

Alkhabeer Capital

Pillar III Disclosures - 2021

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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 27 of the audited financial statements for year-end 2021.

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 addition, 2021 witnessed progress in the processes of establishing the Brokerage Department, as it seeks to make many financial and investment products available for trading in the local market through the main or parallel financial market, the bond or sukuk market and derivatives, as well as in international markets such as stocks, traded investment funds and derivatives markets.

(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.

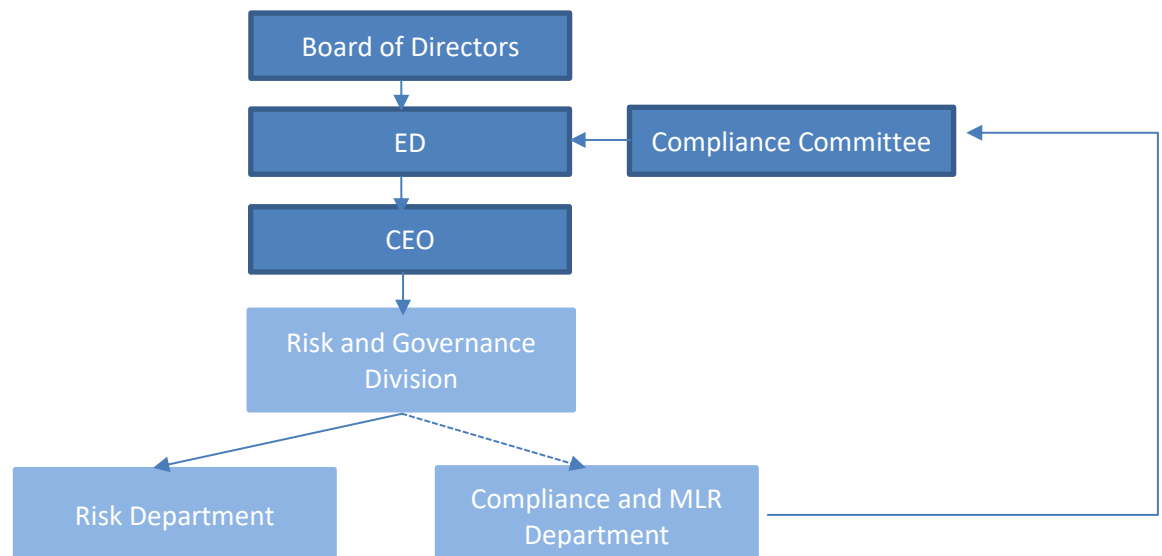
The following guiding principles apply to all risk management activities:

- 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 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 organizational process as well as within 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 limitations, 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 as of December 31, 2021:



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 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-21 (SAR '000)	Dec-20 (SAR '000)
<u>Tier-1 Capital</u>		
Paid-up capital	894,523	894,523
Audited retained earnings	48,241	-19,670
Share premium	0	0
Reserves (other than revaluation reserves)	40,107	34,631
Tier-1 capital contribution	0	0
Deductions from Tier-1 capital (-)	0	0
Total Tier-1 Capital	982,871	909,484
<u>Tier-2 Capital</u>		
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	982,871	909,484

3. Capital Adequacy

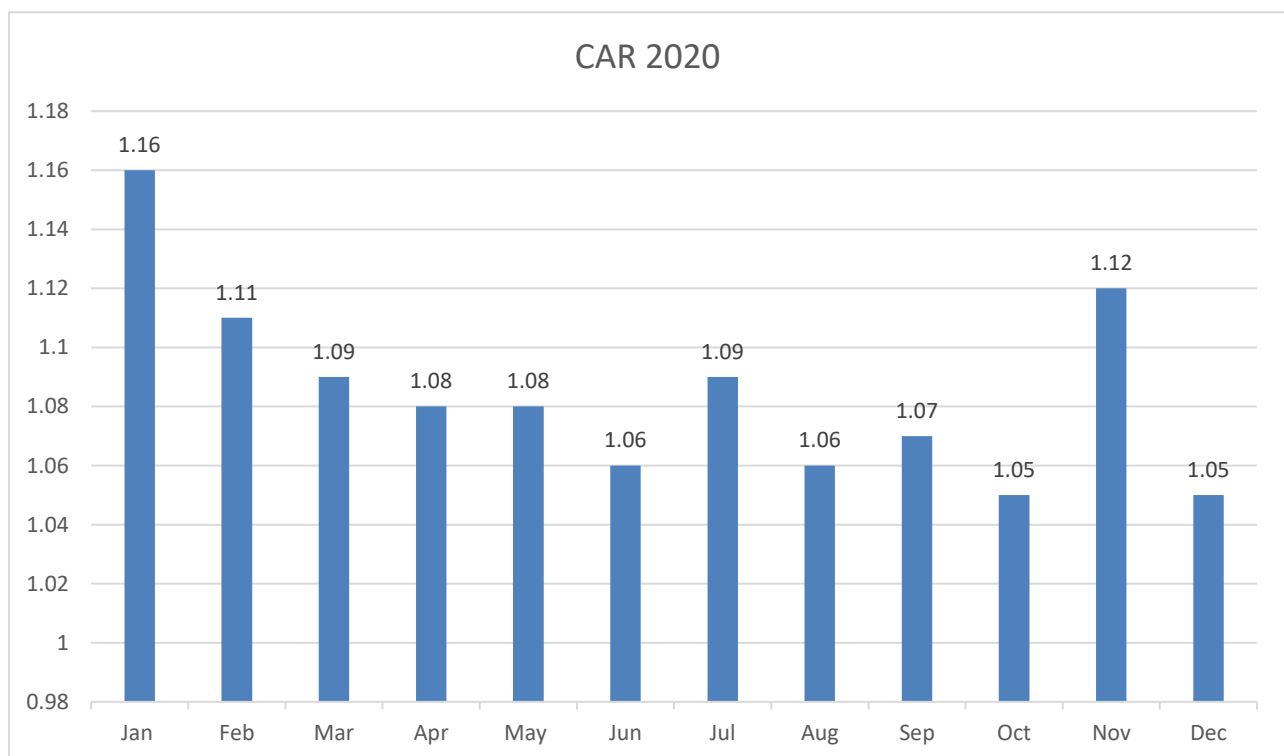
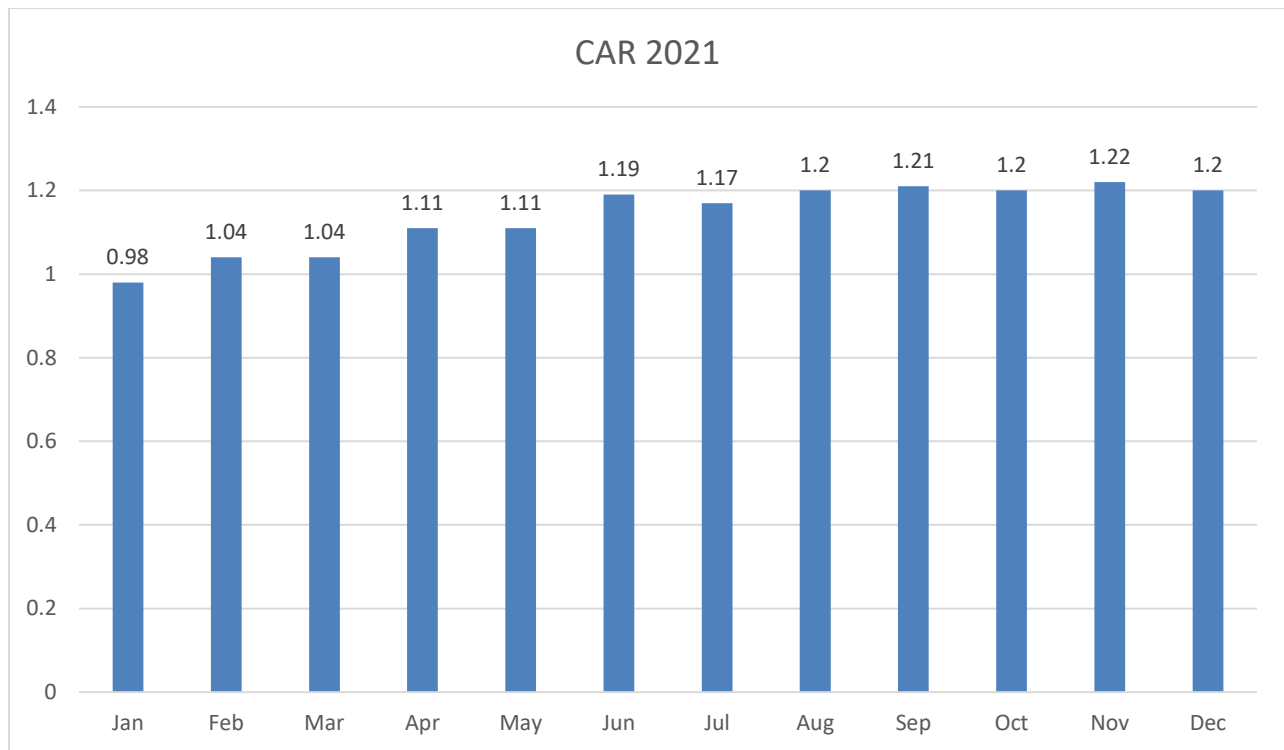
AKC maintains an adequate capital base to cover risks inherent in its business operations. The adequacy of capital is actively managed and monitored using, among other measures, the rules and ratios established under the Prudential Rules set by CMA.

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.

During 2021, AKC has maintained its Capital Adequacy Ratio (CAR) above 1.00, except for the month of January where it dropped to 0.9, which was due to not adding the unaudited profits for the period. The CAR was adjusted the following month after issuing the audited Financial Statements and the CAR was above 1.00 for February 2021 and the remaining months of the year.

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 shows the Capital Ratio movement throughout 2021 and 2020.



AKC's capital requirement is calculated based on CMA Prudential Rules. As of December 31, 2021, AKC's minimum capital requirement is SAR 821.9MM [(d) below] and has a total capital base of SAR 982.87MM [(e) below]. The table below is a summary of the capital adequacy disclosure as set out in **Appendix II** (comparative 2021 and 2020).

Exposure Class	Capital Requirement Dec 2021 (SAR 000's)	Capital Requirement Dec 2020 (SAR 000's)
<u>Credit Risk</u>		
Total On- and Off-Balance Sheet Exposures	791,912	833,708
Prohibited Exposure Risk Requirement	0	0
Total Credit Risk Exposures (a)	791,912	833,708
<u>Market Risk</u>		
Total Market Risk Exposures (b)	214	60
<u>Operational Risk</u>		
Total Operational Risk Exposures (c)	29,783	36,114
Minimum Capital Requirements (d)	821,908	869,882
Total Capital Base (e)	982,871	909,484
Surplus/(Deficit) in capital (f)	160,963	39,602
Total Capital ratio (time) (g)	1.20	1.05

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

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

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

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 Chief Risk Officer (CRO). 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 counterparty 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 counterparties on time, mainly from Murabahas, term deposits, or units in funds placed by AKC with other authorized persons or banks. As of December 31, 2021, the total past dues were SAR 166,000.

Impairment of financial assets:

The Company uses a provision matrix to calculate ECLs for financial assets. The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions as well as the available security. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Company's financial assets is disclosed in note 23 of the Audited Financial Statements for year 2021.

Impairment of accounts receivable

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 impairment against accounts receivable as of December 31, 2021, was SAR 1.08MM.

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.

Portfolio	Dec 2021 (In SAR 000's)		
	Credit Risk Exposure	Risk Weighted Assets	Capital Requirement
Authorized persons and banks	50,774	10,155	1,422
Corporates	0	0	0
Investment Funds	1,575,922	4,727,766	661,887
High Risk Investments	147,538	590,152	82,621
Other Assets*	67,626	247,089	34,592
Past-due Items	166	1,185	166
Off-balance Sheet Commitments	24,065	80,165	11,223
Prohibited Exposure	0	0	0
Total	1,866,091	5,656,512	791,912

Portfolio	Dec 2020 (In SAR 000's)		
	Credit Risk Exposure	Risk Weighted Assets	Capital Requirement
Authorized persons and banks	99,513	19,903	2,786
Corporates	0	0	0
Investment Funds	1,649,841	4,949,523	692,933
High Risk Investments	147,538	590,152	82,621
Other Assets*	85,478	304,229	42,592
Past-due Items	166	1,185	166
Off-balance Sheet Commitments	27,365	90,065	12,609
Prohibited Exposure	0	0	0
Total	2,009,901	5,955,054	833,708

*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.

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 CRO. 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 action is 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 exposure before Credit Risk Mitigation is the same as the exposure after Credit Risk Mitigation as at December 31, 2021. The table below is a summary of the Credit Risk Exposures and Mitigations as set out in Appendix III.

Portfolio	Dec 2021 (In SAR 000's)		
	Credit Risk Exposure	Gross Credit Risk Exposure	Average Gross Exposure *
Authorized persons and banks	50,774	50,774	89,558
Corporates	0	0	259
Investment Funds	1,575,922	1,575,922	1,429,342
High Risk Investments	147,538	147,538	147,538
Other Assets	67,626	67,626	77,524
Past-due Items	166	166	166
Off-balance Sheet Commitments	24,065	24,065	27,072
Prohibited Exposure	0	0	112
Total	1,866,091	1,866,091	1,771,570

Portfolio	Dec 2020 (In SAR 000's)		
	Credit Risk Exposure	Gross Credit Risk Exposure	Average Gross Exposure *
Authorized persons and banks	99,513	99,513	125,369
Corporates	0	0	9
Investment Funds	1,649,841	1,649,841	1,303,784
High Risk Investments	147,538	147,538	147,538
Other Assets	85,478	85,478	76,088
Past-due Items	166	166	166
Off-balance Sheet Commitments	27,365	27,365	27,812
Prohibited Exposure	0	0	15,290
Total	2,009,901	2,009,901	1,696,056

*The Average Gross Exposure was calculated based on the last 12-months' monthly credit exposures during 2021.

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 2021 (In SAR 000's)									
	Authorized persons and banks	Corporates	Past- due items	Investment Funds	High risk investments	Other assets	Off- balance sheet commitments	Prohibited Exposure	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets *
0%									0	0
20%	50,774								50,774	10,155
50%									0	0
100%									0	0
150%									0	0
200%									0	0
300%				1,575,922		56,947	22,140		1,655,009	4,965,027
400%					147,538				147,538	590,152
500%									0	0
714% (includes prohibited exposure)			166			10,679	1,925		12,770	91,178
Total	50,774	0	166	1,575,922	147,538	67,626	24,065	0	1,866,091	5,656,512

Risk Weights	Dec 2020 (In SAR 000's)									
	Authorized persons and banks	Corporates	Past- due items	Investment Funds	High risk investments	Other assets	Off- balance sheet commitments	Prohibited Exposure	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets *
0%									0	0
20%	99,513								99,513	19,903
50%									0	0
100%									0	0
150%									0	0
200%									0	0
300%				1,649,841		73,934	25,440		1,749,215	5,247,645
400%					147,538				147,538	590,152
500%									0	0
714% (includes prohibited exposure)			166			11,544	1,925	0	13,635	97,354
Total	99,513	0	166	1,649,841	147,538	85,478	27,365	0	2,009,901	5,955,054

* 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, 2021. AKC follows Annex 11 and Annex 12 of the Prudential Rules to determine the exposure's credit quality.

Illustrative Disclosure on Credit Risk's Rated Exposure:

Short-term Ratings of Counterparties as of Dec 2021 (Amounts In SAR 000)						
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
<u>On- and Off-balance Sheet Exposures</u>						
Governments and Central Banks						
Commercial Banks						
Authorized Persons and Banks		50,774				
Corporates						
Retail						
Investment Funds						1,575,922
Securitization						
Margin Financing						
Other Assets						67,792
High Risk Investments						147,538
Off-balance Sheet						
Commitments						24,065
Prohibited Exposure						
Total	0	50,774	0	0	0	1,815,317

Short-term Ratings of Counterparties as of Dec 2020 (Amounts In SAR 000)						
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
<u>On- and Off-balance Sheet Exposures</u>						
Governments and Central Banks						
Commercial Banks						
Authorized Persons and Banks		99,513				
Corporates						
Retail						
Investment Funds						1,649,841
Securitization						
Margin Financing						
Other Assets						85,644
High Risk Investments						147,538
Off-balance Sheet Commitments						27,365
Prohibited Exposure						
Total	0	99,513	0	0	0	1,910,388

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 2021 (In SAR 000's)						
Portfolio	Saudi Arabia	Other GCC	Europe	North America	Other Countries	Total
Authorized Persons and Banks	50,774					50,774
Corporates						
Investment Funds	1,575,922					1,575,922
Other Assets	67,626					67,626
Past-due Items		166				166
High-Risk Investments	147,538					147,538
Off-balance Sheet Commitments	24,065					24,065
Prohibited Exposure						
Total	1,865,925	166	0	0	0	1,866,091

Dec 2020 (In SAR 000's)						
Portfolio	Saudi Arabia	Other GCC	Europe	North America	Other Countries	Total
Authorized Persons and Banks	99,513					99,513
Corporates						0
Investment Funds	1,649,841					1,649,841
Other Assets	85,478					85,478
Past-due Items		166				166
High-Risk Investments	147,538					147,538
Off-balance Sheet Commitments	27,365					27,365
Prohibited Exposure						-
Total	2,009,735	166	0	0	0	2,009,901

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 2021 (In SAR 000)								
Portfolios	Less than 8 days	8 - 30 days	31 - 90 days	91 - 180 days	181 – 360 days	1 - 3 years	No Fixed Maturity	Total
Authorized Persons and Banks	50,774							50,774
Investment Funds							1,575,922	1,575,922
Other Assets							67,626	67,626
Past-due Items							166	166
High-risk Investments							147,538	147,538
Corporates								0
Off-balance Sheet Commitments							24,065	24,065
Prohibited Exposure								0
Total	50,774	0	0	0	0	0	1,815,317	1,866,091

Maturity Breakdown as at end-Dec 2020 (In SAR 000)								
Portfolios	Less than 8 days	8 - 30 days	31 - 90 days	91 - 180 days	181 – 360 days	1 - 3 years	No Fixed Maturity	Total
Authorized Persons and Banks	99,513							99,513
Investment Funds							1,649,841	1,649,841
Other Assets							85,478	85,478
Past-due Items							166	166
High-risk Investments							147,538	147,538
Corporates								0
Off-balance Sheet Commitments							27,365	27,365
Prohibited Exposure								0
Total	99,513						1,910,388	2,009,901

4.8 Changes in the Allowances for Impairment

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

Dec 2021 (In SAR 000)	
At January 1	1,080
(Recoveries) / Charges	0
Written off during the year	0
Balance at end of period	1,080

Dec 2020 (In SAR 000)	
At January 1	2,896
(Recoveries) / Charges	-
Written off during the year	(1,816)
Balance at end of period	1,080

5. Market Risk Disclosures

Market risk is the risk of loss on and 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 its 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, profit rate fluctuations is part of the market risk which AKC might be exposed to through its cost of funding.

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. Additionally, AKC monitors closely the profit rates and takes appropriate measure to hedge the rates in order to mitigate such fluctuations.

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, 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 2021 (In SAR 000)		Dec 2020 (In SAR 000)	
	Exposure	Required Capital	Exposure	Required Capital
<u>Market Risk</u>				
Interest rate risks				
Equity price risks	344	62		
Risks related to investment funds				
Securitization/re-securitization position				
Excess exposure risks				
Settlement risks and counterparty risks				
Foreign exchange rate risks	2,306	152	1,652	60
Commodities risks				
Total	2,650	214	1,652	60

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 23.160MM, and the “Expenditure Based Approach” for the last year requires a capital of SAR 29.783MM. However, the operational risk will depend on the higher result, which will be SAR 29.783MM for year-end 2021. The details of the calculation are as following:

	Dec 2021 (in SAR 000)					
OPERATIONAL RISK	GROSS OPERATING INCOME			AVERAGE GROSS OPERATING INCOME	RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
	2019	2020	2021			
1. BASIC INDICATOR	19,540	206,085	237,578	154,401	15	23,160
	OVERHEAD EXPENSES (YEAR-1)				RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
2. EXPENDITURE BASED APPROACH	119,130				25	29,783
CAPITAL REQUIREMENT FOR OPERATIONAL RISK						29,783

	Dec 2020 (in SAR 000)					
OPERATIONAL RISK	GROSS OPERATING INCOME			AVERAGE GROSS OPERATING INCOME	RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
	2018	2019	2020			
1. BASIC INDICATOR	188,213	19,540	206,086	137,946	15	20,692
	OVERHEAD EXPENSES (YEAR-1)				RISK CAPITAL CHARGE (%)	CAPITAL REQUIREMENT
2. EXPENDITURE BASED APPROACH	144,456				25.0	36,114
CAPITAL REQUIREMENT FOR OPERATIONAL RISK						36,114

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 CRO. 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, 2021, the total off-balance sheet commitments were SAR 24MM with a capital requirement of SAR 11.2MM.

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, 2021, AKC's current ratio was 1.6, 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 (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, 2021, the cash balance was SAR 50.77MM.

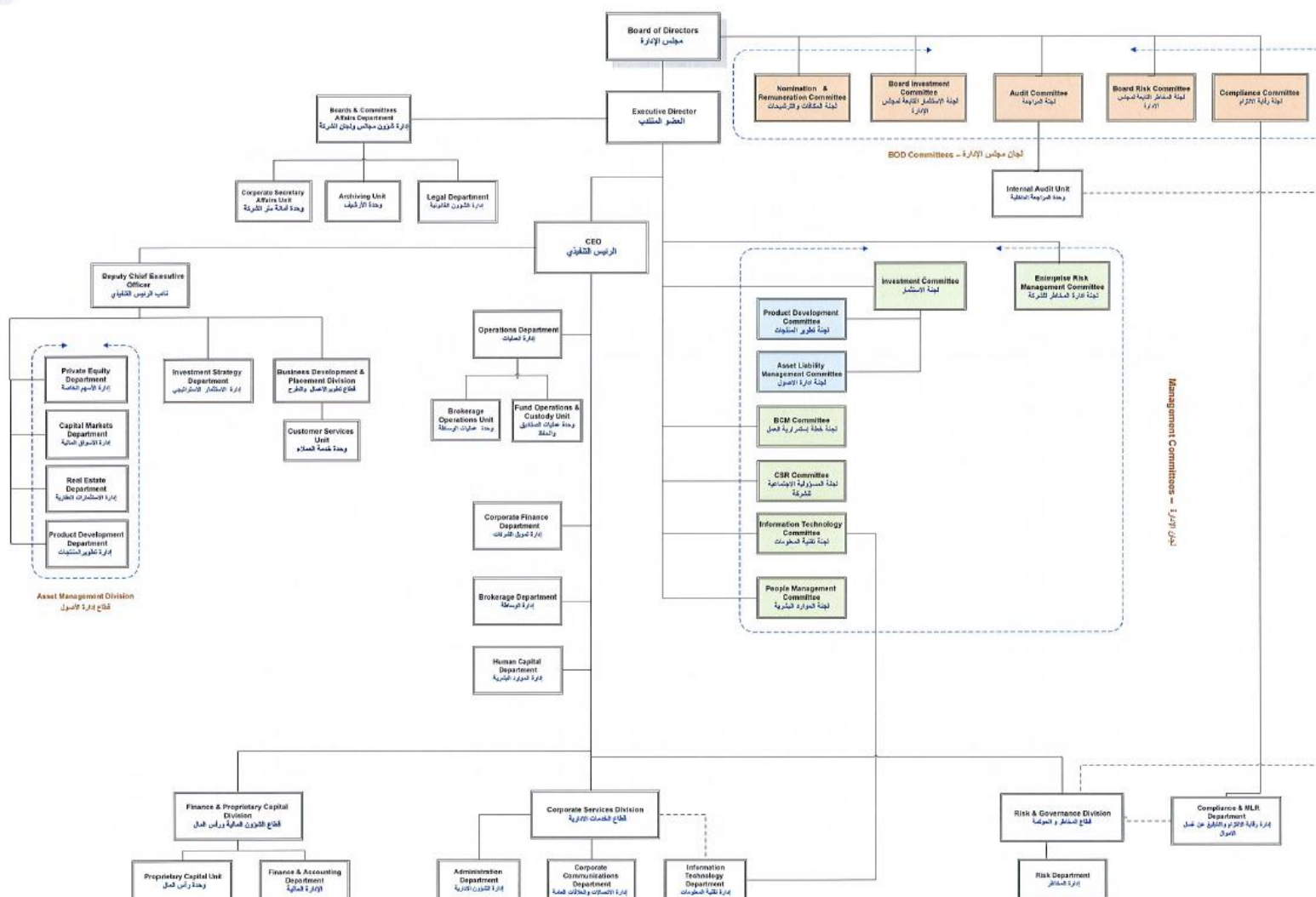
The management develops a contingency funding plan at the beginning of each year to accommodate any liquidity crisis. Such plan includes different resources of funding to meet any unexpected situations.

Appendix I – Organizational Structures of Alkhabeer Capital



الهيكل التنظيمي لشركة الخبير المالية | 2021
Alkhabeer Capital Organizational Chart | 2021

BOD Committees
Management Committees – Includes BOD Member
Management Committees
Management Sub-Committees
Shows direct reporting
Shows administrative vs reporting



Appendix II- Illustrative Disclosure on Capital Adequacy

	Dec 2021 (In SAR 000)				Dec 2020 (In SAR 000)			
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
<u>Credit Risk</u>								
<i>On-Balance Sheet Exposures</i>								
Governments and Central Banks								
Authorized Persons and Banks	50,774	50,774	10,155	1,422	99,513	99,513	19,903	2,786
Corporates								
Retail								
Past-Due	166	166	1,185	166	166	166	1,185	166
Investment Funds	1,575,922	1,575,922	4,727,766	661,887	1,649,841	1,649,841	4,949,523	692,933
Securitization								
Margin Financing								
Other Assets	67,626	67,626	247,089	34,592	85,478	85,478	304,226	42,592
High-risk Investments	147,538	147,538	590,152	82,621	147,538	147,538	590,152	82,621

Total On-Balance Sheet Exposures	1,842,026	1,842,026	5,576,347	780,689	1,982,536	1,982,536	5,864,989	821,098
<i>Off-Balance Sheet Exposures</i>								
OTC/Credit Derivatives								
Repurchase Agreements								
Securities Borrowing /Lending								
Commitments	24,065	24,065	80,165	11,223	27,365	27,365	90,065	12,609
Other off-Balance Sheet Exposures								
Total Off-Balance Sheet Exposures	24,065	24,065	80,165	11,223	27,365	27,365	90,065	12,609
Total On- and Off-Balance Sheet Exposures	1,866,091	1,866,091	5,656,512	791,912	2,009,901	2,009,901	5,955,054	833,707
Prohibited Exposure Risk Requirement	0	0	0	0	0	0	0	0
Total Credit Risk Exposures	1,866,091	1,866,091	5,656,512	791,912	2,009,901	2,009,901	5,955,054	833,707

	Dec 2021 (In SAR 000)			Dec 2020 (In SAR 000)		
<u>Market Risk</u>	Long Position	Short Position	Capital Requirement	Long Position	Short Position	Capital Requirement
Interest Rate Risks						
Equity Price Risks	344		62			
Risks Related to Investment Funds						
Securitization / Re-securitization Positions						
Excess Exposure Risks						
Settlement Risks and Counterparty Risks						
Foreign Exchange Rate Risks	2,306		152	1,652		60
Commodities Risks.						
Total Market Risk Exposures	2,650	0	214			60
<u>Operational Risk</u>			29,783			36,114
Minimum Capital Requirements			821,908			869,882
Surplus/(Deficit) in capital			160,963			39,602
Total Capital ratio (time)			1.20			1.05

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

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	
	2021	2020	2021	2020	2021	2020	2021	2021	2021	2020	2021	2020
<u>Credit Risk</u>												
<i>On-Balance Sheet Exposures</i>												
Governments and Central Banks												
Authorized Persons and Banks	50,774	99,513	-	-	-	-	-	-	-	-	50,774	99,513
Corporates												
Retail												
Past-Due	166	166	-	-	-	-	-	-	-	-	166	166
Investment in Funds	1,575,922	1,649,841	-	-	-	-	-	-	-	-	1,575,922	1,649,841
Securitization												
Margin Financing												
High Risk Investments	147,538	147,538	-	-	-	-	-	-	-	-	147,538	147,538
Other Assets	67,626	85,478	-	-	-	-	-	-	-	-	67,626	85,478
Total On-Balance Sheet Exposures	1,842,026	1,982,536									1,842,026	1,982,536
<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	24,065	<u>27,365</u>	-	-	-	-	-	-	-	-	24,065	<u>27,365</u>
Other Off-Balance Sheet Exposures												
Total Off-Balance Sheet Exposures	24,065	27,365	-	-	-	-	-	-	-	-	24,065	27,365
Total On- and Off-Balance Sheet Exposures	1,866,091	2,009,901	-	-	-	-	-	-	-	-	1,866,091	2,009,901

