Alkhabeer Capital

Pillar III Disclosures as of December 31, 2014

Issued March 2015

1. Executive Summary

This report is prepared and issued by Alkhabeer Capital (hereinafter referred to as “AKC” or “the Company”) in accordance with the requirements of Article 68 of the Prudential Regulations issued by the Capital Markets Authority (hereinafter referred to as “CMA”). These rules include guidelines for the annual market disclosure of the Company’s capital and risk management information required to be published on AKC website.

The capital adequacy figures reported in this report corresponds to the capital adequacy information as reported in note “18” of the audited financial statements for year-end 2014.

1.1 Background

Alkhabeer Capital (AKC) is a leading asset management and investment firm. AKC provides financial products and services that help institutions, family groups and qualified investors access and allocate capital to deliver real and enduring economic value. AKC’s Sharia‘a-compliant products and services are built upon strong deal sourcing that is distinguished by executional vigor, attractive values, and a profound understanding of clients’ needs and risk profiles. Headquartered in Jeddah, Kingdom of Saudi Arabia, Alkhabeer Capital is regulated by the Capital Market Authority (CMA) license # 07074-37.

AKC’s asset management services focus on alternative solutions in the areas of real estate, private equity and capital markets; while our advisory services help clients improve their capital structures with a wide range of investment banking and corporate finance solutions. AKC is expert in the Saudi and GCC markets. AKC’s experience and investments span the broader MENA region; as well as selected global mature markets such as the United States and the United Kingdom.

Effective 15 December 2011 (corresponding to 20 Muharram 1433H), AKC acquired 99.99% ownership interest in AlKhabeer International Company B.S.C. (c) (“AKI” or the “Subsidiary”). The acquisition of AKI was settled through the issuance of shares of AKC amounting to SR 388.3 million. The legal formalities for transfer of shares were completed on 15 December 2011.

AKI was formed on 15 December 2008 in the Kingdom of Bahrain under Commercial Registration No. 70609-1 and operates under an investment business firm – category 1 (Islamic Principles) license issued by the Central Bank of Bahrain (CBB) on 10 November 2008. AKI’s activities are regulated by the CBB and supervised by a Shari’a Advisor whose role is defined in AKI’s articles of association. The principal activities of AKI include providing advisory services to funds, managing discretionary portfolios as an agent, investing in products which comply with Islamic Shari’a rules and principles according to the opinion of AKI’s Shari’a Advisor.

The organizational structure of AKC and AKI in 2014 are presented in **Appendix I** of this document.

(Unless otherwise stated, “MM” after the SAR figures represents million)

1.2 Risk and Governance Structure

The management of risk in AKC lies with the Board of Directors through its Committees; the Management through the ED & CEO; the Investment Committee and its subcommittees and the Risk and Compliance Division.

AKC has outlined the enterprise-wide risk management activities of Alkhabeer Capital. It details the high level organization, authorities and processes relating to risk management. Risk management covers all risks including credit, market, operational and regulatory risk. It involves the processes from origination to approval and the ongoing control, review, maintenance and optimization of exposures.

The following guiding principles apply to all risk management activities:

- Approval: All Asset Management activities which commit AKC (legally or morally) to deliver risk sensitive products and any business proposals require approval by authorized individuals or committees, prior to commitment.
- Independence: Clear separation between Business Functions and Risk Management functions.
- Transparency: Risk Management structures, policies and procedures are transparent. They are based on consistent principles, in written form, and well communicated.
- Committee: Decisions regarding policy, product, portfolio, large or high risk investment are taken by an appropriate committee.
- Approval Authority: Authorities are delegated by the Board of Directors, through the Executive Director and Chief Executive Officer (ED &CEO), and reflect the delegate’s (committee or individual) level of expertise and seniority via an approved Authority Matrix.
- Risk and Reward: Risk and reward from a transaction are borne by the same Business unit.
- Business Development Responsibility: Business Development is responsible for the selection of clients and for managing all of the business activities with such clients.

- Asset Management Responsibility: Asset Management is responsible for developing products/investment vehicles and obtains all related approvals.
- Integrated Process: Risk Management should not be treated as a stand-alone initiative; rather it should be integrated with the whole organization process as well as with all projects and change management processes.
- Integrated decision making: The organization’s decision making at all levels explicitly addresses risks and uncertainties, particularly when considering alternative courses of action. The best available information is used to evaluate risks, keeping in mind its limitation, shortcomings and possible pitfalls.
- These guiding principles and the underlying elements of the Risk Framework are dictated by the policies and Procedures and by the Capital Market Authority (CMA).

1.3 Risk & Compliance Structure

The Risk & Compliance Division is responsible for the day-to-day oversight of the various risks to which Alkhabeer Capital is exposed, including Credit, Market and Operational Risks, and compliance and money laundering risks.

Internal Control Unit (ICU):

While the responsibility of approving credit and investment proposals lies with the Investment Committee (IC), the Internal Control Unit (ICU) is responsible for the setting and the renewal of the counter party limits, the proper execution of the Investment Committee approval decisions, the monitoring and the reporting of any deviation from the approved conditions set by the IC or exceptions to the approved policies and procedures, the safe keeping of documents, the review and safe keeping of clients' account opening forms, the proper disbursement in accordance with appropriate authorities and the custody of all policies and procedures.

Market & Operational Risk

Market Risk:

Market Risk Definition:

Market risk is the risk of loss in on- and off-balance sheet positions resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This includes fluctuations in values in tradable, marketable or leasable assets and on- and off-balance sheet individual portfolios.

AKC currently has very little market risk exposure. It only trades in the spot commodity, equity and currency markets, and does not trade futures, forwards, options or swaps.

AKC provides seed capital to the internally managed funds and administers client's investments in those funds. Therefore, it is exposed to the arising market risk in respect of the fluctuations of the fund market values through the seed capital and its holding in the Manager's Box.

Governance of Market Risk:

Governance is the most important pillar of Alkhabeer Capital's Market Risk Management methodology. This is because effective market risk management begins with "The Tone at the Top" which is driven by Senior Management and permeates throughout the whole organization. In this regard, the roles and responsibilities of the board, management and Business Units as well as other specialized functions is clearly defined and understood.

- The Board through the Executive Committee (EXCOM) is responsible for the overall level of risk taken in pursuing Alkhabeer Capital's strategic objectives (in context of the risk appetite, which will be formulated overtime).
- Risk-taking authority is delegated from the Management to the Investment Committee (IC) and its sub-committee, Equity Investment Committee with whom responsibility for any impact on profit and loss firmly lies.
- Responsibility for risk decisions taken below the Equity Investment Committee level resides primarily with individuals. The level of seniority determines the size and complexity of risk involved.

- The Chief Risk & Compliance Officer requires the Market and Operational Risk Department (MORD) to provide effective and timely escalation of risk issues, independent of the business managers charged with taking and managing risk.
- The MORD established and developed a cost effective mechanism to monitor the activities of the businesses on an individual and consolidated basis and administer Alkhabeer Capital’s market risk management policy.

Measurement of Market Risk:

An appropriate process, commensurate with the scale, nature and complexity of AKC’s activities, are in place to identify, measure and monitor AKC’s exposure to market risk across all business lines.

Mark to Market basis, in line with best practice, are used for the valuation of positions, subject to market risk. The market value data used must be current and timely.

AKC uses appropriate methodology to quantify market risk exposures. The methods include accumulated values of net positions, Value at risk (VaR) stress testing, sensitivity analysis and correlation analysis. Market risk exposure are measured for each business line (such as equity, commodity, and foreign exchange) as well as across the entire portfolio.

Moreover, AKC is monitoring market risk of equity funds on a daily basis through a system called AIM. Risk Department is the admin user for Compliance Module of AIM. It monitors and prevents hard breaches based on the parameters defined by the Risk Department. Further, it provides reports on soft breaches which represents a deviations from pre-set risk ratios. Escalation process is in place to ensure that all breaches (soft and hard) are managed and rectified.

Operational Risk Management

Definition

Operational Risk is defined as the loss incurred by the company due to disorder in work policies or procedures, personnel, automated systems, technological infrastructure, in addition to external accidents.

Governance of Operational Risk:

- The Board through the Executive Committee (EXCOM) is responsible for the overall level of risk taken in pursuing Alkhabeer Capital’s strategic objectives.
- Risk-taking authority is delegated from Management to Business Managers with whom responsibility for any impact on profit and loss firmly lies.
- The Chief Risk & Compliance Officer (CRCO) requires the Market and Operational Risk Department (MORD) to provide effective and timely escalation of operational risk issues, independent of the business managers charged with taking and managing risk.
- The MORD established and developed a cost-effective mechanism to monitor the activities of the businesses on an individual and consolidated basis and administer Alkhabeer Capital’s operational risk management policy.
- The MORD brings together analysis of operational risk across all businesses and outsourced functions to identify concentrations and sensitivity to potential scenarios which may impact the achievement of Alkhabeer Capital’s strategic objectives.

Operational Risk System

AKC is using aCCelerate System in order to manage the operational risks in an efficient way. aCCelerate system provides governance, risk and control assessment, and loss causal analysis, modelling, and reporting. The first step for Chase Cooper System is to develop concise operational risk policies, frameworks, terms of reference and timelines consistent with AKC's risk appetite. In addition, the system assists with identifying the gross risks to which they are subject and then scoring risks and identifying and scoring the relevant controls, besides conducting loss causal analysis which is an invaluable challenge to and validation of the subjective risk and control assessment identification and scoring. aCCelerate uses a mathematical model which is Basel compliant to add considerable value to the business by providing challenges to the risk and control assessments, by clearly determining the cost benefit of controls and by enabling capital allocation by business lines. The final stage is reporting where the system provides coherent and yet short reports that enable clear decisions to be made regarding AKC's risk exposure.

Chase Cooper's aCCelerate system manages the day-to-day operational risk activities. It has integrated functionality for risk control assessments (RCSA/RCA) across business hierarchies, external and internal loss event capture and management, configurable key indicators (KIs), flexible workflow, email integration and action tracking.

Mitigation and Control

The appropriate treatment of a risk is determined after its assessment and measurement. Depending on the nature of risk identified, the treatment can be avoidance, mitigation, sharing (transfer) or acceptance, while working within the risk tolerance set for the risk involved. Operational risk is controlled and/or mitigated through a variety of policies, procedures, practices and organizational structures.

Liquidity Risk Management

Governance of Liquidity Management:

The Ultimate responsibility for the liquidity of AKC rests with the Board of Directors while the management of liquidity from a strategic perspective rests with Management through the Asset Liability Management Committee (ALCO) which is sub-committees of IC. Details of this hierarchy of responsibilities are set out below:

The Management through the IC delegates to ALCO (IC Sub-Committee) the responsibility for:

- The determination of AKC's Liquidity Management Policy; and
- Determining periodic and cumulative liquidity limits per time buckets.

ALCO, supported by Finance and MORD, reviews:

- AKC liquidity gap report and the liquidity balance sheet ratio report;
- Contingency Funding Plan; and
- The Liquidity Management Policy.

ALCO is responsible for setting and approving the liquidity ratio limits, gap limits and diversification of funding limits at the Company level.

MORD unit will be responsible for monitoring and management of the overall limits.

Liquidity Analysis:

When determining AKC's liquidity adequacy, analyzing the following parameters is crucial for financial and market risks:

- Current liquidity position.
- Anticipated future funding needs.
- Sources of fund.
- Present and anticipated asset quality and liquidity.
- Present and planned capital position.

Liquidity Statement and Guidelines:

The liquidity is tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool.

The maturity profile could be used for measuring the cash flows in different time buckets - up to 7 time buckets as defined by the CMA.

The statement of liquidity may be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow.

AKC will at all-times maintain a coverage ratio of total liquid assets to total liabilities maturing in two weeks at 100% or above. In addition, the Company ensures that a minimum of SAR 50 MM are kept in cash balance to cover 6-month working capital of the Company.

Compliance & MLR

While the ultimate responsibility of Compliance lies with AKC Board of Directors, the Compliance & MLR Department is responsible for the day-to-day activities of the Compliance functions and is also responsible for setting the strategy and planning of the Compliance work. It is important to stress that all staff have a duty in respect of compliance. Management ensures that employees are aware of this duty and that a commitment to compliance exists throughout AKC. At all levels, the compliance with regulatory requirements and the observance of the highest standard of business conduct is followed.

Compliance & MLR Responsibilities:

1) Assist in identifying and assessing the compliance risks associated with AKC's current and proposed future business activities, including new products, new business relationships and any extension of operations;
2) Advise management on the applicable laws, regulation, rules and standards and inform them about any developments in these areas, and on what work may be needed to meet the new developments within the stated time;
3) Establish written guidelines to staff and service providers on the appropriate implementation of the laws, regulation, rules and standards through policies and procedures (Compliance manual, code of conduct);
4) Assess the appropriateness of internal policies, procedures and guidelines, ensure a follow-up of any identified deficiencies, make recommendations for amendments, where necessary, and supervise the implementation of corrective measures to mitigate the identified deficiencies;
5) Perform on-going compliance monitoring to ensure that the Company is in compliance with the applicable regulatory requirements.
6) Centralize all information on compliance-related issues (e.g.: breach of regulation, non-respect of procedures, conflict of interest);
7) Educate staff with respect to compliance with the applicable laws, rules and standards and act as advisor on compliance queries from staff members;

8) Liaise with relevant external bodies and regulators on compliance matters; exercise any specific legal responsibilities such as reporting suspicious transactions related to money laundering and the fight against terrorism financing;
9) Establish and/or supervise appropriate compliance checks and controls;
10) Ensure Compliance with local and international laws and regulations (including FATCA); and
11) The Compliance & MLR Department, as well as all AKC personnel shall comply with the relevant professional standards. These standards include, but are not limited to, the following:
    a) Honesty, objectivity and diligence in the performance of their duties and responsibilities;
    b) Loyalty to AKC, by not exercising any illegal or improper activity;
    c) Not engaging in discreditable acts or activities;
    d) Not revealing material facts in compliance reports; and
    e) Maintaining high standards of competence, morality and integrity.

2. Capital Structure

The Company's objective when managing capital is to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Company's ability to continue as a going concern and maintain a strong capital base. The rules state that an authorized person shall continually possess a capital base which corresponds to not less than the total of the capital requirements as prescribed under Part 3 of the Prudential Rules.

Taking risk is at the core of AKC business. Primarily all of the revenue-generating activities involve risk-taking. Risk is also inherent in internal business process and systems and as a result of external factors. In order for these risk-taking activities to be profitable and add to shareholder value, risk must be managed within the tolerance levels of the organization. The Company intends to efficiently utilize its available funds through investing in Sharia compliant investments, to enhance returns, generate consistent revenue streams, and diversify the Company's operations; in a manner that complies with the CMA rules and regulations.

The Company hereby confirms its commitment to take all necessary steps to ensure that all investments under management shall be invested with reasonable care, prudence, and due diligence with the objective of enhancing shareholder value.

The Company will seek to implement a tactical asset allocation strategy, which aims at maximizing returns whilst mitigating risk. The asset allocation strategy has been formulated taking into consideration a number of factors such as the various type of asset class and the geographic diversification, the market conditions and AKC's risk appetite.

There is no current or foreseen material or legal impediment to the prompt transfer of capital or repayment of liabilities between AKC and its subsidiaries.
AKC investments and designated proprietary cash of the Company and its subsidiaries shall be consolidated to form the proprietary investment portfolio ("Portfolio").

The total eligible capital (Tiers 1 and 2) calculated in accordance with CMA guidelines as pf December 31, 2014 is a follows:

Capital Base	(In SAR 000's)
Tier-1 capital	
Paid-up capital	813,203
Audited retained earnings	50,289
Share premium	
Reserves (other than revaluation reserves)	10,105
Tier-1 capital contribution	
Deductions from Tier-1 capital	
Total Tier-1 capital	**873,597**
Tier-2 capital	
Subordinated loans	0
Cumulative preference shares	0
Revaluation reserves	83
Other deductions from Tier-2 (-)	0
Deduction to meet Tier-2 capital limit (-)	0
Total Tier-2 capital	**83**
TOTAL CAPITAL BASE	**873,680**

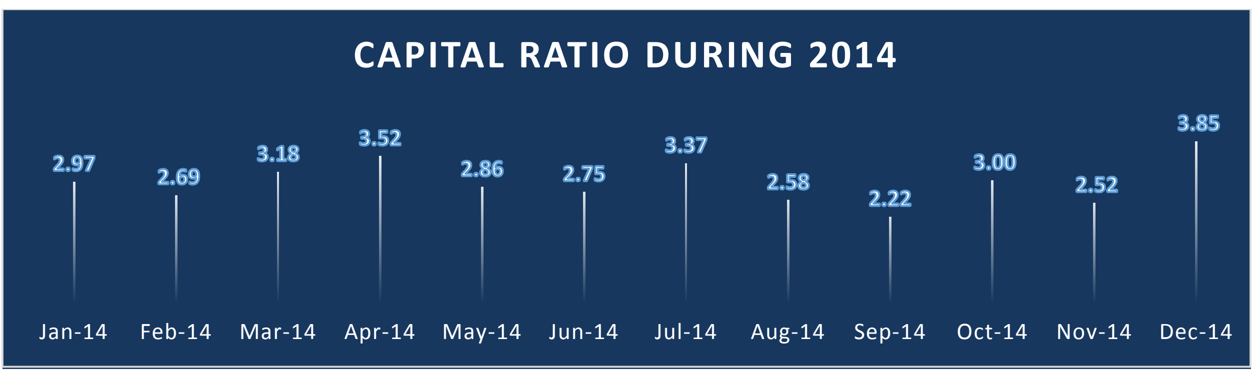
3. Capital Adequacy

AKC maintains an adequate capital base to cover risks inherent in its business operations. The adequacy of capital is actively managed and monitored using, among other measures, the rules and ratios established under the Prudential Rules set by CMA.

During 2014, AKC has consistently maintained its Capital Ration above 2.0. The Company keen to maintain a Capital Adequacy above the minimum requirements set in the Prudential Rules of CMA. For this purpose, the Risk Management Department reviews the monthly prudential report and monitors the Capital Adequacy Model on a monthly basis in which a detailed analysis and justifications are identified. Further, the movements in the Capital Ratio are reported to the Enterprise Risk Management Committee chaired by a board member along with the detailed analysis and justifications.

In addition AKC has developed an ICAAP to measure, monitor and report all material risks and adopt an efficient capital planning process to ensure sufficient capital is available to meet the usual business activities and any unforeseen contingencies.

The graph below shows the Capital Ratio throughout 2014.



AKC’s capital requirement is calculated based on CMA Prudential Rules. AKC’s minimum capital requirement is SAR 226.872 MM as of December 31, 2014. AKC has total capital base of SAR 873.68 MM. The table below is a summary of the capital adequacy disclosure as set out in **Appendix II**.

As of December 31, 2014	
Exposure Class	**Capital Requirement SAR 000’s**
Credit Risk	
Total On and Off-Balance sheet Exposures	**88,972**
Prohibited Exposure Risk Requirement	**-**
Total Credit Risk Exposures	*(a)* **88,972**
Market Risk	
Total Market Risk Exposures	*(b)* **117,463**
Operational Risk	*(c)* **20,437**
Minimum Capital Requirements	*(d)* **226,872**
Total Capital Base	*(e)* **873,680**
Surplus/(Deficit) in capital	*(f)* **646,809**
Total Capital ratio (time)	*(g)* **3.85**

(d)= (a+b+c)

(f)= (e)-(d)

(g)= (e)/(d)

4. Credit Risk Disclosures

There are two factors that affected the credit risk in AKC, the rating methodology and the type of investments.

We use external international standards in rating counterparties, namely Moody's, Fitch, and S&P. AKC adopts a credit strategy for monitoring and controlling the counterparty risk by setting limits for each counterparty in line with the prudential rules. All counterparty limits are approved by the Chief Risk & Compliance Officer (CRCO). Subsequently all counterparty limits are approved annually by the Investment Committee. As a policy, our dealing with any counterparty is restricted to at least a BBB - rating investment grade. In case the counter party is rated below investment grade, a higher approval authority is required. Most of the non-rated counterparties are AKC's funds.

AKC exposure to counterparties is through placements in Murabaha transactions (deposits) & cash, trading through a broker, and subscribing in money market funds. All of these investments are of short term and highly liquid nature. Its worth mentioning that AKC's credit risk is limited to counter party risk as AKC does not engage in lending or margin lending activities. Our average counterparties' portfolio rating is A.

<u>Past due claims:</u>

Past due claims are amount that have not been settled by the counter parties on time, mainly Murabahas, term deposits or units in funds placed by AKC with other APs or Banks. As of December 31, 2014 the total past dues were SAR 1.57 MM.

<u>Impairment and uncollectibility of financial assets:</u>

An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated statement of income. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated statement of income;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and

- For assets carried at amortized cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis according to the length of time past due. Further the Group also takes into account legal advice for determining the allowance for doubtful debts for individually significant amounts which involve legal cases filed by the Group, and in case a higher estimated provision is required based on legal advice, the Group records the higher provision.

Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due. The total closing balance of the allowances for doubtful debts as of December 31, 2014 was SAR 10,986 MM.

General Provisions:

Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. The balance of such provision was zero as of December 31, 2014.

4.1 Capital requirements for Credit Risk

AKC 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.

	(In SAR 000's)		
Portfolio	**Credit Risk Exposure**	**Risk Weighted Assets**	**Capital Requirement**
Authorised persons and banks	107,650	21,530	3,014
Corporates	602	4,298	602
Investment Funds	30,482	45,723	6,401
Other assets*	90,966	552,716	77,380
Past due items	1,575	11,246	1,574
Total	**231,275**	**635,513**	**88,972**

*Other assets are mainly items such as Tangible assets, deferred expenditure / accrued income , LGs, employee loans, advance payments, and other seeding for investments. Thus, the counterparty in this case is AKC and not external party.

4.2 Credit Risk Mitigations

AKC adopts a credit strategy for monitoring and controlling the counterparty risk by setting limits for each counterparty in line with the prudential rules. All counterparty limits are approved by the Chief Risk & Compliance Officer (CRCO). Subsequently all counterparty limits are approved annually by the Investment Committee. As a policy, our dealing with any counterparty is restricted to at least a BBB - rating. In case the counter party is rated below investment grade, a higher approval authority is required. Our average counterparties' portfolio rating is A.

4.3 Gross Credit Risk Exposures

The gross credit exposure as presented in the table below is reflected before applying any credit risk mitigation, such as financial collaterals and guarantees. Note that the Company does not use financial collaterals or guarantees since it does not offer lending or margin lending. Thus, the exposures before Credit Risk Mitigation will be equal to the exposures after Credit Risk Mitigation as of December 31, 2014. Refer to **Appendix III** for more details on the Credit Risk Exposures and Mitigations.

Portfolio	(In SAR 000's) Credit Risk Exposure	Gross Credit Risk Exposure	Average Gross Exposure *
Authorised persons and banks	107,650	107,650	301,228
Corporates	602	602	672
Investment Funds	30,482	30,482	34,707
Other assets	90,966	90,966	222,914
Past due items	1,575	1,575	1,832
Total	**231,275**	**231,275**	**561,353**

*The Average Gross Exposure was calculated based on the last 12-months, monthly credit exposures during 2014.

4.4 Allocation of credit exposures to risk weight

An analysis of the portfolio by the regulatory risk weights is presented in the table below as of December 31, 2014:

Illustrative Disclosure on Credit Risk's Risk Weight:

	(In SAR 000's)						
Risk Weights	**Authorised persons and banks**	**Corporates**	**Past due items**	**Investment Funds**	**Other assets**	**Total Exposure after netting and Credit Risk Mitigation**	**Total Risk Weighted Assets***
0%							
20%	107,650					107,650	**21,530**
50%							
100%							
150%				30,482		30,482	**45,723**
200%							
300%					23,377	23,377	**70,130**
400%							
500%							
714% (include prohibited exposure)		602	1,575		67,589	69,766	**498,129**
Total	**107,650**	**602**	**1,575**	**30,482**	**90,966**	**230,664**	**635,513**

*Total Risk weighted Assets equal the risk Weights multiplied by the total exposure after netting the credit risk mitigation.

4.5 Credit Risk Exposure - Credit Quality

The table below shows the exposures with each type of counter parties classified based on the credit rating of the counterparty as of December 31, 2014. AKC follows Annex 11 and Annex 12 of the Prudential rules to determine the exposure's credit quality. All the exposures where short term in nature.

Illustrative Disclosure on Credit Risk's Rated Exposure:

Exposure Class	Short term Ratings of counterparties (In SAR 000's)					
	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		24,983	82,667			1,575
Corporates						602
Retail						
Investment Funds						30,482
Securitisation						
Margin Financing						
Other Assets						90,966
Total		**24,983**	**82,667**			**123,625**

4.6 Geographic breakdown credit risk exposures

The table below describes the geographic distribution as of December 31, 2014 of the non-trading activities, which represents the credit risk exposures as per CMA prudential rules.

	Geographic Area (In SAR 000's)						
Portfolio	**Saudi Arabia**	**Other GCC**	**Europe**	**North America**	**South East**	**Other Countries**	**Total**
Authorised persons and banks	24,983		82,667	-	-	-	**107,650**
Corporates	602	-	-	-	-	-	**602**
Investment Funds	30,482	-	-	-	-	-	**30,482**
Other assets	90,966	-	-	-	-	-	**90,966**
Past due items	-	1,575	-		-	-	**1,575**
Total	**147,033**	**1,575**	**82,667**	-	-	-	**231,275**

4.7 Maturity breakdown of credit risk exposures

The maturity profiles of credit exposures have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

	Maturity (In SAR 000's)							
Portfolios	**Less than 8 days**	**8 - 30 days**	**30 - 90 days**	**90 - 180 days**	**180 - 360 days**	**1 - 3 years**	**No Fixed Maturity**	**Total**
Authorised persons and banks	107,650							107,650
Corporates							602 *	602
Investment Funds					30,482			30,482
Other assets			90,966					90,966
Past due items							1,575	1,575
Total	107,650		90,966		30,482		2,177	**231,275**

*Receivables from counterparties for advisory service provided. Aging less than one year but hasn't been settled yet.

4.8 Changes in the Allowances for Impairment

During 2014 SAR 822,000 additional provisions were charged related to past due receivables resulted from Advisory Services delivered to clients. Provisions are calculated based on the internal provisioning policy in which it takes into account the age of the receivable in addition to the legal opinion on each case.

	(In SAR 000's)
Balance, Beginning of the year	**10,164**
Charge for the year	**822**
Balance, end of period	**10,986**

5. Market Risk Disclosures

Market risk is the risk of loss in on- and off-balance sheet positions resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This includes fluctuations in values in tradable, marketable or leasable assets and on- and off-balance sheet individual portfolios.

AKC provides seed capital to the internally managed funds and administers client's investments in those funds. Therefore, it is exposed to the arising market risk in respect of the fluctuations of the fund market values through the seed capital and its holding in the Manager's Box.

5.1 Market Risk Strategy

Another key component of AKC's market risk framework is a market risk strategy. The market risk strategy is aligned with market risk appetite and define, among other things, the nature of trading activities giving rise to market risk that AKC aims to pursue to optimize the relationship between risk and return.

5.2 Measurement of Market Risk

An appropriate process, commensurate with the scale, nature and complexity of AKC's activities, is in place to identify measure and monitor AKC's exposure to market risk across all business lines.

Mark to Market basis, in line with best practice, is used for the valuation of positions, subject to market risk. The market value data used must be current and timely.

AKC uses appropriate methodology to quantify market risk exposures. The methods might include accumulated values of net positions, Value at risk (VaR) stress testing, sensitivity analysis and correlation analysis. Market risk exposure is measured for each business line (such as equity, commodity, and foreign exchange) as well as across the entire portfolio. The methodology used to evaluate the real estate portfolio is the comparable and residual value methods. However, the private equity assets are evaluated based on the fair market value using different valuation methodologies including the discounted cash flow (DCF) and the multiple (EBITDA) market value approach.

Moreover, AKC is monitoring market risk of equity funds on a daily basis through a system called AIM. Risk Department is the admin user for Compliance Module of AIM. It monitors and prevents hard breaches based on the parameters defined by the Risk Department. Further, it provides reports on soft breaches which represents a deviations from pre-set risk ratios. Escalation process is in place to ensure that all breaches (soft and hard) are managed and rectified.

5.3 Capital Requirements for Market Risk

The capital requirement for Market risk exposures was calculated based on the regulatory requirements in Pillar I of the prudential rules issued by CMA. The table below shows the Market Risk exposures along with the required capital as of December 31, 2014.

	(in SAR 000's)	
	Exposure	**Required Capital**
Market Risk		
Interest rate risks	-	-
Equity price risks	-	-
Risks related to investment funds	708,946	113,431
Securitisation/resecuritisation positions	-	-
Excess exposure risks	-	-
Settlement risks and counterparty risks	-	-
Foreign exchange rate risks	73,399	4,032
Commodities risks	-	-
Total	**782,345**	**117,463**

6. Operational Risk Disclosures

The qualitative disclosures of the operational risk were discussed in details in section 1.3 of this document. The capital requirement calculated for operation risk by using the gross operating income for the last three years through the Basic Indicator Approach which requires a capital of SAR 14.88 MM, and the Expenditure Based Approach for last year which requires a capital of SAR 20.43 MM. However, the operational risk will depend on the higher result which will be SAR 20.43 MM for year-end 2014. The details of the calculation are as following:

	(in SAR 000's)					
Operational Risk	GROSS OPERATING INCOME			AVERAGE GROSS OPERATING INCOME	RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
	2011	2012	2013			
1. BASIC INDICATOR APPROACH	64,596	107,342	125,063	99,000	15.0	**14,850**
	OVERHEAD EXPENSES (YEAR -1)				RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
2. EXPENDITURE BASED APPROACH	81,747				25.0	**20,437**

CAPITAL REQUIREMENT FOR OPERATIONAL RISK	**20,437**

7. Counterparty Credit Risk and Off-Balance Sheet Disclosures

As described in “section 4” of this document AKC exposure to counterparties is through placements in Murabaha transactions (deposits) & cash, trading through a broker, and subscription in money market funds. It is AKC policy to deal only with counterparties with a minimum of BBB-(investment grade) rating which should also be approved by the CRCO. For a non-rated counterparties a higher level of authority is obtained. In addition, most of the non-rated counterparties are funds managed by AKC.

Since AKC does not provide any type of lending facilities to its clients, thus there is no collateral requirements or credit derivative hedging.

8. Liquidity Risk Disclosures

The liquidity risk is the current or prospective risk to earnings and capital arising from a company’s inability to meet its liabilities, when they become due, without incurring unacceptable losses.

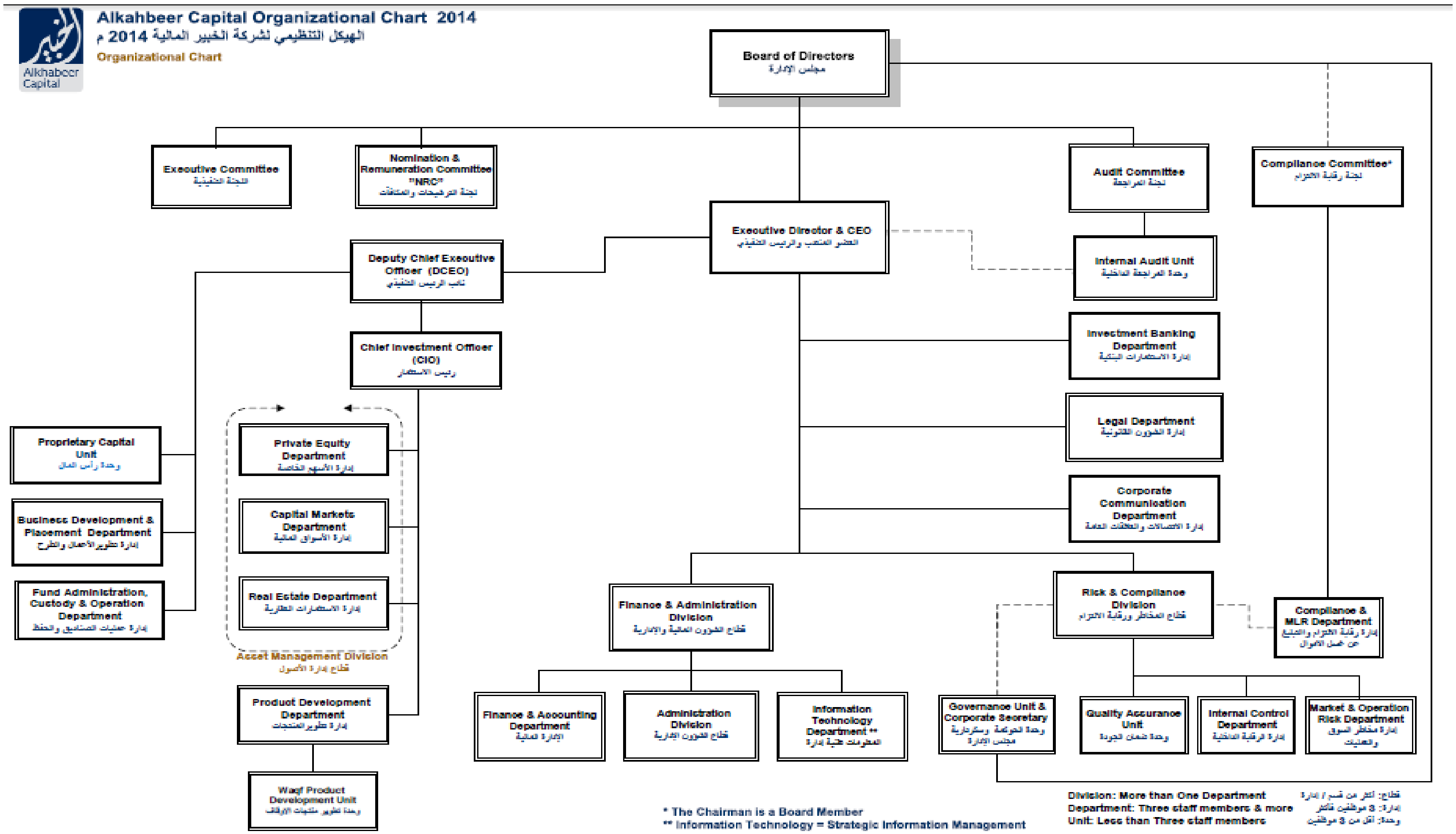
The Liquidity risk arises either from the inability to manage the unplanned decreases or changes in funding sources or from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

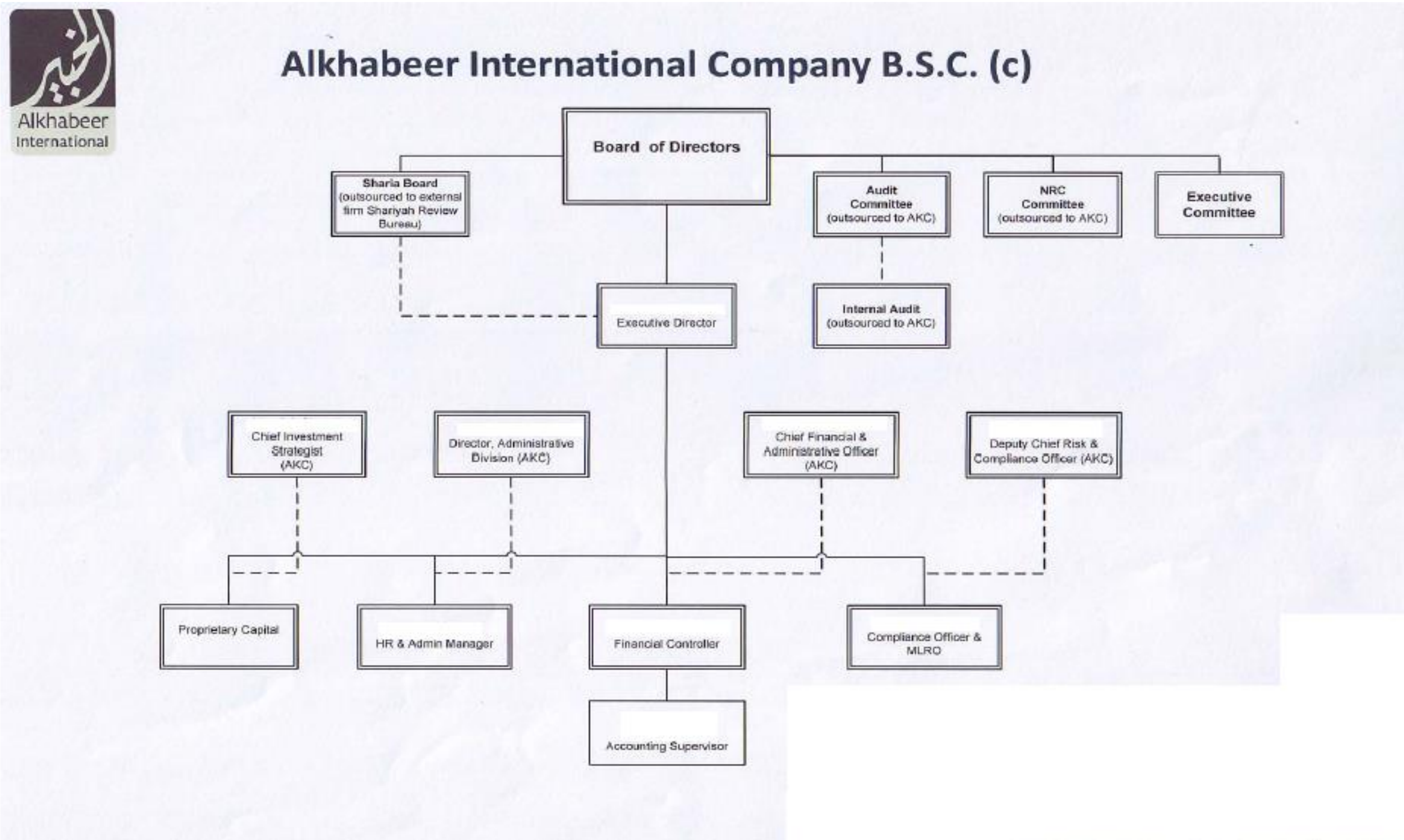
Effective liquidity risk management starts with the development of written plans, policies, and procedures, and the establishment of risk tolerances and minimum acceptable levels of liquidity. Managing liquidity risk process is by measuring, monitoring, and reporting liquidity.

Proprietary investments and designated proprietary cash of the Company and its subsidiaries are consolidated to form the proprietary investment portfolio (“Portfolio”). The Investment Committee (IC) determines the Portfolio size at the beginning of each financial year (January) after taking into consideration the Company’s working capital requirements for the coming financial year. Cash allocated for 6-months working capital forms part of the Portfolio and it is reserved at SAR 50 MM. The Finance and Accounting Department ensures it maintains cash balances that are sufficient to fulfill its recurring obligations (salaries, general expenses … etc.). In addition the liquidity guidelines of AKC require Investments equal to 15% of the Portfolio net asset value to be maintained in liquid investments.

As of December 31, 2014, the value of liquid asset was SAR 166,479MM which represented 23% of the total portfolio size at that date. Cash balance was SAR 107,650MM out of the liquid assets (SAR 166,479MM).

Appendix I – Organizational Structures of AKC and AKI




Alkhabeer International Company B.S.C. (c)
Alkhabeer International
Board of Directors
Sharia Board (outsourced to external firm Shariyah Review Bureau)
Audit Committee (outsourced to AKC)
NRC Committee (outsourced to AKC)
Executive Committee
Executive Director
Internal Audit (outsourced to AKC)
Chief Investment Strategist (AKC)
Director, Administrative Division (AKC)
Chief Financial & Administrative Officer (AKC)
Deputy Chief Risk & Compliance Officer (AKC)
Proprietary Capital
HR & Admin Manager
Financial Controller
Compliance Officer & MLRO
Accounting Supervisor

Appendix II- Illustrative Disclosure on Capital Adequacy

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	107,650	-	21,530	3,014
Corporates	602	-	4,298	602
Retail	-	-	-	-
Past Due	1,575		11,246	1,574
Investment Funds	30,482	-	45,723	6,401
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	90,966	-	552,716	77,380
Total On-Balance sheet Exposures	**231,275**		**635,513**	**88,972**
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	**231,275**		**635,513**	**88,972**
Prohibited Exposure Risk Requirement	-	-	-	-
		-	-	-

Total Credit Risk Exposures	**231,275**	0	**635,513**	**88,972**
Market Risk	Long Position	Short Position		
Interest rate risks	-	-		
Equity price risks	-	-		
Risks related to investment funds	708,946	-		113,431
Securitisation/resecuritisation positions	-	-		
Excess exposure risks	-	-		
Settlement risks and counterparty risks	-	-		
Foreign exchange rate risks	73,399	-		4,032
Commodities risks.	-	-		
Total Market Risk Exposures	782,345			**117,463**
Operational Risk				**20,437**
Minimum Capital Requirements				226,872
Surplus/(Deficit) in capital				646,809
Total Capital ratio (time)				**3.85**

Appendix III - Illustrative Disclosure on Credit Risk Mitigation (CRM)

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	107,650	-	-	-	-	107,650
Corporates	602	-	-	-	-	602
Retail						-
Past Due	1,575	-	-	-	-	1,575
Investment Funds	30,482	-	-	-	-	30,482
Securitisation						
Margin Financing						
Other Assets	90,966	-	-	-	-	90,966
Total On-Balance sheet Exposures	231,275					231,275
Off-balance Sheet Exposures	0	0	0	0	0	0
OTC/Credit Derivatives	0	0	0	0	0	0
Exposure in the form of repurchase agreements	0	0	0	0	0	0
Exposure in the form of securities lending	0	0	0	0	0	0
Exposure in the form of commitments	0	0	0	0	0	0
*Other Off-Balance sheet Exposures	0	0	0	0	0	0
Total Off-Balance sheet Exposures	0	0	0	0	0	0
Total On and Off-Balance sheet Exposures	**231,275**					**231,275**

END OF REPORT

Alkhabeer Capital

<u>**Reviewed By:**</u>

Mr. Ammar Ahmed Shata, Executive Director & Chief Executive Officer

Date: March 18th 2015

Signature:

<u>**Approved By:**</u>

Mr. Saleh Mohammed Binladen, Chairman

Date:

Signature: