



ALKHABEER CAPITAL

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**IN THE NAME OF ALLAH,
THE MERCIFUL,
THE COMPASSIONATE**

Give full measure and weight, and be not
among those who cause loss, and weight
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)

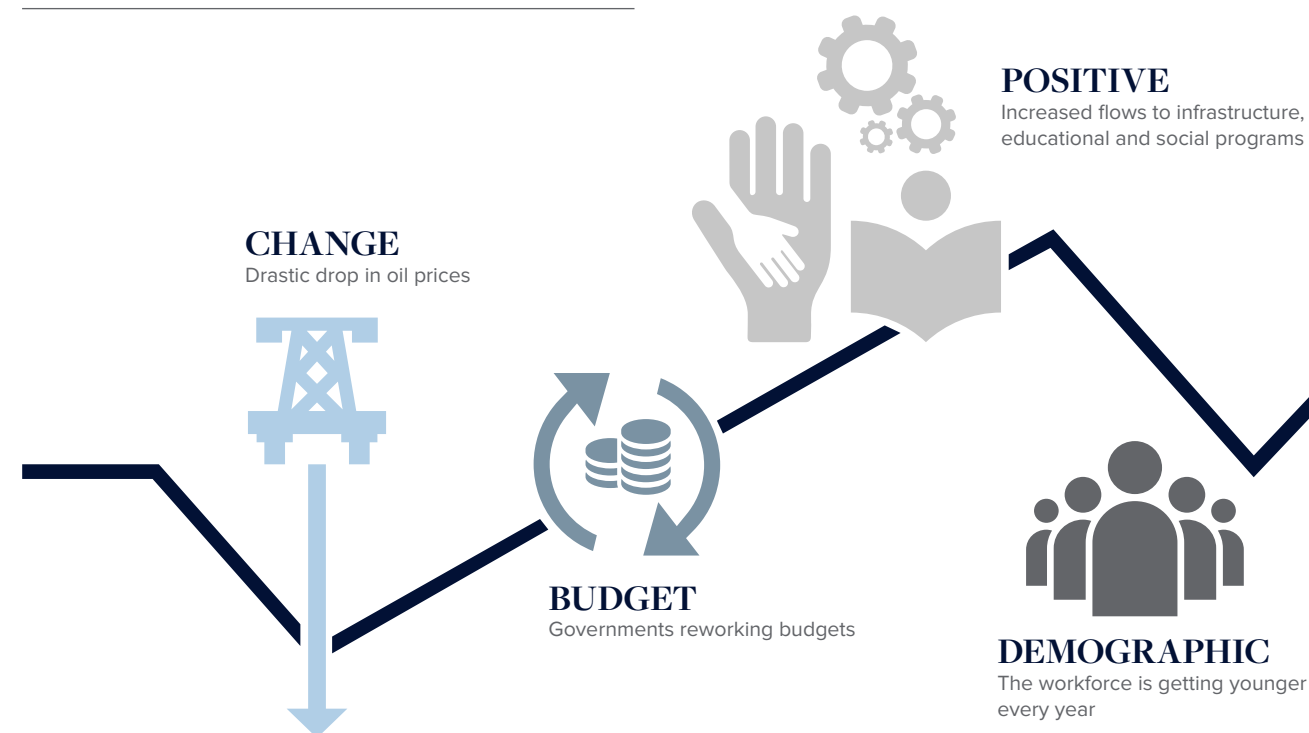
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AS THE WORLD CHANGES, SO DO WE

Alkhabeer Capital provides financial expertise for positive change in the KSA and the region.



ELEMENTS OF CHANGE

TRADITIONAL MARKETS

Still maintaining presence with HNWI's up

+40%

NEW MARKETS

Institutional Investors and Family Offices up

+27%

Penetrated the younger end of investor base, under 40s up

+48%

GROWTH

On track for growth in higher educated segment: clients with Masters' Degrees up

+57%

Real Estate

Still providing opportunities for retirement-oriented assets folded in revenue generating RE assets.

Internal Culture

Leading the way in training and providing supportive work environment.

Diversification of KSA Economy

Healthcare push, Majority stake in Eed Group and Al-Ajaji Company. Investing in Industrials and related: ASMACO and Express Group.

Acknowledging Our Traditions

Focused attention on WAQE.

adapting to change

CORPORATE OVERVIEW

Alkhabeer Capital is a leading asset management and investment firm. We provide financial products and services that help institutions, family groups and qualified investors access and allocate capital to deliver real and enduring economic value. Our Shari'ah-compliant products and services are built upon strong deal sourcing that is distinguished by executional vigour, attractive values, and a profound understanding of clients' needs and risk profiles.

PROFILE

Our asset management area provides investment opportunities through a diversified and growing portfolio of public and private funds in the areas of real estate, private equity and capital markets supplemented by our advisory services that offer specialized capital raising and M&A advisory services to businesses, private investors and families. Although our expertise lies in the Saudi and GCC markets, our experience and services span the boarder MENA region, and selected global mature markets such as the United States and the United Kingdom.

Alkhabeer Capital also provides advisory services on structuring Waqf entities and Waqf wealth management through its "Waqf" Program, which targets educational institutes, charitable foundations, family groups, high net worth individuals and other philanthropists who wish to establish Waqf entities.

Headquartered in Jeddah, the Kingdom of Saudi Arabia, with branches in Riyadh, Alkhabeer Capital is regulated by the Capital Market Authority (CMA), license number 07074 - 37.

OUR VALUES

- Placing the interests of our clients and partners first
- Endeavouring continuously to anticipate our clients' needs and changes in the markets where we operate
- Maximising 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 in the region 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

Alkhabeer Capital highly appreciates the recognition it continues to receive from its peers, readers of leading financial journals, and prestigious industry judging panels. During 2015, the Company received three prestigious awards for asset management and human resources.

BEST GCC EQUITY FUND AWARD

Alkhabeer Capital was awarded “Best GCC Equity Fund” by MENA Fund Management. The same fund was awarded ‘Best GCC Equity Fund’ by the Banker Middle East in 2014.

BEST ISLAMIC FUND AWARD

Alkhabeer Capital was named the “Best Islamic Fund 2015” by the Banker Middle East, for its liquidity fund, ‘Hasseen’.

GREAT PLACE TO WORK IN KSA

For the sixth year, Alkhabeer Capital has been named the top financial services employer in the Kingdom of Saudi Arabia by “Great Place to Work®”, and the fourth overall across all sectors in the Kingdom.



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



‘BEST EMPLOYERS’ IN THE MIDDLE EAST

1ST PLACE: ‘BEST WORKING ENVIRONMENT’ IN THE FINANCIAL SECTOR 2015

FINANCIAL HIGHLIGHTS

(SAR '000)	2015	%	2014	%	2013	%	2012	%	2011
EARNINGS									
Total Revenue	183,861	16%	158,180	26%	125,703	17%	107,342	66%	64,596
Operating Expense	(112,098)	11%	(100,878)	21%	(83,187)	9%	(76,305)	68%	(45,468)
Murabaha Expenses	(4,618)		-		-		-		-
Net Income	67,149	17%	57,302	32%	43,316	40%	31,043	62%	19,146
FINANCIAL POSITION									
Shareholder's Equity	900,170	3%	873,680	3%	846,412	5%	803,097	4%	771,876
Total Assets	1,384,315	47%	940,212	8%	873,043	7%	819,099	5%	778,221
Investments	1,205,794	70%	708,946	6%	671,505	20%	561,058	0%	559,493
Total liabilities	484,145	628%	66,532	150%	26,631	66%	16,002	152%	6,345
Assets Under Management	4,010,786	20%	3,335,071	34%	2,498,180	52%	1,641,700	14%	1,442,870
PROFITABILITY									
Net Income Margin	36.52%		36.23%		34.46%		28.92%		29.64%
Return on Average Assets	5.78%		6.32%		5.12%		3.89%		3.23%
Operating Expenses-to-Income ratio	60.97%		64%		66%		71%		70%
Earnings per Share (SR)	0.83		0.71		0.53		0.38		0.35

■ % Change

NET INCOME

67.1

SR MILLIONS

REVENUE

183.9

SR MILLIONS

AUMS

4.0

SR BILLION

INVESTMENTS

1,206

SR MILLIONS

TOTAL REVENUE SR MILLIONS		NET INCOME SR MILLIONS	
2015	183.9	2015	67.1
2014	158.2	2014	57.3
2013	125.7	2013	43.3
2012	107.3	2012	31.0
2011	64.6	2011	19.1
EARNING PER SHARE SR		TOTAL ASSETS SR MILLIONS	
2015	0.8	2015	1,384.3
2014	0.7	2014	940.2
2013	0.5	2013	873.0
2012	0.4	2012	819.1
2011	0.4	2011	778.2
INVESTMENTS SR MILLIONS		ASSETS UNDER MANAGEMENT SR MILLIONS	
2015	1,205.8	2015	4,010.8
2014	708.9	2014	3,335.1
2013	671.5	2013	2,498.2
2012	561.1	2012	1,641.7
2011	559.5	2011	1,442.9

FUNDS PORTFOLIO

EXITED FUNDS

● **Private Close-Ended ○ Public Open-Ended

ALKHABEER CAPITAL FUND	FUND TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	EXIT PROCEEDS
Alkhabeer Land Development Fund I (ALDF I)	●	10 July 2010	Saudi Arabia	Exit occurred on 10 March 14	SAR 306,526,756
Alkhabeer Real Estate Fund I (AREF I)	●	01 Nov 2010	Saudi Arabia	Exit occurred on 19 Oct 15	SAR 121,228,200

EXISTING FUNDS

ALKHABEER CAPITAL FUND	FUND TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	*FUND SIZE
Real Estate					
Alkhabeer Real Estate Fund II (AREF II)	●	30 Jun 2010	Saudi Arabia	The initial Fund Term expired on 30 Jun 15 and was extended for an extra year till 30 Jun 16	14,493,241
Alkhabeer Land Development Fund II (ALDF II)	●	07 Dec 2011	Saudi Arabia	The initial Fund Term expired on 07 Dec 15 and was extended for an extra year till 07 Dec 16	1,461,673,423
Alkhabeer Central London Residential Fund I (ACLRF I)	●	19 Nov 2012	UK	The initial Fund Term expired on 01 Sep 15 and was extended for an extra year till 19 Nov 16	104,007,622
Alkhabeer Residential Real Estate Fund I ('Masaken')	●	29 Dec 2012	Saudi Arabia	The initial Fund Term expired on 29 Dec 15 and was extended for an extra year till 29 Dec 16	108,315,619
Alkhabeer US Real Estate Income Fund I	●	02 Jul 2014	US	02 Jul 19, with 2 optional one-year extensions	144,398,655
Alkhabeer Real Estate Opportunity Fund I	●	07 Dec 2014	Saudi Arabia	07 Dec 19, with 2 optional one-year extensions	696,599,049
Alkhabeer Real Estate Residential Development Fund II	●	31 Dec 2014	Saudi Arabia	31 Dec 17, with 2 optional one-year extensions	300,392,952

*(SAR as of 31 Dec 2015 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.

EXISTING FUNDS (CONTINUED)

● **Private Close-Ended ○ Public Open-Ended

ALKHABEER CAPITAL FUND	FUND TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	*FUND SIZE
Private Equity					
Alkhabeer Industrial Private Equity Fund (AIPEF)	●	31 Dec 2012	UAE	The initial Fund Term expired on 31 Dec 15 and was extended for an extra year till 31 Dec 16. There is an additional one year extension option.	150,391,379
Alkhabeer Industrial Private Equity Fund II (AIPEF II)	●	29 Dec 2013	UAE	26 Dec 17 with optional one-year extension	197,165,840
Alkhabeer SME Fund I	●	28 Dec 2014	Saudi Arabia	28 Dec 18, with optional one-year extension	45,000,000
Alkhabeer Healthcare Private Equity Fund I	●	31 Dec 2014	Saudi Arabia	31 Dec 18, with optional one-year extension	142,000,000
Alkhabeer Education Private Equity Fund I	●	31 Dec 2015	Saudi Arabia	31 Dec 20, with optional one-year extension	147,000,000

ALKHABEER CAPITAL FUND	FUND TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	*FUND SIZE
Capital Markets					
Alkhabeer GCC Equity Fund	○	03 Jul 2011	GCC	Open	4,413,391
Alkhabeer Liquidity Fund (Haseen)	○	12 Feb 2012	GCC	Open	95,650,284
Alkhabeer Saudi Equity Fund	○	01 Jul 2013	Saudi Arabia	Open	6,013,634
Alkhabeer IPO Fund	○	03 Dec 2015	GCC, MENA	Open	7,072,312

*(SAR as of 31 Dec 2015 unless otherwise stated)

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BOARD OF DIRECTORS' REPORT

TO OUR ESTEEMED SHAREHOLDERS

It is with great pleasure that we present you with the annual report and consolidated financial statements of Alkhabeer Capital for the fiscal year ended 31 December 2015. We take pride and satisfaction in the fact that despite the market volatility and challenging global economic trends, Alkhabeer Capital grew in 2015 in terms of revenues, income and assets under management.

To have experienced that kind of performance in the face of uncertainty in our home markets and abroad is a testament to the strategy, management expertise and employee dedication that marks out our business as one of the leading providers of investment solutions in the Kingdom.

FINANCIAL PERFORMANCE

For the sixth year in a row, Alkhabeer reported strong growth in both revenues and net income. Our revenues rose 16 percent over the previous year to SAR 183.9 million while net income was up 17 percent to SAR 67.1 million. By year end, our assets under management (AUM) had increased by 20 percent, equivalent to over SAR 4.0 billion. The AUM figure is a clear indicator of the volume of business we are doing with our clients. Additionally, our profit margin of approximately 37 percent underscores our ability to effectively serve our client base and

maintain good cost discipline on the operating elements of our business.

The market value of our investment portfolio stood at SAR 1,205.8 million at year-end, up 70 percent from SAR 709 million in 2014.

Our total consolidated assets amounted to SAR 1,384 million, an increase of 47 percent over SAR 940.2 million in the previous year. at the end of 2014. Along with growth in earnings, our asset size was bolstered by new Murabaha contracts and commitments to investments funds. Return on equity for 2015 was 7.57 percent, up from 6.66 percent a year ago.

DIVIDEND POLICY

Based on the Board of Directors recommendation and the general assembly approval, Alkhabeer Capital distributes 5% (five percent) of the Company's capital as minimum net profit, after deducting the legal reserve and allocations due to shareholders, in line with the regulations of Clause 127 of the Saudi Company Law and Article 44 of the basic company policy, as follows:

- The Company calculates and pays the zakat due on each shareholder to the respective authorities.
- 10 percent of the net profits shall be set aside on an annual basis against the build-up of a Statutory Reserve. The General Assembly may decide to discontinue this policy once the reserve has reached 50 percent of share capital.

- The General Assembly may, based on a proposal of the Board of Directors, set aside an equal percentage of the net profits to create a contractual reserve to be allocated for a specific purpose.
- The balance, if any, shall thereafter be distributed as a payment to shareholders equal to a maximum five percent of paid-up capital (before deduction of any dues), as recommended by the Board of Directors.
- Up to 2.5 percent of the remaining amount may subsequently be paid as remuneration to Board members. The Board shall determine the percentage to be paid.
- The remaining balance (if any) may be distributed as additional dividends to shareholders.
- The company may, in compliance with the regulations set by the relevant authorities, distribute half-yearly or quarterly dividends.

DIVIDENDS

The Board of Directors will recommend that the General Assembly approve profit distribution to shareholders for the 2015 financial year equal to 5% of capital, and that the Board of Directors be given a mandate to distribute these profits in cash and/or by increasing the company's capital through grant shares by the same rate, after receiving the statutory approvals to do that.

BOARD OF DIRECTORS' REMUNERATION

The members of the Board of Directors did not receive any remuneration during 2015 despite their distinctive efforts to achieve the company goals. The non-executive and independent members of the Board of Directors received allowances amounting to SAR 488,875 for the 2015 financial year.

BUSINESS RESULTS

We are particularly proud of the performance of our Asset Management Division this year. As one of the groups within Alkhabeer that was most impacted by the difficult operating environment, it embraced innovation and creativity to produce very solid results. It's significant increase in net income came from a two-pronged strategy which saw it keep the successful tactics of the past and embrace new structures and approaches where necessary. More specifically, it maintained its policy of

aligning its interest with our clients by investing alongside them. Alternatively, it spread its focus into the non-oil sector and built out its platform for alternative investments.

In Real Estate, we acknowledged that the traditional role of this asset class as a means to capture value in order to provide for one's retirement was evolving. Accordingly, we closed a transaction this year in the KSA involving revenue-generating real estate.

We completed a Private Equity transaction in the educational field, also in the KSA.

Capital Markets also overcame the prevailing economic environment and was able to surpass the funds and portfolios benchmarks, and grow their asset size. Most importantly though it structured a novel Murabaha product that included the provision of periodic distribution of profits.

PEOPLE

The key to our underlying success is found in the creativity, professionalism and diligence of the people who work for us. Maintaining an environment where those people feel nurtured and challenged is of paramount importance to us. We put a great deal of effort into helping our staff develop all of the skillsets. By using performance gap analysis coupled with specific training programmes we give our staff the necessary channels to keep building on their potential. That Alkhabeer Capital is acknowledged as the best financial

services firm to work for in the KSA is the result of the thought and effort we put in our human resources programmes.

GOVERNANCE

Given the very nature of what we do at Alkhabeer Capital, Governance is inherently at the heart of our operations. To provide for better management oversight of all our Governance-related areas we decided to consolidate all of the associated functions into one Governance, Risk and Compliance Division. We've also incorporated several state of the art technologies and operating processes in order to make our reporting and analyses capabilities that much more robust.

SOCIAL RESPONSIBILITY

Since its inception Alkhabeer Capital has always deemed it important to be a good corporate citizen within the various countries and regions it serves. Through a variety of educational and philanthropic initiatives, we have strived to support programmes that have enriched the lives of others in numerous different ways. In 2015, we decided to formalise our approach to our civic outreach by establishing a Corporate Social Responsibility Committee. Going forward, the Committee will set the scope of programmes, ensure appropriate budgets are allocated, and follow up to ascertain the effectiveness of our outreach.

INITIAL PUBLIC OFFERING

In 2014, Alkhabeer Capital commenced preparations for public offering of its shares. Alkhabeer appointed a consulting company, KPMG, to evaluate its readiness for public offering. The overall evaluation results were positive and encouraging. However, the evaluation report contained a number of non-material points which were required to be addressed by Alkhabeer to complete its readiness to go public.

By mid-2015, Alkhabeer concluded all points contained in the evaluation report, and subsequently appointed Saudi Fransi Capital as financial advisor ("Financial Advisor") to organise its IPO process. On 14 December 2015, Alkhabeer filed with CMA requesting receipt and acceptance of the application to list its shares on the Saudi Stock Exchange. However, Alkhabeer was informed by the Financial Advisor that CMA declined to accept Alkhabeer's submission of the application, justifying its decision on the grounds that CMA is in the process of developing special criteria to regulate applications by authorised persons to go public, which are expected to be finalised by end of first quarter of 2016.

On that basis, Alkhabeer postponed the filing of its IPO application to list its shares on the Saudi Stock Exchange, pending issue of the aforementioned criteria. Alkhabeer will act to complete requirements as would be stipulated in those criteria once they are issued, and will re-submit its application to the CMA for acceptance. Extraordinary expenses incurred in the preparation of its IPO file totalled SR 4 million as of the end of 2015.

FUTURE OUTLOOK

Considering that the past year has shown us the value of a firm that is flexible enough to adopt its investment perspectives in the face of challenging economic conditions, going forward we will continue to invest selectively in the GCC markets, and focus on asset classes and companies that are not overly reliant on oil prices.

The experience we gained throughout the years gives us a confidence that we will have continuous growth in terms of revenue, net income, assets under management and return of equity.

Since we've long realised that the key to our long-term success is an engaged and dedicated workforce, we intend to maintain our ranking as the top financial services employer in the Kingdom of Saudi Arabia by "Great Place to Work®", and across all sectors in the Kingdom.

At a more specific level:

- We will continue to develop our Private Equity business to source deals across such defensive sectors as healthcare, education, industrial, as well as selectively food and retail, due to positive factors associated with those sectors, such as population growth and disposable income.
- We will also continue our efforts within Real Estate to source investment opportunities within the income-generating asset classes, in addition to adopting a highly selective and opportunistic approach across development projects.
- We have been pleased with the reaction to our customised Waqf offerings and will be taking advantage of the first-mover phenomenon in this untapped massive market.

- Our Capital Markets strategy will be reshaped in line with recent market trends across the equity markets and mixed investors' sentiments towards equity markets investments.

We also look forward to enjoying the fruits of our labour as we exit from several of our funds this year in a way that solidifies the solid track record of Alkhabeer Capital. Looking closely within the fund exits one can see the achievements of the Business Development & Placement team in expanding into a variety of new and highly profitable markets.

To be fair, the outlook for the global economy is filled with pessimism and investor sentiment clearly reflects that. Nonetheless, we believe that there are reasons for positivity in 2016 in spite of several risks to the global economy, and therefore, pockets of opportunity for diligent investors.

ACKNOWLEDGMENTS

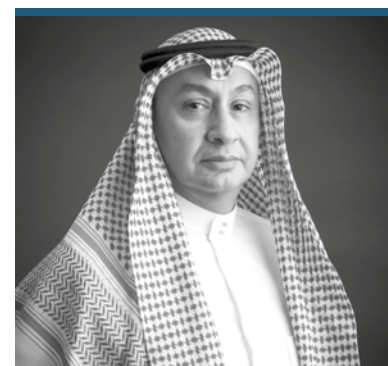
We would like to take this opportunity to extend our appreciation to Mr. Saleh Mohammed Binladen who stepped down as our Chairman. Mr. Binladen's service to our firm allowed us to amass the milestones and successes we've achieved so far.

As is our custom, we would also like to thank our shareholders and our clients for the loyalty and support they've shown us over the past year. We are also indeed fortunate to operate under the auspices of the Capital Market Authority in Saudi Arabia.

And finally, we would like to acknowledge and extend our appreciation for the dedication and professionalism that our management and staff has shown us during a year. It was a year in which all of our staff demonstrated the ability to meet the various challenges that were laid before us.



Musaad Mohammad Saad Aldrees
Chairman



Ammar Ahmed Saleh Shata
Executive Director and CEO

MARKET OVERVIEW

This overview contains extracts from the ‘Global Outlook 2016’ research report published by Alkhabeer Capital in February 2016. The full report is available on the Company’s website.

GLOBAL ECONOMY

The global economy continued to recover in 2015, though the recovery was uneven and slow. Amongst developed economies, the US showed further signs of strength, while growth in the Eurozone and Japan remained sluggish. Divergence in the monetary policies of advanced economies was the mainstay in 2015 and we anticipate this trend to continue in 2016 as well. The slowdown in China had a significant impact on the growth of other economies last year and going into 2016, it remains to be seen whether the economy is able to avoid a hard landing. On the upside, commodity importing economies will benefit from the ongoing slump in commodity markets, while commodity exporters such as Latin American economies are expected to remain pressured. We expect financial markets to trudge on its path of slow recovery but with slightly better confidence and clarity. Having said that, the world remains susceptible to geo-political risks and any adverse unexpected events this year could once again expose the global financial system to fresh economic shocks. We remain watchful of the potential headwinds, even as we expect financial markets to continue to be largely influenced by monetary policies.

GCC ECONOMY

A persistent weakness in oil prices took a toll on the fiscal health of the GCC nations, as these economies are highly dependent on hydrocarbon revenues for meeting their expenditure needs. Most GCC countries in the region implemented reforms or have indicated their intention to work towards lowering their discretionary spending. After the UAE removed fuel subsidies, few other GCC countries also implemented similar rationalisation measures. In 2016, Gulf countries are anticipated to report fiscal deficits and are likely to resort to

spending cuts, mostly on non-essential expenditure, while continuing to spend on key infrastructure initiatives. Meanwhile, given the low debt levels in the region, most Gulf countries turned to borrowings to reduce fiscal pressures. In the year ahead we expect this trend to continue as Saudi Arabia and Qatar have indicated their plans to resort to international and domestic debt. In the banking segment, liquidity concerns have caused regional benchmark rates to spike, weighing on the non-oil sector’s performance. Moreover, concerns over the region’s construction sector also continues to loom, especially amid prospects that governments might scale back their non-essential infrastructure projects. We expect GCC economies to witness a slowdown in economic growth in 2016. The non-oil growth in the GCC is also expected to be weighed down this year as countries begin to make adjustments to their budget outlays.

KEY THEMES EXPECTED TO DETERMINE THE COURSE OF 2016

Coming into 2016, we expect central bank policies to continue playing a crucial role in determining movements in financial markets. The divergence in monetary policies in advanced economies, mainly the US on one side and Japan and the Eurozone on the other, will largely shape the trends in 2016. The Fed is expected to take a measured approach to raising borrowing costs, while the ECB is likely to expand its aggressive stimulus programme. Meanwhile, Japan could ramp up asset purchases too, especially considering the persisting environment of weak growth and subdued inflation. These cross-currents are expected to set the direction for financial markets, especially in the fixed income and currency markets this year.

Meanwhile, the increased borrowing costs in the US amid a tightening of monetary policy could make emerging market economies (EME’s) more susceptible to service their foreign liabilities if not hedged effectively. Higher US rates and depreciation of local currencies are expected to put pressure on the debt repayment capability of EME’s and could also lead to substantial volatility in emerging market assets.

China, which has been the world’s key growth engine in recent years, was faced with a slowing pace of expansion in 2015. The Chinese stock market crash and the surprise devaluation of the Yuan were among the biggest financial market stories of 2015 and caused a steep spike in market volatility, thereby impacting financial markets across the globe. However, government support measures are providing a cushion to the decelerating Chinese economy. It remains to be seen whether these measures are able to assist the economy continue on its high growth path for long and whether the economy is able to successfully transform into a consumption oriented economy from being primarily focused on investment in the past.

EQUITIES

European and US equity markets are expected to witness a single digit upside this year, with a slight positive bias towards the former. Anticipations of a stronger US Dollar could weigh on the earnings of US corporates which have strong overseas exposure, while a weaker Euro is likely have a positive impact on the export income of European companies. However, the fragile nature of the Eurozone recovery and the weakness in overseas demand might continue to dampen domestic corporate performance in the Eurozone.

In the US, we remain optimistic on consumer discretionary shares as the strengthening labour market and low gasoline prices will support consumer spending. Across the emerging markets, commodity importing countries and countries that do not depend largely on external environment for their growth are likely to outperform this year. However, we maintain a cautious stance on emerging markets as higher borrowing costs in the US are likely to result in fund outflows from these economies.

GCC equity markets witnessed high volatility last year and are expected to continue facing further pressures in 2016. We recommend investors to selectively invest in Gulf markets, with special focus on companies that are not largely dependent on the hydrocarbon sector. Moreover, considering that GCC equities are underpinned by relatively high dividend yields, we further recommend investors to focus on companies with good balance sheets and ability to maintain their dividend payouts for a prolonged period. However, the momentum across these markets is highly dependent on oil prices and therefore any major movement in crude prices could have a significant bearing on Gulf bourses.

FIXED INCOME

In 2015, fixed income markets were largely driven by central bank policies. We expect more of the same to continue this year. The outlook for further rate hikes in the US is likely to propel the nation's benchmark treasury yields higher. However, the gradual pace of rate increases is likely to cap any substantial rise in treasury yields. Eurozone bonds will remain supported by the accommodative stance of the ECB, though the scope for further yield compression appears limited. Political disruptions in Spain and Portugal could

also weigh on the region's fixed income markets and limit the decline in bond yields. We remain cautious on corporate bonds as default risks increase.

CURRENCIES

Central bank actions fuelled increased volatility in foreign exchange markets in 2015. The British Pound could remain pressured against the greenback, as interest rates in the UK are likely to remain lower for a longer time. Moreover, uncertainty over Britain's membership in the European Union could have a profound impact on the Pound. The strong performance of the US economy will aid the greenback in outperforming other G7 currencies. In contrast, subdued economic conditions in the Eurozone, Japan and China are likely to warrant additional monetary and fiscal measures. The absence of essential structural reforms and the unfavourable political environment will continue to push the Euro lower. Meanwhile, the Chinese Yuan which was devalued earlier in 2015 was included by the IMF to its elite currency basket, with the addition taking effect from October, 2016. The Chinese currency has already declined to near-four year lows and could witness further downward pressures as the Fed continues to raise borrowing costs.

COMMODITIES

Crude oil extended its weakness in 2015 as shale production remained resilient to low oil prices and the OPEC maintained its oil production at increased levels. Oil prices hovered close to 11-year lows towards the end of 2015. Iran, which reached a historic deal with the West on its nuclear programme, has indicated plans to raise production aggressively. However, the scenario could transform if the OPEC nations, pressured by the

impact of the low prices on government finances, were to agree on a production cut. Accordingly, prices could experience volatility, but could show signs of recovery ahead of the June OPEC meeting, depending on how market expectations evolve. Furthermore, a decline in shale output and a modest pickup in demand could nudge prices higher, though we expect high volatility in oil markets with upside and downside risks remaining fairly balanced. Gold is expected to remain subdued amid a strong US Dollar, but the yellow metal would retain its safe-haven appeal. Besides, geopolitical flare-ups, especially tensions in the Middle East region, could spark upward surprises in commodity markets.



BUSINESS MODEL

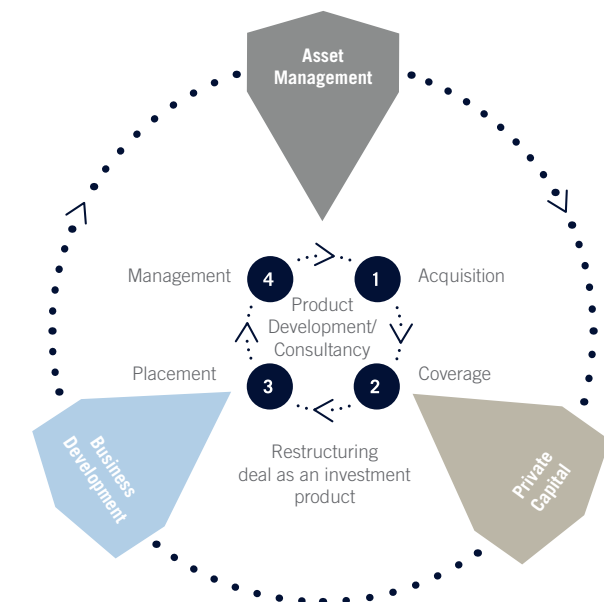
Alkhabeer's business model is based on four key value steps:

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.

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

Alkhabeer 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 maximisation of returns and capital value.



- Retention of high-calibre, qualified and experienced investment and support professionals.
- Utilisation 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.

ASSET MANAGEMENT

By efficiently allocating capital to the real economy, our funds aim to generate enduring returns to our clients, while addressing their diverse investment objectives. From listed equities and commodities to real estate and private equity, our funds and specialised portfolios provide investors with exposure to Saudi Arabia, GCC and global markets. We blend our deep market knowledge with extensive experience in the sectors in which we invest, to structure world-class funds that meet our clients' needs.

Our funds target both conventional and alternative asset classes, providing clients with diversification through sector 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 market opportunities and client requirements to develop new investment solutions that anticipate our clients' evolving wealth management needs.

2015 was a pivotal year for asset management in the history of Alkhabeer in terms of reaping the benefits of investments in the years past, launching a historical number of new products in the marketplace, and increasing its investments in capital markets systems and procedures.

We continued 2015 on the heels of significant AUMs totalling SR 3.3 billion across all asset classes. By the end of 2015, we had increased that number to SR 4 billion. We launched two new investment funds throughout the year in private equity and capital markets, as well as increased our number of Discretionary Portfolio Management ("DPM") accounts to our highest level.

2015 was not only a seminal year in terms of investments but also Alkhabeer recorded its second fund exit (for more information about the exit, please refer to page 31).

In 2015, the funds and services launched by Alkhabeer reflected the desire of investors to diversify their portfolio across a number of asset categories and styles and to prepare a portfolio that will be balanced: defensive in terms of the regional economic changes, taking measured risk on the local economic scene in Saudi Arabia and aggressive in terms of the priority sectors that are benefitting from historically high levels of public spending.

The environment in which we operated during 2015 saw investors fearful of the choppiness and volatility across all the asset classes in the capital markets. Our home markets were roiled by geopolitical risks elsewhere and the persistent weakness in oil prices.

More precisely, the economic policies in the Kingdom, from the moratorium placed on real estate funds to taxation on idle urban plots to the increased down payment required to obtain a mortgage, have added to the matrix of challenges facing investors.

In a testament to the responsiveness of Alkhabeer, the Asset Management Division sought to deal with the economic volatility and falling oil prices by proactively assessing and predicting investor sentiments and adapting and customising products to those sentiments.

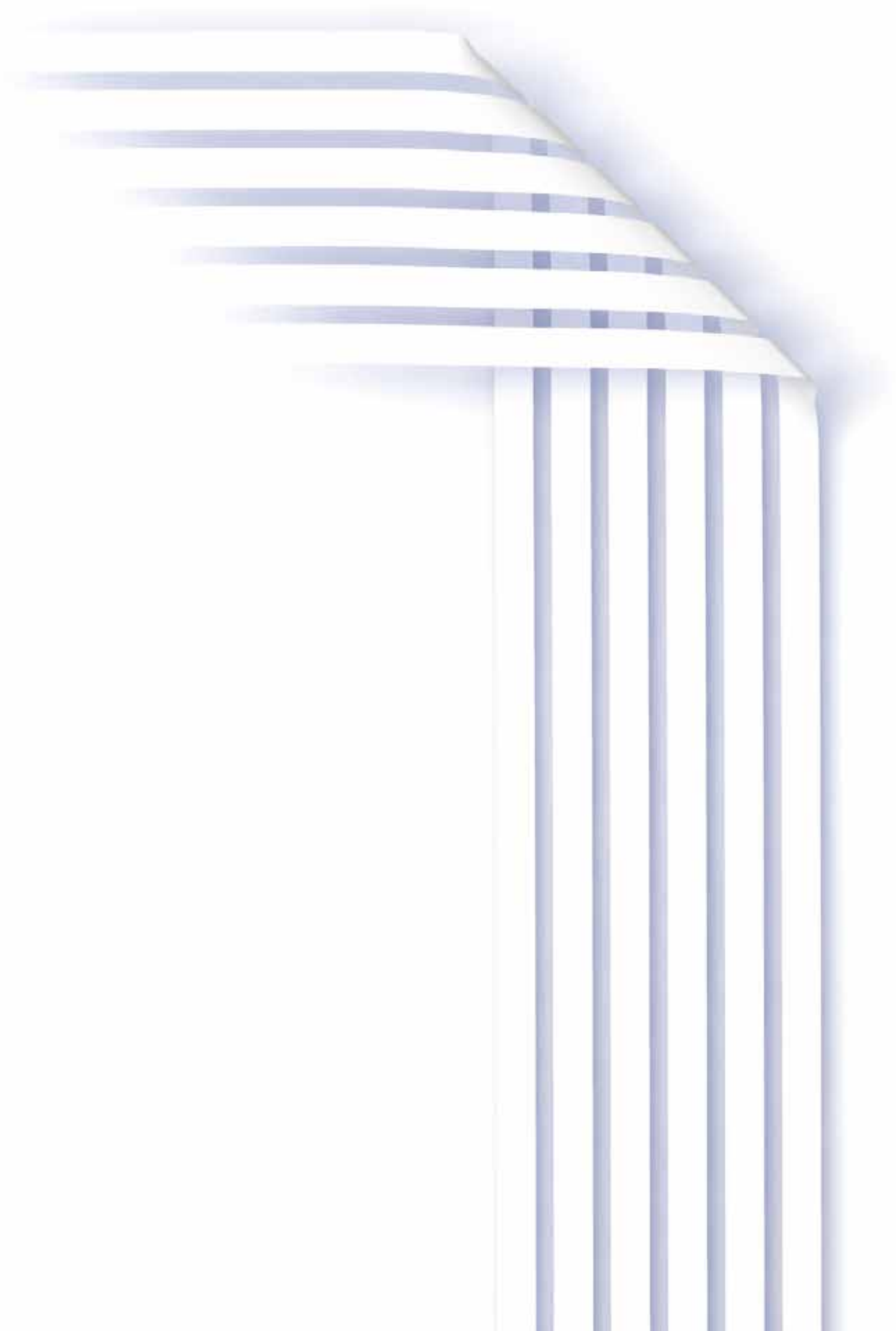
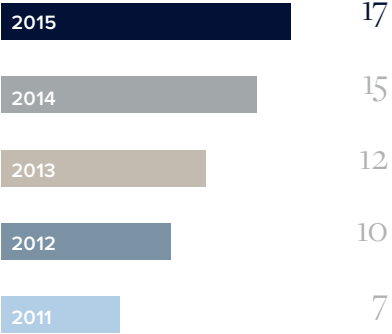
As we seek to respond to our client's changing needs, we will not turn our backs on the conservative reputation we've built up over the years. Along with our preference for investments in the "defensive" sector of the economy, we will maintain our "skin-in-the-game" in which we always try to find the right balance of risk and returns for our investors while giving them the feeling of trust when investing with them in the same asset classes.

Looking at the year ahead, Alkhabeer will continue building our alternative assets platform, particularly Private Equity through investments across the defensive sectors (healthcare, education, industrial, and sub-FMCG segments), as well as income generating Real Estate asset classes.

Additionally, we will need to develop a co-investment programme, whereby we reach out to key investors in order to relieve some of the pressure on our internal seeding capabilities. At the same time, we will continue introducing leverage to our products and other Alkhabeer products.

And finally, we will be exiting from different funds this year in a fashion that will only add further to the solid track record of Alkhabeer Capital.

NUMBER OF INVESTMENT FUNDS



REAL ESTATE

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, development and opportunistic real estate strategies and investments.

It's important to note that 2015 has seen a marked change in the preferences of real estate investors in the Middle East. Where in the past those same investors were interested in real estate development projects, today they are far keener to allocate capital to income-generating real estate initiatives.

That shift has played to the strengths of the Real Estate Department at Alkhabeer, given its significant track record in developing and launching income-generating real estate funds, in line with investor preferences.

Using the expertise and confidence gained through those earlier ventures, the Department will continue to focus on launching income-generating funds targeting the Saudi and wider GCC market for 2016, with an opportunistic approach to development projects and/or other geographic locations. One distinguishing characteristic to Alkhabeer's approach is its ability to identify and acquire institutional-quality real estate with higher and consistent

occupancy rates compared to industry averages in both the residential and commercial space.

For the year ahead, the current plans call for the launch two new income-generating funds.

2015 HIGHLIGHTS

Completion of Development for Alkhabeer Land Development Fund 2 (Private Placement):

The development phase of Alkhabeer Land Development Fund 2 consisting of the Old Airport road in Jeddah has been successfully completed, in-line with the fund's strategy. As a result, the fund manager has initiated the liquidation and sales of the fund's assets.

Completion of Alkhabeer Real Estate Fund I ("AREF I") exit (Private Placement):

Alkhabeer has successfully exited from its Real Estate Fund I ("AREF I"), a closed fund that aims to generate investor returns through the acquisition of income-generating real estate assets. The fund delivered a 40.5 percent net cumulative return to investors and an annual cash-on-cash return of 8.1 percent.

Partial exit from Alkhabeer Central London Residential Fund I (Private Placement):

The fund manager has successfully exited from the fund's first project at Clay Street and has sold the retail space in the fund's second project at Great Marlborough Street. As such, the fund manager made a cash distribution amounting to 23% of the fund's capital during 2015. The fund invests in three real estate developments in prime central London locations:

- 1-6 Clay Street, Marylebone, London W1
- 3-4 Great Marlborough Street, London W1
- 23 Cadogan Square, London SW1

PRIVATE EQUITY

As the Kingdom of Saudi Arabia and the rest of the GCC have sought to diversify their economies away from oil and petrochemical-related products, numerous investment opportunities have sprung up that our Private Equity Department has taken full advantage of.

One area that the Department has been particularly active in is healthcare. Saudi Arabia is the largest healthcare market in the region and is expected to grow at 10 percent between now and 2019, reaching a value of SAR 178bn. As part of the Kingdom's overall measures to control its budget deficit, the Saudi Ministry of Health is seeking to diversify healthcare funding from the public sector and encourage the growth of private healthcare services.

Over the last three years, the Private Equity Department has seen steady growth in the number of investment funds within its portfolios. From two investments in 2013, the Department currently has five funds in which it has invested by the end of 2015.

2015 HIGHLIGHTS

Launch of Alkhabeer Education Private Equity Fund I (AEPEF I) (private placement)

During 2015, the SAR 147m Alkhabeer Education Private Equity Fund I (AEPEF I) was launched. The fund acquired a majority stake in Adwa'a Al Riyadh, a private school in Riyadh. The management of the school has over 30 years' experience in the KSA education sector, an excellent track record of delivering growth and profitability, as

well as disseminating quality education and moral values to its students. The school has over 4,300 students with the ability and capacity to grow further. In addition, the fund is actively looking at acquiring additional schools in the Riyadh area. The fund manager plans to work with the management and leverage their experience to ensure that growth objectives are achieved through streamlining operations and bolt on acquisitions.

Alkhabeer Healthcare Private Equity Fund 1 ("AHPEF I") (Private Placement):

Alkhabeer Healthcare Private Equity Fund 1 ("AHPEF I") acquired a majority stake in Eed Group, a Saudi-based healthcare company based in Jeddah. Established in 2001, Eed Group is a vertically-integrated, healthcare business in Saudi Arabia. Following the investment by AHPEF I, investments have been made to acquire 100 percent of Al Ansar hospital in 2015 and to establish an aesthetic unit in Riyadh as part of the growth strategy. The fund manager is currently evaluating several other growth opportunities that have strategic fit with current operations. We are also working to institutionalise the business by putting in place new corporate governance and reporting structures, hiring a highly qualified CFO, and switching to a Big 4 auditor.

Alkhabeer SME Fund I (Private Placement)

Alkhabeer SME Fund I acquired a majority stake in Al-Ajaji medical group, a leading provider of healthcare and medical services to blue-collar workers in Riyadh, operating four polyclinics and five pharmacies.



CAPITAL MARKETS

Alkhabeer Capital Markets provides a wide spectrum of Shari’ah-compliant investment management services tailored to the needs of high net worth individual and institutional clients. Our investment managers cover Saudi Arabia and GCC markets across the equity and fixed income universe, and are supported by an in-house team of buy-side research professionals. Our global offering includes leading global funds in various asset classes. Our range of services covers public funds, and discretionary portfolio management.

The Capital Markets Department manages investment portfolios and investment funds, as detailed in the table below.

2015 HIGHLIGHTS

- Introducing a new fund to invest in IPOs (Alkhabeer IPO fund) which is an open placement fund.
- Alkhabeer Capital was named the “Best Islamic Fund 2015” by the Banker Middle East, for its liquidity fund, ‘Hasseen’. (for more information on the awards received by the company, see the Awards page No.8)
- Alkhabeer Capital was awarded “Best GCC Equity Fund” by MENA Fund Management. The same fund was awarded ‘Best GCC Equity Fund’ by the Banker Middle East in 2014.
- Developing a private Murabaha placement platform for Capital Markets, with the possibility of periodic profit distribution.
- Total assets under management at Capital Markets rose by the end of 2015 by 21% to SAR 440 million from SAR 369 million by the end of 2014.
- DPMs managed by Capital Markets rose from 6 to 38 and garnered nearly SAR 265 million.

MANDATES (NUMBERS)	2014	2015
Number of Public Funds	3	4
Number of DPMs	6	38
TOTAL		

AUMS (SAR MILLION)	2014	2015
Public Funds	293.83	113.15
DPMs	75.55	334.32
TOTAL	369.38	447.47

PRODUCT DEVELOPMENT

The focus of the Product Development Department is to transform investment ideas and opportunities into marketable products that serve client needs. It is also responsible for supervising the activities of the Board of Directors of Alkhabeer's funds, as well as preparing detailed reports on the private and public funds managed by the company.

In 2015, the Product Development Department developed two new investment funds in compliance with the Investment Funds Regulations issued by the Board of Commissioners of the Capital Market Authority.

Moreover, the Product Development Department adopted a fund oversight platform to track the progress of each fund against the stated fund objectives, facilitating efficient implementation of tactical action plans by the fund managers and enabling effective monitoring by the fund boards.

The Department structured the Alkhabeer Saudi Riyal Murabaha product. It also developed the Alkhabeer Employee Savings programme, which is designed to allow Alkhabeer's employees to invest in its private placement funds.

2015 HIGHLIGHTS

Approving the appointment of independent custodians in line with the Capital Market Authority's rules and regulations. The Department also aims to diversify Alkhabeer's product offerings to include funds of funds and alternative structured products. Further, the Department intends to focus on defensive sectors in private equity and on income yielding opportunities in real estate.

INVESTMENT BANKING

2015 was a busy year for the Investment Banking Department, as it focused its resources, efforts assisting Alkhabeer Capital in its IPO filing process. Specifically, the Department has been instrumental in building the Company's five-year business plan and financial projections that have identified budgets and strategic targets for the operating businesses.

BUSINESS DEVELOPMENT & PLACEMENT

One of the key success stories within Alkhabeer Capital this year was the steady progress of the Business Development and Placement Division in expanding the firm's footprint among investors in the KSA and the rest of the region.

A reactivated institutional sales unit was able to make significant inroads into the Institutional and High Net Worth Individual segment, accounting for 27 percent of all the placements made during the year. In keeping with the firm's policy of diversifying its offerings and its investors, the Division succeeded in penetrating markets across three main regions of the KSA: Central (Riyadh), Western and Eastern.

The new market penetration comes on top of Alkhabeer's client segment of the Affluent and High Net Worth Individuals, where there was a growth of 40 percent during the year.

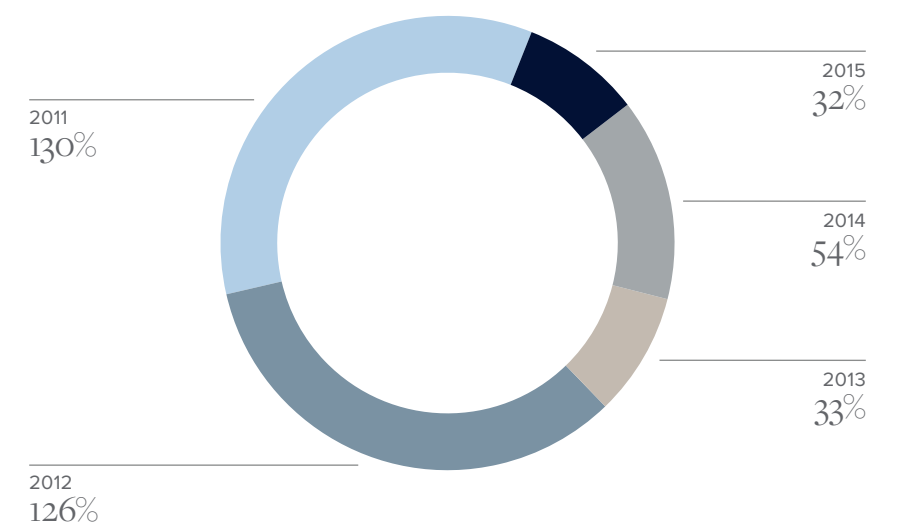
2015 HIGHLIGHTS

- Continued efforts by the Business Development and Placement Sector to expand their investor base in the Kingdom and across the region.
- Significant success in growing placements by corporates and high net worth individuals to reach 27% of total placements. In line with the company policy to diversify its placements and investors, the sector succeeded in enhancing the company's presence in the central area and boost its status in the region.

- The corporate segment grew by 41 percent in 2015.
- Gender level diversity was apparent in the fact that while male investors increased by 37 percent in 2015; the number of female investors was up by 21 percent in the same time period.
- Finally, a growth rate of 48 percent was reported for the segment of investors under 40 years old, a clear reflection of the Kingdom's fast growing young population.

For the year ahead, the Division intends to continue its focus on geographical and client-segment expansion both within the KSA and the rest of the GCC.

CLIENT GROWTH





WAQF PROGRAMME

In 2015, Alkhabeer launched the WAQF Programme which targets educational and charity institutions, family businesses and High Net Worth Individuals seeking to create WAQF entities. The programme allows the WAQF founder to establish a flexible and resilient structure, capable of facing the future changes due to change in the investment and economic situations. It aims to overcome the challenges of traditional WAQF by providing innovative WAQF solutions, in line with the highest standards of governance, disclosure and independent supervision to ensure that WAQF activities are being managed in accordance with the founder's regulations.

Challenges to traditional WAQF include:

- Poor drafting of the Waqf deeds (Suk).
- Lack of clarity of instructions for the Waqf.
- Limited investment experience of the Waqf Trustees (Nazer).
- And uneven governance between the Waqf structure parties, the Waqf Trustee, and its current and future beneficiaries.

Through its thorough and systematic approach to Waqf, Alkhabeer is meeting those challenges. The process starts with the professional drafting of the Waqf deed and follows through to the creation of an innovative Waqf structure; establishment of governance of the Waqf and stakeholders; instituting internal and external control; and the submission of periodic audited reports.

The WAQF Programme also provides a wealth management service that uses an open platform approach, along with the development of the investment strategy consistent with the guidelines of the Waqf.

As the first mover in revitalising the usage of Waqf, Alkhabeer Capital is confident it will remain a leader in this area.

SUPPORTING OPERATIONS

PEOPLE

Alkhabeer Capital prides itself on being a people-driven company, where learning, development, and knowledge transfer are second nature. Our well-set training needs and performance gaps analysis approach defines the actions necessary to improve, develop or rectify performance. Such practices allow our people to be well aware of their training, development plans, and special learning assignments for the year ahead. Thus, Alkhabeer people are highly motivated and always looking for the next challenge, as they see the Company working towards their development on a proactive basis.

In 2015, there were 82 employees from 12 nationalities, 75% of which are Saudis.

Every individual is a valuable member of the Alkhabeer team and is entitled to yearly training courses. Human Resources helps to choose a well-respected organisation, appropriate to each individual's level and function.

As a yearly KPI requirement, each manager is required to develop a training and development matrix for his or her subordinates. This training and development matrix is expected to be executed over the following one to three years.

At the moment, Alkhabeer Capital has two primary programmes underway to help our people achieve their full potential:

The Core Skills Development Matrix

This is an organisational tool that allows us to develop our people's professional skills and facilitate their career development within the Company.

The objectives of the "Core Skills Development Programme" are to:

- Identify the skills gap and then facilitate training needs of all Alkhabeer departments
- Develop the right qualifications
- Increase productivity at the workplace and promote healthy competition among our people
- Improve company efficiency and performance
- Transfer and dissemination of knowledge

Alkhabeer is committed to establishing a working culture that helps to:

- Create an engaged and motivated workforce, who enjoy greater job satisfaction, higher motivation and enhanced morale
- Minimise absenteeism and employee turnover
- Increase productivity and efficiency

The People Review Programme

This programme establishes a performance benchmark for our Company Human Resources performance in each of the following four categories - Performance, Applying Company Values, Leadership Attitudes, and Potential - to identify what we are doing well and areas of improvement, both individually and collectively.

This exercise requires our managers to honestly evaluate their people with respect to:

- **Performance:** The achievement of goals, objectives, /targets and projects.
- **Applying Company Values:** The application of the company's guiding principles in successful decision making.
- **Leadership Attitudes:** The demonstration of desired characteristics in daily work and performance.
- **Potential:** Capability to take on bigger roles and responsibilities in the future.

The assessments are then sent to an external consultant, who consolidates and analyses the results, and provides them to Alkhabeer management for evaluation and action.

In other words, all Alkhabeer people are given equal opportunity to training and development, and growth opportunities to progress within the organisation.

In addition, over the course of 2015, various changes were made to the

benefits programmes, including enhancing insurance coverage, introducing free onsite blood testing and establishing an electronic library for free books available to company staff.

Alkhabeer Capital was named the top financial services employer in the Kingdom of Saudi Arabia by “Great Place to Work®”, and the fourth overall across all sectors in the Kingdom.

At the same time, Alkhabeer Capital continued to lead the Best Workplaces List for the sixth year, after being selected from about 15,000 valid employee surveys received for this edition of the study during 2015 - a testament to the efficacy of Alkhabeer’s approach to distinguishing itself as an employer of choice in the Saudi labour market. Over 90 companies participated in this year’s survey and audit, representing a combined 50,000 employees across Saudi Arabia.

INFORMATION TECHNOLOGY

The Information Technology Department is an essential function in delivering high-quality, efficient service to Alkhabeer’s clients, as well as its internal staff, committee members and board members. This year was particularly busy for the Department, as it undertook a number of strategic projects aimed at improving the work environment by introducing new technologies, and upgrading existing technologies and operating systems.

2015 HIGHLIGHTS

- Implementing HP 3Par SAN Storage system to replace the old HP EVA storage capability. The entire migration of live data to the new system was accomplished with no downtime for the end user. The new storage solution provides improved performance in accessing data and applications.

- Implementing the customised Oracle Self Service System, which utilises workflow technology to enable HR to define dynamic routing and approvals.
- Customising Oracle by incorporating forms and its workflow under the Paperless Project, in order to reduce or gradually eliminate paper forms.
- Implementing Oracle BI (Business Intelligence) to replace Microsoft Excel for generating strategic financial reporting for our Board and Sub-Committees.
- Introducing Oracle Purchasing to automate the purchasing cycle.

The Department also performs a Disaster Recovery Test every six months, as per company policy. During the year 2015, the tests were performed in June and December.

CORPORATE COMMUNICATIONS

The Corporate Communications Division is tasked with maintaining and improving the public profile of Alkhabeer as a leader in asset management and human resources.

In 2015, a number of different corporate communications activities were undertaken, aimed at increasing awareness of the Alkhabeer Capital brand, and promoting its products and services.

The Alkhabeer Corporate Communications team covered a number of significant acquisitions and strategic partnership agreements.

The team also arranged for high profile attendance of numerous regional events throughout the year, such as the Global Islamic Investment Gateway (GIIG) in Bahrain, which featured the participation of the Company’s Executive Director and CEO as key speakers at the event.

The media relations programme at Alkhabeer Capital continued its strategic partnership with CNBC Arabia television channel, which broadcasts regularly from Alkhabeer’s headquarters in Jeddah, helping raise awareness of the Alkhabeer brand amongst target investors and executives. Other profile raising activities included taking part in periodic magazines.

In total, our activities resulted in seven television interviews; 20 press releases, and the distribution of nine economic and market research reports. These generated a significant amount of media impressions, registering increased media exposure compared to previous years, with Alkhabeer Capital’s name appearing frequently in both local and international newspapers, magazines and news wires.

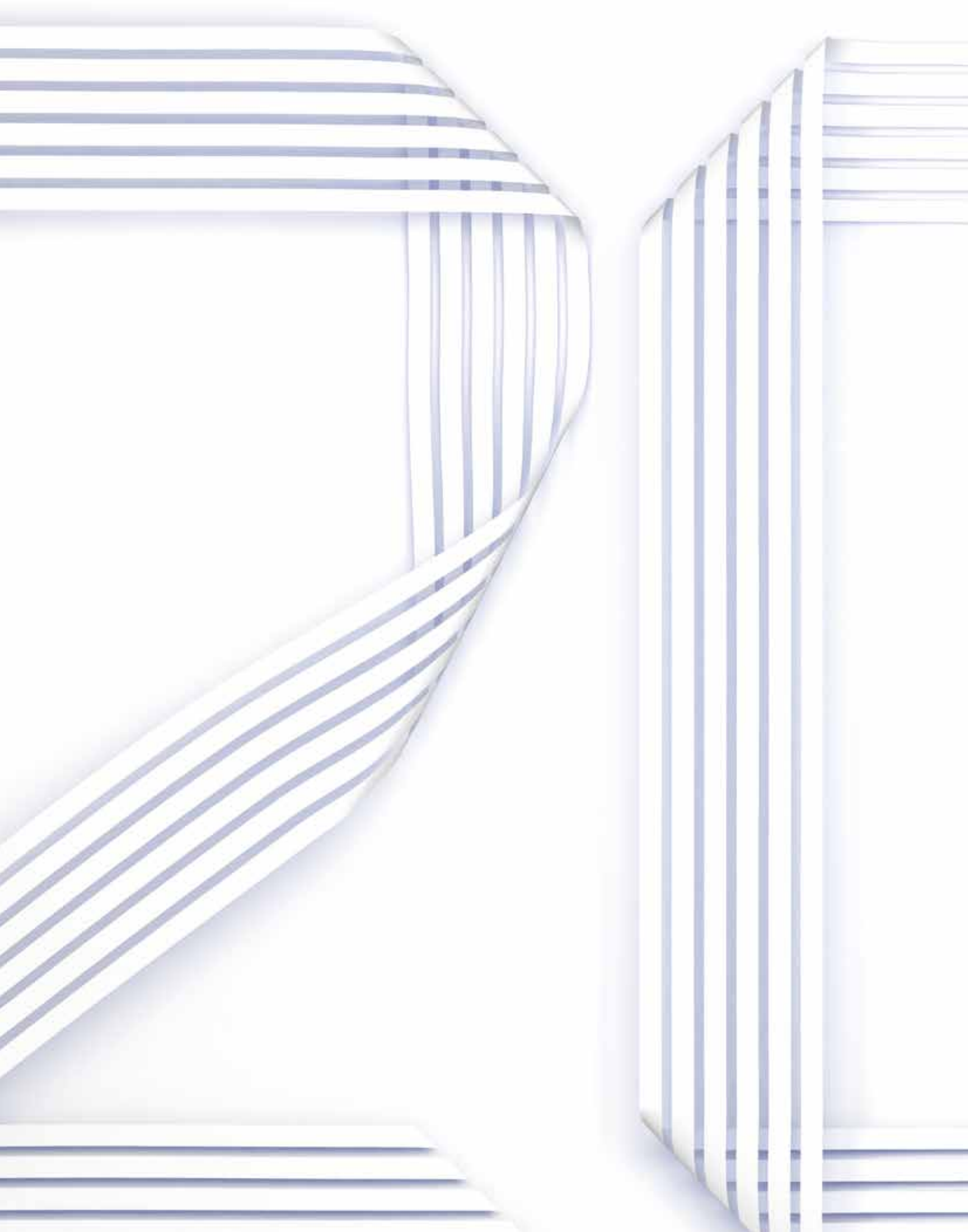
There was a notable increase in social media activity as well in 2015, with more likes and followers recorded across Alkhabeer’s social media channels, such as Facebook and Twitter. Given the impact of social media, a decision has been reached to increase our focus in this area.

REPORTS AND RESEARCH

Alkhabeer Capital prides itself on producing insightful, objective research for use by its clients. In 2015, we published a number of reports covering a wide array of economic and market-related issues.

The research is intended to assist our customers in understanding the fast moving events both in the GCC and around the world.

2015 Research Reports	Issue Date
First Quarter Update	24 May
Implications of UAE’s Fuel Deregulation for GCC	3 August
Half-Year Update	10 August
Income Yielding Opportunities in GCC	11 August
Oil Market Analysis	6 September



FINANCIAL REVIEW

The Financial Review contains a summary and analysis of Alkhabeer Capital's financial performance for the year ending on 31 December 2015. It also contains clarifications on financial statements and additional information on the financial performance.

FINANCIAL REVIEW SUMMARY

Alkhabeer Capital ended 2015 with a significant 17% increase in net income to SAR 67.15 million from SAR 57.3 million the year before. The net income increase came on the back of equally significant growth of 16% in total revenues to SAR 183.9 million, compared with SAR 158.2 million in 2014.

As a result of the net income growth, basic (common) earnings per share increased to SAR 0.83, compared with SAR 0.70 in 2014.

REVENUES

Return on investments contributed SAR 123.14 million, reflecting growth of 8% from SAR 114.1 million in 2014. The contribution from management and placement fees grew by 37.7% to SAR 60.74 million. This was driven by a 20% growth in assets under management, which stood at SAR 4.01 billion at the end of December 2015.

Despite the decrease in realised gains on trading investment by 39% in 2015, unrealised gains grew by 125% which significantly contributed to growth in total investment gains by 8% in 2015. In addition to this growth, and despite the economic turbulence in 2015, the income from profit distributions grew by SAR 1.1 million compared to a year earlier.

OPERATING EXPENSES

Total operating expenses grew by 11.1% to SAR 112.10 million in 2015 up from SAR 100.9 million in the previous year. The increase supports the company strategy and expansion goals. Nonetheless, the operating expenses-to-income ratio improved to 61% compared with 63.7% in 2014.

NET INCOME SR MILLIONS

2015	67.1
2014	57.3
2013	43.3
2012	31.0
2011	19.1

EARNING PER SHARE SR

2015	0.8
2014	0.7
2013	0.5
2012	0.4
2011	0.4

EARNINGS BY SEGMENT

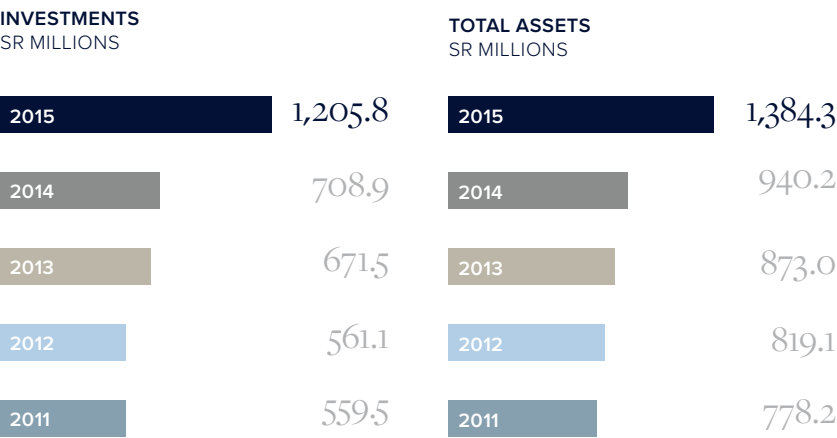
Business Segments				
SAR '000	PROPRIETARY CAPITAL	ASSET MANAGEMENT	OTHERS	TOTAL
Operating income	123,125	60,850	(114)	183,861
Net operating income	113,487	31,286	(77,624)	67,149
Geographic Segments				
SAR '000	SAUDI ARABIA	BAHRAIN	TOTAL	
Operating income	178,514	5,347	183,861	
Net operating income	63,314	3,835	67,149	

CONSOLIDATED
BALANCE SHEET

Assets

As of 31 December 2015, total consolidated assets stood at SAR 1,384 million, an increase of 47% over SAR 940.2 million at the end of 2014. The growth was a direct result of an improvement in operational earnings and total liabilities inclusive of new Murabaha contracts worth SAR 252 million and commitments to investment funds for SAR 167 million during the year.

The upward trend in total assets was led primarily by investments held-for-trading. Bolstered by private equity and real estate transactions, the investments portfolio sufficiently grew by 70% up to SAR 1,206 million in 2015 from SAR 709 million the previous year.

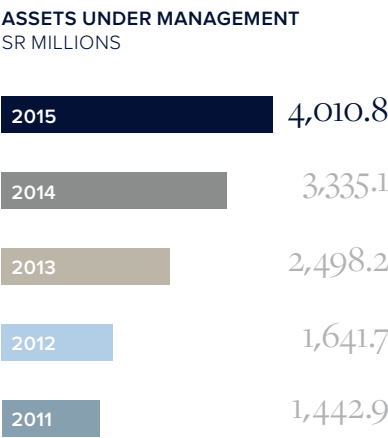


CASH AND CASH
EQUIVALENTS

Cash and cash equivalents comprise balances with banks, cash on hand, and Murabaha placements. Cash and bank balances decreased by 53% to SAR 72 million in 2015 from SAR 154 million in the previous year, mainly due to acquiring new investments. Assets held on behalf of clients in a fiduciary capacity are not included in the consolidated balance sheet of Alkhabeer Capital. As of 31 December 2015, the Company held fiduciary assets under management of SAR 2.985 million (2014: SAR 2,588 million).

ASSETS UNDER
MANAGEMENT

Total assets under management at year end stood at SAR 4.01 billion, up 20% over SAR 3.3 billion at the end of 2014. This reflects the Company’s long-held commitment to provide clients with risk-adjusted returns across a range of Shari’ah-compliant public and private funds, and discretionary portfolios.



LIABILITIES

Total liabilities stood at SAR 484.15 million in 2015 from SAR 66.5 million in the previous year, driven mainly by an increase in Murabaha Contracts and SAR 166.8 million growth in investment liabilities in two Real Estate Funds. Alkhabeer Capital does not have any short-term or long-term borrowings outstanding. Nor has the Company issued any classes of convertible debt instruments, contractually based securities, warrants or similar rights, during the financial year 2015.

SHAREHOLDERS’
EQUITY

At the end of 2015, shareholders’ equity increased by 3% to SAR 900.2 million up from SAR 873.7 million at the end of 2014. The increase is primarily driven by the associated increase in retained earnings given the positive financial results achieved during the year partially offset by paid cash dividends of SR 40.6 million. A total of SAR 6.7 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 are 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.

New Prudential 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 company complied to the minimum capital requirements during 2015, with 2.12 capital base ratio by the end of the year.

The details of the minimum capital requirement and capital base as of end of 2014 and 2015 are as follows:

	2015 (figures in SAR'000)	2014 (figures in SAR'000)
Total Capital Base	900,170	873,680
Minimum Capital	425,066	226,872
Credit Risk	237,883	88,972
	158,004	117,463
	29,179	20,437
Total Minimum Capital	425,066	226,872
Capital Adequacy Ratio		
Total Capital Ratio	2.12	3.85
Surplus in Capital	475,104	646,808

RISK MANAGEMENT REVIEW

Alkhabeer Capital is a leading CMA authorised 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.

RISK MANAGEMENT REVIEW

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 commission rate risk, credit risk, market risk, liquidity risk, operational risk and reputational risk.

CREDIT RISK

Credit risk refers to the risk that 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 practiced 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. 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 counter party is rated below investment grade, a higher approval authority is required. The average counterparty portfolio ratings are BBB-.

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 is monitoring 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 hard breaches based on the parameters defined by the Risk Department. Further, it provides reports on soft breaches which represent a deviation from pre-set risk ratios. An escalation process is in place to ensure that all breaches (soft and hard) are managed and rectified.

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.

Liquidity risk exposure levels may rise as a result of applied regulations. For example, the Capital Market Authority imposed new requirements during 2015 which do not allow the Fund Manager or any related party to increase or decrease their ownership during the duration of the closed Real Estate Investment Fund after the end of the subscription period. These new requirements would not allow the Company to exit the real estate funds that have been covered in order to close the fund successfully on time, and consequently to protect unit holders from any delay or extension that affects negatively and substantially the return on their investments. They would also weaken the Company's liquidity and slow down capital turnover, which makes the Company unable to cover promising investment opportunities for its clients and limits its role as a market maker.

The imposition of these requirements to other investment fund segments in the future will have double impact on liquidity risk levels to which the Company is exposed.

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 a system crashes or settlement problems that could impact on Alkhabeer’s ability to balance its trading books. Additionally, operational risk includes exposure to fines and penalties, punitive damages resulting from supervisory actions, or private settlements.

Alkhabeer is using aCCelerate System in order to manage the operational risks in an efficient manner. This system provides governance, risk and control assessment, and loss causal analysis, modelling, and reporting. The first step for Chase Cooper Systems is to develop concise operational risk policies, frameworks, terms of reference and timelines consistent with Alkhabeer’s risk appetite. The system assists with identifying the gross risks to which they are subject, and then scoring risks and identifying and scoring the relevant controls.

GOVERNANCE, RISK AND COMPLIANCE

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:

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 Worldchek for anti-money laundering and regulatory compliance and aCCelerate system for operational risk. In addition, an Internal Capital Adequacy Model was developed and implemented. The Company’s capital adequacy is now monitored on a monthly basis and shows a healthy coverage ratio within the allowed range, or higher.

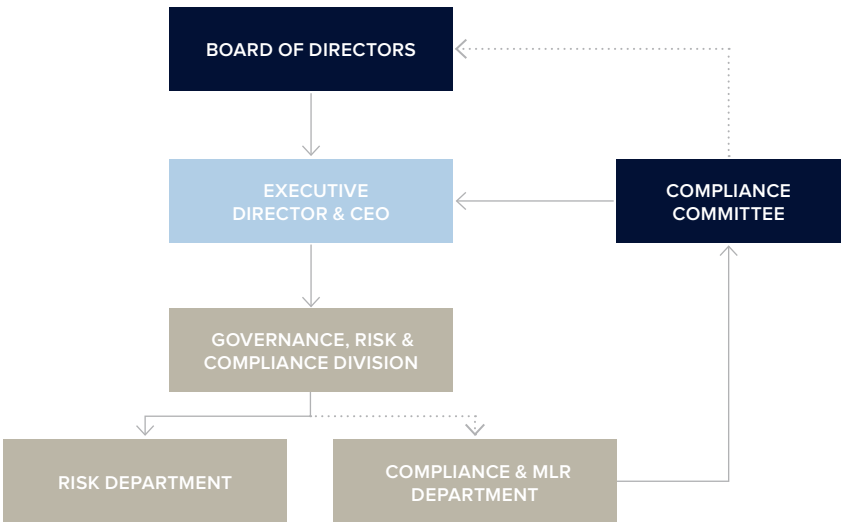
2015 HIGHLIGHTS

- Reviewed and updated all corporate policies and procedures, including Alkhabeer Capital's Corporate Governance Manual.
- Subscribed to Tadawul services to take advantage of automated systems and technologies which allow shareholders to monitor their investments, protect their rights, as well as enhance communication to ensure their active participation in Alkhabeer’s material decision making process.
- Engaged professional advisors to develop a comprehensive framework for the performance evaluation of Alkhabeer’s Board of Directors. Findings were reported to the Board’s Nomination and Remuneration Committee.

- Trained employees on anti-money laundering and terrorism financing and updated them on CMA Law and Regulations.
- Reviewed and updated compliance and anti-money laundering policies and procedures.
- Developed policies, procedures and systems to ensure proper application and compliance with the regulatory requirements of the Foreign Account Tax Compliance Act (FATCA), including registration with the United States Internal Revenue Service (IRS).
- Tested the business continuity plan to ascertain readiness and effectiveness.

RISK AND GOVERNANCE FRAMEWORK

Alkhabeer’s Board of Directors manages risks through Board committees and Alkhabeer’s Risk and Compliance Division.



COMPLIANCE AND MLR

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 to 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.

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 behaviours 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, General Manager, 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 2015, the Compliance Department conducted two AML training sessions in which all Alkhabeer employees attended.

DETAILS OF ANY PUNISHMENT, PENALTY OR PREVENTIVE RESTRICTION

The Capital Market Authority levied a fine of SR 10,000 on the Company on 14 January 2015 due to the non-compliance of the financial disclosure summary with the terms and conditions of Alkhabeer Capital liquidity fund (Haseen) for 2012 regarding all the required points as per appendix No. 1 of Investment Funds Regulations. The Company paid the fine value to CMA account.

Apart from this, no penalty, financial fine or preventive restriction was imposed on the company by CMA or any other supervisory, regulatory or judicial authority.

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 Human Resources 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 UNIT

Internal Audit is an independent unit reporting to the Board’s Audit Committee that consists of three 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 2015 in line with its plan which was approved by the Review 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 Department

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.

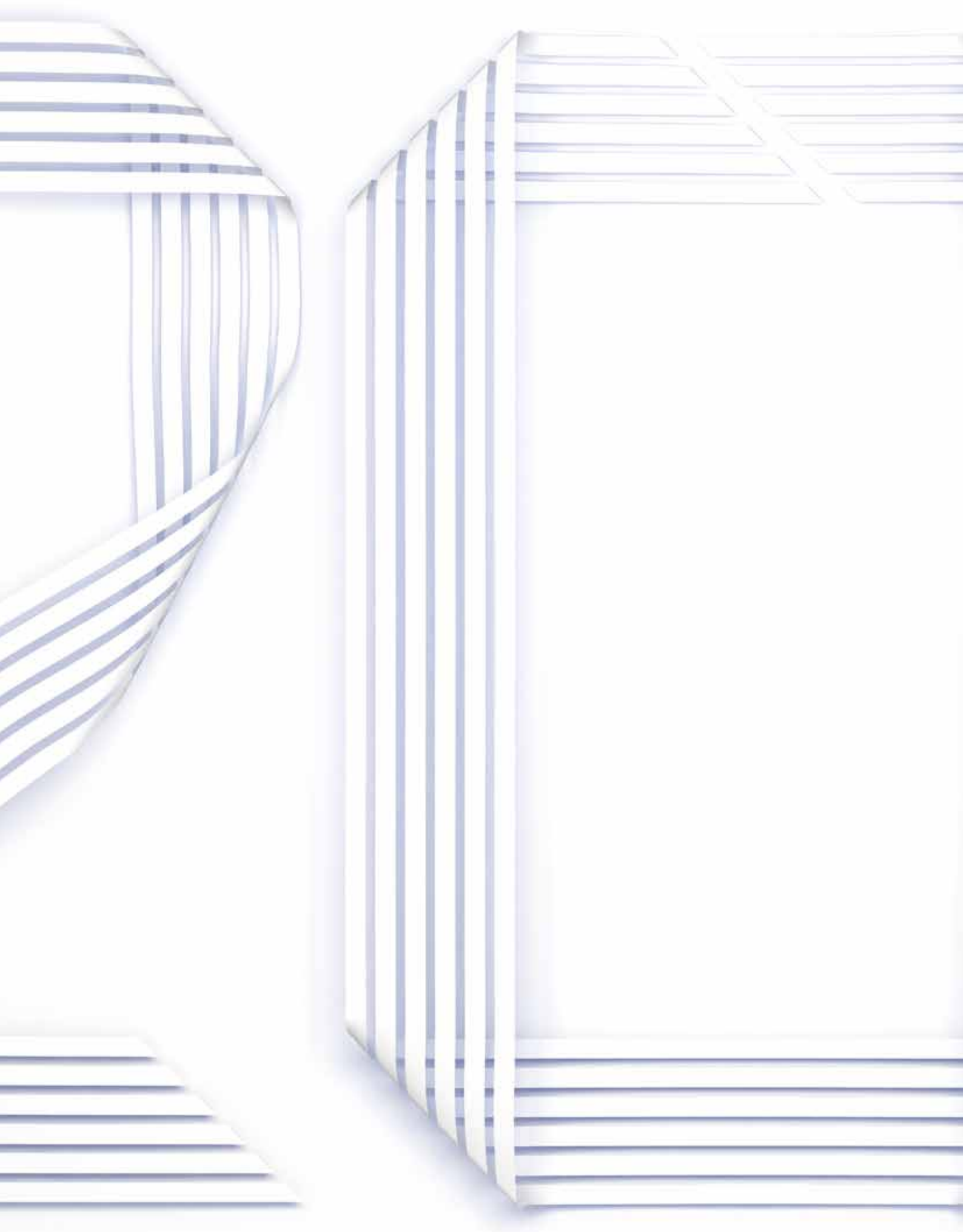
LEGAL DEPARTMENT

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; organising periodic seminars for Company employees to familiarise them with laws and new legislations and assist them in their implementation.

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.	10.451%
Alkhabeer National Co.	9.75%
Abdullah & Said M.O. Binzagr Co. Ltd.	7.68%
Bakr Mohammed Awad Binladen	5.23%



CORPORATE SOCIAL RESPONSIBILITY

As a prominent Shari'ah-compliant financial institution, we are conscious of our responsibility to act as a concerned corporate citizen, and contribute to the well-being of society. In 2015, Alkhabeer intensified its efforts in this area through the creation of a CSR Committee made up of senior management and tasked with identifying and managing projects and initiatives consistent with our intention to improve the quality of life within the regions in which we do business.

A key pillar of our corporate social responsibility policy is to support the development of future generations. In this respect, we sponsored a number of educational initiatives in 2015, as well as engaging in community-outreach activities. We are also committed to supporting the development of the Islamic banking services sector through participating in industry conferences and seminars, and issuing economic and market research reports.

BOARD OF DIRECTORS

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 (six times during 2015). 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 and 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 and 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 SAAD AL DREES

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 Muhammad Al Saad Al Drees and Sons Limited Company (which later became a public company and put forward in the Saudi Stock Market), Muhammad Al Saad Al Drees Sons Limited Company, Muhammad Al Saad Al Drees and Sons Holding Company Al Drees Industrial & Trading Company (ALITCO). He is still an active member of numerous boards as well as executive, governance and remuneration committees of several companies. 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 and CEO
Member of the Board's Investment Committee

Ammar Shata is the founder and Executive Director of Alkhabeer Capital. He has more than 20 years of experience in Corporate Banking, Islamic Finance, Asset Management and Private Equity. He began his investment banking career in 1990. Since then, he 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), 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 the Deputy President of Abdullah & Said M. O. Binzagr Co. and Co-President of Binzagr Factory for Insulation Materials. He is also a Board Director of Binzagr Co-Ro, International Marketing Company, Said M. O. Binzagr Co. (Binzagr Co.), Binzagr Unilever Limited and the Jeddah Chamber of Commerce. Saeid has a Bachelor's degree in Science from Linfield College, Oregon, USA.

SALEH MOHAMMED BINLADEN*

Non-Independent
Member of the Board Investment Committee

Saleh Binladen is a seasoned businessman and influential leader in various business sectors. He is chairman or director of many companies, including Saudi Binladen Group, Huta Hegerfeld Saudia Ltd., Arrow Company, and Jazan Economic City. He holds a Bachelor's degree in Business Administration from Portsmouth International University, United Kingdom.

AYMEN ISMAIL ABU DAWOOD

Non-Independent
Member of the Executive Committee

A seasoned businessman and business leader, Aymen Abu Dawood is the chairman of Alpine Wealth Management, and a board member of many companies, including Abu Dawood Group, Helvetica Arab General, and Bank Alkhair. He holds a Bachelor's degree in Mechanical Engineering from the University of Arizona, USA.



Musaad Mohammad Saad Aldrees



Ammar Ahmed Saleh Shata



Saeid Mohammed Binzagr



Saleh Mohammed Binladen*

*Saleh Mohammed Binladen resigned as Chairman on 06/10/2015 for personal reasons. The board held an exceptional meeting on the same day and his Excellency's resignation was accepted, while he remains on the board. The board also approved the appointment of His Excellency Mr. Musaad Mohammad Saad Aldrees as Chairman until the end of the cycle in 02/01/2016.

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. He is also a chartered member of the Institute of Directors.

ABDULKADER THOMAS

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

Abdulkader Thomas, 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 Islamic Capital Markets at the Securities Commission of Malaysia. He serves on the Shariah boards of Bank Muscat Meethaq, Sterling Bank PLC (Nigeria) and University Bank (USA). 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 Nomination & Remuneration Committee

An Islamic capital markets consultant and expert, Wan currently serves as Consultant to the Securities Commission in Malaysia. He previously worked for Bank Islam Malaysia, and was Chief Executive Officer of Abrar Discounts Berhad. He is also a Board Director of First International Consulting. 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. He is currently the Managing Partner of Newbury Economic Consulting and was Founder, Managing Director and CEO of Rasameel Structured Finance Company in Kuwait. He has held high positions in many 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, England. He is also a graduate of both Harvard Business School and Henley Management College.



Aymen Ismail Abu Dawood



Mohammed Nawaf Babgi



Abdulkader Thomas



Wan Abdul Raheem Kamil



ISSAM ZAID MOHAMMED AL TAWARI

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 2015, in addition to the names of companies in which the member of the board is also a member of their boards:

NAME	MEMBERSHIP IN BOARDS OF DIRECTORS OF OTHER COMPANIES (LISTED OR NON-LISTED)
Musaad Mohammad Saad Aldrees (Chairman of the Board) (Non-Executive)	Member of the Board, Aldrees Industrial and Trading Company (ALITCO)
Ammar Ahmed Shata Executive Director and CEO	N/A
Saeid Mohammed Binzagr (Non-Executive)	Member of the Board, Arab Avon Beauty Company. Member of the Board, Binzagr Co-Ro Member of the Board, Binzagr Unilever Member of the Board, Binzagr Barwil Marine Transport Member of the Board, Saeid Mohammed Binzagr Co.
Ayman Ismail Abu Dawud (Non-Executive)	Chairman of Alpine Wealth Management - Bahrain. Member of the Board, Swiss Arabian. Member of the Board, Bank Alkhair - Bahrain.
Saleh Mohammed Binladen (Non-Executive)	Member of the Board, Mohammed Binladen Company. Member of Al Salem Group. Member of the Board, Makkah Construction & Development Company. Member of the Board, Real Estate Project Dev. & Management Co. Chairman of Huta-Hegerfeld Saudia Ltd. Chairman of Al Sahm Food Distribution Co. Chairman of Construction Products Holding Co. Chairman of Arabian Roots Group Co. Ltd.
Mohammed Nawaf Babgi (Non-Executive)	Chairman of Tas-helat Marketing Company. Member of the Board, Bahamdan Group Holding Company. Member of the Board, Tadrees Holding Company. Chairman of Tas-helat Real Estate Investment Co. Member of the Board, Sara Real Estate Co. Member of the Board, Alraeda Company for Education development.
Abdulkader Thomas (Independent)	Member of the Board, Al Sanabel International Holding (Previously: Alkhabeer International). Member of the Board, Shape Economic Investments Corporation. Member of the Board, Shape Financial Corporation.
Issam Zaid Mohammed Al Tawari (Independent)	Member of the Board, Rasameel Structured Finance Company.
Wan Abdul Raheem Kamil (Independent)	Member of the Board, First International Consulting

BOARD MEMBERS' ATTENDANCE

The Board of Directors held six meetings during 2015. The following table shows attendance at each board meeting:

MEMBER'S NAME	FIRST MEETING	SECOND MEETING	FIRST EXTRA-ORDINARY MEETING	THIRD MEETING	SECOND EXTRA-ORDINARY MEETING	FOURTH MEETING	TOTAL
	22 February	21 April	6 October	20 October	10 November	22 December	
Saleh Mohammed Binladen	●	●	●	●	○	●	5
Saied Mohamed Bin Zagr	●	○	○	●	○	●	3
Ammar Ahmed Shata	●	●	●	●	●	●	6
Ayman Ismael Abudawood	○	●	●	●	●	○	4
Musaed Mohammed Aldrees	●	●	●	●	●	●	6
Mohammed Nawaf Babgi	●	○	●	●	●	●	5
Abdulkader Hayward Thomas	●	●	●	●	●	●	6
Wan Abdul Rahim Kamil	●	●	○	●	●	●	5
Issam Zaid Al Tawari	●	●	●	●	●	●	6

● Personal Attendance○ Excused Absence

BOARD MEMBERS' REMUNERATION

The Members of the Board have not received any remuneration during 2015 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 488,875 for the financial Year 2015.

BOARD COMMITTEES

The Board of Directors presides over three main committees whose membership was formed by the Board: the Audit Committee, the Nominations and 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 four (4) times during 2015.

Saleh H. A. Hussain	Chairman
Abdul Kader Thomas	Member
Issam Zaid Al Tawari	Member

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and 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 and Remuneration Committee met two (2) times during 2015.

Wan Kamil	Chairman
Musaad Aldrees	Member
Abdul Kader Thomas	Member

BOARD INVESTMENT COMMITTEE

The role of the Executive 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 Executive Committee met seven (7) times during 2015.

Saeid Mohamed Binzagr	Chairman
Saleh Mohammed Binladen	Member
Ammar Ahmed Shata	Member
Mohammed Babgi	Member

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.

EXECUTIVE MANAGEMENT REMUNERATION

The aggregate Executive Management remuneration for five top executives, including the Chairman, CEO and CFO, including salaries, remuneration, allowances and periodic and yearly remuneration, totalled SAR 18.5 million in 2015.

The following table details remuneration and compensation paid to five of the top executives of received the highest remunerations and compensations, including the Executive Director and CEO and the Chief Financial Officer:

DESCRIPTION	
Five of the top executives of received the highest remunerations and compensations, including the Executive Director and CEO and the Chief Financial Officer	
Salaries and Compensation	SR 6,217,032
Allowances	SR 1,912,968
Periodic and Annual Remuneration	SR 7,251,229
Incentive Plans	SR 3,096,816
Any compensation of in-kind benefits payable monthly or annually	

Definitions of the item titles appearing the above table are as follows:

- Salaries and Compensation: include basic salaries and fixed incentives.
- Allowances: include housing and transportation 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 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 (IC) 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 frame work. 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 ED&CEO, 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 CEO, 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.

WORK CONTINUITY PLAN COMMITTEE

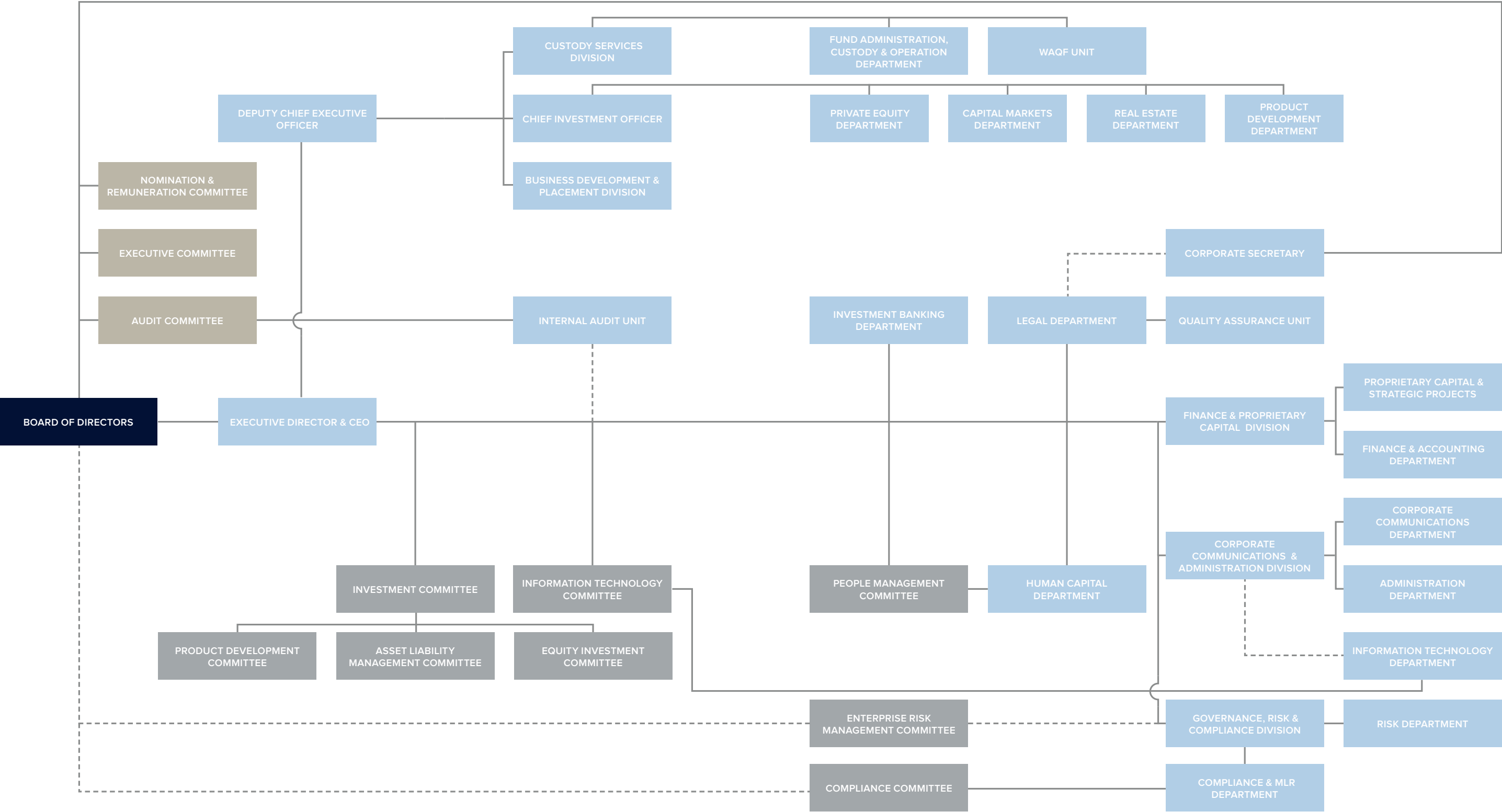
The Business Continuity Planning Committee is chaired by the Chief of Communications and Administration. The Committee meets every quarter. Its main objective is to develop a clear and practical strategy for implementing corporate social responsibility (CSR) programmes, as well as overseeing the implementation of the strategy approved by Alkhabeer’s Management.

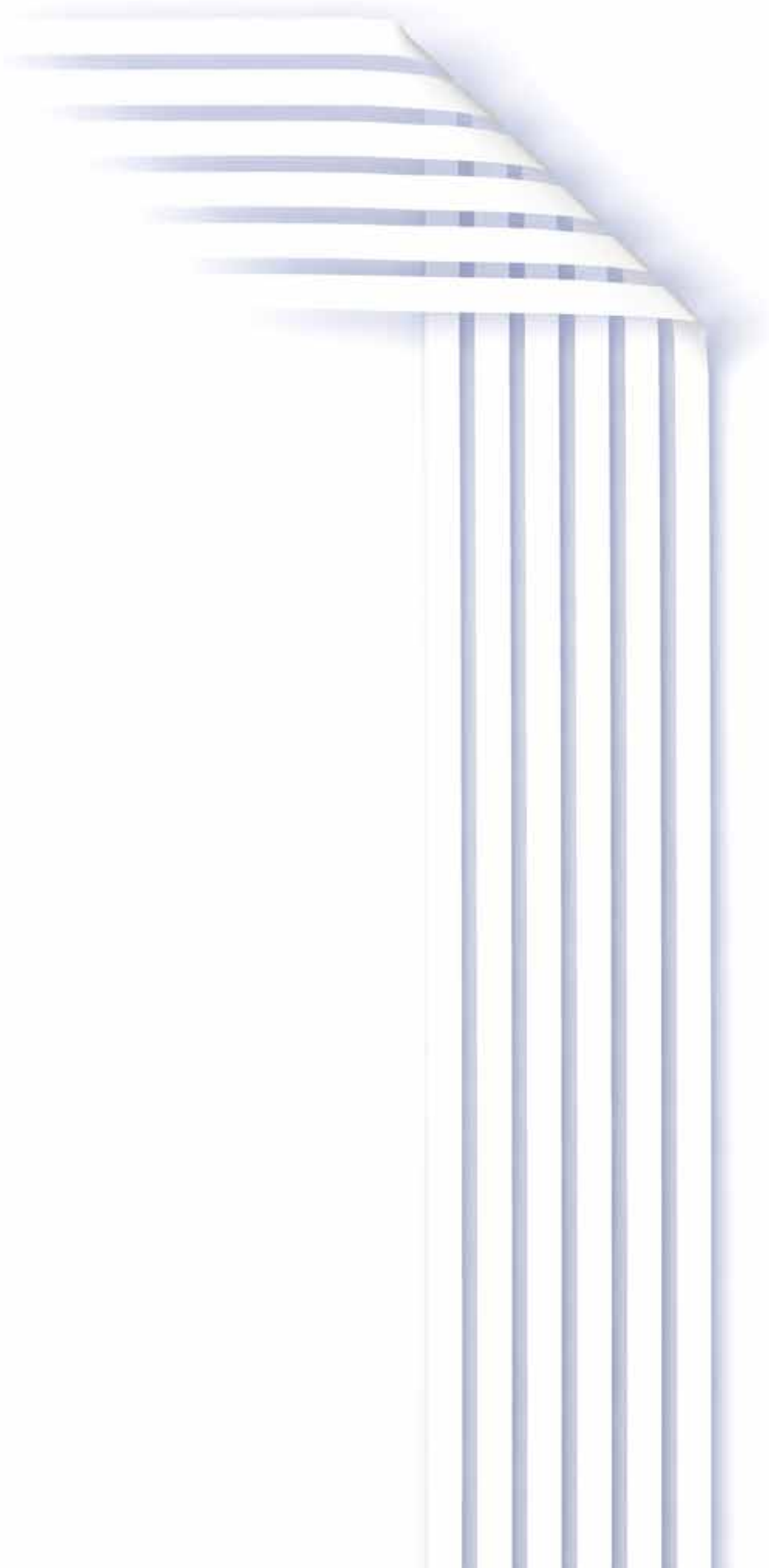
SOCIAL RESPONSIBILITY COMMITTEE

The Social Responsibility Committee is an administrative committee chaired by the head of Communications, PR and Administration, and holds quarterly meetings. Its main objective is to develop a clear and practical strategy for social responsibility programmes adopted by the company, and oversee the implementation of the strategy set by the company management.

ORGANISATIONAL STRUCTURE

Alkhabeer Capital's flat and flexible organisational 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.





EXECUTIVE MANAGEMENT

Ammar Ahmed Shata	Executive Director & CEO
Ahmed Saud Ghouth	Deputy Chief Executive Officer
Hisham Omar Baroom	Chief Business Development & Placement Officer
Tamer Abdel Raheem	Chief Financial Officer
Tariq Khaled Hayat	Chief Corporate Communications & Administration Officer
Ibrahim Saad	Director Governance, Risk and Compliance Officer

PILLAR 3 DISCLOSURE

Based on the Capital Market Authority's requirements, a Pillar 3 Disclosure report was prepared by the company for 2015 and approved by the Board. A copy of the report was uploaded on the company's website.

SHARI'AH REVIEW REPORT

AKC-AD-07-02-16



Shari'ah Review Bureau
دار المراجعة الشرعية

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Shari'a Advisor's Report to the Shareholders of Alkhabeer Capital

Praise be to Allah, Lord of the worlds, and peace and blessings be upon Mohammed, the leader of Prophets and Messengers, and upon his family and companions, and upon those who follow his Guidance U ntil the Day of Judgment.

It is our pleasure to present you the Shari'a Advisor's Report for Al-Khabeer Capital (hereinafter 'Company').

In compliance with the letter of appointment we the undersigned have reviewed the Company's businesses & activities for the period from 1st of January 2015 to 31st December 2015.

We have reviewed all transactions, investment and pertinent documentation adopted by the Company. Our review was conducted to form an opinion as to whether the Company has complied with Shari'a rules and principles and also with the directives and guidelines issued by AAOIFI. We planned and performed our review so as obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company has not violated Shari'a rules and Principles.

The prime responsibility for ensuring compliance with Shari'a standards and rules in all activities and business operations lie with the Company management. It is our responsibility to present an independent opinion of the Company's operations and to communicate it to the shareholders.

In our opinion the reviewed transaction, related documentation & processes, business activities and dealings entered into by the Company during the year ended 31st December 2015 are in compliance with the Islamic Shari'a Rules and Principles.

May Allah bless us with the best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the Hereafter and forgive our mistakes.

On behalf of Shariyah Review Bureau

23 /02/ 2016



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CONSOLIDATED FINANCIAL STATEMENTS

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AUDITOR'S REPORT



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Jeddah 21441
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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 2015 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 provisions of Article 123 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 2015 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 J. Reda
Certified Public Accountant
License No. 356

14 Jumad Awal 1437 H
23 February 2016

Jeddah

15/15/00



CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 SR '000	2014 SR '000
ASSETS			
CURRENT ASSETS			
Cash and bank balances		24,144	107,650
Murabaha placement	3 & 6	47,809	46,100
Accounts receivable and prepayments	4	30,533	22,059
Investments held for trading	5	1,205,794	708,946
Due from related parties	6	50,681	30,482
TOTAL CURRENT ASSETS		1,358,961	915,237
NON-CURRENT ASSETS			
Zakat and income tax due from shareholders	10	1,889	4,103
Property and equipment	7	23,465	20,872
TOTAL NON-CURRENT ASSETS		25,354	24,975
TOTAL ASSETS		1,384,315	940,212
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Due to related parties	6	166,812	18,000
Accrued expenses and other liabilities	8	54,556	36,256
Short-term murabaha contracts	9	153,602	-
Provision for zakat and income tax	10	1,889	4,119
TOTAL CURRENT LIABILITIES		376,859	58,375
NON-CURRENT LIABILITIES			
Employees' terminal benefits		9,286	8,157
Long-term murabaha contract	9	98,000	-
TOTAL NON-CURRENT LIABILITIES		107,286	8,157
TOTAL LIABILITIES		484,145	66,532
SHAREHOLDERS' EQUITY			
Share capital	11	813,203	813,203
Statutory reserve	13	16,820	10,105
Retained earnings		70,063	50,289
Foreign currency translation reserve		84	83
TOTAL SHAREHOLDERS' EQUITY		900,170	873,680
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,384,315	940,212

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

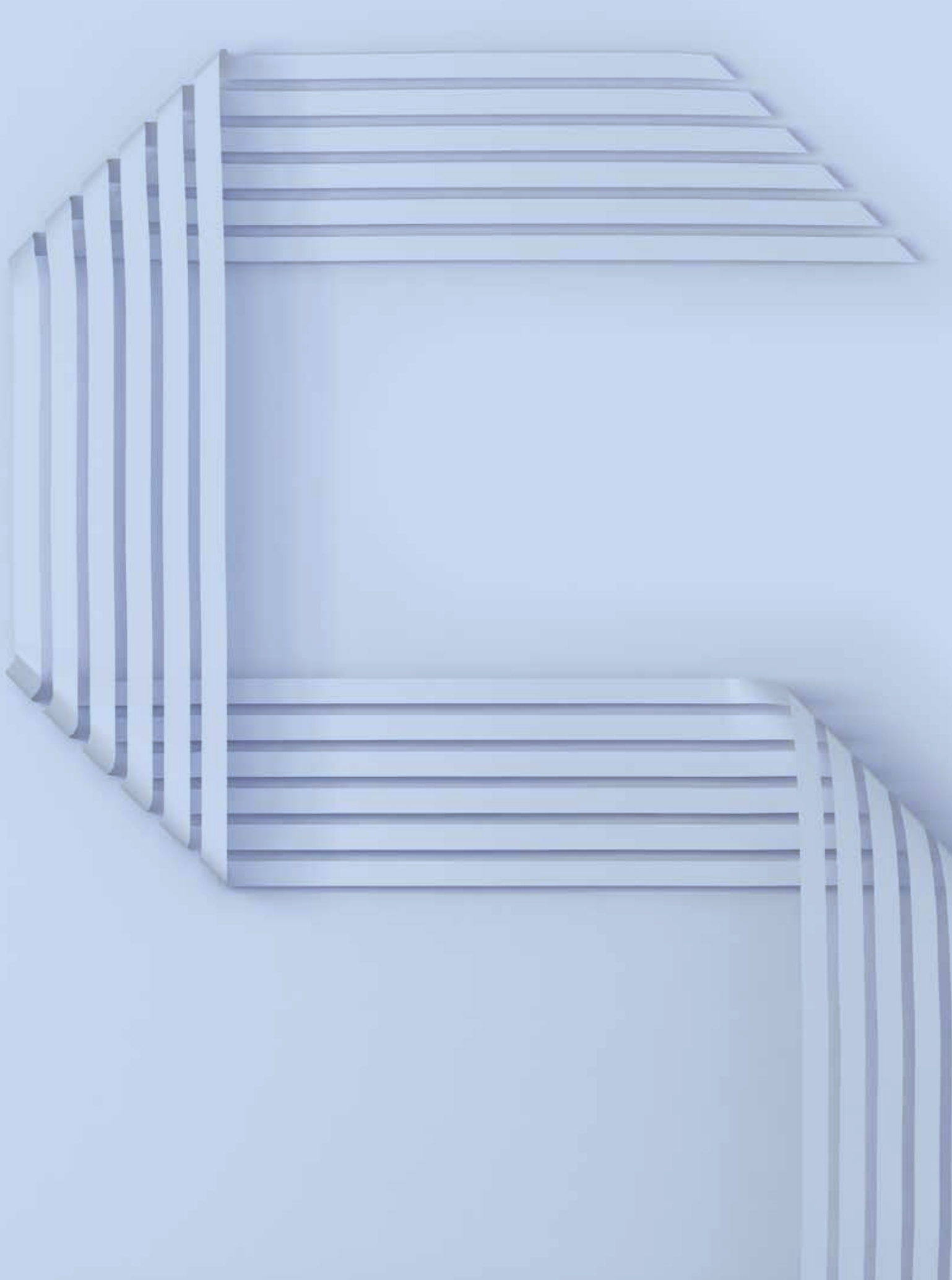
	Note	2015 SR '000	2014 SR '000
Fee income	14	60,736	44,100
Unrealised gains on trading investments	5	67,492	29,936
Realised gains on trading investments	5	48,585	79,256
Dividend income		5,339	4,238
Income from murabaha placement		1,709	650
TOTAL OPERATING INCOME		183,861	158,180
OPERATING EXPENSES			
Selling and marketing	15	(10,375)	(11,838)
General and administration	16	(101,723)	(89,040)
TOTAL OPERATING EXPENSES		(112,098)	(100,878)
NET OPERATING INCOME		71,763	57,302
Murabaha expenses		(4,618)	-
Other income		4	-
NET INCOME FOR THE YEAR		67,149	57,302
EARNINGS PER SHARE			
Weighted number of outstanding shares (in thousands)	11	81,320	81,320
Attributable to net operating income (in SR)	17	0.88	0.70
Attributable to net income (in SR)	17	0.83	0.70

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 SR '000	2014 SR '000
OPERATING ACTIVITIES			
Net income for the year		67,149	57,302
Adjustments for:			
Unrealised gains on investments	5	(67,492)	(29,936)
Realised gains on investments	5	(48,585)	(79,256)
Depreciation	7	2,248	2,283
Provision for employees' terminal benefits		2,314	2,444
(Recoveries) / charge for the year	4	(17)	822
Profit on disposal of property and equipment		(4)	-
Operating loss before changes in operating assets and liabilities		(44,387)	(46,341)
Changes in operating assets and liabilities			
Accounts receivable and prepayments		(8,457)	21,686
Due from related parties		(20,199)	15,324
Purchase of investments held for trading		(659,022)	(605,829)
Proceeds from disposal of investments held for trading		427,063	695,580
Accrued expenses and other liabilities		18,300	20,330
Cash (used in) / from operations		(286,702)	100,750
Employees' terminal benefits paid		(1,185)	(969)
Zakat and income tax paid		(4,119)	(4,007)
Net cash (used in) / from operating activities		(292,006)	95,774
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(4,850)	(3,547)
Proceeds from disposal of property and equipment		13	-
Murabaha placement	3	(1,709)	(46,100)
Net cash used in investing activities		(6,546)	(49,647)
FINANCING ACTIVITIES			
Murabaha contracts	9	251,602	-
Dividends paid	12	(36,557)	(12,843)
Net cash from / (used in) financing activities		215,045	(12,843)
Net (decrease) / increase in cash and cash equivalents		(83,507)	33,284
Net foreign exchange difference		1	-
Cash and cash equivalents at the beginning of the year		107,650	74,366
Cash and cash equivalents at the end of the year		24,144	107,650
NON CASH SUPPLEMENTARY INFORMATION			
Subscription of units of funds, not yet paid	6	166,812	18,000
In-kind investment in funds	6	365,200	440,832

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital	Statutory reserve	Transaction costs on issue of share capital	Retained earnings	Foreign currency translation reserve	Total
Note	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Balance at 1 January 2014	813,203	4,375	(10,623)	39,374	83	846,412
Net income for the year	-	-	-	57,302	-	57,302
Transfer to statutory reserve	13	5,730	-	(5,730)	-	-
Zakat and income tax	10	-	-	(4,103)	-	(4,103)
Zakat and income tax reimbursable from shareholders	10	-	-	4,103	-	4,103
Zakat and income tax reimbursed by the shareholders	12	-	-	(17,191)	-	(17,191)
Transaction costs on issue of share capital	11 & 12	-	-	(10,623)	-	-
Dividend	12	-	-	(12,843)	-	(12,843)
Balance at 31 December 2014	813,203	10,105	-	50,289	83	873,680
Net income for the year	-	-	-	67,149	-	67,149
Transfer to statutory reserve	13	6,715	-	(6,715)	-	-
Zakat and income tax	10	-	-	(1,889)	-	(1,889)
Zakat and income tax reimbursable from shareholders	10	-	-	1,889	-	1,889
Zakat and income tax reimbursed by the shareholders	12	-	-	(4,103)	-	(4,103)
Dividend	12	-	-	(36,557)	-	(36,557)
Foreign currency movement	-	-	-	-	1	1
Balance at 31 December 2015	813,203	16,820	-	70,063	84	900,170



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

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 SR 424,933,820 (42,493,382 shares of SR 10 each) to SR 813,202,930 (81,320,293 shares of SR 10 each). The Company is owned 98.50% by Saudi shareholders and 1.50% by foreign shareholders (2014: 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) (“Sanabel”) (formerly Alkhabeer International Company B.S.C. (c)) (“the subsidiary”)

The subsidiary 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 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 subsidiary was settled through the issuance of shares of AKC amounting to SR 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.

The excess of consideration paid by AKC over subsidiary’s net assets acquired as a result of the acquisition (goodwill) was reflected as a deduction in equity.

Sanabel Investment Co. B.S.C. (c) (“Sanabel”) formerly Alkhabeer International Company B.S.C. (c) (“subsidiary”) (continued)

During the year ended 31 December 2015, the shareholder of the subsidiary resolved to:

- Change the name from Alkhabeer International Company B.S.C. (c) to “Sanabel Investment Co. B.S.C. (c)”;
- Reduce its authorized capital from BD 85 million to BD 10 million; and
- Reduce the issued and paid up capital from BD 38.826 million to BD 1 million. Accordingly, share of retained earnings and statutory reserve were also reduced by BD 6.67 million and BD 0.30 million, respectively.

Following legal matters were completed during the year:

- The Articles of Association of the subsidiary was amended and approved by the Ministry of Industry and Commerce of the Kingdom of Bahrain through its no objection letter No. 70609 dated 7 June 2015; and
- Central Bank of Bahrain (CBB) has issued the revised certificate on 29 July 2015.

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 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 held for trading investments at fair value.

Functional and presentation currency

These consolidated financial statements have been presented in Saudi Riyals (SR) which is the Parent Company’s functional currency. Financial information, presented in Saudi Riyals, has been rounded off to the nearest thousands, except when otherwise indicated.

Basis of consolidation

These consolidated financial statements include assets, liabilities and the result of the operations of the Company and its subsidiary (see note 1). A subsidiary Company 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 Company 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 amount of non-controlling interest is immaterial to the consolidated financial statements and therefore not separately recognised in these consolidated financial statements.

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 assets and 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 consolidated financial statements are disclosed in note 25.

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.

Investments

All investment securities are initially recognized at cost, being the fair value of the consideration given. The transaction charges related to investments held for trading are not added to the cost at initial recognition and are charged to the consolidated statement of income.

Investments classified as held for trading, which comprise investments in a short term discretionary portfolio and funds managed by the Group, are acquired principally for the purpose of selling or repurchasing in the short term. Securities which are held for trading are subsequently 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.

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.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the issue of share capital. The transaction costs of equity transactions are accounted for as a deduction from equity.

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 or the agreement is terminated by the client.

Success fees are recognized when the related financing or respective milestone has been successfully raised / achieved 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.

Expenses

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

Murabaha contracts

Income / expense on murabaha contracts 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.

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 ACEMENT

The murabaha placement carries a profit rate of 4.25% (31 December 2014: 4.25%) and mature in 10 months (31 December 2014: 3 months) from the date of placement. The murabaha placements were made with a fund managed by the Group.

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2015 SR '000	2014 SR '000
Commodity Murabaha receivable (see note 'a' below)	5,873	6,010
Accounts receivable, gross	6,557	7,152
Allowance for doubtful receivable (see note 'b' below)	(10,969)	(10,986)
Accounts receivable, net	1,461	2,176
Margin deposit (notes 10 and 23)	14,208	10,357
Advances to suppliers	9,884	4,782
Prepayments	2,356	2,505
Other receivables	2,624	2,239
	30,533	22,059

a) This represents the Group’s murabaha placement with Arcapita Bank B.S.C. (the ‘Bank’) which matured on 26 March 2012.

Arcapita (the ‘Bank’) filed a plan of reorganization in 2013, which was approved by the Bank’s creditors and the US Bankruptcy Court on 11 June 2013 and the Bank officially emerged from chapter 11 on 17 September 2013. Pursuant to the plan of reorganization, the assets of the Bank were transferred to RA Holding Corp, a newly formed Cayman

Islands Company, which was formed to hold these assets on behalf of certain creditors of the Bank. RA Holding issued debt and equity instruments to these creditors based on the pro-rata share of their claims.

During the year ended 31 December 2013, Sanabel received intimation that the expected amount it will receive is 7.7% of the commodity murabaha receivable and consequently decided to recognise an impairment loss for the remaining balance.

b) The Group’s allowances for doubtful debts include SR 5.529 million (2014: SR 5.529 million) against Commodity murabaha receivable and SR 5.440 million (2014: 5.457 million) against account receivable, gross respectively. Movements in the allowance for impairment of receivables were as follows;

	2015 SR '000	2014 SR '000
At 1 January	10,986	10,164
(Recoveries) / charge for the year (note 15)	(17)	822
At 31 December	10,969	10,986

As at 31 December 2015 and 31 December 2014, 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.

5. INVESTMENTS HELD FOR TRADING

	2015 SR '000	2014 SR '000
Investments in funds managed by the Group	978,110	701,326
Quoted shares	484	-
Externally managed funds	-	7,620
Other (see note 'a' below)	227,200	-
	1,205,794	708,946

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

	2015 SR '000	2014 SR '000
At 1 January	708,946	671,505
Additions during the year	1,173,034	1,064,661
Sold during the year	(792,263)	(1,136,412)
Unrealised gains	67,492	29,936
Realised gains	48,585	79,256
At 31 December	1,205,794	708,946

a) In December 2015, the Group established a new fund and subscribed to the fund through an in kind contribution of a property against a value of SR 227.2 million which was approved by the Board of Directors of the fund. The fund will close its offering by quarter one 2016.

The unit holdings of AKC and Sanabel as of 31 December 2015 and 31 December 2014, in the funds managed by AKC is as follows (see note below):

NAME OF FUND	2015			2014		
	AKC	Sanabel	Group	AKC	Sanabel	Group
Alkhabeer Real Estate Fund I	-	-	-	18%	-	18%
Alkhabeer Real Estate Fund II	100%	-	100%	100%	-	100%
Alkhabeer GCC Equity Fund	41%	-	41%	85%	-	85%
Alkhabeer US Real Estate Income Fund	23%	-	23%	12%	26%	38%
Alkhabeer Industrial Private Equity Fund II	63%	1.5%	64.5%	22%	43%	65%
Alkhabeer Liquidity Fund HASSEEN	6%	-	6%	-	8%	8%
Alkhabeer Saudi Equity Fund	28%	-	28%	79%	-	79%
Alkhabeer Healthcare Private Equity Fund	21%	2%	23%	21%	79%	100%
Alkhabeer SME Fund I	92%	6%	98%	50%	50%	100%
Alkhabeer Real Estate Opportunity Fund I	19%	-	19%	10%	10%	20%
Alkhabeer Real Estate Residential						
Development Fund II	73%	-	73%	43%	43%	86%
Alkhabeer Land Development Fund II	15.2%	0.2%	15.4%	-	-	-
Alkhabeer Central London Residential Fund I	0.2%	1.8%	2.0%	-	-	-
Alkhabeer Education Private Equity Fund I	94%	-	94%	-	-	-
Alkhabeer IPO Fund	68%	-	68%	-	-	-

Since, the Group's control over the funds is temporary and the investment in the funds would be liquidated in the near term, the funds are not consolidated in these financial statements.

6. RELATED PARTY TRANSACTIONS AND BALANCES

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

Transactions with	Nature of transactions	Amount of transactions during the year		Balances at 31 December	
		2015 SR'000	2014 SR'000	2015 SR'000	2014 SR'000
	Investments acquired/disposed by the Group and realised/unrealised gain/loss thereon	276,784	34,607	978,110	701,326
Mutual funds managed by the Group	Investment purchased from a fund	1,504	-	1,504	-
	Management, custody and subscription fees reduced by payments received	20,270	(9,599)	44,340	24,070
	Expenses	(71)	5,075	6,341	6,412
	Sale of equity and property investment to mutual funds for in-kind subscription against units	365,200	440,832	-	-
	Gain from sale of equity and property investment to mutual funds as refereed above	41,357	69,000		-
Due from related parties				50,681	30,482
	Subscription of units of funds, not yet paid	148,812	18,000	166,812	18,000
Due to related parties				166,812	18,000
	Murabaha placement	1,709	46,100	47,809	46,100
Total Placement				47,809	46,100

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:

	2015 SR '000	2014 SR '000
Salaries and other short term benefits	18,499	17,123
Post-employment benefits	1,084	685
	19,583	17,808

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 2015	Total 2014
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Cost									
At the beginning of the year	6,966	14,234	3,910	12,885	1,113	366	1,028	40,502	37,017
Additions	-	-	-	3,218	202	180	1,250	4,850	3,547
Disposals	-	-	-	(70)	(3)	-	-	(73)	(62)
At the end of the year	6,966	14,234	3,910	16,033	1,312	546	2,278	45,279	40,502
			-	-	-	-	-		
Accumulated depreciation									
At the beginning of the year	-	4,792	3,793	9,814	1,042	189	-	19,630	17,409
Depreciation (note 16)	-	468	52	1,617	56	55	-	2,248	2,283
Relating to disposals	-	-	-	(64)	-	-	-	(64)	(62)
At the end of the year	-	5,260	3,845	11,367	1,098	244	-	21,814	19,630
Net book amounts									
At 31 December 2015	6,966	8,974	65	4,666	214	302	2,278	23,465	
At 31 December 2014	6,966	9,442	117	3,071	71	177	1,028		20,872

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

	2015 SR '000	2014 SR '000
Payables	12,598	12,074
Accrued expenses	18,050	7,562
Remuneration payable	22,365	14,881
Vacation allowance	1,419	1,739
Other	124	-
	54,556	36,256

9. MURABAHA CONTRACTS

This represent commodity murabaha contracts executed through Discretionary Portfolio Managers (DPMs) with investors. The murabaha contracts carries profit rate of 5.25% to 6.25% including 1% management fee and the maturity period ranging between 11 to 24 months from the date of contract. The murabaha contracts were classified into short-term and long-term according to the maturities.

10. ZAKAT AND INCOME TAX

Provision for Zakat and Income Tax as of 31 December	2015 SR '000	2014 SR '000
Zakat	1,684	3,934
Income tax	205	185
	1,889	4,119

Zakat

The provision is based on the following:

	2015 SR '000	2014 SR '000
Equity	820,443	805,314
Provisions and other adjustments	13,411	11,097
Book value of long term assets	(1,043,386)	(720,275)
	(209,532)	96,136
Saudi shareholders' share of adjusted income for the year	67,362	60,579
Adjusted zakat base	67,362	156,715

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:

	2015 SR '000	2014 SR '000
At 1 January	3,934	3,887
Charge for the year	1,684	3,918
Zakat difference	205	-
Paid during the year	(4,139)	(3,871)
At 31 December	1,684	3,934

Income Tax

Income tax charges for the years ended 31 December 2015 and 31 December 2014 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:

	2015 SR '000	2014 SR '000
At 1 January	185	136
Charge for the year	205	185
Paid during the year	(185)	(136)
At 31 December	205	185

Status of assessments

During the year ended 31 December 2015, the Group received an assessment relating to the return filed for the period ended 31 December 2009 with an additional liability of SR 3.851 million. The Group filed an appeal in Preliminary Appeal Committee (PAC) against this assessment. The PAC rendered its decision upholding the DZIT's treatment. The Group has filed an appeal with Higher Appeal Committee (HAC) against the PAC's decision. The Group also submitted a bank guarantee for the disputed liability, amounting to SR 3.851 million.

In prior years, the Group received an assessment relating to the return filed for the period ended 31 December 2008 with an additional liability of SR 10.357 million. The Group filed an appeal against this assessment. During the year ended 31 December 2013, the PAC rendered its decision upholding the DZIT's treatment. The Group filed an appeal with HAC against the PAC's decision. The Group also submitted a bank guarantee for the disputed liability, amounting to SR 10.357 million.

Management of the Group is confident of favourable outcomes of the appeals and accordingly no provision has been made in respect of these additional amounts in these consolidated financial statements.

Assessments for the years ended 31 December 2010 through 31 December 2014 have not yet been raised.

11. SHARE CAPITAL

The share capital of the Company, amounting to SR 813,202,930, is divided into 81,320,293 shares of SR 10 each (2014: same).

During 2010, AKC increased its share capital from SR 424.9 million to SR 813.2 million by issuing of an additional 38,826,911 shares with a par value of SR 10 per share. The legal formalities in respect of this increase in share capital were completed during 2011.

The net contribution towards shares issue expense on issue of share capital of SR 424.9 million in 2008, amounted to SR 10.62 million were included in the consolidated statement of changes in shareholders' equity under "transaction costs on issue of share capital". During the year ended 31 December 2014, the transaction costs were set off against the dividend payable (see note 12).

12. DIVIDEND

During the year ended 31 December 2015, the Board of Directors proposed a dividend of SR 0.50 per share, totalling SR 40.66 million, representing 5% of share capital of the Company (2014: SR 40.66 million). The dividend was approved by the shareholders in the general assembly meeting.

Net proceeds of SR 36.557 million (2014: SR 12.843 million) were distributed to the shareholders, after deducting Zakat and income tax due from shareholders amounting to SR 4.103 million (2014: SR 17.191 million and transaction cost amounting to SR 10.623 million).

13. 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 until this reserve equals 50% of the paid up capital of the Company. This reserve is not available for distribution.

14. FEE INCOME

	2015 SR '000	2014 SR '000
Advisory fees	75	1,015
Management, custody and subscription fees	60,661	43,085
	60,736	44,100

15. SELLING AND MARKETING EXPENSES

	2015 SR '000	2014 SR '000
Salaries and benefits	5,977	5,700
Sales incentives	1,192	2,765
(Recoveries) / charge for the year (note 4)	(17)	822
Other	3,223	2,551
	10,375	11,838

16. GENERAL AND ADMINISTRATION EXPENSES

	2015 SR '000	2014 SR '000
Salaries and benefits	68,572	60,543
Rent and premises related expenses	1,826	1,562
Depreciation (note 7)	2,248	2,283
Business travel	3,420	3,540
Legal and consultancy	15,138	12,144
Communications	4,350	2,700
Office supplies	1,048	608
Utilities	669	628
Insurance	348	356
Other	4,104	4,676
	101,723	89,040

17. EARNINGS PER SHARE

Earnings per share on net operating income is calculated by dividing net operating income by the weighted average number of shares in issue during the year.

Earnings per share on net income is calculated by dividing net income by the weighted average number of shares in issue during the year.

18. 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 carry 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 2015 and 31 December 2014 are payable within 12 months from the consolidated balance sheet date except certain long-term murabaha contract 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, discretionary portfolio, externally managed funds and other investments

The Group's investment in funds managed by the Group, its discretionary portfolio, externally managed funds, and other investments as at 31 December 2015 and 31 December 2014, of SR 1,205.79 million and SR 708.95 million, respectively, has been classified as held for trading. The market risks on these investments are monitored on an individual basis. A 10% (2014: 10%) change in the fund's net asset values will increase or decrease the Group's net income by SR 97.81 million (2014: SR 70.13 million).

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.

19. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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 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:

	2015 SR '000	2014 SR '000
Capital base		
Tier-1 Capital	900,086	873,597
Tier-2 Capital	84	83
Total Capital Base	900,170	873,680
Minimum capital requirement		
Credit Risk	237,883	88,972
Market Risk	158,004	117,463
Operational Risk	29,179	20,437
Total minimum capital required	425,066	226,872
Capital Adequacy Ratio		
Total capital ratio (time)	2.12	3.85
Surplus in capital	475,104	646,808

20. 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

	Capital management SR '000	Asset management SR '000	Others SR '000	Total SR '000
Year ended 31 December 2015				
Operating income	123,125	60,850	(114)	183,861
Net operating income	113,487	31,286	(77,624)	67,149
Year ended 31 December 2014				
Operating income	112,671	41,893	3,616	158,180
Net operating income	104,752	20,441	(67,891)	57,302

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 SR '000	Kingdom of Bahrain SR '000	Total SR '000
Year ended 31 December 2015			
Operating income	178,514	5,347	183,861
Net operating income	63,314	3,835	67,149
Year ended 31 December 2014			
Operating income	96,448	61,732	158,180
Net operating income	2,424	54,878	57,302

21. 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.

22. 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 2015, the Group holds assets under management amounting to SR 2,985 million (2014: SR 2,588 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.

23. 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 and as such no provision has been made in these consolidated financial statements in respect of these claims.

b) The Group has maintained a margin of SR 14.208 million (2014: SR 10.357 million) with a local bank in respect of guarantees issued in favour of DZIT (notes 4 and 10).

c) The Board of Directors has authorised future capital expenditure, amounting to SR 22.4 million (2014: SR 14.9 million) in connection with leasehold improvements and construction under progress.

24. OPERATING LEASES

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

	2015 SR '000	2014 SR '000
Within one year	900	450
From 1 to 5 years	4,500	4,500
Over 5 years	7,800	8,700
	13,200	13,650

25. 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 SR 12.43 million (2014: SR 13.16 million), and the provision for doubtful debts was SR 10.97 million (2014: SR 10.99 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 obtain the best estimate of fair value. 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:

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

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

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

26.BOARD OF DIRECTORS’ APPROVAL

The consolidated financial statements were approved by the Board of Directors on 14 Jumad Awal 1437H (corresponding to 23 February 2016).

27. 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 Report contains certain "forward-looking" statements 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 a particular country, region or worldwide, the possible effect of certain plans on future performance, and the assumptions 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 be achieved. Therefore, they should not be relied upon as definitive and final. Alkhabeer does not intend to update these forward-looking statements, but reserves its right to do so at its absolute discretion.

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