Capital Adequacy Report for 2019

Capital Adequacy Report for 2019 – Pillar III

Table of Contents

Capital Adequacy Report for 2019 – Pillar III

Scope of Application

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;

Capital adequacy refers to whether the Company has sufficient capital to meet certain risks that are usually associated with economy downturn and have conservable effect on financial assets, these risks comprise of credit, market and operations. The Company is subject to these risks and accordingly has to monitor the capital adequacy on a regular basis to ensure that the aforesaid risks are adequately covered by sufficient capital base. In this report we analyze the Company`s capital adequacy based on the comparative audited financial statements for the year ended December 31, 2019 and the period ended December 31, 2018. Financial statements are included in this report.

The purpose of this analysis of capital adequacy is to determine whether the Company have 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.

Capital Structure

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.

Capital base related to tier one comprises of paid up capital, reserves, retained earnings after deducting intangible assets, zakat (if expensed from retained earnings), other comprehensive income items and other applicable deductions from tier one capital. Capital base related to tier two doesn't include applicable items based on the Company investment structure. Refer the schedule shown below for the calculation of Capital Adequacy Ratio and Surplus. Also, the composition of shareholders' equity is available in the annual financial statements

The company investment portfolio as of December 31, 2019 comprises of investment in private equity fund, investment in money market fund and investment in Syndicated Murabaha. Total of the Company investments portfolio is approximately SR 46.8 comparing to SR 50.2 as of Dec 31, 2018 million and other assets amounts to SR 14.5 million comparing to SR 6.5 million as of Dec 31, 2018 which brings total assets to SR approximately SR 61.3 million as of Dec 31, 2019 comparing to SR 56.7 as of Dec 31, 2018.

Capital Adequacy Report for 2019 – Pillar III

Capital Adequacy Analysis and Computation

The Company continuously assesses their adequacy of its capital to support current and future activities through the following measure:

- The process and strategy for assessing its overall capital adequacy and risk profile.
- Maintenance of minimum capital levels and the ability to hold capital in excess of the minimum.
- Review of Internal Capital Adequacy Assessment Process (ICAAP).
- Monitoring and ensuring compliance to CMA regulations with appropriate actions being taken when required
- The ability to intervene at an early stage to prevent capital from falling below the minimum levels.

Our analysis of capital adequacy is summarized as follows:

1. Calculation of capital base based on capital's tier one and two.
2. Developing and calculating risks related to market, credit and operations. Other risks may be considered based on the circumstances.
3. Calculation of minimum capital required to meet the calculated risks.
4. Calculating of capital adequacy ratio and resulting surplus.
5. Drawing results and making recommendations to mitigate impact of risks.
6. The above process should be based upon predefined and set policies, procedures with regular review and monitoring.

In the following table we illustrate the capital adequacy calculation for the year 2019 comparing to the period of 2018 based on the information and explanations shown above:

Capital Base	2019	2018
Tier-1 capital	51,990	50,938
Tier-2 capital	-	-
Minimum Capital Requirements	**51,990**	**50,938**
Market Risk	13,101	19,199
Credit Risk	10,115	5,167
Operational Risk	4,669	5,262
Total Risk	**27,885**	**29,629**
Capital Ratio	**1.86**	**1.72**
Surplus	**24,105**	**21,310**

Risk Management and Compliance

The function of Risk Management at the Company is to develop and maintain programs that protect the Company from unanticipated loss by providing systematic risk analysis, developing techniques to reduce potential exposure to loss, and procuring and administering insurance and self-insurance programs in accordance with the Company`s Risk Management Policy.

Specifically, risk management's primary goal is to minimize the adverse effects of accidental losses by either stopping losses from happening using risk control techniques, or paying for those losses that unavoidably occur, using risk financing or risk transferring techniques.

Risk management policy is intended to ensure that costs, anticipated benefits and potential risks associated with particular activities are accurately considered. Where the balance of advantage favors particular activity or initiative, the possible risks will be planned for and managed, taking account of broader company objectives and priorities.

Risk management enables the Company`s management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value for its customers and shareholders.

Compliance function is an independent function whose main objectives are: to ensure that the Company complies with the requirements of authorized person regulations; to assist the Board of Director, management, employees and the registered persons to comply with any requirement issued by CMA to appear to explain any matter or to assist in any enquiry relating to the administration of the Capital Market Law and its implementing regulations; and to assist in the efficient management of consequent risks.

In practice, these objectives are reached by:

- Identifying, evaluating, controlling and monitoring the compliance risks (as defined here below) affecting the Company;
- Organizing the compliance-related controls by structuring, coordinating and/or delegating them;
- Reporting to and advising the Risk and Compliance and/or the Board of Directors
- Submitting recommendations and corrective actions when appropriate;
- Acting as advisor in compliance matters to Executive Management.

Compliance is a key element of Corporate Governance, which is about encouraging the Company fairness and integrity, improving transparency and increasing responsibility.

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 capital, 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;
- Monitor large exposures and asset concentration on regular basis; and
- Follow up newly released rules and regulations that affect the capital adequacy calculation.

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

Credit Risk

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 currently has on past due claims or impaired liabilities and not expected to confront such risk factors in the future based on business model and activities. The Company undertakes credit assessment report before making any investment decision and all investments are evaluated on regular basis as to credit risks factors.

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. Please refer to Appendix III, IV and V for more details.

Credit risks are calculated as follows:

Description	2019 SR ('000')	2018 SR ('000')
Total risk weighted assets (see details below)	72,252	36,908
Credit risk calculation as 14% of risk weighted assets	10,115	5,167
Capital requirement	**10,115**	**5,167**

Risk weighted assets used for credit risk calculation are summarized as follows:

Description of exposure	2019 SR ('000')	2018 SR ('000')
Authorized persons and banks - deposits/receivable/bonds	243	14
Corporates - receivables and bonds	1,204	1,079
Investment funds	26,418	16,488
Other exposures	44,387	19,327
Total	**72,252**	**36,908**

Market Risk

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 2019 are Fund Risk and Excess Exposure Risk which is associated with Company's investments.

Fund risk is the risk related to investments in public or private trading funds. Excess Exposure Risk is the risk related to those investment with weight over than 25% of capital base.
The calculation of this risk is summarized as follows:

Description	2019 SR ('000')	2018 SR ('000')
Investment funds risk	31,973	32,381
Capital Requirements	**5,116**	**5,181**
Excess exposure risk	7,985	14,018
Capital Requirements	**7,985**	**14,018**
Capital requirements	**13,101**	**19,199**

Operations Risk

For operational risks, the required capital is calculated as 25% of the authorized person's overhead expenses or 15% of average revenues for three years whichever is greater, for 2019 operational risk has been calculated based on overhead expense approach. The calculation is summarized as follows:

Description	2019 SR ('000')	2018 SR ('000')
Total overhead expenses for previous year	**18,675**	**21,049**
Operations risk calculation as 25% of overhead expenses	**4,669**	**5,262**
Capital requirement	**4,669**	**5,262**

Liquidity and Cash Management

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.

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. Also, apart from what have been discussed above other investments are not subject to market risk or credit risk.

Conclusion

Based on the results of the analysis, the capital adequacy ratio is 1.86 times for 2019 comparing to 1.72 times for 2018 hence the Company has proper management of credit, market and operational risks, and the level of these risks appears to be acceptable. Also, the Company appeared to be liquid and have sufficient capital to continue their operations during macroeconomic downturn.

Appendix A

Statement of Financial Position and Statements of profit and loss for the year ended Dec 31, 2019 and the period ended Dec 31, 2018

Statement of Financial Position as at Dec 31, 2019		
Description	**31-Dec-19**	**31-Dec-18**
Assets		
Current Assets		
Cash and Cash Equivalent	1,215,112	71,165
Investment at Fair value through P&L	31,973,055	32,380,956
Investment in Syndicated Murabaha	6,021,862	5,395,179
Accounts receivable	2,994,973	3,870,678
Amounts due from related parties	7,126,213	618,747
Prepayments and another receivable	909,183	772,581
Total current assets	**50,240,398**	**43,109,306**
Non - Current Assets		
Investment at Fair Value through P&L	8,806,050	12,438,092
Property, plant and equipment	1,119,286	1,180,327
Right of use assets	1,144,261	-
Total Non - current assets	**11,069,596**	**13,618,419**
Total assets	**61,309,994**	**56,727,725**
Liabilities and shareholders` equity		
Current Liabilities		
Accounts payable and other accruals	5,810,594	5,039,097
Zakat provision	1,672,523	500,000
Lease liability	433,083	-
Total current liabilities	**7,916,200**	**5,539,097**
Non - Current liabilities		
End of service indemnity	605,528	188,628
Lease liability	735,726	-
Total non - current liabilities	**1,341,254**	**188,628**
Total liabilities	**9,257,454**	**5,727,725**
Shareholder's equity		
Share Capital	50,000,000	50,000,000
Statutory reserve	302,469	100,000
Retained earnings	1,822,220	900,000
Other comprehensive income	(72,149)	-
Total Equity	**52,052,540**	**51,000,000**
Total liabilities and shareholder's equity	**61,309,994**	**56,727,725**

Statement of Profit and loss for the year ended Dec 31, 2019		
Description	**31-Dec-19**	**31-Dec-18**
Revenues		
Asset Management Activities Revenues	8,402,019	624,947
Investment Banking Revenues	4,316,701	13,197,619
Investment Revenue	7,914,557	644,415
Total revenues	**20,633,277**	**14,466,980**
Expenses		
Salaries and other benefits	(14,595,742)	9,891,726
General and administrative expenses	(2,906,482)	2,252,827
Establishment Cost	-	822,428
Total Expenses	**(17,502,224)**	**12,966,980**
Income from main operations before Zakat	**3,131,053**	**1,500,000**
Other income	66,159	
Zakat expense	**(1,172,523)**	**500,000**
Net income	**2,024,689**	**1,000,000**

Appendixes I, II, III, IV and V

Illustrative Disclosures on Pillar 3 Capital Base and Risks

App 1: Illustrative Disclosure on Capital Base

Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	50,000
Audited retained earnings	1,822
Reserves (other than revaluation reserves)	302
Tier-1 capital adjustment	
Intangible assets	-63
Other Comprehensive income items	-72
Total Tier-1 capital	**51,990**
Tier-2 capital	
Subordinated loans	-
Cumulative preference shares	-
Revaluation reserves	-
Other deductions from Tier-2 (-)	-
Deduction to meet Tier-2 capital limit (-)	-
Total Tier-2 capital	**-**
Capital Base	**51,990**

App II: Illustrative Disclosure on Capital Adequacy

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					
APs and banks	1,215		1,215	243	34
Corporates	6,022		6,022	1,204	169
Investment funds	8,806		8,806	26,418	3,699
Others exposures	13,216		13,216	44,387	6,214
Total On-Balance sheet Exposures	**29,259**		**29,259**	**72,252**	**10,115**
Off-balance Sheet Exposures					
OTC/Credit Derivatives					
Repurchase agreements					
Securities borrowing/lending					
Commitments					
Other off-balance sheet exposures					
Total Off-Balance sheet Exposures					-
Total on and Off-Balance sheet Exposures	**29,259**		**29,259**	**72,252**	**10,115**
Market Risk	**Long Position**	**Short Position**			
Equity Risk					
Fund Risk	31,973				5,116
Excess Exposure Risk	49,908				7,985
Total Market Risk Exposures	81,881				13,101
Operational Risk					4,669
Minimum Capital Requirements					27,885
Capital base					**51,990**
Surplus/(Deficit) in capital					24,105
Total Capital Ratio (time)					**1.86**

App III: Illustrative Disclosure on Credit Risk's Risk Weight

Risk Weights	Exposures after netting and credit risk mitigation											
	Governments and central banks	Administrative bodies and NPO	APs and banks	Margin financing	Corporates	High risk investments	Securitization and resecuritisation	Investment funds	Listed shares	Others exposures	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	1,215	-	6,022	-	-	-	-	-	7,237	1,447
50%	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-
200%	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	8,806	-	12,072	20,878	62,635
400%	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	-	-	-	-	-	1,144	1,144	8,170
Average Risk Weight	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-

App IV: Illustrative Disclosure on Credit Risk's Rated Exposure

Exposure Class	Long term Ratings of counterparties							
	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	-	-	-	-	-	-	-	-
Authorized Persons and Banks	-	1,215	-	-	-	-	-	-
Corporates	-	6,022	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-
Investments	-	8,806	-	-	-	-	-	-
Securitization	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-
Total	-	16,043	-	-	-	-	-	-

Exposure Class	Short term Ratings of counterparties					
	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	-	-	-	-	-	-
Authorized Persons and Banks	-	31,973	-	-	-	-
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitization	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Total	-	31,973	-	-	-	-

App V: Illustrative Disclosure on Credit Risk Mitigation (CRM)

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and central banks	-	-	-	-	-	-
Administrative bodies and NPO	-	-	-	-	-	-
APs and banks	1,215	-	-	-	-	243
Margin financing	-	-	-	-	-	-
Corporates	6,022	-	-	-	-	1,204
High risk investments	-	-	-	-	-	-
Securitization and resecuritisation	-	-	-	-	-	-
Investment funds	8,806	-	-	-	-	26,418
Listed shares	-	-	-	-	-	-
Others exposures	13,216	-	-	-	-	44,387
Total On-Balance sheet Exposures	**29,259**	**-**	**-**	**-**	**-**	**72,252**
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	-	-	-	-	-	-
*Other Off-Balance sheet Exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	**-**	**-**	**-**	**-**	**-**	**-**
Total on and Off-Balance sheet Exposures	**29,259**	**-**	**-**	**-**	**-**	**72,252**