PILLAR-3 DISCLOSURE

As at 31 December 2019

CONTENTS	Page

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 2019.

Note: The CMA Board of Commissioners issued its resolution to suspend the license granted to Anfaal Capital Company for securities to conduct Dealing as Principal, Investment Fund Management, Discretionary Portfolio Management, Arranging, Advising and Custody activities in the securities business for twelve months due to the company incapability to be fit and proper to carry out the securities business which it is authorised to carry out at all times, and to its violations of the Capital Market Law and its implementing regulations.

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 2019.

Table 1: Capital Base	SAR '000
Tier-1 Capital	
Paid-Up Capital	61,500
Audited Retained Earnings	(57,641)
Share Premium	-
Reserves (Other Than Revaluation Reserves)	-
Tier-1 Capital Contribution	-
Deductions From Tier-1 Capital	-
Total Tier-1 Capital	**3,859**
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	**3,859**

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:

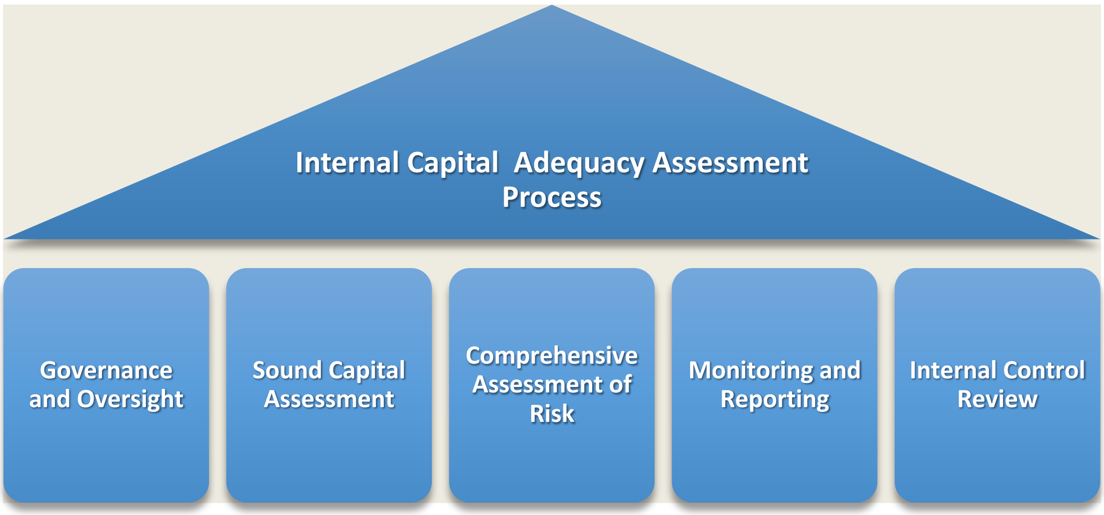
a) optimize capital levels
b) reduce capital wastages
c) minimize cost of capital

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) Projected capital requirement for at least 3 years horizon;
e) Internal capital targets and basis;

Currently, the company's licenses are suspended for 12 months by the Capital Market Authority, which will not allow the company to pursue possibly new business rather to focus on finalizing the full liquidation and closure of the Al Fareeda residential fund. With no source of revenue, as the accumulated losses exceeded as at December 31, 2019 50% of its capital and the company's inability to comply with article 15 of the Saudi Regulation for companies regarding the capital requirement, the board of Directors of the company called for an extra ordinary general assembly of the shareholders that was adjourned to January 4,2018. The meeting was to resolve to reduce the capital of the Company from SR61,499,950 to SR 14,000,000 by cancelling the equal number of issued and paid in shares to offset the accumulated losses of the Company and concurrently to increase the capital to SR50,000,000 by subscribing to new shares in the Company. Shareholders having 99.99% voting rights supported this. After the Fund full liquidation and closure, the shareholders of Anfaal Capital may or may not decide to continue in the company. As such, due to stop of operation and the uncertainty in place about the company's future, the capital assessment is currently focused on best maintenance and efficient use of the current capital at hand.

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, and the BOD and compliance reporting to ARCO.

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	5,231	5,231	1,046	146
Corporates	-	-		
Retail	-	-		
Investments	-	-		
Securitisation	-	-		
Margin Financing	-	-		
Other Assets	295	295	1,167	163
Total On-Balance sheet Exposures	5,526	5,526	2,213	310
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	5,526	5,526	2,213	310
Prohibited Exposure Risk Requirement	-	-		
Total Credit Risk Exposures	5,526	5,526	2,213	310
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				984
Minimum Capital Requirements				1,294
Surplus/(Deficit) in Capital				2,565
TOTAL CAPITAL RATIO (TIME)				2.98

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.

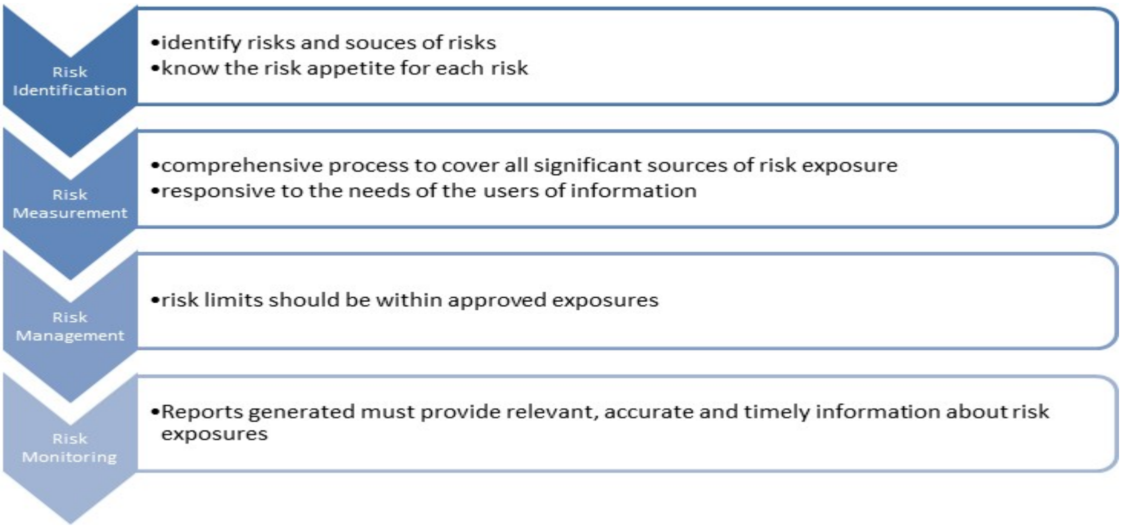
b) Risk Appetite

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.



The above is the usual practice to be followed, however, the BOD of Anfaal Capital has advised the management to stop operation and pursuant of new business activities. Later during March 2020, the Capital Market Authority suspended the company licenses for 12 months, which means that the company is currently focused only on the proper closure of its current Fund under liquidation (the Al Fareeda Residential Fund).

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	15,764		372		15,392
Non-Related Parties	176				176
Total	**15,940**		**372**		**15,568**
%	100%		2.33%		97.67%

For the year 2019, an additional (SAR 548,166) amount was reported as receivables and a provision for doubtful debts were created.

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%			5,231									5,231	1,046
50%												-	
100%												-	
150%													
200%												-	
300%										227		227	681
400%													
500%													
714% (include prohibited exposure)										68		68	486
Average Risk Weight													14%
Deduction from Capital Base													310

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		5,231						
Corporates								
Retail								
Investments								
Securitisation								
Margin Financing								
Other Assets								295
Total		5,231						295

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	5,231	-	-	-	-	5,231
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	295	-	-	-	-	295
Total On-Balance sheet Exposures	5,526	-	-	-	-	5,526
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	5,526	-	-	-	-	5,526

*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 risk is mainly from receivables from our related party, Alfareeda Residential Fund. During the financial year, we have previously made provision for bad debt to almost all of the amount owing from Alfareeda Residential Fund.

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 has no market risk, as it did not place its capital in investments whether locally or internationally.

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.

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. Such plan is subject as needed to review, assessment and approval by the CEO and the Board. Capital Management related concerns are all discussed at the BOD level for their recommendations to the management and the Shareholders of Anfaal Capital if any action is required.

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.