PILLAR-3 DISCLOSURE

As at 31 December 2017

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OVERVIEW

1 The Pillar-3 Disclosure is the annual market disclosure of information as referred to by the Article 68 of the Prudential Rules (“PR”) to be published by all the Authorised Persons (“AP”) licensed for the Dealing, Managing and or Custody activities.

2 The purpose of Pillar-3 Disclosure is for the market participants to assess the key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the AP.

3 Pillar-3 Disclosure comprises both qualitative and quantitative disclosures.

4 The Pillar-3 Disclosures contained herein relate to the Audited Financial Statement of Anfaal Capital for the year ended 31 December 2017.

SPECIFIC DISCLOSURE REQUIREMENTS

1. SCOPE OF APPLICATION

The Pillar-3 Disclosure is prepared for Anfaal, a Closed Joint Stock Company incorporated on 24 February 2010. Anfaal is an Authorised Person licensed by the Capital Market Authority of Saudi Arabia (License No. 14180-37) and the Saudi Arabian General Investment Authority (License No. 112031016038-01). General information about Anfaal is available in Note 1 to the Audited Financial Statement.

Anfaal is not part of a financial group as defined in the Prudential Rules. Hence, the requirement to disclose if there were any current or foreseen materials or, legal impediments to the prompt transfer of capital or repayment of liabilities for AP that is part of a financial group is not applicable.

2. CAPITAL STRUCTURE

2.1 OVERVIEW OF CAPITAL STRUCTURE

The capital items and component of Anfaal are disclosed in the Balance Sheet and the accompanying notes to the Audited Financial Statements.

2.2 DISCLOSURE ON CAPITAL BASE

The following Table 1 presents the Capital Base of the Company as at 31 December 2017.

Table 1: Capital Base	SAR '000
Tier-1 Capital	
Paid-Up Capital	61,500
Audited Retained Earnings	(25,767)
Share Premium	-
Reserves (Other Than Revaluation Reserves)	-
Tier-1 Capital Contribution	-
Deductions From Tier-1 Capital	(20,005)
Total Tier-1 Capital	**15,728**
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	**-**
TOTAL CAPITAL BASE	**15,728**

3. CAPITAL ADEQUACY

3.1 Capital Management Strategy

Capital management is an integral part of the decision making processes, in which capital adequacy among others is being considered.

Capital management entails evaluation of options and strategies to implement the capital adequacy plan. This would involve evaluating options and proposing initiatives, methodologies, tools and instruments that will achieve the following objectives:

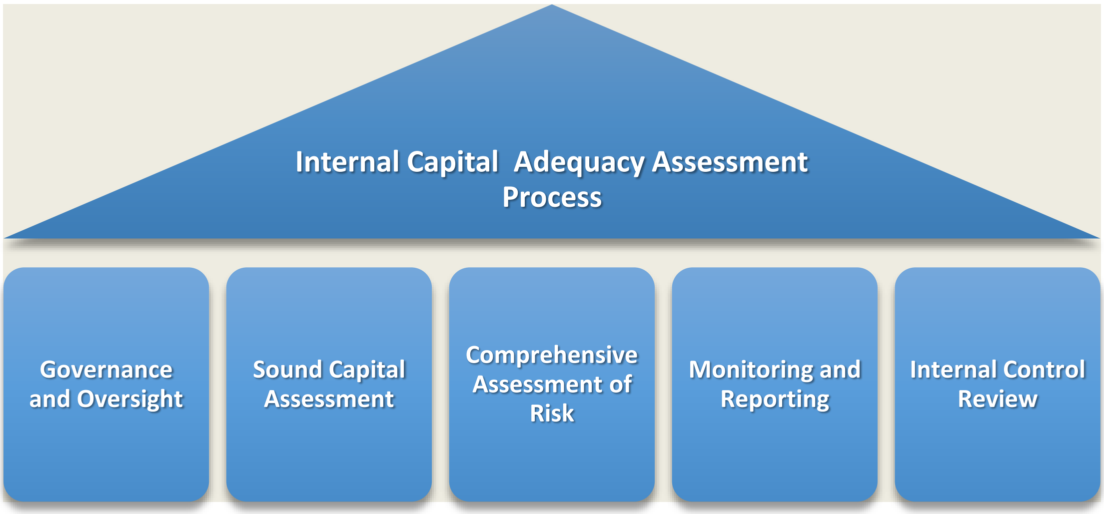
a) optimize capital levels
b) reduce capital wastages
c) minimize cost of capital

The Management has put in place a capital management strategy that has been defined by the BOD and planned at the business sectors, taking into account the planned strategies, regulatory capital requirements, internal capital requirements, management actions on capital raising or capital optimization (if applicable), dividend payout strategy (if applicable), Internal Capital Adequacy Assessment Process ("ICAAP"), and stress testing.

3.2 Overview of ICAAP

ICAAP describes the process for assessing overall capital adequacy in relation to the Company's risk profile and business environment, and a strategy for maintaining its internal capital targets.

The 5 elements of ICAAP and the processes under each element are summarized below:



3.2.1 Governance and Oversight

a) Board of Directors
The Board of Directors of Anfaal is responsible in ensuring that the Company maintains an appropriate level of quality capital for its risk profile and operating environment.

b) Audit, Risk and Compliance Committee (**"ARCO"**)
ARCO shall review Anfaal's ICAAP implementation and reporting, as delegated from the BOD.

c) The Management of Anfaal

The Management is responsible for the development, documentation and effective implementation of ICAAP as approved by the BOD.

3.2.2 Sound Capital Assessment

In order to do the assessment, Anfaal needs to have a comprehensive Capital Management Strategy which has been briefly described in the previous section. A Capital Management Plan shall be formulated and shall consist of the information below:

a) Objectives of capital management and planning;
b) Key capital drivers;
c) Regulatory updates on capital related matters;
d) Business plan/capital projection for at least 3 years horizon
e) Projected capital requirement for at least 3 years horizon;
f) Stress testing;
g) Internal capital targets and basis;
h) Results of the latest ICAAP report; and
i) Results of the latest Stress Test report.

3.2.3 Comprehensive Assessment of Risk

Anfaal's scope of risk covers the quantifiable risks captured under Pillar 1 (specifically credit risks, market risks and operational risks) and non-quantifiable risks captured under Pillar 2 (such as concentration risks, liquidity risks, reputation risks and business/strategic risks.

Furthermore, the risk assessment also covers risk factors external to Anfaal i.e. the risks that may arise from regulatory, economic or business environment and incorporated under business/strategic risks.

Anfaal is only concerned with material risk. Material risk is defined as "risk that would materially impact the financial performance of Anfaal should the risk occur". The material risks faced by Anfaal are identified through discussion between the Management, Executive Committee ("EXCOM") and the BOD and compliance reporting to ARCO.

3.2.4 Monitoring and Reporting

Key assessment results of ICAAP are reported to the EXCOM, ARCO and eventually to the BOD for final approval.

The Management of Anfaal shall include the following:

a) Communicate the ICAAP effectively throughout the organization;
b) All elements of ICAAP are established and functioning effectively, supported by sufficient authorities and resources;
c) Capital planning and management policies are integrated into the overall risk management framework;
d) Comprehensive assessment of capital adequacy through annual capital planning process with a view to ascertain the appropriate internal capital target;
e) Establish method for monitoring ICAAP compliance through regular ICAAP reporting; and

f) Strategies, policies and procedures of the ICAAP and internal capital targets are reviewed annually.

3.2.5 Internal Control Review

An independent review on the ICAAP shall be performed annually to ensure the continued effectiveness of the ICAAP. Where required, an external third party maybe engaged to provide an independent review of the ICAAP.

The ICAAP shall be revised to incorporate the appropriate adjustment should there be changes on the following:

a) Whether the ICAAP is proportionate to the size, nature of business, operating environment and complexity of business;
b) Any factors that materially affect the reasonableness and validity of methodologies and assumptions; and
c) Robustness of the ICAAP-related risk monitoring.

Any new risks that occur in the business of Anfaal should be identified and incorporated into the ICAAP.

Table 2: Minimum Regulatory Capital Requirements for Credit Risk and Market Risks

Table below shows Anfaal has met the minimum regulatory capital requirement for the year under review.

Exposure Class	Exposure before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
1. CREDIT RISK					
On-Balance Sheet Exposures					
Governments and Central Banks	-		-	-	-
Authorised Persons and Banks	17,513		17,513	3,503	490
Corporates	-		-	-	-
Retail	-		-	-	-
Investments	-		-	-	-
Securitisation	-		-	-	-
Margin Financing	-		-	-	-
Other Assets	1,240		1,240	4,786	670
Total On-Balance sheet Exposures	18,753		18,753	8,289	1,160
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	18,753		18,753	8,289	1,160
Prohibited Exposure Risk Requirement	-		-	-	-
Total Credit Risk Exposures	18,753		18,753	8,289	1,160
2. MARKET RISK	Long Position	Short Position			
Interest rate risks	-	-			-
Equity price risks	-	-			-
Risks related to investment funds	-	-			-
Securitisation/resecuritisation positions	-	-			-
Excess exposure risks	-	-			-
Settlement risks and counterparty risks	-	-			-
Foreign exchange rate risks	-	-			-
Commodities risks.	-	-			-
Total Market Risk Exposures	-	-			-
3. OPERATIONAL RISK					5,915
Minimum Capital Requirements					7,075
Surplus/(Deficit) in Capital					8,653
TOTAL CAPITAL RATIO (TIME)					2.22

4. RISK MANAGEMENT

4.1 Risk Management Framework

The key elements of Anfaal's Risk Management Framework are as follows:

a) Risk Governance

Anfaal's BOD is ultimately responsible for the adequacy and effectiveness of risk management and system of internal control. The BOD, through ARCO maintains overall responsibility for risk oversight in Anfaal. ARCO assists the BOD in overseeing the effectiveness of Anfaal's ICAAP and approving risk policies and framework relating to ICAAP. ARCO also provides an independent assessment on the adequacy and reliability of the risk management processes and system of internal control, and compliance with approved risk policies and regulatory requirements.

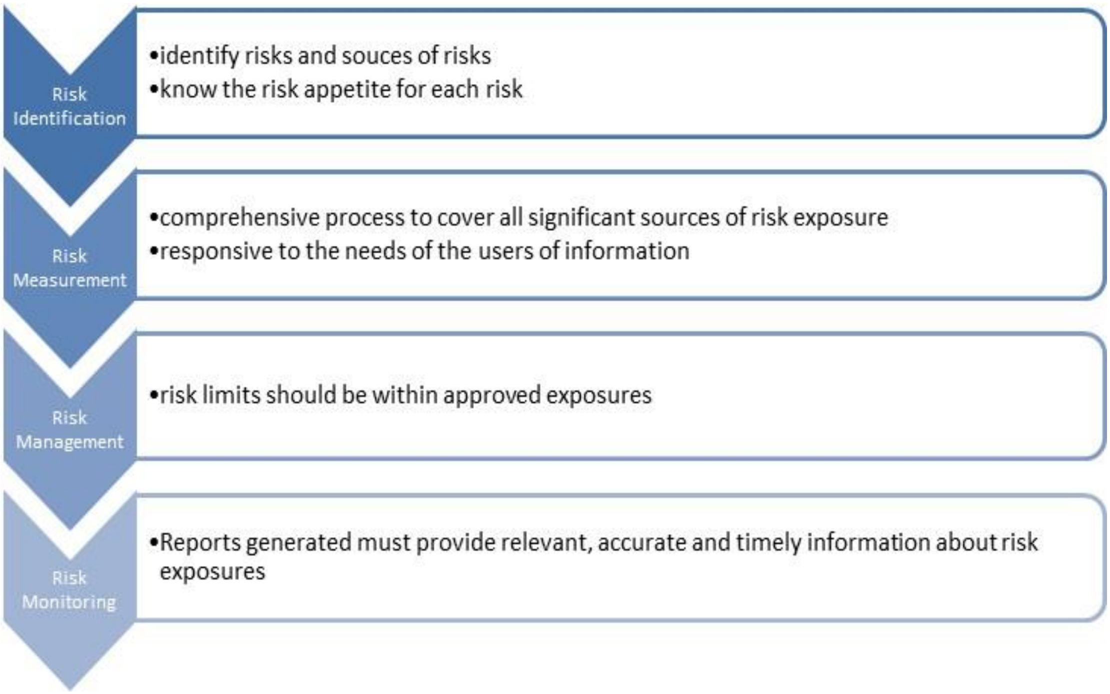
b) Risk Appetite

Risk appetite is a guidepost in strategy setting. It is the type of risk that it is willing to accept in pursuit of its strategic and business objectives. It is the acceptable balance of growth, risk and return, or as risk-adjusted shareholder value added measures. Management allocates resources across the Company based on the risk appetite. Risk appetite can be expressed in qualitative or quantitative terms.

c) Risk Management Processes

Risk management seeks to monitor the business risks and to keep risks within acceptable limits. Risk management helps ensure that risk exposures do not become excessive relative to Anfaal's capital position and its financial position.

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



d) Risk Culture

Risk awareness culture is a key aspect of an effective enterprise wide risk management framework and the following are key factors of risk cultures:

- Strong corporate governance;
- Organization structure with clearly defined roles and responsibilities;
- Effective communication and training;
- Commitment to compliance with laws, regulations and internal controls;
- Integrity in fiduciary responsibilities;
- Clear policies, procedures and guidelines.

4.2 Credit Risk Disclosure

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. Anfaal's exposure to credit risk is primarily from its Trade Receivables. The credit term given to all customers of Anfaal including related parties is 30 days. Currently, all of Anfaal's Trade Receivables as disclosed in the financial statement are amount due from related parties. The aging analysis of Trade Receivables is as follows:

SR'000	Amount due	Current	< 180 days	181-365 days	> 365 days
Related Parties	14,665	0	0	3,185	11,480
Non-Related Parties	0	0	0	0	0
Total	**14,665**	**0**	**0**	**3,185**	**11,480**
%	100%	0%	0%	21.8%	78.2%

The entire amount (SAR 14.665 million) has been considered to be 'Past Due' has been provided as bad debt during the financial year.

4.2.1 Credit Risk Mitigation

Credit Risk Mitigation ("CRM") is the employment of various methods to reduce the risks to organization or lenders which offer credit. The methods can include risk based pricing, or adjusting the cost of credit according to the credit strength of the borrower; credit tightening, or reducing the amount of credit available to higher risk applicants; diversification, or increasing the portfolio mix of borrowers and purchasing credit insurance. Examples are collateral and netting.

Anfaal does not grant credit facilities to its customers. The credit term stated on invoices to customers including related parties is 30 days. Outstanding balances are monitored via ageing report at the end of month. Reminders are sent for all outstanding invoices.

4.2.2 Credit Risk Disclosure and Credit Risk Concentration

Table 3 presents Anfaal's total gross credit risk exposures, plus average gross exposure over the year under review, broken down by major types of credit exposure, according credit risk concentration. A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

Table 3: 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	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%			17,513									17,513	3,503
50%												-	-
100%												-	-
150%			,										
200%												-	-
300%										984		984	2,951
400%												-	-
500%												-	-
714% (include prohibited exposure)										257		257	1,835
Average Risk Weight													
Deduction from Capital Base													

Table 4: 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								
Authorised Persons and Banks		17,513						
Corporates								
Retail								
Investments								
Securitisation								
Margin Financing								
Other Assets								1,240
Total		17,513						1,240

Table 5: 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	-	-	-	-	-	-
Authorised Persons and Banks	17,513	-	-	-	-	17,513
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	1,240	-	-	-	-	1,240
Total On-Balance sheet Exposures	18,753	-	-	-	-	18,753
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	18,753	-	-	-	-	18,753

*Refer to Table 2 of Section 3.

4.3 Counterparty Credit Risk (“CCR”) and Off Balance Sheet Disclosure

CCR is the risk that the counterparties and clients defaulting on their obligation towards Anfaal. Know Your Client (“KYC”) is a process that Anfaal has put in place to obtain as much as information about the background of potential clients (i.e. their business, management, shareholders etc.) at the beginning of every deal. KYC process enables Anfaal to select quality clients which should minimize any counterparty credit risk.

As at balance sheet date, Anfaal’s credit risks are mainly from deposit in local banks and receivables from our related party, Alfareeda Residential Fund. During the financial year, we have made provision for bad debt to almost all of the amount owing from Alfareeda Residential Fund, as disclosed in Note 4.2.

Anfaal does not have any off balance sheet exposures for year under review.

4.4 Market Risk Disclosure

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices, risks related to investment funds and foreign exchange rates. Market risk can be segregated into traded market risk and non-traded market risk. Anfaal has already in place the risk management processes over both type of market risk within Anfaal’s Risk Management Framework, in order to mitigate these types of risks.

As at balance sheet date, Anfaal’s market risk is minimum, as the bulk of the Company’s investments are in placements in Fixed Term Murabaha products offered by local banks.

4.5 Operational Risk Disclosure

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is unavoidable as it is inherent in all investment banking businesses. The objective of the operational risk management of Anfaal is to manage its operational risk within an acceptable level.

Anfaal has taken a Professional Indemnity Insurance policy (PII) from a reputed insurance company, which insures the Company for a reasonable sum.

The Company has in place a documented Business Continuity Planning (BCP), which comes under the oversight of the Risk Committee and serves to ensure that the Company has in place resources to manage unexpected crises and ensure continued effective operations.

4.6 Liquidity Risk Disclosure

Liquidity risk is the risk that Anfaal is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive rate.

Anfaal has established and implemented a sound funding-liquidity policy, which is based on understanding of the Company’s anticipated sources and uses of funds and on the expected timing of those sources and uses. The plan is subject to periodic review, assessment and approval by the CEO and the Executive Committee.

Managing the day-to-day liquidity of the Company falls under the purview of the Head of Finance and the oversight if liquidity risk is done by Audit, Risk & Compliance Committee. The Company invests surplus funds in the money market instruments approved by the Executive Committee in order to support the liquidity requirements of the Company.

Investments in listed securities are limited to IPOs subject to a pre-approved limit of SAR 5,000,000 per each investment and that the securities can be liquidated in one week or less.

Anfaal holds its Cash equal to its projected three-month operating expense needs in a current deposit account as this can be accessed instantly by it. The balance cash is invested in Fixed Term Murabaha investments which are placed with local banks on short-term (usually one to three months) maturity with options to roll-over.