



Alkhabeer Capital

Pillar III Disclosures - 2015

Issued March 2016



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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 19 of the audited financial statements for year-end 2015.

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

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 to access and/or allocate capital to deliver real and enduring economic value. AKC’s Shari’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 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. AKC’s experience and investments span the broader MENA region, as well as 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 2015 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.

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.

The organizational structure of AKC and Sanabel in 2015 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 & Chief Executive Officer (ED & 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.



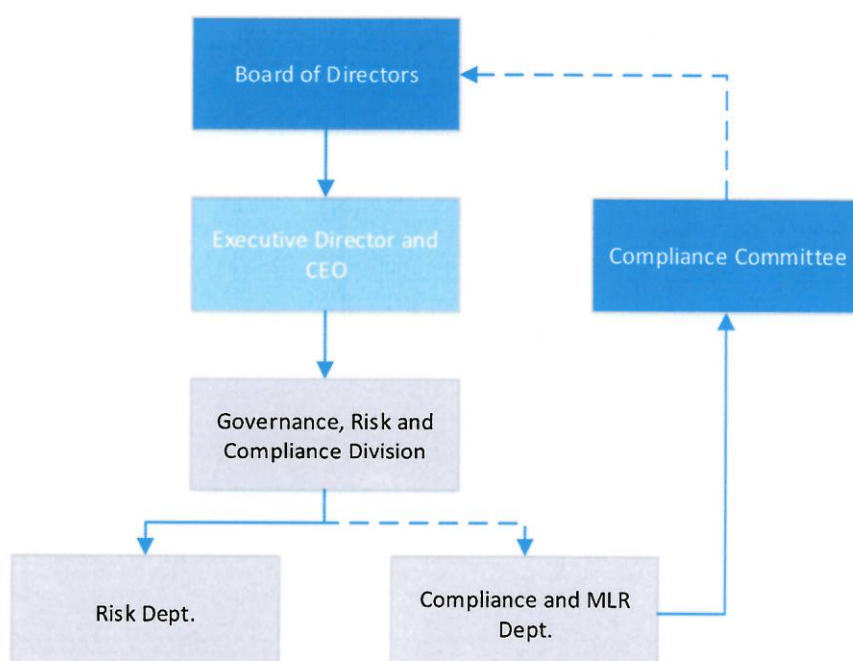


- Transparency: Risk Management structures and policies and procedures are transparent and are based on consistent principles, are in written form, and are well communicated within the organization.
- Committee: Decisions regarding policy, product, portfolio, and large or high-risk investments are taken by an appropriate committee.
- Approval Authority: Authorities are delegated: by the Board of Directors, and 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 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

While the ultimate responsibility of Compliance lies with AKC's 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 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 division 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. The Company's capital adequacy is now monitored on a monthly basis and shows a healthy coverage ratio within the allowed range, or higher.





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 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 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.

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, 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 2015 (SR '000)	Dec 2014 (SR '000)
<u>Tier-1 capital</u>		
Paid-up capital	813,203	813,203
Audited retained earnings	70,063	50,289
Share premium	0	0
Reserves (other than revaluation reserves)	16,820	10,105
Tier-1 capital contribution	0	0
Deductions from Tier-1 capital	0	0
Total Tier-1 capital	900,086	873,597
<u>Tier-2 capital</u>		
Subordinated loans	0	0
Cumulative preference shares	0	0
Revaluation reserves	84	83
Other deductions from Tier-2 (-)	0	0
Deduction to meet Tier-2 capital limit (-)	0	0
Total Tier-2 capital	84	83
TOTAL CAPITAL BASE	900,170	873,680



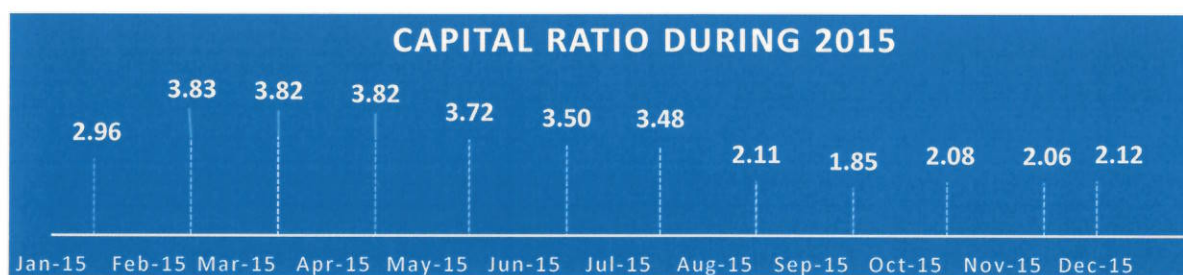
3. Capital Adequacy

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 2015, AKC has consistently maintained its Capital Ratio above 1.85. 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 chaired by a board member.

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 graph below shows the Capital Ratio throughout 2015.





AKC's capital requirement is calculated based on CMA Prudential Rules. AKC's minimum capital requirement is SAR 425.066 MM as of December 31, 2015. AKC has total capital base of SAR 900.170 MM. The table below is a summary of the capital adequacy disclosure as set out in **Appendix II** (comparative 2015 and 2014).

Exposure Class	Capital Requirement Dec 2015 (SAR 000's)	Capital Requirement Dec 2014 (SAR 000's)
<u>Credit Risk</u>		
Total On and Off-Balance	237,883	88,963
Prohibited Exposure Risk	-	-
Total Credit Risk Exposures	(a) 237,883	88,963
<u>Market Risk</u>		
Total Market Risk Exposures	(b) 158,004	117,463
<u>Operational Risk</u>	(c) 29,179	25,220
Minimum Capital	(d) 425,066	231,645
Total Capital Base	(e) 900,170	873,680
Surplus/(Deficit) in capital	(f) 475,104	642,035
Total Capital ratio (time)	(g) 2.12	3.77

$$(d) = (a+b+c)$$

$$(f) = (e) - (d)$$

$$(g) = (e) / (d)$$





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 money market funds. All of these investments are of short term and highly liquid nature. 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. AKC's average counterparties' portfolio rating as of Dec 31, 2015 is BBB-.

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 APs or Banks. As of December 31, 2015 the total past dues were SAR 1.46 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, 2015 was SAR 10.969 MM.

General Provisions:

Provisions are recognized when AKC 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, 2015.



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 2015 (In SAR 000's)			
Portfolio	Credit Risk Exposure	Risk Weighted Assets	Capital Requirement
Authorised persons and banks	24,144	4828.8	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	237,883

Dec 2014 (In SAR 000's)			
Portfolio	Credit Risk Exposure	Risk Weighted Assets	Capital Requirement
Authorized persons and Banks	107,650	21,530	3,014
Corporates	602	4,298	602
Investment Funds	30,482	45,723	6,401
Other assets*	90,957	552,716	77,380
Past due items	1,575	11,246	1,574
Total	231,266	635,448	88,963

*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. Our average counterparties' portfolio rating as of December 31, 2015 is BBB-.

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

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, 2015. Refer to **Appendix III** for more details on the Credit Risk Exposures and Mitigations.

Portfolio	Dec 2015 (In SAR 000's)		
	Credit Risk Exposure	Gross Credit Risk Exposure	Average Gross Exposure *
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

Portfolio	Dec 2014 (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	90,957	90,957	212,914
Past due items	1,575	1,575	1,832
Total	231,266	231,266	551,353

*The Average Gross Exposure was calculated based on the last 12-months' monthly credit exposures during 2015.



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:

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





Dec 2014 (SR'000s)

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	231,275	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, 2015. AKC follows Annex 11 and Annex 12 of the prudential rules to determine the exposure's credit quality. All the exposures were short term in nature.

Illustrative Disclosure on Credit Risk's Rated Exposure:

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
<u>On and Off-balance-sheet Exposures</u>						
Governments and Central Banks						
Authorized Persons and Banks		24,144				1,461
Corporates						
Retail						
Investment Funds						50,681
Securitization						
Margin Financing						
Other Assets						102,234
High Risk Investments						227,200
Total		<u>24,144</u>				<u>381,576</u>

Exposure Class	Short term Ratings of counterparties Dec 2014 (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						
Authorized Persons and Banks		24,983	82,667			1,575
Corporates						602
Retail						
Investment Funds						30,482
Securitization						
Margin Financing						
Other Assets						90,957
Total		24,983	82,667			122,041

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.

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

Portfolio	Dec 2014 (SR'000s)				
	Saudi Arabia	Other GCC	Europe	North America	Other Countries
Authorized persons and banks	24,983	-	82,667	-	-
Corporates	602	-	-	-	-
Investment Funds	30,482	-	-	-	-
Other assets	90,957	-	-	-	-
Past due items	-	1,575	-	-	-
Total	147,024	1,575	82,667	-	-
					231,266

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.

Portfolios	Maturity Dec 2015 (In SAR 000's)						Total
	Less than 8 days	8 - 30 days	30 - 90 days	90 - 180 days	180 - 360 days	1 - 3 years	
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

Portfolios	Maturity Dec 2014 (In SAR 000's)						Total
	Less than 8 days	8 - 30 days	30 - 90 days	90 - 180 days	180 - 360 days	1 - 3 years	
Authorized persons and banks	107,650	-	-	-	-	-	107,650
Corporates	-	-	-	-	-	602 *	602
Investment Funds	-	-	-	-	30,482	-	30,482
Other assets	-	-	90,957	-	-	-	90,957
Past due items	-	-	-	-	-	1,575	1,575
Total	107,650		90,957		30,482	2,177	231,266



4.8 Changes in the Allowances for Impairment

The Group's allowances for doubtful debts include SR 5.529 million (2014: SR 5.529 million) against Commodity murabaha receivable and SR 5.440 million (2014: 5.457 million) against account receivable, gross respectively. Movements in the allowance for impairment of receivables were as follows:

	Dec 2015 (In SAR 000's)
At January 1	10,986
(Recoveries) / Charges	(17)
Balance, end of period	10,969
	Dec 2014 (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, 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. Further, it provides reports on soft breaches, which represents a deviation 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.

	Dec 2015 (SR '000s)		Dec 2014 (SR '000s)	
	Exposure	Required Capital	Exposure	Required Capital
<u>Market Risk</u>				
Interest rate risks	-	-	-	-
Equity price risks	484	77		
Risks related to investment funds	978,109	156,497	708,946	113,431
Securitization/re-securitization position	-	-	-	-
Excess exposure risks	-	-	-	-
Settlement risks and counterparty risks	-	-	-	-
Foreign exchange rate risks	10,791	1,429	73,399	4,032
Commodities risks	-	-	-	-
Total	989,384	158,004	782,345	117,463



6. Operational Risk Disclosures

The qualitative disclosures of the operational risk were discussed in detail in section 1.3 of this document. 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 23.38 MM, and the Expenditure Based Approach for last year requires a capital of SAR 29.17 MM. However, the operational risk will depend on the higher result, which will be SAR 29.17 MM for year-end 2015. The details of the calculation are as following:

Dec 2015 (in SAR 000's)						
Operational Risk	GROSS OPERATING INCOME			AVERAGE GROSS OPERATING INCOME	RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMEN T
	2013	2014	2015			
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

	Dec 2014 (in SAR 000's)					
Operational Risk	GROSS OPERATING INCOME			AVERAGE GROSS OPERATING INCOME	RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
	2012	2013	2014			
1. BASIC INDICATOR	107,342	125,703	158,180	130,408	15	19,561
	OVERHEAD EXPENSES (YEAR -1)				RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
2. EXPENDITURE BASED APPROACH	100,878				25	25,220
CAPITAL REQUIREMENT FOR OPERATIONAL RISK						25,220



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, 2015, AKC’s liquidity ratio (current ratio) was 3.6, 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.

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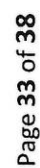
Cash allocated for 6-months working capital forms part of the Portfolio and it is reserved at SAR 50 MM. The Finance and Accounting Department ensures it maintains cash balances that are sufficient to fulfill its recurring obligations (salaries, general expenses, ... etc.). As of December 31, 2015, the value of liquid asset was SAR 85.633 MM, including cash.

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.

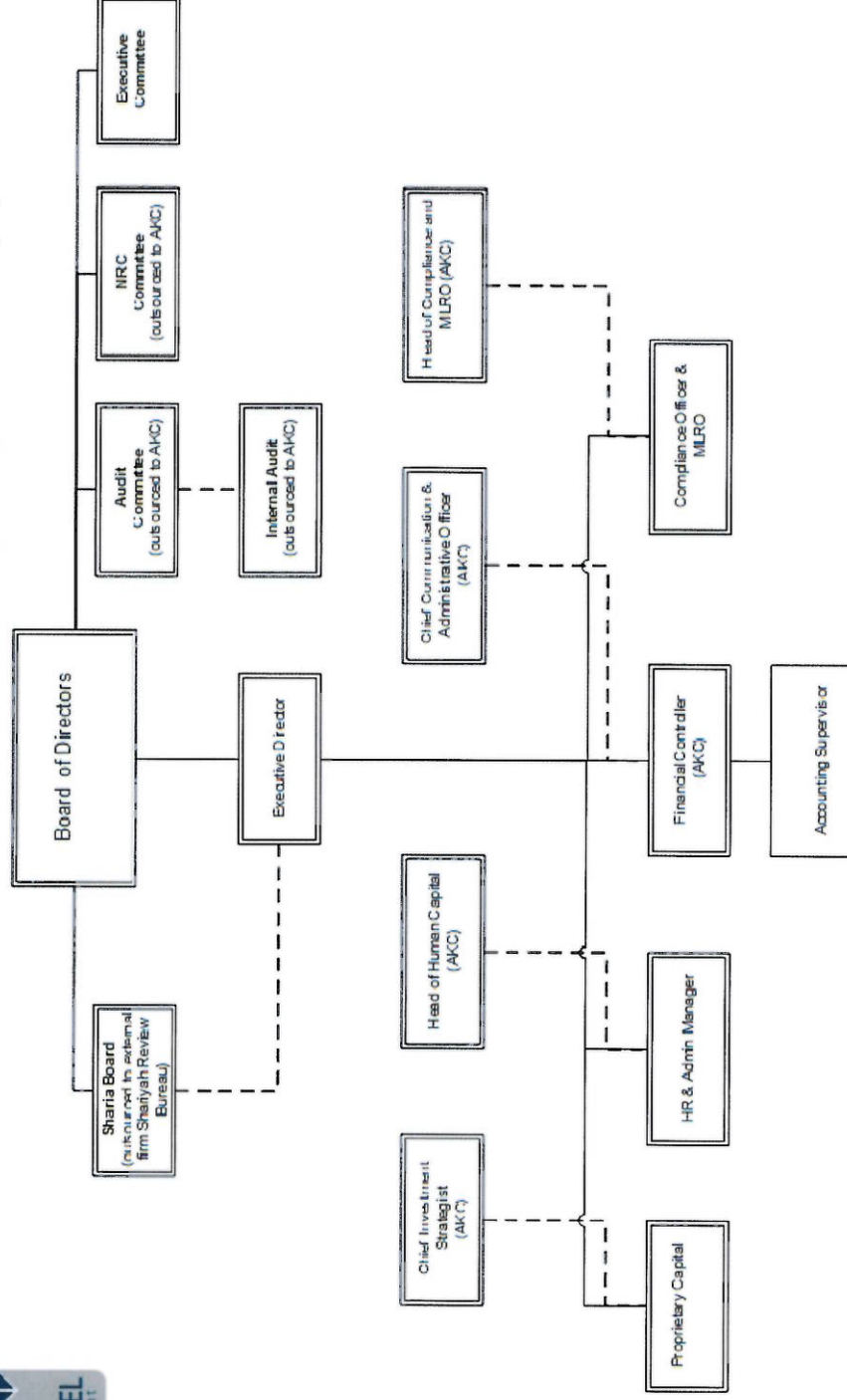
During 2015, the CMA issued a new requirement in which it prohibited the fund manager or any of the related parties to increase or decrease their ownership in the Real Estate Funds after the end of the subscription period. In addition, such requirement will be applied to all other type of funds such as "Private Equity Funds" during 2016, according to CMA's "Draft Investment Funds Regulations".

The above requirement will not allow AKC to sell down its units of the funds that have been underwritten by AKC for ensuring the success of the fund inception on time, and thus protecting the unit holders from any delay or extension that would adversely affect the return on the investors' investments. Subsequently, this requirement will weaken the liquidity levels of AKC and slow down its capital cycle. With a slow capital cycle, AKC might not be able to seed promising investment opportunities and secure them for investors, thus scaling down its role as a market maker.





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



Appendix II- Illustrative Disclosure on Capital Adequacy

Exposure Class	Dec 2015 (SR '000s)				Dec 2014 (SR '000s)			
	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
<u>Credit Risk</u>								
<i>On-Balance Sheet Exposures</i>								
Governments and Central	-	-	-	-				
Authorized Persons and Banks	24,144	-	4,828.8	676	107,650		21,530	3,014
Corporates	-	-	-	-	602		4,298	602
Retail	-	-	-	-	-			
Past Due	1,461	-	10,432	1,460	1,575		11,246	1,574
Investment Funds	50,681	-	152,043	21,286	30,482		45,723	6,401
Securitization	-	-	-	-	-			
Margin Financing	-	-	-	-	-			
Other Assets	102,235	-	623,059	87,228	90,957		552,652	77,371
High risk investments	227,200	-	908,800	127,232	-			
Total On-Balance Sheet Exposures	405,720		1,699,162	237,882	231,266		635,448	88,963
<i>Off-Balance Sheet Exposures</i>								
Off-Balance Sheet Exposures	-	-	-	-				
OTC/Credit Derivatives	-	-	-	-				
Repurchase agreements	-	-	-	-				
Securities borrowing/lending	-	-	-	-				
Commitments	-	-	-	-				
Other off-Balance Sheet	-	-	-	-				
Total Off-Balance Sheet Exposures	-	-	-	-	-	-	-	-
Total On and Off-Balance sheet Exposures	405,720		1,699,162	237,882	231,266		635,448	88,963
Prohibited Exposure Risk Requirement	-	-	-	-	-	-	-	-
Total Credit Risk Exposures	405,720	0	1,699,162	237,882	231,266		635,448	88,963

	Dec 2015 (SR '000s)			Dec 2014 (SR '000s)		
	Long Position	Short Position	Capital Requirement	Long Position	Short Position	Capital Requirement
<u>Market Risk</u>						
Interest rate risks	-	-				
Equity price risks	484	-	77			
Risks related to investment funds	978,109	-	156,497	708,946		113,431
Securitization/re-securitization positions	-	-	-			
Excess exposure risks	-	-	-			
Settlement risks and counterparty risks	-	-	-			
Foreign exchange rate risks	10,791	-	1,429	73,399		4,032
Commodities risks.	-	-				
Total Market Risk Exposures	989,384		158,003	782,345		117,463
<u>Operational Risk</u>			29,179			25,220
Minimum Capital			425,066			231,645
Surplus/(Deficit) in capital			475,104			642,035
Total Capital ratio (time)			2.12			3.77

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	
	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14
Credit Risk												
<i>On-Balance Sheet Exposures</i>												
Governments and Central Banks												
Authorized Persons and Banks	24,144	107,650									24,144	107,650
Corporates		602										602
Retail												
Past Due	1,461	1,575									1,461	1,575
Investment in Funds	50,681	30,482									50,681	30,482
Securitization												
Margin Financing												
High Risk Investments	227,200										227,200	
Other Assets	102,235	90,957									102,235	90,957
Total On-Balance Sheet Exposures	405,720	231,266									405,720	231,266
<i>Off-Balance Sheet Exposures</i>												
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												
Total On and Off-Balance sheet Exposures	405,720	231,275									405,720	231,275



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

Mr. Musaad Mohammad Saad Aldrees, Chairman

Date: 28/3/2016

Signature:

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