Alkhabeer Capital

Pillar III Disclosures - 2016

Issued March 2017

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 that are required to be published on AKC's website.

The capital adequacy figures reported in this report correspond to the capital adequacy information as reported in Note 21 of the audited financial statements for year-end 2016.

Comparative information regarding the quantitative disclosures for the preceding financial year is also included in this report.

1.1 Background

Alkhabeer Capital is a leading asset management and investment firm providing worldclass investment products and services that endeavors to help institutions, family groups and qualified investors access to and/or allocate capital in ways that deliver real and enduring economic value.

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 its advisory services help clients improve their capital structures with a wide range of investment banking and corporate finance solutions. AKC is an expert in the Saudi and GCC markets. Although AKC's expertise lies in the Saudi and GCC markets, our experience and services span the broader MENA region and select 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) which has been renamed in June 2016 to become Sanabel Investment Company B.S.C. (c) ("Sanabel" or the "Subsidiary"). The acquisition of Sanabel 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.

On 24 November 2016, the Group resolved to liquidate the operations of the subsidiary effective from 15 December 2016. CBB through a letter dated 17 November 2016 approved the voluntary liquidation of the Company on 15 December 2016 and, currently, process of liquidating the subsidiary and related legal formalities are in progress. The Group appointed Al-Mezan Bureau

Consultancy Co. W.L.L, as a liquidator.

Sanabel 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. Sanabel activities are regulated by the CBB and supervised by a Shari'a Advisor whose role is defined in Sanabel's articles of association. The principal activities of Sanabel 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 Sanabel's Shari'a Advisor. In November 2016 the general assembly approved the liquidation and started the liquidation procedures in December 15, 2016.

The organizational structure of AKC and Sanabel in 2016 are presented in **Appendix I** of this document.

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

1.2 Risk Management Strategies and Processes

The management of risk in AKC lies with the Board of Directors through its Committees; the Management through the Executive Director (ED), the Chief Executive Officer (CEO); the Investment Committee and its subcommittees, and the Governance, Risk and Compliance Division.

Risk is inherent in Alkhabeer Capital's activities, and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and sustainability. Alkhabeer Capital is primarily exposed to commission rate risk, credit risk, market risk, liquidity risk, operational risk and reputational risk.

The enterprise-wide risk management activities, as outlined at AKC, detail the high-level organization, authorities and processes relating to risk management, which 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.

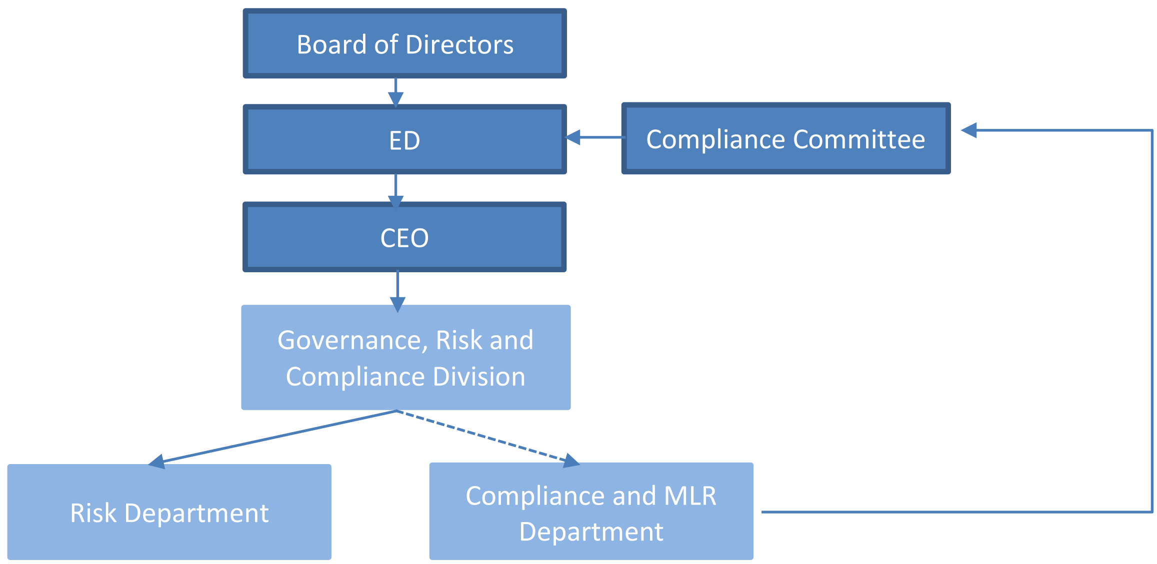
The following guiding principles apply to all risk management activities:

- Approval: All Asset Management activities which commit AKC (legally, morally or financially) 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 and other control functions.
- Transparency: Risk Management structures and policies and procedures are transparent and are based on consistent principles, are in written form, and are well communicated within the organization.
- Committee: Decisions regarding policy, product, portfolio, and large or high-risk investments are taken by an appropriate committee.
- Authority level: Authorities are delegated by the Board of Directors, and through the Executive Director and the Chief Executive Officer, and reflect the delegate's (committee or individual) level of expertise and seniority, via an approved Authority Matrix that is reviewed on annual basis.
- 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 obtaining all related approvals.
- Integrated Process: Risk Management should not be treated as a stand-alone initiative; rather it should be integrated within 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 CMA requirements.
- Risk mitigations for each type of risk are defined in the respective risk section of this report.

1.3 Governance, Risk & Compliance Division

The Governance, Risk & Compliance Division is responsible for the day-to-day oversight of the various risks to which Alkhabeer Capital is exposed, including Credit, Market, Operational and Compliance and Money-laundering risks. The below chart shows the structure of the division and its reporting lines.



Risk Department

The Risk Department is responsible for the day-to-day identification, measurement and monitoring of the Company's exposure to credit, market, liquidity and operational risks.

The Department is also responsible for updating all policies and procedures for all departments within the Company, and the development of additional controls to ensure the proper execution of transactions in line with approved policies and procedures in order to avoid any operational and/or regulatory risks. In addition, the Department is responsible for following up on all investment decisions by creating different controls to manage the quality of execution; the reporting of any exceptions; and streamlining the workflow of some processes to ensure the timely and proper execution of transactions.

Compliance & MLR Department

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 with respect to complying with regulatory as well as internal requirements. 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 at all times.

1.4 Risk Management Reporting and Measurement Systems

The Risk department employs a wide range of risk assessment, analysis and reporting tools, and state-of-the-art risk models. Independent systems include Bloomberg AIM for market risk, Advent and Worldchek for AML and regulatory compliance, and aCCelerate system for operational risk. In addition, an Internal Capital Adequacy Model was developed and implemented in line with CMA requirements. The Company's capital adequacy is monitored on a monthly basis covering historic and forecasted figures in order to ensure that the Company maintains adequate capital coverage and to take necessary corrective action when required.

2. Capital Structure

When managing capital, the Company's objective is to comply with the capital requirements set by the CMA to safeguard the Company's ability to continue as a going concern and maintain a adequate 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 the internal business process and systems and as a result of external factors. In order for these risk-taking activities to be profitable and to 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 Shari'a-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 and investors.

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 and approved by the board taking into consideration a number of factors such as the various type of asset class, 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 is as follows:

Capital Base	Dec-16 (SR '000)	Dec-15 (SR '000)
Tier-1 capital		
Paid-up capital	813,203	813,203
Audited retained earnings	43,506	70,063
Share premium	0	0
Reserves (other than revaluation reserves)	23,933	16,820
Tier-1 capital contribution	0	0
Deductions from Tier-1 capital	0	0
Total Tier-1 capital	**880,642**	**900,086**
Tier-2 capital		
Subordinated loans		0
Cumulative preference shares		0
Revaluation reserves	0	84
Other deductions from Tier-2 (-)		0
Deduction to meet Tier-2 capital limit (-)		0
Total Tier-2 capital	**0**	**84**
TOTAL CAPITAL BASE	**880,642**	**900,170**

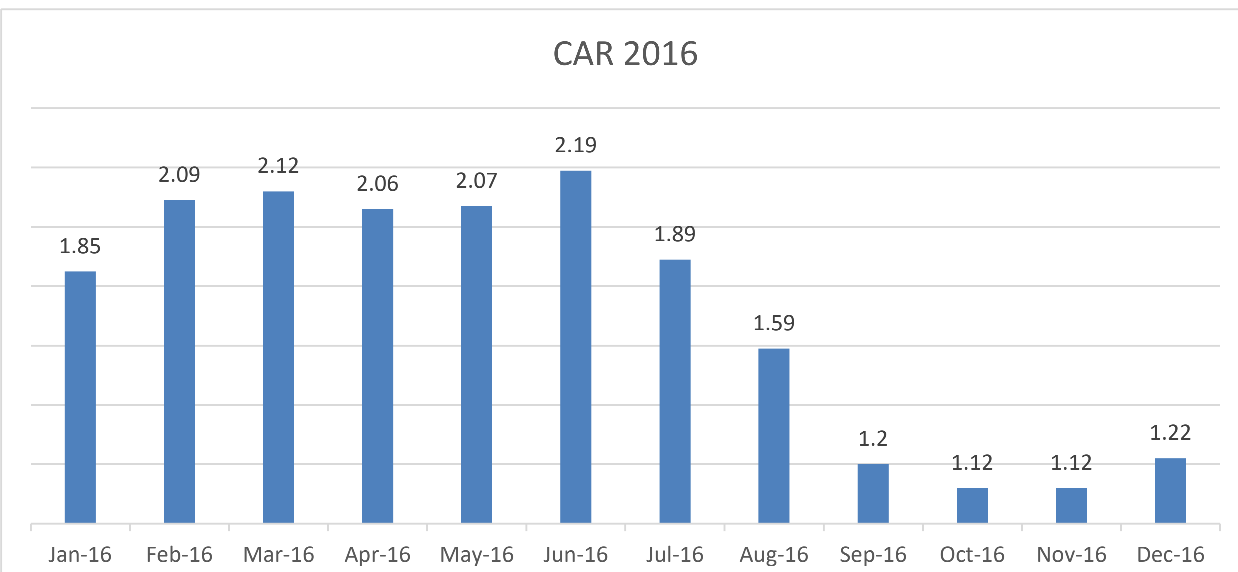
3. Capital Adequacy

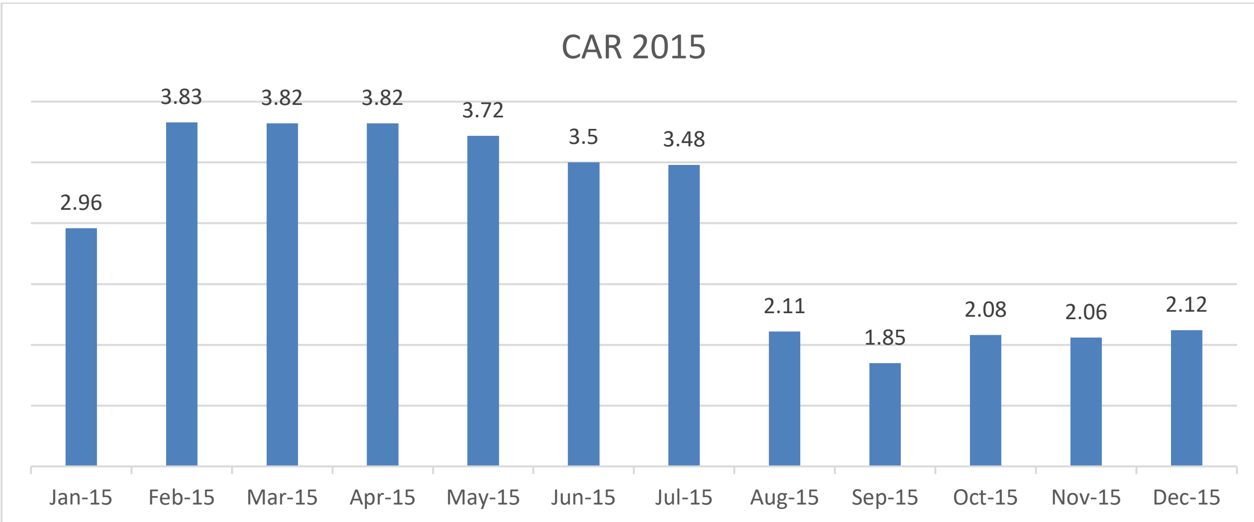
AKC maintains an adequate capital base to cover risks inherent in its business operations. The adequacy of capital is actively managed and monitored using, among other measures, the rules and ratios established under the Prudential Rules set by CMA.

During 2016, AKC has consistently maintained its Capital Ration above 1.12. The Company is keen to maintain a Capital Adequacy above the minimum requirements set in the Prudential Rules of CMA. For this purpose, the Risk 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, along with the detailed analysis and justifications, are reported to the Enterprise Risk Management Committee Along with 3 month forecast.

In addition, AKC has developed an ICAAP (Internal Capital Adequacy Process) 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 graphs below show the Capital Ratio movement throughout 2016 and 2015.




CAR 2015
2.96
3.83
3.82
3.82
3.72
3.5
3.48
2.11
1.85
2.08
2.06
2.12
Jan-15
Feb-15
Mar-15
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15

AKC's capital requirement is calculated based on CMA Prudential Rules. AKC's minimum capital requirement is SAR 717.302 MM as of December 31, 2016. AKC has total capital base of SAR 878.642 MM. The table below is a summary of the capital adequacy disclosure as set out in **Appendix II** (comparative 2016 and 2015).

Exposure Class	Capital Requirement Dec 2016 (SAR 000's)	Capital Requirement Dec 2015 (SAR 000's)
Credit Risk		
Total On and Off-Balance sheet Exposures	643,437	237,883
Prohibited Exposure Risk Requirement*	39,714	-
Total Credit Risk Exposures	*(a)* 683,151	237,883
Market Risk		
Total Market Risk Exposures	*(b)* 101	158,004
Operational Risk		
Total Operational Risk Exposures	*(C)* 34,051	29,179
Minimum Capital Requirements	*(d)* 717,302	425,066
Total Capital Base	*(e)* 880,642	900,170
Surplus/(Deficit) in capital	*(f)* 163,340	475,104
Total Capital ratio (time)	*(g)* 1.23	2.12

(d)= (a+b+c)

(f)= (e)-(d)

(g)= (e)/(d)

To be in line with the "large exposure" rules in case the AP has a large exposure under non-trading activities exceeding 25% of capital base, the AP shall not include, upon calculating, large exposures which are subjected to the risk weight of 714% (i.e. multiply the excess amount by 714% less 300% multiplied by 14%).

4. Credit Risk Disclosures

There are two factors that affect the credit risk in AKC i.e. the rating methodology and the type of investments.

AKC uses 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 internal policies and the prudential rules. All counterparty limits are approved by the Director, Governance, Risk & Compliance (DGRC). Subsequently, all counterparty limits are reviewed and approved annually by the Investment Committee. The Risk Department assesses and reviews the counterparties on a quarterly basis. As a policy, AKC's 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 AKC private funds. It is worth mentioning that AKC's credit risk is limited to counter party risk as AKC does not engage in lending or margin lending activities.

Past due claims:

Past due claims are amounts that have not been settled by the counter parties on time, mainly Murabahas, term deposits or units in funds placed by AKC with other authorized persons or Banks. As of December 31, 2016 the total past dues were SAR 0.474 MM.

Impairment and un-collectibility of financial assets:

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. Furthermore, AKC also takes into account legal advice for determining the allowance for doubtful debts for individually significant amounts which involve legal cases filed by AKC and, in case a higher estimated provision is required based on legal advice, AKC 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, 2016 was SAR 6,034 MM.

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.

Dec 2016 (In SAR 000's)			
Portfolio	**Credit Risk Exposure**	**Risk Weighted Assets**	**Capital Requirement**
Authorised persons and banks	**155,189**	31,038	4,345
Corporates	0	0	0
Investment Funds	**1,384,594**	4,153,781	581,529
Other assets*	71,357	319,955	44,794
Past due items	**474**	3,384	474
Off-balance sheets commitments	**12,300**	87,822	12,295
Prohibited Exposure	**68,519**	283,670	39,714
Total	**1,692,432**	**4,879,649**	**683,151**

Dec 2015 (In SAR 000's)			
Portfolio	**Credit Risk Exposure**	**Risk Weighted Assets**	**Capital Requirement**
Authorised persons and banks	24,144	4,829	676
Corporates	0	0	0
Investment Funds	50,681	152,043	21,286
Other assets*	102,235	623,059	87,228
Past due items	1,461	10,432	1,460
High risk investments	227,200	908,800	127,232
Total	**405,721**	**1,699,162**	**237,882**

*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 an 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 Director, Governance, Risk & Compliance (DGRC). Subsequently all counterparty limits are reviewed and approved annually by the Investment Committee and monitored on quarterly basis by the Risk Department. 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.

AKC ensures that concentration risks originating from counterparties exposure are maintained within the approved limits and prompt actions are taken for any breaches.

In addition, AKC invested in its own private fund that are classified under credit risk as per the CMA prudential rules. These exposures are classified as held for trading and they are monitored on a continuous basis by their respective fund boards and the Investment Committee.

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. 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, 2016. Refer to **Appendix III** for more details on the Credit Risk Exposures and Mitigations.

	Dec 2016 (In SAR 000’s)		
Portfolio	**Credit Risk Exposure**	**Gross Credit Risk Exposure**	**Average Gross Exposure ***
Authorised persons and banks	155,189	155,189	146,478
Corporates	-	-	-
Investment Funds	1,384,594	1,384,594	446,237
Other assets	71,357	71,357	127,510
Past due items	474	474	972
Off-balance sheets commitments	12,300	12,300	12,300
Prohibited Exposure	68,519	68,519	30,200
Total	1,692,432	1,692,432	763,797

Portfolio	Credit Risk Exposure	Gross Credit Risk Exposure	Average Gross Exposure *
	Dec 2015 (In SAR 000's)		
Authorised persons and banks	24,144	24,144	**108,372**
Corporates	0	0	**815**
Investment Funds	50,681	50,681	**50,298**
Other assets	102,235	102,235	**133,407**
Past due items	1,461	1,461	**1,639**
High risk investments	227,200	227,200	**157,694**
Total	**405,721**	**405,721**	**452,225**

*The Average Gross Exposure was calculated based on the last 12-months' monthly credit exposures during 2016.

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:

Illustrative Disclosure on Credit Risk's Risk Weight:

Risk Weights	Dec 2016 (In SAR 000's)								
	Authorised persons and banks	**Corporates**	**Past due items**	**Investments Funds**	**Other assets**	**Off-balance sheets commitments**	**Prohibited Exposure**	**Total Exposure after netting and Credit Risk Mitigation**	**Total Risk Weighted Assets**
0%									
20%	155,189							155,189	31,038
50%									
100%									
150%									
200%									
300%				1,384,594	45,781			1,430,374	4,291,123
400%							68,519	68,519	283,668
500%									
714% (include prohibited exposure)			474		25,576	12,300		38,350	273,818
Total	**155,189**		**474**	**1,384,594**	**71,357**	**12,300**	**68,519**	**1,692,432**	**4,879,649**

Dec 2015 (In SAR 000's)								
Risk Weights	**Authorised persons and banks**	**Corporates**	**Past due items**	**Investment Funds**	**Other assets**	**High risk investments**	**Total Exposure after netting and Credit Risk Mitigation**	**Total Risk Weighted Assets***
0%								
20%	24,144						24,144	**4,829**
50%								
100%								
150%								
200%								
300%				50,681	25,821		76,502	**229,506**
400%						227,200	227,200	**908,800**
500%								
714% (include prohibited exposure)			1,461		76,414		77,875	**556,027**
Total	**24,144**		**1,461**	**50,681**	**102,235**	**227,200**	**405,720**	**1,699,162**

* 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, 2016. 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.

<u>Illustrative Disclosure on Credit Risk's Rated Exposure:</u>

Short term Ratings of counterparties Dec 2016 (In SAR 000's)						
Exposure Class	**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						
Authorized Persons and Banks			155,189			474
Corporates						
Retail						
Investment Funds						1,384,594
Securitization						
Margin Financing						
Other Assets						71,357
High Risk Investments						
Off-balance sheets commitments						12,300
Prohibited Exposure						68,519
Total		-	**155,189**	-	-	**1,537,244**

Exposure Class	Short term Ratings of counterparties Dec 2015 (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 Intelligenc	A1	A2	A3	Below A3	Unrated
On and Off-balance-sheet Exposures						
Governments and Central Banks						1,461
Authorized Persons and Banks		24,144				
Corporates						
Retail						
Investment Funds						50,681
Securitization						
Margin Financing						
Other Assets						102,234
High Risk Investments						227,200
Total		**24,144**				**381,576**

4.6 Geographic breakdown credit risk exposures

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

Dec 2016 (SR'000s)						
Portfolio	**Saudi Arabia**	**Other GCC**	**Europe**	**North America**	**Other Countries**	**Total**
Authorized persons and banks	155,189	-	-	-	-	**155,189**
Corporates	-	-	-	-	-	**0**
Investment Funds	1,384,594	-	-	-	-	**1,384,594**
Other assets*	71,357	-	-	-	-	**71,357**
Past due items	-	474	-	-	-	**474**
High risk investments	-	-	-	-	-	**-**
Off-balance sheets commitments	12,300	-	-	-	-	**12,300**
Prohibited Exposure	68,519	-	-	-	-	**68,519**
Total	**1,692,432**	**474**	**0**	**0**	**0**	**1,692,432**

Dec 2015 (SR'000s)						
Portfolio	**Saudi Arabia**	**Other GCC**	**Europe**	**North America**	**Other Countries**	**Total**
Authorized persons	24,144	-	-	-	-	**24,144**
Corporates	-	-	-	-	-	
Investment Funds	50,681	-	-	-	-	**50,681**
Other assets	102,235	-	-	-	-	**102,235**
Past due items	-	1,461	-	-	-	**1,461**
High risk	227,200		-	-	-	**227,200**
Total	**404,259**	**1,461**	-	-	-	**405,720**

*Other assets shall refer to the sum of several exposures which are tangible assets, deferred expenditures & accrued income, holdings of listed equity, cash or gold, other on balance sheet exposure, and credit protection/ financial collateral.

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 Dec 2016 (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
Authorized persons and banks	155,189	-	-	-	-	-	-	155,189
Investment Funds	-	-	-	-		-	1,384,594	1,384,594
Other assets	-	-	71,357	-	-	-	-	71,357
Past due items	-	-	-	-	-	-	474	474
High risk investments	-	-	-	-	-	-		0
Off-balance sheets commitments							12,300	12,300
Prohibited Exposure							68,519	68,519
Total	**155,189**	**0**	**71,357**	**0**	**0**	**0**	**1,465,887**	**1,692,433**

Maturity Dec 2015 (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**
Authorized persons and banks	24,144	-	-	-	-	-	-	24,144
Investment Funds	-	-	-	-	50,681	-	-	50,681
Other assets	-	-	102,235	-	-	-	-	102,235
Past due items	-	-	-	-	-	-	1,461	1,461
High risk investments	-	-	-	-	-	-	227,200	227,200
Total	24,144		102,235		50,681		228,661	**405,720**

4.8 Changes in the Allowances for Impairment

During the year, the Group impaired certain advances to suppliers and other assets amounting to SR 5 million (2015: nil). Movements in the allowance for impairment of receivables were as follows:

Dec 2016 (In SAR 000's)	
At January 1	**10,969**
(Recoveries) / Charges	**594**
Written off during the year	**(5,529)**
Balance, end of period	**6,034**

Dec 2015 (In SAR 000's)	
At January 1	**10,986**
(Recoveries) / Charges	**(17)**
Balance, end of period	**10,969**

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, which is aligned with market risk appetite and defines, 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.

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.

	Dec 2016 (SR '000s)		Dec 2015 (SR '000s)	
	Exposure	Required Capital	Exposure	Required Capital
Market Risk	-	-		
Interest rate risks			-	-
Equity price risks			484	77
Risks related to investment funds			978,109	156,497
Securitization/re-securitization position			-	-
Excess exposure risks			-	-
Settlement risks and counterparty risks			-	-
Foreign exchange rate risks	4,212	101	10,791	1,429
Commodities risks			-	-
Total	**4,212**	**101**	**989,384**	**158,004**

6. Operational Risk Disclosures

The capital requirement calculated for operational risk by using the gross operating income for the last three years through the "Basic Indicator Approach" requires a capital of SAR 27.467 MM, and the Expenditure Based Approach for last year requires a capital of SAR 34.051 MM. However, the operational risk will depend on the higher result, which will be SAR 34.051 MM for year-end 2016. The details of the calculation are as following:

	Dec 2016 (in SAR 000's)					
Operational Risk	GROSS OPERATING INCOME 2014	GROSS OPERATING INCOME 2015	GROSS OPERATING INCOME 2016	AVERAGE GROSS OPERATING INCOME	RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMEN T
1. BASIC INDICATOR	158,180	183,861	207,334	183,125	15	**27,469**
	OVERHEAD EXPENSES (YEAR -1)				RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
2. EXPENDITURE BASED APPROACH	136,202				25.0	**34,051**
CAPITAL REQUIREMENT FOR OPERATIONAL RISK						**34,051**

	Dec 2015 (in SAR 000's)					
Operational Risk	GROSS OPERATING INCOME 2013	GROSS OPERATING INCOME 2014	GROSS OPERATING INCOME 2015	AVERAGE GROSS OPERATING INCOME	RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMEN T
1. BASIC INDICATOR	125,703	158,180	183,861	155,915	15	**23,387**
	OVERHEAD EXPENSES (YEAR -1)				RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
2. EXPENDITURE BASED APPROACH	116,716				25.0	**29,179**
CAPITAL REQUIREMENT FOR OPERATIONAL RISK						**29,179**

7. Counterparty Credit Risk and Off-Balance Sheet Disclosures

As described in “Section 4” of this document, AKC’s 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 DGRC. For 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.

AKC does not deal with transactions in OTC derivatives, repos and reverse repos and securities borrowing/lending.

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 either arises 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.

AKC prepares a statement of expected cash flows arising at the time of settlement of its assets and liabilities and allocates them in different time intervals in which they are expected to occur. The time intervals (7 intervals) have been defined as per the prudential rules of the CMA.

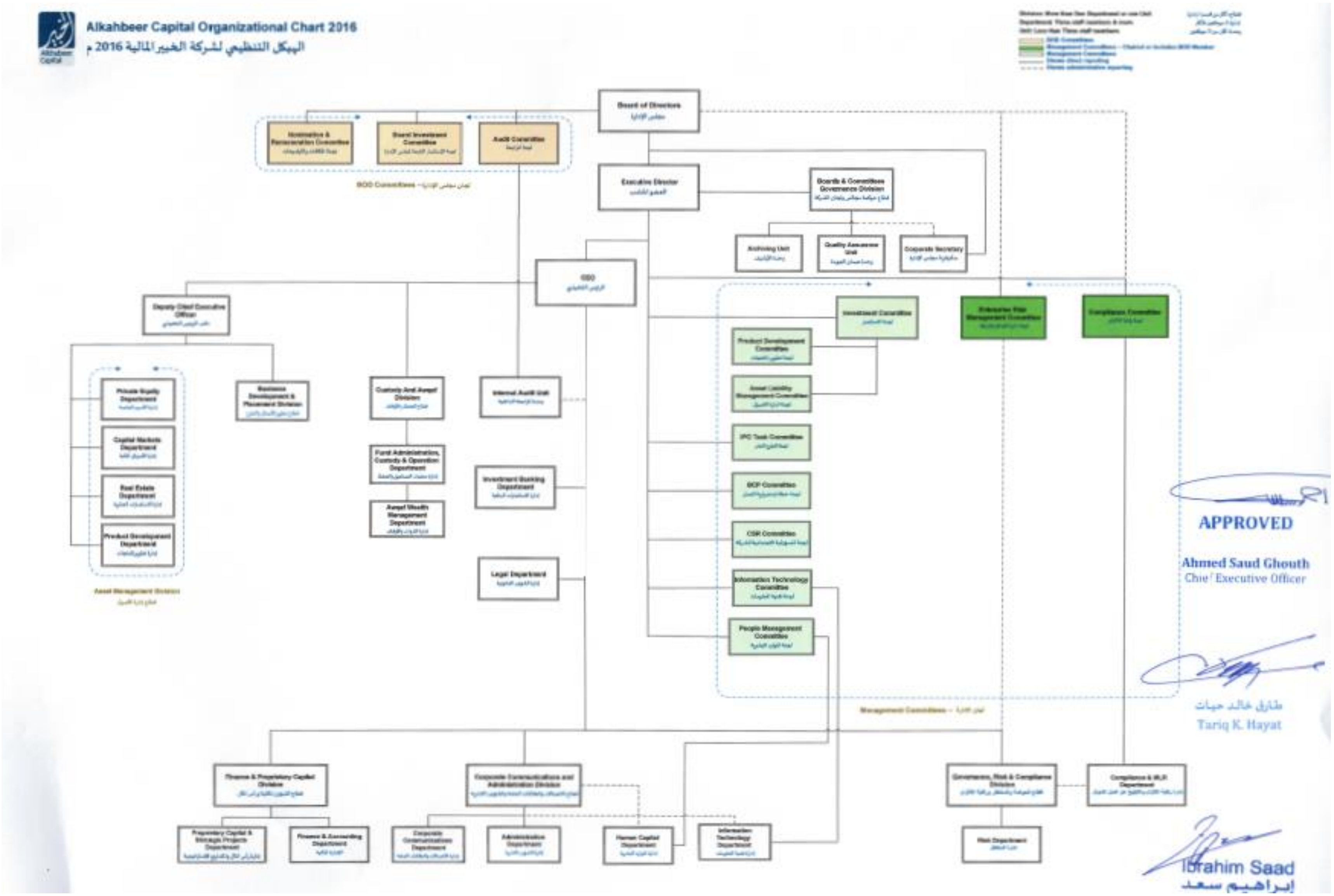
As of Dec 31, 2016, AKC’s liquidity ratio (current ratio) was 2.9, which reflects the comfort level of current assets in meeting the Company’s short-term payment liabilities.

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 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.). As of December

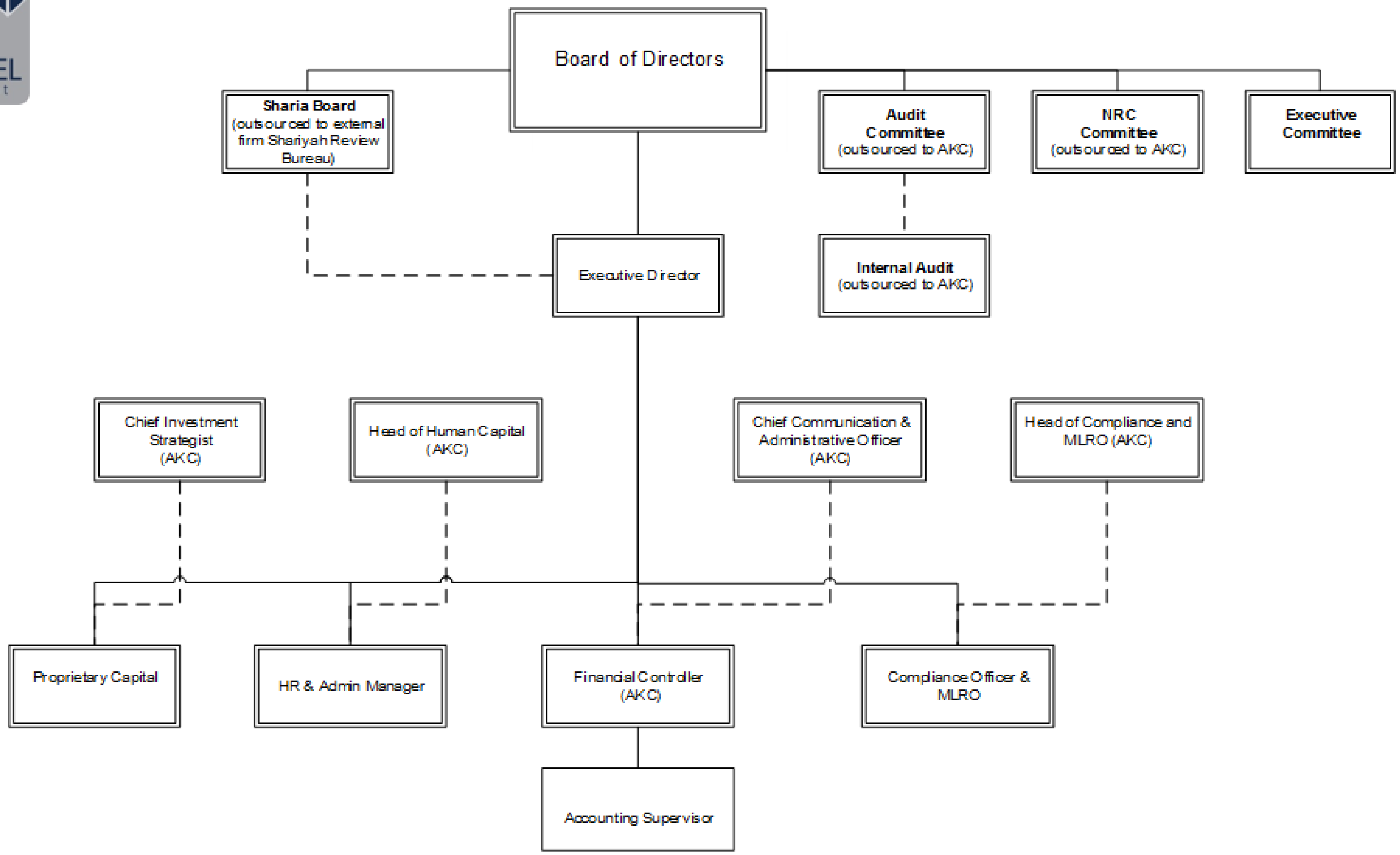
31, 2016, the value of liquid asset was SAR 155.189 MM.

The management develops a contingency funding plan at the beginning of each year to accommodate any liquidity crisis. Such plan includes different resources of funding to meet any unexpected situations.

Appendix I – Organizational Structures of AKC and Sanabel



Sanabel Investment Company B.S.C. (c)



Appendix II- Illustrative Disclosure on Capital Adequacy

	Dec 2016 (SR '000s)				Dec 2015 (SR '000s)			
Exposure Class	**Exposures before CRM**	**Net Exposures after CRM**	**Risk Weighted Assets**	**Capital Requirement**	**Exposures before CRM**	**Net Exposures after CRM**	**Risk Weighted Assets**	**Capital Requirement**
Credit Risk								
On-Balance Sheet Exposures								
Governments and Central Banks	-	-	-	-	-	-	-	-
Authorized Persons and Banks	155,189		31,038	4,345	24,144	-	4,829	676
Corporates	1,384,594		4,153,781	581,529	-	-	-	-
Retail					-	-	-	-
Past Due	474		3,384	474	1,461		10,432	1,460
Investment Funds					50,681		152,043	21,286
Securitization					-	-	-	-
Margin Financing					-	-	-	-
Other Assets	71,357		319,955	44,794	102,235	-	623,059	87,228
High risk investments					227,200		908,800	127,232

Total On-Balance Sheet Exposures	**1,611,613**	**0**	**4,508,157**	**631,142**	**405,721**	**0**	**1,699,163**	**237,882**
Off-Balance Sheet Exposures	12,300		87,822	12,295	-	-	-	-
OTC/Credit Derivatives					-	-	-	-
Repurchase agreements					-	-	-	-
Securities borrowing/lending					-	-	-	-
Commitments					-	-	-	-
Other off-Balance Sheet exposures					-	-	-	-
Total Off-Balance Sheet Exposures	12,300	0	87,822	12,295	-	-	-	-
Total On and Off-Balance sheet Exposures	**1,623,913**	**0**	**4,595,979**	**643,437**	**405,720**		**1,699,162**	**237,882**
Prohibited Exposure Risk Requirement	68,519		283,669	39,714	-	-	-	-
Total Credit Risk Exposures	**1,692,432**	**0**	**4,879,648**	**683,151**	**405,720**	0	**1,699,162**	**237,882**

	Dec 2016 (SR '000s)			Dec 2015 (SR '000s)		
Market Risk	Long Position	Short Position	Capital Requirement	Long Position	Short Position	Capital Requirement
Interest rate risks				-	-	
Equity price risks				484	-	77
Risks related to investment funds				978,109	-	156,497
Securitization/re-securitization positions				-	-	-
Excess exposure risks				-	-	-
Settlement risks and counterparty risks				-	-	-
Foreign exchange rate risks	4,212		101	10,791	-	1,429
Commodities risks.				-	-	
Total Market Risk Exposures	4,212		101	989,384		**158,003**
Operational Risk			**34,051**			**29,179**
Minimum Capital Requirements			***717,302***			***425,066***
Surplus/(Deficit) in capital			***163,340***			***475,104***
Total Capital ratio (time)			**1.23**			**2.12**

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	
	16-Dec	15-Dec	16-Dec	15-Dec	16-Dec	15-Dec	16-Dec	15-Dec	16-Dec	15-Dec	16-Dec	15-Dec
<u>Credit Risk</u>	-											
On-Balance Sheet Exposures												
Governments and Central Banks												
Authorized Persons and Banks	155,189	24,144									155,189	24,144
Corporates											-	
Retail											-	
Past Due	474	1,461									474	1,461
Investment in Funds	1,384,594	50,681									1,384,594	50,681
Securitization											-	
Margin Financing											-	
High Risk Investments		227,200									-	227,200
Other Assets	71,357	102,235									71,357	102,235
Total On-Balance Sheet Exposures	**1,611,613**	**405,721**									**1,611,613**	**405,720**
Off-Balance Sheet Exposures	*12,300*										*12,300*	
OTC/Credit Derivatives											-	
Exposure in the form of repurchase agreements											-	
Exposure in the form of securities lending											-	
Exposure in the form of commitments											-	
Other Off-Balance sheet Exposures											-	
Total Off-Balance sheet Exposures	**12,300**										*12,300*	
Total On and Off-Balance sheet Exposures	**1,623,913**	**405,721**									**1,623,913**	**405,720**

Approved (on behalf of the Board of Directors) By:

Mr.Musaad Mohammad Saad Aldrees, Chairman

Date: ٢٠١٧/٣/٢٧

Signature: