ALJAZIRA CAPITAL COMPANY

(A Closed Saudi Joint Stock Company)

Pillar 3 Disclosure Statement

As at 31 December 2018

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1. Introduction & Scope of Application

AlJazira Capital Company (herein after referred as "AJC" or "the Company"), is a Saudi Closed Joint Stock Company incorporated under Ministerial Resolution No. S/57 dated 20 Safar 1429H (corresponding to 27 February 2008) and was operating under commercial registration number 4030177603 dated 17 Rabi Awal 1429H (corresponding to 25 March 2008). During the year ended 31 December 2011, the commercial registration number of the company was changed due to relocation of Head Office from Jeddah to Riyadh and now it is registered under commercial registration number 1010351313 dated 13 Dhul Qadah 1433H (corresponding to 29 September 2012) with a branch in Jeddah.

The Company is licensed as a financial services company regulated by the Capital Market Authority (CMA). The Company is engaged in dealing, arranging, managing, advising and custody activities in accordance with CMA Resolution No. 2-38-2007 dated 8 Rajab 1428H, corresponding to 22 July 2007 and license number 07076-37. The Company's subsidiaries are as follows:

Ownership percentage			
Name of subsidiary	**Principal activity**	**2018**	**2017**
AlJazira Residential Projects Fund	Development and sale of land	43.64%	43.64%
AlJazira Global Emerging Markets Fund	Investments in equities	--	48.13%

Figure 1: AJC Subsidiaries

Although the Company's ownership in AlJazira Residential Projects Fund is less than 50%, it is considered as subsidiary since the Company, being the fund manager, has the power to direct the financial and operational policies of this Fund, is exposed to and has rights to variable returns from the Fund and also has the ability to affect those returns through its power over these Funds.

During 2018, the Company fully redeemed its investments in units of AlJazira Global Emerging Markets Fund

The risk disclosures contained in this statement have been prepared in accordance with the requirements of CMA Prudential Rules and cover the Pillar III qualitative and quantitative disclosures, including capital adequacy requirements and information about the risk management policies and procedures at the Company.

Further, the risk disclosures as at 31 December 2018 are based on the consolidated financial statements of the Company. The consolidated financial statements for the year ended 31 December 2018 are the first consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in Kingdom of Saudi Arabia. For all periods up to and including the year ended 31 December 2017, the Company prepared its consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by Saudi Organisation for Certified Public Accountants ("SOCPA GAAP").

Capital adequacy disclosure for the year ended 31 December 2017 are reported based on consolidated financial statements in accordance with SOCPA GAAP; the impact of IFRS on these prior year comparative disclosures is immaterial.

1.1 Pillar I – Minimum Capital Requirements

Pillar I sets minimum capital requirements to meet credit, market and operational risks. The capital charge for credit & market risk is assessed for each risk category separately in accordance with the rules prescribed by CMA. For operational risk, the Company has adopted the Basic Indicator Approach (BIA) in compliance with CMA requirements as this is a more conservative approach as it leads to a higher operational risk capital charge than the Expenditure Based Approach (EBA). The Capital Adequacy Report is submitted to CMA on a monthly basis.

1.2 Pillar II – ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP), is an internal process in which all the company's risks are identified and assessed, including risks not captured in Pillar 1. The process also includes capital planning, stress tests, corporate governance, as well as responsibilities of different departments/functions that are critical to the implementation of ICAAP.

1.3 Pillar III – Risk Reporting and Disclosures Framework

The purpose of this disclosure is to inform market participants about AJC's capital, risk exposures, governance process and capital adequacy. The information provided in this report has been prepared and reviewed by the Finance, Risk, and Compliance Departments, with additional reviews by senior management and approved by the BOD level Risk Committee, and in accordance with the disclosure rules in effect at the time of publication, covering both the qualitative and quantitative items. The Company updates and publishes the Pillar III Risk Disclosure on its website annually.

1.4 Material or Legal Impediments between AP and its Subsidiaries

The Company does not have any current or foreseen legal impediment affecting the prompt transfer of capital or repayment of liabilities with any of its subsidiaries .

2. Capital Structure

For regulatory purposes, capital is categorized into two main classes: Tier 1 and Tier 2.

Tier 1 capital consists of Paid-up capital, audited retained earnings, statutory reserve net of deductions for Zakat, intangible assets and unrealized losses, if any, on trading investments. Tier 2 capital consists of revaluation reserves which resulted from the change in fair value of available for sale equity investments.

2.1 Paid Up Capital

The share capital is divided into 50 million shares of SR 10 each.

2.2 Audited Retained Earnings

This represents the accumulated undistributed profits after transfer to statutory reserves that are available for future dividend distributions as recommended by the Company's Board (the Board) and approved by the General Assembly.

2.3 Statutory Reserve and Other Reserves

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the financial year has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. This statutory reserve is not available for distribution.

The capital base of the Company as at 31 December 2018 is composed as follows:

Capital Base as at 31 December		
Capital Base, SAR '000	**2018**	**2017**
Tier-1 capital		
Paid-up capital	500,000	500,000
Audited retained earnings	173,806	143,267
Statutory Reserve	92,442	89,232
Deduction – unrealized loss on investments held for trading	-	(1,967)
Deduction – intangible assets, net	(9,113)	-
Deduction - deferred tax asset, net	(458)	
Total Tier-1 capital	**756,677**	**730,532**
Tier-2 capital		
Revaluation reserves	13,160	30,450
Total Tier-2 capital	**13,160**	**30,450**
TOTAL CAPITAL BASE	**769,837**	**760,982**

Figure 2: Capital Base as at 31 Dec 2018

3. Capital Adequacy

Effective January 2013, the Company has implemented the Prudential Rules issued by the Board of the Capital Market Authority dated 30 December 2012.

3.1 Capital Adequacy Ratio and Minimum Capital Requirements

In accordance with these new Prudential Rules, the Company's Capital Adequacy Management (CAM) report is furnished to the CMA on a monthly basis which outlines minimum capital required under Pillar 1. The Company:

- seeks to obtain the best return on its capital taking into account its conservative risk appetite,
- complies with the regulatory capital requirements set by CMA to safeguard the Company's ability to continue as a going concern and in order to maintain a strong capital base, and
- monitors the adequacy of its capital using ratios established by the CMA.

These ratios established by the CMA measure capital adequacy by comparing the Company's eligible capital with its minimum capital requirements. The Company's minimum capital requirements are calculated after applying CMA prescribed risk weights to the Company's exposures. Capital Adequacy and the use of regulatory capital are constantly monitored by the Company's management. As at 31 December 2018, the Company's capital ratio is 1.97 times (2017: 1.83 times). The minimum required ratio is 1.0 time.

Details of the minimum capital requirements of the Company's exposures to various risks are as follows:

SAR'000	2018	2017
Capital base		
Tier -1 capital	756,677	730,532
Tier -2 capital	13,160	30,450
Total capital base	769,837	760,982
Minimum capital requirements		
Market risks	11,747	19,345
Credit risks	340,478	359,034
Operational risk	38,628	38,546
Total minimum capital requirement	390,852	416,925
Total capital ratio (time)	1.97	1.83
Tier -1 capital ratio (time)	1.94	1.75
Surplus in Capital	378,985	344,057
Large exposure		
Large exposure limit 10%	76,984	76,098
Large exposure limit 25%	192,459	190,245

Figure 3: Total Capital Base & Minimum Capital requirements as at 31 Dec 2018

The Company's exposures, risk weighted assets and capital requirements as at 31 December 2018 are detailed in **Section 6 Appendix 1** of this Disclosure Statement.

The management of capital is a Board level priority. The Board is responsible for assessing and approving the Company's capital management strategy. The Company's capital management framework and polices serve to ensure that the Company is adequately capitalized in line with its risk profile, regulatory requirements, and capital ratios approved by the Board. The Company's capital management objectives are to.

- maintain sufficient capital resources to meet minimum regulatory capital requirements set by CMA Prudential Rules,
- allocate capital to support the Company's strategic plans,
- ensure that the Company has sufficient capital to cover the current and future risks of its business and support its future development,
- apply stress tests to assess the Company's capital adequacy under stress scenarios,
- develop, review and approve ICAAP, and
- conduct capital planning and forecasting to ensure that capital ratios are always within acceptable thresholds.

Both, the executive management and the Board, review the Company's risk appetite periodically and analyze the impacts of stress scenarios to understand and manage the Company's projected future capital needs. The framework for capital management ensures that sufficient capital levels for legal and regulatory compliance purposes are always maintained. Management seeks to ensure that sound governance and good business practices are always followed.

3.2 ICAAP

Management monitors the use of capital through its internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is a key component of the Company's capital risk management framework and assures the Board and executive management that the Company maintains sufficient capital resources to:

- meet minimum regulatory requirements,
- support the parent's credit rating, and
- support future business growth.

Management evaluates the Company's business strategy on a regular basis. The impact of management evaluations are evaluated against the Company's risk appetite. The ICAAP reflects changes in the Company's risk-weighted asset forecasts, assesses specific risk exposures and mitigation of such exposures, and ensures appropriate allocation of capital to the net exposures. In effect, the ICAAP is a crucial part of the Company's strategic decision-making process and risk management framework. This framework and the results are updated and reviewed by the Board on an annual basis.

3.3 Stress Testing

Management ensure that, at any point in time, the Company's capital adequacy ratio is above the minimum limit prescribed by CMA. Stress tests are conducted periodically to ensure that adequate capital is available for continuity of business under defined stress scenarios. Senior management is responsible for the escalations of any concerns regarding the adequacy of the Company's capital adequacy to the Board.

4. Risk Management

As an independent function, risk management was established in 2017. Reporting to the BOD Risk Committee, which is responsible for developing adequate risk policies, as well as setting the limits and promoting risk culture across the organization.

4.1 Governance Structure at AJC

The Governance structure is represented as the Regulatory, Risk and Control function, which reports to the Board Audit Committee, with dotted line reporting to the Chief Executive Officer. The Compliance, Customer Business Control, and the Risk Management functions fall under the Regulatory, Risk and Control area. The Compliance function has a reporting line with the Compliance Committee and the Risk Management function has a reporting line to the Board Risk Committee. The organization structure of the Regulatory, Risk and Control function are mentioned below:

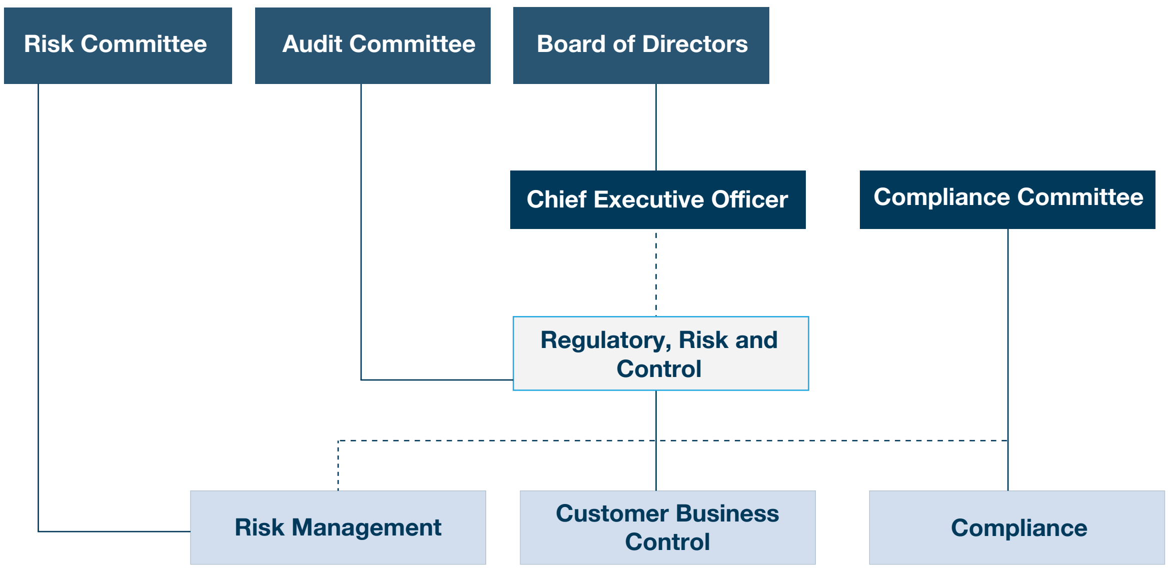

Figure 4 – Governance Structure at AJC

4.2 Risk management Framework

Risk management seeks to monitor business risks and maintain it within acceptable limits. Effective risk management will allow greater control in achieving an appropriate balance between risks AJC wishes to accept (at a price that is appropriate to that risk) and risks AJC wishes to mitigate. When risks are properly managed, the benefits to be gained from those risks can be maximized, by accepting, reducing, eliminating, mitigating, or transferring the risk associated with any activity.

The primary goal of risk management is to ensure that the Company's asset and liability profile, it's trading positions, its credit and operational activities do not expose it to losses that could threaten its viability. Risk management helps ensure that risk exposures do not become excessive relative to Company's capital position and its financial position.

In all circumstances, all activities giving rise to risk must be identified, measured, managed and monitored.

AJC risk management is based on ISO 31000's critical components of effective risk management. The below chart illustrates the Principles, Framework and Process for effective risk management as prescribed by ISO 31000, the international standard on risk management:

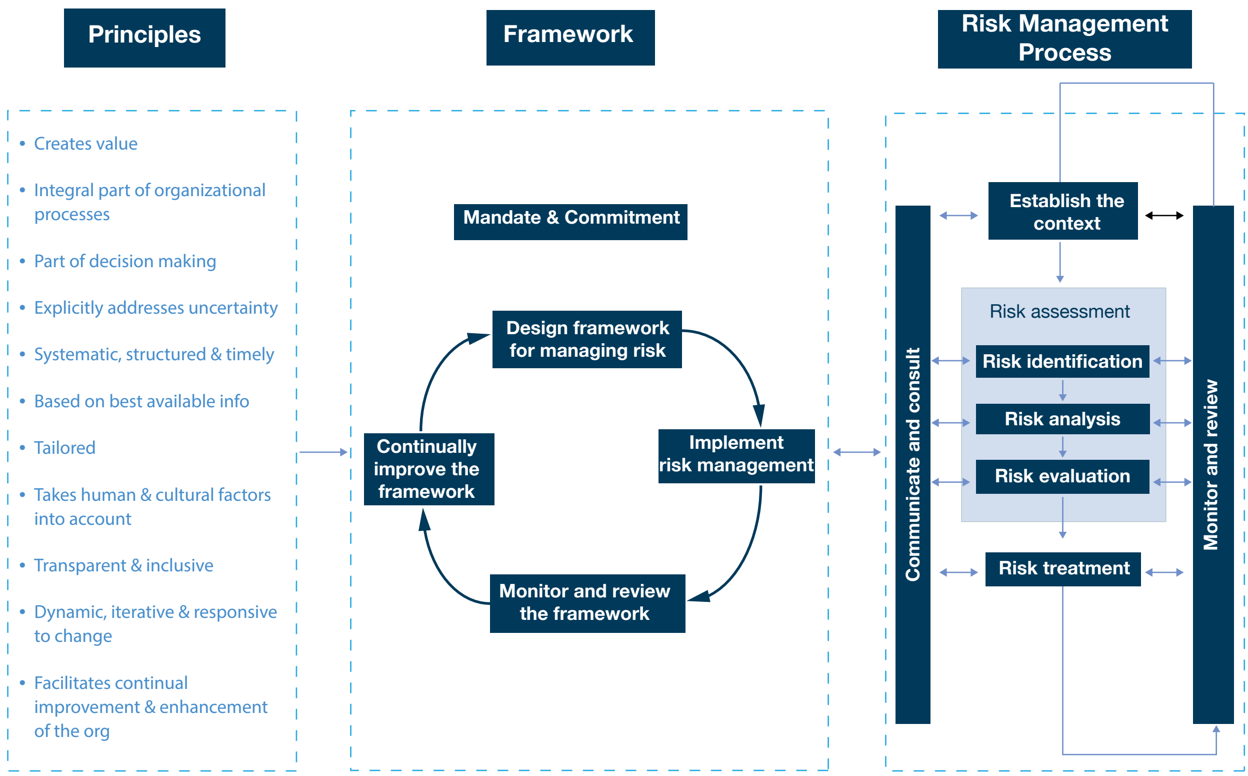

Figure 5 – Principles, Framework and Process of Risk Management at AJC

Day-to-day risk management activities are currently managed within each respective business unit. The Board meets on a quarterly basis and is updated on all relevant aspects of the business, including risk management matters. Risk management responsibilities are held as follows:

Business Units	√ Responsible for risk management as first line of defense √ Ongoing process of assessing, evaluating and measuring risk into the day-to-day activities of the business √ Accountable for reporting to the governance bodies within the Company
Risk Management	√ Risk management monitoring and reporting and providing oversight √ Independent reporting to management and the Board √ Setting ideal and tolerance risk limits on business activities with direction from the Board
Internal Audit	√ Independent assessment of the adequacy and effectiveness of the overall risk management framework and governance structures √ Reporting to the Board through the BOD Audit Committee
Compliance & AML	√ Monitoring and assessment of business compliance with CMA Prudential Rules, including Anti Money Laundering & Counter terrorist financing regulations √ CMA reporting on regulatory requirements

Figure 6 – Risk management responsibilities of Business Units/Governance Summary

4.3 Structure and function of Risk Management

AJC's approach to risk management is aligned with the organizational objectives submitted to AJC Board. It focuses on the following main lines:

- Management of market risks and credit risks across major businesses – Proprietary Investments, Brokerage, Margin Lending, Asset Management & Investment Banking.
- Monitoring AJC's performance as per Risk Appetite policy and providing feedback to senior management for possible tightening or enhancing the risk limits.
- Risk Monitoring & Review tools for key risks across all businesses and key support functions.
- Monitoring liquidity risk at organizational level as well as business unit levels.
- Development and implementation of the ICAAP framework (Pillar II) at the Firm as well as development and update of the Risk Disclosures (Pillar III)

Adequate policies and monitoring procedures are drawn to cover the above focus areas. Units would employ efficient and improved tools to manage the risks based on globally accepted best practices. Monitoring tools and components will be subject to ongoing improvement during the course of business.

A robust senior management oversight structure is established through the following committees which meet on regular basis, to perform their responsibilities as summarized below in accordance with the respective charters.

BOD Risk committee

The Risk Committee was established in 2017 by the Board to assist the Board in discharging its risk management oversight. The Committee's principal activities, responsibilities and authorities include

- Review and feedback of risk management strategy, risk management policies, risk appetite and limits;
- Annual review of the ICAAP report and recommend it for Board approval; providing recommendations to the Board on matters related to risk management;
- Ensure that senior management takes necessary steps to identify, measure, control and monitor risk;

Compliance Committee

A management level committee responsible for monitoring and reviewing the implementation of all Compliance Programs, reviewing and approving annual Compliance Plans, overseeing and reviewing the effectiveness of AML & CTF programs and ensure management periodically reviews employees compliance with the Code of Conduct. The overall objective of the committee is to improve AJC's compliance with CMA and all other regulations.

Other Committees and Governance processes

In addition to the above, there are various committees responsible for crucial decision making process:

Management Committee steers and monitors the implementation of existing strategic plans by divisions. It further reviews management performance and present appropriate recommendations to the CEO for final approval.

Investment Committee, is responsible for prop-book management and oversight, including capital and liquidity management.

Audit Committee monitors assurance and auditing, thus providing assurance evaluation to the Board, in addition to feedback from the senior management team. Recommendations for improvement are identified by:

- **Internal audit and Compliance reviews** undertaken to identify any weaknesses in the Company's risk management policies, business systems and / or IT systems and any breaches in compliance.
- **External audits** are undertaken by the Company's appointed External Auditor to express an opinion on the truth and fairness of the financial statements and capital adequacy return; and provide a report on compliance with CMA client money regulations.

IT security is reviewed periodically by independent third party service providers to ensure the strength of data access controls and protection against loss of data at the Company.

4.4 Risk Appetite

The Company's risk appetite is defined as the level of risk the Board is prepared to sustain whilst pursuing its strategic objectives, recognizing that there is a range of possible outcomes due to uncertain future. The Company's risk appetite framework seeks to encourage appropriate risk taking to ensure that risks are aligned with business strategy and objectives. The Company currently classifies material risks into various categories including credit risk, market risk, operational risk.

Risk appetite is defined by reference to the nature of identified business risks. Appropriate measures are in place at business unit level to ensure effective control and risk mitigation so that the risk profile of the Company remains appropriate to its business strategy. This framework enables the Company to:

- improve risk and return characteristics across the business,
- meet growth targets within an overall risk appetite and protect the Company's performance,
- improve management confidence and debate regarding our risk profile,
- improve executive management control and co-ordination of risk-taking across businesses, and
- identify unused risk capacity, and thus highlight profitable opportunities.

4.5 Stress Testing and Governance

Stress testing is a key element of the risk appetite framework, providing management with an insight on potential high risk areas. It provides an important link between risk and capital management within the Company. The risk management and finance functions of the Company support the Board in executing these responsibilities. Annual reports are submitted to senior management and the CMA in this regard.

The Company applies stress testing to supplement its risk assessment processes and to meet regulatory requirements. The objective of stress testing is to assess the Company's exposure to extreme, but plausible events. The Company undertakes periodic stress tests in accordance with the requirements of the Capital Markets Authority Prudential Rules.

The Board and senior management have ultimate responsibility for the governance of all risk taking activity in the Company. Risk Management is embedded in the Company as an intrinsic process and is a core requirement for all its employees in the conduct of their responsibilities.

The Compliance and Internal Audit functions oversee the Company's businesses and report to the Compliance & Audit Committees respectively. This provides independent validation of the business unit's compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework.

5. Risk Reporting and Disclosure

5.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company exposure to credit risk mainly arises from bank balances, margin finance receivables, Murabaha deposits, investment in listed equity classified as available for sale, investment in real estate held by one of its subsidiary funds and other receivables.

5.1.1 Cash at bank, Murabaha deposits and other receivables

Bank balances and Murabaha deposits are maintained with banks having sound credit ratings. Other receivables represent asset management fees receivable mainly from mutual funds and portfolios management by the Company and investment banking fees receivables from corporate clients, which are considered as low credit risk by the Company.

5.1.2 Margin finance receivables

Lending for margin trading is done with an initial coverage of at least 200%. This coverage is actively monitored and margin calls and liquidation calls are performed at specific predefined thresholds to ensure that the margin lending is sufficiently collateralized at all times, thereby minimizing the potential exposure to credit risk. Customer portfolios are liquidated to cover the loan amounts if the collateral coverage ratio drops below the liquidation level. Even though there might be a small probability of default, the Expected Credit Loss (ECL) results in zero impairment provision as the pledged collateral (in the form of cash or liquid securities) adequately covers the exposure. The over-collateralized nature of the exposure, coupled with the Company's monitoring process, results in a loss given default (LGD) of zero. Given the nature and extent of the collateral pledged against the Company's margin finance receivables, the management considers the credit risk of the exposures to be minimal.

The Company's risk management policies and processes are designed to identify and analyze risk, to set appropriate limits and controls, and to monitor the risks and adherence to limits by means of timely and reliable management information data.

Risk weighted exposure amounts (RWA) for a position is calculated as the exposure value multiplied by a risk weight factor which depends on exposure class and the perceived credit worthiness of the counterparty based on its credit rating. These rates are outlined in the Prudential Rules published by the CMA. The minimum capital requirements for non-trading activities correspond to not less than 14% of the Company's RWA. RWA's as at 31 December 2018 amounted to SR 2,432 million (2017: SR 2,565 million). The resulting Pillar 1 & 2 minimum capital requirements for credit risk is SR 340 million as at 31 December 2018 (2017: SR 359 million). The Company's Credit Risk Weights are detailed in **Section 6 Appendix 2** of this Disclosure Statement.

5.1.3 Counterparty Risk

The Company is exposed to counterparty risk arising from the conduct of its brokerage, margin finance and asset management business activities. In order to mitigate this risk, the Company conducts periodic assessments of all counterparties to evaluate their creditworthiness and acceptability to the Company. External credit ratings are considered only from Nationally Recognized Statistical Rating Organizations (NRSCO) such as Standards & Poor's (S&P), Moody's and Fitch. As part of the Company's counterparty review process, country risk is also taken into consideration and limits marked against different countries where counterparties are incorporated. Client money is held on behalf of the Company's customers in Omnibus accounts with Bank Al Jazira in accordance with CMA regulations. Foreign asset managers, international brokers and custodians are subject to an initial assessment and re-assessed on a periodic basis to ensure that they remain acceptable counterparties for the Company.

5.1.4 Past due

The Company defines financial assets as "Past Due" when a counterparty has failed to make a payment that is contractually due. Risk Management review of on and off balance sheet exposures ensure that all exposures are settled in a timely manner. As at 31 December 2018, the Company does not have any past due items giving rise to credit risk.

5.1.5 Impairment and Specific Provisions

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the statement of income for the Company.

As at 31 December 2018, the Company's financial assets did not require any impairment loss provisions. Detailed information on impairment provision related to margin finance receivables is stated in section 5.1.

5.1.6 Credit Risk Mitigation

The Company's credit risk exposure as at 31 December 2018, is within Saudi Arabia.

5.1.7 Credit Risk Exposures by Credit Quality

The Company's Credit Risk Rated Exposures are detailed in **Section 6 Appendix 3** of this Disclosure Statement.

5.1.8 Credit Risk Mitigation

Bank balances and investment in Murabaha deposits, amounting to SR 0.5 million at 31 December 2018 (2017: SR 24.0 million), are held with the Parent Company, Bank AlJazira. Bank AlJazira enjoys stable credit ratings. As at December 31, 2018, the Company exposure to Margin Finance receivables is adequately secured by the collaterals. The Company's Credit Risk Mitigation disclosures are detailed in **Section 6 Appendix 4** of this Disclosure Statement.

5.1.9 Residual Contractual Maturity Breakdown

The residual contractual maturity of the Company's exposures is detailed in Section 6 Appendix 5 of this Disclosure Statement.

5.1.10 Counterparty Credit Risk and Off Balance Sheet Exposures

The Company's only off balance sheet exposure as at 31 December 2018, is due to the un-utilized Margin Finance loan facilities provided to its customers.

5.2 Market Risk

Market risk is the risk that changes in market process, such as special commission rate, equity prices and foreign exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Investment Committee ensures that the proprietary investments are diverse and balanced, and seeks investment opportunities consistent with the investment strategy. The overriding investment objective is to generate an approved minimum rate of return whilst adhering to the approved investment strategy. The Investment Committee has approved risk limits for trading and non-trading activities consistent with the risk appetite approved by the Board.

Realized gains, losses and market-to-market movements of investment and trading portfolio positions are calculated and monitored by management; appropriate action is taken in the event that any losses and / or mark-to-market movements are determined to be inconsistent with the risk appetite of the Company.

5.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Arabian Riyals (SAR) and US Dollar (USD). As SAR is pegged to the USD, the Company is not exposed to any significant foreign exchange risk. Open positions in foreign currencies have historically been very low at the Company. Open currency positions are closed out on a regular basis in order to keep foreign exchange risk to a minimum. Periodic stress testing of possible adverse market events is undertaken and the results presented to the Board on a periodic basis.

5.2.2 Commission Rate Risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments.

The Company's only commission bearing financial instruments are margin finance receivables, Murabaha deposits maintained with the Bank and short-term borrowings. The commission is fixed for the period for which these commission bearing financial instruments are issued or obtained. Therefore, no significant commission rate risk exists for the existing financial instruments.

5.2.3 Price risk

Price risk is the risk that the value of the Company's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The Company's price risk exposure relates to its investment in quoted equities and mutual funds units whose value will fluctuate as a result of changes in market prices.

The Company closely monitors the price movement of its listed financial instruments. The Investment Committee ensures that the proprietary investments are diverse and balanced, and seeks investment opportunities consistent with the investment strategy. The Investment Committee has approved limits for proprietary investments consistent with the risk appetite of the Company.

Capital is required for trading book exposures. For market risk, both specific and general risks are calculated. Specific risks refer to non-systematic risks, whereas general risks refer to systematic risks. The amount of capital required for equity risk primarily depends on the type of instrument and on the amount of diversification. The amount of capital required for profit rate risk mainly depends on the credit quality of the issuer of the instrument and the maturity or duration of the exposure. Pillar 1 & 2 minimum capital requirements for market risk is SR 11.7 million as at 31 December 2018 (2017: SR 19.3 million).

The Company's Market Risk exposures are as follows:

As at 31 December 2018			
Exposure Class	**Exposures before CRM SAR '000'**		**Capital Requirement SAR '000'**
Market Risk	**Long Position**	**Short Position**	
Interest rate risks			
Equity price risks	7,816		1,407
Risks related to investment funds	13,465		2,154
Underwriting risk	44,420		7,996
Excess exposure risks			
Settlement risks and counterparty risks			
Foreign exchange rate risks	9,488		190
Commodities risks			
Total Market Risk Exposures	**75,189**		**11,747**

As at 31 December 2017			
Exposure Class	**Exposures before CRM SAR '000'**		**Capital Requirement SAR '000'**
Market Risk	**Long Position**	**Short Position**	
Interest rate risks			
Equity price risks	63,583		11,445
Risks related to investment funds	4,867		779
Underwriting risk			
Excess exposure risks			
Settlement risks and counterparty risks			
Foreign exchange rate risks	67,358		7,121
Commodities risks			
Total Market Risk Exposures	**135,808**		**19,345**

Figure 7 – Total Market Risk Exposure

5.3 Operational Risk

Operational risk is a distinct risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective in managing operational risk is to ensure control of the Company's resources by protecting the assets of the Company and minimizing the potential for financial loss. The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. Qualitative and quantitative methodologies and tools are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These tools include a loss database of operational risk events categorized according to CMA Prudential Rules business lines and operational risk event types; and a risk and control assessment process to analyze business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimizing the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. High impact risks and issues of critical importance are reported to the Board which then set resolution priorities.

Articles 39 - 44 and Annex 4 of the CMA Prudential Rules set out two approaches to calculate capital for operational risk requirements. Under the Basic Indicator Approach, followed by the Company, 15% of the Company's average gross operating income is calculated over the last 3 years. CMA Prudential Rules also require a calculation for Operational Risk equal to 25% of Overhead Expenses (known as Expenditure Based Approach). The actual capital requirement for operational risk is the greater of these two methods of calculation. On this basis, Pillar 1 & 2 minimum capital requirements for operational risk is SR 38.6 million as at 31 December 2018 (2017: SR 38.5 million).

5.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The Company maintains a Murabaha loan facility from Parent Company, Bank AlJazira to satisfy its liquidity requirements. The Company's approach to managing liquidity is to ensure it always has sufficient liquidity (or access to sufficient liquidity) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable costs or risking damage to the Company's reputation.

All of the Company's financial liabilities as at 31 December 2018 are payable within 12 months of the balance sheet date except for employee end of service benefits and Zakat provision for prior years which do not have any fixed payment dates. The Company's liquidity position is detailed in Section 6 Appendix 5 of this Disclosure Statement. Apart from maturity profile analysis, following ratios are monitored to maintain appropriate liquidity.

Indicators	2018	2017	Inference
Current Ratio (Short term assets/short term Liabilities)	2.1 times	1.9 times	This reflect the fair amount of comfort level in meeting its short-term liability and fixed cost payment

Table 8 – Liquidity Risk – Ratio Analysis

6. Appendices

6.1 Appendix 1 - Exposures, Risk Weighted Assets and Capital Requirements

As at 31 December 2018

Exposure Class	Exposures before CRM SAR '000'	Net Exposures after CRM SAR '000'	Risk Weighted Assets SR '000'	Capital Requirement SAR '000'
Credit Risk				
On-balance Sheet Exposures				
Governments and Central Banks				
Authorised Persons and Banks	507	507	101	14
Corporates	-	-	-	-
Retail	4,329	4,329	12,987	1,818
Investments	60,656	60,656	154,913	21,688
Securitisation				
Margin Financing*	1,307,629	1,307,629	1,961,444	274,602
Other Assets	72,081	72,081	199,401	27,916
Total On-Balance sheet Exposures	**1,445,202**	**1,445,202**	**2,328,846**	**326,038**
Off-balance Sheet Exposures				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments	68,758	68,758	103,137	14,439
Other off-balance sheet exposures				
Total Off-Balance sheet Exposures	**68,758**	**68,758**	**103,137**	**14,439**
Total On and Off-Balance sheet Exposures	**1,513,960**	**1,513,960**	**2,431,983**	**340,478**
Prohibited Exposure Risk Requirement				
Total Credit Risk Exposures	**1,513,960**	**1,513,960**	**2,431,983**	**340,478**
Market Risk	**Long Position**	**Short Position**		
Interest rate risks				
Equity price risks	7,816			1,407
Risks related to investment funds	13,465			2,154
Underwriting risk	44,420			7,996
Excess exposure risks				
Settlement risks and counterparty risks				
Foreign exchange rate risks	9,488			190
Commodities risks				
Total Market Risk Exposures	**75,189**			**11,747**
Operational Risk				38,628
Minimum Capital Requirements				390,852
Surplus in capital				378,985
Total Capital ratio (time)				**1.97**

*Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

As at 31 December 2017

Exposure Class	Exposures before CRM SAR '000'		Net Exposures after CRM SAR '000'	Risk Weighted Assets SR '000'	Capital Requirement SAR '000'
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks					
Authorised Persons and Banks	27,220		27,220	5,444	762
Corporates	-		-	-	-
Retail	10		10	30	4
Investments	82,715		82,715	199,314	27,904
Securitisation					
Margin Financing*	1,325,681		1,325,681	1,988,521	278,393
Other Assets	80,537		80,537	227,249	31,815
Total On-Balance sheet Exposures	**1,516,163**		**1,516,163**	**2,420,558**	**338,878**
Off-balance Sheet Exposures					
OTC/Credit Derivatives					
Repurchase agreements					
Securities borrowing/lending					
Commitments	95,979		95,979	143,969	20,156
Other off-balance sheet exposures					
Total Off-Balance sheet Exposures	**95,979**		**95,979**	**143,969**	**20,156**
Total On and Off-Balance sheet Exposures	**1,612,142**		**1,612,142**	**2,564,527**	**359,034**
Prohibited Exposure Risk Requirement					
Total Credit Risk Exposures	**1,612,142**		**1,612,142**	**2,564,527**	**359,034**
Market Risk	**Long Position**	**Short Position**			
Interest rate risks					
Equity price risks	63,583				11,445
Risks related to investment funds	4,867				779
Securitisation/resecuritisation positions					
Excess exposure risks					
Settlement risks and counterparty risks					
Foreign exchange rate risks	67,358				7,121
Commodities risks					
Total Market Risk Exposures	**135,808**				**19,345**
Operational Risk					38,546
Minimum Capital Requirements					416,925
Surplus in capital					344,057
Total Capital ratio (time)					**1.83**

*Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

6.2 Appendix 2 - Credit Risk Weights

As at 31 December 2018

Risk Weights SAR'000	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%													
20%			507									507	101
50%													
100%													
150%			-	1,307,629				30,660		11,228	68,758	1,418,275	2,127,413
200%													
300%						4,329		11,061		60,853		76,243	228,729
400%								18,935				18,935	75,740
500%													
714% (include prohibited exposure)													
AverageRisk-Weight			20%	150%		300%		255%		277%	150%		
Deductionfrom-CapitalBase			101	1,961,444		12,987		154,913		199,401	103,137	**1,513,960**	**2,431,983**

As at 31 December 2017

Risk Weights SAR'000	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%													
20%			27,220									27,220	5,444
50%													
100%													
150%			-	1,325,681				47,950		9,575	95,979	1,479,185	2,218,778
200%													
300%						10		11,671		70,962		82,643	247,929
400%								23,094				23,094	92,376
500%													
714% (include prohibited exposure)													
AverageRisk-Weight			20%	150%		300%		241%		282%	150%		
Deductionfrom-CapitalBase			5,444	1,988,521		30		199,314		227,249	143,969	**1,612,142**	**2,564,527**

6.3 Appendix 3 - Credit Risk Rated Exposures

As at 31 December 2018

Exposure Class SAR'000	Long term Ratings of counterparties								Total
	Credit quality step	1	2	3	4	5	6	Unrated	
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated	
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated	
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated	
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated	
On and Off-balance-sheet Exposures									
Governments and Central Banks									
Authorised Persons and Banks			-	507				-	**507**
Corporates								-	**-**
Retail								4,329	**4,329**
Investments								60,656	**60,656**
Securitisation								-	**-**
Margin Financing								1,376,387	**1,376,387**
Other Assets								72,081	**72,081**
Total		-	-	507	-	-	-	1,513,453	**1,513,960**

Exposure Class SAR'000	Short term Ratings of counterparties						Total
	Credit quality step	1	2	3	4	Unrated	
	S&P	A-1+, A-1	A-2	A-3	Below A-3	Unrated	
	Fitch	F1+, F1	F2	F3	Below F3	Unrated	
	Moody's	P-1	P-2	P-3	Not Prime	Unrated	
	Capital Intelligence	A1	A2	A3	Below A3	Unrated	
On and Off-balance-sheet Exposures							
Governments and Central Banks							
Authorised Persons and Banks		-	507			-	**507**
Corporates						-	**-**
Retail						4,329	**4,329**
Investments						60,656	**60,656**
Securitisation						-	**-**
Margin Financing						1,376,387	**1,376,387**
Other Assets						72,081	**72,081**
Total		-	507	-	-	1,513,453	**1,513,960**

As at 31 December 2017

Exposure Class SAR'000	Long term Ratings of counterparties								Total
	Credit quality step	1	2	3	4	5	6	Unrated	
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated	
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated	
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated	
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated	
On and Off-balance-sheet Exposures									
Governments and Central Banks									
Authorised Persons and Banks			3,187	24,033				-	**27,220**
Corporates								-	**-**
Retail								10	**10**
Investments								82,715	**82,715**
Securitisation								-	**-**
Margin Financing								1,421,660	**1,421,660**
Other Assets								80,537	**80,537**
Total		-	3,187	24,033	-	-	-	1,584,922	**1,612,142**

Exposure Class SAR'000	Short term Ratings of counterparties						Total
	Credit quality step	1	2	3	4	Unrated	
	S&P	A-1+, A-1	A-2	A-3	Below A-3	Unrated	
	Fitch	F1+, F1	F2	F3	Below F3	Unrated	
	Moody's	P-1	P-2	P-3	Not Prime	Unrated	
	Capital Intelligence	A1	A2	A3	Below A3	Unrated	
On and Off-balance-sheet Exposures							
Governments and Central Banks							
Authorised Persons and Banks		3,187	24,033			-	**27,220**
Corporates						-	**-**
Retail						10	**10**
Investments						82,715	**82,715**
Securitisation						-	**-**
Margin Financing						1,421,660	**1,421,660**
Other Assets						80,537	**80,537**
Total		3,187	24,033	-	-	1,584,922	**1,612,142**

6.4 Appendix 4 - Credit Risk Mitigation

As at 31 December 2018

Exposure Class SAR'000	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks	507					507
Corporates	-					-
Retail	4,329					4,329
Investments	60,656					60,656
Securitisation						-
Margin Financing*	1,307,629					1,307,629
Other Assets	72,081					72,081
Total On-Balance sheet Exposures	**1,445,202**					**1,445,202**
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	68,758					68,758
Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	**68,758**	-	-	-	-	**68,758**
Total On and Off-Balance sheet Exposures	**1,513,960**	-	-	-	-	**1,513,960**

*Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

As at 31 December 2017

Exposure Class SAR'000	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks	27,220					27,220
Corporates	-					-
Retail	10					10
Investments	82,715					82,715
Securitisation						-
Margin Financing*	1,325,681					1,325,681
Other Assets	80,537					80,537
Total On-Balance sheet Exposures	**1,516,163**	-	-	-	-	**1,516,163**
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	95,979					95,979
Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	**95,979**	-	-	-	-	**95,979**
Total On and Off-Balance sheet Exposures	**1,612,142**	-	-	-	-	**1,612,142**

*Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

6.5 Appendix 5 – Residual Contractual Maturity of Exposures and Liquidity Position

As at 31 December 2018

SAR'000	Within 3 months	3 - 12 months	1- 5 years	over 5 years	No fixed maturity	Total
ASSETS						
Current Assets						
Cash and cash equivalents	537					537
Held for trading investments	-	11,061	-		21,281	32,342
Margin finance receivables	544,755	762,874				1,307,629
Investment in real estate properties		18,935				18,935
Prepayment and other current assets	16,324	28,891				45,215
Total Current Assets	**561,616**	**821,761**	**-**	**-**	**21,281**	**1,404,658**
Non-Current Assets						
Investments at fair value through other comprehensive income					30,660	30,660
Property and equipment, net			31,194	-		31,194
Intangible assets, net			9,113			9,113
Deferred tax asset, net			458			458
Total Non-current Assets	**-**	**-**	**40,765**	**-**	**30,660**	**71,425**
Total Assets	**561,616**	**821,761**	**40,765**	**-**	**51,941**	**1,476,083**
LIABILITIES AND EQUITY						
Short-term borrowings	395,621	110,203				505,824
Due to related parties	-	90,783				90,783
Accrued expenses and other current liabilities	7,493	7,615				15,108
Accrued zakat and income tax		3,744			28,250	31,994
Subsidiary's equity obligations					9,798	9,798
Total Current Liabilities	**403,114**	**212,345**	**-**	**-**	**38,048**	**653,507**
Non Current Liabilities						
Employees' end of service benefits				-	43,168	43,168
Total Liabilities	**403,114**	**212,345**	**-**	**-**	**81,216**	**696,675**
Equity						
Share capital					500,000	500,000
Statutory reserve					92,442	92,442
Retained earnings					173,806	173,806
Fair value reserve					13,160	13,160
Total Equity	**-**	**-**	**-**	**-**	**779,408**	**779,408**
Total Liabilities and Shareholders Equity	**403,114**	**212,345**	**-**	**-**	**860,624**	**1,476,083**
Balance sheet Gap	**158,502**	**609,416**	**40,765**	**-**	**(808,683)**	**-**
Cumulative GAP	**158,502**	**767,918**	**808,683**	**808,683**	**-**	**-**

As at 31 December 2017

SAR'000	Within 3 months	3 - 12 months	1- 5 years	over 5 years	No fixed maturity	Total
ASSETS						
Current Assets						
Cash and cash equivalents	27,240					27,240
Held for trading investments	-	11,671	-		68,450	80,121
Margin finance receivables	387,316	938,365				1,325,681
Investment in real estate properties		23,094				23,094
Prepayment and other current assets	11,174	21,544				32,718
Total Current Assets	**425,730**	**994,674**	**-**	**-**	**68,450**	**1,488,854**
Non-Current Assets						
Available for sale Investment					47,950	47,950
Property and equipment, net			37,326	-		37,326
Intangible assets, net			10,503	-		10,503
Total Non-current Assets	**-**	**-**	**47,829**	**-**	**47,950**	**95,779**
Total Assets	**425,730**	**994,674**	**47,829**	**-**	**116,400**	**1,584,633**
LIABILITIES AND EQUITY						
Short-term borrowings	656,110					656,110
Due to related parties	-	23,034				23,034
Accrued expenses and other current liabilities	12,701	10,182				22,883
Accrued zakat and income tax		1,158			28,250	29,408
Subsidiary's equity obligations					45,682	45,682
Total Current Liabilities	**668,811**	**34,374**	**-**	**-**	**73,932**	**777,117**
Non Current Liabilities						
Employees' end of service benefits				-	44,567	44,567
Total Liabilities	**668,811**	**34,374**	**-**	**-**	**118,499**	**821,684**
Equity						
Share capital					500,000	500,000
Statutory reserve					89,232	89,232
Retained earnings					143,267	143,267
Fair value reserve					30,450	30,450
Total Equity	**-**	**-**	**-**	**-**	**762,949**	**762,949**
Total Liabilities and Shareholders Equity	**668,811**	**34,374**	**-**	**-**	**881,448**	**1,584,633**
Balance sheet Gap	**(243,081)**	**960,300**	**47,829**	**-**	**(765,048)**	**-**
Cumulative GAP	**(243,081)**	**717,219**	**765,048**	**765,048**	**-**	**-**