Internal Capital Adequacy Assessment Process (ICAAP) Report for 2018

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Executive Summary

The Internal Capital Adequacy Assessment Process (ICAAP) is an internal process and a tool for better risk management and ensuring the Company has sufficient capital to meet its current and future business plan and related risks. The ICAAP should reflect the risk management approach embedded in the Company. Processes undertaken in this regard should not be implemented merely to meet the regulatory requirements.

The purpose of this analysis of capital adequacy is to determine whether the Company has sufficient capital and liquidity to continue during economy downturn or a financial crisis. If either capital or liquidity drops below acceptable minimums during the test, it is a signal that the business models or risk-management practices should be changed. By end of 2018 the capital adequacy has been audited by the independent auditor and a positive report has been issued accordingly

The minimum capital requirements contain restrictive or simplifying assumptions and hence it should assess the total level of capital it requires as part of the Pillar 2 process on a forward-looking basis correspondent to its individual risk profile. The ICAAP should produce a level of capital adequate to support the nature and level of risk facing an individual investment bank.

The key element of the capital adequacy assessment process is the forward-looking capital plan, in which the bank determines the level of capital required (accounting for material risks and stress events). The capital plan should be based on the forecast business plan of the bank.

Background

Alpha Capital (the "Company") is a Closed Joint stock Company incorporated under Minister of Commerce resolution number 137/G dated 04 Jumada Al-Thani 1439H (corresponding to 21 Feb 2018). The Company is registered in Riyadh under commercial registration number of 1010936196 dated 05 Jumada Al-Thani 1439H (corresponding to 21 Feb 2018).

The Company's principal activities according to the Capital Market Authority license number 18187-33 dated Rajab Al - Thani 23, 1439H (Corresponding to Jan 10, 2018 are summarized as follows:

- Dealing as principal;
- Establishment and management of Investment Funds and Portfolios;
- Arranging transactions;
- Providing advisory services;

The Company is owned by Saudi shareholders (Corporates and Individuals). The Company's paid up capital is SR 50 million which comprises of 5 million shares at par value of SR 10 per share.

The company investment portfolio as of December 31, 2018 comprises of investment at fair value through profit and loss, investment in Murabaha fund and syndicated Murabaha operations. Total of the Company's investment portfolio is SR 50.21 million and other assets amounts to SR 6.51 million which brings total assets to SR approximately SR 56.72 million.

No historical data are available as the 2018 was start up year, so no comparative financial statements are available to be presented in the report

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Current and Projected Financial and Capital Positions

As illustrated in appendix E the Company invested in low risk Murabaha deposits and operations in addition to investment in private fund and public equity fund, keeping approximately 65% of the capital still invested in low risk Murabaha fund. This resulted in positive capital adequacy through the year ended December 31, 2018.

Please refer to appendix A and B for the projected balance sheets for the years 2019, 2020 and 2021 to track asset allocation during these years. More allocation may be routed to private equity depending on funds needed for seeding in funds under management and on available opportunities and market conditions. In any case the investment in Murabaha deposits and operations are not expected to decrease below 10% of paid up capital.

Capital Adequacy for Stress Testing

Our analysis of capital adequacy for stress testing is summarized as follows:

1. Developing scenario of downturn macro-economy state.
2. Developing risks associated with selected economy state, taking into consideration risk factors related to market, credit and operations.
3. Developing specific risks for particular investments.
4. Calculating impact on capital requirement and ratio.
5. Drawing results and making recommendations to mitigate impact of risks.

Scenario and Risk Selection

For the purpose of financial stress test, we developed scenarios for the downturn in macroeconomic factors and made an assessment of risks of market, credit and operations on the Company capital requirement and adequacy over the next three years. In the following table we illustrate the impact of the aforesaid risks for the years 2019, 2020 and 2021 based on projected balance sheet and income statement and stress testing analysis.

Description	Market	Credit	Operations	Total
2019	2,172	-	1,000	3,172
2020	2,745	-	1,000	3,745
2021	3,385	-	1,000	4,385

Please refer to appendix C for details analysis of above calculation. These risks have been estimated using guidelines and formulas illustrated in capital adequacy model and prudential rules of Capital Market Authorities.

Fall in TASI

We assume 5% fall in TASI and apply the same effect on the Company portfolio to identify the impact on the next three years' capital requirement and adequacy. Several economic research reports expect TASI to continue the gradual upturn trend during the aforesaid period; however, we assumed this downturn to apply more conservative analysis for capital adequacy.

Fall in Asset under Management NAV

We assume 3% fall in asset under management NAV which is different from the aforesaid forecasted downturn in TASI and Saudi real estate. The reason for this inconsistency is that we assume the fund manager will exercise skills and experience in asset selection and allocation to mitigate effect of the any downturn effect in overall economy.

Asset Management Operations

Despite the fact that asset management operations are expected to be processed by the software developed by outside vendor for this purpose, we will assume a total of SR 1,000,000 operational risks from fund and portfolio management. This amount is attributable to the expected volume of asset management transactions.

Murabaha Deposits and Operations

As shown in the audited financial statements for 2018, the Company has approximately SR 37.77 million invested in Syndicated Murabaha operations and Murabaha Fund. We assume that the downturn economy effect on market will expectedly result in a decrease in profit rate on these Murabaha deposits of 1%. We do not see the Murabaha investment to suffer from any credit risk since the capital is guaranteed and that the Company deals with only reputable banks in the region. Additionally, these deposits are very liquid and are classified in the balance sheet under cash and cash equivalents.

Other stress factors, scenarios and sensitivities

With respect with stress other factors (rise in receivables` default, devaluation of keys foreign currencies, foreign exchange peg break and withdrawal of major clients) we don’t believe that those all these factors are applicable.
With respect to capital adequacy management, the Company implements the following policies and procedures in order to manage capital and their adequacy:

- Calculate the capital adequacy ratio on monthly basis in accordance with applicable regulations and guidelines;
- Capital should be of high quality and loss absorbing. Quality of capital is determined through the application of the common and best practice criteria for common equity, and additional tier 1 and tier 2 capitals, with emphasis on retained earnings as the highest quality of capital.
- Capital should adequately protect against unexpected losses. Quantity of capital should rest above regulatory minimums and sufficiently reflect Company’s risk appetite and risk profile capturing all material risks and taking into account forward-looking factors such as the strategic plans.
- Report the capital adequacy ratio along with detailed computations to regulators;
- Maintain minimum capital adequacy and monitor this minimum level on regular basis;
- Identify the impact of investment decisions over risks, liquidity and capital adequacy;
- Manage assets, liabilities and monitor future cash flows;
- Set a level of leverage ratio for the Company and owned subsidiaries;
- Monitor large exposures and asset concentration on regular basis; and
- Follow up newly released rules and regulations that affect the capital adequacy calculation.

With regard to risk appetite and limits, the Company’s board and management address and respond appropriately to the business opportunities and mitigate the risks attributable to investments and operations to enhance sustainability and profitability. The Company faces broad range of risks predominantly the market, credit, market, liquidity and operational risks besides some generic risks like political, reputation, profit rate, regulatory and business continuity risk.

The risks arising from the investment activities can be significant. These risks are managed through detailed processes where key emphasis is on limits and laddered approval authority across all asset classes. the board and management recognize that it is not possible or desirable to eliminate some of the risks inherent in its activities and therefore processes are put in place to manage these risks in order to achieve its monetary goals. The board will continuously monitor the business activities undertaken and will be apprised of any significant event giving rise to a specific risk.

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The appetite for operational risks is low and the board makes resources available to control the operational risks to an acceptable level. Policies & procedures are put in place and regularly reviewed and updated, business continuity is ensured by offsite disaster recovery Centre and succession plan is implemented to cater to key person risks.

Based on above policies and procedures the Company appropriately manages and controls capital and their adequacy.

Capital Planning and Stress Tests

In the following table we illustrate summary of capital adequacy and plan for the year 2018 and next three years of 2019, 2020 and 2021 after taking into account the results of stress test:

Description	2018 SR"000"	2019 SR"000"	2020 SR"000"	2021 SR"000"
Capital base	50,938	54,204	59,314	72,571
Capital requirements	29,629	33,687	37,709	45,808
Capital ratio before stress test	**1.72**	**1.61**	**1.57**	**1.58**
Additional capital to cover stress	1,900	2,012	2,180	2,414
ICAAP capital requirement	**31,528**	**35,699**	**39,889**	**48,222**
Stressed capital ratio	**1.62**	**1.52**	**1.49**	**1.50**
Surplus capital base	**19,410**	**18,505**	**19,425**	**24,348**

Please refer appendix D for detailed analysis of above table. The estimated amounts above related to the years 2019 – 2021 have been based on projected financial statements for these years and using guidelines and formulas illustrated in capital adequacy model and prudential rules of Capital Market Authorities.

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to clients by setting credit limits for individual clients, monitoring outstanding receivables and ensuring close follow-ups.

The Company uses credit rating for evaluating cash deposited / invested with banks and other authorized persons, investment in syndicated Murabaha operations and investment in debt securities. The credit quality step, risk weighted assets and credit risk mitigation have been calculated based on CMA guidelines.

Market risks in general comprise of equity, investment funds, bonds, commodities, foreign exchange rate, underwriting, excess exposures and settlement. The only applicable risks to the Company for the years 2015 are equity price risk and foreign exchange rate which is associated with Company's investments denominated in USD.

Equity price risk is the risk related to holding equity in a particular investment. Equity price risk often refers to equity in companies through the purchase of stock. The measure of risk used in the equity markets is typically the standard deviation of a security's price fluctuations over a number of periods.

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the year. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The Company monitors market risks related to equity price and currency risks on regular basis. The market prices of held for trading and available for sale securities are reviewed on daily basis and proper research reports are performed to identify over/under valued securities. Macroeconomic research reports are also performed on regular basis to assess systemic risks and their potential impact on the respective portfolios in the proprietary book investments.

Operations risk is a form of risk that summarizes the risks that the Company undertakes when its business operation. Operational risk is the risk that is not inherent in financial, systematic or market-wide risk. It is the risk remaining after determining financing and systematic risk, and includes risks resulting from breakdowns in internal procedures, people and systems. The Company employs appropriate policies, procedures and systems that ensure business operations are properly processed and maintained.

Risk Appetite, Tolerance and Limits

The Company's board and management address and respond appropriately to the business opportunities and mitigate the risks in our investments and operations to enhance sustainability and profitability. The Company faces broad range of risks predominantly the market, credit, market, liquidity and operational risks besides some generic risks like political, reputation, profit rate, regulatory and business continuity risk.

The risks arising from the investment activities of the Company can be significant. These risks are managed through detailed processes where key emphasis is on limits and laddered approval authority across all asset classes. The board and management recognize that it is not possible or desirable to eliminate some of the risks inherent in its activities and therefore processes are put in place to manage these risks in order to achieve its monetary goals. The board will continuously monitor the business activities undertaken by the Company and will be apprised of any significant event giving rise to a specific risk.

The appetite for operational risks is low and the board makes resources available to control the operational risks to an acceptable level. Policies & procedures are put in place and regularly reviewed and updated, business continuity is ensured by offsite disaster recovery Centre and succession plan is implemented to cater to key person risks

The business and financial objectives that are set by the board lay down the foundation for determining the overall risk appetite for the Company. Risk Appetite is defined as the amount of risk, on a broad level, that the Company needs to take in order to attain appropriate return of the value. In other words, the total impact of risk an organization is prepared to accept in pursuit of its business objectives.

Audit and Risk Committee in the Company has implemented the risk management policy to communicate to all stakeholders its risk culture, to control risk taking in the development and execution of its operating plans, budgets and to ensure the consistency of risk decisions throughout the Company. The Company follows a forward looking, top-down approach to define its risk appetite metrics to lines of Business. Business planning and strategy formulation is guided by this Policy. The Company has developed its risk appetite statement as an integral part of its risk management policy.

Audit and Risk Committee's performance versus risk appetite requirements is monitored by the risk management department on periodic basis and variances are reported. All breaches are reported to the concerned as per risk appetite policy. The key components of the risk appetite framework are as follows:

Risk Appetite Components:

- Ensure that stakeholders' interest, economic & market conditions and competitive environment are assessed
- Allocate larger appetite for known and traditional business lines
- Identify, measure, manage, monitor and report all material risks
- Determine parameters to reflect financial health and risk exposures
- Use a mix of qualitative and quantitative indicators
- Consider input from Senior management in arriving at risk appetite
- Obtain board approval and keep them informed

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Risk Matrix

The table below shows the Risk Matrix based on the Appetite Statement as approved by Audit & Risk Committee of the Board of Directors:

Risk Category	Risk Sub Category	Risk Limit	Risk Tolerance
Credit Risk	Single Counterparty Risk	AA≤20%, A≤15%, BBB≤10%	AA≤20%, A≤20%, BBB≤12%
	Concentration Risk - Sovereign	≤10% in single MENA country	10 -15% in single MENA country
Market Risk	Public Equity	≤ 30 % with ≤ 20% in Funds & ≤10% direct	25 % funds 15% directly in equity
	Private Equity	≤20%	20-25%
	Money Market	≤25%	25-30%
Operational Risk	Operational Loss	< 0.5% of Revenue	Between 0.6% - 0.75% of Revenue
	People Risk	Up to 90% Retention Rate	80% - 89% Retention Rate
Strategic Risk	Earning Volatility	Up to 15% lower than budget	Between 15% - 20%
	Capital Adequacy	Minimum capital ratio to be 1.5x	Minimum capital ratio to be 1.25x
Reputational Risk	Unauthorized / Adverse media	Zero Tolerance	Zero tolerance
	Execution failure	Zero Tolerance	Zero Tolerance

Further to the quantitative risk appetite measures, Audit & Risk Committee ensures that the following qualitative risk measures are being monitored under its risk appetite framework:

- Sharia - Ensure that the Company continues to be Sharia compliant and follows the highest ethical standards at all times.
- Regulation / Compliance - Zero tolerance for regulatory / compliance breaches.
- Internal Control - Zero tolerance for breach of policies. Appropriate policies and processes shall be followed at all times.

Pillar 2 Risks

Concentration risk: is the risk arising from a large position in a single asset or market exposure where an excessive concentration can give rise to liquidity risk and market risk. The Company continually monitors concentration positions and ensure that investment in concentrated positions, if any, are allowable by CMA according to interpretations and guidelines on this particular issue.

Liquidity risk: is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company's manages its liquidity risk by monitoring investing activities and cash flows on regular basis. Additionally, there are no funding requirements for other investments or a pressure to liquidate any existing investment during a short period of time and therefore no liquidity risk is associated thereto.

Strategic risk: is possible source of loss that might arise from the pursuit of an unsuccessful business plans and budgets. The Company set business plans and budgets based on foreseeable market conditions and strive to achieve those in efficient and effective manner. In case of forecasted changes in market conditions the Company shall revise their business plans and budget to be more reasonable and achievable within the new circumstances.

Regulatory risk: is the risk of a change in regulations and law that might affect an industry or a business. The Company closely monitors the implementation and compliance of the regulator's rules and regulations including working circulars that are released from time to time and follow the new instructions included therein. Also the regulator usually reviews the possible impact of new rules and regulations on authorized persons before being placed in effect

Fraud risk: is the risk that refers to intentional act committed to secure unfair or unlawful gain. The Company's management ensures that systems of internal controls are placed in operations to prevent this kind of risks, also the board of directors and their associated committees have adopted corporate governance systems to oversee management's actions, decisions, compensation and use of authority.

According to above the pillar 2 risks are not applicable to the Company.

Conclusion

Based on the above discussion the Company appears to have proper policies and procedures for ICAAP and maintains sufficient level of capital to cover all applicable risks, including those resulted from the stress testing.

Approved by:

Managing Director and CEO	**Chief Financial Officer**
Fahad K. Al-Saud	**Ahmad H. Abu Ajameyah**

Appendix A: Audited Balance Sheet for the Year 2018 and Projected Balance Sheet for the Years 2019, 2020 and 2021

Appendix B: Audited Income Statement for the Year 2018 and Projected Income Statement for the Years 2019, 2020 and 2021

Appendix C: Summary of Stress Tests and their Capital Requirement for the Years 2019, 20202 and 2021

Appendix D: ICAAP Report Summary Based on Audited Financial Statements for the Year 2018 and Projected Financial Statements for Years 2019, 2020 and 2021 and Stress Testing Results

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Appendix A

Audited statement of financial position for the Year 2018 and projected for the years 2019 - 2021

Statement of Financial Position	SR"000" 2018	SR"000" 2019	SR"000" 2020	SR"000" 2021
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	71	326	370	384
Investments held for trading	-	-	-	-
Investments in short term Murabaha	37,776	29,106	27,516	32,354
Accounts receivable / Accrued Income	3,871	5,509	6,924	10,263
Prepayments and other receivables	1,391	1,001	1,076	1,111
TOTAL CURRENT ASSETS	**43,109**	**35,942**	**35,886**	**44,112**
NON-CURRENT ASSETS				
Investment at Fair Value through P&L	12,438	18,810	24,700	30,611
Property and equipment	1,180	926	740	592
TOTAL NON-CURRENT ASSETS	**13,618**	**19,736**	**25,441**	**31,203**
TOTAL ASSETS	**56,728**	**55,678**	**61,327**	**75,315**
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and other accruals	5,039	250	269	278
Other payables and accruals	500	632	700	933
TOTAL CURRENT LIABILITIES	**5,539**	**882**	**969**	**1,210**
NON-CURRENT LIABILITY				
Employees' terminal benefits	189	591	1,044	1,534
TOTAL LIABILITIES	**5,728**	**1,474**	**2,013**	**2,744**
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY				
Share capital	50,000	50,000	50,000	50,000
Statutory reserve	100	510	1,391	3,509
Retained earnings	900	3,693	7,923	19,062
Unrealized (loss)/gain on available for sale investments	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY	**51,000**	**54,204**	**59,314**	**72,571**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**56,728**	**55,678**	**61,327**	**75,315**

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Appendix B

Audited Income Statement for the Year 2018 and Projected Income Statement for the Years 2019, 2020 and 2021

Statement of Profit and loss	SR"000" 2018	SR"000" 2019	SR"000" 2020	SR"000" 2021
Revenues				
Income from Asset Management Activities	624,947	3,463,500	6,293,500	10,461,000
Income from Alternative Investments Activities	13,197,619	16,140,000	19,140,000	28,140,000
Investment Income	644,415	2,387,541	2,962,083	3,562,630
TOTAL REVENUE	**14,466,981**	**21,991,041**	**28,395,583**	**42,163,630**
Staff Cost	9,891,726	12,081,091	12,963,076	14,178,275
Operating, general and administration expenses	3,075,255	5,306,068	5,878,865	6,055,540
Total Expenses	**12,966,981**	**17,387,159**	**18,841,941**	**20,233,814**
(LOSS)/INCOME FROM MAIN OPERATIONS BEFORE ZAKAT	**1,500,000**	**4,603,882**	**9,553,642**	**21,929,815**
(LOSS)/INCOME BEFORE ZAKAT	**1,500,000**	**4,603,882**	**9,553,642**	**21,929,815**
Zakat	(500,000)	(500,000)	(750,000)	(750,000)
NET (LOSS)/ INCOME FOR THE YEAR	**1,000,000**	**4,103,882**	**8,803,642**	**21,179,815**

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Appendix C

Summary of Stress Tests and their Capital Requirement for the Years 2019, 2020 and 2021

2019						
Description	**Base Amount**	**%**	**Market**	**Credit**	**Operations**	**Total**
Fall in TASI	7,810	10	781	NA	NA	781
Fall in assets under management NAV	11,000	10	1,100	NA	NA	1,100
Asset management operations	1,000		NA	NA	1,000	1,000
Murabaha deposits and operations	29,106	1	291	NA	NA	291
Total			**2,172**	**-**	**1,000**	**3,172**

2020						
Description	**Base Amount**	**%**	**Market**	**Credit**	**Operations**	**Total**
Fall in TASI	8,200	10	820	NA	NA	820
Fall in assets under management NAV	16,500	10	1,650	NA	NA	1,650
Asset management operations	1,000.00		NA	NA	1,000.00	1,000.00
Murabaha deposits and operations	27,516	1	275	NA	NA	275
Total			**2,745**	**-**	**1,000**	**3,745.21**

2021						
Description	**Base Amount**	**%**	**Market**	**Credit**	**Operations**	**Total**
Fall in TASI	8,611	10	861	NA	NA	861
Fall in assets under management NAV	22,000	10	2,200	NA	NA	2,200
Asset management operations	1,000		NA	NA	1,000	1,000
Murabaha deposits and operations	32,354	1	324	NA	NA	324
Total			**3,385**	**-**	**1,000**	**4,385**

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Appendix D

ICAAP Report Summary Based on Audited Financial Statements for the Year 2018 and Projected Financial Statements for Years 2018, 2020 and 2021 and Stress Testing Results

Particulars	2018 (SR '000)	2019 (SR '000)	2020 (SR '000)	2021 (SR '000)
Tier-1 capital (after deduction)	50,938	54,204	59,314	72,571
Tier-2 capital (after deduction)	-	-	-	-
Capital base	**50,938**	**54,204**	**59,314**	**72,571**
1. Credit risk	5,167	7,971	10,841	14,518
2. Market risk	19,199	20,454	21,606	26,028
3. Operational risk	5,262	5,262	5,262	5,262
Pillar 1 capital requirements (A)	**29,629**	**33,687**	**37,709**	**45,808**
Pillar 1 capital ratio	**1.72**	**1.61**	**1.57**	**1.58**
4. Concentration risk				
5. Liquidity risk				
6. Reputational risk				
7. Strategic risk				
8. Regulatory / legal risk				
9. Interest/profit rate risk				
10. Business continuity risk				
11. IT security risk				
12. Fraud risk				
13. Other risk				
Pillar 2 capital requirements (B)	**-**	**-**	**-**	**-**
Capital ratio before stress test	**1.72**	**1.61**	**1.57**	**1.58**
Additional capital to cover stress test **(C)**	2,622	3,172	3,745	4,385
ICAAP capital requirements (A+B+C)	**32,250**	**36,859**	**41,454**	**50,193**
Surplus (Deficit) in capital base	**18,688**	**17,345**	**17,860**	**22,378**
ICAAP and stressed capital ratio	**1.58**	**1.47**	**1.43**	**1.45**