Capital Adequacy Report for 2021

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Capital Adequacy Report for 2021 – 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 must 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, 2021, and the year ended December 31, 2020. 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 does not 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, 2021, comprises of investment in money market fund, investment in local public equity shares portfolio, investment in Sukuk portfolio, investment in equity and multi assets funds, and investment in real estate development fund. Total of the Company investments portfolio is approximately SR 50.37 million comparing to SR 48.05 million as of Dec 31, 2020, and other assets amounts to SR 73.15 million comparing to SR 18.15 million as of Dec 31, 2020, which brings total assets to approximately SR 123.52 million as of Dec 31, 2021, comparing to SR 66.2 million as of Dec 31, 2020.

Capital Adequacy Report for 2021 – 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 more than 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 2021 comparing to the period of 2020 based on the information and explanations shown above:

Capital Base	2021 SR ('000')	2020 SR ('000')
Tier - 1 capital	83,656	52,568
Tier - 2 capital	-	-
Minimum Capital Requirements	83,656	52,568
Credit Risk	16,446	11,321
Market Risk	7,444	12,516
Operational Risk	12,690	6,036
Total Risk	**36,580**	**29,873**
Capital Ratio (Times)	2.29	1.76
Surplus	47,076	22,695

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 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 Capital Market Institution 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 an 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 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 considering 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, also obtains a preapproval for each large exposure; 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. All our exposures are within Kingdom of Saudi Arabia

The company currently has no 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 Capital Market Institutions, 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	2021 SR ('000')	2020 SR ('000')
Total risk weighted assets (see details below)	117,474	80,863
Credit risk calculation as 14% of risk weighted assets	16,446	11,321
Capital requirement	**16,446**	**11,321**

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

Description of exposure	2021 SR ('000')	2020 SR ('000')
Authorized persons and banks - deposits/receivable/bonds	8,470	169
Corporates - receivables and bonds	14,877	6,666
Investment funds	39,672	59,748
Other exposures	54,455	14,280
Total	**117,474**	80,863

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 2021 are Fund Risk, Equity Risk and Interest Rate 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	2021 SR ('000')	2020 SR ('000')
Investment funds risk	17,622	28,419
Equity Risk	16,550	10,545
Interest Rate Risk	11,195	-
Capital Requirements	**7,444**	**6,445**
Excess exposure risk	-	6,071
Capital Requirements	**7,444**	**6,071**
Total Market Risk Capital requirement	7,444	12,516

Operational Risk

For operational risk, the required capital is calculated as 25% of the Capital Market Institution's overhead expenses or 15% of average revenues for three years whichever is greater, for 2021 operational risk has been calculated based on overhead expense approach. The calculation is summarized as follows:

Description	2021 SR ('000')	2020 SR ('000')
Total overhead expenses during the year 2021	50,758	24,143
Operations risk calculation as 25% of overhead expenses	12,690	6,036
Capital requirement	12,690	6,036

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 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.

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. In the table below we have added some liquidity ratios indicating the company's liquidity position.

Liquidity Ratios	2021 SR ('000')	2020 SR ('000')
Working Capital	74,036.840	52,245.450
Current Ratio	3.23	5.17
Quick Ratio	3.18	5.07

Conclusion

Based on the results of the analysis, the capital adequacy ratio is 2.29 times for 2021 comparing to 1.76 times for 2020 hence the Company has proper management of credit, market and operational risks, and the level of these risks appears to be acceptable. Also, by referring to liquidity ratios in the table above, we can conclude that 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 years ended Dec 31, 2021, and 2020.

Statement of Financial Position as of Dec 31, 2021		
Description	31-Dec-21	31-Dec-20
Assets		
Current Assets		
Cash and Cash Equivalent	42,347,980	845,519
Investment at Fair Value through P&L	45,366,836	48,056,228
Accounts receivable	5,324,401	1,431,677
Amounts due from related parties	12,699,933	13,218,788
Prepayments and other receivable	1,550,269	1,228,699
Total current assets	**107,289,418**	**64,780,911**
Non - Current Assets		
Property, plant, equipment, and intangible assets	5,336,016	1,185,316
Investment at Fair Value through P&L	5,000,000	-
Right of use assets	5,570,851	245,139
Total Non - current assets	**15,906,867**	**1,430,455**
Total assets	**123,196,285**	**66,211,366**
Liabilities and shareholder's equity		
Current Liabilities		
Accounts payable and other accruals	29,919,357	10,358,199
Zakat provision	2,472,314	1,895,352
Lease liability	860,907	281,910
Total current liabilities	**33,252,578**	**12,535,461**
Non - Current liabilities		
End of service indemnity	2,148,535	1,120,656
Lease liability	4,390,212	-
Total non - current liabilities	**6,538,747**	**1,120,656**
Total liabilities	**39,791,325**	**13,656,117**
Shareholders` equity		
Share capital	50,000,000	50,000,000
Statutory reserve	3,853,244	536,187
Retained earnings	29,853,510	2,103,464
Other comprehensive income items	(301,794)	(84,402)
Total Equity	**83,404,960**	**52,555,249**
Total liabilities and shareholder's equity	**123,196,285**	**66,211,366**

Statement of Profit and loss for the year ended Dec 31, 2021		
Description	31-Dec-21	31-Dec-20
Revenues		
Asset Management Activities Revenues	40,302,579	17,165,464
Investment Banking Revenues	40,613,251	5,389,072
Investment Revenue	3,455,465	3,729,776
Total revenues	84,371,296	26,284,313
Expenses		
Salaries and other benefits	43,685,753	19,319,008
General and administrative expenses	5,062,951	3,474,354
Total Expenses	48,748,704	22,793,362
Income from main operations before Zakat	35,622,592	3,490,951
Other income	(442,360)	196,231
Zakat expense	2,009,666	1,350,000
Net income	33,170,566	2,337,182
Earnings per Share	6.63	0.47

Appendixes I, II, III, IV and V

Illustrative Disclosures on Pillar 3 Capital Base and Risks

App I: Illustrative Disclosure on Capital Base

As of December 2021

Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	50,000
Audited retained earnings	29,854
Reserves (other than revaluation reserves)	3,853
Tier-1 capital adjustment	
Goodwill and intangible assets (-)	(51)
Total Tier-1 capital	83,656
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	83,656

App II: Illustrative Disclosure on Capital Adequacy

As of December 2021

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					
Exposures to CMIs and banks	42,348		42,348	8,470	1,186
Exposures to corporates, administrative bodies, NPOs	2,084		2,084	14,877	2,083
Investment funds	15,195		15,195	39,672	5,554
Other exposures	18,152		18,152	54,455	7,624
Total On-Balance sheet Exposures	77,779		77,779	117,474	16,446
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					
Market Risk	Long Position	Short Position			
Equity Risk	16,550	-			2,979
Fund Risk	17,622	-			2,820
Excess Exposure Risk	11,195	-			1,646
Total Market Risk Exposures	45,367	-			7,444
Operational Risk					12,690
-					
Minimum Capital Requirements					36,580
Capital base					83,656
Surplus/(Deficit) in capital					46,076
Capital Ratio (time)					2.29

App III: Illustrative Disclosure on Credit Risk Weights

As of December 2021

Risk Weights	Exposures after netting and credit risk mitigation											
	Governments and central banks	Administrative bodies and NPO	CMIs and banks	Margin financing	Corporates	High risk investments	Securitization and securitization	Investment funds	Listed shares	Other exposures	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	42,348	-	-	-	-		-	-	42,348	8,470
50%	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-		-	-	3,943	-	-	3,943	5,914
200%	-	-	-	-		-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	11,253	-	18,152	29,404	88,213
400%	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	2,084	-	-	-	-	-	2,084	14,877
Average Risk Weight	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-			-	-	-	-	-	-	-
Total	-	-	42,348	-	2,084	-	-	15,195	-	18,152	77,779	117,474

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

As of December 2021

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	-	-	-	-	-	-	-	-
CMIs and Banks	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	5,000
Securitization	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Exposure Class	Short term Ratings of counterparties						
	Credit quality step	1	2	3	4	Unrated	Total
	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	-	-	-	-	-	-	-
CMIs and Banks	-	42,348	-	-	-	-	42,348
Corporates	-	-	-	-	-	2,084	2,084
Retail	-	-	-	-	-	5,745	5,745
Investments	-	-	-	-	-	10,195	10,195
Securitization	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	12,406	12,406
Total	-	42,348	-	-	-	30,431	72,779

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

As of December 2021

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	-	-	-	-	-	-
CMIs and banks	42,348	-	-	-	-	8,470
Margin financing	-	-	-	-	-	-
Corporates	2,084	-	-	-	-	14,877
High risk investments	-	-	-	-	-	-
Securitization and securitization	-	-	-	-	-	-
Investment funds	15,195	-	-	-	-	39,672
Listed shares	-	-	-	-	-	-
Other exposures	18,152	-	-	-	-	54,455
Total On-Balance sheet Exposures	77,779	-	-	-	-	117,474
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	**77,779**	-	-	-	-	**117,474**