



ANNUAL REPORT

2018

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

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

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

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The background of the slide is a low-angle, upward-looking photograph of several modern glass skyscrapers. The buildings are covered in a grid of dark window frames, creating a complex geometric pattern. The sky is a pale, hazy blue. Overlaid on the image are several semi-transparent, light grey geometric shapes, including triangles and polygons, which intersect to form a network of thin lines across the entire frame. The overall aesthetic is clean, modern, and corporate.

CORPORATE OVERVIEW

CORPORATE OVERVIEW

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

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

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

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

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

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

OUR VISION

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

OUR MISSION

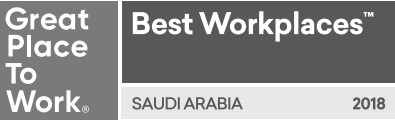
To be the company of choice; that high achievers want to work for, and that every investor desires to buy.

OUR VALUES

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

OUR AWARDS

Alkhabeer Capital’s expertise in private equity, asset management and human capital development continues to be recognized from a variety of key industry stakeholders. The recognition emphasizes the status of the company as a prominent player in the Kingdom’s market and reflects the hard work and innovative spirit its people possess.



GREAT PLACE TO WORK® – AMONG BEST WORKPLACES IN SAUDI ARABIA

In March, Alkhabeer was named one of the best workplaces in Saudi Arabia by the Great Place to Work® Institute, ranking first among investment companies and fifth overall in the Kingdom. 2018 is the eighth consecutive year that Alkhabeer Capital has earned a top ranking on this annual list.



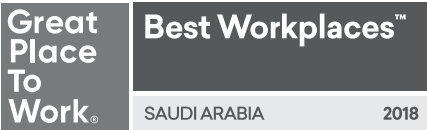
BANKER MIDDLE EAST – BEST PRIVATE EQUITY FIRM IN SAUDI ARABIA

In May, the company’s resilient performance in a challenging environment was recognized and Alkhabeer Capital was named as Saudi Arabia’s ‘Best Private Equity Firm’ by the prominent regional magazine Banker Middle East for the second year in a row..



ISLAMIC BUSINESS & FINANCE – BEST ASSET MANAGER IN SAUDI ARABIA

Towards the end of the year, in Deecember 2018, Alkhabeer Capital won another reward, ending the year on a high note. The firm was given the ‘Best Asset Manager in Saudi Arabia’ award in recognition of its asset management capabilities by Islamic Business & Finance magazine, a member of CPI Financial publishing group.



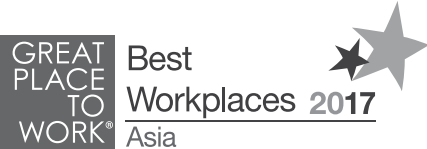
GREAT PLACE TO WORK® – AMONG BEST WORKPLACES IN SAUDI ARABIA



BANKER MIDDLE EAST – BEST PRIVATE EQUITY FIRM IN SAUDI ARABIA



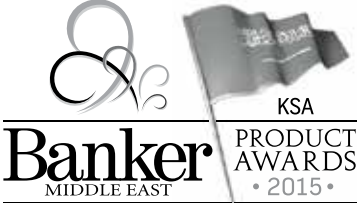
ISLAMIC BUSINESS & FINANCE – BEST ASSET MANAGER IN SAUDI ARABIA



RANKED SIXTH UNDER THE BEST SMALL AND MEDIUM WORKPLACES IN ASIA AND THE ONLY SAUDI COMPANY IN THE LIST



BEST GCC EQUITY FUND FOR “ALKHABEER GCC EQUITY FUND”



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



GCC EQUITY FUND OF THE YEAR FOR “ALKHABEER GCC EQUITY FUND”



‘BEST EMPLOYERS’ IN THE MIDDLE EAST

FINANCIAL HIGHLIGHTS

(SAR '000)	2018	%	2017	%	2016	%	2015	%	2014
EARNINGS									
Total Revenue	188,213	-	187,490	-10%	207,358	13%	178,514	16%	158,180
Operating Expenses	-98,814	7%	-92,205	-17%	-110,552	-1%	-112,098	11%	-100,878
Financing Expenses	-33,892	-1%	-34,141	-	-25,674	-	-4,618	-	-
Net Income before Zakat and Income Tax	56,860	-7%	61,144	-14%	71,132	6%	67,149	17%	57,302

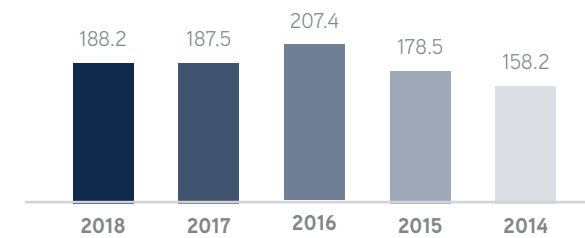
FINANCIAL POSITION									
Shareholder's Equity	985,427	5%	941,786	7%	880,642	-2%	900,170	3%	873,680
Total Assets	1,927,555	10%	1,745,498	8%	1,611,613	16%	1,384,315	47%	940,212
Investments	1,527,900	15%	1,330,406	5%	1,267,634	5%	1,205,794	70%	708,946
Total Liabilities	942,128	17%	803,712	10%	730,971	51%	484,145	628%	66,532
Assets Under Management	5,597,631	17%	4,774,120	8%	4,426,995	10%	4,010,786	20%	3,335,071

PROFITABILITY									
Net Income Margin	30.2%		32.6%		34.3%		36.2%		36.2%
Return on Average Assets	3.1%		3.6%		4.7%		5.8%		6.3%
Operating Expenses-to-Income ratio	53%		49%		53%		61%		64%
Earnings per Share (SAR)	0.68		0.75		0.87		0.83		0.70

% Change

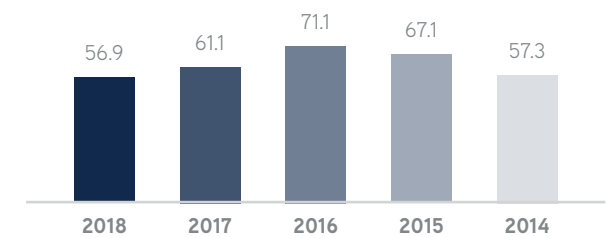
TOTAL REVENUE

SAR MILLIONS



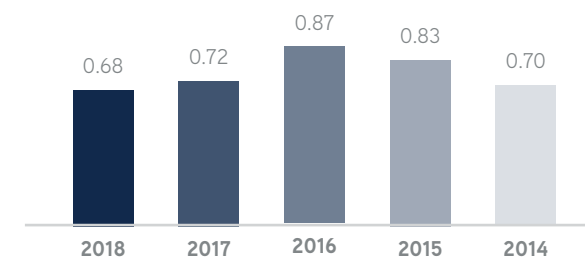
NET INCOME BEFORE ZAKAT AND INCOME TAX

SAR MILLIONS



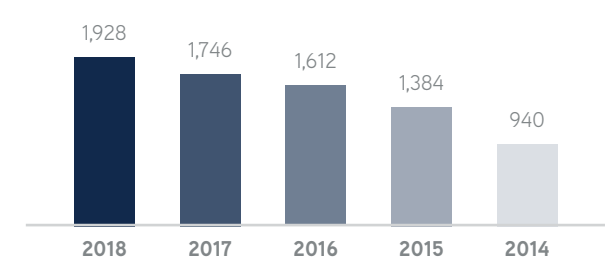
EARNING PER SHARE

SAR



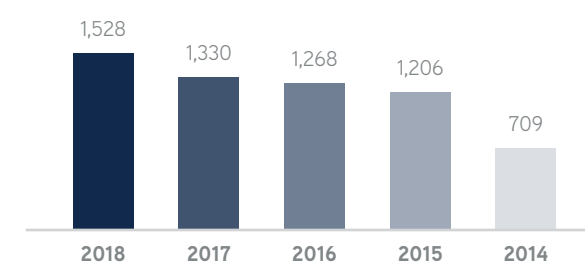
TOTAL ASSETS

SAR MILLIONS



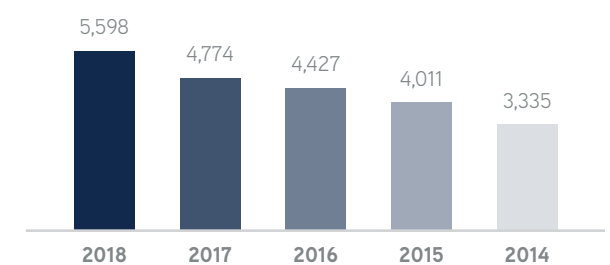
INVESTMENTS

SAR MILLIONS



ASSETS UNDER MANAGEMENT

SAR MILLIONS



INVESTMENT PORTFOLIO 2018

CURRENT INVESTMENTS

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	AUM SIZE*
REAL ESTATE					
1. Alkhabeer Land Development Fund II	▼	7-Dec-11	Saudi Arabia	2019	1,329.80
2. Alkhabeer Residential Real Estate Development Fund I (MASAKEN I)	▼	29-Dec-12	Saudi Arabia	2019	47.02
3. Alkhabeer US Real Estate Income Fund	▼	2-Jul-14	US	2019	50.73
4. Alkhabeer Real Estate Opportunity Fund I	▼	7-Dec-14	Saudi Arabia	2019	647.38
5. Alkhabeer Real Estate Residential Development Fund II	▼	31-Dec-14	Saudi Arabia	2019	73.29
6. Alkhabeer Saudi Real Estate Income Fund I	▼	8-Dec-16	Saudi Arabia	2019	212.32
7. Alkhabeer Hospitality Fund I	▼	22-Dec-16	Saudi Arabia	2019	113.97
8. Alkhabeer GCC Opportunity company	▼	27-Dec-17	Saudi Arabia	2022	508.39
9. Alkhabeer Real Estate Opportunity Fund II	▼	28-Dec-17	Saudi Arabia	2022	174.52

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	PRODUCT SIZE*
PRIVATE EQUITY					
1. Alkhabeer Industrial Private Equity Fund I	▼	31-Dec-12	UAE	2019	99.73
2. Alkhabeer SME Fund I	▼	28-Dec-14	Saudi Arabia	2019	39.43
3. Alkhabeer Healthcare Private Equity Fund I	▼	31-Dec-14	Saudi Arabia	2019	165.52
4. Alkhabeer Education Private Equity Fund I	▼	31-Dec-15	Saudi Arabia	2020	191.07
5. Alkhabeer Industrial Private Equity Company III	▼	26-Dec-17	GCC	2022	155.00
6. Alkhabeer Education Private Equity Fund II	▼	30-Dec-18	GCC	2023	240.50
7. Alkhabeer Education Private Equity Fund III	▼	31-Dec-18	GCC	2023	157.00

EXITED INVESTMENTS

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	TOTAL DISTRIBUTIONS (SAR MILLIONS)	RETURN ON INVESTMENT
REAL ESTATE						
1. Alkhabeer Land Development Fund I	▼	10-Jul-10	Saudi Arabia	10-Mar-14	306.5	85.10%
2. Alkhabeer Real Estate Fund I	▼	1-Nov-10	Saudi Arabia	19-Oct-15	121.2	40.54%
3. Alkhabeer Real Estate Fund II	▼	1-Nov-10	Saudi Arabia	30-May-16	165.6	65.65%
4. Alkhabeer Industrial Private Equity Fund II	▼	29-Dec-13	UAE	24-Dec-17	201.1	54.72%
5. Alkhabeer Central London Residential Fund I	▼	19-Nov-12	UK	4-Nov-18	101.8	***

PRODUCT NAME	TYPE	INCEPTION DATE	GEOGRAPHY
CAPITAL MARKETS			
1. Alkhabeer GCC Equity Fund	▼	03 Jul 2011	GCC
2. Alkhabeer Liquidity Fund “Hasseen”	▼	12 Feb 2012	GCC
3. Alkhabeer Saudi Equity Fund	▼	01 Jul 2013	Saudi Arabia
4. Alkhabeer IPO Fund	▼	03 Dec 2015	GCC, MENA

- ▼ Private Closed-Ended
- ▼ Public Open-Ended

* (SAR millions as of 31 Dec 2018, unless otherwise stated)
** These are Closed-Ended investment products which are established and offered by way of private placement, in compliance with the implemented regulations issued by the CMA.
*** The Fund remains under liquidation.

BOARD OF DIRECTORS REPORT SUMMARY

TO OUR ESTEEMED SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the Annual Report of Alkhabeer Capital for the fiscal year 2018.

Despite political turmoil and market uncertainties, your company's performance was, by the Grace of God, solid, which indicates the strength of our business.

2018 saw the government implement a number of notable economic and social reforms, including granting women the right to drive, opening up key sectors to foreign investment and reducing unemployment among Saudi nationals.

The real estate sector underperformed during 2018 despite efforts to boost residential activity, while the Kingdom's capital markets experienced a solid year, with Tadawul up over 8% from the start of the year.

ECONOMIC & SOCIAL REVIEW 2018

Volatility that plagued most of 2017 returned in 2018 as investors adjusted to trade wars, China growth uncertainties, unstable European politics and a succession of interest rate hikes in the US. After weakness at the start of the year, US economic growth accelerated substantially on the back of cuts in corporate and personal taxes. In China, GDP growth held up better than expected despite government measures to rein in excess credit growth. In late 2018, business optimism remained strong, especially in the US. In the UK, Brexit negotiations are, of course, reaching a critical stage.

On the home front, the Kingdom's economy showed signs of recovery in 2018, after contracting during 2017, backed by accelerated growth in both oil and non-oil sectors. In line with the announced budget for 2018, government expenditure was up 20% more than the previous year, with Military, Education and Health & Social Development sectors receiving maximum allocation.

The country is continuing with its ambitious social and economic reform plan, Vision 2030, to create jobs, attract investment and develop industries, such as tourism. The planned Initial Public Offering (IPO) of the world's largest company, Saudi Aramco, was postponed amid reports that the oil giant plans to acquire a controlling stake in Saudi Basic Industries Corporation (SABIC). This has cast doubts over an IPO in 2019.

The government is continuing to press ahead with diversifying the economy away from its dependence on oil and generate additional employment opportunities for Saudi citizens. It is expected that total spending for 2019 will increase and tourism numbers projected to grow significantly in the next five years as the government continues to embark on its journey of transforming the Kingdom into a regional tourism and entertainment destination.

FINANCIAL PERFORMANCE

Against the backdrop of political uncertainties and unprecedented challenges that faced our industry, Alkhabeer Capital has outperformed expectations.

Net revenues for the year increased to SAR 188 million, although net income fell to SAR 57 million, down 7%, on 2017.

Our AUMs increased 17% over last year, to SAR 5.6 billion.

DIVIDENDS

I am pleased to announce a final dividend for 2018 of 3%.

DEVELOPING OUR STRATEGY

A good business must be robust and we are very conscious to tailor our core offerings to increase value for our clients and shareholders.

We are confident that our business is well placed to continue delivering excellence to our clients. In our asset management business, we will proceed with our private placement funds for ultra-high and high-net-worth clients, and continue to develop innovative products. This was demonstrated starting in early 2016, when we modified our strategy with a sharper focus on real estate and private equity.

2018 was a pivotal year for Alkhabeer. In November we launched our Alkhabeer REIT Fund with total assets in excess of SAR 1 billion which provided a unique opportunity for all types of investors to obtain investment exposure to the real estate market in Saudi Arabia.

Private Equity will continue to explore opportunities in the defensive sectors, targeting education and healthcare. In 2018, we expanded our investments in the education sector by acquiring three educational companies.

Our Capital Markets department continues to work on expanding its offerings, as well as its global and regional investment managers to develop innovative competitive investment products. We are working closely with the Capital Markets Authority on developing our AWQAF platform allowing endowments for smaller investors.

THE YEAR AHEAD

The global financial crisis began ten years ago and it is fair to say that economic, political and investment uncertainty has become the norm. Turbulence at a macro level has continued over the last twelve months around the world, and we believe our clients should be prepared for this uncertain environment to continue, at least in the short term.

Central to our strategy is continuing to ensure we focus on delivering excellent long-term investment performance, and sophisticated, industry-leading services to our clients, based on retaining and hiring talented investment professionals.

These are exciting times for Saudi Arabia and we approach 2019 with cautious optimism and a strong belief in our business model to steer our company through these challenging economic conditions.

Finally, but most importantly, the Board would like to thank our Shareholders for their continuing support, confidence and above all, their trust. I would also like to show my appreciation and thank our management and all of Alkhabeer people. It is their hard work, alignment behind our strategy and commitment that enables us to deliver on our promises.

DISCLOSURES

Alkhabeer Capital's Board of Directors Report for 2018 contains all the required disclosures. This takes into account a material event concerning an Independent Board Member which affected business and contracts with related parties. The material event will be presented and voted on at Alkhabeer Capital's upcoming general assembly meeting. For further clarification on the Board of Directors Report, please visit Alkhabeer Capital's website (www.alkhabeer.com).

Finally, we take this opportunity to express our sincere thanks to our Shareholders for their continuing support, confidence and trust, and to the members of the Board of Directors for their contributions to the Company's achievements. We would also like to express our appreciation to our management and all of Alkhabeer's staff who enabled us to deliver on our promises, and without their hard work, commitment and support implementation of our strategy would not have been possible.



MUSAAD MOHAMMAD ALDREES
Chairman



AMMAR AHMED SHATA
Founder and Executive Director

CHIEF EXECUTIVE OFFICER'S REPORT

During 2018, economic uncertainty and turbulence dominated regional and international political conditions impacting local and world markets. Domestically, however, the Kingdom's economic reform program continued to support planned objectives to boost economic performance by supporting Saudization programs in new areas. The year also saw clear challenges facing the asset management industry. Notwithstanding these challenges, Alkhabeer Capital performed well against the sector as a whole, supported by the dedication and professionalism of Alkhabeer's employees in 2018.

FINANCIAL HIGHLIGHTS

Our financial results for 2018 were solid as mentioned above. Our assets under management increased to SAR 5.6 billion, up 17% from 2017, while our investments also rose to SAR 1.5 billion, an increase of 15% compared to the previous year.

Net revenues increased to SAR 188 million, up 0.5% compared to 2017, while net income saw a decline of 7% over 2017 to SAR 56.9 million.

A CHANGING INDUSTRY

Our current funds' portfolios and investment vehicles target alternative asset classes, which provide our clients the required diversification to achieve their investment objectives.

In November 2018, we launched our first real estate investment traded fund, under the name "Alkhabeer REIT". The Fund invests in seven income-generating real estate assets in Riyadh, Jeddah and Tabuk with a value in excess of SAR 1 billion. The Fund was well-received, with a total subscription of 104%. Our real estate strategy will continue to exploit opportunities to acquire income generating real estate assets in the Kingdom of Saudi Arabia, and explore opportunities to acquire global properties. During the year, we exited Alkhabeer Central London Residential Fund, while partial exits were made from two other real estate funds.

In line with Alkhabeer's strategy, our Private Equity team works closely with the senior management teams of our portfolio companies to enhance operational and financial value. We remain committed to focusing on education and healthcare sectors, which are two key sectors underpinning locally and regionally in long-term development. To strengthen our strategy, we established Alkhabeer Education Private Equity Funds I & II. Both are closed ended Shari'a-compliant private placement investment funds, which collectively acquired three educational companies in the Kingdom of Saudi Arabia, and one educational company in Dubai, United Arab Emirates.

As always, our achievements have been realized through the diverse talents and skills of our employees, who are Alkhabeer's true assets, and whose integrity and passion are key to our ongoing success. We also have a strong and distinctive corporate culture which is diverse in both approach and future outlook. We have worked throughout the year to build upon this culture, promoting diversity and cementing a collaborative working environment for all our people.

Our reputation for excellence was further strengthened by two awards during the year. Alkhabeer Capital was named Best Private Equity Company in Saudi Arabia in 2018 for a second consecutive year. Alkhabeer was also named Best Asset Manager in Saudi Arabia financial industry. Our efforts culminated in Alkhabeer's ranking first in the Great Place to Work® survey, thanks to the sincere efforts, diligence and enthusiasm of our people.

OUR STRATEGY FOR 2019 AND BEYOND

Saudi Arabia's investment environment is undergoing a period of change, with Vision 2030 promoting private sector growth, economic diversification, improved infrastructure and a stronger legislative framework for investors. The alternative investment sector in particular should benefit from this transformation.

We are confident that our business model has the strength and ability to adapt to this change and develop in the future through investment in the right opportunities that align with our strategic priorities. In spite of the challenges, we see a number of reasons for optimism. We also see opportunities which can drive the future growth of our business. Our strategy is to invest for this growth, adapting to change and evolving how we run Alkhabeer to overcome these challenges and embrace these opportunities.

Our clients have great confidence in our ability to deliver sustainable returns through periods of economic prosperity as well as economic uncertainty – and it is a responsibility that we take very seriously.

Building close partnerships with our clients enables us to gain a deeper understanding of our clients' investment management needs. This in-depth understanding allows us to continue to provide value, leading to sustained creation of new business opportunities.

We will continue to support and develop Alkhabeer's products by looking for and investing in promising opportunities in the private equity and income generating investments. We will keep on expanding our product and service offerings. As a responsible asset manager, we are committed to delivering stable and consistent returns for our clients.

Looking ahead, our core focus will remain on ensuring our clients receive the returns they expect. We will continue to invest for long-term growth of our business and products, whether by allocating more resources to leverage available opportunities, or by further diversifying our product offerings.

Although there are challenges facing the industry as a whole, we believe that there are opportunities for growth and that our business model is ideally placed to take advantage of those opportunities. We look forward to our continued success.



AHMED SAUD GHOUTH
Chief Executive Officer

MARKET OVERVIEW

MARKET OVERVIEW

Following up on its ambitious plans announced in 2017 to diversify the Kingdom's economy away from its dependence on oil, Saudi Arabia managed to stay on course in 2018 to achieve its goals. In its bid to boost non-oil GDP, the Kingdom announced and implemented a slew of reforms in 2018, including the introduction of Value Added Tax (VAT) at the beginning of last year, raising electricity tariffs and gasoline prices, nationalization of jobs to boost local employment, easing of social restrictions on women, re-opening of public cinemas and issuing of tourist visas. Another record budget for 2019 and continued emphasis on encouraging private sector participation in the country's economic development highlight the Kingdom's commitment to support long-term growth, in line with its Vision 2030 goals. During 2018, the country faced some headwinds in the form of volatile oil prices, postponement of the Saudi Aramco IPO and setbacks related to implementation of some of its ambitious projects during the year.

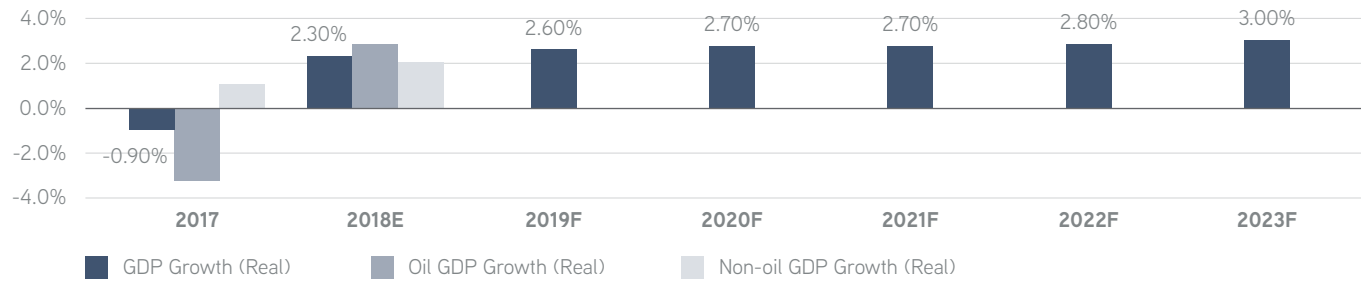
Saudi Arabia's economy rebounded in 2018 from the recession witnessed in the previous year, largely driven by a recovery in the oil sector, increased government spending and the positive impact of its structural reforms. According to preliminary estimates from the Ministry of Finance (MOF), the Kingdom's real GDP expanded by 2.3% on an annual basis in 2018, with the third quarter of the year recording the fastest pace of growth since Q1 2016, as higher oil production lifted oil GDP growth. For 2018, non-oil GDP is estimated to have expanded by 2.0%, driven by growth in major non-oil sectors such as manufacturing, mining and financial, among others. Meanwhile, VAT collections stood at SAR 45.6 billion for the year, a 101.5% increase compared to initial government estimates, and expat levies generated SAR 28 billion in revenues in 2018. The MOF has forecasted the Kingdom's economy to expand by 2.6% in 2019, driven by higher capital expenditure, continued growth in both the oil and non-oil sectors, government efforts to boost private sector participation through its privatization program and promoting new economic sectors and activities. The IMF, in its January World Economic Outlook update, upgraded its 2018 growth forecast for Saudi Arabia from 2.2% to 2.3%, on the back of higher oil prices and crude output during the year. However, the Fund downgraded its growth forecast for 2019 by 0.6% to 1.8% from its previous estimates in October 2018, citing lower oil prices and crude production, along with growing geopolitical tensions in the MENA region.

Non-oil private sector PMI in the Kingdom remained in expansionary territory throughout last year, albeit within a narrow range, as VAT implementation and energy price hikes resulted in slowness of business activity and new orders growth during the first half of 2018. The PMI fell to a record low of 51.4 in April 2018, due to weak domestic demand and challenging economic conditions. However, the non-oil PMI recovered from its soft start to the year and improved in the second half of 2018, amid a rebound in new order growth and upbeat business sentiment. A negative inflation rate, which remained throughout most of 2017,

picked-up last year, following the introduction of VAT and energy price reforms in early 2018, with consumer prices climbing by 3.0% in January 2018. However, inflation remained relatively muted throughout the year, as the impact of government measures began to lessen, easing fears that these measures would push inflation higher and weigh heavily on consumer spending. Upward price pressures due to the new tax and fuel subsidy cuts were largely countered by the Citizen Account Program and higher government spending, which supported consumer spending.

On the flip side, unemployment rate rose to a record high of 12.9% in Q1 2018 and remained steady during the first six months of the year, as private companies remained reluctant to hire locals, amid increased operating costs and slowdown in business activity. An upbeat labor market is one of the key barometers of a healthy economy and the government is striving hard to correct the high unemployment among locals in Saudi Arabia. The Ministry of Labor and Social Development (MLSD) announced several initiatives in October 2018 aimed at encouraging the private sector to hire locals. Earlier this year, the government also announced plans to localize 15,000 jobs in the telecom sector by 2020. Further, we believe that allowing Saudi women to start their own business independently and lifting the ban on women driving will goad their participation in the labor market, while also positively impacting the Saudi economy over the long-term. We believe that the impact of the government's nationalization program is yet to seep into the economy, particularly with measures such as localization of jobs in the retail sector gaining traction only in the latter half of 2018. It is expected that once these measures come into effect in their entirety, we will be able to see a tangible positive impact on the Saudi job market. We also believe that training programs offered by the MLSD to Saudi nationals to develop and improve their skillset and abilities will prepare them for the job market.

SAUDI GDP GROWTH



Source: Ministry of Finance

PROGRESS ON ONGOING PROJECTS AND ANNOUNCEMENT OF NEW MEGA DEVELOPMENT PROJECTS HIGHLIGHT GOVERNMENT DETERMINATION TO DIVERSIFY THE ECONOMY

The National Transformation Program (NTP) 2020 was amended by the government following the launch of its new Vision Realization Programs (VRPs) last year. Some of the initiatives announced in the previous version of the NTP 2020 have been included in the relevant new VRPs. The VRPs are aligned with the government’s Vision 2030 plans to boost the Kingdom’s non-oil economy through investments in the infrastructure, tourism and entertainment sectors. In line with its stated goals, the government launched several new projects in 2018 and made headway on many of its previously announced projects over the past two years.

The Kingdom made steady progress over the past year on transforming itself into a global tourism and entertainment destination through the development of its entertainment, tourism and heritage sectors. The Kingdom added ‘Amaala’, an ultra-luxury tourism destination focusing on wellness, healthy living and meditation, to its list of mega development projects in 2018, which will further help in attracting foreign tourists to its shores. Among other new projects launched during the year was the Public Investment Fund’s (PIF) Wadi Al Disah Development project, a valley of palm trees in the Tabuk region, which is expected to become a major sustainable tourism destination in future. Furthermore, the Al Akaria Saudi Real Estate Company (SRECO) is planning to develop a 7 million square meter city, “Al Widyan”, within Riyadh, at a cost of about SAR 10 billion.

Furthermore, the Saudi Council of Economic and Development Affairs launched the “Quality of Life Program 2020”, one of the Vision Realization Programs 2030, to improve the quality of life of the local population. The program aims to encourage participation in cultural, entertainment, sports and other

leisure activities, thereby leading to job creation and significant investment opportunities. The total spending on these initiatives is anticipated to reach SAR 130 billion by 2020.

In October 2018, Saudi Arabia signed agreements worth SAR 187.5 billion with global firms in the energy and transportation sectors at the Future Investment Initiative (FII) held in Riyadh. The government also announced the creation of the King Salman Energy Park (SPARK), with the aim of positioning Saudi Arabia as a global energy, industrial and technological hub. The SPARK project is expected to create around 100,000 direct and indirect jobs, localize over 350 new industrial and service facilities and is projected to contribute about SAR 22 billion to Saudi Arabia’s GDP by 2035. The Kingdom also signed a Memorandum of Understanding (MoU) with Japan’s SoftBank Group in early 2018 to build the world’s largest solar power project in Saudi Arabia. The project, expected to cost about SAR 750 billion, is likely to add 200 GW to the country’s solar capacity by 2030. While plans for the project were reported to have been abandoned in October, Energy Minister, Khalid al-Falih, indicated in late 2018 that work on the project had already begun.

The Red Sea Development and the Al-Qiddiya entertainment city projects announced in 2017 were incorporated and registered as closed joint-stock companies in 2018. The construction work on the Red Sea project is scheduled to start this year and the first phase is expected to open in 2022. Likewise, the first phase of the Al-Qiddiya leisure city, whose foundation stone was laid by King Salman in April 2018, is expected to be completed by 2022. In a further boost to the tourism sector, Saudi Arabia’s General Sports Authority launched a new electronic visa system, ‘Sharek’, in September 2018, which will help international tourists to attend various events and live concerts across the Kingdom. Meanwhile, following the lifting of a 35-year old ban on public cinemas at the end of 2017, many cinemas halls were opened in the Kingdom last year.

The government’s plans to boost religious tourism also received an impetus following the inauguration of the Haramain high-speed railway in September 2018, connecting the religious cities of Makkah and Madinah. Meanwhile, the Madinah Development Authority revealed plans to build new pedestrian tunnels in the vicinity of the two cities to reduce traffic and improve access to the Prophet’s Mosque. Additionally, the new King Abdulaziz International Airport (KAIA) was opened in the first half of 2018 for selected domestic destinations and as per reports, towards the end of 2018, a new private aviation terminal was also launched at the King Khalid International Airport in Riyadh to cater to businesses as well as private jet owners, as part of the government’s ongoing privatization program.

With an eye on attracting foreign investments into the Kingdom and strengthening diplomatic and business ties with Western countries, the Crown Prince, Mohammad Bin Salman, embarked on a multi-nation tour to the US and Europe in March-April 2018. During this trip, the Prince signed a slew of agreements spanning several key sectors with the UK and the US, including defence and technology. During his visit to the UK, the two countries mutually agreed to build trade and investment opportunities worth around SAR 339 billion over the coming years. Furthermore, the Prince’s trip to France resulted in signing of economic deals worth more than SAR 67.5 billion. Also, according to reports, 46 new deals in 10 key sectors were signed between Saudi Arabia and the US, which is expected to create about 750,000 jobs in both countries. Meanwhile, the first phase of the construction of ‘NEOM’ gigacity project has begun and investors look ahead to further updates on project funding.

Looking ahead, we believe 2019 will continue to witness the launch of new projects and deals in the Kingdom. The Saudi Contractors Authority is expected to come up with new projects worth over SAR 200 billion at the Future Projects Forum (FPF) to be held in February 2019. The under-construction Riyadh Metro project is also expected to have a soft launch in 2019. Additionally, the King Abdulaziz International Airport in Jeddah is expected to be fully operational in the first quarter of 2019 and a private sector operator is expected to be appointed for the airport by the second half of this year. In our opinion, the government’s continued efforts towards gradual easing of economic and social restrictions will enable the Kingdom to boost its tourism and entertainment sectors, thereby diversifying its economy and ensuring long-term economic growth.

RECORD GOVERNMENT SPENDING TO DRIVE GROWTH AND BOOST KEY SECTORS IN 2019

Saudi Arabia announced a record budget in 2018 to lift the economy from a recession in 2017, thereby reversing the public austerity measures in place over the previous two years. For 2019, the government has continued with its expansionary fiscal policy by unveiling the country’s largest ever budget, on the back of the recovery in crude oil prices in 2018. The government announced plans to increase its expenditure by 7.0% in 2019,

in an effort to boost economic growth. Accordingly, spending is expected to reach an all-time high of SAR 1,106 billion, surpassing previous year’s record expenditures of SAR 1,030 billion. We expect the government’s expansionary budget, along with its continued focus on reforming the economy, to increase and diversify its revenue streams, thereby boosting GDP growth in the years to come.

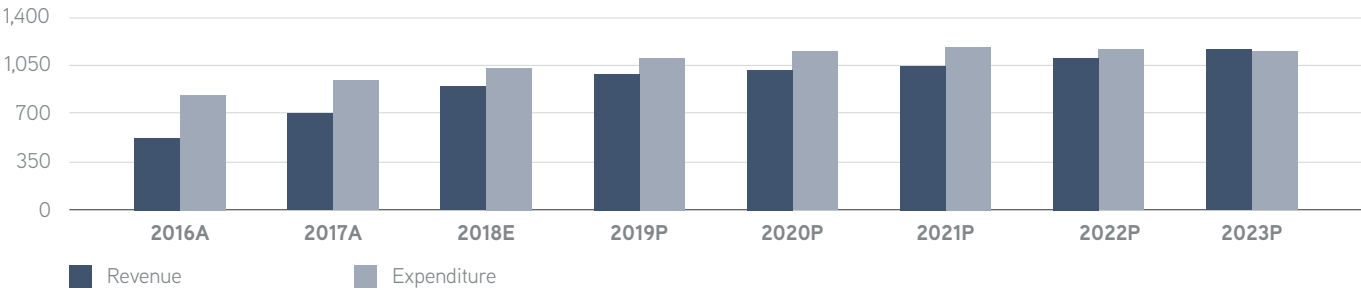
Several reforms such as the implementation of VAT, energy price reforms and the levies on expatriates, together with higher oil production, resulted in increased revenues in both the oil and non-oil sectors in 2018. Though we believe that the government’s revenue target for 2019 is challenging, efforts to boost non-oil revenues and the improvement in oil markets will have a positive impact on revenues this year. We believe increased capital spending will strengthen the broader economy, with sectors such as construction, transportation and utilities expected to flourish. Additionally, we expect continued payments under the Citizen Account Program and government plans to continue with its cost of living allowances for 2019, will boost consumer spending which will be a big positive for the economy.

Education, military and healthcare sectors continued to account for about 50% of the total budgetary allocation in 2019, in line with the trend seen in recent years. At SAR 193 billion or 17.5% of total expenditure, spending on education marginally edged out military spending, which stood at SAR 191 billion. However, allocation to the defence sector was lower than in 2018. Meanwhile, allocation for the energy, industry, mining and logistics sectors is projected to more than triple to SAR 33 billion in 2019 as compared to the 2018 budget. Capital expenditure is forecasted to increase by 19.9% from 2018 to finance initiatives under the Vision 2030 program, including housing, infrastructure and mega development projects to stimulate growth and create more jobs for locals.

For 2018, the Kingdom’s budget deficit stood at SAR 136 billion, lower than the initially estimated deficit of SAR 195 billion and far less than 2017’s deficit of SAR 238 billion, driven by the higher increase in revenues as compared to expenses during the year. The government expects its budget deficit to narrow marginally to SAR 131 billion or 4.2% of GDP in 2019, from 4.6% in 2018. Last year, the Saudi government raised around SAR 120 billion through global and local Sukuk and bond issuances to address its budget deficit, of which SAR 71.3 billion were international bonds and the remaining SAR 48.7 billion were local Sukuks. For 2019, the government plans to fund its deficit through issuance of bonds worth SAR 120 billion and withdrawals from its reserves.

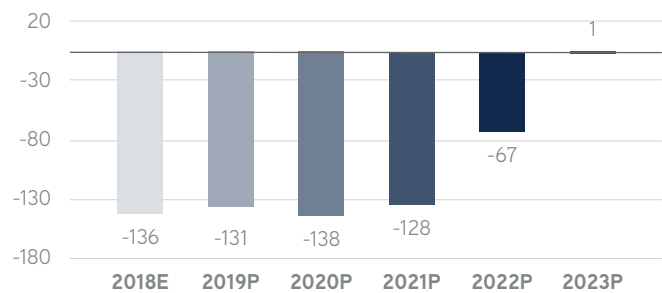
The government’s expansionary path is expected to further increase public debt over the next five years to 2023 with government debt projected to reach SAR 678 billion or 21.7% of GDP in 2019, although this is still below the NTP 2020 target of 30%.

BUDGETED REVENUE AND EXPENDITURE (SAR BILLION)



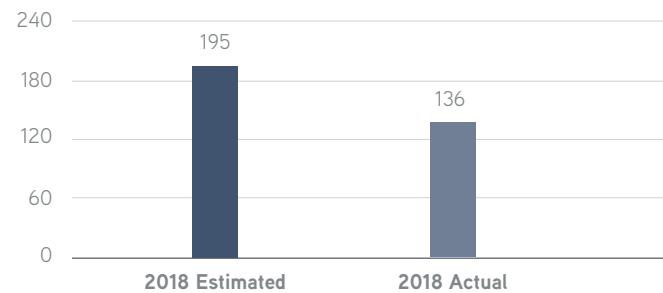
Source: Ministry of Finance

(DEFICIT) / SURPLUS (SAR BILLION)



Source: Ministry of Finance

ESTIMATED VS ACTUAL DEFICIT IN 2018

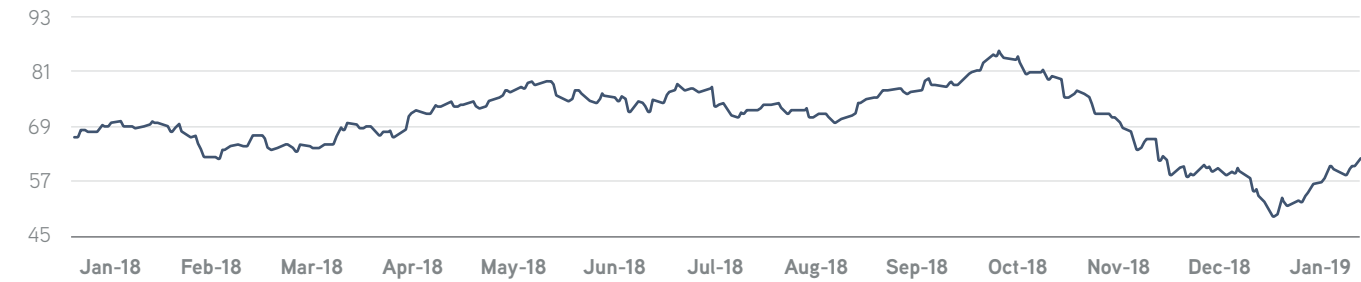


Source: Ministry of Finance

OIL MARKET EXPERIENCED MAJOR UPHEAVALS IN 2018 AND WE EXPECT PRICES TO REMAIN VOLATILE THROUGH 2019 AS WELL

Oil markets remained directionless throughout 2018, with crude prices swinging from multi-year highs to sharp declines during the latter half of the year, after trading within a relatively narrow range during the first nine months of 2018. Oil prices skyrocketed in early October to levels never seen since 2014, largely due to the impact of an extension to the OPEC+ agreement on oil production cuts, the US decision to re-impose sanctions against Iran, the turmoil in Venezuela and rising global demand. However, prices began falling sharply in the last quarter of the year, led by concerns over global growth prospects following the US-China trade war.

BRENT CRUDE OIL SPOT PRICES (USD PER BARREL)



Source: Bloomberg

The US Energy Information Administration (EIA), in its January 2019 Short-Term Energy Outlook report, reduced its price forecast for Brent and WTI oil for 2019 by about \$11 per barrel each, from its November 2018 outlook. The agency cited record production in the US and concerns over weaker global oil demand in 2019 as the reasons for the sharp pullback in its forecasts. The EIA expects Brent and WTI crude oil prices to average around \$61 and \$54 per barrel, respectively, in 2019.

Looking ahead, we expect oil prices to recover in the second half of the year, when the latest OPEC+ production cuts will come into full effect. Adherence to the agreement will go a long way in determining the direction of crude oil prices in 2019. We believe that oil prices will also receive support once the US waivers for Iranian oil imports expire in the coming months. Additionally, dovish stance of the US Fed on further interest rate hikes could result in weakening of the US Dollar, another positive for oil prices. However, we expect factors such as rising US oil production - projected to average above 12.0 million barrels per day in 2019 - and demand concerns due to the projected slowdown in global growth, together with uncertainty surrounding the US-China trade war, to weigh in on oil prices this year. In our opinion, oil markets will continue to remain volatile this year.

EMERGING MARKET UPGRADES DRIVE TADAWUL, ARAMCO IPO POSTPONED TO 2021

The Tadawul All Share Index (Tadawul) gained 8.3% in 2018, outperforming major global indices, and was among the top performers globally in the first half of the year climbing 15.1%. These gains were primarily driven by the announcements of the Kingdom's inclusion in the FTSE Russell, MSCI Inc. and S&P Dow Jones' respective Emerging Market Indices. However, fears of a global trade war and volatility in oil prices, along with political tensions in the region, dented investor confidence and led to panic selling in the second half of 2018.

The efforts of the Capital Market Authority (CMA) and Tadawul over the past two years are set to bear fruit this year with the inclusion of Saudi Arabia in the FTSE Russell's Secondary Emerging Market and the MSCI's and S&P Dow Jones Indices' Emerging Market Index, marking the Kingdom's integration into global equity markets. In our opinion, these upgrades will expand the Kingdom's investor base and will bring in billions of riyals in both active and passive foreign inflows, thereby improving liquidity in the local market. In line with the Kingdom's aim to attract foreign investments to fund its mega development projects, multiple reforms were introduced over the last year. These include the creation of a Central Counterparty Company (CCP) for clearing securities and developing of future clearing services, in accordance with the state-of-the-art global risk management standards. Measures targeted at enhancing the opening and closing price calculation mechanisms for both the main market and the NOMU parallel market to facilitate better price efficiency were also implemented during 2018. We expect the reforms process to continue this year, with the potential

introduction of exchange-traded derivatives in the second half of 2019, being one of the several measures expected to be implemented to lift investor sentiment. Another highlight from 2018 was the initiation of listing and trading of government debt instruments on Tadawul. We believe this will strengthen the Kingdom's bond and Sukuk market going forward. Moreover, the Kingdom's debt issuances are set for inclusion in JPMorgan Emerging Markets Bond Index this year.

2018 also witnessed the postponement of Saudi Aramco's IPO to 2021, amid indecision on the international venue for the listing and scepticism about the company's valuation. The IPO was also delayed possibly due to the need for Aramco to make its downstream business stronger and more attractive before debuting on the stock market. Subsequently, Aramco's focus shifted from the IPO to the diversification of its portfolio and strengthening of its downstream business in terms of technology and global reach. We believe that the proposed SAR 260 billion purchase of a 70% stake by the company in the Saudi petrochemical giant, SABIC, expected to be partly funded by the sale of bonds scheduled for the second quarter of this year, will lay the groundwork for this diversification. The Kingdom aims to complete this deal and update Aramco's balance sheet with SABIC's assets, a year before the IPO. In addition to this acquisition, Aramco is also mulling investments in a Russian Arctic LNG project and one of the US LNG terminals. We believe that diversification in segments such as Liquefied Natural Gas (LNG) will support the company's plans for a smooth and a successful IPO. Meanwhile, the Kingdom is committed to its belief that Aramco's estimated valuation would be about \$2 trillion or more and we believe that the disclosures which the company would be required to make, including its financial accounts and its oil & gas reserves, for its debt market entry planned in mid-2019 will provide the required transparency for global investors to make better investment decisions.

The introduction of Real Estate Investment Trusts (REITs) was one of the key capital markets initiatives introduced by the Capital Market Authority (CMA) in the past two years in the Kingdom. The number of listed REITs on the Tadawul more than doubled in 2018 and as of December 2018, the Kingdom has a total of 16 REITs listed on its exchange with a collective market capitalization of over SAR 12 billion. The nine REITs listed over the past year managed to attract considerable investor attention although, the performance of the sector was largely subdued on the back of continued decline in the real estate development activity in the Kingdom. The REITs index was down 21.8% and the Real Estate Development index was down 31.3% in 2018. While the country's real estate sector remains in the doldrums, we believe that investors need to remain positive and invested in the REITs to attain gains in the long-run. The expected boost to construction activity in the Kingdom, supported by the mega city development projects and government spending on various housing and infrastructure projects, will support the real estate development activity going forward, eventually benefitting the REITs in the form of an expanded and improved investment base.

Over the last year, the CMA also introduced various amendments to the initial REITs' regulations, with a view to increase their attractiveness to investors. These include the raising of minimum capital requirement for new funds from SAR 100 million to SAR 500 million and an increase in the minimum public unitholder requirement from 50 to 200. The CMA revisions also include changes to risk policies and risk assessment, along with the requirement of disclosing quarterly fact sheets by the REITs. In our view, these modifications to the existing reforms will improve the quality of the REITs listed on the exchange and enhance transparency in the sector, thereby protecting investor interests and boosting their confidence. Over time, we expect the emergence of new thematic REITs in the Saudi market, with the availability of new high-quality assets across a varied pool of asset classes, on the back of government support to the real estate sector and increased private sector participation in the financing of the real estate sector.

Meanwhile, the NOMU parallel market was down by 19.7% as of December 2018, with only one firm, the National Building and Marketing Co., listing during the year. The total number of companies listed on the exchange now stands at ten with a combined market capitalization of SAR 2.3 billion. With the opening up of the Kingdom's financial markets and the expected massive inflows into the Kingdom, we expect more and more SME's to list on NOMU in the future in order to tap into these additional capital resources to expand their businesses.

PIF CONTINUES TO DRIVE SAUDI PRIVATE EQUITY INDUSTRY

The Public Investment Fund (PIF), Saudi Arabia's sovereign wealth fund, continued to make notable investments over the past year, as part of the Kingdom's diversification plans and to transform the country into a global technology powerhouse. The PIF has become a catalyst for the launch and development of new sectors in the Kingdom, unlocking investments in industrial, manufacturing, entertainment, tourism and waste management sectors. The Fund has made investments, directly or indirectly, in various technology companies and remains committed to invest another SAR 168 billion to the second Vision Fund, which is expected to come up in the near future.

Among its major deals in 2018, the PIF acquired a minority stake in US electric carmaker, Tesla, for SAR 7.5 billion and made a SAR 3.8 billion investment in its competitor Lucid Motors. The Fund's plan to sell around 70% stake in Saudi Basic Industries to Saudi Aramco will also help in generating funds for future investments. Furthermore, the PIF is considering taking exposure in entertainment related companies such as Legendary Entertainment and Endeavor, in line with the government's plan to make the Kingdom a global entertainment hub. The Fund has also raised a SAR 41 billion loan last year to increase its firepower in the Kingdom's private equity sector.

The government's privatization plan is expected to attract investments from local as well as global private equity firms. In October 2018, the government launched a venture capital initiative worth SAR 2.8 billion through Small and Medium Enterprises General Authority (Monsha'at) and the Local Content and Private Sector Development Unit (Namaa), to increase private equity funds and venture capital in the Kingdom and to provide financial support for start ups. Additionally, Saudi Venture Capital signed a MoU with US-based venture capitalist, Tim Draper, to launch a venture capital investment fund in the Kingdom.

The government also revealed plans to privatize seven companies in Q1 2019 and a total of 19 companies during the year. With the Saudi market introducing new regulations and easing the setup of wholly-owned foreign companies, the Kingdom is expected to attract further investment opportunities. We expect the Emerging Market upgrades for the Saudi capital market to further boost foreign investments in the Kingdom.

REAL ESTATE SECTOR SOFTNESS CONTINUED THROUGH 2018

Saudi Arabia's real estate sector, which has witnessed a significant slowdown over the past few years, continued to remain subdued in 2018. Low occupancy levels, declining rents and significantly lower property prices across most asset classes resulted in further weakness in the sector, despite efforts taken by the government over the past year to revive flagging real estate development activity in the Kingdom. According to the General Authority of Statistics (GaStat), property prices in the Kingdom declined by 3.1% in the third quarter of 2018, as compared to the same period in 2017, led by the residential segment, where prices deteriorated by 3.8%, followed by a 2.0% dip in the commercial segment.

The government continued its efforts to support the real estate sector and launched initiatives such as affordable housing programs, public-private partnership projects and mega city development projects to tackle the challenges faced by the sector. In early 2018, the SAMA increased the loan to value ratio for first-time homebuyers from 85% to 90% in a bid to boost the residential property market and stimulate mortgage lending. In February 2018, the Ministry of Housing (MOH) unveiled a SAR 120 billion housing program to make subsidized credit available to potential home-buyers as well as to provide support for property development. We believe the new housing program will be a stepping stone towards achieving its goal of raising home ownership levels among Saudis from 50% currently, to 60% in 2020, and 70% by 2030 and will also encourage local lenders to broaden their mortgage portfolios. Last year, the MOH, through its Wafi online platform, granted licenses to 60 companies to sell plots of land and housing units. The Ministry is looking to add about 480,000 housing units by 2020 and most of these units are expected to be provided through the Wafi program.

Meanwhile, the Al-Uyayna Housing Project in Riyadh, valued at SAR 100 million, became the first project to be funded by the white land tax program. The MOH expects that the tax on undeveloped plots will help in funding new projects in future. Further, the MOH launched the eleventh instalment of its 2018 Sakani program in November, indicating that it had achieved 95% of its target of providing 300,000 residential and financial products in 2018. Earlier this year, the government launched its Sakani program for 2019, under which 200,000 housing products will be allocated to the beneficiaries, with about 50,000 units to be constructed under the public-private partnership model. The MOH is also planning to cut its waiting list for applicants by 75% by the end of this year and expects that there will be no waiting-list candidates next year.

2018 also marked an important and critical change in the Kingdom's primarily government-backed and controlled real estate sector. In line with its Vision 2030 plans, the government is set to move away from its traditional role as the sole housing provider in the country and hand over the reins to the private sector to play a vital role in project rollout going forward. We expect the private sector to play a key role in the affordable housing segment in the future.

2018 witnessed the listing of nine new REITs on the Tadawul, highlighting strong appetite for REITs among financial institutions and asset managers. In our opinion, new CMA regulations aimed at improving transparency in the REITs market to boost investor confidence will not only strengthen the REITs sector but also prove beneficial for the real estate development sector in the long-term.

We believe that the initiatives announced by the government over the last two years to stimulate the real estate market such as the white land tax, affordable housing schemes and easing of mortgage regulations, among others, will attract additional investments into the sector. While we believe that the government is moving in the right direction to revive the deteriorating real estate sector, its efforts will take time to filter through. Furthermore, in our view, the short-term outlook for the sector remains dim, with rents and occupancy levels expected to remain under pressure in the near future due to continued exodus of expatriates from the Kingdom. However, we remain positive on the long-term outlook for the real estate sector in Saudi Arabia, especially in light of the accelerated construction activity expected from the planned mega development projects and the Kingdom's efforts towards developing an active real estate market in the coming years.

ECONOMIC AND SOCIAL TRANSFORMATIONS ARE HERE TO STAY AND WILL PROPEL GROWTH GOING FORWARD

2018 evolved as a year brimming with audacious reforms and initiatives supporting the Kingdom's longstanding goal to diversify and wean itself off hydrocarbon dependency. We believe that the VAT implementation, energy price reforms and expat levies will continue to contribute to the economic diversification of the country over the years. Meanwhile, the Emerging Market upgrades and trading of government bonds are expected to draw billions in cash flow to the Kingdom's capital market, improving its liquidity. Moreover, in our opinion, Saudi Arabia's entertainment sector and expanding infrastructure will support the country's transformation as a global tourism hub.

The significant policy changes over the last year herald that this process of transformation will continue over the years and further unlock new investment opportunities. The ease of investments in key sectors emerging through the ongoing economic overhaul are expected to benefit the business environment in the Kingdom.



REVIEW OF OPERATIONS AND ACTIVITIES

REVIEW OF OPERATIONS AND ACTIVITIES

ASSET MANAGEMENT

In Asset Management, our clients truly have a trusted partner in Alkhabeer, who is focused on meeting our clients' needs. We take the connected approach, drawing on different viewpoints and knowledge of our investment teams to provide our clients with superior investment performance. The depth of our expertise and breadth of our capabilities enable our investment teams to have greater insight that help us make informed decisions, which, in turn, allow us to deliver robust, risk-adjusted returns over the long term across Shari'a-compliant private funds and discretionary portfolios.

Our current portfolio of 16 funds and investment vehicles targets alternative asset classes, providing clients with diversification through sectoral and geographic scope, and differentiated return objectives. Alkhabeer Capital always aims to align its interests alongside its clients by investing in the funds and companies it creates, which is one of the strongest contributing factors to the success of our investments. We continually monitor economic conditions, market opportunities and client requirements to develop new investment solutions that anticipate our clients' evolving investment management needs.

2018 HIGHLIGHTS

- Successfully inceptioned Alkhabeer's first REIT, with total assets in excess of SR 1 billion, in 2018. Alkhabeer REIT's initial portfolio of real estate assets includes 7 properties in the retail, office and residential segments, strategically located in Jeddah, Riyadh and Tabuk.
- Inceptioned two private equity funds in December 2018, which collectively acquired two schools based in Saudi Arabia and one school based in Dubai.
- A full exit was completed from one real estate fund, while partial exits were made from two other real estate funds.
- The number of Discretionary Portfolio Management (DPM) accounts for capital markets grew by 32.96% percent.
- Total assets under management (AUMs) grew by over 17% to SAR to 5.597.63 billion.

REVIEW OF OPERATIONS AND ACTIVITIES

REAL ESTATE

Alkhabeer Capital focuses on the creation of real estate investment products that are unique, well-managed and high performing. We endeavor to provide competitive risk-adjusted returns from direct property ownership through our sector-leading capabilities and our disciplined approach to investment performance. We cater to investors with varying risk appetites and differing return objectives. Our investment philosophy is built around our understanding of real estate investment at a strategic as well as an asset level. Investment opportunities are created using extensive research, a deep understanding of real estate fundamentals, and meticulous valuation processes. We offer a diverse product range locally and internationally, encompassing all main categories of real estate investment management including core, core-plus, value-added and opportunistic real estate strategies and investments.

The Real Estate division comprises of three specialist units, Portfolio Management, Development, Acquisitions, staffed by professionals with a proven local and international track record in real estate investment, development and funds management.

2018 HIGHLIGHTS

- Established an ambitious plan for a REIT program which it successfully closed the initial offering of the first REIT “Alkhabeer REIT”, which received more than 25 thousand subscribers with a value of SAR 237 million, representing 24% of the total value of assets, which equates to more than SAR 1 billion.
- Continued to adopt an opportunistic approach towards acquiring income-generating real estate assets across key cities in Saudi Arabia, through the acquisition of seven income generating assets for “Alkhabeer REIT”, distributed in strategic locations in Riyadh, Jeddah and Tabuk.
- Developed a strategic partnership with a leading real estate developer and property manager who specializes in income generating properties.
- Successfully completed the exit of Alkhabeer Central London Residential Fund in addition to the exit of the following properties:
 - Lake Pointe Center III & IV, located in Indianapolis in the United States of America, owned by Alkhabeer US Real Estate Income Fund
 - Malga residential compound, located in Riyadh, owned by Alkhabeer Saudi Real Estate Income Fund
- Continued the partial exit of Alkhabeer Residential Real Estate Development Fund (Masaken), through the sale of residential units.

REVIEW OF OPERATIONS AND ACTIVITIES

PRIVATE EQUITY

Alkhabeer Capital is the trusted partner to family businesses in Saudi Arabia and the region. Our Private Equity department services target several sectors, including education and healthcare.

We work closely with the senior management teams of our portfolio companies to optimize operating and financial value. We invest in potential targets through investment funds that are seeded by significant proprietary capital provided by Alkhabeer Capital. Target companies are selected with the following investment strategies:

1. Growth Capital Partnerships: Acquisition of majority stakes in companies with strong growth prospects through a combination of capital increase and partial exit, as well as working with management to institutionalize the companies and ensure their long term sustainable growth.
2. Buyouts: Acquisition of majority or outright ownership in selected companies where management is independent from owners.
3. Acquisition of Pre-IPO Stakes: Acquisition of significant minority stakes in blue chip companies with IPO prospects.

2018 HIGHLIGHTS

- Acquired three educational companies in different regions, as follows:
 - 100% ownership in Al-Aziziyah Education and Training Company, owner of Al-Aziziyah Private Schools in Al-Khobar, Saudi Arabia.
 - 90% stake in Tanmiyah Integrated Education and Training Company, owner of five private schools (Raedat Al-Salam School, Dar Al-Qalam School, Rowad Al-Hadarah School, Al Sufara School and Tadamon Al-Salam School) in Riyadh, Saudi Arabia.
 - 100% ownership in Capital Schools Company WLL, owner of Capital Schools in Dubai, United Arab Emirates.
- Established Alkhabeer Education Private Equity Fund Limited II, to hold Al-Aziziyah Education and Training Company and Capital Schools Company WLL.
- Established Alkhabeer Education Private Equity Fund Limited III, to hold Tanmiyah Integrated Education and Training Company.
- Alkhabeer Private Equity's objectives are:
 - Create an education platform by incorporating a holding company to own all of the above mentioned schools which were acquired in 2018, as well as the schools to be acquired in the future.
 - Attract the best executive team to manage and operate these schools and take advantage of economies of scale and synergies to exit the education platform through an initial public offering in the Saudi Stock Market (Tadawul).

Alkhabeer Private Equity will continue to focus investments in other defensive sectors such as healthcare, together with a cautiously opportunistic approach to manufacturing business with strong exporting activities.

REVIEW OF OPERATIONS AND ACTIVITIES

CAPITAL MARKETS

Alkhabeer Capital Markets Department provides a wide spectrum of Shari’ah-compliant investment management services tailored to the needs of high-net-worth individuals, institutional clients and family businesses.

2018 HIGHLIGHTS

- In 2018, the Capital Markets Department was working on fulfilling the placement requirements related to the Initial Public Offering (IPO) of Alkhabeer REIT Fund to be listed on Tadawul. Moreover, the Capital Markets Department has engaged five major Saudi banks in addition to a lead manager to ensure extensive coverage for Alkhabeer REIT Fund’s IPO.
- The Capital Markets Department continued to work on expanding its offerings through various workshops and meetings conducted with the CMA, as well as global and regional investment managers for the purpose of developing new competitive investment products.



REVIEW OF OPERATIONS AND ACTIVITIES

PRODUCT DEVELOPMENT

Product Development plays a strategic role throughout the investment cycle. The department develops and structures new investment opportunities that have been identified by fund managers, into innovative investment solutions and products. It also supports fund managers in relation to new acquisitions, fund exits, terminations and liquidations. Additionally, the department ensures that products are developed and managed in a Shari'a-compliant manner through effective coordination with the Shari'a Advisor. Product Development prepares fund reports as per the CMA requirements and also compiles fund performance reports for investors. The department's team of specialized professionals has extensive experience in investment fund development, financial analysis, economic and market research, and applicable investment laws.

2018 HIGHLIGHTS

- Structured and developed the Alkhabeer REIT Fund.
- Structured and developed two new private equity products focused on education: Alkhabeer Education Private Equity Fund II and Alkhabeer Education Private Equity Fund III. These funds will be encompassed in Alkhabeer's Education Platform.
- Continued supporting the development of Alkhabeer's Waqf platform.
- Increased interaction with the CMA and explored the development of products based on new regulations such as Closed End Traded Funds.
- Updated product offering documentation to address the amendments in relation to specific products.
- Supported the generation of Investor Reports and CMA requested reports for all funds.

REVIEW OF OPERATIONS AND ACTIVITIES

AWQAF WEALTH MANAGEMENT UNIT



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

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

2018 HIGHLIGHTS

Following CMA's announcement in 2018 that Waqf investment funds will be introduced as a business line, Alkhabeer Capital developed and structured a Waqf Fund in collaboration with a prominent charitable institution who will benefit from the planned Waqf Fund. The Fund is expected to be launched in Q3 2019.



REVIEW OF OPERATIONS AND ACTIVITIES

INVESTMENT BANKING

Alkhabeer Capital reactivated its Investment Banking Department (IBD) in the second half of 2017 to focus mainly on providing advisory services for Initial Public Offerings (IPOs) on the Parallel Market (Nomu), which was inaugurated at the time. It should be mentioned that the investment banking sector continues to be challenging to Authorized Persons (Aps), particularly companies not affiliated with banks, starting with the prevailing economic conditions which weighed on corporate earnings and valuations causing a number of such companies to refrain from listing on the parallel market or obtaining any banking advisory or investment services. In addition, the growing rivalry by CMA licensed affiliates of local banks and international investment banks has placed pressure on fee-based business activities due to increased competition and receding opportunities in the local market. In spite of such challenges, Alkhabeer Capital continues to provide a wide range of financial offerings and advisory services. Alkhabeer's Investment Banking services are focused on three broad categories to provide best-in-class services:

1. CAPITAL MARKETS

The growing Saudi market is becoming an attractive option for businesses to obtain capital and create liquidity for shareholders. Therefore, Alkhabeer Capital is committed to supporting businesses and their management through every phase of the Initial Public Offering (IPO) process, ensuring that companies meet all of their objectives. Alkhabeer's vast experience allows provision of financial advisory and lead manager services on all aspects of the IPO process.

IBD will provide full Equity Capital Markets services to privately held companies covering:

- Initial Public Offerings (IPOs) mainly on Nomu;
- Rights Issues;
- Private Placements; and.

2. DEBT CAPITAL MARKETS AND DEBT ADVISORY

IBD will aim to provide advisory, arrangement and placement service in debt capital raising, mainly focusing on:

- Sukuks;
- Obtaining Shari'a compliant bank financing;
- Structured Finance.

3. MERGERS AND ACQUISITIONS

Alkhabeer Capital's unique position in Jeddah and its vast local network, allows it to best serve its clients' Mergers & Acquisitions (M&A) requirements in a wide array of highly specialized sectors, and provide opportunities to its public and private clients.

Alkhabeer can advise on and assist with all types of Mergers and Acquisitions, including:

- Mergers between public and private companies;
- Acquisitions of minority or majority stakes in companies;
- Joint ventures; and
- Strategic alliances.

2018 HIGHLIGHTS

- During 2018, Alkhabeer's IBD focused primarily on providing Nomu IPO and M&A Advisory services;
- During the year, the Investment Banking Department was appointed as a financial advisor to provide sell-side advisory services to an industrial investment company in connection with the disposal of its non-core assets.
- Separately, the IBD has also had positive discussions with a number of companies in the GCC and the Middle East to potentially list foreign entities on the Parallel Market, in anticipation of the revised Parallel Market listing rules.
- The Investment Banking Department (IBD) has arranged Shari'a compliant bank financing for a number of Alkhabeer Capital funds. IBD was also appointed to arrange bank financing for a number of companies which were acquired by real estate investment funds or private equity funds.

REVIEW OF OPERATIONS AND ACTIVITIES

FUND ADMINISTRATION, CUSTODY & OPERATIONS

Alkhabeer Capital has developed considerable expertise in the area of fund administration and custody, and has provided a specialized in-house service to the Company's fund managers for the past nine years. The Fund Administration, Custody & Operations (FACO) division has extensive experience in administering a diverse range of fund types, both locally and internationally.

This covers private equity, real estate, income-generating, equities, and money market funds.

2018 HIGHLIGHTS

- Following the encouragement of the Capital Market Authority for licensed custodians for servicing custodianship of funds under management by financial institutions in Saudi Arabia, Alkhabeer Capital took the decision to offer fund custodianship services to other Authorized Persons (APs) and local and regional banks, thereby, transforming its in-house FACO division into a revenue-generating business.
- To support this strategic move, FACO has prepared tailored marketing material specifically for external customers, which details the range of services offered, and highlights Alkhabeer Capital's unique expertise.
- Additionally, Alkhabeer Capital signed a strategic agreement with a legal firm, which has extensive experience of local and international laws and regulations, to provide appropriate counsel and legal services.

REVIEW OF OPERATIONS AND ACTIVITIES

BUSINESS DEVELOPMENT & PLACEMENT

Alkhabeer Capital's Business Development & Placement (BDP) team offers investment products in Saudi Arabia and other GCC states. The overarching aim is to seek the creation of long-term added value for Alkhabeer Capital from clients, markets, and relationships. Our BDP team is able to draw on their extensive knowledge to build and manage relationships with clients, comprising ultra-high-net-worth and high-net-worth individuals, family offices and institutions. In addition, the team introduces clients to new products and transactions, and communicates the progress of their investment portfolios. It also provides clients with reports on the latest developments in local, regional and international investment markets, and the prevailing environments, and available investment opportunities in various markets.

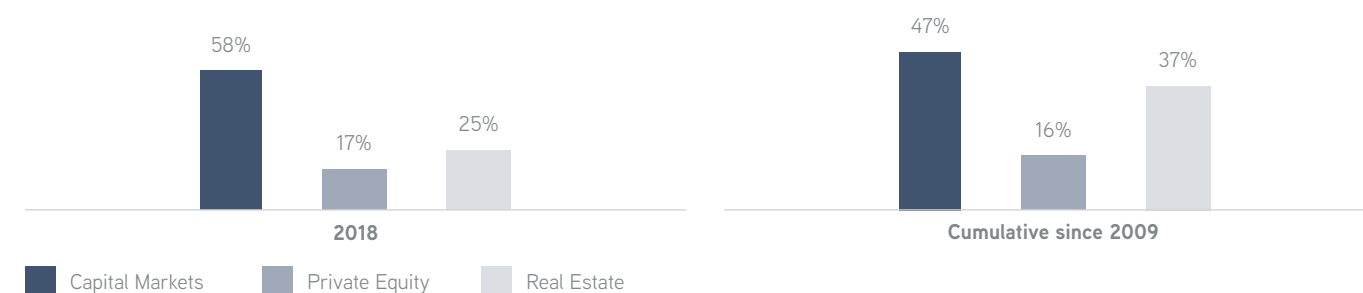
2018 HIGHLIGHTS

- Grew our client base by 24%, with a significant increase in the number of institutional clients.
- Repeat business reached 31% by the end of 2018, which reflects the satisfaction of existing clients.

PLACEMENT BY TYPE OF CLIENT 2018



PLACEMENT BY ASSET CLASS



REVIEW OF SUPPORT FUNCTIONS

REVIEW OF SUPPORT FUNCTIONS

HUMAN CAPITAL

Alkhabeer Capital places the highest priority on attracting, developing and retaining the best people in the industry, in order to provide a key competitive advantage. During 2018, in line with its strategic focus on alternative investments asset management, the Company took steps to ensure optimum staffing levels for the real estate and private equity divisions, and also for the critical back office functions that support them. At the end of the year, the Company's headcount stood at 70, with females accounting for 28%.

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

INFORMATION TECHNOLOGY

Alkhabeer Capital views IT as a key strategic driver and promotes effective stewardship of a secure and highly reliable technology infrastructure, along with high-quality services and support, to meet the ever-changing business needs of Alkhabeer. During 2018, the Company continued to encourage creative and innovative use of technology and upgraded its IT infrastructure to support information systems and services.

A centralized "Call Center" system was implemented during the year to receive query and requests regarding funds along with the paging solution Informacast.

To cope with the technology advancements, we upgraded our entire landscape of Oracle EBS and Business Intelligence to latest version 12c and migrated the platform from Microsoft to Linux for better security, stability and performance.

We set up the IT Infrastructure which included dedicated servers, networking and Oracle database to facilitate the move from Advent to Mubashir.

IT played a key role in the on-going renovation of Alkhabeer's head office. All renovated floors were equipped with the latest brand of Cisco switches which delivers network speed in multigigabytes, and a controller based Wireless Solution was installed to provide network connectivity. Other key developments include IP-Telephony environment upgrade, Storage and Tape Library Expansion.

Information security continued to be a priority during 2018. Fresh installation of HP Arcsight (SIEM - security information and event management) was carried out. To support business continuity planning, the Company's disaster recovery site was successfully tested, and external penetration testing of the technology infrastructure was conducted.

CORPORATE COMMUNICATIONS

Throughout 2018, Alkhabeer Capital continued to communicate its key achievements and milestones with stakeholders through announcements and media engagements, raising its profile and the profile of senior management. Media activities during the year included the release of nine announcements, three of which were regarding Alkhabeer REIT, along with one high-level feature and a Q&A.

INTERVIEWS

On March, Al Riyadh newspaper published a feature Q&A with the company's Chairman, MUSAAD MOHAMMAD SAAD ALDREES. The Q&A covered the founding and growth of the firm, providing a story that highlighted Alkhabeer's 10-year anniversary. Moreover, the article provided an assessment of the Firm's differentiators and provided a market outlook.

Leveraging the 'out-of-the-box' strategies whitepaper, the team secured a Q&A with CEO AHMED GHOUTH, which further emphasized Alkhabeer Capital's thought leadership and the expertise of its talent and senior management. The feature was published on Thomson Reuters Zawya, a prominent regional online news website.

ALKHABEER REIT

Moreover, the second half of 2018 saw the launch of Alkhabeer REIT. This represents a significant milestone for Alkhabeer Capital. During this period, the communications team implemented the REIT's communications strategy, which enlisted that tactical aid and strategic support from our communications advisors. This strategy utilized a multi-channel approach that targeted traditional, broadcast and digital media, resulting in a high-level of engagement and playing a key role in the success of the REIT.

RESEARCH REPORTS

OUT-OF-THE-BOX STRATEGIES

Alkhabeer Capital continued to demonstrate its thought leadership and expertise in the Kingdom's economy by publishing a research paper 'out-of-the-box' strategies for transforming economy and society, which provided stakeholders and readers with an in-depth review of the Kingdom's economy in light of the ongoing economic and social reforms. The communications team circulated Alkhabeer's 'out-of-the-box' research paper and press release to key journalists, which resulted in solid coverage in key newspapers and media outlets across the region.



FINANCIAL REVIEW SUMMARY

FINANCIAL REVIEW SUMMARY

This review provides a summary and analysis of Alkhabeer Capital's financial performance for the year ended 31 December 2018. The Notes to the Consolidated Financial Statements provide additional relevant information.

REVENUES

Total revenue in 2018 stood at SAR 188.2 million compared with SAR 187.5 million for the previous year.

Return on investments contributed SAR 123 million, reflecting a decline of 8% from SAR 134 million in 2017, mainly due to decrease in unrealized gains on trading investments in 2018.

The contribution from management and placement fees grew by 20% to SAR 64.5 million. This was driven by 17% growth in assets under management which stood at SAR 5,597 million at the end of December 2018.

Dividend income stood at SAR 19.8 million from SAR 21.3 million in 2017.

OPERATING EXPENSES

Total operating expenses increased by 7% to SAR 98 million compared with SAR 92 million for the previous year. For 2018, operating-expenses-to-income ratio grew to 53% compared with 49% in 2017.

EARNINGS

Net income before zakat and income tax declined by 7% to SAR 56.8 million from SAR 61.1 million in 2017 while net income after Zakat and income tax decreased by a slightly lower 5%. This resulted in a decrease in earnings per share after zakat and income tax to SAR 0.68 compared with SAR 0.72 in the previous year.

CONSOLIDATED BALANCE SHEET

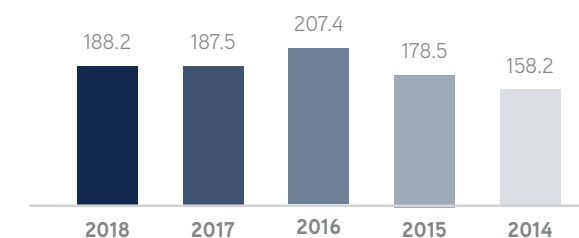
ASSETS

As at 31 December 2018, total consolidated assets stood at SAR 1,928 million, a growth of 10% over SAR 1,745 million at the end of 2017. This was a direct result of growth in investments.

The upward trend in total assets was led primarily by investments. The investments portfolio grew by 15% to SAR 1,528 million in 2018 from SAR 1,330 million in the previous year, driven primarily by alternative investments.

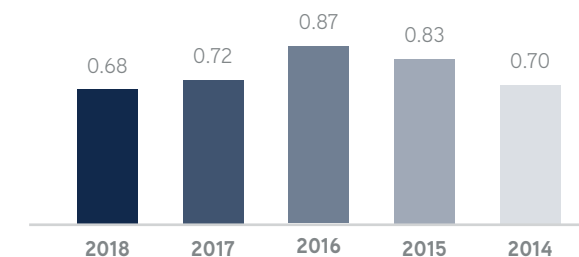
TOTAL REVENUE

SAR MILLIONS



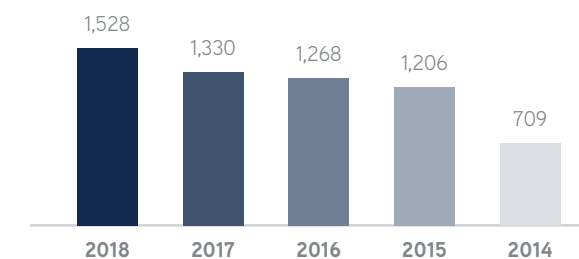
EARNING PER SHARE

SAR



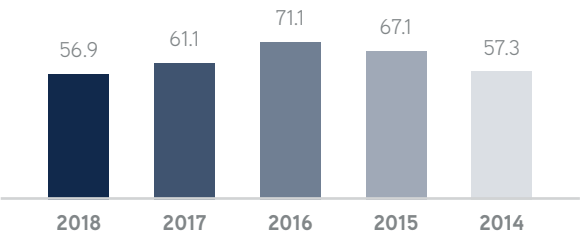
INVESTMENTS

SAR MILLIONS



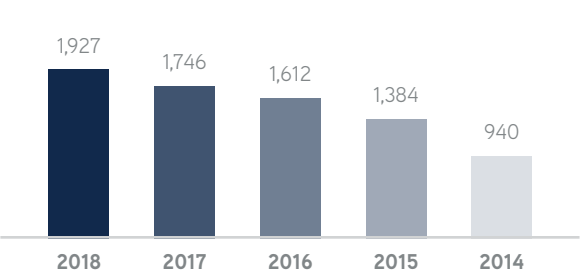
NET INCOME BEFORE ZAKAT AND INCOME TAX

SAR MILLIONS



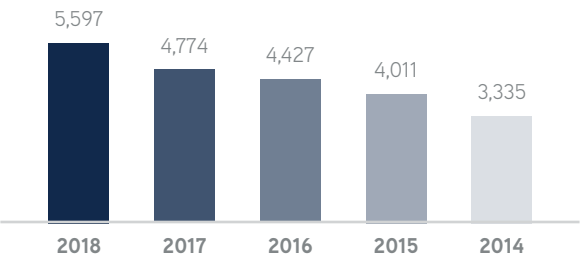
TOTAL ASSETS

SAR MILLIONS



ASSETS UNDER MANAGEMENT

SAR MILLIONS



CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with banks, cash in hand, and Murabaha placements. Cash and bank balances decreased by 34% to SAR 22 million in 2018 from SAR 34 million in the previous year due to an increase in Investments. Assets held on behalf of clients in a fiduciary capacity are not included in the consolidated balance sheet of Alkhabeer Capital. As at 31 December 2018, the Company held fiduciary assets under management of SAR 4.22 billion (2017: SAR 3.44 billion).

ASSETS UNDER MANAGEMENT

As at 31 December 2018, total assets under management stood at SAR 5,597 million, a growth of 17% over SAR 4,774 million at the end of 2017. This reflects the Company’s long-held commitment to provide clients with risk-adjusted returns across a range of Shari’a-compliant private funds and discretionary portfolios.

LIABILITIES

Total liabilities increased to SAR 942 million in 2018 from SAR 804 million in the previous year, driven mainly by an increase in liabilities & financing. In 2018, Alkhabeer Capital had a Shari’a-compliant financing balance of SAR 220 million.

FINANCING FOR 2018

The following table shows information related to any Shari’a-compliant financing extended to the Company as at 31 December 2018:

Name of Bank	Alinma Bank	Banque Saudi Fransi
Term of Financing in SAR	5 years	2 years
Principal Amount of Financing	100,000,000	150,000,000
Paid Amount	14,000,000	0
Outstanding Amount	72,000,000	150,000,000

Details of Alkhabeer Capital’s outstanding debt as at the end of FY 2018 are presented in the attached audited financial statements (Attachment 1). For details, please refer to the current and non-current liabilities section in the consolidated statement of financial position, and notes thereon.

SHAREHOLDERS’ EQUITY

At the end of 2018, shareholders’ equity increased by 5% to SAR 985.4 million, up from SAR 941.8 million at the end of 2017. The increase was driven primarily by the associated increase in retained earnings and SAR 5.5 million was transferred to the statutory reserve, in accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia.

CAPITAL ADEQUACY

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

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

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

CAPITAL ADEQUACY

(SAR '000)	2018	2017
Alkhabeer Capital’s net capital	985,427	939,590
Minimum net capital required	910,673	896,042

CAPITAL ADEQUACY RATIO

(SAR '000)	2018	2017
Total Capital Ratio	1.08	1.05
Surplus in Capital	74,754	43,548

SUBSIDIARIES

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

NAME OF SUBSIDIARY	CAPITAL (USD)	PERCENTAGE OWNERSHIP	MAIN ACTIVITY OF THE COMPANY	COUNTRY OF INCORPORATION	HEAD OFFICE
Alkhabeer Capital DIFC	1,000,000	100%	Financial services in respect of advising on financial products, arranging deals in investments, managing assets, arranging custody, arranging credit.	United Arab Emirates	Dubai, United Arab Emirates

DETAILS OF ALKHABEER CAPITAL’S SPECIAL PURPOSE VEHICLES

COMPANY	Capital (SAR)	PERCENTAGE OWNERSHIP	MAIN ACTIVITY OF THE COMPANY	COUNTRY OF INCORPORATION	HEAD OFFICE
New Gulf Real Estate Investment Company	300,000	99%	Custody of real estate assets owned by the real estate investment funds	Saudi Arabia	Jeddah
Midad Investment Company Limited	300,000	98%	Registration of assets of private equity funds, investment funds or portfolios established and managed by Alkhabeer Capital	Saudi Arabia	Jeddah
Trans-orient Investment Holding Company	300,000	98%	Acquisition of shares and stocks in all types of private and public companies in Saudi Arabia to the account of third parties	Saudi Arabia	Jeddah
Hafiz Real Estate Assets Limited	5,000	100%	Founded by Alkhabeer Capital as a custodian to hold and register the assets of The Investor Emerald Beach Real Estate Fund managed by The Investor for Securities Company	Saudi Arabia	Dammam

RISK MANAGEMENT REVIEW

RISK MANAGEMENT REVIEW

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

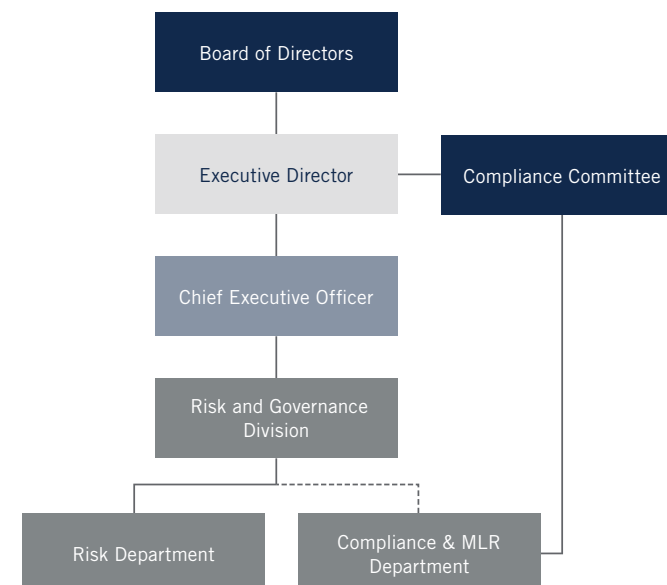
POTENTIAL RISK & RISK MANAGEMENT POLICY

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

CREDIT RISK

Credit risk refers to the risk where the 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 clients and specifically, margin lending is not currently practiced by Alkhabeer.

Therefore, the only credit risk Alkhabeer may be facing at present is in relation to counterparties, including banks and companies, as well as its investments in Alkhabeer's managed private funds. Alkhabeer adopts a credit strategy for monitoring and controlling the counterparty risk by setting limits for each counterparty in line with prudential regulations and internal approved policies. All counterparty limits are reviewed and approved by the Director of Risk and Governance Division. This risk is expected to increase in the markets, in general, as a result of economic changes in the region, consequently undermining the performance of companies and their ability to fulfill their obligations. These effects, at the core of the domestic economy, may be undetectable, but may have ripple effects, including the deterioration of corporate credit ratings, particularly for small and medium enterprises. Whereas Alkhabeer's investment portfolio focuses on investing in private funds (real estate and private equity), the level of exposure to this type of risk is considered high in view of the prevailing volatility in the market.



MARKET RISK

Market risk is the risk that results from the changes in market prices, interest rates / profit rates, and share prices to the Company's income or the value of its holdings of financial instruments. Alkhabeer invests in multiple asset classes which involve market risk due to their susceptibility to fluctuation in prices. Alkhabeer also invests its liquidity in money markets, capital markets, real estate, and private equity. Since Alkhabeer's business model is to invest mainly in its managed funds, the market risk exposure to such investments is monitored and managed by the Company through a disciplined investment policy set by the Board in which limits, parameters, processes and proper governance are detailed.

At the global level, heightened geopolitical risks have affected how Middle Eastern investors react to oil prices. This has created an adverse effect on the performance of equity and money markets which are most vulnerable to oil prices. As for interest rates / profit rates, their continued rise will also have an adverse effect, especially on the cost of funds at Alkhabeer's corporate level, as well as at the level of managed funds.

LIQUIDITY RISK

Liquidity risk emerges as a result of the inability to manage unplanned shortage, changes to financing sources, or the failure to address market changes that affect the ability to liquidate assets quickly and with minimal loss. 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.

Investors' continued reluctance to commit to new investments in view of regional conditions will have an adverse effect on capital turnover and the creation of new investment opportunities in line with the Company's business model. This will consequently, hamper the growth of assets under management and undermine the Company's liquidity and financial position in general.

OPERATIONAL RISK

Operational risk relates to the potential for losses stemming from inadequate or failed internal control processes, human resources, systems or external events. Operational risk includes exposure to legal risk, such as incurring fines, penalties or punitive damages resulting from regulatory actions against the Company or private settlements reached by the Company. Alkhabeer uses a set of tools to identify, measure and rectify operational incidents. In addition, Alkhabeer has a professional indemnity insurance policy that covers any loss resulting from unintentional lapses or system breakdowns.

RISK AND GOVERNANCE DIVISION

The Risk and Governance 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 Advent and World-Check for anti-money laundering and regulatory compliance, and aCCelerate for operational risk. In addition, an Internal Capital Adequacy Model has been developed and implemented in line with CMA requirements. The Company's capital adequacy is monitored on a monthly basis covering historic and forecasted figures in order to ensure that the Company maintains adequate capital coverage.

COMPLIANCE AND MLR DEPARTMENT

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

RISK DEPARTMENT

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

RISK AND GOVERNANCE FRAMEWORK

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

CORPORATE GOVERNANCE REVIEW

CORPORATE GOVERNANCE REVIEW

Alkhabeer Capital is committed to abide 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 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; and
- Encouragement and rewarding of improved performance in an equitable and responsible manner;

GOVERNANCE FRAMEWORK

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

CONFLICT OF INTEREST

Alkhabeer Capital did not, nor has it entered into, any contract in which any of its board members, ED, CEO, CFO or partners has or had any material interest that has not been approved with the exception of the activity carried out by Board Member Mr. Abdulkader Hayward Thomas, in which he had an interest, as shown on page (71) of the report. Refer to Note (7) of the Consolidated Financial Statements regarding related party transactions.

COMPLIANCE

Alkhabeer Capital 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 Capital's 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 2018, the Compliance Department conducted AML training session for Alkhabeer employees.

DETAILS OF ANY PENALTIES, FINES, PRECAUTIONARY MEASURES AND PREEMPTIVE RESTRICTIONS

No penalties, fines, precautionary measures or preemptive restrictions were imposed on Alkhabeer by CMA or any other supervisory, regulatory or judicial body during 2018.

DISCLOSURE AND TRANSPARENCY

Alkhabeer Capital 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 brochures; press releases and media announcements, and employee communications.

STRATEGY STATEMENT

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

SUCCESSION PLANNING

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

CONTROL FUNCTIONS

INTERNAL AUDIT (IA)

Internal Audit is an independent unit reporting to the Board’s Audit Committee that consists of three independent members. 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 CONTROL PROCEDURES WITHIN THE COMPANY

The Internal Audit unit audited Alkhabeer Capital’s operations during 2018, in accordance with the annual Audit Plan which was approved by the Audit Committee, to verify the effectiveness of the company’s internal control systems, to safeguard company’s assets, and to evaluate the suitability of the company’s performance in mitigating risks. As a result of these audits and reviews, there were no fundamental weaknesses uncovered in the internal control systems of the company. The Internal Audit Department has completed all planned audits for 2018. Further, follow up and closing of the findings identified during the reviews was one of the important tasks that the Internal Audit focused on during the year.

AUDIT COMMITTEE’S OPINION ON THE ADEQUACY OF THE INTERNAL AUDIT SYSTEM

The Audit Committee has reviewed the books and records, internal audit reports, along with various meetings’ minutes and data as relevant to our duties. We have found the Company’s internal controls system and processes to be sound and effective, and we have not uncovered any fundamental weaknesses. We have found, despite changes in IA staff, that the internal audit function was executed without any lapses. We did not note any event of fraud during the year ended December 31, 2018.

COMPLIANCE AND MLR

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

RISK

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

LEGAL

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

FINANCE AND ACCOUNTING

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

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Although our overall purpose is placing the interests of our clients and partners first, we also recognise the responsibility we have to wider society and other key stakeholders. We have always believed that demanding high levels of corporate social responsibility (CSR) is important at Alkhabeer.

We view CSR as the management of all of the environmental, social, governance, economic and ethical issues that make up our relationships with stakeholders and society. The development of our CSR strategy has continued throughout this year, reinforcing our commitment to act responsibly and contribute to society.

THE ENVIRONMENT

As part of our commitment to responsible consumption and production, we aim to minimise the impact that our own business has on the environment. We constantly review opportunities to minimise the environmental impact of our operations and to deliver continuous improvements in our environmental performance.

In 2018, we embarked on an energy and resources saving initiative to educate Alkhabeer people about energy conservation. Our CSR Committee set energy targets to reduce our electricity consumption by 5%, the amount of plastic bottles by 25% and paper by 10% by the end of 2019.

We are working with a prominent Saudi based sustainability solutions enterprise to target our waste management. As part of our ongoing commitment to sustainable resources, we are aiming to increase our use of recycled paper for internal use to 25% by the end of 2019.

INITIATIVES TO SUPPORT FUTURE GENERATIONS

ALKHABEER INTERNSHIP PROGRAM

A summer internship at Alkhabeer is an excellent way to learn business skills, partner with a mentor, build connections and get real-world experience before graduation. Interns are assigned to a department corresponding to their chosen field of study, and a mentor who is on hand to provide professional development and guidance. At the end of the program, a reference letter is issued, indicating the trainee's period of experience and performance evaluation. In 2018, six students were enrolled in the program.

BOARD OF DIRECTORS' REVIEW

BOARD OF DIRECTORS' REVIEW

Alkhabeer Capital's Board of Directors consists of prominent business leaders who, with their expertise, contribute to the success of the Company and its business ventures. The structure of the Board of Directors reflects a balance between the number of executive, non-executive and independent directors. The percentage of independent directors equates to 44% of the total composition of the Board. The Board of Directors held five regular meetings during 2018.

The Board performs 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 Board's Investment Committee, the Audit Committee, and the Nomination & Remuneration Committee.

DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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

- Alkhabeer has properly maintained its accounting records.
- The internal control system was properly prepared and effectively implemented.
- There is no doubt that Alkhabeer has the resources to continue its business.

BOARD MEMBERS' PROFILES



MUSAAD MOHAMMAD ALDREES
Chairman
Member of the Board's Investment Committee

A longstanding and renowned businessman, Musaad has played a leading role in developing and expanding a group of family companies in various business sectors. He was a Member of the Board of Executive Directors at the Saudi American Glass Factory, entirely owned by Dubai Investment Company. He was also a Member of the Board of Mohammad Saad Aldrees and Sons Limited Company (which later became a public company and listed on the Saudi Stock Market), Mohammad Saad Aldrees Sons Limited Company, Mohammad Saad Aldrees and Sons Holding Company, and Aldrees Industrial & Trading Company.

In addition to completing various training courses in KSA, the USA and the UK, Musaad is a graduate of the Institute of Public Administration in Riyadh, Saudi Arabia.



AMMAR AHMED SHATA
Executive Director
Member of the Board's Investment Committee

Ammar Shata is the founder and Executive Director of Alkhabeer Capital. He is also a Board Director of Jeddah Development & Urban Regeneration Company, and a Board Director of Murooj Jeddah Company Limited. He has more than 28 years of experience in Corporate Banking, Islamic Finance, Asset Management and Private Equity. He began his investment banking career in 1990. Since then, he has held several leadership positions in a number of major Saudi banks, including National Commercial Bank, Al Baraka Investment Development Group, and the Islamic Development Bank.

A Chartered Financial Analyst (CFA) Charterholder, Ammar holds a Bachelor's degree in Electrical Engineering and a Master's degree in Financial Economic Planning from the University of Southern California, USA.



SAEID MOHAMED BINZAGR
Vice Chairman
Chairman of the Board's Investment Committee

Saeid Binzagr has over 21 years' experience in commerce and industry. He is Chairman of Avon Beauty (Arabia) LLC and Binzagr Barwil Marine Transport Company, President and Chief Operating Officer of Abdullah & Said M.O. Binzagr Company Limited, Co-President of Binzagr Factory for Insulation Materials, Board member of Said M.O. Binzagr & Partners Company Limited, Binzagr Co-Ro Limited, Binzagr Unilever Limited, International Marketing & Communications Company Limited and Board member and founder of Diyar Al-Khayyal.

He holds a Bachelor of Science degree from Linfield College, Oregon, USA.



MOHANAD HAYDAR BINLADIN
(Non-Independent Director)

Muhanad is an Assistant General Manager of Administration and Finance, as well as the Acting General Manager of Investments Division at Mohammed Binladin Co. Previously, he served as Chief Accountant for Binladin Industrial Co. Muhanad is the owner of Cultural Thought Est. and the founder and partner in Nutrition Zone L.L.C and Zileej DMCC, an Emirati company specialized in computer software development. He is also a Board Director of Zileej DMCC, Sky Steel Systems (UAE) and Makani Bayn Alkhotoot, a Saudi company specialized in parking management and services.

Muhanad holds a Master's degree in Innovation and Technology Management from the Grenoble Graduate School of Business, France, and a Bachelor's degree in Finance from the King Fahad University of Petroleum & Minerals, KSA.



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

A well-rounded and versatile business executive, Mohammed has worked with various reputable family and corporate conglomerates in the region. He currently serves as Vice President at Dar Al Riyadh Group. He previously served as Deputy Managing Director for Strategy and Execution at Bahamdan Group. In addition, Mohammed currently sits on the boards of numerous Saudi-based corporations in financial services, manufacturing, contracting and real estate. He also serves as a strategy advisor to a select group of family businesses.

Mohammed holds a Bachelor's degree in Civil Engineering and a Master's degree in Infrastructure and Security Engineering from George Mason University, Virginia, USA.



MOHAMMED A. MOUMENA
(Independent Director)
Chairman of the Nomination & Remuneration Committee

Mohammed is an accomplished senior executive with valuable experience in a wide range of challenging business sectors. With more than 20 years of experience, he has established his reputation as a business leader and thinker in Saudi Arabia and the wider Middle East. Mohammed is a Managing Partner at the boutique executive search firm Edward W Kelley & Partners. He is an independent Board Director and Chairman of the Risk Management Committee at Fransa Invest Bank. He is also an Independent Board Member and Chairman of the Nomination & Remuneration Committee of the Middle East Healthcare Company (Saudi-German Hospital in KSA) and Initial Saudi Arabia Company. Mohammed also acts in a non-executive capacity for several other organizations involved in charitable work.

He holds a Bachelor's degree in Marketing from King Fahad University of Petroleum and Minerals, KSA.



ABDULKADER HAYWARD THOMAS
(Independent Director)
Member of the Audit Committee and the
Nomination & Remuneration Committee

Abdulkader, an international expert in Islamic finance, is the Chief Executive Officer and a Board Director of Shape for Economic Consultancy (Kuwait) and Shape Financial Corporation (USA). He is also a Board Director of Shape Knowledge Services Company (Malaysia) and Sterling Bank PLC (Nigeria). He has held senior positions in various financial institutions, including the Islamic Investment Banking Unit at United Kuwait Bank, Guidance Financial Group, and Sumitomo Bank Ltd. He is also a member of the International Advisory Committee for the Securities Commission of Malaysia. He 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 Masters degree in Law and Diplomacy from the Fletcher School of Law and Diplomacy, USA.



YASSIR KAMIL SINDI
(Independent Director)
Independent

Yassir Sindi is the Managing Director and Executive Board member at Al Faris Food Industries and Al Faris Al Arabi Trading Co, KSA, both of which specialize in the manufacturing and distribution of food products. He has extensive experience in the FMCG sector as well as turn-around situations. Yassir was also involved in the Venture Capital and Private Equity sectors as a non-Executive Director at nCoTec LLP and then Frontiers Capital Partners LLP in the UK (2001-2011).

Yassir has a BSC in Chemical Engineering from Colorado School of Mines, USA, and an MA in Economics from The Johns Hopkins University, USA, and an MBA from CASS Business School in London, UK.



ISSAM ZAID AL TAWARI
(Independent Director)
Member of the Audit Committee

Issam is an Islamic finance expert and currently serves as the Managing Partner of Newbury Economic Consulting that he established in Kuwait. He is also the Associate Partner of Emark Consulting & Training Company, and the advisor to the Chairman of the International Investor Company in Kuwait. He was the Founder of Rasameel Structured Finance Company in Kuwait where he served as the Chairman and Managing Director. Issam has held senior positions in several institutions, including Chairman of the Board of Ain Takaful Insurance Company, Sorooh Investment Company, and Board Director at Dubai Wire Company and Kuwait Catalyst Company, among others.

Issam holds a Bachelor's degree in Economics & Business Administration from the University of Kuwait, and a Master's degree from the University of Hull in the UK.

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

The table below shows the organizational structure of the Board of Directors and the classification of its members as at the end of 2018, in addition to the names of companies in which the Board member is also a member of their boards:

NAME	Member Classification	Membership in Boards of Directors of other Companies (Listed or Non-Listed)
Musaad Mohammad Aldrees (Chairman of the Board)	Non-Executive	NA
Ammar Ahmed Shata (Executive Director)	Executive	Member of the Board, Jeddah Development & Urban Regeneration Co.
		Member of the Board, Alkhabeer Capital (DIFC) Limited
		General Manager of Alkhabeer National
		Chairman of the Board, Avon Beauty Arabia Company
		Chairman of the Board, Binzagr Barwil Marine Transport Company
Saeid Mohammed Binzagr (Vice Chairman of the Board)	Non-Executive	Member of the Board, Binzagr Co-Ro Company
		Member of the Board, Binzagr Unilever Limited
		Member of the Board, Abdullah & Saeid M.O. Binzagr Company
		Member of the Board, Binzagr Factory for Insulation Materials Company
		Member of the Board, Binzagr Company
		Member of the Board, Diyar Al-Khayyal Company
		Member of the Board, International Marketing & Communications Company
		Member of the Board, Binzagr Company for Industrial and Commercial Investments
Mohammed Nawaf Babgi	Non-Executive	Member of the Board, Waraq Arab Paper
Muhanad Haydar Binladin	Non-Executive	General Manager of the Board, Zaleej Company
		General Manager, Makani Bayn Alkhotoot
		Director First Specialists for Energy Systems LLC
Abdulkader Hayward Thomas	Independent	Member of the Board, Sky Steel Systems
		Member of the Board, Shape for Economic Consultancy
		Member of the Board, Shape Financial Corporation
Issam Zaid Al Tawari	Independent	Chairman of the Board, Alkhabeer Capital (DIFC) Limited
		Founder and Partner Member, Newbury Economic Consulting
		Director and Partner of Newberry International Real Estate Company in Kuwait
		Director and Partner of Moods International General Trading Co Kuwait
		Member of the Board, 19 Cleveland Square Limited
Yassir Kamil Sindi	Independent	Member of the Board, Alkhabeer Capital (DIFC) Limited
		Executive Director of Al-Faris Foodstuff Factory
		Member of the Board, Initial Saudi Arabia Group
Mohammed A. Moumena	Independent	Member of the Board, Middle East Healthcare Company
		Member of the Board, Fransa Invest Bank
		Member of the Board, Al-Wedad Charity Foundation
		Member of the Board, Edward W. Kelley & Partners

BOARD MEMBERS’ ATTENDANCE

The Board of Directors held five (5) regular meetings during 2018. The following table shows attendance at each board meeting:

MEMBER'S NAME	First Meeting 25 February	Second Meeting 25 April	Third Meeting 25 July	Fourth Meeting 24 October	Fifth Meeting 24 December	Total 5
Musaad Mohammad Aldrees	▼	▼	▼	▼	▼	5
Ammar Ahmed Shata	▼	▼	▼	▼	▼	5
Saeid Mohamed Binzagr	▼	▼	▼	▼	▼	5
Mohanad Haydar Binladin	▼	▼	▼	▼	▼	5
Mohammed Nawaf Babgi	▼	▼	▼	▼	▼	5
Mohammed A. Moumena	▼	▼	▼	▼	▼	5
Abdulkader Hayward Thomas	▼	▼	▼	▼	▼	5
Issam Zaid Al Tawari	▼	▼	▼	▼	▼	5
Yassir Kamil Sindi	▼	▼	▼	▼	▼	5

▼ Attended ▼ Attended Electronically ▼ Excused Absence

BOARD MEMBERS’ REMUNERATION

The Members of the Board have not received any remuneration during 2018 in spite of their excellent performance towards achieving the Company's objectives. The allowances received by Non-executive and Independent Members of the Board, however, amounted to SAR 1,120,000 for the financial year 2018.

SHAREHOLDINGS OF BOARD MEMBERS AND RELATED PERSONS

The following table shows any interest in Alkhabeer Capital owned by Board members and any person related to them, and any change in such interest during 2018:

NAME OF BOARD MEMBER	Related Person	Number of Shares as at Beginning of 2018	Percentage Shareholding as at Beginning of 2018	Number of Shares as at End of 2018	Percentage Shareholding as at End of 2018	Share Par Value (SAR)
Musaad Mohammed Aldrees	-	1,600,000	1.96%	1,600,000	1.96%	10
Ammar Ahmed Shata	Alkhabeer National Company for Commercial Projects Management *	7,933,143	9.75%	7,933,143	9.75%	10
Saeid Mohammed Obeid Binzagr	(Father) Mr. Mohammed Obeid Saeid Binzagr	2,125,000	2.61%	2,125,000	2.61%	10
Saeid Mohammed Obeid Binzagr	Abdullah & Saeid M.O. Binzagr Company **	6,250,000	7.68%	6,250,000	7.68%	10
Ahmed Saud Ghouth	Alkhabeer National Company for Commercial Projects Management ***	7,933,143	9.75%	7,933,143	9.75%	10

* Includes (7,933,143) shares owned by Alkhabeer National Company for Commercial Projects Management, in which Mr. Ammar Ahmed Shata holds (48.6%) of share capital.

** Includes (6,250,000) shares owned by Abdullah & Saeid M.O. Binzagr Company, in which Mr. Saeid Mohammed Obeid Binzagr owns an indirect interest of (0.67%) and his father Mr. Mohammed Obeid Saeid Binzagr owns an indirect interest of (12.12%) through their ownership of a share in one of its companies, Binzagr Company for Industrial and Commercial Investments Ltd.

*** Includes (7,933,143) shares owned by Alkhabeer National Company for Commercial Projects Management, in which Mr. Ahmed Saud Ghouth holds (2.60%) of share capital.

- Note: On 31 December 2018, contract agreements were signed between Alkhabeer National Company for Commercial Projects Management and its majority owners and existing and new shareholders to sell and assign shares in Alkhabeer Capital, subject to CMA approval. As such, Alkhabeer National Company for Commercial Projects Management's shareholding in Alkhabeer Capital subsequent to the change becomes (3.98%), fully owned by Mr. Ammar Ahmed Shata. Thus Mr. Ammar Shata now owns an indirect share of (3.98%) in Alkhabeer Capital, and Mr. Ahmed Saud Ghouth now owns a direct share in Alkhabeer Capital of (0.301%). CMA approval was obtained on 07.02.2019 to amend the shareholders' register to include the aforementioned changes.

BUSINESS ACTIVITIES AND CONTRACTS WITH RELATED PARTIES

The Board of Directors declares that there is no business or contracts to which Alkhabeer Capital is party, or in which any of Alkhabeer Capital's Board members, top executives or any related person had an interest, with the exception of the activity carried out by Independent Board Member Mr. Abdulkader Hayward Thomas, in which he had an interest, as follows:

* Please read the material disclosure which appears below after the table in respect of that contract:

TYPE OF CONTRACT	Conditions	Term	Amounts
Contract to deliver education lectures at King Abdulaziz University (International Executive Education Program in Islamic Finance) sponsored by Alkhabeer Capital as part of its corporate social responsibility initiatives.	N/A	Annually, starting 2014	SAR 15,682 for 2018 SAR 14,239 for 2017 SAR 14,077 for 2015 SAR 14,068 for 2014

MATERIAL DISCLOSURE CONCERNING CONTRACTS WITH RELATED PARTIES:

The above-mentioned activity was not previously disclosed due to an unintentional oversight by one of the Company's executive level employees who did not follow procedure as is required in such a case, in accordance with the Company's internal policies. In 2014, a former Company executive who headed Corporate Communications and chaired the Corporate Social Responsibility Committee, nominated Independent Board Member Mr. Abdulkader Hayward Thomas to deliver an education lecture at King Abdulaziz University (as part of the International Executive Education Program in Islamic Finance) under the sponsorship of Alkhabeer Capital, as a corporate social responsibility activity. Coordination with the Board Member was done annually (except in 2016) to deliver the said lecture. The lectures were not disclosed to the Compliance Department by the Corporate Communications Officer. Moreover, requisite approvals were not obtained in accordance with Alkhabeer's Corporate Governance Manual. The Corporate Communications officer communicated approval to the Board Member by electronic mail only, without drawing a formal contract in accordance with internal procedures. Upon querying on the details of the aforementioned activity, the Board Member stated that he asked the Corporate Communications officer at the time about the legality of the process as stipulated in the Company's Corporate Governance Manual. The Corporate Communications officer responded that the process is correct and no action was required. And as aforementioned, the purpose of the above-mentioned activity is to provide a social service. In addition, the average transaction value of the activity for the four years does not exceed (8.3%) of the total annual remuneration he receives as a Board member. The said Board Member was providing the service directly and openly, on the basis that the person concerned had the authority to enter into a contract without reservations in respect of any conflict with the Company's internal policies.

Therefore, the following corrective steps will be taken:

1. Based on the foregoing, the Board Member concerned requested amendment of the disclosure for 2018;
2. The above-mentioned matter will be presented to the Board of Directors for discussion prior to the date of the General Assembly Meeting, to be held on 30th April 2019;
3. Details of the above-mentioned activity will be disclosed to the General Assembly at its upcoming meeting; and
4. The approval of the Company's General Assembly will be sought in the event the Company wishes to re-engage any Board member under a services contract.

TRANSACTIONS BETWEEN ALKHABEER CAPITAL AND RELATED PARTIES

Alkhabeer Capital did not enter into any for-profit transaction with any related parties during 2018.

BOARD COMMITTEES

The Board of Directors presides over three main committees whose membership was formed by the Board: The Audit Committee, the Nominations & Remuneration Committee, and the Board 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 competencies 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 supervisory functions in ensuring the integrity of financial statements, the qualification and independence of the external auditors, and the sound performance of the Company’s Internal Audit function. The Audit Committee met five (5) times during 2018. The following table lists each member’s attendance:

MEMBER’S NAME		First Meeting 17 Feb	Second Meeting 24 Apr	Third Meeting 24 Jul	Fourth Meeting 24 Oct	Fifth Meeting 23 Dec	Total 5
Saleh H. A. Hussain	Chairman	Attended	Attended	Attended	Attended	Attended	5
Abdulkader Thomas	Member	Attended	Attended	Attended	Attended	Attended	5
Issam Zaid Al Tawari	Member	Attended	Attended	Attended	Attended	Attended	5

Attended Attended Electronically Excused Absence

NOMINATION & REMUNERATION COMMITTEE

The Nomination & Remuneration Committee supports the Board’s supervisory functions to ensure the independence of directors and the integrity of the Company’s remuneration policy. The Nomination & Remuneration Committee met six (6) times during 2018.

MEMBER’S NAME		First Meeting 19 Feb	Second Meeting 29 AUG	Third Meeting 23 OCT	Fourth Meeting 11 Nov	Fifth Meeting 20 Nov	Total 5
Mohammed Moumena	Chairman	Attended	Attended	Attended	Attended	Attended	5
Mohanad Haydar Binladin	Member	Attended	Attended	Attended	Attended	Attended	5
Abdulkader Thomas	Member	Attended	Attended	Attended	Attended	Attended	5

Attended Attended Electronically Excused Absence

BOARD’S INVESTMENT COMMITTEE

The role of the Investment Committee is to assist the Board in its investment policies review and approval functions, investment strategies and transactions, monitoring the Company’s financial performance, and monitoring the performance of investments. The Committee also oversees the Company’s capital and financial resources. The Investment Committee held five (5) regular meetings and (1) one exceptional meeting during 2018.

MEMBER’S NAME		First Meeting 19 Feb	Second Meeting 26 Mar	Third Meeting 28 May	Fourth Meeting 26 Sep	first exeptional meeting 23 Oct	Fifth Meeting 17 Dec	Total 6
Saeid Mohamed Binzagr	Chairman	Attended	Attended	Attended	Attended	Attended	Attended	6
Ammar Ahmed Shata	Member	Attended	Attended	Attended	Attended	Attended	Attended	6
Musaad Mohammed Aldrees	Member	Attended	Attended	Attended	Attended	Attended	Attended	6
Mohammed Nawaf Babgi	Member	Attended	Attended	Attended	Attended	Attended	Attended	6
Ahmed Saud Ghouth	Member	Attended	Attended	Attended	Attended	Attended	Attended	6

Attended Attended Electronically Excused Absence

SHARI’A ADVISORY

Alkhabeer Capital’s Shari’a Advisory function is managed by the Shariyah Review Bureau (SRB), which provides product consultation, structuring, compliance certificates (Fatwas) and Shari’a supervisory audits. SRB employs around 33 of the world’s leading and reputable Shari’a 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’a approvals, and offer consultation and solutions to meet the Company’s strategic business needs.

DISCLOSURE OF REMUNERATION AND COMPENSATION

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

DESCRIPTION	Executive Directors	Non-Executive and Independent Directors	Five of the top executives who received the highest remuneration and compensation, including the Executive Director, the Chief Executive Officer, the Deputy Chief Executive Officer, and the Chief Finance Officer
Salaries and Compensation	-	-	SAR 6,205,558
Allowances	-	SAR 1,120,000	SAR 1,909,442
Periodic and Annual Remuneration	-	-	SAR 6,934,072
Incentive Plans	-	-	SAR 1,841,516
Commissions	-	-	SAR 1,976,385
Any other compensation of in-kind benefits payable monthly or annually	-	-	-

The data listed in the above table includes the following:

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

ANY ARRANGEMENT OR AGREEMENT BY WHICH ANY BOARD MEMBER OR TOP EXECUTIVE ASSIGNED ANY REMUNERATION OR COMPENSATION

Not available.

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 as mandated via Alkhabeer’s authority matrix and ensures that up-to-date policies and procedures are in place. The Investment Committee’s sub-committees are:

- Assets & Liabilities Management Committee
- Product Development Committee

ASSETS & LIABILITIES MANAGEMENT COMMITTEE

The Assets & Liabilities Management Committee (ALCO), which is chaired by the Executive Director, is the body for recommending the development of policies relating to all asset and liability management (balance sheet structure, funding structure, hedging, and investment limits) under the overall risk management framework. ALCO plays a crucial role in the 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 supervising the product development process.

COMPLIANCE COMMITTEE

The Compliance Committee, which is chaired by the Executive Director, is responsible for assisting the Board and management to oversee the Company's compliance with the laws and regulations applicable to its business, specifically 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.

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 market place.

INFORMATION TECHNOLOGY COMMITTEE

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

BUSINESS CONTINUITY PLAN COMMITTEE

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

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The main objective of the Corporate Social Responsibility Committee is to develop a clear and practical strategy for social responsibility programs adopted by the Company, as well as overseeing the implementation of the strategy.



EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT



AMMAR AHMED SHATA
Executive Director



AHMED SAUD GHOUTH
Chief Executive Officer



HISHAM OMAR BAROOM
Deputy Chief Executive Officer



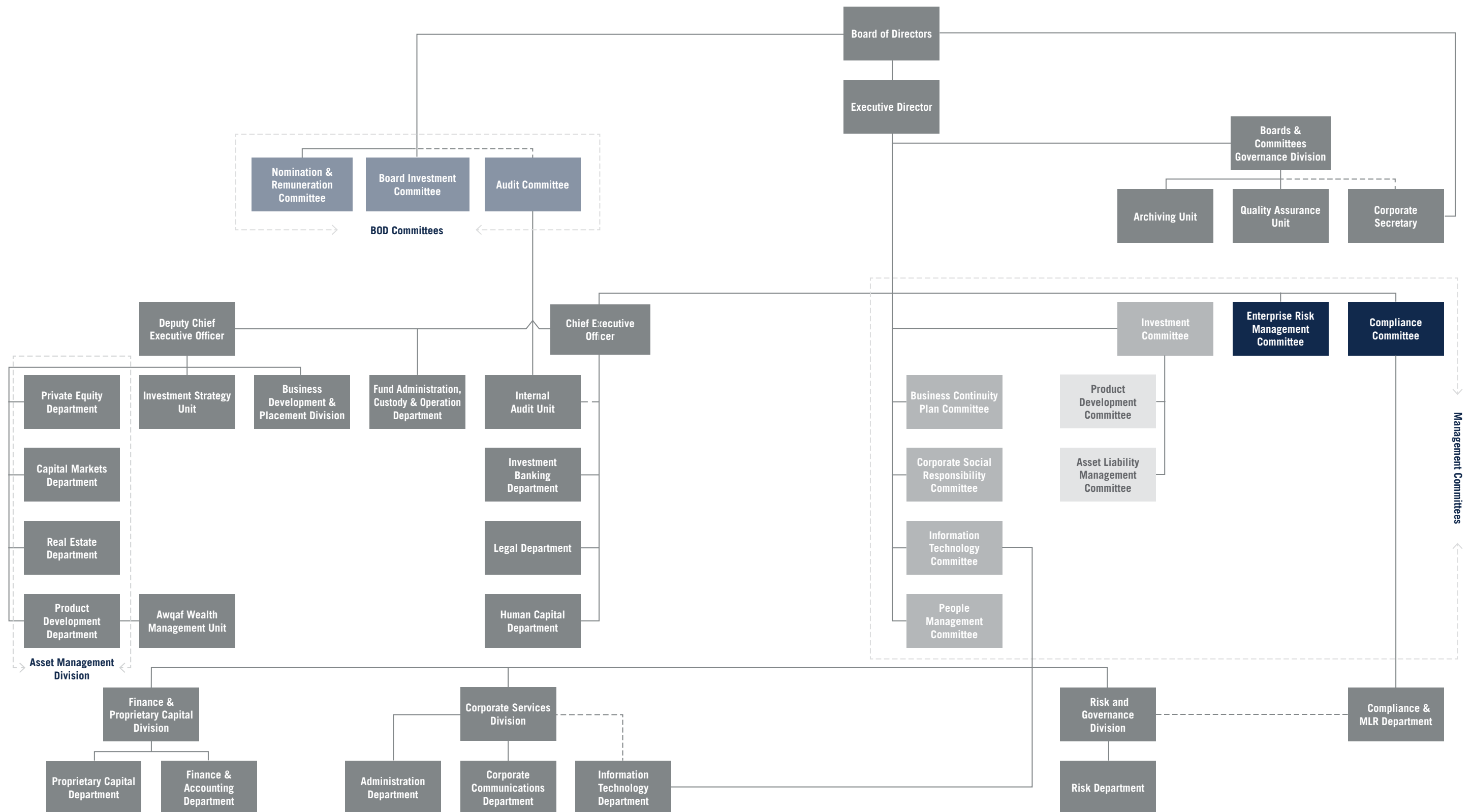
TAMER A. ABDELRAHEEM
Chief Financial Officer



IBRAHIM SHUKRI SAAD
Director, Risk and Governance Division

ORGANIZATIONAL STRUCTURE

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



Division: more than one department or one unit
 Department: two staff members or more
 Unit: less than two staff members

PILLAR 3 DISCLOSURE

PILLAR 3 DISCLOSURE

Based on the Capital Market Authority's requirements, a Pillar 3 Disclosure report was prepared by the company for 2018 and approved by the Board. A copy of the report was uploaded on the Company's website.

www.alkhabeer.com/pillar-iii-disclosures

SHARI'A
REVIEW REPORTSHARI'A REVIEW
REPORT

AKC-AD-25-02-19



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
التقرير السنوي للهيئة الشرعية
الخاص بشركة الخير المالية

إلى مساهمي شركة الخير المالية
السلام عليكم ورحمة الله وبركاته،،،

الحمد لله رب العالمين والصلاة والسلام على أكرم الأنبياء والمرسلين سيدنا محمد وعلى آله وصحبه
أجمعين أما بعد:

يسرنا أن نقدم لكم التقرير السنوي للهيئة الشرعية الخاص بشركة الخير المالية (الشركة) وفق نطاق
العمل المتفق عليه لمراجعة أعمال الشركة وأنشطتها عن الفترة من 1 يناير 2018م إلى 31 ديسمبر
2018م.

إن إدارة الشركة مسؤولة عن القيام بأعمالها طبقاً لأحكام ومبادئ الشريعة الإسلامية. في حين تتمثل
مسؤوليتنا في إبداء رأي مستقل بناء على مراجعتنا لأعمال الشركة وتقديم تقرير بذلك.

لقد قمنا بمراجعة المنتجات المطروحة من قبل الشركة والعقود المتعلقة بها والتطبيقات المنفذة خلال الفترة
المشار إليها. كما قمنا أيضاً بإجراء مراجعة شاملة لأنشطة الشركة من أجل إبداء رأي فيما إذا كانت الشركة
قد التزمت بالأحكام والمبادئ الشرعية من خلال الأحكام والضوابط والتوجيهات المعتمدة.

كما تمت مراجعة أعمال الشركة من خلال الاطلاع على تقرير التدقيق الشرعي (المرفق) للتأكد من التزام الإدارة
بالضوابط والمعايير المتفق عليها مع الأحكام والمبادئ الشرعية. إضافة إلى الحصول على جميع المعلومات
والتفسيرات التي اعتبرناها ضرورية لتزويدنا بأدلة تكفي لإعطاء تأكيد معقول بأن الشركة لم تخالف أحكام
ومبادئ الشريعة الإسلامية.

بناءً على ما سبق ومع الأخذ بالاعتبار التوصيات الواردة في تقرير المدقق الشرعي. تبين لنا أن أعمال
الشركة وأنشطتها المنفذة خلال الفترة المشار إليها متوافقة مع الأحكام والضوابط الشرعية.

وصلّى الله وسلّم على سيدنا محمد وعلى آله وصحبه أجمعين. والحمد لله رب العالمين،،،

الهيئة الشرعية
محمد أحمد

2019/02/25م

www.alkhabeer.com

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alkhabeer Capital (A Saudi Closed Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Alkhabeer Capital (A Saudi Closed Joint Stock Company) and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the SOCPA and the provisions of Companies' Law and the Parent Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alkhabeer Capital (A Saudi Closed Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young

Ahmed I. Badd
Certified Public Accountant
License No. 356

20 Rajab 1440H
27 March 2019

Jeddah
18/25/TNN



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		31 December 2018	31 December 2017	1 January 2017
	Note	SR '000	SR '000	SR '000
		(Note 5)	(Note 5)	(Note 5)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	6	22,390	33,909	155,189
Current portion of Murabaha placements	7	120,500	65,039	-
Accounts receivable, prepayments and other receivables	8	80,235	111,325	28,106
Due from related parties	9	88,170	45,486	116,960
Financial assets at fair value through profit or loss	10	1,380,362	1,330,406	1,267,634
Investment property	29	147,538	-	-
Assets held for distribution	30	-	-	229
TOTAL CURRENT ASSETS		1,839,195	1,586,165	1,568,118
NON-CURRENT ASSETS				
Murabaha placements	7	41,200	112,500	-
Property and equipment	11	47,160	46,833	43,495
TOTAL NON-CURRENT ASSETS		88,360	159,333	43,495
TOTAL ASSETS		1,927,555	1,745,498	1,611,613
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Due to related parties	9	-	-	84,000
Accounts payables, accrued and other liabilities	12	222,276	133,539	116,098
Current portion of Murabaha contracts	13	247,050	292,737	327,440
Current portion of Shari'a-compliant financing	14	126,500	51,500	14,000
TOTAL CURRENT LIABILITIES		595,826	477,776	541,538
NON-CURRENT LIABILITIES				
Murabaha contracts	13	240,900	135,500	95,000
Shari'a-compliant financing	14	93,898	179,803	83,158
Employees' terminal benefits	15	11,504	10,633	11,275
TOTAL NON-CURRENT LIABILITIES		346,302	325,936	189,433
TOTAL LIABILITIES		942,128	803,712	730,971
SHAREHOLDERS' EQUITY				
Share capital	18	813,203	813,203	813,203
Statutory reserve	19	35,574	30,047	23,933
Retained earnings		136,076	98,536	43,506
Actuarial gain, net	15	574	-	-
TOTAL SHAREHOLDERS' EQUITY		985,427	941,786	880,642
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,927,555	1,745,498	1,611,613

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 SR '000	2017 SR '000
		(Note 5)	(Note 5)
INCOME			
Gain from investments at fair value through profit or loss, net	10	102,686	112,250
Fee income	20	64,515	53,748
Dividend income		19,789	21,323
Income from Murabaha placements		1,223	158
TOTAL OPERATING INCOME		188,213	187,479
OPERATING EXPENSES			
Selling and marketing	21	(9,177)	(6,674)
General and administrative	22	(89,637)	(85,531)
TOTAL OPERATING EXPENSES		(98,814)	(92,205)
NET OPERATING INCOME		89,399	95,274
MURABAHA AND FINANCING EXPENSES			
Murabaha and financing expenses		(33,892)	(34,141)
Other income		1,353	11
PROFIT FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		56,860	61,144
Zakat and income tax	5 & 16	(1,595)	(2,196)
PROFIT AFTER ZAKAT AND INCOME TAX		55,265	58,948
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the profit or loss			
Gain on re-measurement of employees' terminal benefits	15	574	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		55,839	58,948
BASIC AND DILUTED EARNINGS PER SHARE			
Weighted number of outstanding shares (in thousands)	18	81,320	81,320
Attributable to net operating income (in SR)	31	1.10	1.17
Attributable to profit after zakat and income tax (in SR)	5 & 31	0.68	0.72

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2018

	Share capital SR '000	Statutory reserve SR '000	Retained earnings SR '000	Actuarial valuation reserve SR '000	Total SR '000
Balance as at 1 January 2017 (note 5)	813,203	23,933	43,506	-	880,642
Profit before zakat and tax	-	-	61,144	-	61,144
Zakat and income tax	-	-	2,196	-	2,196
Zakat and income tax reimbursable	-	-	(2,196)	-	(2,196)
Total comprehensive income for the year	-	-	61,144	-	61,144
Transfer to statutory reserve	-	6,114	(6,114)	-	-
Balance at 31 December 2017	813,203	30,047	98,536	-	941,786
Profit before zakat and tax	-	-	56,860	-	56,860
Zakat and income tax	-	-	(1,595)	-	(1,595)
Other comprehensive income (note 15)	-	-	-	574	574
Total comprehensive income for the year	-	-	55,265	574	55,839
Transfer to statutory reserve	-	5,527	(5,527)	-	-
Dividend (note 17)	-	-	(12,198)	-	(12,198)
Balance at 31 December 2018	813,203	35,574	136,076	574	985,427

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 SR '000	2017 SR '000
OPERATING ACTIVITIES			
Profit for the year before zakat and income tax		56,860	61,144
Adjustments for:			
Unrealised loss on investments		30,269	44,703
Realised gains on investments		(132,955)	(156,953)
Depreciation	11	3,459	3,116
Provision for employees' terminal benefits	15	2,476	2,472
Allowance for accounts receivable	8	-	(742)
Unearned dividend		-	(4,901)
Cost incurred in relation to dissolution		-	60
Gain on disposal of property and equipment		(2)	(11)
Operating loss before changes in operating assets and liabilities		(39,893)	(51,112)
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Accounts receivable, prepayments and other receivables, net		31,090	(2,721)
Due from related parties		(42,684)	32,474
Accounts payable, accrued and other liabilities		16,156	39,838
Due to related parties		-	(84,000)
Purchase of financial assets at FVTPL	10	(147,880)	(149,863)
Proceeds from disposal of financial assets at FVTPL		124,058	160,781
Cash used in operations		(59,153)	(54,603)
Employees' terminal benefits paid	15	(1,031)	(3,114)
Net cash used in operating activities		(60,184)	(57,717)
INVESTING ACTIVITIES			
Purchase of property and equipment	11	(3,788)	(6,481)
Proceeds from disposal of property and equipment		4	38
Net movement in Murabaha placements	7	15,839	(177,539)
Net cash from/(used in) investing activities		12,055	(183,982)
FINANCING ACTIVITIES			
Murabaha contracts	13	59,713	5,797
Shari'a-compliant financing	14	(10,905)	134,145
Cash received from a subsidiary, net		-	169
Dividends paid	17	(12,198)	(19,692)
Net cash from financing activities		36,610	120,419
Net decrease in cash and cash equivalents		(11,519)	(121,280)
Cash and cash equivalents at the beginning of the year		33,909	155,189
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	22,390	33,909
NON CASH SUPPLEMENTARY INFORMATION			
In-kind investment in funds and companies		-	544,783
Receivable against investments sold		-	77,560
Investment sold against payable	10	39,000	-
Payable against investment purchased during the year	12	109,986	39,000
Investment property transferred	29	147,538	-

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. ORGANIZATION AND ACTIVITIES

AlKhabeer Capital (“AKC”, 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 Parent Company was amended on 14 Shawal 1430H (corresponding to 5 October 2009) by virtue of which the name of the Parent Company was amended from AlKhabeer Merchant Finance Corporation to AlKhabeer Capital.

The Commercial Registration of the Parent 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 Parent Company is owned 98.43% by Saudi shareholders and 1.57% by foreign shareholders (31 December 2017 and 1 January 2017: same).

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

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

As at 31 December 2018, the Parent Company operates through a branch with commercial registration 1010439273 registered in Riyadh (31 December 2017 and 1 January 2017: same).

The Parent Company has investment in Alkhabeer Capital DIFC (‘the Subsidiary’) which is 100% owned by the Parent Company and was established on 24 November 2016 in United Arab Emirates (UAE), under commercial registration number 2327 issued in accordance with DIFC Law No. 02 of 2009. Dubai Financial Services Authority (DFSA) on 9 February 2017 granted the license to the Subsidiary to operate as an authorised firm and carry out financial services in respect of advising on financial products, arranging deals in investments, managing assets, arranging custody, arranging credit and advising credits.

These consolidated financial statements include the financial statements of the Parent Company and the Subsidiary collectively referred to as “the Group”.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in KSA and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”). The Group has prepared on 31 December 2018 its first annual consolidated financial statements in accordance with “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”) as endorsed in KSA. Refer to note 5 for information on the first time adoption of IFRS that are endorsed in KSA, by the Group.

2.2 BASIS OF MEASUREMENT

These consolidated financial statements are prepared under the historical cost convention, except for financial assets measured at fair value through profit or loss.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements have been presented in Saudi Riyals (SAR) which is the Group’s functional and presentation currency. Financial information, presented in Saudi Riyals, has been rounded off to the nearest thousand, unless otherwise stated.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of assets or liabilities in future periods. Actual results may differ from these estimates.

Judgements

In the process of applying the Group’s accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in these consolidated financial statements:

Going concern

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, these consolidated financial statements have been prepared on a going concern basis.

Deferred taxes

Deferred tax assets / liabilities are recognised for temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when these consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value estimation of financial assets at fair value through profit or loss

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.

Impairment charge for expected credit losses of financial assets

The Group uses a provision matrix to calculate ECLs expected credit loss for financial assets. The provision matrix is initially based on the Group’s historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customers’ actual default in the future. The information about the ECLs on the Group’s financial assets is disclosed in note 23.

Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-zakat discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Useful lives of property and equipment

The Group’s management determines the estimated useful lives of its property and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

Actuarial valuation of employees’ end of service benefits

The cost of the employees’ end of service benefit plan under defined unfunded benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

Provisions

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Investment entity

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

The Group meets the definition and typical characteristics of an “investment entity”. An investment entity is required to account for its investments in subsidiaries and associates at fair value through a consolidated statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in the preparation of these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at 1 January 2017 for the purposes of transition to IFRS as endorsed in KSA, except for the application of available exemptions as stipulated in IFRS 1. Details of such exemptions are disclosed in note 5.

3.1 BASIS OF CONSOLIDATION

The Group’s consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiary as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (“OCI”) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss. Any investment retained is recognised at fair value.

AlKhabeer Capital has multiple unrelated investors and holds multiple investments (in various funds managed by the Group). Ownership interests in the Group are in the form of ordinary shares. The Parent has been deemed to meet the definition of an investment entity as per IFRS 10 “Consolidated Financial Statements” (note 5) as the following conditions exist.

- a) The Group has obtained funds for purpose of providing investors with professional investment management services.
- b) The Group’s business purpose, is investing for capital appreciation and investment income.

- c) The investments are measured and evaluated on a fair value basis.

Since the Group meets the definition of an investment entity as per the guidance given in IFRS 10 “Consolidated Financial Statements” (note 3), it is exempted from consolidating the underlying funds and from the application of IFRS 3 “Business Combinations” when it obtains control of another entity. Such unconsolidated funds are instead measured by the Group as financial assets at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments”.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 “Financial Instruments”, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with IFRS 9.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective

of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3.2 FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded by the Group in its functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised as profit or loss with the exception of monetary items that are designated as part of the hedge of the Group’s net investment in a foreign operation. These are recognised as other comprehensive income (OCI) until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in the fair value of the item.

3.3 CURRENT VERSUS NON-CURRENT CLASSIFICATION

Assets

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realised or sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Liabilities

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

3.4 FAIR VALUE MEASUREMENT

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each consolidated statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.5 IMPAIRMENT OF FINANCIAL AND NON-FINANCIAL ASSETS

Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing SOCPA GAAP's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. For accounts receivable, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are past due from the payment terms, which varies contract to contract. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used. The value in use is assessed by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the consolidated statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position comprise balances with banks, cash on hand, and short term Murabaha placements, with original maturities of 90 days or less three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances, cash and short-term Murabaha placements as defined above.

3.7 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

The Group's financial assets consistin of cash and bank balances, Murabaha placements accounts receivable, investments at fair value through profit or loss, due from related parties and financial liabilities consisting of Murabaha contracts, Shari'a-compliant financing and accounts and other payables. Financial assets at initial recognition, are measured at their fair values. Subsequent measurement of a financial asset is dependent on its classification and is either at amortised cost or fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of accounts receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and profit (SPPP)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in following categories:

- a) Financial assets at amortised cost;
- b) Financial assets at fair value through OCI (FVOCI); and
- c) Financial assets at fair value through profit or loss (FVTPL).

a) Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective profit rate (EPR) method and are subject to impairment. Gains and losses are recognised in consolidated statement of profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost include trade and other receivables.

*b) Financial assets at fair value through OCI***Debt instruments**

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

For debt instruments at fair value through OCI, profit income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group has not designated any debt instrument at fair value through OCI.

Equity instruments

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial

asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group has not designated any equity instrument at fair value through OCI.

c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including consolidated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and profit are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss. Financial assets classified as fair value through profit or loss comprise investments in a short term discretionary portfolio and funds managed by the Group, acquired principally for the purpose of selling or repurchasing in the short term.

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.

Business model assessment

The Group makes an assessment of the objective of a business model under which an asset is held, at the Group level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the fund and the operation of those policies in practice. In particular, whether these assets are for earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- How the performance of the fund is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- How managers of the business are compensated, e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit ("SPPP" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic financing costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;

- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of profit rates.

*ii) Financial liabilities***Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or at amortised cost. All financial liabilities are recognised initially at fair value and, in the case of financing and payables, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable, related parties and other liabilities, Shari'a-compliant financing and Murabaha contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost

After initial recognition, financial liabilities, other than at fair value through profit or loss are measured at amortised cost using the EPR method. Gains and losses as a result of unwinding of profit cost through EPR amortization process and on de-recognition of financial liabilities are recognized in the consolidated statement of profit or loss.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included as finance costs in the consolidated statement of profit or loss.

iii) Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3.8 INVESTMENT PROPERTIES

Investment property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the Group. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured using cost model.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement for profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

3.9 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 profit or loss.

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

	Years
Building	25
Leasehold improvements	4 and 11
Office and computer equipment	3-4
Furniture and fixtures	4
Vehicles	5

3.10 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.

3.11 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.12 LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

3.13 EMPLOYEES' BENEFITS

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment benefits

The Group's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the net profit expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net profit expense and other expenses related to defined benefit plans are recognised in employee costs in the consolidated statement of profit or loss.

3.14 REVENUE RECOGNITION

Revenue is the gross inflow of economic benefits arising from the ordinary operating activities of the Group when those inflows result in increase in equity, other than increases relating to contributions from equity participants. Revenue is measured at fair value of consideration received or receivable. Revenue is recognized to the extent that it is probable that any future economic benefit associated with the item of revenue will flow to the Group, the revenue can be reliably measured, regardless of when the payment is being made and the costs are identifiable and can be measured reliably.

The Group has applied IFRS 15 Revenue from Contracts with Customers for accounting of revenue. The core principle of the IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 requires that entities apply a five-step model to determine when to recognize revenue and at what amount.

- Step:1 Identify the contract with the customer.
- Step:2 Identify the performance obligations in the contract.
- Step:3 Determine the transaction price.
- Step:4 Allocate the transaction price to the performance obligations in the contract.
- Step:5 Recognize revenue when or as the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied i.e. when control of the services pertaining to the respective performance obligation is transferred to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

- 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.
- Success fees are recognized when the related financing has been successfully raised for the client.
- Management and custody fees are recognized on a time-apportioned basis.
- Finance income on Murabaha placements is recognised on a time-apportioned basis, in accordance with the contracted terms.
- Dividend income is recognised when the right to receive payment is established.

3.15 EXPENSES

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

3.16 ZAKAT AND INCOME TAX

Parent Company

Zakat

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations and charged to the statements of profit or loss. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

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

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid for the current year to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the Kingdom of Saudi Arabia.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent

that it is probable that taxable profit will be available against which the deductible temporary differences, the brought forward unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Withholding tax

The Group companies withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense, being the obligation of the counter party on whose behalf the amounts are withheld.

Subsidiary

As the Subsidiary is incorporated in UAE, no zakat or income tax is payable by the subsidiary.

3.17 DIVIDEND DISTRIBUTIONS

The Group recognizes a liability to make cash dividends distribution to shareholders when the dividends are authorised and no longer at the discretion of the Group. The corresponding amount is directly recognized in the consolidated statement of changes in equity.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of reporting of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

4.1 IFRS 16 LEASES

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability), and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the profit expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Management is in the process of assessing the optional impact of IFRS 16 on the reporting amounts.

4.2 AMENDMENTS TO IFRS 9: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and profit on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

4.3 AMENDMENTS TO IFRS 10 AND IAS 28: SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent

of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that adopts the amendments early must apply them retrospectively. The amendment to IFRS 10 and IAS 28 has no impact on the Group.

4.4 AMENDMENTS TO IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and
- Determine net for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net profit, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, profit or settlements of the Group.

4.5 ANNUAL IMPROVEMENTS 2015-2017 CYCLE (ISSUED IN DECEMBER 2017)

These improvements include:

IFRS 3 Business Combinations - The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements - A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes - The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Group does not expect any effect of IAS 12 on its consolidated financial statements.

IAS 23 Financing Costs - The amendments clarify that an entity treats as part of general financing any financing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to financing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. This interpretation has no impact on the Group.

5 FIRST-TIME ADOPTION OF IFRS

For all years up to and including the year ended 31 December 2017, the Group prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principle (GAAP) issued by SOCPA in KSA ("SOCPA GAAP"). These are the Group's first consolidated financial statements in accordance

with IFRS 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in KSA.

Accordingly, the Group has applied the IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative data. In compliance with requirements of IFRS 1 as endorsed in KSA, the Group's opening consolidated statement of financial position as at 1 January 2017 was prepared to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has analyzed the impact on the consolidated statement of financial positions as at 1 January 2017 and 31 December 2017 and there were no material adjustments required to be made except for change in accounting policy to classify zakat and income tax charge for the year from consolidated statement of changes in shareholders equity to consolidated statement of comprehensive income which resulted in decrease in net income for the year ended 31 December 2017 by SR 2,196 thousand, from SR 61,144 thousand to a restated amount of SR 58,948 thousand and corresponding decrease in earnings per share from SR 0.75 per share to SR 0.72 per share. There was no impact on the shareholders' equity as at 31 December 2017 and 1 January 2017.

Exemption applied

These consolidated financial statements have been prepared in accordance with the accounting policies described in note 3, except for two optional exemptions availed by the Group in preparing these consolidated financial statements in accordance with IFRS 1 – First time adoption of International Financial Reporting Standards from full retrospective application of IFRS. The optional exemptions applied are described below:

- The Group has elected the business combination exemption in IFRS 1 to not apply IFRS 3 retrospectively, to past business combinations. Accordingly, the Group has not restated business combinations that took place prior to the transition date.
- The Group has initially applied IFRS 9 with a transition date of 1 January 2018. The Group has applied the completed version of IFRS 9 for its first IFRS reporting period (for the year ended 31 December 2018). However, for its comparative period (for the period ended 31 December 2017), the Group has applied its previous GAAP accounting by availing the short-term exemption available under Appendix E of IFRS 1 First Time Adoption of IFRS. IFRS 9 sets out requirements for measuring and recognizing financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces the existing guidance under SOCPA.

(I) CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous classification categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in SOCPA for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial assets and financial liabilities.

(II) IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 replaces the 'incurred loss' model with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets, investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under SOCPA. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

(III) TRANSITION

As mentioned earlier, the Group has opted to apply IFRS 9 prospectively from 1 January 2018. Differences in the carrying amounts of financial assets from the adoption of IFRS 9 are recognized in retained earnings as on 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those under SOCPA. Upon adoption of IFRS 9, the Group has not made any adjustment due to no material impact of impairment of trade receivables.

ESTIMATES

The estimates at 1 January February 2017 and at 31 December 2017 are consistent with those made for the same dates in accordance with SOCPA GAAP (after adjustments to reflect any differences in accounting policies) apart from the employee benefits items where application of SOCPA GAAP did not require estimation.

The estimates used by the Group to present these amounts in accordance with IFRS that are endorsed in KSA reflect conditions at 1 January 2017, the date of transition to IFRS and as at 31 December 2017.

6. CASH AND CASH EQUIVALENTS

	31 December 2018 SR'000	31 December 2017 SR '000	1 January 2017 SR '000
Cash at bank	22,390	27,135	155,189
Short term Murabaha placements	-	6,774	-
	22,390	33,909	155,189

Short term placements as at 31 December 2017 were with original contractual maturity of less than three months and carried profit rate of 1.63% (1 January 2017: nil).

7. MURABAHA PLACEMENT

Murabaha placements carry profit rate ranging from of 4.5% to 5.75% (31 December 2017: 4.25% to 5.7%) and are secured by a back-to-back corporate guarantee issued by a company under management.

	31 December 2018 SR '000	31 December 2017 SR '000	1 January 2017 SR '000
Murabaha placement	161,700	177,539	-
Less: current portion	(120,500)	(65,039)	-
Long-term portion	41,200	112,500	-

8. ACCOUNTS RECEIVABLE, PREPAYMENT AND OTHER RECEIVABLES

	31 December 2018 SR'000	31 December 2017 SR '000	1 January 2017 SR '000
Receivable against investment sold (note 'a')	57,365	82,461	-
Margin deposit (note 26)	14,208	14,208	14,208
Accounts receivable	3,483	3,846	6,342
Advances to suppliers	3,604	4,095	2,772
Prepayments	1,926	3,125	2,286
Other receivables	2,545	4,290	8,532
Zakat and income tax reimbursable	-	2,196	-
Allowance for impairment (note 'b')	(2,896)	(2,896)	(6,034)
	80,235	111,325	28,106

a) It represents balance receivable against investment sold by the Group to majority shareholders of the investee. It is secured through pledge of shares of the investee which shall be released upon settlement of balance receivable by the majority shareholders.

b) Movements in the allowance for impairment is as follows:

	For the year ended 31 December 2018 SR'000	For the year ended 31 December 2017 SR '000
At 1 January	2,896	6,034
Reversal for the year (note 21)	-	(742)
Written off	-	(2,396)
At 31 December	2,896	2,896

9. RELATED PARTY TRANSACTIONS AND BALANCES

a) Related parties represent directors and key management personnel of the Group, fund and entities controlled or significantly influenced by such parties. Significant related party transactions with Funds / Companies under management and balances arising during the year are described below:

NATURE OF TRANSACTIONS	AMOUNT OF TRANSACTIONS FOR THE YEAR ENDED		BALANCES AS AT		
	31 December 2018 SR'000	31 December 2017 SR'000	31 December 2018 SR'000	31 December 2017 SR'000	1 January 2017 SR'000
DUE FROM RELATED PARTIES					
Investments acquired/disposed by the Group and gain/loss thereon	49,956	62,772	1,380,362	1,330,406	1,267,634
Expenses and advances	17,348	54,361	17,963	615	10,254
Management, custody and subscription fees, reduced by payments received	25,336	2,165	70,207	44,871	42,706
Sale of equity to managed funds	-	(64,000)	-	-	64,000
Sale of property investment to funds and companies managed by the Group	-	593,103	-	-	-
Gain from sale of equity and property investment	140,135	136,698	-	-	-
			88,170	45,486	116,960
DUE TO RELATED PARTIES					
Subscription of units not yet paid	-	(84,000)	-	-	84,000
MURABAHA PLACEMENTS	19,539	177,539	158,000	177,539	-

- b) The Group has issued a corporate guarantee on behalf of a related party (note 26). The related party simultaneously issued a back-to-back corporate guarantee to the Group.
- c) Key management personnel including members of the Board of Directors of the Group comprise key members of the management having authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation is as follows:

	For the year ended 31 December 2018 SR '000	For the year ended 31 December 2017 SR '000
Salaries and other short-term benefits	17,142	16,045
Post-employment benefits	1,037	967
	18,179	17,012

10.FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group meets the definition of an “investment entity”. Accordingly, its investments in managed funds and companies are carried at their fair value through profit or loss as “financial assets at fair value through profit or loss”.

The movement in the financial assets at fair value through profit or loss for the year ended 31 December is as follows:

	31 December 2018 SR '000	31 December 2017 SR '000
Opening balance	1,330,406	1,267,634
Purchased during the year	257,865	694,646
Transfers (note a)	(39,000)	-
Capital distribution (note b)	(147,537)	(397,642)
Sold during the year	(124,058)	(346,482)
Fair value gain, net	102,686	112,250
	1,380,362	1,330,406

- a) During the year, the Group settled an amount payable against purchase of an investment through transfer of units owned in one of the funds managed by the Group (note 12).
- b) During 2018, a fund distributed its underlying asset, a property, to the units holders in proportion to the units held by each investor (note 29). The property so received is classified as “investment property” in accordance with the accounting policy adopted (2017: certain funds managed by the entity distributed their underlying assets to the unit holders).
- c) The details of the Group's holding in the managed funds or the companies are as follows:

NAME OF FUNDS	31 December 2018	31 December 2017	1 January 2017
Alkhabeer US Real Estate Income Fund	11%	11%	11%
Alkhabeer Industrial Private Equity Fund II	-	-	65%
Alkhabeer Healthcare Private Equity Fund	9%	9%	9%
Alkhabeer SME Fund I	98%	98%	98%
Alkhabeer Real Estate Opportunity Fund I	38%	38%	38%
Alkhabeer Real Estate Residential Development Fund II	-	2%	72%
Alkhabeer Land Development Fund II	3%	3%	15.4%
Alkhabeer Central London Residential Fund I	-	4.4%	4.4%
Alkhabeer Education Private Equity Fund I	28%	36%	30%
Alkhabeer Saudi Real Estate Income Fund I	-	25%	70%
Alkhabeer Hospitality Fund I	75%	75%	100%
Alkhabeer Real Estate Opportunity Fund II	100%	100%	-
Alkhabeer REIT	7%	-	-
Alkhabeer Education Private Equity Fund II	100%	-	-
Alkhabeer Education Private Equity Fund III	100%	-	-

NAME OF COMPANIES	31 December 2018	31 December 2017	1 January 2017
Alkhabeer Industrial Private Equity Company – III Ltd.	20%	100%	-
Alkhabeer GCC Opportunity Company (note 14 “b”)	92%	100%	-

- d) Certain of the investments and returns generated from them are pledged against Shari’a-compliant financing (note 14)

11.PROPERTY AND EQUIPMENT

	Land SR '000	Building SR '000	Leasehold improvements SR '000	Office and computer equipment SR '000	Furniture and fixtures SR '000	Vehicles SR '000	Capital work in progress SR '000	31 December 2018 SR '000	31 December 2017 SR '000	1 January 2017 SR '000
COST										
At the beginning of the year	6,966	14,234	10,961	17,887	1,286	396	19,460	71,190	64,848	45,279
Additions	-	-	-	1,154	15	-	2,619	3,788	6,481	23,025
Transfers (note a)	-	20,570	-	-	-	-	(20,570)	-	-	-
Disposals	-	-	-	(69)	-	-	-	(69)	(139)	(74)
Assets held for distribution	-	-	-	-	-	-	-	-	-	(3,382)
At the end of the year	6,966	34,804	10,961	18,972	1,301	396	1,509	74,909	71,190	64,848
ACCUMULATED DEPRECIATION										
At the beginning of the year	-	6,196	2,114	14,712	1,101	234	-	24,357	21,353	21,814
Depreciation (note 22)	-	473	807	2,020	93	66	-	3,459	3,116	2,995
Related to disposals	-	-	-	(67)	-	-	-	(67)	(112)	(74)
Discontinued operations	-	-	-	-	-	-	-	-	-	(3,382)
At the end of the year	-	6,669	2,921	16,665	1,194	300	-	27,749	24,357	21,353
NET BOOK AMOUNTS										
At 31 December 2018	6,966	28,135	8,040	2,307	107	96	1,509	47,160		
At 31 December 2017	6,966	8,038	8,847	3,175	185	162	19,460		46,833	
At 1 January 2017	6,966	8,506	15	4,045	159	229	23,575			43,495

a) Capital work in progress relates to contractor payments for ongoing construction and renovation work on the building owned by the Group.

12.ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	31 December 2018 SR '000	31 December 2017 SR '000	1 January 2017 SR '000
Payable against investment purchased (note below)	109,986	39,000	-
Accounts payable	13,546	10,109	15,318
Remuneration payable	20,528	22,275	23,200
Accrued expenses	22,168	8,354	5,852
Other payables	54,453	51,605	71,728
Provision for zakat and income tax (note 16)	1,595	2,196	-
	222,276	133,539	116,098

During the year, the Group settled its “payable against investment purchased” of prior year by transferring its ownership interest in a fund (note 10).

13.MURABAHA CONTRACTS

These represent commodity Murabaha contracts executed with investors through Discretionary Portfolio Managers (DPMs). The Murabaha contracts carry profit rate ranging from 1.42% to 6.5% (31 December 2017: 5.25% to 7.0%); (1 January 2017: 5.25% to 6.25%); and are subject to 0.2% to 1% (31 December 2017: 1%); (1 January 2017: 1%) management fee.

	31 December 2018 SR '000	31 December 2017 SR '000	1 January 2017 SR '000
Murabaha contracts	487,950	428,237	422,440
Less: current portion	(247,050)	(292,737)	(327,440)
Long-term portion	240,900	135,500	95,000

14.SHARI'A-COMPLIANT FINANCING

- a) During 2016, the Group obtained a Shari’a-compliant financing from a local bank with an approved limit of SR 100 million to be repaid over 5 years. The Group has drawn down SR 50 million on 11 August 2016 and SR 50 million on 30 October 2016. The financing carries commercial profit rate and is secured against certain “financial assets at fair value through profit or loss” and all returns generated from respective investments (note 10).
- b) During 2017, the Group obtained a Shari’a-compliant financing from a local bank amounting to SR 150 million. The facility is repayable over a period of two years, carries a profit rate of SIBOR plus an agreed margin and is secured against certain “financial assets at fair value through profit or loss” and all returns generated from respective investments.

	31 December 2018 SR '000	31 December 2017 SR '000	1 January 2017 SR '000
Shari’a-compliant financing	220,398	231,303	97,158
Less: current portion	(126,500)	(51,500)	(14,000)
Long-term portion shown under non-current liabilities	93,898	179,803	83,158

15.EMPLOYEES' TERMINAL BENEFITS

Changes in the present value of defined benefit obligation are as follows

	For the year ended 31 December 2018 SR '000	For the year ended 31 December 2017 SR '000
Balance at the beginning of the year	10,633	11,275
Current service cost	2,057	2,030
Profit	419	442
Benefits paid	(1,031)	(3,114)
Actuarial gain, net	(574)	-
Balance at the end of the year	11,504	10,633

Principal assumptions used in determining defined benefit obligation are as below:

	31 December 2018	31 December 2017
Discount rate	4.4%	3.7%
Salary increase	2.25%	2.25%
Staff withdrawal rate	6%	7%

16.ZAKAT AND INCOME TAX

Provision for zakat and income tax as at the consolidated statement of financial position date is as follows:

	31 December 2018 SR '000	31 December 2017 SR '000
Zakat	1,438	2,055
Income tax	157	141
	1,595	2,196

The provision is based on the following:

	For the year ended 31 December 2018 SR '000	For the year ended 31 December 2017 SR '000
Equity	914,993	866,816
Provisions and other adjustments	572,518	511,219
Book value of long term assets	(1,553,492)	(1,359,274)
	(65,981)	18,761
Saudi shareholders share of adjusted income for the year	57,527	63,456
Adjusted zakat base	(8,454)	82,217

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:

	31 December 2018 SR '000	31 December 2017 SR '000
Balance at the beginning of the year	2,055	-
Charge for the year	1,438	2,055
Adjusted / Paid during the year	(2,055)	-
Balance at the end of the year	1,438	2,055

INCOME TAX

Income tax charges for the years ended 31 December 2018 and 31 December 2017 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:

	31 December 2018 SR '000	31 December 2017 SR '000
Balance at the beginning of the year	141	-
Charge for the year	157	141
Adjusted / Paid during the year	(141)	-
Balance at the end of the year	157	141

STATUS OF ASSESSMENTS

General Authority of Zakat and Tax (GAZT) raised an assessment with additional liability amounting to SR 10.36 million for the year ended 31 December 2008. The Group filed an appeal with Preliminary Appeal Committee (POC) against GAZT's assessment which is partially accepted. The Group was not satisfied with the POC decision and filed second appeal with Higher Appeal Committee (HAC). The HAC rendered its decision upholding POC decision and GAZT's treatment. The Group has filed an appeal with the Board of Grievances (BOG) against HAC's decision and lodged a bank guarantee against the disputed liability.

GAZT raised an assessment with an additional liability amounting to SR 3.85 million for the year ended 31 December 2009. The Group filed an appeal with POC against the GAZT assessment. The POC rendered its decision and upheld the GAZT's treatment. The Group has filed an appeal to HAC against POC decision and lodged a bank guarantee against GAZT's assessment.

GAZT also raised an assessment with an additional liability amounting to SR 9.36 million for the year ended 31 December 2010. The Group filed an objection against the GAZT assessment.

The Group's management is expecting a favourable decision regarding the above appeals.

The Group has filed its tax and zakat returns for the years ended 31 December 2011 through 2017 and is currently waiting for GAZT's review.

17.DIVIDEND

During 2018, the Annual General Meeting of the Company approved a dividend of 3% (31 December 2017: Nil) of paid up capital amounting to SR 24,396 thousand (31 December 2017: Nil) through its 8th meeting held on 13 May 2018. Subsequently, the Extra-Ordinary General Meeting of the Company deferred 1.5% of the approved dividend, amounting to SR 12,198 thousand, through its meeting held on 24 December 2018, to be paid in 2019.

18.SHARE CAPITAL

The share capital of the Group, amounting to SR 813,202,930, is divided into 81,320,293 shares of SR 10 each (31 December 2017 and 1 January 2017: same).

19.STATUTORY RESERVE

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

In accordance with Companies Law and Articles of Association of the Parent Company, 10% of the profit for the year has been transferred to statutory reserve. The Company has resolved to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

20.FEE INCOME

	For the year ended 31 December 2018 SR '000	For the year ended 31 December 2017 SR '000
Advisory fees	660	1,100
Management, custody and subscription fees	50,999	52,648
Structure fees	12,856	-
	64,515	53,748

21 SELLING AND MARKETING EXPENSES

	For the year ended 31 December 2018 SR '000	For the year ended 31 December 2017 SR '000
Salaries and benefits	4,565	4,486
Sales incentives	-	2,002
Less: reversal of allowance for doubtful debts (note 8)	-	(742)
Others	4,612	928
	9,177	6,674

22.GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2018 SR '000	For the year ended 31 December 2017 SR '000
Salaries and benefits	53,565	58,690
Legal and consultancy	15,041	11,336
Communication	4,500	3,651
Business travel	2,985	2,543
Depreciation (note 11)	3,459	3,116
Rent and premises related expenses	1,696	1,716
Office supplies	341	462
Utilities	560	536
Insurance	339	327
Other	7,151	3,154
	89,637	85,531

23.RISK MANAGEMENT

The Group's objective in managing risk is the creation and protection of shareholders' value. 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. These limits reflect the business strategy and market environment of the Group as well as the level of the risk that the Group is willing to accept. The Group is exposed to market risk, credit risk and liquidity risk.

MARKET RISK

Market risk is the risk that the fluctuation of fair value or future cash flows of a financial instrument as a result of 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.

Market risk comprises of three types of risks: Profit rate risk, currency risk and equity price risk.

Profit rate risk

Profit rate risk arises from the effects of fluctuations in the prevailing levels of markets' profit rates on the fair value of financial assets and liabilities and future cash flow. The Group's majority of financial assets and liabilities measured at amortised cost, carry fixed rates except for Shari'a-compliant financing which carry floating rates. The Group does not hold fixed rate financial assets which are carried at fair values and could expose the Group to fair value profit rate risk. The Group manages its rate risk on a dynamic basis keeping in view overall rate-bearing assets and liabilities and the Group's requirements.

The Group's Shari'a-compliant financing with floating rate of profit, are placed with a fund managed by the Group with identical terms. Accordingly, any changes in the applicable profit rate is passed on to the managed fund. Similarly, the Group's Murabaha contracts are of a long term nature carrying fixed rate. However, certain Murabaha contracts, although carrying fixed rates, were of short term nature and had a history of frequent rollovers and could expose the Group to cash flow rate risk. Management believe that any change in the applicable rates related to such contracts would not result in material changes to the reported income for current or prior year.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Group invests in funds and other investments that are denominated in currencies other than the Saudi Riyal but which are pegged to the Saudi Riyal. Accordingly the Group is not exposed to significant foreign exchange risk.

Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equity as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Group's investments in equity securities. The Group is not exposed to equity price risk as none of the investments are quoted.

CREDIT RISK

Credit risk is the risk when 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 the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. The Group is exposed to credit risk on its bank balances, Murabaha placements, accounts receivable and due from related parties.

In calculating the expected credit loss allowance for accounts receivable and due from related parties, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables, adjusted for forward-looking estimates.

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position and respective expected credit loss is as follows:

	31 December 2018		31 December 2017		1 January 2017	
	Exposure at default	Expected credit loss	Exposure at default	Impairment allowance	Exposure at default	Impairment allowance
FINANCIAL ASSETS	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Murabaha placements (note a)	161,700	-	177,539	-	-	-
Due from related parties (note b)	88,170	-	45,486	-	116, 960	-
Accounts receivable (note c)	60,848	2,896	86,307	2,896	6,342	6,034

	31 December 2018					
	Current	< 1 Year	1-2 Years	2-3 Years	> 3 Years	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Murabaha placements (note a)	161,700	-	-	-	-	161,700
Due from related parties (note b)	33,873	20,044	30,987	3,266	-	88,170
Accounts receivable (note c)	-	137	57,800	-	2,911	60,848

- a) Placements made with a company under management are fully secured by a back-to-back corporate guarantee issued by the company under management.
- b) In its capacity as a fund manager, the Group has the first right to recover the balance due from funds / Companies under management in respect of management fee, custody fee and administration fee. As at the date of consolidated financial statements, underlying funds / Companies have positive net assets value, accordingly the balance due from related parties is considered fully secured and recoverable.
- c) It includes balance receivable which is secured through pledge of shares of the investee Group (note 8"a").

Financial assets at fair value through profit or loss are not subject to expected credit loss requirement as these are measured at FVTPL that captures the expected credit loss from underlying financial assets.

Liquidity risk

Liquidity risk is defined as the risk that arises when the Group encounters difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Exposure to liquidity risk arises because of the possibility that the Group could be required to pay its liabilities or redeem its shares earlier than expected.

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.

All of the Group's financial liabilities are payable within 12 months from the consolidated statement of financial position date except certain long-term Murabaha contracts and non current portion of Shari'a-compliant financing which has maturity of more than 12 months from the consolidated statement of financial position date.

24.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 cash equivalents, accounts receivable, Murabaha placements, financial assets at fair value through profit or loss, due from related parties, and financial liabilities consist of accounts payable, Shari’a-compliant financing and Murabaha contracts.

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 sales transactions. In real estate funds, the fair value of underlying real estate investments is based on the valuation provided by independent valuers.

As at the date of consolidated statement of financial position, all financial assets and financial liabilities fall under level 3 of fair value hierarchy. The fair values of financial instruments are not materially different from their carrying values (31 December 2017 and 1 January 2017: same).

25.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 statement of financial position. As at 31 December 2018, the Group holds assets under management amounting to SR 4,218 million (31 December 2017: SR 3,444 million and 1 January 2017: 3,159 million) on behalf of, and for the beneficial interest of, its customers.

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

26.CONTINGENCIES AND CAPITAL COMMITMENTS

- a) Certain legal claims have been filed by third parties against the Group in the normal course of business. The Group’s management expects a favourable outcome of these claims.
- b) The Group has maintained a margin deposit of SR 14.208 million (31 December 2017: SR 14.208 million and 1 January 2017: SR 14.208 million) with a local bank in respect of a guarantee issued in favour of GAZT (note 8).

- c) The Board of Directors has authorised future capital expenditure, amounting to SR 5 million (31 December 2017: SR 10.2 million and 1 January 2017: SR 15.9 million) in connection with leasehold improvements and construction under progress.
- d) The Group issued a corporate guarantee on behalf of a related party for an outstanding amount of SR 120 million (31 December 2017: SR 120 million and 1 January 2017: SR 120 million). The related party simultaneously issued a back-to-back corporate guarantee to the Group. This amount is due for settlement by the respective related party on 31 December 2020.
- e) The Group pledged units of its investment in an entity managed by the Group on behalf of a related party for an amount of SR 300 million (31 December 2017: SR 300 million and 1 January 2017: Nil). The related party simultaneously pledged assets back-to-back for an equivalent value to the Group.

27.OPERATING LEASES

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

	31 December 2018 SR '000	31 December 2017 SR '000
Within one year	900	900
From 1 to 5 years	4,500	4,500
Over 5 years	5,100	6,000
	10,500	11,400

28.REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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

During the year ended 31 December 2013, 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:

	31 December 2018 SR '000	31 December 2017 SR '000
CAPITAL BASE		
Tier-1 capital	985,427	939,590
Tier-2 capital	-	-
Total capital base	985,427	939,590

MINIMUM CAPITAL REQUIREMENT		
Credit risk	869,890	864,203
Market risk	7,945	255
Operational risk	32,838	31,584
Total minimum capital required	910,673	896,042

CAPITAL ADEQUACY RATIO		
Total capital ratio (time)	1.08	1.05
Surplus in capital	74,754	43,548

29.INVESTMENT PROPERTY

The Group received property as a result of distribution of the assets by a fund managed by the Parent Company (note 10). The property is carried at cost. The fair value of the property valued by Saad Ali AlNajjar Sons Limited - licensed by “Saudi Authority for Accredited Valuers” on 29 December 2018 was SR 148,525 thousand. The property is registered in the name of “Alfuras Almustadama Real Estate Company” which has provided an undertaking that the property is held by it on behalf of the Group.

30.ASSETS HELD FOR DISTRIBUTION

Sanabel Investment Co. B.S.C. (c) (“Sanabel”), a subsidiary of the Company was established on 15 December 2008 in the Kingdom of Bahrain under Commercial Registration No. 70609-1 and operated under an investment business firm – category 1 (Islamic Principles) and was dissolved by the shareholders on 24 November 2016.

On 11 July 2017, Central Bank of Bahrain confirmed that the liquidation process had been completed. Upon dissolution during 2017, the net assets of Sanabel were transferred to the Company at their carrying values, after incurring related legal expenses of SR 0.06 million.

The movement in the carrying value of investment in the liquidated subsidiary is as follows:

	31 December 2018 SR '000	31 December 2017 SR '000
Opening	-	229
Share of results from discontinued operations	-	-
Cost incurred in relation to dissolution	-	(60)
Transfer of net assets to the Group	-	(169)
Closing	-	-

31.EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing profit for the year by the weighted average number of ordinary shares in issue outstanding during the year (note 18).

The diluted EPS is same as the basic EPS as the Group does not have any dilutive instruments in issue.

32.COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.

33.BOARD OF DIRECTORS’ APPROVAL

The consolidated financial statements were approved by the Board of Directors on 27 February 2019 (corresponding to 22 Jumad Thani 1440H).



LEGAL DISCLAIMER

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



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