ALKHABEER CAPITAL

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Alkhabeer Capital Annual Report 2016

Alkhabeer
Capital

ANNUAL REPORT
2016

IN THE NAME OF ALLAH,
THE MERCIFUL,
THE COMPASSIONATE

Give full measure and weight, and be not among those who cause loss, and weigh with a balance that is true, and do not deprive people of what is rightfully theirs, and do not act wickedly on earth by spreading corruption.

Ash-Shu'ara
(The Poets 181-183)

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CORPORATE OVERVIEW

Alkhabeer Capital is a prominent asset management company specializing in alternative investments, and providing innovative world-class products and services to institutions, family offices and qualified high-net-worth investors. The Company's Shari'ah-compliant business activities are distinguished by the highest standards of ethical and professional conduct, executional vigor, and a profound understanding of clients' investment needs and risk profiles.

Alkhabeer Capital is recognized as the company of choice for sourcing Shari'ah-compliant products and solutions through its insightful approach to creating partnerships with clients for sourcing and investing in attractive investment opportunities. The Company has developed distinctive values to strengthen such partnerships, and endeavors to invest its capital to maximize its value proposition to shareholders and clients. This is supported by a high-caliber team of professionals with diverse expertise and extensive experience.

Alkhabeer's track record in the Saudi Arabian market capitalizes on investment opportunities created by economic and regulatory developments. The Company's investments are well diversified by sector and geography across the GCC region, together with selected global markets including the United States and the United Kingdom.

Alkhabeer's asset management services focus primarily on providing alternative investment opportunities through a wide range of real estate and private equity private placement funds. Real estate activities are focused on religious tourism hospitality-based opportunities within Makkah and Medina; and an opportunistic approach towards acquiring income-generating real estate assets in other key cities across Saudi Arabia. Private equity investments target defensive sectors such as education and healthcare, plus manufacturing businesses that have strong exporting activities; together with a selective approach to the retail, and food and beverage sectors.

The Company also offers capital market-related investment opportunities through discretionary portfolio management services. In addition, Alkhabeer provides holistic Waqf management services for clients aspiring to establish waqf entities; and also offers independent fund administration and custody services.

Headquartered in Jeddah, and with a branch in Riyadh, Kingdom of Saudi Arabia, Alkhabeer Capital is regulated by the Capital Market Authority (CMA), license no. 07074-37.

OUR VALUES

- Placing the interests of our clients and partners first;
- Always endeavoring to anticipate our clients' needs and changes in the markets where we operate;
- Maximizing the value of our shareholders' equity;
- Taking pride in our efficiency and professionalism;
- Encouraging creativity, innovation and development.

OUR MISSION

To be the company of choice; the company that high achievers want to work for, and that every investor desires to buy.

OUR VISION

To be the partner creating innovative investment solutions of enduring value.

OUR AWARDS

Since inception, Alkhabeer Capital has been honored by the receipt of prominent industry awards in various fields, including asset management, fund performance and human capital development, which it regards as important independent validation of its achievements. The Company highly appreciates the recognition it continued to receive from its peers, readers of leading financial journals, and prestigious industry judging panels, during 2016.

BEST COMPANIES TO WORK FOR IN SAUDI ARABIA, GREAT PLACE TO WORK

During 2016, the Company was recognized for the seventh consecutive year by inclusion in the prestigious annual Great Place to Work Awards. Alkhabeer Capital was ranked the top financial services institution and local company in Saudi Arabia, and fourth overall among all companies in the Kingdom.

BEST WORKPLACES IN ASIA, GREAT PLACE TO WORK

For the first time, Alkhabeer Capital was included in the Great Place to Work Awards Top 25 Best Workplaces in Asia, in the SME category.

GCC EQUITY FUND OF THE YEAR FOR "ALKHABEER'S GCC EQUITY FUND"

BEST GCC EQUITY FUND FOR "ALKHABEER'S GCC EQUITY FUND"

BEST ISLAMIC FUND BY BANKER MIDDLE EAST FOR "ALKHABEER LIQUIDITY FUND - HASSEEN"

BEST ASSET MANAGER MIDDLE EAST AWARD

BEST ASSET MANAGEMENT COMPANY IN THE MIDDLE EAST

BEST ISLAMIC FUND MANAGER

TOP 25:
BEST WORKPLACES 2016 IN ASIA BY GREAT PLACE TO WORK

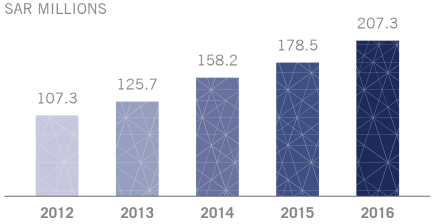
1ST PLACE:
"BEST COMPANIES TO WORK FOR IN SAUDI ARABIA 2016"
IN THE FINANCIAL SERVICES AND LOCAL COMPANIES BY GREAT PLACE TO WORK

FINANCIAL HIGHLIGHTS

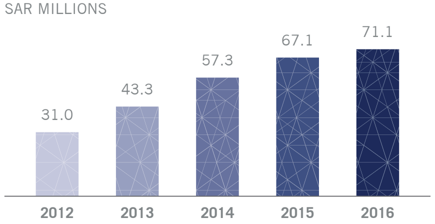
(SAR '000)	2016	%	2015	%	2014	%	2013	%	2012	%
EARNINGS										
Total Revenue	**207,334**	16%	178,514	13%	158,180	26%	125,703	17%	107,348	66%
Operating Expenses	**(110,392)**	0%	(110,586)	10%	(100,878)	21%	(83,187)	9%	(76,305)	68%
Financing Charges	**(25,674)**	456%	(4,618)		-		-		-	
Other income	**24**	500%	4		-		800		-	
(Loss) / income from discontinued operations	**(160)**	(104%)	3,835		-		-		-	
Net Income	**71,132**	6%	67,149	17%	57,302	32%	43,316	40%	31,043	62%
FINANCIAL POSITION										
Shareholders' Equity	**880,642**	(2%)	900,170	3%	873,680	3%	846,412	5%	803,097	4%
Total Assets	**1,611,613**	16%	1,384,315	47%	940,212	8%	873,043	7%	819,099	5%
Investments	**1,267,634**	5%	1,205,794	70%	708,946	6%	671,505	20%	561,058	0%
Assets Under Management	**4,426,995**	10%	4,010,786	20%	3,335,071	34%	2,498,180	52%	1,641,700	14%
PROFITABILITY										
Net Income Margin	**34.31%**	(9%)	37.62%	4%	36.23%	5%	34.46%	19%	28.92%	(2%)
Return on Average Equity	**8.0%**	6%	7.57%	14%	6.66%	27%	5.25%	33%	3.94%	0%
Return on Average Assets	**4.75%**	(18%)	5.78%	(9%)	6.32%	23%	5.12%	32%	3.89%	20%
Operating Expenses-to-Income ratio	**53.24%**	(14%)	61.95%	(3%)	63.77%	(4%)	66.18%	(7%)	71.08%	(201%)
Earnings per Share (SAR)	**0.87**	6%	0.83	17%	0.71	33%	0.53	39%	0.38	9%

% Change

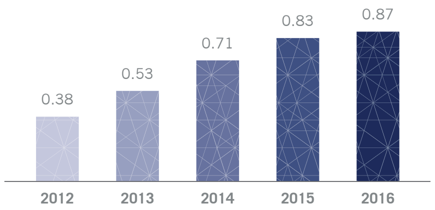
TOTAL REVENUE
SAR MILLIONS



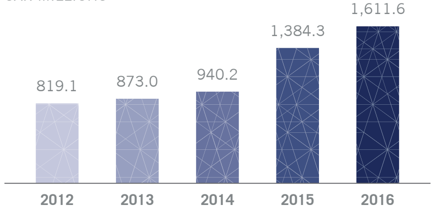
NET INCOME
SAR MILLIONS



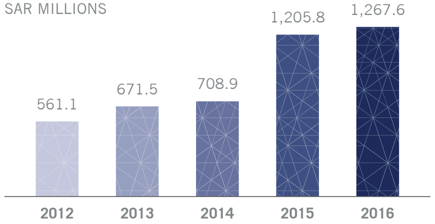
EARNINGS PER SHARE
SAR MILLIONS



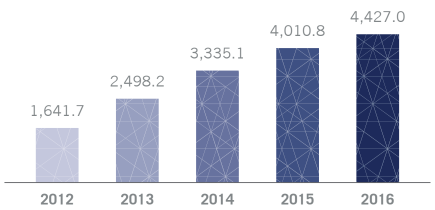
TOTAL ASSETS
SAR MILLIONS



INVESTMENTS
SAR MILLIONS



ASSETS UNDER MANAGEMENT
SAR MILLIONS



FUNDS PORTFOLIO

CURRENT FUNDS

FUND NAME**	FUND TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	FUND SIZE*
Real Estate					
Alkhabeer Land Development Fund II	●	7-Dec-11	Saudi Arabia	2017	1,475.5
Alkhabeer Central London Residential Fund I	●	19-Nov-12	UK	2017	97.5
Alkhabeer Residential Real Estate Development Fund I	●	29-Dec-12	Saudi Arabia	2017	77.7
Alkhabeer US Real Estate Income Fund	●	2-Jul-14	US	2019	131.6
Alkhabeer Real Estate Opportunity Fund I	●	7-Dec-14	Saudi Arabia	2019	730.6
Alkhabeer Real Estate Residential Development Fund II	●	31-Dec-14	Saudi Arabia	2017	301.1
Alkhabeer Saudi Real Estate Income Fund I	●	8-Dec-16	Saudi Arabia	2021	240
Alkhabeer Hospitality Fund I	●	22-Dec-16	Saudi Arabia	2019	125

FUND NAME**	FUND TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	FUND SIZE*
Private Equity					
Alkhabeer Industrial Private Equity Fund I	●	31-Dec-12	UAE	2017	145.8
Alkhabeer Industrial Private Equity Fund II	●	29-Dec-13	UAE	2017	207.5
Alkhabeer SME Fund I	●	28-Dec-14	Saudi Arabia	2018	44
Alkhabeer Healthcare Private Equity Fund I	●	31-Dec-14	Saudi Arabia	2018	150.7
Alkhabeer Education Private Equity Fund I	●	31-Dec-15	Saudi Arabia	2020	147

● Private Close-Ended

*(SAR millions as of 31 Dec 2016 unless otherwise stated)
**Those funds are closed-end funds which are established and offered by way of private placement in compliance with the Investment Funds Regulations issued by the CMA.

EXITED FUNDS

FUND NAME**	FUND TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	EXIT PROCEEDS (SAR MILLIONS)	RETURN ON INVESTMENT
Real Estates						
Alkhabeer Land Development Fund I	●	10-Jul-10	Saudi Arabia	10-Mar-14	306.5	85.10%
Alkhabeer Real Estate Fund I	●	1-Nov-10	Saudi Arabia	19-Oct-15	121.2	40.54%
Alkhabeer Real Estate Fund II	●	1-Nov-10	Saudi Arabia	30-May-16	165.6	65.65%

FUND NAME	FUND TYPE	INCEPTION DATE	GEOGRAPHY
Capital Markets			
Alkhabeer GCC Equity Fund	○	03 Jul 2011	GCC
Alkhabeer Liquidity Fund	○	12 Feb 2012	GCC
Alkhabeer Saudi Equity Fund	○	01 Jul 2013	Saudi Arabia
Alkhabeer IPO Fund	○	03 Dec 2015	GCC, MENA

● Private Close-Ended
○ Public Open-Ended

**Those funds are closed-end funds which are established and offered by way of private placement in compliance with the Investment Funds Regulations issued by the CMA.

BOARD OF DIRECTORS' REPORT SUMMARY

TO OUR ESTEEMED SHAREHOLDERS

We are pleased to present you with the annual report and consolidated financial statements of Alkhabeer Capital for the fiscal year ended December 31, 2016. During this period, your Company posted another excellent overall performance and continued to meet its ambitious growth targets. Given the continuing backdrop of economic uncertainty, market volatility and geopolitical tensions, which adversely affected investor sentiment, this constitutes a significant achievement.

FINANCIAL PERFORMANCE

We are delighted to announce that Alkhabeer Capital reported record financial results for the seventh consecutive year. Total operating income for 2016 increased by 16 percent to SAR 207 million, while net income grew by 6 percent to SAR 71 million. At the end of 2016, total assets had increased to SAR 1,611 million, up 16 percent from the end of the previous year; with shareholders' equity at SAR 880 million. Return on equity continued its upward trend to reach 8 percent. Total assets under management, which are a significant indicator of our business success, grew by 10 percent to SAR 4.4 billion. The market value of the investment portfolio increased by 5 percent to SAR 1,268 million, with the return on investment rising to 12.6 percent.

During the year, we made excellent progress in implementing our strategy that is focused primarily on alternative investment asset management. Underpinned by real estate and private equity as the two main pillars, our strategy is targeting key sectors such as education, healthcare and religious tourism; as well as being aligned to the changing risk appetite of investors in a highly-volatile economic environment. This strongly differentiates Alkhabeer Capital from many of its peers who focus primarily on the capital markets, which were again badly affected in 2016.

Your Company's record financial results for 2016 reflect the success of our business lines in implementing our strategic objectives by responding proactively to new market dynamics. Key highlights include the development of two new private placement real estate funds; the execution of several complete and partial investment exits; and achieving substantial growth in the number of institutional clients. At the same time, we continued to seek ways to further diversify our revenue streams by consolidating our first-mover advantage in areas such as Waqf, and Fund Administration, Custody and Operations.

HIGHLIGHTS OF IMPORTANT PLANS AND DECISIONS FOR 2016

The proposed initial public offering (IPO) of Alkhabeer Capital constitutes a major element of our corporate strategy to drive the planned future growth and development of the Company. It is therefore pleasing to report that having complied with the new Tadawul listing requirements and received approval from the Capital Markets Authority to submit our IPO file.

Alkhabeer Capital is in the process of expanding its presence in the GCC and the Middle East by setting up a branch office in Dubai. Alkhabeer received preliminary approval from Dubai Financial Services Authority (DFSA), and has subsequently applied to Dubai International Financial Center. The formation and DFSA licensing process is expected to be completed by end of Q1, 2017.

On the other hand, in November 2016, approval was received for voluntary liquidation of Sanabil Investment Company, a subsidiary of Alkhabeer Capital, headquartered in Bahrain. An application was filed to cancel its license issued by the Central Bank of Bahrain. Sanabil Investment's operations were discontinued, and its actual liquidation process has commenced as from 15 December 2016.

Throughout the year, we continued to build the Company's institutional capability in order to better withstand increasingly volatile and uncertain economic and market conditions. We further strengthened our corporate governance and risk management frameworks; enhanced our human capital resources and information technology platform; and streamlined operational processes and systems in order to optimize cost efficiencies and improve productivity. We also continued to implement our corporate social responsibility program, with a focus on supporting the development of the Shariah-compliant investment banking sector, and helping young Saudi nationals to realize their full potential.

Looking ahead, we believe that 2017 is likely to be another highly challenging and unpredictable year, with the headwinds that rocked markets last year continuing unabated, fuelled by ongoing concerns and greater uncertainty. However, based on our solid achievements in 2016, we have

During the year, we made excellent progress in implementing our strategy that is focused primarily on alternative investment asset management. Underpinned by real estate and private equity as the two main pillars, our strategy is targeting key sectors such as education, healthcare and religious tourism.

full confidence in the Management team's ability to implement our strategy, address all future challenges, and respond proactively to new business opportunities. As such, we remain cautiously optimistic about the future prospects for Alkhabeer Capital. Nevertheless, it should be pointed out that any significant worsening in economic, geo-political and market conditions could make it difficult to sustain the high growth momentum of recent years.

There were some changes to the leadership of the Company in 2016 at both Board and Executive Management levels. First, we would like to welcome Mr. Muhanad Hayder Binladin who joined the Board as a Non-independent Director and Mr. Mohammed Abdulrahman Moumena who joined the Board as an Independent Director. Their wealth of experience and insight will prove invaluable in guiding the Company to achieve its strategic goals.

Second, we congratulate Mr. Ahmed Saud Ghouth on his appointment as the Company's new Chief Executive Officer, taking over the helm from Mr. Ammar Ahmed Shata. Ahmed has been with Alkhabeer Capital since its inception, and has held a number of managerial and executive roles culminating in Deputy CEO, a position he has held for the past six years. With his vast experience and deep knowledge of the market, he has been instrumental in the development of the Company into a leading investment firm; and we have full confidence in his ability to lead Alkhabeer Capital in its new chapter of strategic evolution and business growth.

In turn, we would like to acknowledge the pioneering role played by Ammar since founding the Company in 2004, in spearheading its steady progression to become one of the leading financial institutions in Saudi Arabia and the region. We are pleased to announce that he will continue in his capacity as Executive Director.

In conclusion, we would like to express our sincere appreciation for your enduring support and guidance as shareholders of Alkhabeer Capital. We also recognize the trust and loyalty of our clients and investors; the positive collaboration of our business partners; and the constructive advice of the Capital Market Authority in Saudi Arabia. Finally, we pay tribute to the ongoing professionalism and commitment of our management and staff, and their sterling contribution during another extremely challenging year.

Musaad Mohammed Saad Aldrees
Chairman

Ammar Ahmed Saleh Shata
Executive Director

CHIEF EXECUTIVE OFFICER'S REPORT

Without doubt, 2016 proved to be one of the most challenging years for the investment banking industry since the financial crisis of 2008. Never before have we seen so many negative factors coming together at the same time – political, geo-political, and economic – plus a shortage of liquidity due to falling oil prices. In turn, these had an adverse impact on investor sentiment and market performance.

STRATEGIC DIFFERENTIATION

The considerable swings in oil price reaching US$ 27 and the volatility of the Saudi stock exchange (Tadawul), which witnessed trading volumes falling by one third over the previous year. This affected the entire financial sector. In contrast, thanks be to God, Alkhabeer Capital posted record results, maintaining its growth trend of the previous six years. This was due primarily to our strategic focus on alternative investments asset management in which we have developed considerable experience and expertise over the past seven years, and which serves to differentiate the Company from its competitors.

BUSINESS DEVELOPMENTS

Underpinning our record 2016 financial results – with revenues rising by 16 percent to SAR 207 million, net profit increasing by 6 percent to SAR 71 million, and AUMs growing by 10 percent to SAR 4.4 billion – is the proven ability of our business teams to respond proactively to new market dynamics; and adjust the Company's strategy and investment focus in line with the changing risk appetite of investors. This entailed making opportunistic acquisition of assets, and then structuring them as quality investment products.

Our real estate strategy is geared towards capitalizing on the strong dynamics of the religious tourism market in the holy cities of Makkah and Medina, which aligns with the insight of the Saudi Vision.

In 2016, we finalized the structuring of the private placement Alkhabeer Hospitality Fund 1. At the same time, by adopting an opportunistic approach to acquiring income-generating assets in other key cities in the Kingdom, we structured and offered the private placement Alkhabeer Saudi Real Estate Income Fund 1, supported by a prime income-generating property in Riyadh. Our private equity strategy entailed strengthening our focus on defensive sectors such as education and healthcare, which are not directly affected by significant changes in the oil price or government spending. During the year, we acquired another school with which to augment the Alkhabeer Education Private Equity Fund 1.

Given the continued underperformance and increasing volatility of Tadawul, and new regulations from the Capital Market Authority, we took the decision to close down three public equity funds and one liquidity fund, and concentrate our capital market-related activities on our discretionary portfolio management (DPM) services.

In addition, we restructured our pioneering Waqf Program in line with clients' preference for structuring and enhancing their Awqaf portfolio; and continued developing our Fund Administration, Custody & Operations division, and started targeting clients, having recognized the opportunity afforded by the new independent custodianship regulations issued by the Capital Market Authority.

Another key activity on which we concentrated our efforts during the year was growing the Company's institutional client base, particularly local investment firms and regional banks.

CLIENT FOCUS

During 2016, we took steps to move closer to our clients, re-activating our Riyadh office, and enhancing communications to provide updates on changes to the economic environment and market conditions. This also enabled us to obtain a clearer idea of their investment needs. At the same time, we widened our reach to the wider investment community through hosting specialized conferences such as the Alkhabeer Alternative Investment Roundtable in Riyadh. This event offered unique insights based on our deep understanding of alternative investment asset classes, with participants gaining further knowledge about alternative instruments as an attractive investment option.

BUSINESS RESULTS

The results of these collective efforts speak for themselves: we expanded the client base by 17 percent, with a growth in institutional clients; achieved a 10 percent increase in assets under management which is a key indicator of our business success; and grew discretionary portfolio management accounts by 34 percent. In addition, we achieved a 10 percent increase in client participation in the Company's investment funds, successfully raising SAR 588 million through private placements.

INSTITUTIONAL CAPABILITY

Having the right governance and working environments in place remains a critical success factor for the survival and prosperity of companies in the financial services sector, particularly in periods of great uncertainty and severe volatility. Accordingly, during 2016, we continued to strengthen the Company's institutional capability, with a particular focus on prioritizing the effective utilization of human resources in key revenue-generating areas and critical back office support functions. In addition, we developed an ambitious and far-reaching plan to streamline operational processes and systems, optimize cost efficiencies, and improve productivity, which will be fully implemented in 2017.

Our efforts in developing a conducive working environment were once again recognized by inclusion in the annual Great Place to Work Awards. For the seventh consecutive year, Alkhabeer Capital was ranked #1 in the financial sector and local company in Saudi Arabia; and fourth overall among all companies in the Kingdom; and for the first time, was included in the top 25 companies across Asia in the SME category.

LOOKING AHEAD

Overall, we expect 2017 to be even tougher than 2016 with the current economic down cycle continuing to negatively affect most asset classes. The key challenges remain, namely oil prices, market volatility and geo-political tensions; together with new uncertainties such as Brexit, and the impact of election results in the US and Europe. In response, we will continue to sharpen our strategic focus, consolidate our first-mover advantage, diversify our revenue streams, develop the right products to meet investors' needs, and be creative in investing in the right businesses. We will also strengthen further our institutional capability, maximizing operational cost efficiencies and improving the productivity of our people. In 2016, we turned down a record number of transactions due to our very prudent approach, and next year we will be even more cautious and conservative in selecting transactions.

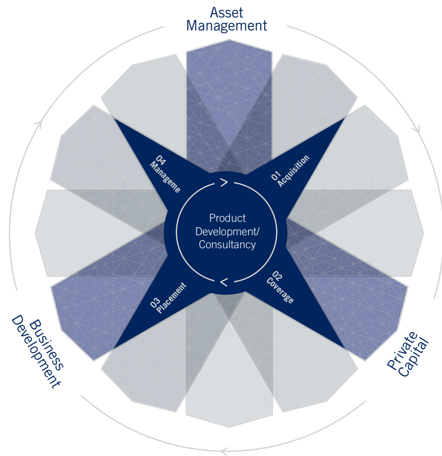
Ahmed Saud Ghouth
Chief Executive Officer

REVIEW OF OPERATIONS AND ACTIVITIES

BUSINESS MODEL

Alkhabeer's business model is based on four key value steps:

1. Assessment of deals and acquisition of the best deal
2. Underwriting the deal using proprietary capital
3. Selling down the deal to clients
4. Managing the fund after closing



PROPRIETARY CAPITAL

The Company's proprietary capital is used as a funnel to underwrite deals and to fuel the engine of growth. Alkhabeer Capital endeavors to invest its capital and take advantage of attractive investment opportunities to maximize value to shareholders and investors; and enable its clients to invest in portfolios and investment funds. The Company's business units work in close harmony to ensure the highest levels of efficiency and performance throughout the investment cycle.

BUSINESS MODEL IMPLEMENTATION

Alkhabeer Capital has developed a set of parameters and criteria for the successful implementation of its business model, including:

- In-depth market research and analysis.
- Innovative design and structuring of products and services.
- Investment management and performance monitoring to ensure highly-efficient use of capital; transparent management of risks; and maximization of returns and capital value.
- Retention of high-caliber, qualified and experienced investment and support professionals.
- Utilization of cutting-edge technology to support the business and improve efficiency.
- Building brand awareness to support new business development activities.
- Aligning the interests of shareholders, clients, investors and employees.

REVIEW OF OPERATIONS AND ACTIVITIES

ASSET MANAGEMENT

With a proven track record in asset management and in alternative asset management since its establishment in 2004, Alkhabeer Capital delivers strong risk-adjusted returns across a range of Shari'ah-compliant private funds and discretionary portfolios, which it manages for its clients. With a strategic focus on real estate and private equity, we blend our deep market knowledge with extensive experience in the sectors in which we invest, to structure world-class investment solutions that meet our clients' needs. By efficiently allocating capital to the real economy, our funds aim to generate enduring returns to our clients, while addressing their diverse investment objectives.

Our current portfolio of 13 funds targets alternative asset classes, providing clients with diversification through sectoral and geographic scope, and differentiated return objectives. Alkhabeer Capital always aims to align its interests alongside its clients by investing in the funds it creates, which is one of the strongest contributing factors to the success of our funds. We continually monitor economic conditions, market opportunities and client requirements to develop new investment solutions that anticipate our clients' evolving investment management needs.

2016 HIGHLIGHTS

- During 2016, Alkhabeer Capital modified its strategy with a sharpened focus on real estate and private equity, and a particular emphasis on defensive sectors such as hospitality, education and healthcare. In line with this strategic shift, the Company took the decision to close its public funds business. Accordingly, Alkhabeer's four public funds were liquidated.
- Two new real estate funds were incepted, and an acquisition was made for Alkhabeer Private Equity Education Fund 1.
- A full exit from one real estate fund was executed, while partial exits were made from two other real estate funds.
- Discretionary Portfolio Management (DPM) accounts for capital markets grew by 37 percent.
- Total assets under management (AUM) grew by 10.4 percent to SAR 4.4 million.

REVIEW OF OPERATIONS AND ACTIVITIES

REAL ESTATE

Alkhabeer Capital focuses on the creation of real estate investment products that are unique, well-managed and of high performance in comparison with their peer group. We endeavor to provide competitive risk-adjusted returns from direct property ownership through our sector-leading capabilities and our disciplined approach to investment performance. We cater to investors with varying risk appetites and differing return objectives. Our investment philosophy is built around our understanding of real estate investment at a strategic as well as an asset level. Investment opportunities are created using extensive research, a deep understanding of real estate fundamentals, and meticulous valuation processes. We offer a diverse product range locally and internationally, encompassing all main categories of real estate investment management including core, core-plus, value-added and opportunistic real estate strategies and investments. The Real Estate division comprises two specialist units – Portfolio Management and Acquisitions – staffed by professionals with a proven local and international track record in real estate investment, development and funds management.

2016 HIGHLIGHTS

- Adopted a strategic shift towards hospitality opportunities within Makkah and Medina, in line with Kingdom of Saudi Arabia's Vision 2030 and National Transformation Plan 2020, which recognize religious tourism as a key driver of GDP growth.
- Developed strategic partnership with a leading real estate developer who has extensive experience in Makkah.
- Continued to adopt an opportunistic approach towards acquiring income-generating real estate assets across other key cities in Saudi Arabia.
- Incepted Alkhabeer Saudi Real Estate Income Fund I on 8 December 2016 with a paid-up capital of SAR 240 million, which acquired a residential compound in Riyadh that is leased to a high profile tenant.
- Incepted Alkhabeer Hospitality Fund I on 22 December 2016 with a capital of SAR 125 million, which acquired land in Al Sulaymaniyah district of Makkah for development as a hospitality tower.
- Completed full exit of Alkhabeer Real Estate Fund II.
- Partially exited Alkhabeer Central London Residential Fund 1.
- Partially exited Alkhabeer Residential Real Estate Development Fund (Masaken).

REVIEW OF OPERATIONS AND ACTIVITIES

PRIVATE EQUITY

Alkhabeer Private Equity is a trusted partner to family businesses in Saudi Arabia and the rest of the region. Private Equity services target sectors such as the education and healthcare sectors.

We work closely with the senior management of our portfolio companies to create operating and financial value. We invest in potential targets through opportunity-specific funds that are significantly seeded by proprietary capital from Alkhabeer Capital. Target companies are selected with the following investment strategies:

1. Growth Capital Partnerships: Acquisition of majority stakes in companies with strong growth prospects through a combination of capital increase and seller's cash out. We work with management to institutionalize the business in preparation for long term sustainable growth.

2. Buyouts: Acquisition of significant majority or outright ownership positions in selected companies where management is independent from owners.

3. Pre-IPO Stakes: Acquisition of significant minority stakes in blue-chip companies with IPO prospects.

2016 HIGHLIGHTS

- Focused investments on defensive sectors such as education and healthcare, together with a cautiously opportunistic approach to manufacturing businesses that have strong exporting activities, food and beverage, and retail.

- Acquired a majority stake in Rihab Al-Maarifa Company, a Riyadh-based K-12 education provider. The synergies created by this acquisition and the existing Adwa'a Al Riyadh Education Company, should enhance the returns of the Alkhabeer Education Private Equity Fund 1.

- Initiated process for exiting from the Alkhabeer Industrial Private Equity Fund 1 in 2017.

REVIEW OF OPERATIONS AND ACTIVITIES

CAPITAL MARKETS

Alkhabeer Capital offers a Discretionary Portfolio Management (DPM) service that is tailored to the needs of high-net-worth individuals and institutional investors. The Company has developed a specialist Money Market Murabaha execution capability that provides clients with capital-protected products through which to mitigate their investment risk. DPM clients receive the highest level of client servicing, and are regularly updated with market developments, risk reporting and portfolio performance.

2016 HIGHLIGHTS

- In accordance with Alkhabeer's plan for restructuring its Capital Markets Department, Alkhabeer terminated all of its capital market investment funds following the issuance of the updated Investment Funds Regulations requiring publicly listed funds to maintain a minimum net assets value of SAR 10 million as a prerequisite for continued operations. All capital market funds managed by Alkhabeer were terminated at the end of December 2016. Alkhabeer will continue to provide management service in the capital markets sector through its discretionary portfolio management (DPM) services.

- The Discretionary Portfolio Management business performed strongly during the year, with DPM Murabaha accounts increasing by 34 percent to SAR 422 million.

REVIEW OF OPERATIONS AND ACTIVITIES

PRODUCT DEVELOPMENT

Product Development plays a strategic role throughout the investment cycle. The division develops and structures new investment opportunities that have been identified by fund managers into innovative investment solutions and products. It also supports fund managers in relation to new acquisitions, fund exits, terminations and liquidations. Additionally, the division oversees the activities of all Company funds through effective coordination between board members and fund managers; and prepares and distributes detailed reports on the performance of funds to investors. The department's team of specialized professionals has extensive experience in investment fund development, financial analysis, economic and market research, and applicable investment laws.

2016 HIGHLIGHTS

- Structured and incepted two new real estate funds; Alkhabeer Hospitality Fund I and Alkhabeer Saudi Real Estate Income Fund I.
- Supported the restructuring of the Alkhabeer Waqf platform.
- Strengthened the Funds Oversight Platform with an introduction of a new monthly business update template that summarizes fund development and placement activities.
- Established the new Fund Monitoring Committee that will assume responsibility for funds oversight in 2017.

REVIEW OF OPERATIONS AND ACTIVITIES

AWQAF MANAGEMENT

WAQF

Alkhabeer Capital is the first CMA-regulated asset management firm in Saudi Arabia to target the Waqf sector. The Alkhabeer WAQF Program is designed for family offices, ultra-high-net-worth and high-net-worth individuals aspiring to establish modern Waqf structures.

The program addresses the limitations and challenges of the traditional Waqf by providing a holistic solution supported by a robust institutional Waqf structure in compliance with local regulations, international governance standards, professional asset management, and regular performance reports.

2016 HIGHLIGHTS

- In line with existing and potential Waqf clients' preference for an income-generating real estate portfolio, Alkhabeer Capital is currently restructuring its WAQF Program (which was previously linked to Capital Market-related products) in collaboration with the Company's Real Estate division, for introduction in 2017.

- The revised WAQF Program comprises two distinct phases: Structuring and Management. Under the first phase, Alkhabeer Capital advises the client on the Waqf structure and arranges its execution. The second phase involves managing the real estate assets held by the Waqf in line with the expectations of the Waqif (donor). This could involve acquiring land and/or income-generating assets, or restructuring an existing real estate portfolio.

- The Company's Fund Administration, Custody & Operations division will be responsible for providing professional reports on the performance of the underlying investments of the Waqf.

REVIEW OF OPERATIONS AND ACTIVITIES

INVESTMENT BANKING

Alkhabeer Investment Banking has an impressive track record of successful investments, with unique capabilities making Alkhabeer the best in class in investment banking, providing a complete range of services covering capital raising and financial advisory, including capital markets, mergers and acquisitions.

2016 HIGHLIGHTS

- In 2016, due to difficulties and challenges faced by Alkhabeer's Investment Banking Department, the Department focused on providing support and financial advisory to Alkhabeer's departments and sections, including strategic and advisory support, feasibility studies and project management.

- Alkhabeer Investment Banking conducted feasibility studies of opportunities made possible by a number of initiatives which are scheduled to be launched in the capital market in 2017.

REVIEW OF OPERATIONS AND ACTIVITIES

FUND ADMINISTRATION, CUSTODY & OPERATIONS

Alkhabeer Capital has developed considerable expertise in the area of fund administration and custody, and has provided a specialized in-house service to the Company's fund managers for the past seven years. The Fund Administration, Custody & Operations (FACO) division has extensive experience in administering a diverse range of funds types, both locally and internationally. This covers private equity, real estate, income-generating, equities, and money market funds. The Division also has a separate team which manages over 25 special purpose vehicles (SPVs) which serve the diversified activities and purposes of managed funds. In addition, Alkhabeer Capital has developed close professional relationships with legal firms who have extensive knowledge of local and international laws and regulations. Together with a dedicated administration team, this collective expertise and experience provides the Company with a significant competitive differentiator in the market.

2016 HIGHLIGHTS

- Following the recent introduction of new regulations from the Capital Market Authority, requiring independent custodianship of funds under management by financial institutions in Saudi Arabia, Alkhabeer Capital took the decision to offer fund custodianship services to other Authorized Persons (APs), and local and regional banks, thereby transforming its in-house FACO division into a revenue-generating business.

- To support this strategic move, FACO has prepared special marketing material for external customers, which details the range of services offered, and highlights the Company's unique expertise and expertise.

- Additionally, Alkhabeer Capital signed a strategic agreement with a legal firm, which has extensive experience of local and international laws and regulations, to provide appropriate counsel and legal services.

REVIEW OF OPERATIONS AND ACTIVITIES

BUSINESS DEVELOPMENT & PLACEMENT

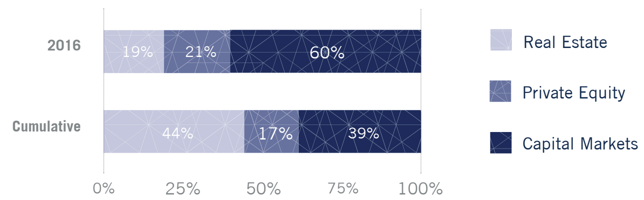
The key role of the Business Development & Placement team is to offer Alkhabeer Capital's investment products in Saudi Arabia and other GCC states. Its responsibilities include provision of support to Asset Management divisional heads to enable them to determine and select the right opportunities for different alternative asset classes. The team endeavors to strengthen the Company's relationships and expand its investor base, which comprises ultra-high-net-worth and high-net-worth individuals, family offices and institutions. In addition, the team introduces clients to new products and transactions, and communicates with them about the progress of their investment portfolios. It also provides clients with reports on the latest developments in local, regional and international investment markets, and the prevailing environments; and available investment opportunities in various markets.

2016 HIGHLIGHTS

- Grew the overall client base by 17 percent, with a significant increase in the number of institutional clients.
- Reactivated the Company's presence in Riyadh while continuing to focus on Jeddah.
- Commenced placement for new Alkhabeer Hospitality Fund I and Alkhabeer Saudi Real Estate Income Fund I.

PLACEMENT BY TYPE OF CLIENT

PLACEMENT BY ASSET CLASS



REVIEW OF SUPPORT FUNCTIONS

HUMAN CAPITAL

Alkhabeer Capital places the highest priority on attracting, developing and retaining the best people in the industry, in order to provide a key competitive advantage. During 2016, in line with its strategic focus on alternative investments asset management, the Company took steps to ensure optimum staffing levels for the real estate and private equity divisions, and also for the critical back office functions that support them. At the end of the year, total headcount stood at 74 people, comprising nine different nationalities, and with Saudi nationals accounting for 78 percent of staff.

The Company maintained its extensive investment in training and development, mentoring and coaching, and cultural change management. This includes the People Review Program, which helps to establish a performance benchmark against four criteria: achievement of goals and targets; application of Company values; desired leadership attitudes; and future potential. With its flat and flexible organizational structure, Alkhabeer Capital encourages staff to work together, both internally and with clients, to build enduring relationships which form the bedrock of the Company's business philosophy.

INFORMATION TECHNOLOGY

Alkhabeer views the utilization of cutting-edge-technology as a key strategic driver and business enabler. During 2016, the Company continued to upgrade its information and communications technology (ICT) infrastructure. Key developments included centralization of the SQL database server for all business applications, and subsequent migration of all applications data to the new centralized database.

A critical project entailed the migration of existing physical servers to the Blade Solution, with all migrated data to the new blade server being configured, aligned and tested with the Company's private cloud-based disaster recovery site.

In addition, core switch improvements were implemented to maintain a highly-resilient and scalable data center; and the entry-level internet protocol (IP) telephony solution was replaced with a full unified communications platform providing IP telephony, mobility and collaboration services.

Information security continued to be a priority during 2016. A new course of action system was installed to detect, monitor, analyze and mitigate cyber threats targeted at Alkhabeer Capital. To support business continuity planning, the Company's disaster recovery site was successfully tested, and external penetration testing of the ICT infrastructure was conducted.

CORPORATE COMMUNICATIONS

Throughout the year, the Company continued to implement an intensive media outreach program aimed at positioning and raising awareness of the Alkhabeer Capital brand; supporting the Company's refined business model with a focus on alternative investments asset management; and communicating the transition in leadership. Public relation activities during the year included the release of 10 press announcements; distribution of 6 economic and market research reports; and four high-level interviews with members of the Executive Management Team. With over 200 online and print news items recorded during the year, the Company achieved a significant growth in media coverage compared with 2015; while social media activities through channels such as Facebook, Twitter, YouTube and LinkedIn were increased and made more engaging.

In May 2016, the Company hosted the Alkhabeer Alternative Investment Roundtable in Riyadh, Saudi Arabia. This event offered unique insights based on the Company's deep understanding of alternative investment asset classes; with participants gaining further knowledge about alternative instruments as an attractive option for achieving potentially superior returns. Details of the Company's sponsorship and participation in prominent industry conferences and related events in 2016 are covered by the Corporate Social Responsibility Review in this annual report.

RESEARCH

The Company's highly-influential research reports continued to garner strong media interest during the year, and served to cement the reputation of Alkhabeer Capital as a regional thought leader. In 2016, the Company published a diverse range of economic and market research reports for the benefit of its clients and the industry as a whole. These analytic reports covered a variety of topics, including an annual global outlook; quarterly global and regional economic developments and outlooks; and specific market and sector overviews and opportunities.

A new Monthly Monitor Report was introduced, which captures key topics and trends affecting regional markets, the macro economy, capital markets, private equity and real estate. In addition, a Global Real Estate Report was published for the first time, analyzing opportunities, prospects and potential risk areas in US, UK and Saudi Arabia. This is a useful tool for tracking market performance and conditions against pre-2008 levels, while highlighting key indicators and future outlook. A particularly timely report - GCC Budgets: Adapting to the New Oil Reality - analyzed the latest budgets of regional governments and implications of reform measures announced in response to lower oil prices.

2016 RESEARCH REPORTS

REPORT	PUBLISH DATE
Global Outlook 2016	February 2016
GCC Budgets: Adapting to the New Oil Reality	March 2016
Alkhabeer Q1 2016 Report	April 2016
Alkhabeer Q2 2016 Report	September 2016
Global Real Estate Report	October 2016

FINANCIAL REVIEW SUMMARY

This review provides a summary and analysis of Alkhabeer Capital's financial performance for the year ended 31 December 2016. The Notes to the Consolidated Financial Statements provide additional relevant information.

REVENUES

Total revenue in 2016 increased by 16% to SAR 207.3 million compared with SAR 178.5 million for the previous year.

Return on investments contributed SAR 156 million, reflecting a growth of 32% from SAR 118 million in 2015, due mainly to capital gains from existing funds and proprietary trading in 2016.

The contribution from management and placement fees declined by 15% to SAR 51.4 million due mainly to the discontinuation of management fees from certain extended real estate funds during 2016. Assets under management grew by 10% and stood at SAR 4.26 billion at the end of December 2016.

Despite the economic turbulence in 2016, the income from dividends grew by SAR 14.8 to SAR 16.6 million from SAR 1.8 million in 2015.

OPERATING EXPENSES

Total operating expenses remained flat at SAR 110 million, on par with 2015. The operating expenses-to-income ratio, however, improved to 53% compared with 62% in 2015, due to cost optimization initiatives.

EARNINGS

Net income grew by 6% to SAR 71.13 million from SAR 67.15 million in 2015. This resulted in basic (common) earnings per share increasing to SAR 0.87 compared with SAR 0.83 in the previous year.

EARNINGS BY SEGMENT

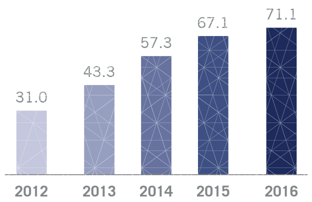
SAR '000	PROPRIETARY CAPITAL	ASSET MANAGEMENT	OTHERS	TOTAL
Operating income	149,669	57,430	235	207,334
Loss from discounting operation	-	-	(160)	(160)
Net operating income	121,157	27,620	(77,645)	71,132

GEOGRAPHIC SEGMENTS

SAR '000	SAUDI ARABIA	BAHRAIN	TOTAL
Operating income	207,334	-	207,334
Net operating income	71,292	(160)	71,132

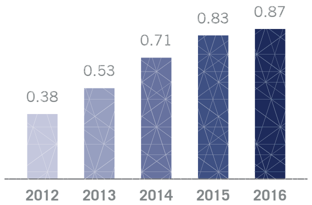
NET INCOME

SAR MILLIONS



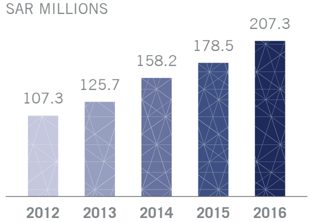
EARNINGS PER SHARE

SAR MILLIONS

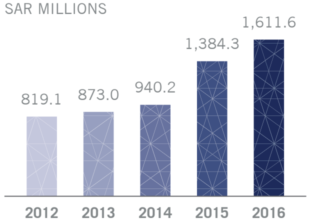


TOTAL REVENUE

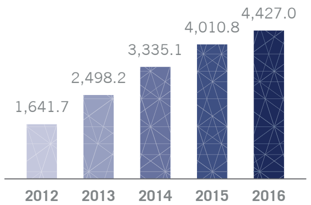
SAR MILLIONS



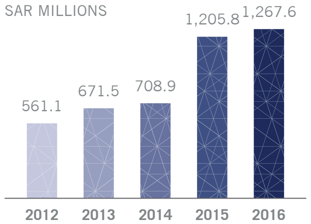
TOTAL ASSETS
SAR MILLIONS



ASSETS UNDER MANAGEMENT
SAR MILLIONS



INVESTMENTS
SAR MILLIONS



CONSOLIDATED BALANCE SHEET

ASSETS

As at 31 December 2016, total consolidated assets stood at SAR 1,611 million, a growth of 16.4% over SAR 1,384 million at the end of 2015. The growth was a direct result of an improvement in earnings and total liabilities inclusive of Murabaha contracts of SAR 170 million and Shari'a-compliant financing of SAR 97.1 million.

The upward trend in total assets was led primarily by investments held-for-trading. The investments portfolio grew by 5% to SAR 1,267 million in 2016 from SAR 1,205 million in the previous year, driven primarily by private equity and real estate investments.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with banks, cash on hand, and Murabaha placements. Cash and bank balances increased by 115% to SAR 155 million in 2016 from SAR 72 million in the previous year. Assets held on behalf of clients in a fiduciary capacity are not included in the consolidated balance sheet of Alkhabeer Capital. As at 31 December 2016, the Company held fiduciary assets under management of SAR 3.16 billion (2015: SAR 2.98 billion).

ASSETS UNDER MANAGEMENT

As at 31 December 2016, total assets under management stood at SAR 4.426 billion, a growth of 10% over SAR 4.010 billion at the end of 2015. This reflects the Company's long-held commitment to provide clients with risk-adjusted returns across a range of Shari'a-compliant private funds and discretionary portfolios.

LIABILITIES

Total liabilities increased to SAR 731 million in 2016 from SAR 484 million in the previous year, driven mainly by an increase in liabilities & financing. In 2016, Alkhabeer Capital had a Shari'a-compliant financing balance of SAR 97.1 million.

LOANS AND STATEMENT OF INDEBTEDNESS FOR FY 2016

The following table shows information related to any loans (Shari'ah compliant financing) extended to the Company as at 31 December 2016:

Name of Financier	Alinma Bank
Term of Financing	5 years
Principal Amount of Financing (Saudi Riyal)	100,000,000
Part Amortized by Prepaid Fees	(2,842,000)
Outstanding Amount (Saudi Riyal)	97,158,000
Paid Amount (Saudi Riyal)*	-

*Please refer to Note No. (10) to the attached audited financial statements for details of financing repayment scheduling.

Details of Alkhabeer's Capital's outstanding debts as at the end of FY 2016 are presented in the attached audited financial statements (Attachment 1). For details, please refer to the current and non-current liabilities section in the consolidated statement of financial position, and notes thereon.

SHAREHOLDERS' EQUITY

At the end of 2016, shareholders' equity decreased by 2.17% to SAR 880.6 million, down from SAR 900.1 million at the end of 2015. The decrease was driven primarily by the associated decrease in retained earnings, and cash dividends of SAR 20.3 million, as well as a dividend payable of SAR 20.3 million that will be paid in May 2017. SAR 7.1 million was transferred to the statutory reserve, in accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia.

CAPITAL ADEQUACY

The Company's objectives when managing capital is to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

During the year ended 31 December 2012, new Prudential Rules (the "rules") were introduced by the CMA pursuant to its Resolution Number 1-40-2012 dated 17/2/1434H corresponding to 30/12/2012G. The rules state that an authorized person shall continually possess a capital base which corresponds to not less than the total of the capital requirements as prescribed under Part 3 of Prudential Rules.

The details of the minimum capital requirement and capital base are as follows:

CAPITAL ADEQUACY

(SAR '000)	2016	2015
Alkhabeer Capital's net capital	800,642	900,170
Minimum net capital required	716,723	425,066

CAPITAL ADEQUACY RATIO

(SAR '000)	2016	2015
Total Capital Ratio	1.23	2.12
Surplus in Capital	163,919	475,104

SUBSIDIARIES

The following table shows the details of Alkhabeer Capital's subsidiaries:

NAME OF SUBSIDIARY	CAPITAL (SAR)	PERCENTAGE OWNERSHIP	MAIN ACTIVITY OF THE COMPANY	COUNTRY OF INCORPORATION	HEAD OFFICE
Sanabil Investment Company BSC (c) – Under Liquidation	9,948,000	99.99%	Provision of advisory services to investment funds, discretionary portfolio management as agent, investment in Shari'ah compliant product as defined by the Shari'ah advisor.	Kingdom of Bahrain	Manama, Kingdom of Bahrain

RISK MANAGEMENT REVIEW

Alkhabeer Capital is a leading CMA Authorized Person in risk management and corporate governance. Alkhabeer's activities involve inherent risks of various depth and complexity. These risks are managed through an ongoing process of identification, measurement and monitoring, and are subject to a number of controls.

POTENTIAL RISK & RISK MANAGEMENT POLICY

Risk of varying depth and complexity is inherent in Alkhabeer Capital's activities, and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Alkhabeer Capital is primarily exposed to profit rate risk, credit risk, market risk, liquidity risk, operational risk and reputational risk.

CREDIT RISK

Credit risk refers to the risk where the customer or counterparty may default on its contractual obligation resulting in a loss to the Company. Alkhabeer does not lend money in the form of loans or advances to its customers; and specifically, margin lending is not currently practised by Alkhabeer.

Therefore, presently, the only credit risk Alkhabeer may face is counterparty risk. Alkhabeer adopts a credit strategy for monitoring and controlling the counterparty risk by setting limits for each counterparty in line with prudential rules and internal approved policies. All counterparty limits are reviewed and approved by the Director of Governance, Risk and Compliance. Subsequently all counterparty limits are approved annually by the Investment Committee. As a policy, our dealing with any counterparty is restricted to only those with at least a BBB- rating. In case the counterparty is rated below investment grade, a higher approval authority is required.

MARKET RISK

Market risk is the risk that changes in market prices in the respective asset class, will affect the Company's income or the value of its holdings of financial instruments. Alkhabeer invests in multiple asset classes which contain a market risk element due to their susceptibility to fluctuation in prices. Alkhabeer also places cash and invests in money markets, capital markets, real estate, and private equity.

Alkhabeer monitors market risk of equity funds on a daily basis through a system called AIM. The Risk Department is the administrative user for the Compliance Module of AIM. It monitors and prevents breaches based on the parameters defined by the Risk Department

LIQUIDITY RISK

Liquidity risk is the present or future risk to profits and capital, resulting from the Company's inability to meet its commitments when they are due.

Liquidity risk emerges as a result of the inability to manage unplanned shortage, changes to finance resources, or the failure to address market changes that affect the ability to liquidate assets promptly and with minimal losses.

The efficient management of liquidity risk begins with the development of written policies and procedures, including the policy of minimal acceptable levels of liquidity. Liquidity risk management is performed by continuous liquidity monitoring, measuring and reporting.

OPERATIONAL RISK

Operational risk relates to the potential for losses stemming from inadequate or failed internal control processes, people and systems. It also applies to external events such as system crashes or settlement problems that could impact Alkhabeer's ability to balance its trading books. Additionally, operational risk includes exposure to fines and penalties and/or punitive damages resulting from supervisory actions, or private settlements.

Alkhabeer uses a set of tools to identify, measure and rectify operational incidents. In addition, Alkhabeer has a professional insurance policy that covers any damages to third parties resulted from unintentional lapses or system breakdowns.

GOVERNANCE, RISK AND COMPLIANCE DIVISION

The Governance, Risk & Compliance Division is responsible for the day-to-day oversight of the various risks to which Alkhabeer Capital is exposed, including credit, market, operational/regulatory and money laundering risks.

The division employs a wide range of risk assessment, analysis and reporting tools; and state-of-the-art risk models. Independent systems including Bloomberg AIM for market risk, Advent and World-Check for anti-money laundering and regulatory compliance, and aCCelerate for operational risk. In addition, an Internal Capital Adequacy Model has been developed and implemented in line with CMA requirements. The Company's capital adequacy is monitored on a monthly basis covering historic and forecasted figures in order to ensure that the Company maintains adequate capital coverage.

COMPLIANCE AND MLR DEPARTMENT

While the ultimate responsibility of Compliance lies with Alkhabeer Capital Board of Directors, the Compliance & MLR Department is responsible for the day-to-day activities of the Compliance functions, and is also responsible for setting the strategy and planning of the Compliance work. It is important to stress that compliance with regulatory and internal requirements is mandatory for all staff members. The Executive Management ensures that all employees are aware of this duty and infuses a culture of commitment among all employees. It also ensures that compliance with regulatory requirements and adherence to the highest standards of professional conduct is observed at all times.

RISK DEPARTMENT

The Department is responsible for the monitoring and approval of counterparty limits; day-to-day identification, measurement and monitoring of the Company's exposure to market (including liquidity) risk; the update of all policies and procedures for all departments within the Company; and the development of additional controls to ensure the proper execution of transactions in line with approved policies and procedures, in order to avoid any operational regulatory risks. In addition, the Department is responsible for following up on all investment decisions by creating different controls to manage the quality of execution, and the reporting of any exceptions; and streamlining the workflow of some processes to ensure the timely and proper execution of transactions.

RISK AND GOVERNANCE FRAMEWORK

Alkhabeer's Board of Directors manages risks through Board Committees and Alkhabeer's Risk and Compliance Division.

CORPORATE GOVERNANCE REVIEW

CORPORATE GOVERNANCE REVIEW

Alkhabeer Capital is committed to abiding by CMA Regulations. It attaches great importance to the proper policies and procedures; transparency, accountability; and compliance with applicable laws, control rules and conditions, and principles of equity and social responsibility.

Alkhabeer Capital's proper governance policy includes the principles that regulate the following aspects:

- Management and supervision of operations
- Promotion of ethical and responsible decision-making
- Timely submission of balanced disclosures
- Recognition of the legitimate rights of all stakeholders
- Definition and management of risks
- Encouragement and rewarding of improved performance in an equitable and responsible manner

GOVERNANCE FRAMEWORK

Alkhabeer's corporate governance framework consists of a code of business conduct; conflict of interest; strategy statement; compliance; succession planning; policies and operating procedures; internal control and risk management processes; internal and external auditing procedures; and effective communications, disclosure and transparency.

CODE OF BUSINESS CONDUCT

Alkhabeer has developed its code of business conduct to govern the conduct of its directors, executive management and employees; and to ensure that all procedures, actions and behaviors are totally ethical, legal and transparent.

CONFLICT OF INTEREST

Alkhabeer did not, nor has it entered into, any contract in which any of its board members, ED, CEO, CFO or partners has or had any material interest that has not been approved. Refer to Note (6) of the Consolidated Financial Statements regarding related party transactions.

COMPLIANCE

Alkhabeer adopts comprehensive policies and procedures to ensure full compliance with the regulations of the Capital Market Authority of Saudi Arabia, and the laws and regulations issued by regulatory authorities in all jurisdictions where the Company conducts its activities. The Compliance Committee is responsible for ensuring compliance with relevant laws, and legal and administrative requirements.

REPORTING SUSPICIOUS ACTIVITIES

All Alkhabeer employees are responsible for reporting to the Compliance & MLR Department any actual or potential violations. The Company has adopted a policy of confidential reporting of breaches of its code of business conduct. The purpose of this policy is to encourage employees to report any wrongful practices; play an active role in day-to-day operations; enhance the level of employee involvement; maintain a professional business environment; measure employee awareness of applicable laws and regulations; and assure employees that their concerns are taken seriously. During 2016, the Compliance Department conducted AML training session for all Alkhabeer employees.

DETAILS OF ANY PUNISHMENT, PENALTY OR PREVENTIVE RESTRICTION

The Company did not receive any fines or penalties from the Capital Market Authority or any other regulatory body during 2016.

DISCLOSURE AND TRANSPARENCY

Alkhabeer adopts a corporate communications policy in compliance with regulatory and supervisory requirements to ensure that disclosures are fair, transparent and comprehensive. Main communications channels include a shareholders annual general assembly; an annual report and financial statements; periodic investment reports; corporate website and brochure; press releases and media announcements; and employee communications.

STRATEGY STATEMENT

In order to support Alkhabeer's continued growth and development, and in light of global and regional market changes, Alkhabeer's strategy clearly specifies objectives of growth for revenues and profits; development of new business and products; the geographic distribution of investments; and required professional competencies to achieve these objectives.

SUCCESSION PLANNING

The People Management Committee reviews and endorses the Company's succession plan on an annual basis. The objective of the plan is to identify, develop and promote staff to ensure that there are no disruptions to the functioning of Alkhabeer Capital in the event of personnel leaving the Company.

CONTROL FUNCTIONS

INTERNAL AUDIT

Internal Audit is an independent unit reporting to the Board's Audit Committee that consists of three independent members of the Board of Directors. To raise the independence and effectiveness of the function, the Unit has an agreement with KPMG to execute the audits and report the results to the Audit Committee. The approved audit plan is implemented throughout the year, and all of its recommendations are applied. The Audit Committee, Board of Directors and Executive Management are kept informed of the progress of implementation of the audit plan.

The Internal Audit Unit also conducts special reviews or inquiries, as and when required.

RESULTS OF THE ANNUAL REVIEW OF INTERNAL REGULATORY PROCEDURES WITHIN THE COMPANY

The Internal Review Unit reviewed the Company's operations during 2016 in line with its plan which was approved by the Audit Committee, in order to verify the efficiency of internal monitoring procedures within the Company, protection of the Company's assets, and assessment of the Company's risk management performance. As a result of the performed audit procedures, no substantial weaknesses have appeared in the Company's internal regulatory procedures.

The unit has completed all scheduled audits according to the approved plan. It has also pursued closing all comments observed during the year.

COMPLIANCE AND MLR

While the ultimate responsibility of Compliance lies with the Board of Directors, the Compliance & MLR Department is responsible for the day-to-day activities of the Compliance functions, and is also responsible for setting the strategy and planning of the Compliance work. It is important to stress that all staff have a duty in respect of compliance. Management ensures that employees are aware of this duty and that a commitment to compliance exists throughout Alkhabeer. At all levels, compliance with regulatory requirements and observance of the highest standard of business conduct is followed.

RISK

The Department is responsible for the day-to-day identification, measurement and monitoring of the Company's exposure to credit, operational and market (including liquidity) risk; the update of all policies and procedures for all departments within the Company; and the development of additional controls to ensure the proper execution of transactions in line with approved policies and procedures, in order to avoid any operational regulatory risks. In addition, the Department is responsible for following up on all investment decisions by creating different controls to manage the quality of execution, and the reporting of any exceptions; and streamlining the workflow of some processes to ensure the timely and proper execution of transactions.

LEGAL

The Legal Department plays a pivotal role in ensuring the integrity of the Company's operations and products, and protecting its rights and those of its clients, internally and externally; and also ensuring the implementation of best legal practices. The Department's functions include, without limitation: provision of accurate legal advice on Alkhabeer's investment and management activities; follow-up of the progress of disputes, settlements and legal proceedings in courts at all levels, and with any other agencies having legal jurisdiction; preparation of legal studies of interest to the Company; drafting agreements between the Company and other entities; organizing periodic seminars for Company employees to familiarize them with laws and new legislations and assist them in their implementation.

FINANCE AND ACCOUNTING

The Finance and Accounting Department is responsible for financial planning and periodic reporting; financial control and protection of Company assets; payments, recording and bookkeeping; follow up of Zakat and income tax; and coordination with various external entities including the external auditors. The Department monitors the implementation of the Company's strategic plan on a monthly basis to ensure that actual financial performance is in line with the business plan of each area of operation. Any deviations from the plan are detected at an early stage, and appropriate remedial action is proposed and followed up.

KEY SHAREHOLDERS

The following Shareholders have a stake in the Company of five percent or above:

SHAREHOLDER NAME	OWNERSHIP %
Sara Trade Holding Co.	10.45%
Al Bait for National Development Holding Co.	10.45%
Alkhabeer National Co.	9.75%
Abdullah & Said M.O. Binzagr Co. Ltd.	7.68%
Bakr Mohammed Awad Binladin	5.23%

CORPORATE SOCIAL RESPONSIBILITY

Alkhabeer Capital fulfills its enduring duty as a concerned corporate citizen through a Corporate Social Responsibility (CSR) Committee which oversees a diverse program of educational and community outreach activities; sponsorship of events that support the development of the Shari'ah-compliant investment banking sector and the national economy; and initiatives to support young Saudi nationals realize their full potential. A selection of the Company's CSR activities in 2016 is listed below:

EDUCATIONAL AND COMMUNITY OUTREACH ACTIVITIES

JEDDAH CYM FORUM 2016

Jeddah - 31 March, 2016
Alkhabeer Capital sponsored this educational forum which helps young talent decide on educational and career paths. Executive Director Ammar Shata was speaker at the forum, which is a key pillar of the Company's CSR program.

ALKHABEER ISLAMIC BANKING WORKSHOP, KING ABDULAZIZ UNIVERSITY

Jeddah - 25 March, 2016
Executive Director Ammar Shata hosted this workshop on behalf of the Company. Discussions covered the evolution of Islamic banking, and the economic and financial implications of the industry.

DAR AL-HEKMA UNIVERSITY BANKING & FINANCE PROGRAM

Jeddah - 15 December, 2016
Reflecting his success as an entrepreneur and an expert in the fields of banking, investments and finance, Executive Director Ammar Shata was invited to give a lecture about Finance & Investments in order to raise the financial awareness of students at the university.

EVENT SPONSORSHIP & PARTICIPATION

AAOIFI 25TH ANNIVERSARY INTERNATIONAL CONFERENCE, MADINAH

Madina - 4 May, 2016
Executive Director Ammar Shata featured as a keynote speaker at this special conference organized by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) in collaboration with the Capital Market Authority. Hosting the industry's earliest pioneers, this event gave delegates the opportunity to revisit the history of Islamic finance, identify growth areas, and determine the way forward for the industry.

ISLAMIC ENDOWMENT CONFERENCE

Makkah - 18 October, 2016
Acting Head of Waqf Wealth Management, Adnan Tashkandi, participated in this conference aimed at raising awareness of Waqf (endowments) and their social impact, encouraging their establishment, and identifying solutions to the challenges they face. The conference also discussed the development of a legislative and regulatory structure for Waqf.

THIRD ENDOWMENT FORUM

Riyadh - 14 February, 2016
Alkhabeer Capital was a sponsor of this forum. The forum discussed a wide range of issues, including modern trends in using endowment revenues, factors of successful investment, and the reality of charitable association endowments in Saudi Arabia.

JEDDAH RESTATEX

Jeddah - 10 February, 2016
The Jeddah Real Estate, Housing and Urban Development Exhibition is one of the most prominent Jeddah-based market exhibitions, bringing together a wide range of real estate developers, investment companies and financial institutions. Executive Director Ammar Shata joined real estate specialists to discuss market trends, and actively led discussions on various issues during the exhibition.

INITIATIVES TO SUPPORT FUTURE GENERATIONS

ERNST & YOUNG ENTREPRENEUR OF THE YEAR AWARD 2016

Jeddah - 20 April, 2016
Executive Director Ammar Shata was invited to join the judging panel for the Saudi Arabian version of this global annual contest organized by E&Y. This year, the judges were tasked with identifying a winner who represents a medium-sized enterprise which has prospects of supporting the national economy.

ALKHABEER INTERNSHIP PROGRAM

Alkhabeer Capital offers summer placement internship opportunities to high-caliber Saudi university students. The objective of this program is to assist participants in gaining practical work experience in a financial institution, as well as meeting the graduation requirements of their respective colleges. Participants are assigned to a specific department with a dedicated mentor who provides them with personal counselling, as well as evaluating their performance and providing feedback to the Human Resources department. At the end of the program, a reference letter is issued, indicating the trainee's period of experience and performance evaluation. In 2016, 11 students were enrolled in the program.

SHARING THE COMPANY'S MARKET INSIGHTS

ALKHABEER ALTERNATIVE INVESTMENT ROUNDTABLE

This event was part of the Company's endeavors to educate investors about investing during a period of high market volatility and uncertainty; and to update them about changing economic conditions. Hosted by Alkhabeer Capital, the Roundtable in Riyadh offered unique insights based on the Company's deep understanding of alternative investment asset classes; with participants gaining further knowledge about alternative instruments as an attractive option for achieving potentially superior returns.

RESEARCH REPORTS

During 2016, the Company continued to publish a diverse range of economic and market research reports for the benefit of its clients and the industry as a whole. These analytical reports cover a variety of topics, including an annual global outlook; quarterly global and regional economic developments and outlooks; and specific market and sector overviews and opportunities. Special publications included an inaugural 'Global Real Estate Report' which analyzed opportunities, prospects and potential risk areas in US, UK and Saudi Arabia; and 'GCC Budgets: Adapting to the New Oil Reality' – analyzing the latest budgets of regional governments, and implications of reform measures announced in response to lower oil prices. The Company's research output serves to reinforce the reputation of Alkhabeer Capital as a regional thought leader.

BOARD OF DIRECTORS REVIEW

Alkhabeer Capital's Board of Directors consists of prominent business leaders who contribute to the success of the Company's business and ventures with their expertise and business networks. The structure of the Board of Directors reflects a balance between the numbers of executive, non-executive and independent directors, such that the percentage of independent directors is not less than one third.

As shown the Board of Directors held regular meetings (five times during 2016). They perform a pivotal and vital role in determining the Company's strategic direction and ensuring its implementation, within a framework of controls and incentives. This applies to the Board's three permanent committees: The Investment Committee, the Audit Committee, and the Nomination & Remuneration Committee.

DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The Board of Directors, to the best of its knowledge, confirms that:

- Alkhabeer has properly maintained its accounting records.
- The internal control system was properly prepared and effectively implemented.
- There is no doubt that Alkhabeer has the resources to continue in business.
- Alkhabeer did not have, nor did not enter into, any contract in which any member of the Board, the Executive Director, CEO, the Chief Financial Officer or any of their associates has or had any material interest that has not been approved except as disclosed in Note (6) to the Consolidated Financial Statements regarding related party transactions.

BOARD MEMBERS' PROFILES

MUSAAD MOHAMMAD ALDREES

AMMAR AHMED SHATA

SAEID MOHAMMED BINZAGR

MUHANAD HAYDAR BINLADIN

MOHAMMED NAWAF BABGI

ABDULKADER HAYWARD THOMAS

WAN ABDUL RAHEEM KAMIL

ISSAM ZAID AL TAWARI

MOHAMMED ABDULRAHMAN MOUMENA

Musaad Mohammad Aldrees

Chairman
Member of the Board's Investment Committee

A longstanding and renowned businessman, Musaad has played a leading role in developing and expanding a group of family companies in various business sectors. He was Member of the Board of Executive Directors at the Saudi American Glass Factory, entirely owned by Dubai Investment Company. He was also Member of the Board at Mohammad Saad Al Drees and Sons Limited Company (which later became a public company and put forward in the Saudi Stock Market), Mohammad Saad Al Drees Sons Limited Company, Mohammad Saad Al Drees and Sons Holding Company Al Drees Industrial & Trading Company (ALITCO). In addition to completing various training courses in KSA, the USA and the UK, Musaad is a graduate of the Institute of Public Administration in Riyadh, Saudi Arabia.

Ammar Ahmed Shata

(Executive Director)
Member of the Board's Investment Committee

Ammar Shata is the founder and Executive Director of Alkhabeer Capital. He has more than 26 years of experience in Corporate Banking, Islamic Finance, Asset Management and Private Equity. He began his investment banking career in 1990. Since then, he has held several leadership positions in a number of major Saudi banks, including National Commercial Bank, Al Baraka Investment Development Group, and the Islamic Development Bank. A Chartered Financial Analyst (CFA) Charterholder, Ammar holds a Bachelor's degree in Electrical Engineering and a Master's degree in Financial Economic Planning from the University of Southern California, USA.

Saeid Mohammed Binzagr

(Non-Independent Director)
Chairman of the Board's Investment Committee

Saeid Binzagr has over 19 years of experience in commerce and industry. He is the Chairman of Binzagr Barwil Marine Transport Company and Avon Beauty Arabia LLC. In addition, he is a Board Director of Abdullah & Said M. O. Binzagr Co., Binzagr Factory for Insulation Materials, Binzagr Co-Ro, International Marketing Company, Said M. O. Binzagr Co. (Binzagr Co.), Binzagr Unilever Limited, Binzagr for Industrial and Commercial Investment Ltd. Co., Diyar Al Khayyal for Real Estate Development, the Saudi Industrial Property Authority (MODON) and the Jeddah Chamber of Commerce. Saeid has a Bachelor's degree in Science from Linfield College, Oregon, USA.

Muhanad Haydar Binladin

(Non-Independent Director)

Muhanad is an executive and Assistant General Manager of Administration and Finance at Mohammed Binladin Co. Previously, he served as Chief Accountant for Binladin Industrial Co. Muhanad is the owner of "Cultural Thought Est. and the Founder and Partner in Nutrition Zone L.L.C and Zileej DMCC, a company specialized in computer software development. He is also a Board Director of Zileej DMCC, and Makani Bayn Alkhotoot, a company specialized in parking management and services. Muhanad holds a Master's degree in Innovation and Technology Management from the Grenoble Graduate School of Business, France, and a Bachelor's degree in Finance from the King Fahad University of Petroleum & Minerals, KSA.

Mohammed Nawaf Babgi

(Non-Independent Director)
Member of the Board's Investment Committee

A well-rounded and versatile business executive, Mohammed has worked with various reputable family and corporate conglomerates in the region. He currently serves as Deputy GM at Dar Al Riyadh Group. He previously served as Deputy MD for Strategy and Execution at Bahamdan Group. In addition, Mohammed currently sits on the board of numerous Saudi-based corporations in financial services, manufacturing, contracting and real estate. He also serves as a strategy advisor to a select group of family businesses. Mohammed holds a Bachelor's degree in Civil Engineering and a Master's degree in Infrastructure and Security Engineering from George Mason University, Virginia, USA.

Mohammed Abdulrahman Moumena

(Independent Director)
Chairman of the Board's Nomination & Remuneration Committee

Mohammed is an accomplished senior executive with valuable experience in a wide range of challenging business sectors. With more than 19 years of experience, has established his reputation as a business leader and thinker in Saudi Arabia and the wider Middle East. Mohammed is a Managing Partner at the boutique executive search firm Edward W Kelley & Partners. He is an independent Board Director at Fransa Invest Bank (FIB) and the Middle East Healthcare Company (Saudi-German Hospital in KSA). Mohammed also acts in a non-executive capacity for several other organizations involved in charitable works. He holds a Bachelor's degree in Marketing from King Fahad University of Petroleum and Minerals in KSA.

Abdulkader Hayward Thomas

(Independent Director)
Member of the Board's Audit and Nomination & Remuneration Committees

Abdulkader an international expert in Islamic finance, is the Chief Executive Officer and a Board Director of Shape for Economic Consultancy (Kuwait) and Shape Financial Corporation (USA). He has held high positions in various financial institutions, including the Islamic Investment Banking Unit at United Kuwait Bank, Guidance Financial Group, and Sumitomo Bank Ltd. He is also a member of the International Advisory Committee for the Securities Commission of Malaysia. He serves on the Shariah Board of Bank Muscat Meethaq, and Sterling Bank PLC (Nigeria). He is widely published in the field of applied Islamic finance. Abdulkader holds a Bachelor's degree in Arab and Islamic Studies from the University of Chicago, USA, and a Master's degree in Law and Diplomacy from the Fletcher School of Law and Diplomacy, USA.

Wan Abdul Raheem Kamil

(Independent Director)
Member of the Board's Nomination & Remuneration Committee

An Islamic capital markets consultant and expert, Wan currently serves as Consultant to the Securities Commission in Malaysia and a Board Director in First International Consulting Co. in Malaysia. He previously worked for Bank Islam Malaysia, and was Chief Executive Officer of Abrar Discounts Berhad. Wan is a lecturer on Sukuk, liquidity management, treasury, and other related Islamic finance subjects. He studied statistics at Mara Institute of Technology, in addition to completing a number of professional development programs in leadership development at Harvard University, and the International Institute of Islamic Banking and Economic Studies in Cyprus.

Issam Zaid Al Tawari

(Independent Director)
Member of the Audit Committee

Issam is an Islamic finance expert and currently serves as the Managing Partner of Newbury Economic Consulting that he established in Kuwait. He was also the Founder of Rasameel Structured Finance Company in Kuwait where he served as the Chairman and Managing Director. Issam has held high positions in several institutions, including Chairman of the Board of Ain Takaful Insurance Company, Sorooh Investment Company, and Board Director at Dubai Wire Company and Kuwait Catalyst Company among others. Issam holds a Bachelor's degree in Economics & Business Administration from the University of Kuwait, and a Master's degree (Dist.) from the University of Hull in the UK.

THE BOARD OF DIRECTORS, ORGANISATIONAL STRUCTURE AND CLASSIFICATION OF ITS MEMBERS

The table below shows the organisational structure of the Board of Directors and the classification of its members as of the end of 2016, in addition to the names of companies in which the member of the Board is also a member of their boards:

NAME	MEMBER CLASSIFICATION	MEMBERSHIP IN BOARDS OF DIRECTORS OF OTHER COMPANIES (LISTED OR NON-LISTED)
Musaad Mohammad Aldrees (Chairman of the Board)	Non-Executive	Member of the Board, Sanabel Investment Company
Ammar Ahmed Shata (Executive Director)	Executive	Member of the Board, Sanabel Investment Company
Saeid Mohammed Binzagr	Non-Executive	Member of the Board, Jeddah's Chamber of Commerce
		Chairman of the Board, Arab Avon Beauty Company
		Member of the Board, Binzagr Co-Ro
		Member of the Board, Binzagr Unilever
		Chairman of the Board, Binzagr Barwil Marine Transport Company
		Member of the Board, Abdullah & Saeid M.O. Binzagr Company
		Member of the Board, Binzagr Factory for Insulation Materials
		Member of the Board, Diyar Al-Khayyal Company
		Member of the Board, International Marketing Company
		Member of the Board, the Saudi Industrial Property Authority (MODON)
		Member of the Board, Binzagr Company
		Member of the Board, Binzagr Company for Industrial and Commercial Investment
Muhanad Haydar Binladin	Non-Executive	Member of the Board, Zaleej Company
		Member of the Board, Makani Bayn Alkhotoot
Mohammed Nawaf Babgi	Non-Executive	Member of the Board, Waraq Arab Paper
		Member of the Board, Tasheelat Marketing Company
		Member of the Board, Sahl Transport Company
		Member of the Board, Tas'helat Holding Company
		Member of the Board, Sahl Company
		Member of the Board, Saqifat Al Safa
		Member of the Board, Sara Real Estate Company
		Member of the Board, Sanabel Investment Company
		Member of the Board, Alraeda Company for Education Development
		Member of the Board, Bahamdan Group
		Member of the Board, Tas-helat Real Estate Investment Company
Mohammed Abdulrahman Moumena	Independent	Member of the Board, Middle East Healthcare Company
		Member of the Board, Fransa Invest Bank
		Member of the Board, Al-Wedad Charity Foundation
		Member of the Board, Edward W. Kelley & Partners
Abdulkader Hayward Thomas	Independent	Chairman of the Board, Sanabel Investment Company
		Member of the Board, Shape Economic Investments Corporation
		Member of the Board, Shape Financial Corporation
Issam Zaid Al Tawari	Independent	Member of the Board, Newbury Economic Consulting
Wan Abdul Raheem Kamil	Independent	Member of the Board, First International Consulting

BOARD MEMBERS' ATTENDANCE

The Board of Directors held five meetings during 2016. The following table shows attendance at each board meeting:

MEMBER'S NAME	FIRST MEETING	SECOND MEETING	THIRD MEETING	FOURTH MEETING	FIFTH MEETING	TOTAL
	23 February	21 April	28 July	20 October	22 December	
Musaad Mohammad Aldrees	●	●	●	●	●	5
Ammar Ahmed Shata	●	●	●	●	●	5
Saeid Mohammed Binzagr	○	○	○	●	●	2
Muhanad Haydar Binladin	●	●	●	●	●	5
Mohammed Nawaf Babgi	●	◉	●	●	◉	5
Mohammed Abdulrahman Moumena	●	●	●	●	●	5
Abdulkader Hayward Thomas	●	●	●	◉	●	5
Issam Zaid Al Tawari	●	●	●	●	●	5
Wan Abdul Rahim Kamil	●	○	○	●	●	3

● Attended ◉ Attended Electronically ○ Excused Absence

BOARD MEMBERS' REMUNERATION

The Members of the Board have not received any remuneration during 2016 in spite of their excellent performance in order to achieve the Company's objectives. The allowances received by Non-executive and Independent Members of the Board amounted to SAR 584,875for the financial Year 2016.

SHAREHOLDINGS OF BOARD MEMBERS AND RELATED PERSONS

The following table shows any interest in Alkhabeer Capital owned by Board members and any person related to them, and any change in such interest during FY 2016:

NAME OF BOARD MEMBER	RELATED PERSON	NUMBER OF SHARES AS AT BEGINNING OF 2016G	PERCENTAGE SHAREHOLDING AS AT BEGINNING OF 2016G	NUMBER OF SHARES AS AT END OF 2016G	PERCENTAGE SHAREHOLDING AS AT END OF 2016G	SHARE PAR VALUE (SAR)
Musaad Mohammed Aldrees	-	1,600,000	1.97%	1,600,000	1.97%	10
Ammar Ahmed Shata	Alkhabeer National Company for Commercial Projects Management	7,929,143*	9.75%	7,929,143*	9.75%	10
Mohammed Nawaf Babgi	-	1,000	0%	1,000	0%	10
Saeid Mohammed Binzagr	-	1,000	0%	1,000	0%	10
Abdulkader Hayward Thomas	-	1,000	0%	1,000	0%	10
Wan Abdul Raheem Kamil	-	1,000	0%	1,000	0%	10
Issam Zaid Al Tawari	-	1,000	0%	1,000	0%	10
Muhannad Haydar Binladin	-	1,000	0%	1,000	0%	10
Mohammed Abdulrahman Moumena	-	1,000	0%	1,000	0%	10

* Includes (7,928,143) shares owned by Alkhabeer National Company for Commercial Projects Management, in which Mr. Ammar Ahmed Shata holds (48.6%) of its shares and (1,000) shares owned directly by Mr. Ammar Ahmed Shata as Board membership guarantee shares in the Board of Directors of Alkhabeer Capital.

BUSINESS ACTIVITIES AND CONTRACTS WITH RELATED PARTIES

The Board of Directors declares that there are no business activities or contracts to which Alkhabeer Capital is party, or in which any member of the Board, the CEO, the Chief Financial Officer or any party related to any of them, has an interest.

TRANSACTIONS BETWEEN ALKHABEER CAPITAL AND RELATED PARTIES

Alkhabeer Capital did not enter into any for-profit transaction with any related parties during FY 2016.

BOARD COMMITTEES

The Board of Directors presides over three main committees whose membership was formed by the Board: the Audit Committee, the Nominations & Remuneration Committee, and the Investment Committee. These committees play an important role in assisting the Board of Directors to perform its assigned regular duties. The following is a short description of the competences and tasks of the Board Committees, as well as the structure of their members and the number of their meetings held during the year:

AUDIT COMMITTEE

The Audit Committee supports the Board's supervision functions in ensuring the integrity of financial statements, the qualification and independence of the external auditors, and the sound performance of the Company's Internal Audit function. The Audit Committee met five (5) times during 2016, the following table contains the list of members and the attencance of each member:

MEMBER'S NAME		FIRST MEETING	SECOND MEETING	THIRD MEETING	FOURTH MEETING	FIFTH MEETING	TOTAL
		17 Feb	19 Apr	27 Jul	19 Oct	21 Dec	
Saleh H. A. Hussain	Chairman	●	●	●	●	●	5
Abdulkader Thomas	Member	●	●	●	◉	●	5
Issam Zaid Al Tawari	Member	●	●	●	●	●	5

● Attended ◉ Attended Electronically ○ Excused Absence

NOMINATION & REMUNERATION COMMITTEE

The Nomination & Remuneration Committee supports the Board's supervision functions to ensure the independence of directors and the integrity of the Company's remuneration policy. The Nomination & Remuneration Committee met three (3) times during 2016.

MEMBER'S NAME		FIRST MEETING	SECOND MEETING	THIRD MEETING	TOTAL
		Feb-23	19 Jul	27 Oct	
Mohammed Moumena	Chairman	●	●	●	3
Wan Kamil	Member	●	●	●	3
Abdulkader Thomas	Member	●	◉	●	3

● Attended ◉ Attended Electronically ○ Excused Absence

BOARD'S INVESTMENT COMMITTEE

The role of the investment Committee is to assist the Board in its investment policies review and approval functions, investment strategies and transactions, monitoring the Company's financial performance, and monitoring the performance of investments. The Committee also oversees the Company's capital and financial resources. The investment Committee met six (6) times during 2016.

MEMBER'S NAME		FIRST MEETING	SECOND MEETING	THIRD MEETING	FOURTH MEETING	FIFTH MEETING	SIXTH MEETING	TOTAL
		22 Feb	28 Mar	23 May	26 Sep	21 Nov	15 Dec	
Saeid Mohamed Binzagr	Chairman	○	●	●	●	●	◉	5
Ammar Ahmed Shata	Member	●	●	○	●	●	●	5
Musaad Saad Aldrees	Member	●	●	○	○	●	●	4
Mohammed Nawaf Babgi	Member	●	●	◉	●	●	○	5
Ahmed Saud Ghouth	Member	Was not a member yet	●	●	●	●	●	5

● Attended ◉ Attended Electronically ○ Excused Absence

SHARI'AH ADVISORY

Alkhabeer Capital's Shari'ah Advisory function is managed by the Shariyah Review Bureau (SRB), which provides product consultation, structuring, compliance certificates (Fatwas) and Shari'ah supervisory audits. SRB employs around 33 of the world's leading and reputable Shari'ah scholars from diverse geographical locations such as Saudi Arabia, Malaysia, Algeria, Egypt, UAE, Sudan and Bahrain. They provide Alkhabeer Capital with a swift turnaround in Shari'ah approvals, and offer consultation solutions to meet the Company's strategic business needs.

DISCLOSURE OF REMUNERATION AND COMPENSATION

The following table shows the breakdown of remuneration and compensation paid to members of the Board of Directors and five of the top executives who received the highest remuneration and compensation, including the Executive Director, the Chief Executive Officer and the Chief Finance Officer:

DESCRIPTION	EXECUTIVE DIRECTORS	NON-EXECUTIVE / INDEPENDENT DIRECTORS	FIVE OF THE TOP EXECUTIVES WHO RECEIVED THE HIGHEST REMUNERATION AND COMPENSATION, INCLUDING THE EXECUTIVE DIRECTOR, THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FINANCE OFFICER
Salaries and Compensation	-	-	SAR 6,454,080
Allowances	-	SAR 584,875	SAR 1,985,920
Periodic and Annual Remuneration	-	-	SAR 8,195,108
Incentive Plans	-	-	SAR 2,216,772
Any other compensation of in-kind benefits payable monthly or annually	-	-	-

The data listed in the abovewtable includes the following:

- Salaries and Compensation: Includes basic salary and fixed incentives.
- Allowances: Include housing and transport allowances.
- Periodic and Annual Remuneration: Include annual incentives paid in cash.
- Incentive Plans: Include deferred remuneration in accordance with the Company's remuneration policy.
- Any other compensation of in-kind benefits payable monthly or annually: Include non-cash benefits payable to the employee.

MANAGEMENT COMMITTEES

The Executive Management is supported by the following Management Committees:

INVESTMENT COMMITTEE

The Investment Committee has overall responsibility for reviewing the various corporate risks, and approving their mitigation initiatives. The IC also approves investment proposals within the authority levels mandated to it via Alkhabeer's authority matrix and ensures that up-to-date policies and procedures are in place.

INVESTMENT COMMITTEE SUB COMMITTEES

- Assets & Liabilities Management Committee
- Product Development Committee

ASSETS & LIABILITIES MANAGEMENT COMMITTEE

ALCO is the body for recommending the development of policies relating to all asset and liability management (balance sheet structure, funding structure, hedging and investment setting limits) under the overall risk management framework. ALCO is a key component of liquidity risk management within Alkhabeer.

PRODUCT DEVELOPMENT COMMITTEE

The purpose of the Product Development Committee is to assist Alkhabeer's business lines in making enlightened decisions with regards to the introduction of new products/services and amendments to existing products/services, and supervise the product development process.

COMPLIANCE COMMITTEE

The Compliance Committee, which is chaired by the Executive Director, is responsible for assisting the Board and Management to oversee the Company's compliance with the laws and regulations applicable to its business, specifically including those of the Capital Market Authority; and compliance with internal policies and procedures, and the Corporate Governance Manual; while advising Management on best practices in compliance.

ENTERPRISE RISK MANAGEMENT COMMITTEE

The primary responsibility of the Committee is to ensure that sound policies, procedures and practices are in place for the enterprise-wide management of the Company's credit, market and operational risks. The Committee meets once every quarter.

PEOPLE MANAGEMENT COMMITTEE

The People Management Committee is responsible for periodically reviewing and monitoring the development of Alkhabeer's human capital. The Committee identifies key critical positions, and ensures that a succession plan is developed and that the scale of remuneration is in line with the marketplace.

INFORMATION TECHNOLOGY COMMITTEE

The Information Technology Committee is chaired by the Executive Director, and meets once every quarter. Its primary purpose is to approve the Company's IT strategy and supervise its implementation. The Committee is also responsible for supervising IT functionality from a business and risk point of view; and for ensuring proper segregation of duties (Chinese Walls) in line with compliance requirements. Additional responsibilities include ensuring that the IT policies and procedures are regularly updated; supervising the management of critical information in line with the Business Continuity Plan (BCP); and ensuring that the disaster recovery site (DRS) is tested at least once a year.

BUSINESS CONTINUITY PLAN COMMITTEE

The Business Continuity Plan Committee is chaired by the Chief of Communications and Administration. The Committee meets every quarter. Its main objective is to ensure the effectiveness of the Company's business continuity and the security of the employees in case of a disaster (God forbid). In addition, the Committee is responsible for implementing a yearly emergency evacuation test from the Company's head office, in line with the CMA instructions.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee is an administrative committee chaired by the Executive Director and holds quarterly meetings. Its main objective is to develop a clear and practical strategy for social responsibility programmes adopted by the Company, as well as overseeing the implementation of the strategy.

EXECUTIVE MANAGEMENT

Ammar Ahmed Shata
Executive Director

Ahmed Saud Ghouth
Chief Executive Officer

Hisham Omar Baroom
Deputy Chief Executive Officer

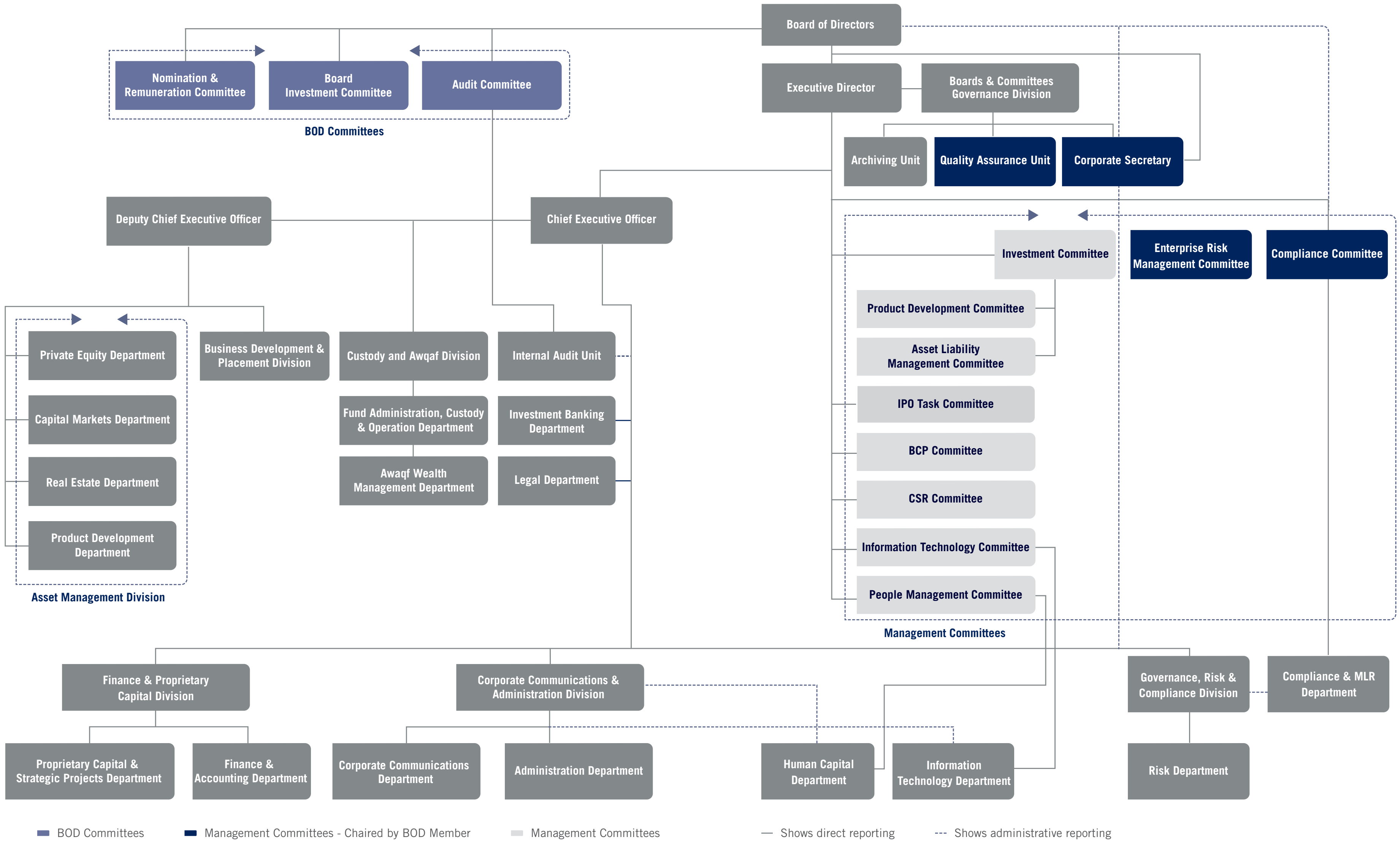
Tamer Abdullateef Abdelraheem
Chief Financial Officer

Tariq Khaled Hayat
Chief Corporate Communications & Administration Officer

Ibrahim Shukri Saad
Director Governance, Risk and Compliance Officer

ORGANIZATIONAL STRUCTURE

Alkhabeer Capital's flat and flexible organizational structure encourages staff to work together, both internally and with clients, to build enduring relationships that form the bedrock of the Company's business philosophy.



BASEL 2 PILLAR 3 DISCLOSURE

BASEL 2 PILLAR 3 DISCLOSURE

Based on the Capital Market Authority's requirements, a Pillar 3 Disclosure report was prepared by the company for 2016 and approved by the Board. A copy of the report was uploaded on the Company's website.
www.alkhabeer.com/pillar_iii/

SHARI'AH REVIEW REPORT

CONSOLIDATED FINANCIAL STATEMENTS

AUDITOR'S REPORT

Building a better working world

Ernst & Young & Co. (Public Accountants)
13th Floor – King's Road Tower
PO Box 1994
King Abdulaziz Road (Malek Road)
Jeddah 21441
Saudi Arabia
Registration Number: 45

Tel: +966 12 221 8400
Fax: +966 12 221 8575

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**AUDITORS' REPORT TO THE SHAREHOLDERS
OF ALKHABEER CAPITAL
(A Saudi Closed Joint Stock Company)**

Scope of audit

We have audited the accompanying consolidated balance sheet of AlKhabeer Capital - a Saudi Closed Joint Stock Company ("the Company") and its subsidiary ("the Group") as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's Board of Directors and have been prepared by them in accordance with the requirements of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

In our opinion, the consolidated financial statements taken as a whole:

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

29 Jumad Awwal 1438 H
26 February 2017

Jeddah

14/211/00

ERNST & YOUNG

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	2016 SAR '000	2015 SAR '000
ASSETS			
CURRENT ASSETS			
Cash and bank balances		155,189	24,144
Murabaha placement	3 & 6	-	47,809
Accounts receivable and prepayments	4	28,106	30,533
Investments held for trading	5	1,267,634	1,205,794
Due from related parties	6	116,960	50,681
Assets held for distribution	19	229	-
TOTAL CURRENT ASSETS		1,568,118	1,358,961
NON-CURRENT ASSETS			
Zakat and income tax reimbursable	11	-	1,889
Property and equipment	7	43,495	23,465
TOTAL NON-CURRENT ASSETS		43,495	25,354
TOTAL ASSETS		1,611,613	1,384,315
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Due to related parties	6	84,000	166,812
Short term portion of sharia compliant financing	10	14,000	-
Accrued expenses and other liabilities	8	95,768	54,556
Short-term murabaha contracts	9	327,440	153,602
Dividends payable		20,330	-
Provision for zakat and income tax	11	-	1,889
TOTAL CURRENT LIABILITIES		541,538	376,859
NON-CURRENT LIABILITIES			
Employees' terminal benefits		11,275	9,286
Long-term murabaha contract	9	95,000	98,000
Long-term portion of sharia compliant financing	10	83,158	-
TOTAL NON-CURRENT LIABILITIES		189,433	107,286
TOTAL LIABILITIES		730,971	484,145
SHAREHOLDERS' EQUITY			
Share capital	12	813,203	813,203
Statutory reserve	14	23,933	16,820
Retained earnings		43,506	70,063
Foreign currency translation reserve		-	84
TOTAL SHAREHOLDERS' EQUITY		880,642	900,170
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,611,613	1,384,315

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 SAR '000	2015 SAR '000
Fee income	15	51,405	60,736
Unrealised gains on trading investments	5	96,542	66,840
Realised gains on trading investments	5	40,226	48,061
Dividend income		16,616	1,814
Income from murabaha placement		2,545	1,063
TOTAL OPERATING INCOME		207,334	178,514
OPERATING EXPENSES			
Selling and marketing	16	(7,773)	(10,375)
General and administration	17	(102,619)	(100,211)
TOTAL OPERATING EXPENSES		(110,392)	(110,586)
NET OPERATING INCOME		96,942	67,928
Murabaha and financing expenses		(25,674)	(4,618)
Other income		24	4
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		71,292	63,314
DISCONTINUED OPERATIONS			
(Loss) / income from discontinued operations	19	(160)	3,835
NET INCOME FOR THE YEAR		71,132	67,149
EARNINGS PER SHARE FROM CONTINUING OPERATIONS			
Weighted number of outstanding shares (in thousands)	12	81,320	81,320
Attributable to net operating income (in SAR)	18	1.19	0.84
Attributable to net income (in SAR)	18	0.88	0.78
EARNINGS PER SHARE INCLUDING DISCONTINUED OPERATIONS			
Attributable to net income for the year (in SAR)	18	0.87	0.83

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 SAR '000	2015 SAR '000
OPERATING ACTIVITIES			
Income from continuing operations		**71,292**	63,314
(Loss) / income from discontinued operations	19	**(160)**	3,835
Net income for the year		**71,132**	67,149
Adjustments for:			
Unrealised gains on investments	5	**(96,542)**	(67,492)
Realised gains on investments	5	**(40,326)**	(48,585)
Depreciation	7	**2,995**	2,248
Provision for employees' terminal benefits		**3,343**	2,314
Allowances charge net of recoveries	4	**594**	(17)
Profit on disposal of property and equipment		**(24)**	(4)
Operating loss before changes in operating assets and liabilities		**(58,828)**	(44,387)
Changes in operating assets and liabilities			
Accounts receivable and prepayments		**1,831**	(8,457)
Due from related parties		**(2,279)**	(20,199)
Accrued expenses and other liabilities		**(8,788)**	18,300
Due to related parties		**(82,812)**	148,812
Purchase of investments held for trading		**(349,504)**	(807,834)
Proceeds from disposal of investments held for trading		**360,432**	427,063
Cash used in operations		**(139,848)**	(286,702)
Employees' terminal benefits paid		**(1,354)**	(1,185)
Zakat and income tax paid		**(1,889)**	(4,119)
Net cash used in operating activities		**(143,091)**	(292,006)
INVESTING ACTIVITIES			
Purchase of property and equipment	7	**(23,025)**	(4,850)
Proceeds from disposal of property and equipment		**24**	13
Murabaha placement	3	**47,809**	(1,709)
Net cash from / (used in) investing activities		**24,808**	(6,546)
FINANCING ACTIVITIES			
Murabaha contracts	9	**170,838**	251,602
Sharia compliant financing	10	**97,158**	-
Dividends paid	13	**(18,441)**	(36,557)
Net cash from financing activities		**249,555**	215,045
Net increase / (decrease) in cash and cash equivalents		**131,272**	(83,507)
Net foreign exchange difference		**-**	1
Cash and cash equivalents at the beginning of the year		**24,144**	107,650
Cash and cash equivalents attributable to continuing operation		**155,416**	24,144
Cash and cash equivalents attributable to discontinued operation	19	**(227)**	-
Cash and cash equivalents at the end of the year		**155,189**	24,144
DISCOUNTED OPERATION'S CASH FLOW	19	**-**	-
NON CASH SUPPLEMENTARY INFORMATION			
Subscription of units of funds, not yet paid	6	**84,000**	166,812
In-kind investment in funds	6	**-**	365,200
Sale of investment, not yet received	6	**64,000**	-

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Share capital SAR '000	Statutory reserve SAR '000	Retained earnings SAR '000	Foreign currency translation reserve SAR '000	Total SAR '000
Balance at 1 January 2015		813,203	10,105	50,289	83	873,680
Net income for the year		-	-	67,149	-	67,149
Transfer to statutory reserve	14	-	6,715	(6,715)	-	-
Zakat and income tax	11	-	-	(1,889)	-	(1,889)
Zakat and income tax reimbursable	11	-	-	1,889	-	1,889
Zakat and income tax reimbursed	11	-	-	(4,103)	-	(4,103)
Dividend	13	-	-	(36,557)	-	(36,557)
Foreign currency movement		-	-	-	1	1
Balance at 31 December 2015		813,203	16,820	70,063	84	900,170
Net income for the year		-	-	71,132	-	71,132
Transfer to statutory reserve	14	-	7,113	(7,113)	-	-
Zakat and income tax	11	-	-	-	-	-
Zakat and income tax reimbursable	11	-	-	-	-	-
Zakat and income tax reimbursed	11	-	-	(1,889)	-	(1,889)
Other provision	8	-	-	(50,000)	-	(50,000)
Dividend	13	-	-	(38,771)	-	(38,771)
Foreign currency movement		-	-	84	(84)	-
Balance at 31 December 2016		**813,203**	**23,933**	**43,506**	**-**	**880,642**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACTIVITIES

AlKhabeer Capital ("AKC", the "Company" or the "Parent company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030177445 dated 14 Rabi Awal 1429H (corresponding to 22 March 2008). The Commercial Registration of the Company was amended on 14 Shawal 1430H (corresponding to 5 October 2009) by virtue of which the name of the Company was amended from AlKhabeer Merchant Finance Corporation to AlKhabeer Capital.

The Commercial Registration of the Company was amended on 7 Shawal 1432H corresponding to 5 September 2011 by increasing the share capital from SAR 424,933,820 (42,493,382 shares of SAR 10 each) to SAR 813,202,930 (81,320,293 shares of SAR 10 each). The Company is owned 98.43% by Saudi shareholders and 1.57% by foreign shareholders (2015: same).

The Company is engaged in the following activities in accordance with the Capital Market Authority's Resolution no. H/T/919 dated 3 Rabi a' Thani 1429H (corresponding to 9 April 2008) and License No. 07074-37:

a) Arranging; b) Managing; c) Advising; d) Custody; e) Underwriting; and f) Dealing as principal

The Company's registered office is located at the following address:

AlKhabeer Capital
Al-Madina Road, P.O. Box 128289
Jeddah - Saudi Arabia

The Parent company and its subsidiary are collectively referred to as "the Group" in these consolidated financial statements. The Parent company has an investment in the following subsidiary:

Sanabel Investment Co. B.S.C. (c) (formerly AlKhabeer International Company B.S.C. (c)) ("Sanabel" or "the subsidiary")

The Sanabel Investment Co. B.S.C. (c) ("Sanabel") (formerly AlKhabeer International Company B.S.C. (c)) was established on 15 December 2008 in the Kingdom of Bahrain under Commercial Registration No. 70609-1 and operates under an investment business firm – category 1 (Islamic Principles). The license was issued by the Central Bank of Bahrain (CBB) on 10 November 2008. Subsidiary's activities are regulated by the CBB and supervised by a Shari'a Advisor whose role is defined in subsidiary's articles of association. The principal activities of the subsidiary include providing advisory services to funds, managing discretionary portfolios as an agent, investing in products which comply with Islamic Shari'a rules and principles according to the opinion of subsidiary's Shari'a Advisor.

Effective 15 December 2011 (corresponding to 20 Muharram 1433H), AKC acquired 99.99% ownership interest in the subsidiary. The acquisition of the subsidiary was settled through the issuance of shares of AKC amounting to SAR 388.3 million. The legal formalities for transfer of shares were completed on 15 December 2011. The acquisition of ownership interest by AKC in the subsidiary was considered to be a business combination under common control and was accounted for using the pooling of interest method. As a result of such acquisition, the assets and liabilities of subsidiary's were consolidated with AKC effective from the date of acquisition (i.e. 15 December 2011 (corresponding to 20 Muharram 1433H) at their carrying amounts.

On 24 November 2016, the Group resolved to liquidate the operations of the subsidiary effective from 15 December 2016. CBB through a letter dated 17 November 2016 approved the voluntary liquidation of the Company on 15 December 2016 and, currently, process of liquidating the subsidiary and related legal formalities are in progress. The Group appointed Al-Mezan Bureau Consultancy Co. W.L.L, as a liquidator.

Being a separate geographical segment, the net assets of the subsidiary and its share of results for the current and prior year were presented separately as discontinued operations, from continued operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These consolidated financial statements comprise the financial statements of AKC and its subsidiary (''the Group"). These consolidated financial statements have been prepared in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

The Company is an investment entity and, as such, does not consolidate all of the entities it may control. The assets, liabilities, results of operations and cash flows of the subsidiary as detailed in note 1, which forms an integral part of the Company's operations, is consolidated in these consolidated financial statements. However, other funds acquired, primarily, with an investment perspective are classified as investments held for trading, and measured at fair value, as disclosed in note 5.

These consolidated financial statements comprise the financial statements of AKC and its subsidiary ("the Group").

BASIS OF CONSOLIDATION

A subsidiary is that in which the Group has directly or indirectly, a long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control.

A subsidiary that is integral part of the Group operations is consolidated from the date on which the Group obtains control until the date control ceases. The consolidated financial statements are prepared on the basis of the audited financial statements of the Company and its subsidiary. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

Where the control over the investee entity is temporary or where the investee entity would be liquidated in the near term, the investee entity is not consolidated in these financial statements.

The following is a summary of significant accounting policies applied by the Group:

ACCOUNTING CONVENTION

The consolidated financial statements have been prepared under the historical cost convention modified to include the measurement of investments held for trading at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements have been presented in Saudi Riyals (SAR) which is the Company's functional currency. Financial information, presented in Saudi Riyals, has been rounded off to the nearest thousand.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Significant estimates used in preparation and presentation of these financial statements are disclosed in note 27.

CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, "cash and cash equivalents" consist of balances with bank, cash on hand, and placements with financial institutions, with original maturities of 90 days or less.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

TRADE DATE ACCOUNTING

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Group commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

INVESTMENT ENTITY

An investment entity is an entity that: (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Group meets the definition and typical characteristics of an "investment entity". An investment entity is required to account for its investments in subsidiaries and associates which are not integral part of its operations and acquired primarily with an investment perspective, at fair value through consolidated statement of income.

INVESTMENTS HELD FOR TRADING

The Group classifies its investments at initial recognition. The investment held for trading includes:

- investments that are acquired for the purpose of selling and/or repurchasing in the near term. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price: and
- investments in certain funds. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Group.

Investments held for trading are initially recorded in the statement of financial position at fair value. All transaction costs are recognised directly in profit or loss. Subsequently, these investments are measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of the business on the reporting date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the underlying net asset value (NAV) of the funds which is reflective of the fair value of these securities.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land and capital work in progress are not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements/assets are depreciated on a straight-line basis over the shorter of the useful life of the improvement/assets or the term of the lease.

Expenditure for repairs and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalized. Gains or losses on sale or retirement of property and equipment are included in the consolidated statement of income.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

IMPAIRMENT AND UNCOLLECTIBILITY OF FINANCIAL ASSETS

An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

(c) For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from an asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

FINANCIAL LIABILITIES:

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

OFFSETTING

Financial assets and financial liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under accounting standards generally accepted in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions.

ASSETS HELD FOR DISTRIBUTION AND DISCONTINUED OPERATIONS

A disposal group qualifies as discontinued operation if it is a component of the group that either has been disposed of, or is classified as held for distribution, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after zakat/income tax from discontinued operations in the consolidated statement of income.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative consolidated statement of income is re-presented as if the operation had been discontinued from the start of the comparative year (note 19).

Additional disclosures are provided in note 19 to the consolidated financial statements. All other notes to the consolidated financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

IMPAIRMENT OF NON-CURRENT ASSETS OTHER THAN GOODWILL

At each consolidated balance sheet date, the Group assesses whether there are any indications, whether internal or external, of impairment in the value of non-current assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount represents the higher of fair value less cost to sell and recoverable value in use.

A non-current asset is considered impaired if its carrying amount is higher than its recoverable amount. To determine impairment, the Group compares the non-current asset's carrying amount with the undiscounted estimated cash flow from the asset's use. If the carrying amount exceeds the undiscounted cash flow from the asset, the Group estimates the present value of the estimated future cash flows from the asset. The excess of the carrying amount over the present value of the estimated future cash flows from the assets is considered an impairment loss.

FIDUCIARY ASSETS

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group, and accordingly, are not included in the consolidated financial statements.

ACCRUED EXPENSES AND OTHER LIABILITIES

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

PROVISIONS

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

ZAKAT AND INCOME TAX

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. The liability is charged to retained earnings. Accordingly, amounts reimbursable by the shareholders of such zakat and income tax are credited to retained earnings. Additional amounts, if any, that may become due on finalisation of an assessment are accounted for in the year in which the assessment is finalised.

As the shareholders have agreed that they will reimburse the Group for tax and zakat charges, no adjustments are made in the consolidated financial statements to account for the effects of deferred income taxes.

EMPLOYEES' TERMINAL BENEFITS

Provision is made for amounts payable under the Saudi Arabian and Bahrain labour laws applicable to employees' accumulated periods of service at the consolidated balance sheet date.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

FOREIGN CURRENCY TRANSLATION

Financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at each consolidated balance sheet date for assets and liabilities, and the average exchange rate for each period for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of shareholders' equity.

REVENUE RECOGNITION

Fixed fees received under financial services agreements are non-refundable. These are initially recorded as unearned income and subsequently earned when the related milestones have been met.

Success fees are recognized when the related financing has been successfully raised for the client.

Management and custody fees are recognized on a time apportioned basis.

Dividend income is recognised when the right to receive payment is established.

MURABAHA

Income / expense on murabaha is recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Investments in murabaha contracts are valued at cost, being the fair value of consideration given, plus accrued profit less any impairment losses.

EXPENSES

Selling and distribution expenses are those that specifically relate to marketing expenditure. All other expenses are classified as general and administration expenses.

OPERATING SEGMENTS

A segment is a distinguishable component of the Group that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the Group carries out its activities in in the Kingdom of Saudi Arabia and Kingdom of Bahrain, reporting is also provided geographically.

The Group's primary format for segmental reporting is based on business segments. The business segments are determined based on Group's management and internal reporting structures.

3. MURABAHA PLACEMENT

The murabaha placement carried a profit rate of 4.25% (31 December 2015: 4.25%) and was placed with a fund managed by the Group.

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2016 SAR '000	2015 SAR '000
Commodity murabaha receivable (note 'a')	**-**	5,873
Accounts receivable, gross (note 'b')	**6,342**	6,557
Allowance for doubtful receivable (note 'c')	**(6,034)**	(10,969)
Accounts receivable, net	**308**	1,461
Advances to suppliers and other assets	**7,772**	9,884
Allowance for impairment (note 'd')	**(5,000)**	-
Advances to suppliers and other assets, net	**2,772**	9,884
Margin deposit (notes 11 and 25)	**14,208**	14,208
Prepayments	**2,286**	2,356
Other receivables	**8,532**	2,624
	28,106	30,533

a) During the period, the Group has written off commodity murabaha receivables amounting to SAR 5.53 million and related impairment allowance.

b) As at 31 December 2016 and 31 December 2015, all the unimpaired accounts receivable balances were past due for more than 120 days. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

c) Movement in allowance for impairment of receivables were as follows:

	2016 SAR '000	2015 SAR '000
At 1 January	**10,969**	10,986
Charge /(recoveries) for the year (note 16)	**594**	(17)
Written off during the year (note 'a')	**(5,529)**	-
At 31 December	**6,034**	10,969

d) During the year, the Group impaired certain advances to suppliers and other assets amounting to SAR 5 million (2015: nil).

5. INVESTMENTS HELD FOR TRADING

	2016 SAR '000	2015 SAR '000
Investments in funds managed by the Group	**1,267,634**	978,110
Quoted shares	**-**	484
Other (note 'a')	**-**	227,200
	1,267,634	1,205,794

The movement in the investments held for trading, during the year ended 31 December is as follows:

	2016 SAR '000	2015 SAR '000
At 1 January	**1,205,794**	708,946
Additions during the year	**349,504**	1,173,034
Sold during the year	**(424,532)**	(792,263)
	1,130,766	1,089,717
Unrealised Gain:		
- Continued operations unrealised gains	**96,542**	66,840
- Discontinued operations unrealised gain	**-**	652
	96,542	67,492
Realised Gain:		
- Continued operations realised gains	**40,226**	48,061
- Discontinued operations realised gain	**100**	524
	40,326	48,585
At 31 December	**1,267,634**	1,205,794

a) In December 2015, the Group subscribed to units of a new fund, through an in kind contribution of a property against a value of SAR 227.2 million. The fund successfully issued the units to the Company during the year ended 31 December 2016. As of 31 December 2016, no such in kind subscription was made.

b) Certain of the "investments in funds managed by the Company" and returns generated from them are pledged against Sharia compliant financing (note 10).

The unit holdings of AKC and Sanabel as of 31 December 2016 and 31 December 2015, in the funds managed by AKC is as follows:

	2016			2015		
Name of Fund	**AKC**	**Sanabel**	**Group**	AKC	Sanabel	Group
Alkhabeer Real Estate Fund II	**-**	**-**	**-**	100%	-	100%
Alkhabeer GCC Equity Fund	**-**	**-**	**-**	41%	-	41%
Alkhabeer US Real Estate Income Fund	**11%**	**-**	**11%**	23%	-	23%
Alkhabeer Industrial Private Equity Fund II	**65%**	**-**	**65%**	63%	1.5%	64.5%
Alkhabeer Liquidity Fund HASSEEN	**-**	**-**	**-**	6%	-	6%
Alkhabeer Saudi Equity Fund	**-**	**-**	**-**	28%	-	28%
Alkhabeer Healthcare Private Equity Fund	**9%**	**-**	**9%**	21%	2%	23%
Alkhabeer SME Fund I	**98%**	**-**	**98%**	92%	6%	98%
Alkhabeer Real Estate Opportunity Fund I	**38%**	**-**	**38%**	19%	-	19%
Alkhabeer Real Estate Residential Development Fund II	**72%**	**-**	**72%**	73%	-	73%
Alkhabeer Land Development Fund II	**15.4%**	**-**	**15.4%**	15.2%	0.2%	15.4%
Alkhabeer Central London Residential Fund I	**4.4%**	**-**	**4.4%**	0.2%	1.8%	2.0%
Alkhabeer Education Private Equity Fund I	**30%**	**-**	**30%**	94%	-	94%
Alkhabeer Saudi Real Estate Income Fund I	**70%**	**-**	**70%**	-	-	-
Alkhabeer IPO Fund	**-**	**-**	**-**	68%	-	68%
Alkhabeer Hospitality Fund I	**100%**	**-**	**100%**	-	-	-

6. RELATED PARTY TRANSACTIONS AND BALANCES

Significant related party transactions during the year and balances arising are described below:

Transactions with	Nature of transactions	Amount of transactions during the year		Balances at 31 December	
		2016 SAR'000	2015 SAR'000	**2016 SAR'000**	2015 SAR'000
Investments in managed funds held for trading	Investments acquired/disposed by the Group and realised/unrealised gain/loss thereon	**302,020**	276,784	**1,267,634**	978,110
	Investment purchased from a fund	**-**	1,504	**-**	1,504
	Management, custody and subscription fees reduced by payments received	**(1,634)**	20,070	**42,706**	44,340
	Expenses and advances	**67,913**	(71)	**10,254**	6,341
	Sale of equity to mutual funds	**69,000**	-	**64,000**	-
	Sale of property investment to mutual fund	**107,100**	365,200	**-**	-
	Gain from sale of equity and property investment to mutual funds as referred above	**40,101**	41,357	**-**	-
	Other	**-**	(750)	**-**	-
	Due from related parties	**66,279**	-	**116,960**	50,681
	Subscription of units of funds, not yet paid	**(82,812)**	148,812	**84,000**	166,812
	Due to related parties			**84,000**	166,812
	Murabaha placement	**(47,809)**	24,559	**-**	47,809
	Total murabaha placement			**-**	47,809

The Company has issued a corporate bank guarantee on behalf of a related party (note 25).

REMUNERATION OF KEY MANAGEMENT

Key management personnel including members of the Boards of Directors of the Company and its subsidiary comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

	2016 SAR '000	2015 SAR '000
Salaries and other short term benefits	**17,684**	18,499
Post-employment benefits	**1,054**	1,084
	18,738	19,583

7. PROPERTY AND EQUIPMENT

The estimated useful lives of the principal classes of assets are as follows:

	Years		Years
Building	25	Furniture and fixtures	4
Leasehold improvements	2-4	Vehicles	5
Office and computer equipment	3-5		

	Land	Building	Leasehold improvements	Office and computer equipment	Furniture and fixtures	Vehicles	Capital work in progress (see below)	**Total 2016**	Total 2015
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	**SAR '000**	SAR '000
Cost									
At the beginning of the year	6,966	14,234	3,910	16,033	1,312	546	2,278	**45,279**	40,502
Additions	-	-	-	1,708	20	-	21,297	**23,025**	4,850
Disposals	-	-	-	(13)	-	(61)	-	**(74)**	(73)
	6,966	14,234	3,910	17,728	1,332	485	23,575	**68,230**	45,279
Attributable to assets held for distribution	-	-	(1,925)	(1,274)	(183)	-	-	**(3,382)**	-
At the end of the year	6,966	14,234	1,985	16,454	1,149	485	23,575	**64,848**	45,279
			-	-	-	-	-		
Accumulated depreciation									
At the beginning of the year	-	5,260	3,845	11,367	1,098	244	-	**21,814**	19,630
Depreciation:									
- Continued operations	-	468	26	2,265	74	73	-	**2,906**	2,145
- Discontinued operations	-	-	24	64	1	-	-	**89**	103
Relating to disposals	-	-	-	(13)	-	(61)	-	**(74)**	(64)
	-	5,728	3,895	13,683	1,173	256	-	**24,735**	21,814
Attributable to assets held for distribution		-	(1,925)	(1,274)	(183)	-	-	**(3,382)**	-
At the end of the year	-	5,728	1,970	12,409	990	256	-	**21,353**	21,814
Net book amounts									
At 31 December 2016	**6,966**	**8,506**	**15**	**4,045**	**159**	**229**	**23,575**	**43,495**	
At 31 December 2015	6,966	8,974	65	4,666	214	302	2,278		23,465

Capital work in progress principally relates to leasehold improvements, renovation and construction in process and will be transferred to the relevant category upon the completion of work.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016 SAR '000	2015 SAR '000
Other provision	**50,000**	-
Remuneration payable	**23,200**	22,365
Payables	**15,318**	12,598
Accrued expenses	**5,852**	18,050
Vacation allowance	**1,365**	1,419
Other	**33**	124
	95,768	54,556

9. MURABAHA CONTRACTS

These represent commodity murabaha contracts executed with investors through Discretionary Portfolio Managers (DPMs). The murabaha contracts carries profit rate of 5.25% to 6.25% and are subject to 1% management fee. The maturity period ranges between one to two years from the date of contact. The murabaha contracts were classified into short and long term according to their maturities.

10. SHARIA COMPLIANT FINANCING

During the year, the Company obtained a sharia compliant financing from a local bank with sanctioned limit of SAR 100 million to be repaid over 5 years. The Company has drawn down SAR 50 million on 11 August 2016 and SAR 50 million on 30 October 2016. The financing carries profit rate of 7.05% and is secured against certain "investments held for trading" and all returns generated from respective investments (note 5). Repayment of sharia compliant financing is scheduled as follows:

	31 Dec 2016 SAR'000
31 December 2017	**14,000**
31 December 2018	**14,000**
31 December 2019	**14,000**
31 December 2020	**14,000**
31 December 2021	**44,000**
	100,000
Less: unamortized portion of upfront fee	**(2,842)**
	97,158
Less: current portion shown under current liabilities	**(14,000)**
Non-current portion shown under non-current liabilities	**83,158**

Unamortised portion of upfront fee represents paid to the bank, and will be amortised over the remaining period of the sharia compliant financing.

11. ZAKAT AND INCOME TAX

Provision for Zakat and Income Tax as of 31 December

	2016 SAR '000	2015 SAR '000
Zakat	**-**	1,684
Income tax	**-**	205
	-	1,889

There is no zakat and income tax charge during the year due to zero adjusted zakat / tax base (2015: 67.36 million).

ZAKAT

The provision is based on the following:

	2016 SAR '000	2015 SAR '000
Equity	**867,805**	820,443
Provisions and other adjustments	**262,146**	13,411
Book value of long term assets	**(1,196,153)**	(1,043,386)
	(66,202)	(209,532)
Saudi shareholders' share of adjusted income for the year	**-**	67,362
Adjusted zakat base	**-**	67,362

The differences between the financial and the Zakatable results are mainly due to certain adjustments in accordance with relevant fiscal regulations.

MOVEMENT IN PROVISION DURING THE YEAR

The movement in zakat provision for the year was as follows:

	2016 SAR '000	2015 SAR '000
At 1 January	**1,684**	3,934
Charge for the year	**-**	1,684
Zakat difference	**-**	205
Paid during the year	**(1,684)**	(4,139)
At 31 December	**-**	1,684

INCOME TAX

Income tax charges for the years ended 31 December 2016 and 31 December 2015 are based on the adjusted taxable income calculated on the portion of equity owned by the foreign shareholder. The significant tax adjustments made to accounting net income relate to depreciation, employees' termination benefits and provision against doubtful receivables.

MOVEMENT IN PROVISION DURING THE YEAR

The movement in income tax provision for the year was as follows:

	2016 SAR '000	2015 SAR '000
At 1 January	205	185
Charge for the year	-	205
Paid during the year	(205)	(185)
At 31 December	-	205

STATUS OF ASSESSMENTS

General Authority for Zakat and Tax (GAZT) raised an assessment with an additional liability amounting to SAR 9.36 million for the year ended 31 December 2010. The Company filed an objection against this GAZT assessment.

GAZT raised an assessment with an additional liability amounting to SAR 3.85 million for the year ended 31 December 2009, the Preliminary Objection Committee (POC) has rendered its decision and uphold the GAZT's treatment. The Company has filed an appeal to Higher Appeal Committee (HAC) against POC decision and lodged a bank guarantee against GAZT assessment.

GAZT raised an assessment with additional liability amounting to SAR 10.36 million for the period ended 31 December 2008. The HAC and has rendered its decision upholding POC decision and GAZT's treatment. The Company has filed an appeal to Board of Grievance (BOG) against HAC decision and lodged a bank guarantee against the disputed liability.

The Company's management is expecting a favourable decision regarding the above appeals and accordingly did not record any provision with respect to the above mentioned assessments.

The Company has filed its tax and zakat returns for the years ended 31 December 2011 through 2015 and is currently waiting for GAZT's review.

12. SHARE CAPITAL

The share capital of the Company, amounting to SAR 813,202,930 is divided into 81,320,293 shares of SAR 10 each (2015: same).

13. DIVIDEND

During the year ended 31 December 2016, the Board of Directors proposed a dividend of SAR 0.50 per share for the financial year 2015, totalling SAR 40.66 million before deducting zakat and income tax, representing 5% of share capital of the Company (2015: SAR 40.66 million for financial year 2014). The dividend was approved by the shareholders in the General Assembly meeting dated 15 May 2016.

During 2016, the Company has paid net dividend of SAR 18.44 million (2015: SAR 36.56 million) to the shareholders out of total dividend amounting to SAR 40.66 million, after deducting zakat and income tax due from shareholders amounting to SAR 1.89 million (2015: SAR 4.10 million) whereas remaining SAR 20.33 million will be paid during the year ending 31 December 2017.

14. STATUTORY RESERVE

In accordance with the Regulations for Companies, a minimum of 10% of the annual net income (after deducting brought forward losses) is required to be transferred to the statutory reserve.

Pursuant to promulgation of new Company Law effective from May 2016, the Company through Extra Ordinary General Assembly meeting dated 25 December 2016 amended and approved its Articles of Association where the revised statutory reserve requirement from up to 50% to 30% of the paid up capital of the Company. This reserve is not available for distribution.

15. FEE INCOME

	2016 SAR '000	2015 SAR '000
Advisory fees	-	75
Management, custody and subscription fees	51,405	60,661
	51,405	60,736

16. SELLING AND MARKETING EXPENSES

	2016 SAR '000	2015 SAR '000
Salaries and benefits	5,615	5,977
Sales incentives	-	1,192
Charge / (recoveries) for the year (note 4)	594	(17)
Other	1,564	3,223
	7,773	10,375

17. GENERAL AND ADMINISTRATION EXPENSES

	2016 SAR '000	2015 SAR '000
Salaries and benefits	64,801	68,059
Legal and consultancy	19,138	14,862
Communication	4,598	4,350
Business travel	3,353	3,394
Depreciation	2,906	2,145
Rent and premises related expenses	1,736	1,645
Office supplies	1,157	998
Utilities	558	584
Insurance	329	348
Other	4,043	3,826
	102,619	100,211

18. EARNINGS PER SHARE

Earnings per share from continuing operations including discontinued operations is calculated based on net income from continued operation / total net income including discontinued operations divided by the weighted average number of shares in issue during the year (note 12).

19. ASSETS HELD FOR DISTRIBUTION AND DISCONTINUED OPERATIONS

During the year ended 31 December 2016, the parent Company has resolved to voluntarily liquidate the subsidiary from 15 December 2016.

For the purposes of these consolidated financial statements, the subsidiary's results are accounted for as assets held for distribution and discontinued operations. Being a discontinuation of business in a separate geographical area, it is shown separately in segment information note 22. It represented separately in the consolidated balance sheet and the consolidated statement of income as a single line item as assets held for distribution and discontinued operations, respectively. Consequently, the comparative consolidated statement of income has been represented to show the discontinued operation.

	2016 SAR '000	2015 SAR '000
Unrealised gains on trading investments	-	652
Realised gains on trading investments	100	524
Dividend income	1,139	3,525
Income from murabaha placement	-	646
TOTAL OPERATING INCOME	1,239	5,347
OPERATING EXPENSES		
General and administration expenses	(1,399)	(1,512)
NET (LOSS) / INCOME FOR THE YEAR	(160)	3,835

The major classes of assets of the subsidiary classified as held for distribution with no liability as at 31 December 2016 are as follows:

	2016 SAR '000	2015 SAR '000
Assets		
Cash and bank balances	227	-
Accounts receivables and prepayments	2	-
Assets held for distribution	229	-

	For the period from 1 January to 31 December 2016 SAR '000	For the year ended 31 December 2015 SAR '000
Cash flows (used in) / from discontinued operations		
Operating	(1,085)	(72,195)
Investing	2,382	37,772
Financing	(1,737)	(7,475)
Net cash outflow for the period / year	(440)	(41,898)

20. RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposure relating to his or her responsibilities. The Group is exposed to commission rate risk, credit risk, market risk and liquidity risk.

COMMISSION RATE RISK

Commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to commission rate risk as its special commission bearing assets and liabilities carries fixed rates.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to credit risk on its bank balances, murabaha placements, accounts receivable and due from related parties. The Group seeks to limit credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. For all classes of financial assets held by the Group, the maximum exposure to credit risk to the Group is the carrying value as disclosed in the consolidated balance sheet.

LIQUIDITY RISK

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. All of the Group's financial liabilities at 31 December 2016 and 31 December 2015 are payable within 12 months from the consolidated balance sheet date except certain long-term murabaha contract and long term portion of sharia compliant financing which have maturity of more than 12 months from the balance sheet date. As of the reporting date, the Group has adequate liquid assets to discharge the liabilities or commitments as they fall due.

MARKET RISK

Market risk is the risk that changes in market prices, rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

HELD FOR TRADING INVESTMENTS

Funds managed by the Group, externally managed funds and other investments

The Company's investment in funds managed by the Company, externally managed funds and other investments as at 31 December 2016 and 31 December 2015, of SAR 1,267.63 million and SAR 1,205.79 million, respectively, has been classified as held for trading. The market risks on these investments are monitored on an individual basis. A 10% (2015: 10%) change in the fund's net asset values will increase or decrease the net income by SAR 126.76 million (2015: SAR 120.58 million) (note 5).

EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and the value of individual stocks. The Group's exposure to equity price risk is not material.

CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, Bahraini Dinars and US Dollars, accordingly the Group is not exposed to significant foreign exchange risk. Both the Saudi Riyal and Bahraini Dinar are pegged to the US Dollar.

21. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

The Group's objectives when managing capital is to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

During the year ended 31 December 2013, new Prudential Rules (the "rules") were introduced by the CMA pursuant to its Resolution Number 1-40-2012 dated 17/2/1434H corresponding to 30/12/2012G. The rules state that an authorised person shall continually possess a capital base which corresponds to not less than the total of the capital requirements as prescribed under Part 3 of Prudential Rules.

The details of the minimum capital requirement and capital base are as follows:

	2016 SAR '000	2015 SAR '000
Capital base		
Tier-1 Capital	**880,642**	900,086
Tier-2 Capital	**-**	84
Total Capital Base	**880,642**	900,170
Minimum capital requirement		
Credit Risk	**682,571**	237,883
Market Risk	**101**	158,004
Operational Risk	**34,051**	29,179
Total minimum capital required	**716,723**	425,066
Capital Adequacy Ratio		
Total capital ratio (time)	**1.23**	2.12
Surplus in capital	**163,919**	475,104

22. SEGMENTAL INFORMATION

Consistent with the Group's internal reporting process, business segments have been approved by the Group's Board of Directors in respect of the Group's activities. Transactions between the business segments are reported at arm's length.

The Group develops, structures and executes solutions that help clients achieve their objective by optimizing the way they access and allocate capital. The Group comprises the following main business segments.

CAPITAL MANAGEMENT:

Capital Management segment utilizes the Group's consolidated balance sheet capabilities and aims to originate profitable transactions by either directly investing in products of other financial institutions or via co-investing with valued clients in the Group's products and/or mutual funds.

ASSET MANAGEMENT:

Asset Management segment provides investment opportunities through a large and growing portfolio of public and private funds in the areas of real estate and capital markets. Discretionary fund and portfolio management services are also provided. Asset Management segment delivers investment management solutions for institutions and high net worth individuals through mutual funds.

OTHERS:

Others include advisory, arranging, underwriting and infrastructure.

The Group's operating income and net operating income by business segment and geographical segment, are as follows:

BUSINESS SEGMENTS

Year ended 31 December 2016	Capital management SAR '000	Asset management SAR '000	Others SAR '000	Total SAR '000
Operating income	**149,669**	**57,430**	**235**	**207,334**
Loss from discontinuing operation	**-**	**-**	**(160)**	**(160)**
Net operating income	**121,157**	**27,620**	**(77,645)**	**71,132**
Year ended 31 December 2015				
Operating income	117,778	60,850	(114)	178,514
Income from discounting operations	-	-	3,835	3,835
Net operating income	113,487	31,286	(77,624)	67,149

The operations of AKC and subsidiary are carried out in the Kingdom of Saudi Arabia and Kingdom of Bahrain, respectively.

Geographical Segments	Kingdom of Saudi Arabia SAR '000	Kingdom of Bahrain (Discontinued Operation) SAR '000	Total SAR '000
Year ended 31 December 2016			
Operating income	**207,334**	**-**	**207,334**
Net operating income	**71,292**	**(160)**	**71,132**
Year ended 31 December 2015			
Operating income	178,514	-	178,514
Net operating income	63,314	3,835	67,149

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and bank balances, accounts receivable, investments held for trading, due from related parties and financial liabilities consist of payables, murabaha contracts and due to related parties. The fair values of financial instruments are not materially different from their carrying values.

The fair values of investments in funds managed by the Group is obtained from net asset values disclosed in the audited financial statements of those funds, net asset values provided by the external fund managers or recent sale transactions. In real estate funds, the fair value of underlying real estate investments is based on the lower valuation from two independent evaluators as per the private placement memorandum of those funds.

24. ASSETS HELD UNDER FIDUCIARY CAPACITY

The Group holds assets on behalf of its customers. As the Group acts in a fiduciary capacity, these assets are not included in the consolidated balance sheet. As at 31 December 2016, the Group holds assets under management amounting to SAR 3,159 million (2015: SAR 2,985 million) on behalf of, and for the beneficial interest of, its customers.

Legal title of the underlying assets of AKC's managed funds are held by the custodian through certain special purpose vehicles, on behalf of the funds. Since, AKC has ownership interest in these special purpose vehicles as a trustee, the financial information and related share of results of these entities are not included in these consolidated financial statements.

25. CONTINGENCIES AND CAPITAL COMMITMENTS

a) Certain legal claims have been filed by the third parties against the Parent company in the normal course of business. The Group's management expects a favourable outcome of these claims.

b) The Group has maintained a margin of SAR 14.208 million (2015: SAR 14.208 million) with a local bank in respect of guarantees issued in favour of GAZT (notes 4 and 11).

c) The Board of Directors has authorised future capital expenditure, amounting to SAR 15.9 million (2015: SAR 22.4 million) in connection with leasehold improvements and construction under progress.

d) The Company has issued a corporate bank guarantee on behalf of a related party for an outstanding amount of SAR 120 million (2015: SAR 120 million). This amount is due for settlement by the respective related party on 31 December 2020.

26. OPERATING LEASES

As at 31 December, the Group has future minimum lease payments under operating leases due as follows:

	2016 SAR '000	2015 SAR '000
Within one year	**900**	900
From 1 to 5 years	**3,600**	4,500
Over 5 years	**7,800**	7,800
	12,300	13,200

27. KEY SOURCES OF ESTIMATION UNCERTAINTY

IMPAIRMENT OF ACCOUNTS RECEIVABLE

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis according to the length of time past due. Further the Group also takes into account legal advice for determining the allowance for doubtful debts for individually significant amounts which involve legal cases filed by the Group, and in case a higher estimated provision is required based on legal advice, the Group records the higher provision.

Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

At the consolidated balance sheet date, gross accounts receivable were SAR 6.34 million (31 December 2015: SAR 12.43 million), and the provision for doubtful debts was SAR 6.03 million (31 December 2015: SAR 10.97 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income of those periods.

FAIR VALUATION OF UNQUOTED INVESTMENTS

All of the trading investments of the Group are carried at their fair value. In case quoted fair values are not available, management uses a standard and consistent valuation technique to ascertain the fair values. In the majority of cases, management uses the reported net asset values (NAV) of the investee funds as their fair valuation. If necessary, adjustments to the NAV are made to assess their fair values. In case NAV is not readily available, the valuation is based on management's best estimate considering recent purchase or sale transactions, available financial information or other suitable indicators of the fair value.

USEFUL LIFE OF PROPERTY AND EQUIPMENT

The management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

INVESTMENT ENTITY

In determining the Group's status as an investment entity, the Group considered the following:

a) The Group provides investment management services to number of investors with respect to investment in managed funds by the Group;

b) The Group generate capital gains and income from its investments which will, in turn, be distributed to the current and potential investors; and

c) The Group evaluates its investments' performance on a fair value basis, in accordance with the policies set out in these consolidated financial statements.

The Board of Directors concluded that the Group meets the definition of an investment entity. Their conclusion will be reassessed on an annual basis, if any of the the criteria or circumstances changes.

28. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 23 Jumad Awwal 1438 H (corresponding to 20 February 2017).

29. COMPARATIVE FIGURES

Certain prior year amounts have been reclassified to conform with the presentation in the current year. However, there is no impact of the reclassification on the consolidated statement of income or consolidated statement of changes in shareholders' equity.

LEGAL DISCLAIMER

This annual reports contains certain “forward – looking” statement based on information, beliefs and assumptions currently available to Alkhabeer. When used in the presentation, the words “anticipate”, ”believe”, “expect”, “intend”, “plans”, “projects”, and words or phrases of similar import, are intended to identify forward-looking statements, which may include, without limitation, information related to Alkhabeer’s plans strategy, objectives, economic performance, future economic outlook, economic climate in particular country, region or worldwide, the possible effect of certain plans on future performance, and the assumption on which any such information is based. This information may be subject to uncertain conditional facts, or risks of a specific or general nature, and many may be beyond the control of Alkhabeer. Any forward-looking information are assumptions that are speculative in nature, and therefore one or more of those assumptions may prove not to be accurate, and unanticipated events and circumstances are likely to occur. Actual results will likely vary from the financial projections, and those variations may be material. Consequently, this annual report should not be regarded as a representation by Alkhabeer that the plans, objectives, projections and intents contained herein will statements, but reserves its right to do so at its absolute discretion.