponding to 29 November 2018. The main activities of Al Taqa are to designs, installs, maintains, and inspects solar photovoltaic systems. Operation and maintenance of pumping stations and pipelines.

  The above mentioned subsidiaries, except Tanseeq Al-Ola are still under formation and did not carry out any commercial activities, accordingly, were not consolidated in these financial statements.

Capital structure

Musharaka' s capital structure includes the following elements which form the capital base:

- Paid-up share Capital:

An authorized and issued paid up capital of SAR 65 million distributed over 6.5 million shares of SAR 10 each.

- An audited Retained Earnings (Loss):

  Represents an accumulated loss of SAR 2.24 million as of December 31, 2018

- Tier 2 Capital:

  There are no applicable elements related to Tier 2 as of 31.12.2018.

- Net Capital base of SAR 61.53 million.

- The sum of market risk, credit risk, and operational risk (Pillar I) requirements of SAR 33.03 million.

  The following table represent the capital adequacy for the years ended December 31, 2017 & 2018.
  The capital base calculation (Tier 1&2) adjusted for applicable deductions was as follow:

Description	Dec, 2018 SR '000'	Dec, 2017 SR '000'	Change "000"	Change %
Capital base				
Tier-1 capital	61,534	54,648	6,886	12.60%
Tier-2 capital	-	-	-	-
Total Capital Base	61,534	54,648	6,886	12.60%
Minimum capital				
Credit risks	29,584	23,144	6,440	28%
Market risks	17	427	-410	-96.02%
Operations risks	3,434	3,078	356	11.57%
Total minimum capital requirement	33,035	26,648	6,387	23.97%
Capital adequacy ratio	1.86	2.05	-0.19	-9.27%
Surplus	**28,499**	**27,999**	**500**	**1.79%**

Capital adequacy

To ensure that it is in compliance with the Prudential Rules, the company maintains its capital above the minimum level set by the regulatory body. In this respect, Musharaka capital calculates its Capital Adequacy Ratio (CAR) considering the eligible proprietary investments and its risky activities as frequent as every month. Musharaka's CAR as of December 31st, 2018 was 1.86 ratio

It is Musharaka's policy to maintain sufficient capital to:

- Meet regulatory requirements;
- Keep an appropriate credit standing with counterparties by maintaining financial prudence, and Maintain sufficient liquid funds to meet working capital requirements.

Calculation of the Musharaka's capital resources requirement

The company's capital resources requirement for regulatory reporting purposes is the sum of the credit risk, market risk and operational risk.

Market Risks	
Equity Risk	14
Fund Risk	2
Interest Rate Risk	0
Commodities Risk	0
FX Risk	0
Underwriting Risk	0
Excess Exposure Risk	0
Settlement Risk	0
Total Market Risk	**17**
Credit Risks	
Exposures to government, central banks	0
Exposures to corporates, admin bodies, NPO	275
Exposures to APs, banks	428
Listed shares	0
Investment funds	23,699
High risk investments	3,968
Securitisations, securitisations	0
Margin financing	0
Prohibited risks	0
Other on-balance sheet exposures	1,214
Off-balance sheet commitments	0
Total Credit Risk	**29,584**
Operational Risks	
Total Operational Risk	**3,434**
Minimum capital requirement	**33,035**
CAPITAL RATIO (time)	**1.86**
SURPLUS / (DEFICIT)	**28,499**

Risk management

A. Risk Management Purpose:

The purpose of Musharaka's Risk Management is to develop effective risk management policies and procedures to adhere to regulatory requirements. Through the efficient implementation of these policies, Musharaka is able to identify the risks relating to its activities, processes and systems and, where appropriate, to set the level of risk Musharaka is willing to undertake as a risk appetite. In addition, the risk management strategies and processes will facilitate the process of an on-going assessment and maintenance of the amounts, types and distribution of internal capital that Musharaka considers adequate to cover the level of risks to which it might be exposed.

B. Risk Management Policy:

The board of directors is responsible for the overall risk management approach in the company and for reviewing its effectiveness. The Board is also responsible for overseeing and approving the risk management strategy and policies, internal compliance and internal controls. Risk governing and supervision are carried out at the Board level who has direct oversight on all risk issues. Audit committee conducts annual review for the risk management policy taking into consideration various changes in internal and external business environment and possible impacts on Musharaka's businesses . Senior Management of Musharaka assesses risk, associated internal compliance, control procedures and report on the efficiency and effectiveness of risk management practices. The process of risk management and internal compliance and control includes:

- Identifying and assessing significant risks that might impact the achievement of the Musharaka's objectives through preventive controls.
- Developing risk management strategies to manage identified risks, designing and implementing appropriate risk management policies and procedures.
- Monitoring the performance and improving the effectiveness of risk management procedures.
- The Chief Risk Officer (CRO) is responsible for managing the Risks within the Company, and his key functions are:
  - Risk Management
  - Operational Risk
  - Security and Fraud Risk

Through the ICAAP process the Board reviews the risks of the Company against the Capital availability. On an ongoing basis the risk profile of the Company is reviewed against the ICAAP exposures to ensure that the risks remain appropriate.

Market risk

Market risk is the risk that the value of an investment decreases due to fluctuations in market prices and in particular, due to changes in interest rates, foreign exchange rates and equity and commodity prices. The associated market risk factors are the interest rate risk, the currency risk, the equity risk and the commodity risk. The associated market risks are captured in policies:

- 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.
- Preventive measure identifies, measures, monitors, and reports market risk using a combination of tools including securities analysis, value-at-risk and stress testing.
- Assurance Musharaka's limits are in line with its policies and prudential requirements.
- Appraisal of concentration ratios including asset class and geographical coverage considering liquidity as major element.

Musharaka's Risk Management Framework incorporates market risk principles that aims to maintain prudent levels of exposure to market risks that may have adverse effects on profitability within the bounds of the company's risk tolerance. The company classifies exposures to market risk into either trading or non-trading books

Market risk Trading book

The company's BOD has defined the investment policy that gives the guidelines for the investment strategy. has set limits for the acceptable level of risks in managing the trading book. Nominal limits have been established covering the product and the daily and monthly Mark to Market Loss referral limits.

The board has set the policy for an acceptable level of risks in managing the trading book. Investment strategies have been established based on the short term and long term investment strategies that need to be considered before making the trading book investment.

Investment - Trading Book Item				
Investment Exposure	**Type**	**Classification**	**Value (SAR '000)**	**Capital Requirements**
AL Maather REIT Fund	Public - Open-end	Held for Trading	15	2.435
SadafCo	Investment - Listed	Held for Trading	80	3.213
Total			**96**	**5.648**

Credit risk- Non Trading book

The Company has deployed its surplus capital in the Company's Asset Management Funds which provided exposure to only a Saudi Market resulting in attractive returns and management commission. These investment are held after approved by the Board.

Equity Price Risks			
Equity investments	**Net Long**	**Net Short**	**Capital Requirements**
Specific Risk			
1. High quality, liquid and diversified share portfolios			
2. Other equities	80		3
Total net equity investment	80		
General Risk			11
Total Equity Price Risk			**14**

Investment Fund Risks			
Funds investments	**Net Long**	**Net Short**	**Capital Requirements**
Investment funds (HFT excluding fund underlying)	15		**2**

Fund Name	Value (SAR '000)	Underlying Assets	Effective Value (SAR '000)	RWA (SAR '000)	Capital Requirements (SAR '000)
Musharaka REIT Fund	38,695	Cash & Equity	38,695	150,677	21,095
Musharaka IPO Fund	5,126	Cash & Equity	5,126	6,776	949
Total	**43,821**		**43,821**	**157,453**	**22,043**

Internal Audit

After the recommendation from Audit committee, the company has outsourced the internal audit function. The internal audit provide an independent assurance service to the board, audit committee and management, focusing on reviewing the effectiveness of the governance, risk management and control processes that management has put into place. Furthermore, it provide advice to management on governance risks and controls, for example, the controls required for undertaking new business ventures.

Internal Audit assurance is based on a combination of risk management framework audits, business and functional governance audits, themed audits of key existing and emerging risks and project audits to assess major change initiatives

Counterparty Risk

The Company is exposed to counterparty risk arising from the conduct of its asset management business activities. In order to mitigate this risk, the Company conducts periodic assessments of all counterparties to evaluate their creditworthiness and acceptability to the Company.

Credit risk

Credit risk is defined as the probability of a counterparty to fail in meeting the obligations in accordance with agreed terms. The goal of credit risk management is to maximize returns by maintaining optimal credit risk exposure within acceptable parameters. Credit risk is inherent in the entire portfolio as well as in individual transactions. The effective credit risk management is a critical component of a comprehensive approach to risk management and essential to the long-term success of the company.

Credit risk management assists the management in developing quality counter-party base. Audit Committee, provides the necessary oversight in risk governance, management, assessment guidelines, and reports its comments and remarks to the BOD. Audit committee reviews the general risk structure on annual basis to ensure that it is commensurate with the changes in internal and external business environment. Management established policies and procedures to document following activities being undertaken to manage the credit risk. The following controls are adopted to manage the credit risk:

- Assess and reviews overall investment quality.
- Monitors and improves credit risk management techniques in order to implement the internal risk based approaches on counter parties.
- Concentration Limits are in place, reviewed and monitored.

Credit Risks	**2018** (SAR '000')	**2017** (SAR '000')	**Change**
Exposures to APs, banks	*428*	*137*	*(291)*
Corporates	*275*	*-*	*(275)*
Investment funds	*1,656*	*844*	*(812)*
Investment funds(Underlying)	*22,043*	*18,723*	*(3,320)*
High risk investments	*3,968*	*2,402*	*(1,656)*
Prohibited risks	*-*	*21*	*21*
Other on-balance sheet exposures	*1,214*	*1,017*	*(197)*
Total credit risk	***29,584***	***23,144***	***(644)***

The Company's credit exposure as at 31 December 2018 , is predominantly in Saudi Arabia. Moreover, the Company attempts to control credit risk by monitoring credit exposures, limit transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Companies risk management policies are designed to identify and set appropriate risk limits and to monitor the risks and adherence to limits.

In addition, the company makes an assessment at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the statement of income for the Company. As at 31 December 2018, the Company's financial assets made an impairment loss provision in one of its associate company for an amount of 779,000 due to overall economic change.

The movement in the interest in ARMAS is as follows:

	2018	*2017*
	SR	***SR***
At 1 January	**4,354,053**	**-**
Addition	-	4,275,000
Share of (loss) profit	**(789,565)**	87,209
Share of OCI	**480**	(8,156)
At 31 December	**3,564,968**	4,354,053

Operational risk

Operational risk is a different risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels.

The objective in managing operational risk is to ensure control of the Company’s resources by protecting the assets of the Company and minimizing the potential for financial loss. The Company’s risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations.

Qualitative and quantitative methodologies and tools are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These tools include a loss database of operational risk events categorized according to CMA Prudential Rules business lines and operational risk event types; and a risk and control assessment process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimizing the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. High impact risks and issues of critical importance are reported to the Board which then set resolution priorities.

Articles 39 - 44 and Annex 4 of the CMA Prudential Rules set out two approaches to calculate capital for operational risk requirements. Under the Basic Indicator Approach, followed by the Company, 15% of the Company’s average gross operating income is calculated over the last 3 years. CMA Prudential Rules also require a calculation for Operational Risk equal to 25% of Overhead Expenses (known as Expenditure Based Approach). The actual capital requirement for operational risk is the greater of these two methods of calculation. On this basis, Pillar 1 & 2 minimum capital requirements for operational risk is SR 3.434 million as at 31 December 2018 (2017: SR 3.078 million).

Operational Risks	Year -3	Year -2	Year -1	(SAR '000)		
1. Basic Indicator Approach	**2016**	**2017**	**2018**	**Average**	**Risk charge (%)**	**Capital requirements (SAR '000)**
Operating income	1,895	19,596	22,736	14,742	15	**2,211**
2. Expenditure-based approach						
Overhead expenses (SAR '000)			13,736		25	**3,434**
Total Operational Risks						**3,434**

Liquidity risk

The Company assesses the liquidity risk through mismatch of assets and liabilities maturities over at least next one year's horizon.

The company evaluates the liquidity risk using the maturity ladder approach which involves analysing liquidity gaps in different time periods. This approach enables the Company in the evaluation of the gaps between the inflows and the outflows so that remedial measures could be taken in time.

The negative differences due to mismatches between the maturities of the assets and liabilities are made and adjusted with operational cash flows that are already stressed at 10%. An annual average funding requirement is computed using the net negative gaps and the cost of fund. This cost is taken as capital charge because it is presumed to have direct effect on the earning.

Currently, the maturity mismatch of the Company is in positive condition. Hence the measured amount of risk is also Nil.

Currently the liquidity is monitored by the management and BOD through projected cash in certain future period.

Other major risk

Reputation Risk

Is the probability of loss resulting from damages to the company's reputation, in lost revenue, increased operating, capital or regulatory costs, or destruction of shareholder value, consequent to an adverse or potentially criminal event even if the company is not found guilty. Adverse events typically associated with reputation risk include ethics, safety, security, sustainability, quality, and innovation. Reputational risk can be a matter of corporate trust.

Due to limitation of data and any other measure in the absence of the Company's market capitalization the following steps are used to qualitatively keep the risk mitigated:

- Detailed Anti-Money Laundering policy and procedures;
- Effective communication with stakeholders; and
- Enforcement of controls on governance, business and legal compliance.
- Promoting high standards of professional ethics by promoting the employees commitment to the Code of conduct.

Concentration Risk

The concentration risk arises mainly in company's investment bulk of which is one mutual fund, however, the underlying risk itself is fairly diversified, and any exposure above the 25% of the total available capital of the Company is considered as highly concentrated and is considered for risk measurement. Any amount that is higher than the stated limit is subjected to maximum credit risk weight of 714% minus its regular credit risk weight already applied in credit risk measurement. The resultant amount is factored by 14% to arrive at capital charge.

Business Risk

Business risk encompasses the exposure to uncertainty in the wider economic and competitive environment. The impact of that environment on Musharaka's ability to carry out its stated business plan. This risk is managed by a long-term focus, assisted by appropriate management oversight and a documented diversified corporate strategy and business plan.

Compliance Risk

Operating in highly regulated environment may result in general non-compliances of regulatory requirements therefore to mitigate any financial and reputational impacts the Compliance function is responsible for monitoring adherence to regulatory standards and for reporting its findings to relevant senior management, appropriate committees and to the Board. The Compliance function is also responsible for the provision of technical regulatory/compliance advice and support. In this regard, Musharaka has established and implemented a comprehensive compliance program subject to an annual review.

Risk mitigation

Musharaka considering its risks arising out of it activities. Musharaka has adopted appropriate policies commiserating with its risk requirements which include various elements of risk mitigating techniques as following:

a) Credit risk

The Company calculates the capital charge for credit risk by applying the Standardized Approach as used in regulatory return for Pillar I. In using this approach, all balances (Company and others assets) and investments, excluding the trading portfolio, are categorized into the relevant buckets as prescribed in guidelines. Appropriate risk weights, based on credit ratings of counterparties are applied to determine the Company's overall credit risk weighted assets. The Investment portfolio of the Company includes investments in shares, which have been classified as HFT investment. The investment in equity funds is carried at average cost and is subject to credit risk under the standardized approach as promulgated by CMA through its regulation.

Exposure class	Exposure before CRM SAR'000	Net exposure after CRM SAR'000	Risk wighted assets SR' 000	Capital recuirment SAR '000
Market Risks				
Equity Risk	*80*	*80*		*14*
Fund Risk	*15*	*15*		*3*
Interest Rate Risk				*0*
Commodities Risk				*0*
FX Risk				*0*
Underwriting Risk				*0*
Excess Exposure Risk				*0*
Settlement Risk				*0*
Total Market Risks	*95*	*95*	*0*	***17***
Credit Risks				
Exposures to government, central banks				*0*
Exposures to corporates, admin bodies, NPO	*275*	*275*	*1964*	*275*
Exposures to APs, banks	*15,282*	*15,282*	*3,056*	*428*
Listed shares				*0*
Investment funds	*51,705*	*51,705*	*169,279*	*23,699*
High risk investments	*7085*	*7085*	*28,340*	*3,968*
Securitisations, resecuritisations				*0*
Margin financing				*0*
Prohibited risks				*0*
Other on-balance sheet exposures	*2,891*	*2,891*	*8,672*	*1,214*
Off-balance sheet commitments				*0*
Total Credit Risks	*77,238*	*77,238*	*211,311*	***29,584***
Operational Risks				**3,434**
MINIMUM CAPITAL REQUIREMENTS				**33,035**
CAPITAL RATIO (time)				**1.86**
SURPLUS / (DEFICIT) (SAR '000)				**28,499**

Exposure class	Exposure before CRM SAR'000	Net exposure after CRM SAR'000	Risk wighted assets SR' 000	Capital recuirment SAR '000
Market Risks				
Equity Risk	*2,343*	*2,343*		*422*
Fund Risk	*32*	*32*		*5*
Interest Rate Risk				*0*
Commodities Risk				*0*
FX Risk				*0*
Underwriting Risk				*0*
Excess Exposure Risk				*0*
Settlement Risk				*0*
Total Market Risks	*2,375*	*2,375*	*0*	***427***
Credit Risks				
Exposures to government, central banks				*0*
Exposures to corporates, admin bodies, NPO				*0*
Exposures to APs, banks	*4,881*	*4,881*	*976*	*137*
Listed shares				*0*
Investment funds	*44,204*	*44,204*	*139,764*	*19,566*
High risk investments	*4290*	*4290*	*17,158*	*2,402*
Securitisations, resecuritisations				*0*
Margin financing				*0*
Prohibited risks	*48*	*48*	*151*	*21*
Other on-balance sheet exposures	*2,421*	*2,421*	*7,262*	*1,017*
Off-balance sheet commitments				*0*
Total Credit Risks	*55,844*	*55,844*	*165,311*	***23,143***
Operational Risks				**3,078**
MINIMUM CAPITAL REQUIREMENTS				**26,648**
CAPITAL RATIO (time)				**2.05**
SURPLUS / (DEFICIT) (SAR '000)				**27,999**

b) Concentration risk

The financing and investment portfolio of the Company consists of exposures in two economic sectors namely equity portfolio/investment funds and real estate.

Any exposure over and above the 25% of the total available capital of the Company is considered as highly concentrated and is considered for risk measurement. Any amount that is higher than the sated limit is subjected to maximum credit risk weight of 714% minus its regular credit risk weight already applied in credit risk measurement. The resultant amount is factored by 14% to arrive at capital charge.

c) Liquidity risk

The Company's liquidity risk is assessed through mismatch of assets and liabilities maturities over at least next one year's horizon.

The liquidity risk is assessed using the maturity ladder approach which involves analysing liquidity gaps in different time periods. This approach enables the Company in assessing the gaps between the inflows and the outflows so that remedial measures could be taken in time.

The negative gaps due to mismatches between the maturities of the assets and liabilities are taken and adjusted with operational cash flows that are already stressed at 10%. An annual average funding requirement is computed using the net negative gaps and a cost of fund is arrived at. This cost is taken as capital charge because it is presumed to have direct effect on the earning.

Currently, the maturity mismatch of the Company is in positive condition, hence, the measured amount of risk is also Nil.

Currently the liquidity is monitored by the management and BOD through projected cash in certain future period.

As at 31.12.2018

Description	1 - 3 months	3 - 12 months	1 year - 5 years	more than 5 years	Total
Assets					
Current Assets					
Financial assets at fair value though profit or los	5,221,711				5,221,711
Due form related parties	6,760,749				6,760,749
Prepayment and other receivables		1,932,542			1,932,542
Cash and cash equivalent	15,282,215				15,282,215
Total Current Assets	**27,264,675**	**1,932,542**	**0**	**0**	**29,197,217**
Non current assets					
Property and equipment			2,356,487		2,356,487
Investment in unconsolidated subsidiaries			20,000		20,000
Investment in associates	37,875,548		7,884,253		45,759,801
Total Non current Assets	**37,875,548**	**0**	**10,260,740**	**0**	**48,136,288**
Total ASSETS	**65,140,223**	**1,932,542**	**10,260,740**	**0**	**77,333,505**
LIABILITIES and Shareholders' Equity					
current liabilities					
Accrued Expenses and other Liabilities	629,918	1,000,000			1,629,918
Zakat Payable		741,178			741,178
Short term borrowings		11,000,000			11,000,000
Total Current Liabilities	**629,918**	**12,741,178**	**0**	**0**	**13,371,096**
Non Current liabilities					
Employee termination benefits			1,204,939		1,204,939
Total Non Current Liabilities	**0**	**0**	**1,204,939**	**0**	**1,204,939**
Shareholder's Equity	**0**	**0**	**0**	**62,757,470**	**62,757,470**
Total Liabilities and Shareholder's Equity	**629,918**	**12,741,178**	**1,204,939**	**62,757,470**	**77,333,505**
Balance sheet GAP	64,510,305	(10,808,636)	9,055,801	(62,757,470)	0
Cumulaitve GAP	64,510,305	53,701,669	62,757,470	0	0

Indicators	Ratio	Inference
Current Ratio (Short term assets/short	5.8 times	This reflects the fair amount of comfort level in meeting its short-term liabilities and fixed cost payments.
2 Liquid assets / Total Assets	26.5%	Liquid assets are cash and cash equivalents and investments readily convertible into cash.
3 Liquidity Coverage Ratio	1.5 time	Represents the extent of coverage of potential cash outflows by high quality liquid assets.

d) Legal risk

Legal risk is arising from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. Legal risk also includes risk arising from the lack of proper documentation of contracts.

The Company assesses the extent of legal risk by monitoring certain indicators which are indicative of risk concerns. The indicators are:

- Internally identified erroneous non-compliances;
- History of non-compliance events identified by CMA;
- No. of cases filed against the company;
- Duration of time for each case;
- Strength of documentation of each case. e.g. the strength of collateral documentation;
- Value of the claim; and
- Complexity involved in the case i.e. regulatory concerns, cross-border cases.

The risk is measured by taking the un-avoidable and covered legal cases against the Company. These are factored at business growth factor to arrive at capital charge amount.

Legal risk is monitored rigorously by compliance department that ensures the Company's compliance with applicable rules and regulations on a regular basis and exception noted are resolved and followed in accordance with its procedural manual, as approved by the BOD.

The Company does not have any current or foreseen legal impediment affecting the prompt transfer of capital or repayment of liabilities with any of its activities.

e) Reputational risk

The reputation risk can arise from following sources:

- No. of complaints lodged by customers;
- Failure to comply with regulatory or legal obligations;
- Failure to deliver minimum standards of service and product quality to customers;
- Unethical practices in the conduct of business;
- Failure to achieve financial performance targets;
- Association with suppliers, partners and alliances with poor reputations; and
- Employee dissatisfaction and negative publicity by media.

The following steps are used to qualitatively keep the risk under controlled.

- Detailed Anti-Money Laundering policy and procedures;
- Effective communication with stakeholders; and
- Enforcement of controls on governance, business and legal compliance.

Musharaka مشاركـــة

Appendix:

1- Balance Sheet:

MUSHARAKA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
		(Note 6)	*(Note 6)*
ASSETS			
Property and equipment	**2,356,487**	1,247,396	671,374
Investment in unconsolidated subsidiaries	**20,000**	15,000	-
Investment in associates	**45,759,801**	37,712,362	5,000,000
Financial assets at fair value through profit or loss	**5,221,711**	9,203,659	21,850,498
Due from related parties	**6,760,749**	4,016,812	175,287
Prepayments and other receivables	**1,932,542**	1,172,762	756,081
Cash and cash equivalents	**15,282,215**	4,881,470	21,877,772
TOTAL ASSETS	**77,333,505**	58,249,461	50,331,012
LIABILITIE AND SHAREHOLDERS' EQUITY			
Liabilities			
Employee termination benefits	**1,204,939**	850,794	529,842
Accrued expenses and other payables	**1,629,918**	950,954	645,469
Short-term borrowings	**11,000,000**	-	-
Zakat payable	**741,178**	1,338,655	1,203,115
Total liabilities	**14,576,035**	3,140,403	2,378,426
Shareholders' Equity			
Capital	**65,000,000**	65,000,000	65,000,000
Accumulated losses	**(2,242,530)**	(9,890,942)	(17,047,414)
Total shareholders' equity	**62,757,470**	55,109,058	47,952,586
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**77,333,505**	58,249,461	50,331,012

2- Income Statement:

MUSHARAKA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	*2017*
	SR	*SR*
		(Note 6)
Income		
Revenue from service contracts with customers	**20,594,598**	13,605,571
Unrealized loss on financial assets at fair value through profit or loss	**(1,223,533)**	(2,352,410)
Realized loss on financial assets at fair value through profit or loss	**(90,250)**	(95,718)
Dividends income	**18,012**	154,664
	19,298,827	11,312,107
Expenses		
Marketing expenses	**(287,547)**	(102,602)
General and administrative expenses	**(13,448,749)**	(10,933,907)
Operating income	**5,562,531**	275,598
Finance costs	**(49,278)**	(19,542)
Other income	**1,460,934**	7,670,000
Share of results of associates	**2,025,077**	632,987
Income before zakat	**8,999,264**	8,559,043
Zakat	**(1,311,321)**	(1,400,000)
NET INCOME FOR THE YEAR	**7,687,943**	7,159,043
Other Comprehensive Income (OCI)		
OCI that will not be reclassified to profit or loss in subsequent years:		
Remeasurements of defined benefit liability	**(40,011)**	5,585
Share of OCI of associate	**480**	(8,156)
Other comprehensive (loss) income for the year	**(39,531)**	(2,571)
Total comprehensive income for the year	**7,648,412**	7,156,472

مشاركة Musharaka

App 1, Illustrative Disclosure on Credit Risk`s Risk Weight for the year ended 31.12.2018

Risk Wrights	Exposures after netting and credit risk mitigation														
	Governments and central bank	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	High Risk Investment	Past due items	Investment fund	Investment fund (Underlying)	Listed shares	Others exposures	Prohibited risks	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
20%	15,282	-	-	-	-	-	-	-	-	-	-	-	-	3,056	**428**
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
150%	-	-	-	-	-	-	-	7,884	157,453	-	-	-	-	169,280	**23,699**
200%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
300%	-	-	-	-	-	-	-	-	-	-	2,891	-	-	8,672	**1,214**
400%	-	-	-	-	275	7085	-	-	-	-	-	-	-	28,340	**3968**
500%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
714% (include prohibited exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	1963	**275**
Average Risk Weight	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Deduction from Capital Base	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**211,311**	**29,584**

App 1, Illustrative Disclosure on Credit Risk`s Risk Weight for the year ended 31.12.2017

Risk Wrights	Exposures after netting and credit risk mitigation													
	Governments and central bank	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investment fund	Listed shares	Others exposures	Prohibited risks	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
20%	4,881	-	-	-	-	-	-	3,410	-	-	-	-	1,658	**232**
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
150%	-	-	-	-	-	-	-	9,637	-	-	-	-	14,455	**2,024**
200%	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
300%	-	-	-	-	-	-	-	-	-	2,421	-	-	7,262	**1,017**
400%	-	-	-	-	4,290	-	-	31,157	-	-	-	-	141,787	**19850**
500%	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
714% (include prohibited exposure)	-	-	-	-	-	-	-	-	-	-	48	-	151	**21**
Average Risk Weight	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Deduction from Capital Base	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**165,313**	**23,144**

App 3, Ilustrative Disclosure on Credit Risk`s Rated Exposure SAR ('000')

Exposure Class	Long 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	A 1	A 2	A 3	Below A3	Unrated
On and Off-balance-sheet Exposures						
Governments and Central Banks		-	-	-	-	-
Authrised Persons and Banks		15,282	-	-	-	-
Corporates		-	-	-	-	275
Retail		-	-	-	-	-
Investments		-	-	-	-	58,790
Securitisation		-	-	-	-	-
Margin Financing		-	-	-	-	-
Other Assets		-	-	-	-	2,891
Total		**15,282**	**-**	**-**	**-**	**61,956**

App 3, Ilustrative Disclosure on Credit Risk`s Rated Exposure SAR ('000') for the year ended 31.12.2017

Exposure Class	Long 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	A 1	A 2	A 3	Below A3	Unrated
On and Off-balance-sheet Exposures						
Governments and Central Banks		-	-	-	-	-
Authrised Persons and Banks		4,881	-	-	-	-
Corporates		4,290	-	-	-	-
Retail		-	-	-	-	-
Investments		0	-	-	-	44,252
Securitisation		-	-	-	-	-
Margin Financing		-	-	-	-	-
Other Assets		-	-	-	-	2,421
Total		**9,171**	**-**	**-**	**-**	**46,673**