Alkhabeer Capital

Pillar III Disclosures - 2019

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 26 of the audited financial statements for year-end 2019.

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

1.1 Background

Alkhabeer Capital is a prominent asset management company specializing in alternative investments and providing innovative world-class products and services to institutions, family offices and qualified high-net-worth investors. The Company's Shari'a-compliant business activities are distinguished by the highest standards of ethical and professional conduct, executional vigor, and a profound understanding of clients' investment 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 its advisory services help clients improve their capital structures with a wide range of investment banking solutions. Although AKC's expertise lies in the Saudi and GCC markets, our experience and services also span the broader MENA region and select global mature markets such as the United States and the United Kingdom.

In February 2017, AKC received the commencement letter from DFSA (Dubai Financial Services Authority) for its new subsidiary Alkhabeer Capital (DIFC) Limited, which was an investment company based in the DIFC that offers investment services and is regulated by the DFSA. During 2019, AKC obtained DFSA's approval to wind up the license of Alkhbaeer Capital (DIFC), based on a decision by AKC's Board.

(Note: 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) and the Chief Executive Officer (CEO); the Investment Committee and its subcommittees; and the Risk & 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. Alkhabeer Capital is primarily exposed to profit rate risk, credit risk, market risk, liquidity risk, operational risk and reputational risk. The process of risk management is critical to the Company’s continuing profitability and sustainability.

The enterprise-wide risk management activities, as defined at AKC, detail the high-level organizational authorities and processes relating to risk management, and cover all risks including credit, market, operational and regulatory risks. 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:

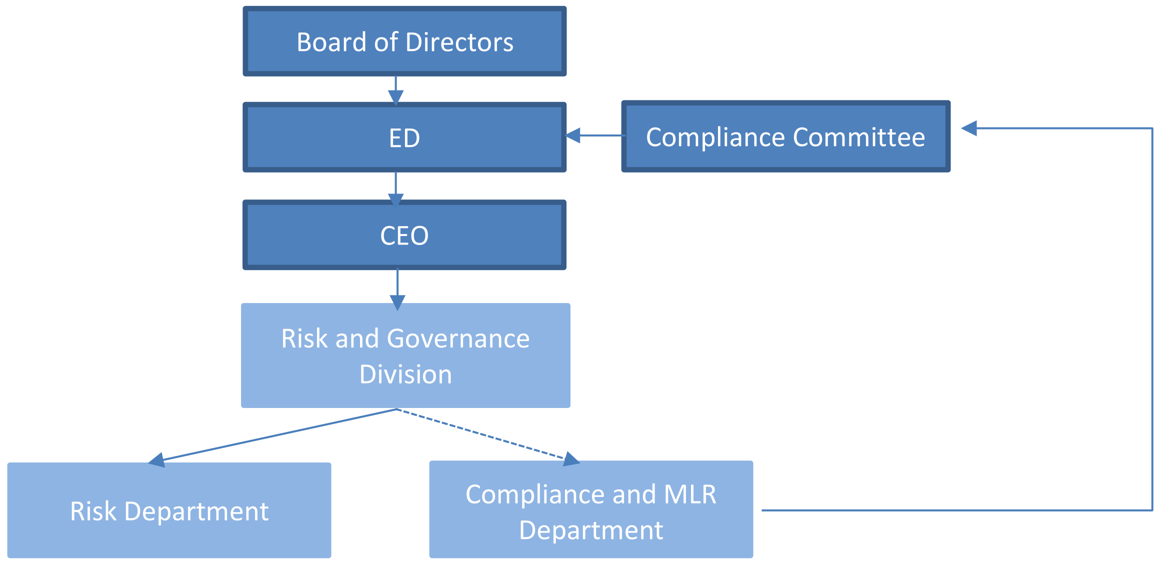
- Approval: All activities which commit AKC (legally, morally or financially) to deliver risk-sensitive products, and any business proposals, require approval by authorized individuals or committees, prior to commitment.
- Independence: Clear separation between Business and Support functions and the 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.
- Committees: 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 an 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 the client relationship activities.
- Asset Management Responsibility: Asset Management is responsible for developing products/investment vehicles and obtaining all related approvals and then managing these products in line with the guidelines to maximize the returns for the investors.
- 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 Risk & Governance Division

The Risk & Governance Division is responsible for the day-to-day oversight of the various risks to which Alkhabeer Capital is exposed, including Credit, Market, Operational, 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: (a) ensuring that all policies and procedures for all departments are up to date, and (b) 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 creating different controls to manage the quality of execution as relates to all investment decisions; 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 at AKC have a duty with respect to complying with regulatory as well as internal compliance 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, using state-of-the-art risk models. Independent systems include CRM and Worldchek. In addition, an Internal Capital Adequacy Model has been 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 as and 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 an adequate capital base. The rules state that an authorized person shall continually possess a capital base that corresponds to not less than the total of the capital requirements as prescribed under Part 3 of the CMA's Prudential Rules.

Taking risk is at the core of AKC's business. Primarily, all of the revenue-generating activities involve risk-taking. Risk is also inherent in the internal business processes and systems and also 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's 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 shareholders' value and investors' returns.

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 AKC's Board and takes into consideration a number of factors, such as the various type of asset classes, 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's investments and the designated proprietary cash of the Company and its subsidiaries shall be consolidated to form the proprietary investment portfolio (the "Portfolio").

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

Capital Base	Dec-19 (SAR '000)	Dec-18 (SAR '000)
Tier-1 Capital		
Paid-up capital	894,523	813,203
Audited retained earnings	-81,300	136,076
Share premium	0	0
Reserves (other than revaluation reserves)	35,659	36,148
Tier-1 capital contribution	0	0
Deductions from Tier-1 capital (-)	0	0
Total Tier-1 Capital	**848,882**	**985,427**
Tier-2 Capital		
Subordinated loans	0	0
Cumulative preference shares	0	0
Revaluation reserves	0	0
Other deductions from Tier-2 (-)	0	0
Deduction to meet Tier-2 Capital limit (-)	0	0
Total Tier-2 Capital	**0**	**0**
TOTAL CAPITAL BASE	**848,882**	**985,427**

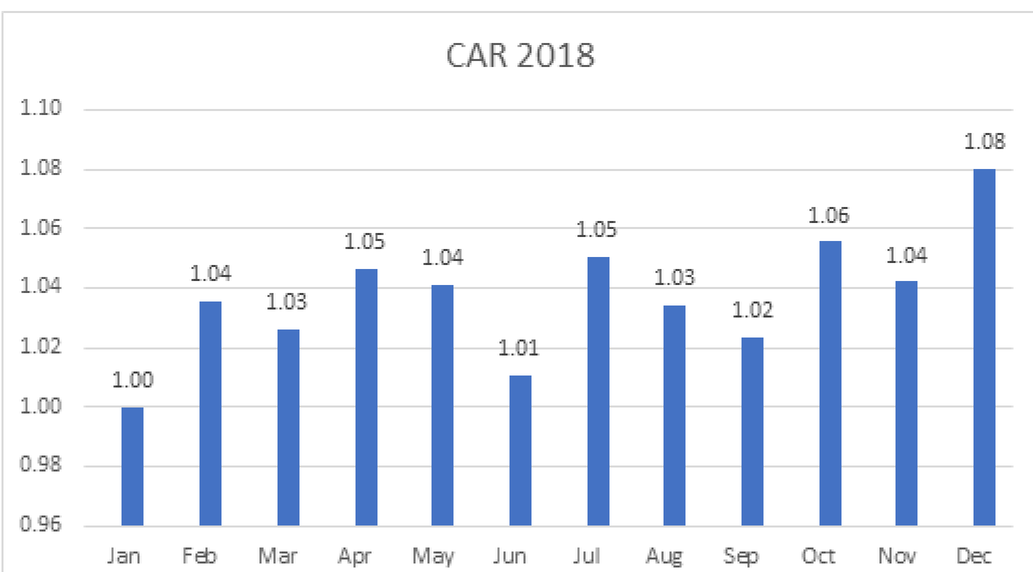
3. Capital Adequacy

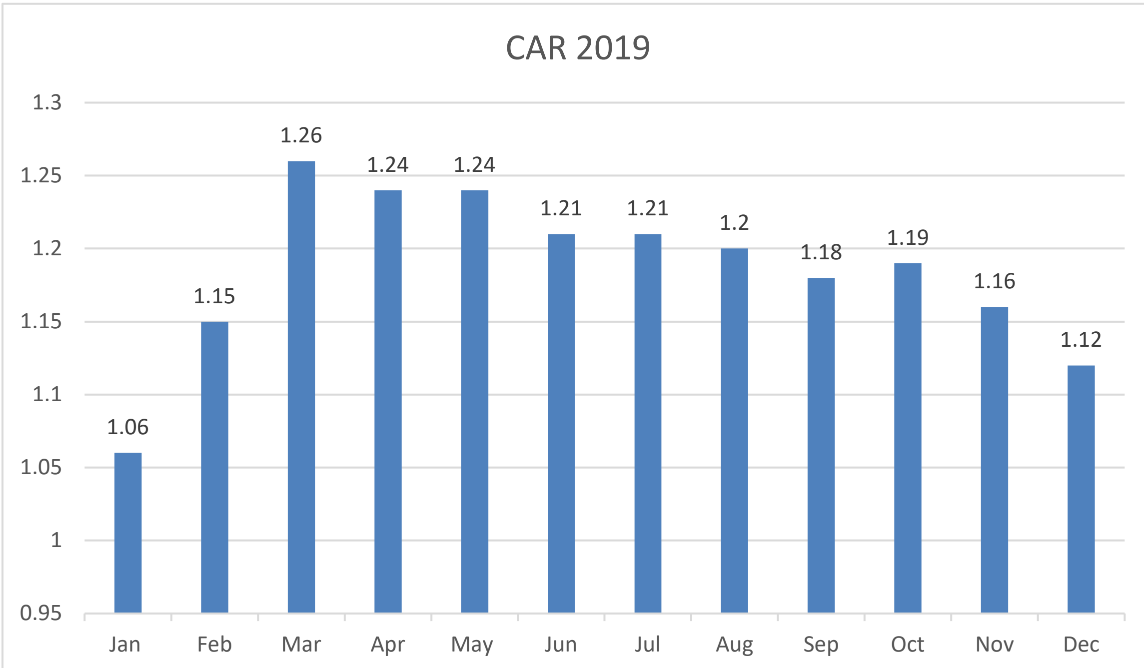
AKC maintains an adequate capital base to cover risks inherent in its business operations. The adequacy of capital is actively managed and monitored using, among other measures, the rules and ratios established under the Prudential Rules set by CMA.

During 2019, AKC has consistently maintained its Capital Adequacy Ratio above 1.00. The Company is keen to maintain a Capital Adequacy above the minimum requirements set in the Prudential Rules set by the CMA. For this purpose, the Risk Department reviews the monthly Prudential Report in which a detailed analysis and justifications for any deviations are identified, and monitors the Capital Adequacy Model on a monthly basis. Further, the movements in the Capital Ratio, along with the detailed analysis and justifications, are reported to the Enterprise Risk Management Committee.

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 2019 and 2018.




CAR 2019
1.3
1.25
1.2
1.15
1.1
1.05
1
0.95
1.06
1.15
1.26
1.24
1.24
1.21
1.21
1.2
1.18
1.19
1.16
1.12
Jan
Feb
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Oct
Nov
Dec

AKC's capital requirement is calculated based on CMA Prudential Rules. As of December 31, 2019, AKC's minimum capital requirement is SAR 760.570MM [*(d)* below] and has a total capital base of SAR 848.882MM [*(e)* below]. The table below is a summary of the capital adequacy disclosure as set out in **Appendix II** (comparative 2019 and 2018).

Exposure Class	Capital Requirement Dec 2019 (SAR 000's)	Capital Requirement Dec 2018 (SAR 000's)
Credit Risk		
Total On- and Off-Balance Sheet Exposures	705,303	868,446
Prohibited Exposure Risk Requirement	10,842	1,444
Total Credit Risk Exposures	*(a)* 716,145	*(a)* 869,890
Market Risk		
Total Market Risk Exposures	*(b)* 8,576	*(b)* 7,945
Operational Risk		
Total Operational Risk Exposures	*(c)* 35,849	*(c)* 32,838
Minimum Capital Requirements	*(d)* 760,570	*(d)* 910,673
Total Capital Base	*(e)* 848,882	*(e)* 985,427
Surplus/(Deficit) in capital	*(f)* 88,312	*(f)* 74,754
Total Capital ratio (time)	*(g)* 1.12	*(g)* 1.08

(d)= (a+b+c)

(f)= (e)-(d)

(g)= (e)/(d)

4. Credit Risk Disclosures

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

For rating counterparties, AKC uses external international standards 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, Risk & Governance (DRG). Subsequently, all counterparty limits are reviewed and approved annually by the Investment Committee. Meanwhile, 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 this investment grade, a higher approval authority is required. Most of the non-rated counterparties are AKC's funds.

AKC's exposure to counterparties is through placements in Murabaha transactions (deposits) and cash, trading through a broker, and subscribing in AKC's private funds. It is worth mentioning that AKC's credit risk is limited to counterparty 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, 2019 the total past dues were SAR 166,000.

Impairment of financial assets:

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing SOCPA GAAP's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. For accounts receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when payments are not made as per contractual terms, which may vary from obligor to obligor. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 taking into account the length of time these receivables have been 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.

In calculating the expected credit loss allowance for accounts receivable and due from related parties, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables, adjusted for forward-looking estimates. The total closing balance of the allowances for doubtful debts as of December 31, 2019 was SAR 2.89MM.

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 2019 (In SAR 000's)			
Portfolio	**Credit Risk Exposure**	**Risk Weighted Assets**	**Capital Requirement**
Authorized persons and banks	**112,174**	22,435	3,141
Corporates	0	0	0
Investment Funds	**1,327,318**	3,981,955	557,474
High Risk Investments	**147,538**	590,152	82,621
Other Assets*	95,334	342,849	47,998
Past-due Items	**166**	1,185	166
Off-balance Sheet Commitments	**30,445**	**30,445**	13,903
Prohibited Exposure	10,842	77,441	10,842
Total	1,723,817	5,115,322	716,145

Dec 2018 (In SAR 000's)			
Portfolio	**Credit Risk Exposure**	**Risk Weighted Assets**	**Capital Requirement**
Authorized persons and banks	**22,390**	4,478	627
Corporates	586	4,188	586
Investment Funds	**1,581,288**	4,743,865	664,142
High Risk Investments	**147,538**	590,152	82,622
Other Assets*	126,641	448,589	62,802
Past-due Items	**166**	1,185	166
Off-balance Sheet Commitments	**134,208**	410,721	57,501
Prohibited Exposure	1,444	10,318	1,444
Total	2,014,261	6,213,496	869,890

*Other assets are mainly items such as tangible assets, deferred expenditure/accrued income, Letters of Guarantee, employee loans, advance payments, and other seedings 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 DRG. Subsequently, all counterparty limits are monitored on a quarterly basis by the Risk Department and reviewed and 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 counterparty 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 invests in its own private funds that are classified under credit risk as per the CMA prudential rules. These exposures are placed in line with the Investment Policy approved by the Board of Directors. The Investment Policy covers the assets allocation, weights and limits for each asset type. In addition, the Investment Policy is reviewed and updated on an annual basis.

4.3 Gross Credit Risk Exposures

The gross credit risk exposure presented in the table below is reflected before applying any credit risk mitigation, such as financial collaterals and guarantees, as 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 is the same as the exposures after Credit Risk Mitigation as at December 31, 2019. The table below is a summary of the Credit Risk Exposures and Mitigations as set out in Appendix III.

		Dec 2019 (In SAR 000's)	
Portfolio	**Credit Risk Exposure**	**Gross Credit Risk Exposure**	**Average Gross Exposure ***
Authorized persons and banks	112,174	112,174	60,941
Corporates	0	0	0
Investment Funds	1,327,318	1,327,318	1,365,211
High Risk Investments	147,538	147,538	155,511
Other Assets	95,334	95,334	112,643
Past-due Items	166	166	166
Off-balance Sheet Commitments	30,445	30,445	33,502
Prohibited Exposure	10,842	10,842	8,340
Total	1,723,817	1,723,827	1,736,314

Portfolio	Credit Risk Exposure	Dec 2018 (In SAR 000's) Gross Credit Risk Exposure	Average Gross Exposure *
Authorized persons and banks	22,390	22,390	42,448
Corporates	586	586	633
Investment Funds	1,581,288	1,581,288	1,309,346
High Risk Investments	147,538	147,538	244,102
Other Assets	126,641	126,641	127,284
Past-due Items	166	166	166
Off-balance Sheet Commitments	134,208	134,208	100,638
Prohibited Exposure	1,444	1,444	30,493
Total	2,014,261	2,014,261	1,855,110

*The Average Gross Exposure was calculated based on the last 12-months' monthly credit exposures during 2019

4.4 Allocation of Credit Exposures to Risk Weight

An analysis of the portfolio by the regulatory risk weights is presented below:

Illustrative Disclosure on Credit Risk's Risk Weight:

Risk Weights	Dec 2019 (In SAR 000's)									
	Authorized persons and banks	Corporates	Past- due items	Investment Funds	High risk invest-ments	Other assets	Off-balance sheet commit-ments	Prohibited Exposure	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets *
0%										
20%	112,174								112,174	22,435
50%									0	0
100%									0	0
150%									0	0
200%									0	0
300%				1,327,318		81,602	28,520		1,437,440	4,312,321
400%					147,538				147,538	590,152
500%									0	0
714% (includes prohibited exposure)			166			13,731	1,925	10,842	26,664	190,414
Total	**112,174**	**0**	**166**	**1,327,318**	**147,538**	**95,334**	**30,445**	**10,842**	**1,723,817**	**5,115,322**

Risk Weights	Dec 2018 (In SAR 000's)									
	Authorized persons and banks	Corporates	Past-due items	Investment Funds	High risk invest-ments	Other assets	Off-balance sheet commit-ments	Prohibited Exposure	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%										
20%	22,390								22,390	4,478
50%									0	0
100%									0	0
150%									0	0
200%									0	0
300%				1,581,288		110,055	120,000		1,811,343	5,434,029
400%					147,538				147,538	590,152
500%									0	0
714% (includes prohibited exposure)		586	166			16,586	7,104	1,444	25,886	184,826
Total	**22,390**	**586**	**166**	**1,581,288**	**147,538**	**126,641**	**127,104**	**1,444**	**2,007,157**	**6,213,485**

* 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 counterparties classified based on the credit rating of the counterparty as of December 31, 2019. 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:

Short-term Ratings of Counterparties as of Dec 2019 (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	F-1+, F-1	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						0
Governments and Central Banks						0
Commercial Banks						0
Authorized Persons and Banks		112,174				
Corporates						0
Retail						
Investment Funds						1,327,318
Securitization						
Margin Financing						
Other Assets						95,500
High Risk Investments						147,538
Off-balance Sheet Commitments						30,445
Prohibited Exposure						10,842
Total		-				1,723,817

Short-term Ratings of Counterparties as of Dec 2018 (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	F-1+, F-1	F2	F3	Below F-3	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						0
Commercial Banks						0
Authorized Persons and Banks		22,390				0
Corporates						586
Retail						
Investment Funds						1,581,288
Securitization						
Margin Financing						
Other Assets						126,807
High Risk Investments						147,538
Off-balance Sheet Commitments						134,208
Prohibited Exposure						1,444
Total		-				**2,014,261**

4.6 Geographic Breakdown of Credit Risk Exposures

The table below describes the geographic distribution of the non-trading activities, which represent the credit risk exposures as per CMA Prudential Rules.

Dec 2019 (In SAR 000's)						
Portfolio	Saudi Arabia	Other GCC	Europe	North America	Other Countries	Total
Authorized Persons and Banks	112,174	-	-	-	-	112,174
Corporates	-	-	-	-	-	0
Investment Funds	1,327,318	-	-	-	-	1,327,318
Other Assets	84,323	11,011	-	-	-	95,334
Past-due Items	-	166	-	-	-	166
High-Risk Investments	147,538	-	-	-	-	147,538
Off-balance Sheet Commitments	30,445	-	-	-	-	30,445
Prohibited Exposure	10,842	-	-	-	-	10,842
Total	**1,712,640**	**11,177**	**-**	**-**	**-**	**1,723,817**

Dec 2018 (In SAR 000's)						
Portfolio	Saudi Arabia	Other GCC	Europe	North America	Other Countries	Total
Authorized Persons and Banks	18,396	3,994	-	-	-	22,390
Corporates	586	-	-	-	-	586
Investment Funds	1,581,288	-	-	-	-	1,581,288
Other Assets	68,917	57,725	-	-	-	126,641
Past-due Items	-	166	-	-	-	166
High-risk Investments	147,538	-	-	-	-	147,538
Off-balance Sheet Commitments	134,208	-	-	-	-	134,208
Prohibited Exposure	1,444	-	-	-	-	1,444
Total	**1,952,377**	**61,885**	**-**	**-**	**-**	**2,014,261**

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 Breakdown as at end-Dec 2019 (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	112,174							112,174
Investment Funds							1,327,318	1,327,318
Other Assets							95,334	95,334
Past-due Items							166	166
High-risk Investments							147,538	147,538
Corporates								0
Off-balance Sheet Commitments							30,445	30,445
Prohibited Exposure							10,842	10,842
Total	**112,174**						1,611,643	1,723,817

Maturity Breakdown as at end-Dec 2018 (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	22,390							22,390
Investment Funds							1,581,288	1,581,288
Other Assets							126,641	126,641
Past-due Items							166	166
High-risk Investments							147,538	147,538
Corporates			136			450		586
Off-balance Sheet Commitments							134,208	134,208
Prohibited Exposure							1,444	1,444
Total	**22,390**		**136**			**450**	**1,991,285**	**2,014,261**

4.8 Changes in the Allowances for Impairment

Movements in the allowance for impairment of receivables were as follows:

Dec 2019 (In SAR 000's)	
At January 1	**2,896**
(Recoveries) / Charges	-
Written off during the year	-
Balance at end of period	**2,896**

Dec 2018 (In SAR 000's)	
At January 1	**2,896**
(Recoveries) / Charges	-
Written off during the year	-
Balance at end of period	**2,896**

5. Market Risk Disclosures

Market risk is the risk of loss on off-balance sheet positions resulting from fluctuations in the level and 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 clients' 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. Additionally, AKC's exposure to its public funds such as REIT Funds, is prone to market increase due to the expected fluctuation in the unit prices on the stock exchange.

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.

5.3 Capital Requirements for Market Risk

The capital requirement for market risk exposures is 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 2019 (In SAR 000’s)		Dec 2018 (In SAR 000’s)	
	Exposure	**Required Capital**	**Exposure**	**Required Capital**
Market Risk	-	-	-	-
Interest rate risks	-	-	-	-
Equity price risks	-		-	
Risks related to investment funds	53,350	8,536	48,945	7,831
Securitization/re-securitization position	-	-	-	-
Excess exposure risks	-	-	-	-
Settlement risks and counterparty risks	-	-	-	-
Foreign exchange rate risks	669	40	4,422	114
Commodities risks	-	-	-	-
Total	**54,019**	**8,576**	**53,367**	**7,945**

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 19.762MM, and the "Expenditure Based Approach" for the last year requires a capital of SAR 35.849MM. However, the operational risk will depend on the higher result, which will be SAR 35.849MM for year-end 2019. The details of the calculation are as following:

<table>
<tr><th></th><th colspan="6">Dec 2019 (in SAR 000's)</th></tr>
<tr><td rowspan="2">OPERATIONAL RISK</td><td colspan="3">GROSS OPERATING INCOME</td><td rowspan="2">AVERAGE GROSS OPERATING INCOME</td><td rowspan="2">RISK CAPITAL CHARGE (%)</td><td rowspan="2">CAPITAL REQUIREMENT</td></tr>
<tr><td>2017</td><td>2018</td><td>2019</td></tr>
<tr><td>1. BASIC INDICATOR</td><td>187,479</td><td>188,213</td><td>19,540</td><td>131,744</td><td>15</td><td>19,762</td></tr>
<tr><td></td><td colspan="3">OVERHEAD EXPENSES (YEAR-1)</td><td></td><td>RISK CAPITAL CHARGE (%)</td><td>CAPITAL REQUIREMENT</td></tr>
<tr><td>2. EXPENDITURE BASED APPROACH</td><td colspan="3">143,397</td><td></td><td>25.0</td><td>35,849</td></tr>
<tr><td>CAPITAL REQUIREMENT FOR OPERATIONAL RISK</td><td colspan="5"></td><td>35,849</td></tr>
</table>

<table>
<tr><th></th><th colspan="6">Dec 2018 (in SAR 000's)</th></tr>
<tr><td rowspan="2">OPERATIONAL RISK</td><td colspan="3">GROSS OPERATING INCOME</td><td rowspan="2">AVERAGE GROSS OPERATING INCOME</td><td rowspan="2">RISK CAPITAL CHARGE (%)</td><td rowspan="2">CAPITAL REQUIREMENT</td></tr>
<tr><td>2016</td><td>2017</td><td>2018</td></tr>
<tr><td>1. BASIC INDICATOR</td><td>207,334</td><td>187,479</td><td>188,213</td><td>194,342</td><td>15</td><td>29,151</td></tr>
<tr><td></td><td colspan="3"></td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="3">OVERHEAD EXPENSES (YEAR -1)</td><td></td><td>RISK CAPITAL CHARGE (%)</td><td>CAPITAL REQUIREMENT</td></tr>
<tr><td>2. EXPENDITURE BASED APPROACH</td><td colspan="3">131,353</td><td></td><td>25.0</td><td>32,838</td></tr>
<tr><td>CAPITAL REQUIREMENT FOR OPERATIONAL RISK</td><td colspan="5"></td><td>32,838</td></tr>
</table>

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) and cash, trading through a broker, and subscription in money market funds. It is AKC's policy to deal only with counterparties with a minimum of BBB- (investment grade) rating, which should also be approved by the DRG. For non-rated counterparties, a higher level of authority is required and 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, there is no collateral requirements.

AKC provides Corporate Guarantees on behalf of its managed funds to the lenders and such off-balance sheet commitments are reflected in the CAR model and presented in the Credit Risk section. Such Corporate Guarantees are issued according to the limits and approval authorities defined in the Investment Policy approved by AKC's Board. As of Dec 31, 2019, the total off-balance sheet commitments were SAR 30MM with a risk requirement of SAR 14MM.

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 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 requires measuring, monitoring, and reporting liquidity.

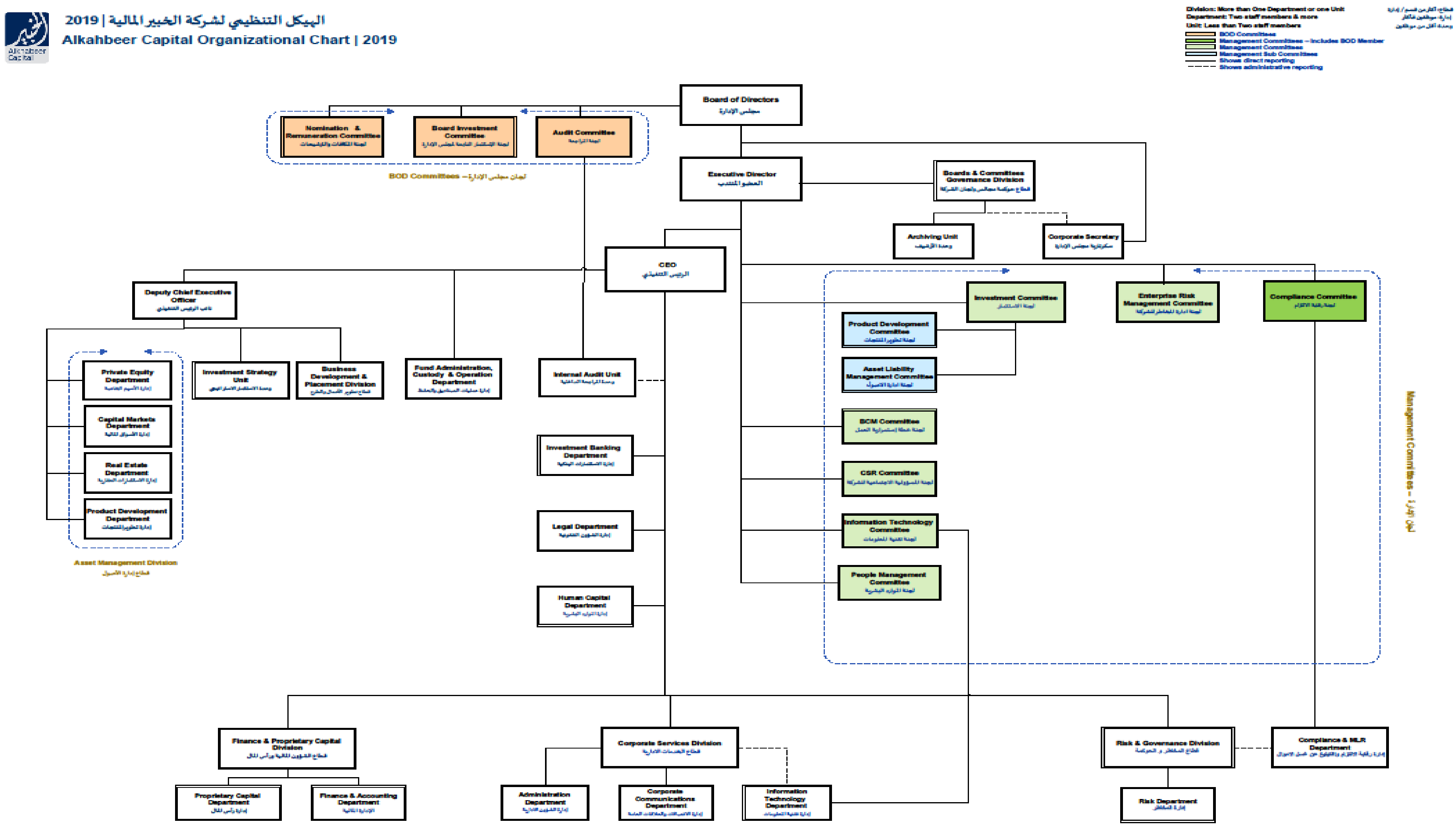
AKC prepares a statement of forecasted cash flows on a monthly basis that is monitored closely by the Asset and Liabilities Committee (ALCO). ALCO utilizes different tools to engineer and ensure that the Company has sufficient liquidity levels to meet its future commitments.

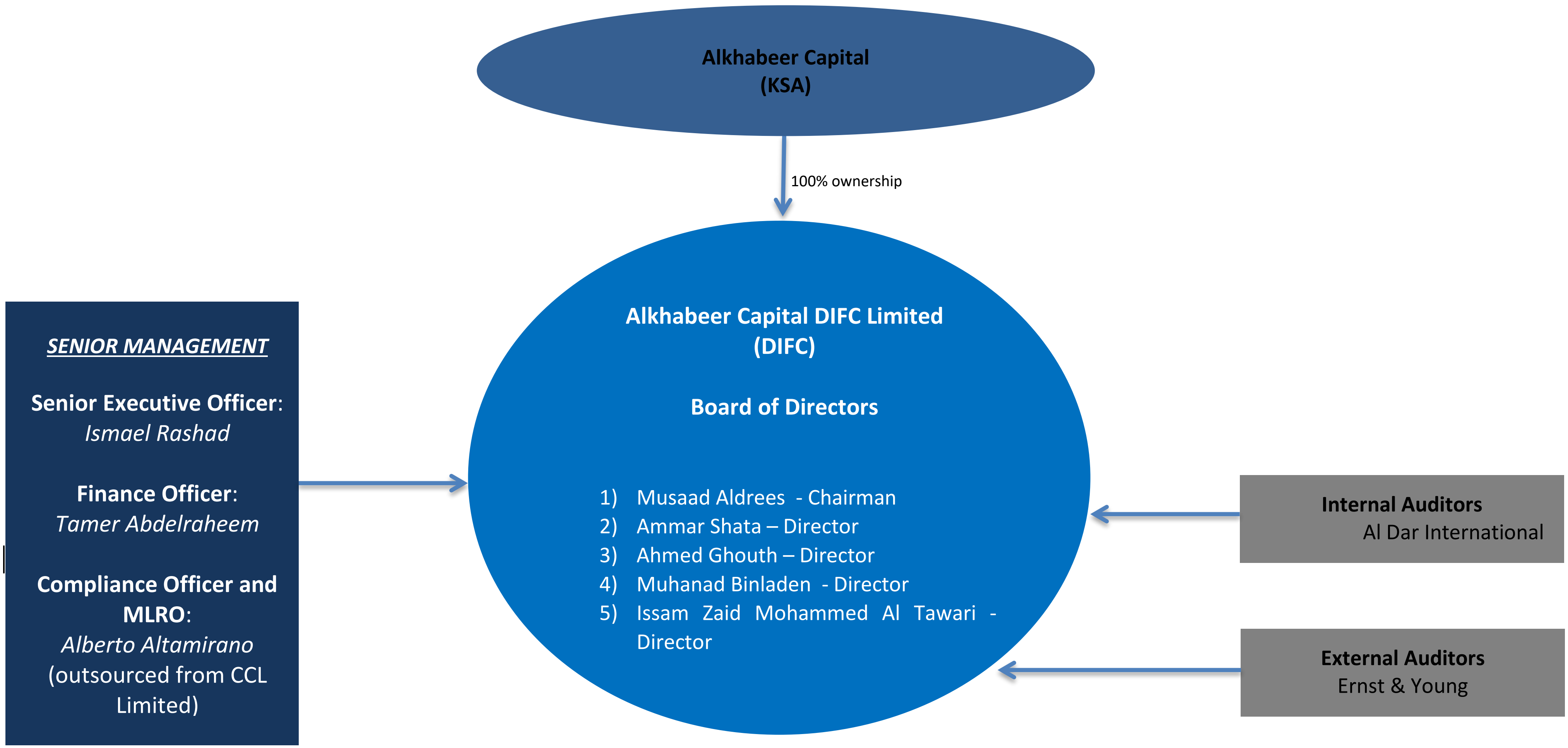
As of Dec 31, 2019, AKC's current ratio was 2.9, which reflects the comfort level of current assets in meeting the Company’s short-term payment liabilities.

Proprietary investments and designated proprietary cash of the Company and its subsidiaries are consolidated to form the proprietary investment portfolio (the “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. As per the Liquidity Policy, the company should maintain cash balance of 6-months forward looking working capital or SAR 40MM, whichever is higher. As of December 31, 2019, the cash balance was SAR 112.2MM.

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 Alkhabeer Capital and Alkhabeer DIFC Limited




Alkhabeer Capital (KSA)
100% ownership
Alkhabeer Capital DIFC Limited (DIFC)
Board of Directors
1) Musaad Aldrees - Chairman
2) Ammar Shata – Director
3) Ahmed Ghouth – Director
4) Muhanad Binladen - Director
5) Issam Zaid Mohammed Al Tawari - Director
SENIOR MANAGEMENT
Senior Executive Officer: Ismael Rashad
Finance Officer: Tamer Abdelraheem
Compliance Officer and MLRO: Alberto Altamirano (outsourced from CCL Limited)
Internal Auditors
Al Dar International
External Auditors
Ernst & Young

Appendix II- Illustrative Disclosure on Capital Adequacy

	Dec 2019 (In SAR 000's)				Dec 2018 (In SAR 000's)			
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	112,174	112,174	22,435	3,141	22,390	22,390	4,478	627
Corporates					586	586	4,188	586
Retail								
Past-Due	166	166	1,185	166	166	166	1,185	166
Investment Funds	1,327,318	1,327,318	3,981,955	557,474	1,581,288	1,581,288	4,743,865	664,141
Securitization								
Margin Financing								
Other Assets	95,334	95,334	342,849	47,998	126,641	126,641	448,589	62,802
High-risk Investments	147,538	147,538	590,152	82,621	147,538	147,538	590,152	82,621

Total On-Balance Sheet Exposures	**1,682,530**	**1,682,530**	**4,938,576**	**691,400**	**1,878,609**	**1,878,609**	**5,792,457**	**810,943**
Off-Balance Sheet Exposures	-	-	-	-	-	-	-	-
OTC/Credit Derivatives	-	-	-	-	-	-	-	-
Repurchase Agreements	-	-	-	-	-	-	-	-
Securities Borrowing /-Lending	-	-	-	-	-	-	-	-
Commitments	30,445	30,445	99,305	13,903	134,208	134,208	410,721	57,501
Other off-Balance Sheet Exposures	-	-	-	-	-	-	-	-
Total Off-Balance Sheet Exposures	30,445	30,445	99,305	13,903	134,208	134,208	410,721	57,501
Total On and Off-Balance Sheet Exposures	1,712,975	1,712,975	5,037,881	705,303	2,012,817	2,012,817	6,203,178	868,446
Prohibited Exposure Risk Requirement	10,842	10,842	77,441	10,842	1,444	1,444	10,318	1,444
Total Credit Risk Exposures	1,723,817	1,723,817	5,115,322	716,145	2,014,261	2,014,261	6,213,496	869,890

	Dec 2019 (In SAR 000's)			Dec 2018 (In SAR 000's)		
Market Risk	Long Position	Short Position	Capital Requirement	Long Position	Short Position	Capital Requirement
Interest Rate Risks						
Equity Price Risks Risks Related to Investment Funds	55,350		8,536	48,945		7,831
Securitization / Re-securitization Positions						
Excess Exposure Risks						
Settlement Risks and Counterparty Risks						
Foreign Exchange Rate Risks	669		40	4,422		114
Commodities Risks.						
Total Market Risk Exposures			8,576			7,945
Operational Risk			**35,849**			**32,838**
Minimum Capital Requirements			**760,570**			**910,673**
Surplus/(Deficit) in capital			**88,312**			**74,754**
Total Capital ratio (time)			**1.12**			**1.08**

Appendix III - Illustrative Disclosure on Credit Risk Mitigation (CRM) (as of December in SAR 000's)

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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	**2019**	**2018**
Credit Risk	-	-	-	-	-	-	-	-	-	-		
On-Balance Sheet Exposures	-	-	-	-	-	-	-	-	-	-		
Governments and Central Banks	-	-	-	-	-	-	-	-	-	-		
Authorized Persons and Banks	112,174	22,390	-	-	-	-	-	-	-	-	112,174	22,390
Corporates	-	586	-	-	-	-	-	-	-	-	-	586
Retail	-	-	-	-	-	-	-	-	-	-	-	-
Past-Due	166	166	-	-	-	-	-	-	-	-	166	166
Investment in Funds	1,327,318	1,581,288	-	-	-	-	-	-	-	-	1,327,318	1,581,288
Securitization	-	-	-	-	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-	-	-	-	-
High Risk Investments	147,538	147,538	-	-	-	-	-	-	-	-	147,538	147,538
Other Assets	95,334	126,641	-	-	-	-	-	-	-	-	95,334	126,641
Total On-Balance Sheet Exposures	1,682,530	1,878,609									1,682,530	1,878,609
Off-Balance Sheet Exposures	-	-	-	-	-	-	-	-	-	-	-	-
OTC/Credit Derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Exposure in the Form of Repurchase Agreements	-	-	-	-	-	-	-	-	-	-	-	-
Exposure in the Form of Securities Lending	-	-	-	-	-	-	-	-	-	-	-	-
Exposure in the Form of Commitments	***30,445***	***134,208***	-	-	-	-	-	-	-	-	***30,445***	***134,208***
Other Off-Balance Sheet Exposures	-	-	-	-	-	-	-	-	-	-	-	-
Total Off-Balance Sheet Exposures	**30,445**	**134,208**	-	-	-	-	-	-	-	-	**30,445**	**134,208**
Total On and Off-Balance Sheet Exposures	1,712,975	2,012,817									1,712,975	2,012,817

<u>Approved (on behalf of the Board of Directors) By:</u>

Mr. Musaad Mohammad Aldrees, Chairman

Date:

Signature: