الخبير المالية
Alkhabeer Capital

ALKHABEER CAPITAL ANNUAL REPORT 2019

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

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

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

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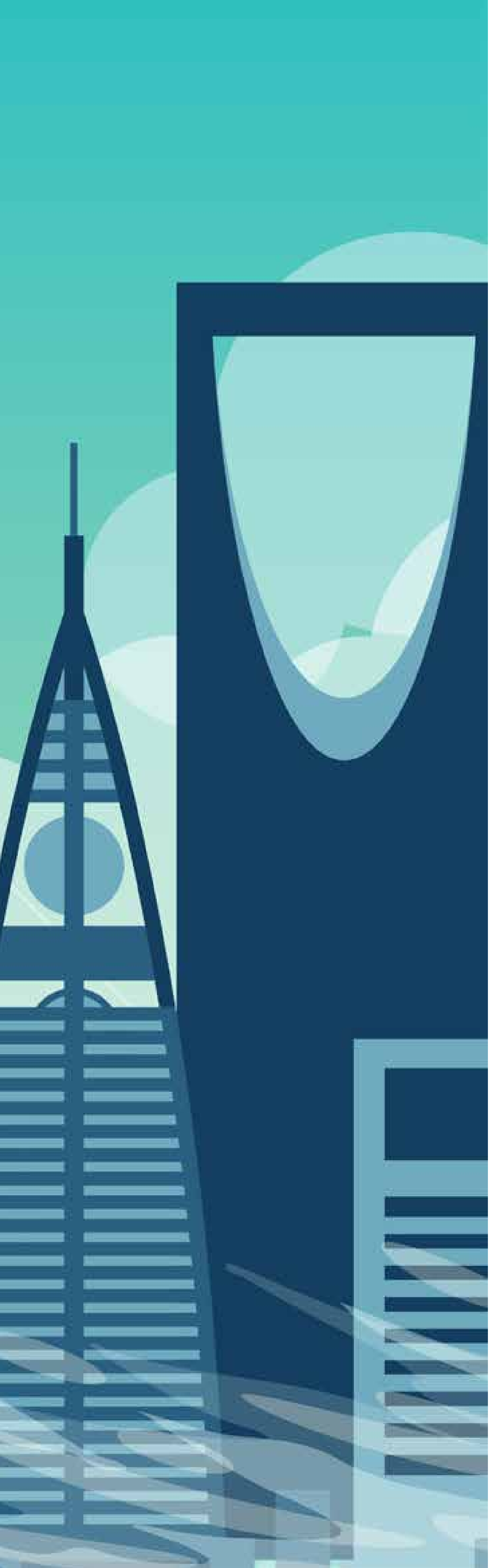

CORPORATE OVERVIEW

Alkhabeer Capital is an asset management company specializing in alternative investments. Alkhabeer provides innovative investment products and solutions of enduring value to institutions, family offices and high net-worth investors. Its Shari'a-compliant business activities are viable and comply with the highest standards of ethical and professional conduct, and a profound understanding of client investment needs and risk profiles.

Alkhabeer Capital endeavors to be the provider of choice of Shari'a-compliant investment products and solutions through its insightful approach to creating partnerships with clients for sourcing and investing in investment opportunities. The Company has successfully strengthened such partnerships by investing its capital to maximize its value proposition to shareholders and clients, supported by a high-caliber team of professionals with diverse expertise and extensive experience.

Alkhabeer's extensive track record allows the Company to capitalize on investment opportunities created by economic and regulatory developments. The Company's investments are well diversified by sector and geography across Saudi Arabia and the GCC region, together with select 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, and private and public placement funds. Real estate activities are focused on hospitality-based opportunities within Makkah and an innovative 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, as well as manufacturing businesses that have strong exporting activities.

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, 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.

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Our Vision

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

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 Mission

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

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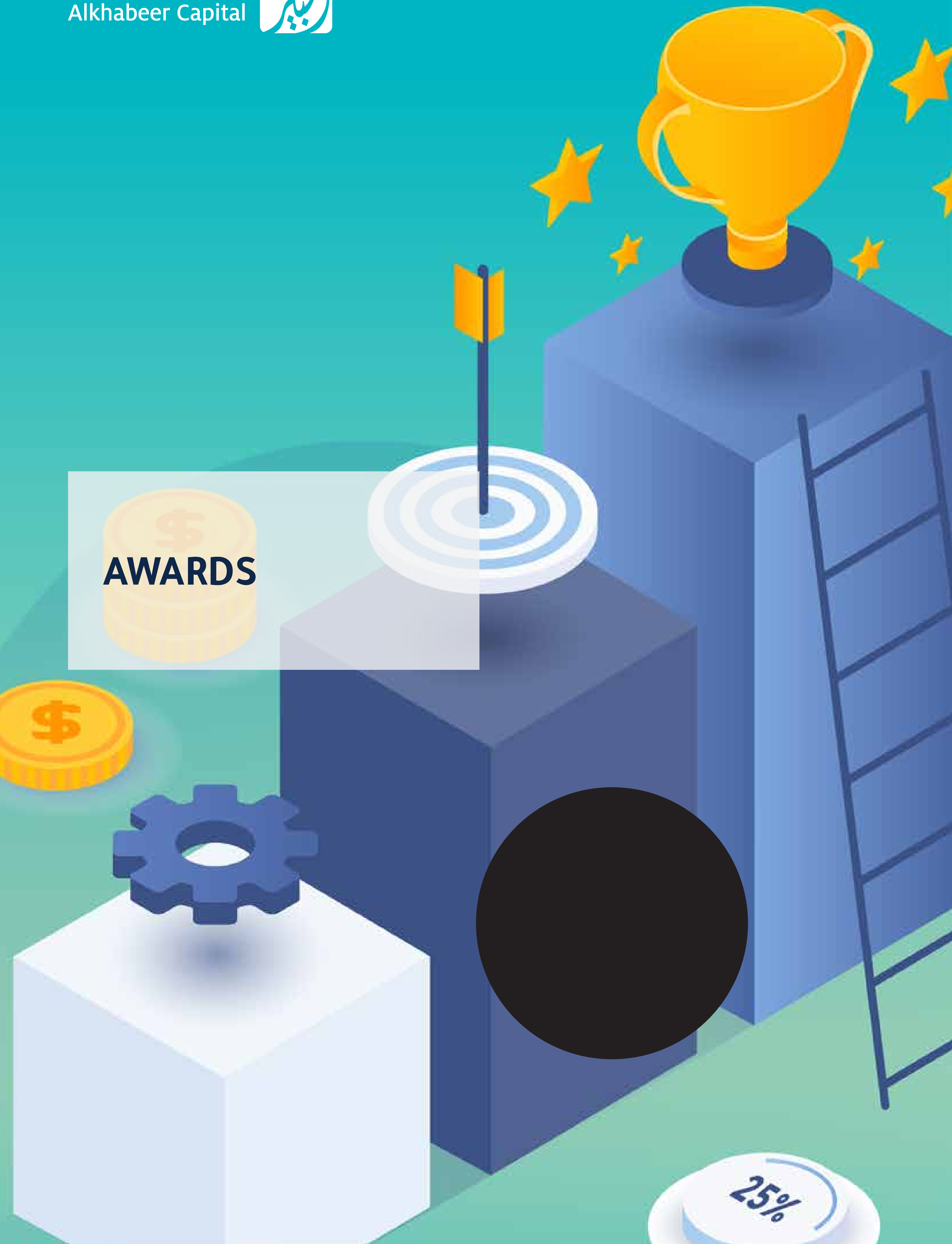
AWARDS



AWARDS

Alkhabeer Capital was ranked first, for the eighth consecutive year, as the Best Workplace for 2019 in the financial services sector in the Kingdom of Saudi Arabia by the Great Place to Work® Institute. Alkhabeer Capital was also named the fifth best workplace in Saudi Arabia overall, advancing three ranks compared to the eighth best workplace overall in 2018.

Alkhabeer Capital won the Best Workplace Award last year, ranking first, also, among investment companies in the Kingdom of Saudi Arabia by the Great Place to Work® Institute. The Company also won the Best Asset Manager Award in Saudi Arabia by Islamic Business and Finance, and the Best Private Equity Firm in Saudi Arabia by BankerMiddle East.

GCC Equity Fund of the Year for "Alkhabeer GCC Equity Fund"

Best GCC Equity Fund for "Alkhabeer GCC Equity Fund"

Best Islamic Fund for "Alkhabeer Liquidity Fund - Hasseen"

Best Asset Manager in Saudi Arabia

Best Asset Management Company in the GCC

Best Private Equity Firm in Saudi Arabia

Among Best Workplaces in Saudi Arabia

'Best Employers' in the Middle East
The only company in Saudi Arabia to win this Award

Best Workplace in Asia
Ranked Sixth Best Small and Medium Workplace in Asia and the only Saudi company on the list

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

EARNINGS

(SAR '000)	**2019**	2018	2017	2016	2015
Total Revenue	**25,075**	188,213	187,490	207,358	178,514
Operating Expenses	**(102,226)**	(98,814)	(92,205)	(110,552)	(112,098)
Murabaha and Financing Expenses	**(42,182)**	(33,892)	(34,141)	(25,674)	(4,618)
Net Income before Zakat and Income Tax	**(123,854)**	56,860	61,144	71,132	67,149

FINANCIAL POSITION

(SAR '000)	**2019**	2018	2017	2016	2015
Shareholder's Equity	**848,882**	985,427	941,786	880,642	900,170
Total Assets	**1,735,880**	1,927,555	1,745,498	1,611,613	1,384,315
Investments	**1,190,822**	1,380,362	1,330,406	1,267,634	1,205,794
Total Liabilities	**886,998**	942,128	803,712	730,971	484,145
Assets Under Management	**4,206,149**	5,597,631	4,774,120	4,426,995	4,010,786

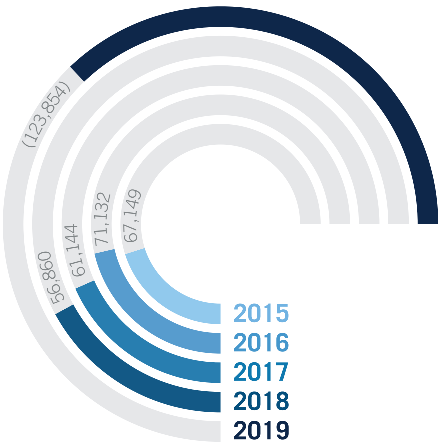
PROFITABILITY

(SAR '000)	**2019**	2018	2017	2016	2015
Net Income Margin	**-493.90%**	30.20%	32.60%	34.30%	36.20%
Return on Average Assets	**-6.80%**	3.10%	3.60%	4.70%	5.80%
Operating Expenses-to-Income ratio	**408%**	53%	49%	53%	61%
Earnings per Share (SAR)	**(1.43)**	0.68	0.72	0.87	0.83

% Change

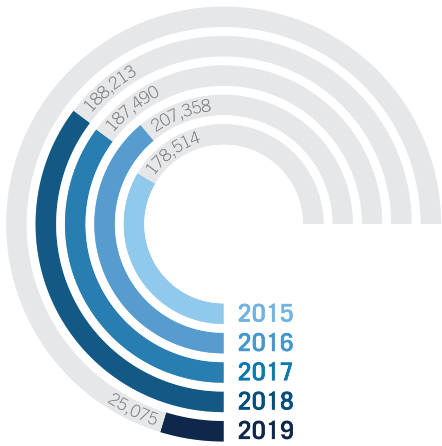
NET INCOME (BEFORE ZAKAT AND INCOME TAX)

SAR Millions



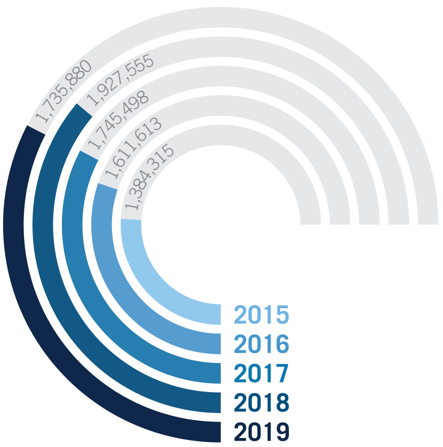
TOTAL REVENUE

SAR Millions



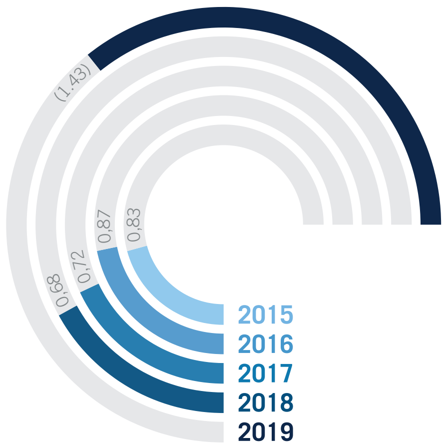
TOTAL ASSETS

SAR Millions



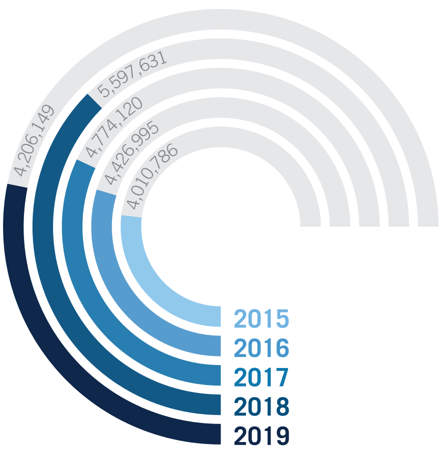
EARNINGS PER SHARE

SAR Millions



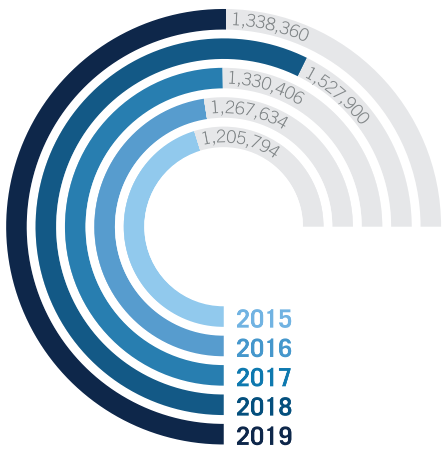
ASSETS UNDER MANAGEMENT

SAR Millions



INVESTMENTS

SAR Millions



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INVESTMENT PORTFOLIO

INVESTMENT PORTFOLIO

CURRENT INVESTMENTS

REAL ESTATE

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	TOTAL ASSETS*
1. Alkhabeer Residential Real Estate Development Fund I (MASAKEN I)	Private closed-ended	29 Dec 2012	Saudi Arabia	2020	39.19
2. Alkhabeer US Real Estate Income Fund	Private closed-ended	02 Jul 2014	US	2020	34.16
3. Alkhabeer Real Estate Opportunity Fund I	Private closed-ended	07 Dec 2014	Saudi Arabia	2020	633.44
4. Alkhabeer Real Estate Residential Development Fund II	Private closed-ended	31 Dec 2014	Saudi Arabia	2020	69.15
5. Alkhabeer Hospitality Fund I	Private closed-ended	22 Dec 2016	Saudi Arabia	2020	108.49
6. Alkhabeer GCC Opportunity Company	Private closed-ended	27 Dec 2017	Saudi Arabia	2022	514.20
7. Alkhabeer Real Estate Opportunity Fund II	Private closed-ended	28 Dec 2017	Saudi Arabia	2022	171.51
8. Alkhabeer REIT	Public open-ended	16 Dec 2018	Saudi Arabia	N/A	984.71

PRIVATE EQUITY

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	TOTAL ASSETS*
1. Alkhabeer Healthcare Private Equity Fund I	Private closed-ended	31 Dec 2014	Saudi Arabia	2020	157.89
2. Alkhabeer Education Private Equity Fund I	Private closed-ended	31 Dec 2015	Saudi Arabia	2020	133.47
3. Alkhabeer Industrial Private Equity Company III	Private closed-ended	26 Dec 2017	GCC	2022	252.62
4. Alkhabeer Education Private Equity Fund II	Private closed-ended	30 Dec 2018	GCC	2023	242.20
5. Alkhabeer Education Private Equity Fund III	Private closed-ended	31 Dec 2018	GCC	2023	167.13
6. Alkhabeer Education Private Equity Fund IV	Private closed-ended	31 Dec 2019	GCC	2024	121.00

Private closed-ended

Public open-ended

* (SAR millions as at 31 Dec 2019, unless otherwise stated).
** These are Closed-Ended investment products which are established and offered to investors by way of private placement in compliance with the regulations issued by the CMA.
*** The Fund remains under liquidation.

EXITED INVESTMENTS

REAL ESTATE

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	TOTAL DISTRIBUTIONS (SAR MILLIONS)	RETURN ON INVESTMENT
1. Alkhabeer Land Development Fund I		01 Jul 2010	Saudi Arabia	10 Mar 2014	306.5	85.10%
2. Alkhabeer Real Estate Fund I		01 Nov 2010	Saudi Arabia	19 Oct 2015	121.2	40.54%
3. Alkhabeer Real Estate Fund II		01 Nov 2010	Saudi Arabia	30 May 2016	165.6	65.65%
4. Alkhabeer Central London Residential Fund I		19 Nov 2012	UK	19 Nov 2018	40,40	***
5. Alkhabeer Saudi Real Estate Income Fund I		08 Dec 2016	Saudi Arabia	20 Mar 2019	164,80	-2.27%
6. Alkhabeer Land Development Fund II		07 Dec 2011	Saudi Arabia	31 Jul 2019	101.8	44.66%

PRIVATE EQUITY

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	TOTAL DISTRIBUTIONS (SAR MILLIONS)	RETURN ON INVESTMENT
1. Alkhabeer Industrial Private Equity Fund II		29 Dec 2013	UAE	24 Dec 2017	201.1	54.72%
2. Alkhabeer Industrial Private Equity Fund I		31 Dec 2012	UAE	31 Dec 2019	140.51	8.08%
3. Alkhabeer SME Fund I		28 Dec 2014	Saudi Arabia	31 Dec 2019	2.39	***

CAPITAL MARKETS

PRODUCT NAME	TYPE	INCEPTION DATE	GEOGRAPHY
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 at 31 Dec 2019, unless otherwise stated).
** These are Closed-Ended investment products which are established and offered to investors by way of private placement in compliance with the regulations issued by the CMA.
*** The Fund remains under liquidation.

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BOARD OF DIRECTORS REPORT SUMMARY

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TO OUR ESTEEMED SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to present to you Alkhabeer Capital's Annual Report for 2019.

MAJOR ECONOMIC DEVELOPMENTS

Fiscal Year 2019 saw a multitude of challenges and obstacles weigh down on the domestic, regional, and global economies. At the domestic level, the Kingdom continued to face contractionary pressures amid declining oil revenues by continuing to support economic reform despite political and economic turmoil regionally and/or globally. This has contributed to the growth of non-oil GDP by enabling the private sector and focusing on increasing the contribution of the non-oil sector to the country's GDP.

A major Saudi development in 2019 was the success of Saudi Aramco's IPO, which is the world's biggest-ever IPO, placing the Saudi Stock Exchange (Tadawul) among the largest ten capital markets worldwide.

Meanwhile, the Kingdom has scored a significant international achievement in 2019 with the presidency of G20 passing over from Japan to the Kingdom of Saudi Arabia, making it the first Arab nation to preside over this international body.

Moreover, as part of the economic and social reforms, the Kingdom continued to implement its programs to support and develop the tourism and entertainment sector, which is expected to achieve more growth over the coming years with the Saudi Government's undertaking of mega development projects and implementation of different initiatives under the Saudi Vision 2030 Program.

FINANCIAL PERFORMANCE

Alkhabeer Capital was affected by the economic conditions that prevailed during 2019. Although the Company has generated SAR 148.1 million in total revenues from its operating activities, however, due to continued poor economic performance adversely affecting the performance of Alkhabeer's real estate and private equity investments, Alkhabeer incurred book losses in the fair value of its investments exceeding SAR 120 million. This drove Alkhabeer to hedge by conservatively entering into a number of new investment deals to maintain a strong financial position supported by large liquidity to maintain the Company's future performance and carry it through the economic uncertainty we are facing at present. Thus, Alkhabeer suffered an extraordinary loss before zakat and taxes of SAR 124 million but ended the year with a strong financial position and a growing cash balance in excess of SAR 112 million. This hedging bolstered the Management's ability to complete its study of new projects and make its investment decisions in ample time before year-end.

STRATEGY

Alkhabeer Capital's Board of Directors is confident that, as in the past, Alkhabeer will continue to develop its business and products to support its strategic goals and future plans and realize the aspirations of its shareholders and clients. Alkhabeer will also continue to develop its asset management business through diversification by offering innovative products.

2019 saw many achievements at Alkhabeer Capital. The Units of Alkhabeer REIT, the Company's first real estate investment traded fund, were listed on the Saudi Stock Exchange (Tadawul), with over 25,000 subscribers and 104% oversubscription in the offered Fund's Units.

In addition, Alkhabeer expanded its investments in the education sector by acquiring three education companies to support our investments within the Alkhabeer Education Platform. Alkhabeer also saw record figures in 2019 in terms of distributions to our clients as a result of exiting a number of investment funds with an aggregate value exceeding SAR 1.6 billion. Although those exits reduced Alkhabeer's assets under management from SAR 5.5 billion to SAR 4.2 billion, they nevertheless significantly contributed to the realization of the aspirations of our clients.

In 2019, Alkhabeer's Awqaf Program received the Capital Market Authority (CMA)'s final approval to establish Alkhabeer Waqf Fund I in collaboration with the Society of Majid bin Abdul Aziz for Development and Social Services.

Alkhabeer's Capital Markets Department also continued to expand its product and service offerings in 2019 through workshops conducted with the CMA, as well as with global and regional investment managers for the purpose of developing new innovative investment products.

OUTLOOK

The core of our strategy is to focus on delivering excellent long-term investment performance by providing investment products that best serve the interests of our shareholders and clients. We achieve this by attracting, hiring and retaining qualified and talented investment professionals. Alkhabeer's Real Estate Department will continue to support its strategy of investing in income generating properties. The Private Equity Department will continue to acquire promising investment opportunities in various sectors, including education, healthcare and manufacturing. The Capital Markets Department will implement digitization initiatives in providing various financial services.

In spite of our confidence in the ability of our business model to steer through economic variables and adapt to the economic reform programs that are aimed at diversifying the sources of income of our national economy in the long term, the global economy and the economy of the Kingdom of Saudi Arabia are facing a difficult period as a result of the Coronavirus (COVID-19) outbreak, which coincided with the time of writing of this Report. This may alter our outlook on Alkhabeer's performance in 2020 from optimistic to negative, particularly with the time extension of the precautionary measures enforced by the Government to combat this pandemic and the great challenges they pose to the various economic sectors of the Kingdom.

As the Saudi Government launches many different initiatives and support programs totaling SAR 179 billion in aggregate, or 6% of the Kingdom's GDP, to mitigate the effects of the Coronavirus pandemic and the adverse consequences of the precautionary measures on the economy, we believe that our support of the Company's decision to proceed with caution and reservation in entering into a number of new investment deals in 2019, has effectively contributed to bolstering the Company's ability to steer through the difficult period the domestic and global economies are going through. This gives the Management the opportunity to maximize the benefit by restructuring its investment closing cycle in line with the next phase, hoping that we will be able to successfully overcome the current stage.

Given the importance of the decisions taken in 2019 and the significant events that occurred in early 2020, we are pleased to attach for your consideration our Chief Executive Officer's Report detailing those events and the decisions made by the Management.

Finally, we take this opportunity to express our sincere thanks and appreciation to our shareholders for their continuing support, confidence and trust, and to the members of the Board of Directors for their efforts and 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, thanks to their hard work and commitment in support of our strategy.

MUSAAD MOHAMMAD SAAD ALDREES
Chairman of the Board

AMMAR AHMAD SHATA
Founder and Executive Director

الخبير المالية
Alkhabeer Capital

CHIEF EXECUTIVE OFFICER'S REPORT

CHIEF EXECUTIVE OFFICER'S REPORT

The Kingdom continued to face economic pressures in 2019 caused by the weak performance of the oil sector and the ensuing decline in revenues and widening of the fiscal deficit gap. However, despite the economic uncertainty and regional and international political turmoil that impacted the global markets during the year, the Kingdom continued to support, launch and implement diverse economic reform programs that are aimed at diversifying sources of income and increasing the economic depth in the performance of both the public and private sectors. While we are convinced that these programs will achieve their economic objectives in the long term, the private sector will continue to face a multitude of economic challenges, particularly the asset management business line, clearly reflecting on our financial performance this year despite our numerous financial and strategic achievements.

FINANCIAL PERFORMANCE

2019 was a pivotal year for Alkhabeer Capital. Although Alkhabeer's total revenues from its operating activities amounted to SAR 148.1 million, the continued weakness of the economic performance of many sectors has caused the Company to incur book losses in the fair value of its investments in excess of SAR 120 million. Alkhabeer's investments including income-generating or development real estate investments, as well as private equity investments in education, health and manufacturing, have all faced significant challenges in maintaining their performance this year. As a result, before the year-end, we adopted a conservative stance towards entering into a number of new investment deals because we were convinced that maintaining a strong financial position, supported by large liquidity levels, was the best course of action to support the Company's future performance amid prevailing economic uncertainty. Accordingly, although Alkhabeer suffered an extraordinary loss before zakat and taxes of SAR 124 million, it maintained a strong financial position and a growing cash balance exceeding SAR 112 million, with unprecedented dividend yield revenues in excess of SAR 23 million.

BUSINESS HIGHLIGHTS

Many strategic achievements were made possible in 2019 with our launch of new products and unprecedented distributions to our clients that exceeded SAR 1.6 billion as a result of exiting a number of our investment funds that resulted in a reduction in our assets under management from SAR 5.5 billion to SAR 4.2 billion. However, these record distributions realized the aspirations of our clients to successfully exit their investments with Alkhabeer Capital.

Alkhabeer's Real Estate Investment saw significant activity this year where, Alkhabeer REIT was listed on the Saudi Stock Exchange (Tadawul) on 20 March 2019 as Alkhabeer's first real estate investment traded fund. It was launched in late 2018 with total assets exceeding SAR 1 billion, attracting over 25,000 subscribers with a total subscription value of SAR 237 million. In addition, Alkhabeer distributed over SAR 1.5 billion from the successful exit of two real estate funds, namely Alkhabeer Saudi Real Estate Income Fund I, with exit proceeds in excess of SAR 300 million, and Alkhabeer Land Development Fund II, which achieved record proceeds exceeding SAR 1.2 billion and a net return on investment exceeding 44%.

Alkhabeer's Private Equity Department also witnessed unprecedented activity in the restructuring of a number of investments by exiting a healthcare investment fund, as well as exiting Alkhabeer Private Equity Industrial Fund I, and through the completion of a new deal in the industrial sector resulting in an increase in the capital of Alkhabeer Private Equity Industrial Fund III. Alkhabeer's Private Equity team continued its commitment to focus on the education and healthcare sectors as two fundamental long-term growth sectors, both domestically and regionally.

To support our strategy, we created Alkhabeer Private Equity Education Fund IV, which acquired three education companies in Yanbu and Jeddah in the Kingdom of Saudi Arabia, to bolster our investments in the Alkhabeer Education Platform, with the number of its investee education companies totaling eight, providing education services to over 13 thousand students in Saudi Arabia and the GCC.

This year also witnessed Alkhabeer Capital receiving CMA's final approval to establish Alkhabeer Waqf Fund I in collaboration with the Society of Majid bin Abdul Aziz for Development and Social Services. The Fund provides financial support to individuals and families, particularly to the youth segment of society, by creating employment opportunities and ensuring sustainable income. It enables individuals and develops projects with its vital role in promoting community partnership, and thus contributing towards consolidating and developing the Kingdom's economy.

The Investment Banking Department (IBD) achieved excellent results this year in terms of financing arrangement transactions, with an aggregate value in excess of SAR 500 million, all of which were for the benefit of our real estate and private equity funds. The objectives of the IBD are to act as the most important element in supporting the growth of our investments by arranging appropriate financing for those investments.

Alkhabeer's Capital Markets Department also continued to expand its product and service offerings through workshops conducted with the CMA, as well as with global and regional investment managers for the purpose of developing new and innovative investment products.

The diverse services provided to our clients in 2019 contributed to increasing the number of our clients by 7%, mainly in the institutional investors' category. Recurring business from existing clients reached 24%, manifesting the satisfaction of our existing clients with the services that Alkhabeer provides.

In addition, we made numerous other achievements in 2019, including the improvement of the infrastructure by adopting best available state of the art technology to enhance the efficiency and alleviate the burden of day-to-day administrative activities, as well as investment in the Company's financial control and accounting systems. We have also endeavored throughout the year to invest in training, development, guidance, coaching and strengthening cooperation between all our staff members.

As always, our achievements have been realized through our talented and diverse employees who are the true wealth of our Company, and whose integrity and passion are key to our continued success.

OUR STRATEGY FOR 2020 AND BEYOND

The investment environment of the Kingdom of Saudi Arabia is passing through a pivotal phase. Saudi Vision 2030 promotes growth of the private sector, diversification of the economy, improvement of the infrastructure and strengthening the legislative framework for investors. The alternative investment sector, in particular, is expected to benefit from this transformation.

We are confident that our business model is strong and capable of adapting to this change, as well as developing in the future by investing in the right opportunities in line with our strategic priorities. In spite of the challenges, we find a number of reasons calling for significant optimism in 2020 in reaching unprecedented record profitability levels through diversifying our investment products, expanding our client base, investing in promising private equity opportunities in education, healthcare and manufacturing, continuing to invest in income generating real estate investments, as well as providing support to the Capital Markets Department to adopt digitization initiatives for providing various and improved financial services to our clients.

However, it should be mentioned that at the time of writing this Report in April 2020, an enormous event shook the entire world, namely the outbreak of the Coronavirus (COVID-19), that is classified as a pandemic. This outbreak has had tremendous adverse effects on the domestic as well as global economies. Demand on oil saw a large decline caused by the lockdown measures imposed by a majority of countries around the world to combat the spread of the virus, resulting in a steep decline of 64% in Brent Crude prices in Q1 of this year. This caused the Government's oil revenues and reserves to sharply decline. Moreover, social distancing measures imposed by the Government to combat the spread of the Coronavirus is expected to result in lower consumer spending levels which will, in turn, adversely affect firms active in tourism, travel, entertainment and luxury retail, and pose a tremendous challenge to the investment sector, thereby impacting the performance of the financial and investment sectors alike.

To mitigate the effects of Coronavirus on the economy, the Government launched urgent initiatives to support the private sector, specifically targeting small and medium enterprises and economic activities which are more sensitive to the precautionary measures adopted to combat the pandemic. The aggregate value of these initiatives amounts to SAR 179 billion, or 6% of the Kingdom's GDP, and are in the form of exemptions, postponement of payables, postponement of loan installments, provision of soft financing to small and medium enterprises, and payment of financial compensation to businesses that are interrupted by the pandemic. In spite of the fact that those initiatives are expected to contribute to minimizing the adverse effects of the pandemic on economic activity at the present time, this major event, if prolonged this year, will change our outlook on the Company's 2020 performance from optimistic to negative.

The Management's wise decision that prompted us to be conservative in entering into a number of new investment deals towards the end of 2019, as we were convinced that holding a strong financial position supported by large liquidity levels is the best course of action to maintain the Company's future performance, was fruitful in this crisis. Companies who do not have outstanding liquidity levels and indicators during this period will undoubtedly face high risks, in spite of excellent past profitability performance.

We are aware that our clients and partners have great trust in our ability to maintain the right balance between obtaining sustainable returns during periods of economic prosperity and protecting our financial position during periods of economic uncertainty, which is a responsibility that we embrace rigorously and seriously. We will continue to ensure diversity in our product and service offerings to cater to the needs of our clients. Meanwhile, we remain dedicated to protecting the Company in times of economic volatility.

AHMED SAUD GHOUTH
Chief Executive Officer

MARKET OVERVIEW

MARKET OVERVIEW

In 2017, Saudi Arabia embarked upon a mission to transform its economy and wean-off its dependence on hydrocarbons through investments in the non-oil sector and enabling the private sector to be the main driver of economic growth and job creation. The Kingdom has remained committed to the cause over the last three years, and in 2019 introduced a slew of reforms to expand its non-oil GDP, develop the capital market, increase employment opportunities for locals and unlock business opportunities in diverse sectors. Some of these reforms include the introduction of a 50% excise tax on sugar sweetened beverages, a new residency law for expatriates, easing of social restrictions on Saudi women, the launch of e-visa system for visitors from 49 countries and the relaxation of foreign investment limit on Saudi equities. The 2020 budget, although slightly lower in spending than the previous year, reinforced the government's commitment to its ongoing diversification goals. Furthermore, the various ongoing and new giga and mega development projects are expected to empower the private sector and increase employment opportunities for the locals.

Another major highlight for 2019 was Saudi Aramco's smooth transition from a private to a public company. The initial public offering (IPO) of the world's largest oil company, which also turned out to be the world's biggest public listing, has propelled the Saudi equity market into the world's top 10 exchanges.

Saudi Arabia's economic growth slowed down in 2019 from the previous year, on the back of weakness in the oil sector, mainly due to reduced oil output. Preliminary estimates from the Ministry of Finance (MoF) indicate an annual real GDP growth of about 0.4% in 2019, down from the 2.2% growth reported in 2018, but higher than the 0.2% projected by the International Monetary Fund (IMF) in its October 2019 World Economic Outlook report. The weak annual economic growth for 2019 can be attributed to the 2.8% contraction in oil GDP, from an expansion of 2.8% in the prior year. On the other hand, non-oil sector GDP rose by 2.7% last year, as compared to a 2.1% increase in 2018.

The MoF expects the Kingdom's real GDP growth to rebound to 2.3% in 2020 and the pace of economic growth to remain steady in the medium-term, supported by non-oil sector activity and government efforts to boost investments. Moreover, the IMF has forecasted the Kingdom's economic growth to recover to 2.2% in 2020, supported by stabilization in the oil GDP and continued momentum in non-oil sector activity. Additionally, the World Bank expects the Saudi Arabian economy to expand by 1.9% in 2020 and growth to strengthen to 2.2% by 2021, supported by the reversal of production cuts and the positive impact of the government's ongoing diversification efforts.

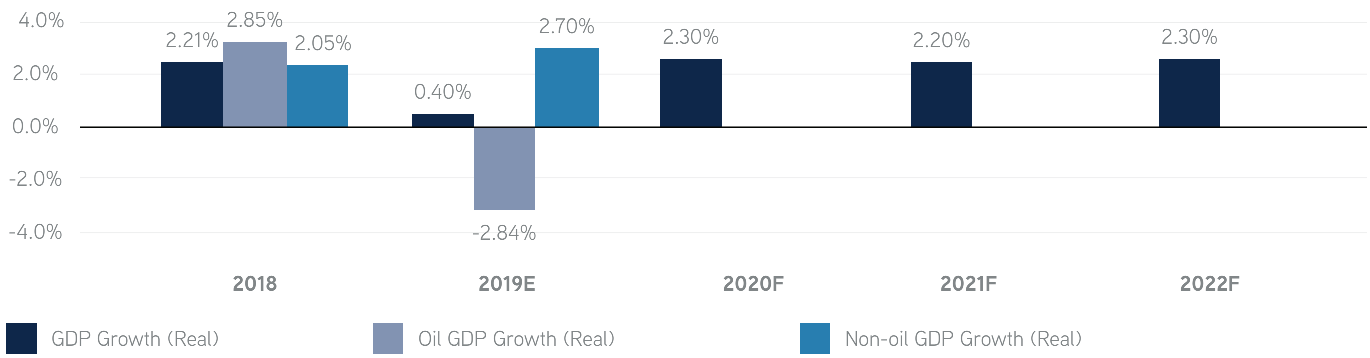
The non-oil sector Purchasing Managers' Index (PMI) remained in the expansionary territory throughout 2019, with the index touching 58.3 in November 2019, its highest level in four years, underpinned by an increase in new order growth. According to the IHS Markit report, business conditions in the Kingdom improved significantly towards the end of 2019 as compared to the same period of 2018, specifically in relation to new order books. The report also highlighted that the Kingdom's private sector remains optimistic about growth prospects for this year. In its bid to stimulate industrial investments in the Kingdom, the government decided to bear the expatriate fees required to be paid by industrial companies for a period of five years, while the Saudi Contractors Authority (SCA) is working alongside the MoF on a system to return the expat fees already paid by various private sector firms for contracts signed before the decision to increase the fees.

The Kingdom continued to face deflationary pressures for the entire year, after witnessing inflation in 2018. The consumer price index (CPI) fell 1.0% in 2019, on the back of a decrease in the Housing, Water, Electricity, Gas & Fuel component of the CPI, which has a weightage of about 25% in the CPI basket. However, deflation eased during the course of the year, from 1.9% recorded in January 2019 to 0.2% in November 2019, driven by a rise in prices of sub-groups of the CPI basket such as Healthcare, Education, Food & Beverage and Restaurants & Hotels. The government expects the inflation rate to rise to 2.0% in 2020, from -1.0% in 2019.

The measures taken by the Kingdom over the last two years to nationalize its work force have begun to show results, with the unemployment rate among Saudis declining to its lowest level in over three years to 12.0% in the third quarter of 2019. According to the General Authority for Statistics (GaStat), participation rate of Saudi citizens in the work force climbed to 45.5% in Q3 2019, from 42% at the end of 2018, with participation rate of females rising to 23.2%, from 20.2% in Q4 2018. The government remains committed to further increase participation of locals in the jobs market, as seen from several programs introduced to localize jobs in the tourism, information technology and communication (ITC) sectors, along with occupation, health and safety jobs in mega, big and medium enterprises, and contract jobs in public firms. Moreover, the Ministry of Labor and Social Development (MLSD) also cancelled the yellow zone in the Nitaqat program to push firms to the green zone and above, while raising their nationalization rate. The MLSD plans to further expand the localization drive and in November 2019, announced that around 30% of dentistry jobs would be localized during 2020. In 2019, the government also announced various amendments to its employment laws related to women, with the retirement age for female employees raised to 60 years from 55 years and employers barred from firing an employee during pregnancy or maternity leave. We expect these measures to further improve the participation of women in the jobs market. Going forward, we expect that the government's continued efforts to strengthen the non-oil sector, expansion in the female workforce and localization of jobs will pave the way for a healthy labor market in the long run.

In May 2019, the Kingdom's Shura Council approved a new residency scheme offering several privileges to lure eligible, qualified global entrepreneurs and innovators to reside and work in the Kingdom. According to the scheme, the holder of such privileged residency can obtain visit visas for relatives, recruit domestic workers, work in the private sector and can own real estate for residential, commercial and industrial purposes in all cities, except Makkah, Madinah and some border zones.

SAUDI GDP GROWTH



Source: Ministry of Finance

CONTINUATION OF DIVERSIFICATION EFFORTS THROUGH STEADY PROGRESS ON ONGOING AND NEW PROJECTS WAS WITNESSED IN 2019

Amid a wave of economic, social and capital market reforms, the Kingdom has continued to take strides towards transforming itself into a global tourism destination. In September 2019, the Saudi Commission for Tourism and National Heritage (SCTNH) unveiled a new tourist visa scheme for nationals from 49 countries across the world, including 38 countries in Europe, seven in Asia, as well as the USA, Canada, Australia and New Zealand. Under this scheme, visas will be accessible online or on arrival at any of the Kingdom's four international airports and will be valid for about a year allowing multiple entries and stays of up to three months for visitors. Meanwhile, the World Travel & Tourism Council, the body representing the private global travel and tourism industry, announced a partnership with the SCTNH to make Saudi Arabia a top five tourist destination, with 100 million annual visitors by 2030. In its bid to further increase tourist inflow, Saudi Arabia also eased some of its cultural norms allowing women to rent rooms in hotels without the presence of a male guardian and permitting foreign men and women to share a room without proof of marriage. In 2019, the Kingdom introduced a series of women-centric reforms, including a new law allowing women above 21 years of age to travel independently without seeking permission from their male counterparts or guardians and scrapped the regulation which mandated that restaurants segregate seating areas and entrances according to gender and marital status. In addition, women in Saudi Arabia can now apply for their children's passports and approve their travel abroad, in case of absence of the father.

Tourism is expected to gain further traction over the coming years with various ongoing mega development projects and initiatives taken by the government under its Vision 2030 program. In January 2019, the masterplan for the Red Sea Project was passed by Red Sea Development Company, which is also in discussions with major Saudi banks to raise SAR 10 billion for funding the project. Phase One of the project, which includes 14 luxury hotels with over 3,000 rooms across five islands, two resorts in the mountains and 'sahara' areas, is slated to be completed by 2022. Additionally, the Kingdom laid the foundation stone for the SAR 64 billion Diriyah Gate project last year which, upon completion, will consist of 20 luxury hotel brands, four iconic squares, a 15,000-seat arena, and a Formula-E racetrack, along with exhibitions, restaurants and arts academies. This project is expected to provide 55,000 jobs, of which 15% will be from the Diriyah region. With regards to other major projects, construction work on the Qiddiya entertainment city is expected to start in Q1 2020, while the first phase of NEOM's construction work has been completed and ground-breaking for the Amaala project is set for early 2020. In 2019, the Kingdom also embarked on a plan to establish an international city for dates in Madinah, which is anticipated to become a local and international destination for producing, trading and exporting dates. Furthermore, the Sharaan Natural Reserve in Al-Ula governorate, encompassing a lavish resort designed by the famous French architect, Jean Nouvel, was inaugurated by the Crown Prince Mohammed bin Salman in February 2019 and is expected to be completed by 2023.

On the transportation front, plans are underway to develop a national hyperloop network in the Kingdom using Hyperloop One's technology, with work on a test track likely to be initiated this year. Terminal 1 of King Abdulaziz International Airport in Jeddah started operations in 2019, while Riyadh's 176 km six-line metro rail project is set to open three lines by mid-2020, with the remaining lines expected to be inaugurated by the end of the year. The NEOM Bay Airport, the first 5G-supported airport in the region, was inaugurated in June 2019 while King Salman also launched four well-being projects in March 2019 worth SAR 86 billion in Riyadh, aligned with the UN's Sustainable Development Goals. These projects include King Salman Park, Sports Boulevard, Green Riyadh, and Riyadh Art and are aimed at transforming health, culture and lifestyle of the citizens. These programs are a part of a massive development plan for Riyadh and complement the Saudi Vision 2030's 'Quality of Life' program.

In 2019, Saudi Arabia continued to promote religious tourism with the aim of realizing its goal of attracting 30 million Umrah visitors by 2030. 'Enriching Hajj & Umrah Experience' program, consisting of over 130 initiatives, was unveiled in May 2019 to facilitate the hosting of more pilgrims and their access to the Holy Mosques, provide them quality services, and enrich the pilgrims' religious and cultural experiences. Furthermore, a strategic plan to develop the undeveloped areas in Makkah and the Kingdom's other holy sites was announced and efforts are also being made to increase the capacity of the holy sites to serve the growing number of pilgrims. In April 2019, Makkah City approved the establishment of three new Islamic museums, 'Glory and Beauty', 'Good Ethics' and 'Features of the Grand Mosque', and construction work on a 'Peace Museum' in Madinah was also initiated in May 2019, which is expected to be built within a year. In September 2019, a royal decree was issued waiving the repeat Umrah fees of SAR 2,000 imposed since 2016 on people performing Umrah more than once. Moreover, Umrah pilgrims will also be free to travel anywhere in the country during their stay in the Kingdom. Saudi Arabia also introduced initiatives to boost religious tourism such as a Smart Hajj platform, a service-supervision initiative to improve housing by adding additional living space and organizing bus trips, a pilgrims grouping program that uses an electronic system to manage and monitor crowds, and an initiative to improve food services and expand the provision of ready meals at the holy site. Additionally, the Saudi Hajj Ministry announced an insurance service with a cover of SAR 100,000 for pilgrims aimed at enhancing the pilgrims' experience.

Apart from plans to develop the Kingdom's tourism sector, Saudi Arabia also took measures to boost the entertainment sector in the country. The Kingdom announced in January 2019 plans to invest SAR 130 billion for the development of 16 entertainment complexes, an aquatic center and three other entertainment hubs across the Kingdom. Moreover, the Saudi General Commission for Audiovisual Media (GCAM) disclosed plans to open 45 cinemas in the country by 2020, while Saudi Entertainment Ventures (SEVEN), a wholly-owned subsidiary of the Public Investment Fund (PIF), signed an agreement with the Al-Oula Real Estate Development Company to expand the AMC cinemas network within the Kingdom. In June 2019, the General Entertainment Authority (GEA) signed a memorandum of understanding (MoU) with two specialist companies, MINA Education and Development & Bunyan Development, to establish and operate an academy for entertainment that will offer dedicated entertainment courses and programs. Furthermore, the General Sports Authority (GSA) announced a SAR 2.5 billion package to support the 170 sports clubs currently active across the Kingdom and attract new investment into the sector.

On a separate note, Saudi Arabia took over the Presidency of the G20 from Japan in December 2019, thereby becoming the first Arab nation to head the international body. The Kingdom will guide the work of the G20 under the theme of "Realizing Opportunities of the 21st Century for All" while focusing on three aims, namely empowering people, safeguarding earth and shaping new frontiers. The Kingdom will hold the Leaders' Summit in Riyadh on 21-22 November, 2020.

BALANCING FISCAL STABILITY AND ECONOMIC DIVERSIFICATION REMAINS THE PRIMARY FOCUS OF BUDGET 2020

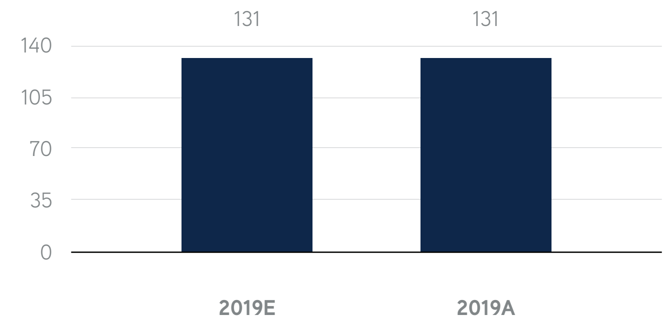
Saudi Arabia continued to push forward with its economic diversification plan last year by empowering its private sector and focusing on increasing the contribution of the non-oil sector to the Kingdom's GDP. The 2020 budget has further reinforced this strategy, with its focus on the execution of the Vision 2030 reforms plan. The budgeted expenditure of SAR 1.02 trillion for 2020, slightly lower than the 2019 budgeted expenditure of SAR 1.106 trillion, points towards a reversal of three years of steady increases in expenditure and is expected to be spent efficiently in the wake of a challenging global economic outlook. The 2020 budget, although lower than last year, ensures continuous provision and development of basic services, private sector growth, execution of mega projects, implementation of the Vision Realization Programs (VRPs), in addition to the government's social protection programs.

In light of the several risks and challenges facing the global economy, the latest budget is conservative on the revenue side. Revenues for the current year are forecasted at SAR 833 billion vs. SAR 917 billion estimated for 2019, with about 62% of the total revenue, or SAR 513 billion, expected to be contributed by the oil sector. Oil revenue is projected to drop by 14.8% as compared to SAR 602 billion in 2019, mainly due to reduced output and global demand concerns due to trade tensions. Non-oil revenue is expected to be SAR 320 billion in 2020, up 1.6% from SAR 315 billion in 2019, supported by the government's continued efforts to develop non-oil sectors of the economy. Tax revenues for 2020 are forecasted to be SAR 200 billion, of which SAR 142 billion will be from taxes on goods and services. The revenue from goods and services tax in 2020 is expected to be 0.8% higher than 2019 estimates, driven by the implementation of a 50% excise tax on sugar sweetened beverages in December 2019 and expectations of a pick-up in economic growth.

Analyzing the budget from the sectorial perspective, education, military and healthcare sectors continued to grab more than half of the total budgetary allocation. The projected spending of SAR 193 billion on the education sector, along with the SAR 167 billion allocated to the healthcare sector, amounts to a combined 35% of the total budgeted expenditure. The projected expenditure in the military sector stood at SAR 182 billion, which was lower than both 2018 and 2019 levels. Meanwhile, allocation to the general items comprising of government pensions, social insurance and subsidies is projected to increase by 15.9% to SAR 141 billion from an estimated spending of SAR 121 billion in 2019. Capital expenditure for 2020 is forecast to be SAR 173 billion, similar to last year, and will be used to fund the various VRPs, development of mega projects and implementation of investment projects in municipal services, health, education, infrastructure, transportation and other sectors.

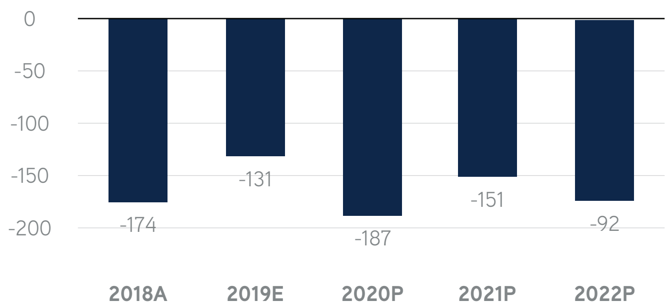
ESTIMATED VS ACTUAL DEFICIT IN 2019

SAR Billion



(DEFICIT) / SURPLUS

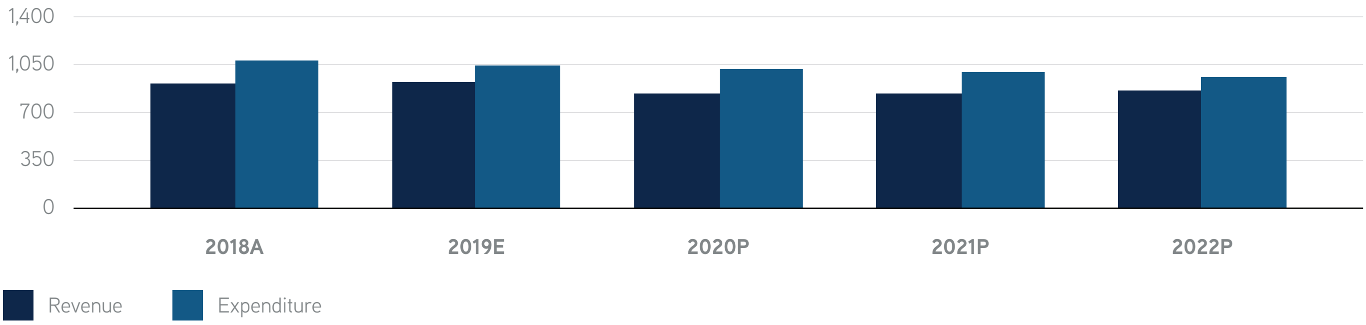
SAR Billion



Source: Ministry of Finance

BUDGETED REVENUE AND EXPENDITURE

SAR Billion



Source: Ministry of Finance

Budget deficit for 2019 has been estimated at SAR 131 billion or 4.7% of GDP, in line with the approved budget for the year, even though revenues are estimated to be around 6% lower than the SAR 975 billion stated in the 2019 budget statement, mainly because of the shortfall in oil revenues. Efficient allocation of expenditure in 2019 and the contribution of private sector in establishing and operating several projects, including water, sanitation and energy, helped in keeping the deficit at the same level as estimated in the budget despite the decrease in revenues. The government financed the deficit in 2019 through a combination of debt issuances, domestic and international financing through Sukuk and bonds, along with withdrawals from government deposits and reserves. According to the MoF, Sukuk and bond issuances totaled SAR 113.5 billion by October 2019. Meanwhile, budget deficit for 2020 is expected to increase to SAR 187 billion, reaching 6.4% of the Kingdom's GDP. However, the government will endeavor to gradually decrease the deficit and aims to reduce it to SAR 92 billion or 2.9% of GDP by 2022. The government plans to fund its deficit for 2020 using the MoF's strategy to diversify its debt portfolio between domestic and international markets and withdrawals from government deposits and reserves.

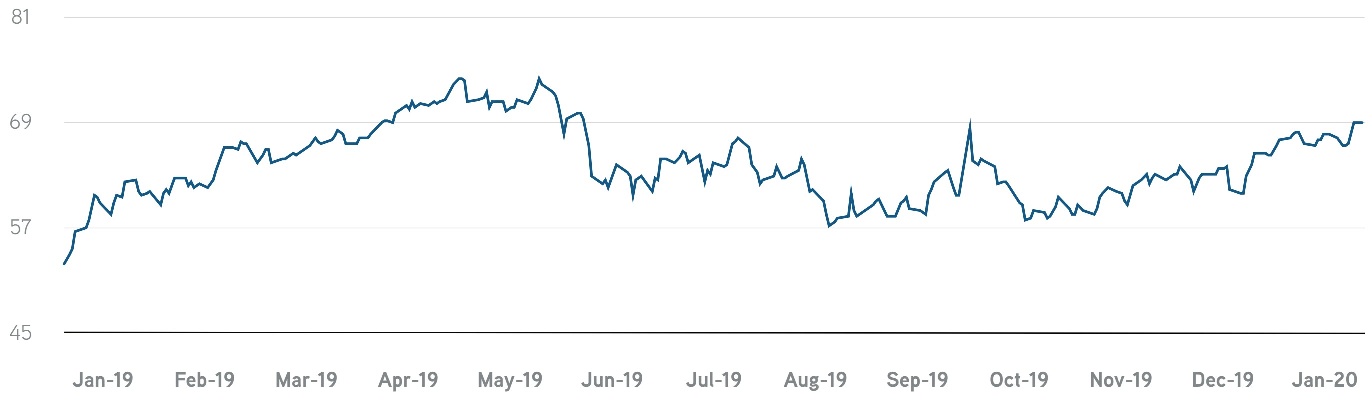
Public debt is anticipated to reach SAR 754 billion or 26% of GDP in 2020, higher than the estimated SAR 678 billion debt for 2019 and is expected to jump further to SAR 924 billion or 29% of GDP over the next three years through 2022. On the other hand, government reserves are expected to decline to SAR 346 billion by 2020 and to SAR 265 billion by 2022, from SAR 467 billion in 2019.

OIL MARKET WITNESSED MAJOR GAINS IN 2019

Oil markets tightened last year, resulting in Brent and WTI crude oil prices surging about 23% and 34%, respectively, on an annual basis, and recording their biggest annual price gains since 2016, mainly buoyed by the output cuts undertaken by the OPEC and OPEC+, and rising geopolitical tensions, particularly in the Middle East. Oil markets were also supported by expectations of a preliminary trade deal between the US and China towards the end of the year. During the first half of 2019, oil prices rebounded from the weakness seen in the last few months of 2018 and soared above $70 per barrel, largely driven by the implementation of the OPEC-led production cuts and a sharp decline in crude oil output from Venezuela and Iran, in the wake of US sanctions on the two countries. However, escalation in global trade tensions and concerns over global demand and growth outlook resulted in crude oil surrendering some of its initial gains between May and September, despite a brief spike in September, following a drone attack on major Saudi oil facilities. The last quarter of 2019 witnessed another rally in oil prices as the OPEC+ agreed to extend and deepen its output cuts in 2020 in a bid to further balance the market. Oil markets were further buoyed by the agreement on a phase-one trade deal between the US and China in December 2019.

BRENT CRUDE OIL SPOT PRICES

USD per barrel



Source: Bloomberg

The US Energy Information Administration (EIA), in its December 2019 Short-Term Energy Outlook (STEO) report, projected Brent and WTI crude oil prices to average around $61 and $55 per barrel, respectively, in 2020, down from their average prices of $64 and $57 per barrel in 2019. The EIA expects global crude inventories to rise in the first half of 2020, thereby exerting downward pressure on oil prices during the period. However, oil prices are expected to rise in the second half of the year, supported by declining inventories.

Moving ahead, we expect oil prices to remain largely stable this year, supported by the additional production cuts of 0.5 million barrels per day announced by the OPEC+ in its December 2019 meeting. Oil markets will also keep a close eye on the US-China trade talks and any progress towards ending the protracted trade war between the world's two largest economies could stimulate slowing global growth and boost demand. Additionally, we expect the US Federal Reserve (Fed) to maintain its current accommodative policy stance in 2020, which will keep the US Dollar in check and in turn provide stability to oil prices.

SAUDI ARAMCO'S LISTING ON TADAWUL HAS PROPELLED THE SAUDI INDEX AMONG THE TOP 10 LARGEST GLOBAL STOCK MARKETS

The Tadawul All Share Index (TASI) rose 7.2% in 2019, extending its gains for the fourth year in a row, buoyed by the inclusion of the index in the Emerging Market indices of the MSCI, S&P Dow Jones and FTSE Russell during the year. Thirteen sectors of the Saudi index ended the year in the green, with maximum returns recorded in the Consumer Services (+34.3%) and Utilities (+30.6%) sectors. Meanwhile, eight sectors ended the year in the red, with Media and Entertainment declining the most (-7.6%). The total market capitalization surged 385.5% to about SAR 9.03 trillion from SAR 1.86 trillion at the end of 2018, primarily driven by Saudi Aramco's IPO, which also became the largest IPO across the globe, surpassing Alibaba's record IPO in 2014.

Saudi Aramco, which offered 1.5% of its 200 billion outstanding shares to the public, witnessed overwhelming demand resulting in oversubscription of 465% and raised SAR 446 billion from both retail and institutional tranches. The offering size hit SAR

110.3 billion compared to the IPO size of SAR 96 billion, after the overallotment option was exercised and the additional shares were allocated to institutional investors. The company priced the IPO at SAR 32 - the upper end of its targeted price range, providing the world's largest oil company a total valuation of SAR 6.3 trillion ($1.7 trillion). Saudi Aramco started trading on the exchange on 11 December 2019 and was fast tracked into TASI and the Energy Industry Group Index by 18 December 2019. Subsequently, the MSCI and FTSE Russell also included the company into their respective Emerging Market indices. Saudi Aramco's weight in the MSCI Emerging Market index and the MSCI Saudi Arabia index is estimated to be about 0.16% and 6.03%, respectively, while its weight on the FTSE Russell index stands at 0.4735%. Following Saudi Aramco's listing on the Tadawul, the index has emerged as the seventh largest stock market across the globe.

Apart from the Saudi Aramco IPO, 2019 also witnessed other significant events, such as, the completion of the Tadawul's inclusion in the MSCI, S&P Dow Jones Emerging Market indices and JPMorgan Chase & Co.'s Emerging Market Bond index. The year also saw the beginning of the inclusion of Tadawul in the FTSE Russell index in several phases, with the completion of the inclusion process slated for March 2020. Furthermore, a slew of capital market reforms continued throughout the year with the aim of improving the investment climate for both local and global investors and to enhance the Kingdom's competitiveness globally. The Tadawul and MSCI announced the establishment of a joint tradable index, the MSCI Tadawul 30 Index (MT30), consisting of 30 largest listed Saudi securities. The index provides investors with a benchmark of the largest liquid companies in the Kingdom and will also serve as the basis for development of an index futures contract listed on Tadawul and can be licensed for other index linked financial instruments, including mutual funds, derivatives and exchange traded products. Meanwhile, the Saudi index also announced the launch of a new Listing division as part of an organizational restructuring of the Markets Division at Tadawul. The index also amended its listing regulations allowing foreign companies to list on the bourse and signed agreements with the Abu Dhabi Securities Exchange and the Bahrain Bourse to facilitate dual listings. Additionally, Saudi Arabia's market regulator, the Capital Market Authority (CMA), relaxed the 49% limit for foreign strategic investors in Tadawul listed companies, while setting no minimum or maximum ownership limit, to attract more capital.

Moreover, Tadawul, as part of an update to its index methodology, reviewed its free float shares calculation methodology and rules for fast inclusion of large companies to the TASI, among others. Meanwhile, in light of Saudi Aramco's listing, Tadawul also introduced a new fast entry rule, under which shares of IPOs with a free float market capitalization of at least SAR 10 billion would be able to join the index at the close of their fifth trading day, as against the previous rule of inclusion in the next quarterly index maintenance. Furthermore, the Saudi Cabinet also amended various regulations governing the Saudi stock exchange to allow the creation of other exchanges in addition to Tadawul. The amendments also included co-ordination between the CMA and Saudi Arabian Monetary Authority (SAMA) in monitoring the securities custody. The CMA and the Debt Management Office (DMO) also issued major changes to the fees and trading commissions for the Sukuk and bond markets aimed at encouraging secondary trading of debt, including a reduction in Tadawul's annual listing fees for first and subsequent issuances of Sukuk and bonds, and an introduction of caps for Tadawul's annual listing fees for first and subsequent issuances. Separately, the par value of 29 government debt instruments was reduced to SAR 1,000 from SAR 1 million.

The REITs market witnessed relatively subdued activity last year, with Alkhabeer REIT being the only new REIT listed on the index, bringing the total number of listed REITs in the Kingdom to 17. The REITs index had a combined market capitalization of over SAR 15 billion at the end of 2019 and closed 15.8% higher from the end of 2018, while the Real Estate Management & Development Index was down 2.9%. Furthermore, eight Tadawul-listed REITs were included in the FTSE European Public Real-Estate Association (EPRA) Nareit Emerging Market Index during the year. This inclusion has the potential to raise the visibility of Saudi REITs among foreign investors and align them with global best practices.

As part of its plans to enhance the popularity of the Nomu index to encourage more listings on the parallel market and improve overall market liquidity, Tadawul introduced a slew of reforms during the year. Some of these reforms include the launch of the Nomu Capped Index (NomuC) as the headline index for the Nomu market, allowing of direct listing of companies on the Nomu index without the need of an IPO, less stringent requirements for reporting of financial statements, and streamlining of the process of shifting from the parallel market to the main market. For direct listing, companies are required to meet all regulatory requirements for listing on Tadawul, while offering 20% of their capital or SAR 30 million worth of shares, whichever is less. In 2019, five companies were transferred from the Nomu market to the main market, thus reducing the number of companies on the parallel market to only five.

Furthermore, Tadawul implemented the 'Trade-at-Last' session, an additional new session following the closing auction. The new session runs for 10 minutes and is applicable to both the main market and the Nomu parallel market. During the 'Trade-at-Last' session, market participants can place orders only at the closing price formed in the closing auction. The new initiative is aimed at aligning the index with best international practices through facilitating a mechanism to allow trading at the closing price.

PIF CONTINUES TO STRENGTHEN ITS LOCAL AND GLOBAL PRESENCE THROUGH STRATEGIC INVESTMENTS

The year 2019 witnessed one of the biggest acquisition deals in the global chemical industry as the PIF, the Kingdom's sovereign wealth fund, reached an agreement with Saudi Aramco to sell its 70% stake in Saudi Basic Industries Corp (SABIC) to the oil giant for about SAR 259.1 billion ($69.1 billion). This deal can be seen as a win-win for both Saudi Aramco and the PIF as it enabled the former to expand its downstream operations ahead of its IPO, while equipping the latter with capital to implement its ambitious projects to diversify the Kingdom's economy. The PIF also secured a SAR 37.5 billion syndicated bridge loan from a consortium of banks, including Bank of America Corp, PNB Paribas, MUFG, Standard Chartered and Sumitomo Mitsui Banking Corp (SMBC). This loan is expected to provide some liquidity to the PIF ahead of the receipt of proceeds from its SABIC stake sale to Saudi Aramco, which is expected to be done in instalments, continuing until 2025. The financed loan will be employed towards financing public projects and accelerating the PIF's investment program.

The PIF, which has invested in about 50 to 60 companies globally through SoftBank Group's Vision Fund, is focused on bringing several of those businesses to the Kingdom. In 2019, the PIF completed the acquisition of a 40% stake in Jasara Program Management Co and is reportedly in talks with the owners of Bateel, a gourmet date producer, for a potential investment in the firm. In November 2019, the PIF invested about SAR 1.5 billion ($400 million) into CloudKitchens, a new start-up owned by Uber founder, Travis Kalanick. Furthermore, the Fund is also working towards attracting and retaining young talent and develop them to become future leaders in the field of investment by expanding its team to include 2,000 employees by 2025, from the current 600 employees, and opening new offices in London, New York and San Francisco.

In line with the Kingdom's aim to support and empower small and medium enterprises (SMEs), the PIF established a new investment vehicle, a SAR 4 billion Fund of Funds, "Jada", which will invest in venture capital and private equity funds. In January 2019, the Crown Prince, Mohammed bin Salman, launched the National Industrial Development and Logistics Program (NIDLP), one of the 13 Vision Realization Programs (VRPs) under Saudi Vision 2030, to transform the Kingdom into an industrial powerhouse and a global leader in logistical services by promoting growth in sectors such as industry, mining, energy and logistics with a goal of attracting investments of about SAR 1.7 trillion, and expanding the contribution of the aforementioned sectors to the Kingdom's GDP to SAR 1.2 trillion, increasing non-oil exports to over SAR 1 trillion and generating 1.6 million new jobs by 2030. On the other hand, the Kingdom also expanded the mandate of its SAR 105 billion Saudi Industrial Development Fund (SIDF) to allow financing in new sectors such as energy, logistics and mining projects. The SIDF is also now allowed to finance businesses and projects with Saudi investors located outside the Kingdom.

During the year, the Ministry of Health (MoH) initiated its first public-private partnership (PPP) project concerning the upgradation of radiology and medical imaging services at seven hospitals in Riyadh at a cost of over SAR 250 million. Meanwhile, the Saudi Arabian General Investment Authority (SAGIA) has indicated that the Kingdom's privatization program is targeting 23 privatization initiatives by the end of 2020 and 100 by 2030, with an aim to generate between SAR 35 billion and SAR 40 billion in non-oil revenues, while also creating approximately 12,000 jobs for Saudi nationals by 2020. Furthermore, the Ministry of Environment, Water, and Agriculture unveiled plans to privatize 11 desalination plants with a total capacity of approximately 4.3 million cubic meters per day (CMD) and nine sewage treatment plants with a combined capacity of 1.11 million CMD. The Kingdom is also studying regulations to license new stock market operators, which is the initial step towards privatizing its state-run bourse.

On a separate note, Saudi Arabia was ranked among the world's Top 10 Improvers in the World Bank Group's 'Doing Business 2020' report last year, with the Kingdom jumping 30 places from its previous ranking to be at the 62nd position among 190 economies.

GOVERNMENT INITIATIVES LIKELY TO REVIVE REAL ESTATE SECTOR ACTIVITY

Saudi Arabia's real estate sector continued to soften in 2019, amid falling property prices and rents across various segments, even as the government continued to take steps to boost the sector. According to GaStat, property prices in the Kingdom declined by 2.7% in the third quarter of 2019, as compared to the same period in 2018, led by the residential segment, where prices fell by 3.5%, followed by a 1.2% dip in the commercial segment.

In 2019, the Kingdom remained committed to the various housing programs that are run by the Ministry of Housing (MOH) while also building tourism infrastructure to reshape the economy. At the beginning of last year, the MOH launched its 2019 Sakani program aimed at allocating 200,000 housing products including mortgage units, under-construction units, off-plan units (Wafi), and plots of land allocated free of cost in major areas of the Kingdom for beneficiaries of the scheme. Under the program, a total of 50,000 units are expected to be built under the public-private partnership (PPP) model. Meanwhile, as of August 2019, the MOH's Wafi program licensed 229 real estate developers to sell or lease their off-plan projects. Furthermore, the MOH, through its Development Housing Program, signed an agreement with the Built Contracting Company to develop five residential projects involving construction of 3,130 housing units in the provinces of Riyadh, Hail and Al-Qassim. Meanwhile, in August 2019, Saudi Arabia and the UAE established a working team for cooperation in the housing sector, which will be responsible for providing unified housing services and launching joint projects for both countries with an aim to achieve housing sustainability.

According to the Saudi Arabian Monetary Authority (SAMA), real estate loans provided by Saudi banks to retail and corporate clients stood at SAR 273.5 billion as at Q3 2019, up 21% from total loans disbursed in Q3 2018, with retail loans witnessing a robust growth of 33% YoY to about SAR 174.3 billion. Residential new mortgage loans for individuals worth over SAR 64 billion were provided by banks in the Kingdom in the 11 months up to November 2019, with the number of loans and their value growing by about 263% and 173%, respectively, on an annual basis. Moreover, in a bid to further improve home ownership among Saudi nationals, the Real Estate Development Fund (REDF) decided to provide property loans to Saudi women as well. According to a GaStat bulletin, the percentage of owned houses occupied by Saudi families rose by about 62% in the first half of 2019, reaching 2.2 million families, as compared to 60.5% YoY growth witnessed in H1 2018. Additionally, the number of homes owned by Saudi nationals rose to more than 1.9 million in H1 2019, thus raising the proportion of houses owned by Saudis to approximately 53.3% as at H1 2019, from 51.7% in the same period of 2018.

The MOH also inked a deal with the Social Development Bank to finance entrepreneurs who wish to work in the real estate brokerage industry. As per the agreement, the bank will provide financial support of up to SAR 300,000 to all real estate projects nominated by the Ministry, while also providing training to individuals to run real estate brokerage houses. Moreover, in order to increase opportunities for SMEs in the construction sector, the government launched a new e-platform, "Benna", which offers opportunities to developers and contractors to build 10,000 residential units worth SAR 5 billion across the Kingdom. Furthermore, the Saudi Arabian General Investment Authority (SAGIA) entered into different agreements with local companies including King Abdullah Economic City (KAEC), Saudi Real Estate Co. (Al Akaria), Sulaiman A. Al-Rajhi Real Estate Investments Co., Samama Real Estate Development Co., Jeddah Economic Co., Al Nahla Group, Al Ameen Real Estate Development Co. and Kinan International, to increase the role of local investors in the real estate sector while also enhancing investment opportunities through international partnerships.

The REIT IPO activity remained muted during the year with only one REIT being listed on Tadawul during 2019 as compared to nine REIT listings witnessed in 2018. However, the inclusion of eight Saudi REITs in the FTSE EPRA Nareit Emerging Index was a positive for the REIT market and we expect the inclusion to have a favorable impact on the sector going forward.

In our opinion, government measures aimed at increasing home ownership among Saudi citizens and its focus on the development of the Kingdom’s real estate sector as part of the ongoing economic diversification process, will stimulate the real estate market over the medium to long-term. Moreover, the launch of international tourist e-visas, construction of various giga projects and smart cities across the Kingdom, and the new permanent residency program for skilled expats are all expected to support the Kingdom’s real estate sector and drive investments in the future.

REFORMS AND GOVERNMENT SUPPORT WILL CONTINUE TO ATTRACT INVESTORS

Looking back, 2019 can be viewed as the year in which Saudi Arabia began to see the results of the reforms process that the Kingdom set in motion in 2017. Several notable milestones were attained, including the country’s inclusion in the World Bank’s Top 20 Improvers list based on ease of doing business, attaining the G20 Presidency and the listing of the world’s most profitable company on its stock exchange, apart from the Tadawul’s inclusion in various global Emerging Market indices. The year also witnessed a raft of social and economic reforms which we believe will enhance the image of the Kingdom globally and open new markets for local businesses. In our opinion, the efforts taken by the government to promote tourism, such as continued investments in the infrastructure, entertainment and leisure sector development and the launch of the new tourist visa scheme, among others, will drive the sector going forward and help in realizing the Kingdom’s goal of becoming a global tourism hub in the near future. We expect the reforms process to continue unabated in the years ahead and unlock new investment opportunities in the coming years.

الخبير المالية
Alkhabeer Capital

REVIEW OF ACTIVITIES AND OPERATIONS

ASSET MANAGEMENT

In Asset Management, our clients truly have a trusted partner in Alkhabeer, who is focused on understanding and meeting its 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 helps 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 14 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. We continually monitor economic conditions, market opportunities and client requirements to develop new and innovative investment solutions that anticipate our clients' evolving investment management needs.

2019 HIGHLIGHTS

- On 20 March 2019, Alkhabeer REIT was listed on Tadawul and was covered by more than 25,000 subscribers with a value of SAR 237 million, representing 24% of the total value of Fund assets.
- Successfully completed the exit of two real estate funds as well as the partial exit of a third real estate fund.
- Launched a private equity fund in December 2019, which acquired three educational companies in Saudi Arabia.
- The number of Discretionary Portfolio Management (DPM) accounts for capital markets grew by 32%.
- Total assets under management (AUMs) amounted to SAR 4,206 million, compared to SAR 5,597 million in 2018, as a result of exiting four investment funds.

REAL ESTATE

The Real Estate Department focuses on creating 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 of the different investment components.

We offer a diverse product range locally and internationally, encompassing all main categories of real estate investment management with value-added real estate strategies.

Real estate investments comprise a large portion of Alkhabeer Capital's investment portfolio with over SAR 2.6 billion in AUM in eight real estate investment funds.

The Real Estate Department comprises of a team of professionals with a proven local and international track record in real estate investment, development and funds management.

2019 HIGHLIGHTS

- Established an ambitious plan for a REITs program where we successfully closed the initial public offering of the first REIT Alkhabeer REIT, which attracted more than 25,000 subscribers with a value of SAR 237 million, representing 24% of the total value of Fund assets, which equates to more than SAR 1 billion.
- Alkhabeer REIT was listed on Tadawul on 20 March 2019.
- Successfully completed the exit of Alkhabeer Saudi Real Estate Income Fund I on 20 March 2019. Fund's Net Asset Value (NAV) at exit amounted to SAR 212.4 million.
- Successfully completed the exit of Alkhabeer Land Development Fund II on 31 July 2019, through the sale of all land plots owned by the Fund. Fund's Net Asset Value (NAV) at exit amounted to SAR 1.22 billion.
- Continued the partial exit of Alkhabeer Residential Real Estate Development Fund I and Alkhabeer Residential Real Estate Development Fund II through the sale of residential villas.
- Adopted an opportunistic expansion investment approach towards acquiring income-generating real estate assets through the existing Alkhabeer REIT Fund, aiming at gradually expanding and diversifying the Fund's investment product offerings. Currently, the Fund Manager is working towards increasing the capital of the Fund with the acquisition of new properties.

PRIVATE EQUITY

Alkhabeer Capital is proud to be the trusted partner of family businesses in Saudi Arabia and the region. Our Private Equity Department provides services that target several sectors, including education and healthcare.

Furthermore, we work closely with the senior management teams of our portfolio companies to optimize operating and financial value. We also invest in potential targets through specific opportunities 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.

2019 HIGHLIGHTS

- Acquired three educational companies in Saudi Arabia, as follows:
  - Acquired an 87.5% stake in Nabaa AlMaarefah Company, owner of Nabaa Al Maarefah Private Schools in Yanbu.
  - Acquired an 87.5% stake in Ajyal Yanbu AlAhlia Company, owner of Ajyal Yanbu Private Schools in Yanbu.
  - Acquired an 87.5% stake in Nabaa Al Mawahib Educational Company, owner of Nabaa Al Mawahib Schools in Jeddah.
- Established “Alkhabeer Education Private Equity Fund IV” to hold the three Companies mentioned above.
- The objectives of Alkhabeer Private Equity Department include the following:
  - Enhancing the existing Education Platform by adding other assets in different locations and selecting one of the assets to become a holding company to own all of the schools that are currently owned by all of the four education funds managed by Alkhabeer Capital.
  - Attracting the best executive team to manage and operate these schools and to take advantage of the economies of scale and synergies to exit the Education Platform through an initial public offering in the Saudi Stock Market (Tadawul) by Q4 2022.

In addition to that, Alkhabeer Private Equity Department is working on creating an industrial platform with the objective of listing it as well on the Saudi Stock Market (Tadawul). Through Alkhabeer Industrial Private Equity Company III Limited, a subsequent offering was made to add Flexi Pack Company, in UAE, to the Fund’s existing assets and plans are to add several more.

CAPITAL MARKETS

Over the past few years, the Capital Markets Department has developed a track record in providing investment management services to a diverse client base through its Discretionary Portfolio Management (DPM) platform which provides competitive returns compared to similar investment products offered in the market.

2019 HIGHLIGHTS

- In 2019, the CMD's AUMs saw an annual increase of 68.5% as compared to 2018, to reach SAR 998 million.
- During 2019, the Capital Markets Department continued to work on expanding its product offerings through various workshops and meetings conducted with the Capital Market Authority (CMA), as well as with global and regional investment managers for the purpose of developing new innovative investment products.

PRODUCT DEVELOPMENT

The Product Development Department 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.

The Product Development Department also 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.

2019 HIGHLIGHTS

- Supported the development and launch of "Alkhabeer Waqf Fund I".
- Developed "Alkhabeer Education DPM" to facilitate investment in Alkhabeer's Education Platform.
- Structured and developed one new private equity fund focused on education: "Alkhabeer Education Private Equity Fund IV". This Fund will be included in Alkhabeer Education Platform.
- Structured and developed the subsequent offering for "Alkhabeer Industrial Private Equity Company III Limited". This Company will be utilized to develop the Alkhabeer Industrial Platform.
- Structured and developed the subsequent offering for "Alkhabeer Real Estate Opportunity Fund II".
- Updated the investment product offering documentation to incorporate the amendments made in relation to specific products.
- Supported in the preparation of Alkhabeer REIT Investors' Reports and the investor reports of all private funds.
- Continued to gather market intelligence and monitor products / initiatives launched by competitors.
- Provided support to fund managers in relation to the operations of current funds and supported the monitoring of existing funds' portfolios.

INVESTMENT BANKING

Alkhabeer Capital continues to provide a wide variety of financial and advisory services. Alkhabeer's investment banking services are divided into three general categories to ensure the provision of best in class services:

1. CAPITAL MARKETS

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

The Investment Banking Department provides full services in the capital markets to privately held companies covering:

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

2. DEBT CAPITAL MARKETS AND DEBT ADVISORY

The Investment Banking Department seeks to provide advisory, arrangement and placement services to obtain financing from the debt capital markets for the following products:

- Sukuk;
- Shari'a-compliant bank financing; and
- Structured Finance.

3. MERGERS AND ACQUISITIONS

Alkhabeer Capital's unique position in the Western Region 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.

2019 HIGHLIGHTS

- Arranged Shari'a-compliant bank financing for a number of Alkhabeer Capital funds in the region of SAR 500 million.
- The Investment Banking Department was appointed to arrange Shari'a-compliant bank financing for a number of companies that were acquired by Alkhabeer real estate and private equity investment funds.

FUND ADMINISTRATION, CUSTODY AND OPERATIONS

Alkhabeer Capital has developed considerable expertise in the area of fund administration and custody over the past ten years. It provides tailored fund administration and custody services to fund managers, institutions, endowments, foundations, and other investment entities.

We also offer full-service capabilities comparable to the largest administrators and treat our clients with the meticulous attention to detail and provide high-quality service levels as if we were an extension of their business. By incorporating effective processes and technical competence, we deliver customized solutions for each client. This is accomplished by combining a process-driven approach with exceptional people and state of the art technology. As a result, we consistently deliver quality work on a timely basis. Our specialized in-house accumulated experiences cover private equity, real estate, income-generating, equities, and money market funds, in both local and international markets.

2019 HIGHLIGHTS

- In 2019, our focus was to enhance the services we offer by adopting the latest technologies in the market. We implemented a new solution to provide investment funds with comprehensive high-level administration services to alleviate the burden of day-to-day administrative functions, with a focus on timeliness and accuracy. To that end, the following has been accomplished in the fields of:
    - **Fund Accounting –** Includes the provision of accounting and performance reporting services as well as investment and investor accounting services for a wide variety of fund types where all accounting is reviewed internally using an electronic system and specific checklists to ensure accuracy.
    - **Fund Administration –** Includes the provision of all administration services for different types of investment funds, including without limitation (preparing periodic reports on funds, calculating cash or in-kind distributions and their effect on fund unitholders, and providing periodic reports to unitholders showing the current balances of each unitholder in each fund separately, as well as the movement of those balances), using a state of the art fund administration system and specific checklists to ensure accuracy.
    - **Portfolio Accounting –** With our vast experience in a wide variety of financial instruments, we have automated this process for the purpose of providing investment accounting, trade capture and reconciliation, portfolio valuation and performance reporting services.
    - **Fund Treasury Services –** Enhancing the day-to-day operations of a fund's treasury and performing all its banking and funds transfer activities, while obtaining the fund manager's approval for all disbursements. Any movement of money is processed in an environment of robust financial controls to protect the integrity of fund assets.
    - **Management of Audit, VAT & Income Tax Processes –** We have worked closely with external audit firms and VAT and Tax advisors to apply all new legal requirements, comply with CMA, GAZT, and other competent authorities' rules and regulations, and to provide the needed information and data through our digitized platforms.

BUSINESS DEVELOPMENT AND PLACEMENT

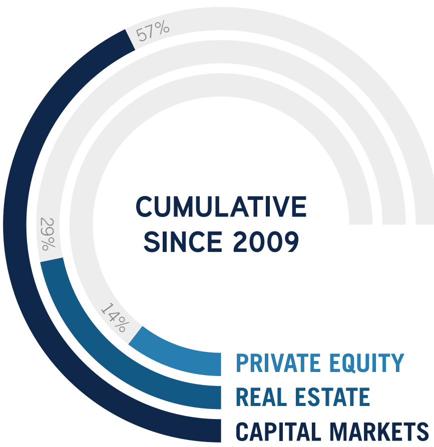
Alkhabeer Capital's Business Development and Placement Department offers investment products in Saudi Arabia and other GCC states. The overarching aim is to seek the creation of long-term added value for Alkhabeer Capital from clients, markets, and relationships. Our team can draw on their extensive knowledge and outstanding investment relationships with clients, comprising high-net-worth individuals, family offices and institutions. In addition, the team introduces clients to new products and transactions offered by the Company and communicates the progress of their investment portfolios. We also provide clients with periodic reports on the latest developments in local, regional, and international investment markets, the prevailing investment environments, and available investment opportunities in the various markets.

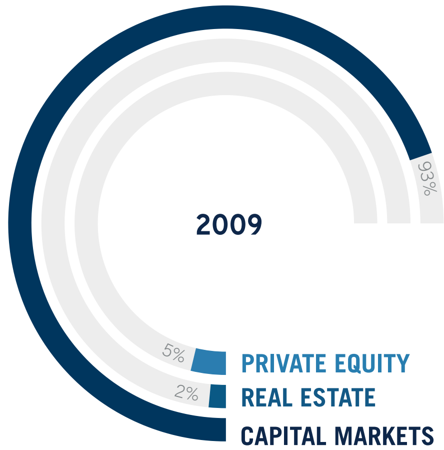
2019 HIGHLIGHTS

- Grew our client base by 7%, with a significant increase in the number of institutional clients.
- Repeat business reached 24% by the end of 2019, which reflects the satisfaction of existing clients.

PLACEMENT BY TYPE OF CLIENT AS AT 2019

PLACEMENT BY ASSET CLASS





REVIEW OF SUPPORT FUNCTIONS

REVIEW OF SUPPORT FUNCTIONS

CORPORATE COMMUNICATIONS

Throughout 2019, the Corporate Communications continued to promulgate achievements and milestones of the Company through announcements and media engagements, promoting awareness of the Company's brand and its product offerings. Media activities during the year included nine press releases.

MEDIA HIGHLIGHTS

Alkhabeer announced its 2018 financial results, recording SAR 188 million in operating income and a growth in its Assets under Management to SAR 5.6 billion, reflecting the Company's success in diversifying its business portfolio. This release received wide coverage in the media.

Capitalizing on shareholders' confidence in Alkhabeer's growth strategy, the Corporate Communications team announced in the third quarter the increase of Alkhabeer's capital by 10% to SAR 894.5 million.

In addition, the Company announced its successful exit from Alkhabeer Land Development Fund II, emphasizing that the accumulated returns to Fund investors reached 44.6%.

ALKHABEER REIT

The Company announced entering into a financing agreement with Al Rajhi Bank, projecting to investors the potential growth Alkhabeer REIT can realize. It also highlighted Alkhabeer REIT's latest achievements and the completion of its listing on the Saudi Stock Exchange (Tadawul).

ALKHABEER WAQF FUND I

Corporate Communications played a major role in promoting awareness of Alkhabeer Waqf Fund I through the launch of comprehensive advertising campaigns in respect of the launch of the Fund and announcing it to the community. The Fund news were announced in both print and electronic media and on social media platforms. In addition, several introductory videos were produced to explain to people the Fund features and shed light on the support of charitable community activities.

The Fund was launched on 1 October 2019. It is an open-ended publicly offered Waqf investment fund approved by the Capital Market Authority (CMA) and the General Authority of Awqaf. Its objective is to serve as a sustainable source of income for the programs and initiatives of the Society of Majid Bin Abdulaziz for Development and Social Services. The latter is concerned with enabling individuals and households, with particular emphasis on the youth segment, in collaboration and partnership with various stakeholders, to develop their competencies and ensure the growth of their enterprises.

ONLINE PRESENCE AND SOCIAL MEDIA PLATFORMS

The Company believes in the importance of its online presence. In support of this strategic focus, the Corporate Communications team launched Alkhabeer's newly developed website that contains numerous new interactive components to keep abreast of the state of the art in electronic media and provide greater interaction and user-friendly browsing.

Alkhabeer also intensified its efforts to renew and support its long-term plan for the development of its advertising and media capabilities through social media platforms in 2019, in order to facilitate client access to Company-related information by visiting its web pages and learning about its products, services, achievements and recent developments within the shortest possible time. This approach gives us the ability to communicate with our audience directly and, as such, allows us to develop our activities and products to align with the interests and aspirations of our clients. For this reason, the Company endeavors to maximize benefit and to reach the broadest segment of clients who are interested in its activities. These efforts have yielded a greater following as compared to 2018.

HUMAN CAPITAL

Alkhabeer Capital places the highest priority on attracting, developing, and retaining the best people in all business lines to provide a key competitive advantage. During 2019, 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 for the critical back office support functions as well. At the end of the year, the Company's headcount stood at 75, with female staff increasing to 33%.

As reflected in Alkhabeer's organization structure, the Human Capital Department 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 that form the bedrock of the Company's business philosophy.

INFORMATION TECHNOLOGY

Alkhabeer Capital views the Information Technology Department 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.

The highlight of the achievements this year was the uninterrupted total availability of the Intranet, Internet, firewall, disaster recovery, electronic mail and backup without occurrence of a single incident of virus attack, hacking attempt or high-risk audit.

During 2019, the Company continued to encourage creative and innovative use of technology and implementation of new solutions. The Company also upgraded its IT infrastructure to support its information systems and services.

We have also implemented the Asset Management System (AMS) and the Client Relationship Management System "Mubashir", to replace the legacy Advent System.

In addition, we upgraded the network from 1 Gbps to 10 Gbps to increase speed, improve performance, enhance scalability, and simplify management. The Cisco VoIP network was also enhanced using the total telephony capabilities to send text, voice and image messages to mobile and local devices.

Other main developments also included the development of Veritas System Recovery for prevention of loss of data and transfer of the file server to new hardware. The storage capacity and digital library were also expanded to cater to requirements.

In 2019, the Company continued to give priority to cybersecurity. In this respect, an internal firewall layer was added to the servers' center to block any inside threat to information security.

The DMARC domain-based message authentication, reporting and conformance system was also implemented to provide protection against phishing, spam, and unauthenticated email from any harmful sources, preventing them from reaching users and clients.

The Trend Micro Office virus protection system was also replaced by Apex One, which is the latest state of the art system for protection of terminals and virus detection.

Given the frequency of virus attacks and hacking occurrences nowadays, we have boosted our cybersecurity management systems by implementing the most recent ISO27001 standard, The Company will obtain an ISO27001 certificate shortly.

Moreover, the Information Technology Department was expanded with the appointment of Saudi employees, which will improve the Department's performance and develop better services provided to Company clients.

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Alkhabeer Capital

FINANCIAL REVIEW

FINANCIAL REVIEW

This review provides a summary and analysis of Alkhabeer Capital's financial performance for the year ended 31 December 2019. The Notes to the Financial Statements provide additional relevant information.

REVENUES

Total revenue in 2019 declined by 87% to SAR 25.1 million, compared to SAR 188.2 million for the previous year, driven by negative returns on investments.

Returns on investments contributed SAR -21 million, reflecting a decline of 117% from SAR 123 million in 2018, due to a decrease in the fair value of investments in 2019.

The contribution from management and placement fees declined by 29%, to SAR 46 million. This is mainly due to the non-recurring structuring fees in 2019.

Dividend income stood at SAR 23.2 million, up from SAR 19.8 million in 2018.

OPERATING EXPENSES

Total operating expenses were controlled with rationalized spending where it marginally increased by 3% to SAR 102 million, compared with SAR 98 million for the previous year. Operating expenses-to-income ratio stood at 408% compared with 53% in 2018 due to the negative returns on investments.

EARNINGS

Net income / loss before zakat and income tax declined by 318% to a record net loss of SAR -123.9 million from a net profit before zakat and income tax of SAR 56.8 million in 2018. This resulted in a loss in earnings per share of SAR -1.43, compared with SAR 0.68 in the previous year.

BALANCE SHEET

ASSETS

As at 31 December 2019, total assets stood at SAR 1,736 million, a decrease of 10% over the SAR 1,927 million at the end of 2018. This was a direct result of decline in investments and a reduction in liabilities.

The Investments portfolio decreased by 13.73% to SAR 1,191 million in 2019, from SAR 1,380 million in the previous year.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with banks and Murabaha placements. Cash at banks balances increased by 400% to SAR 112 million in 2019, from SAR 22 million in the previous year, mainly due to higher exit of Investments.

Assets held on behalf of clients in a fiduciary capacity are not included in the consolidated balance sheet of Alkhabeer Capital. As of 31 December 2019, the Company held fiduciary assets under management of SAR 3.01 billion vs. SAR 4.22 billion in 2018, due to higher exit from Funds in 2019.

ASSETS UNDER MANAGEMENT

As of 31 December 2019, total assets under management stood at SAR 4,206 million, a decrease of 25% from SAR 5,597 million at the end of 2018, due to higher exit from Funds during 2019.

LIABILITIES

Total liabilities decreased by SAR 55 million to SAR 887 million in 2019, from SAR 942 million in the previous year, driven by the Company's endeavors to reduce its liabilities.

In 2019, Alkhabeer Capital had a Shari'a-compliant financing outstanding balance of SAR 95.5 million (detailed below).

FINANCING FOR FY 2019

The following table shows information related to Shari'a-compliant financing extended to the Company as at 31 December 2019: (in SAR, unless otherwise stated)

NAME OF BANK	ALINMA BANK	BANQUE SAUDI FRANSI
Term of Financing	5 years	2 years
Principal Amount of Financing	100,000,000	150,000,000
Repaid Amount	14,000,000	112,500,000
Outstanding Amount	58,000,000	37,500,000

For details of Alkhabeer's Capital's outstanding debt as at the end of FY 2019 please refer to the current and non-current liabilities section in the consolidated statement of financial position and notes thereon in the attached audited financial statements (Attachment 1).

SHAREHOLDERS' EQUITY

At the end of 2019, shareholders' equity decreased by 14% to SAR 849 million, from SAR 985 million at the end of 2018. The decrease was driven primarily by the accumulated losses for the year.

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 17/2/1434 corresponding to 30/12/2012. 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

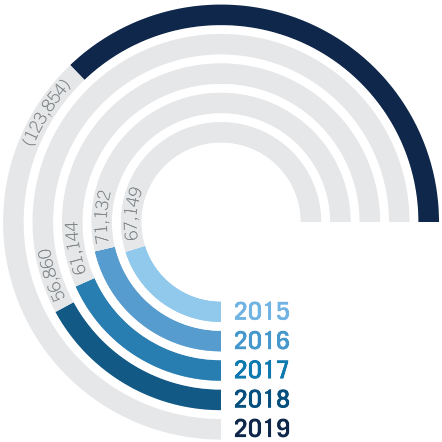
(SAR '000)	**2019**	2018
Alkhabeer's Capital Base	**848,882**	985,427
Minimum Capital Requirement	**760,570**	910,673

CAPITAL ADEQUACY RATIO

(SAR '000)	**2019**	2018
Total Capital Ratio	**1.12**	1.08
Surplus Capital	**88,312**	74,754

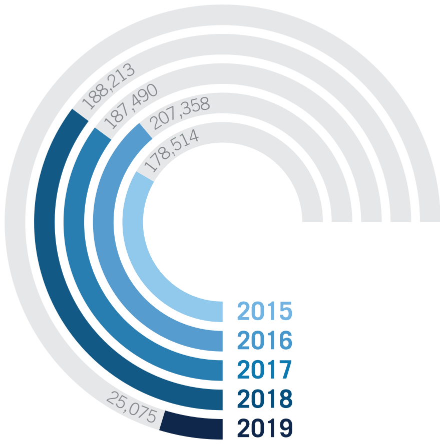
NET INCOME (BEFORE ZAKAT AND INCOME TAX)

SAR Millions



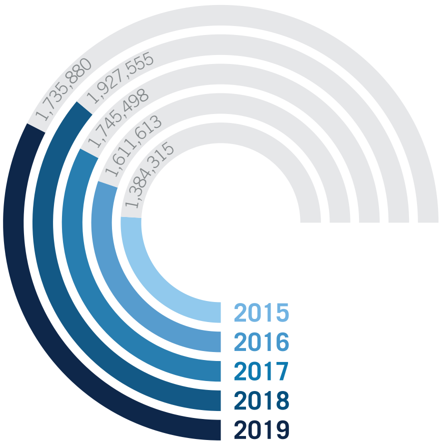
TOTAL REVENUE

SAR Millions



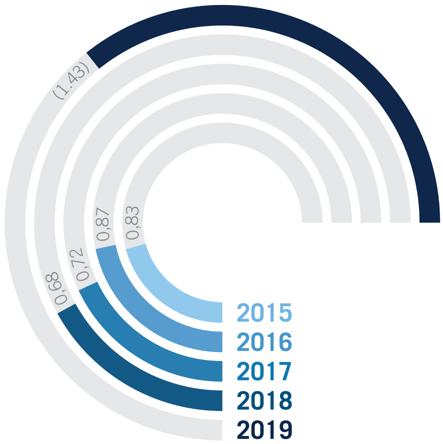
TOTAL ASSETS

SAR Millions



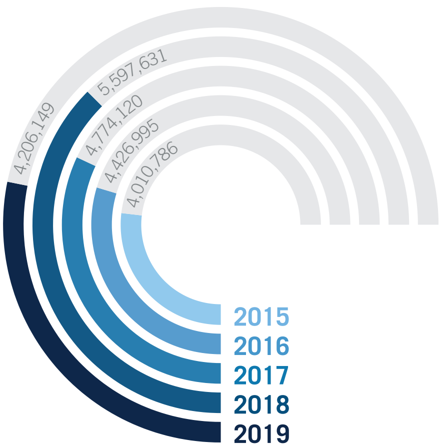
EARNINGS PER SHARE

SAR Millions



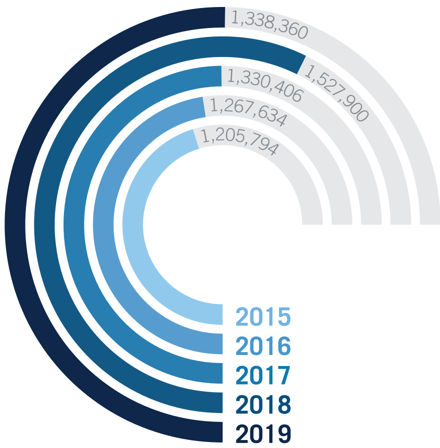
ASSETS UNDER MANAGEMENT

SAR Millions



INVESTMENTS

SAR Millions



الخبير المالية
Alkhabeer Capital

RISK MANAGEMENT REVIEW

RISK MANAGEMENT REVIEW

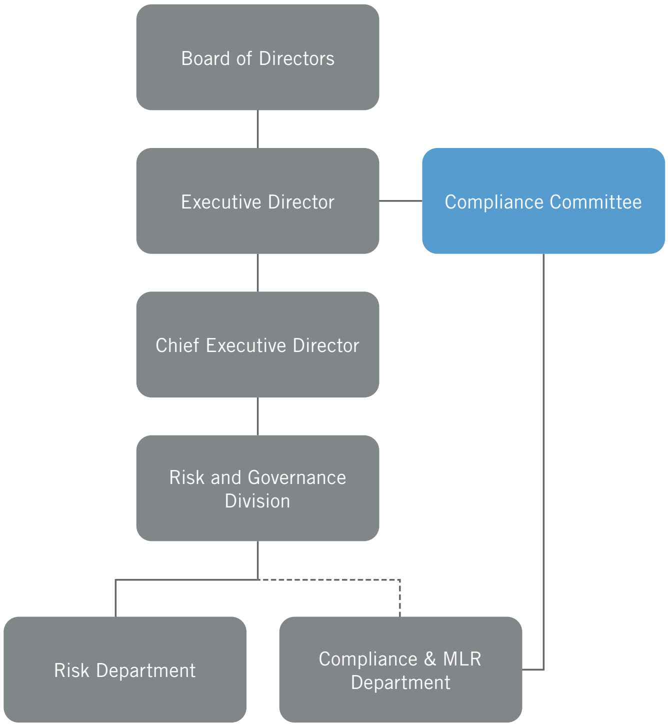
POTENTIAL RISK AND RISK MANAGEMENT POLICY

Risk of varying depth and complexity is inherent in Alkhabeer Capital's activities, and is managed through a process of ongoing identification, measurement, and monitoring, and setting proper limits and controls. Alkhabeer Capital is primarily exposed to credit risk, market risk, liquidity risk and operational 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 CMA's Prudential Rules and Alkhabeer's internal approved policies. 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 real estate and private equity funds, the level of exposure to this type of risk is considered high in view of prevailing market volatility.



Division: More than one department / unit
Department: Two staff members or more
Unit: Less than two staff members

Management Committees – Includes BOD Member

Shows Direct Reporting

Shows Administrative Reporting

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 that 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, on the other hand, 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(s), 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 sound 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, compliance and money laundering risks.

The division employs a wide range of risk assessment, analysis and reporting tools and state-of-the-art risk management models. Independent systems including Advent and World-Check for reporting anti-money laundering and regulatory compliance. In addition, an internal capital adequacy assessment model has been developed and implemented in line with CMA requirements. The Company's capital adequacy is monitored monthly 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 and MLR Department is responsible for the day-to-day activities of compliance functions and is also responsible for setting the strategy and the action plan of the Compliance Department.

It is important to stress that compliance with regulatory and internal requirements is mandatory for all employees. 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 Risk Department is responsible for the monitoring and approval of counterparty limits, the 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 regulatory and operational 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 and MLR Department.

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CORPORATE GOVERNANCE REVIEW

CORPORATE GOVERNANCE REVIEW

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 disclosures.
- Recognition of the legitimate rights of all stakeholders.
- Definition and management of risks.
- Encouragement and rewarding of improved performance in an equitable and responsible manner.

GOVERNANCE FRAMEWORK

Alkhabeer 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, 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, the Executive Director, the Chief Executive Officer, the Chief Financial Officer or any of its partners has or had any material interest that has not been approved by the General Assembly. 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 WRONGFUL ACTIVITIES

All Alkhabeer Capital's employees are responsible for reporting to the Compliance and 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 2019, the Compliance and MLR Department conducted AML training session for Alkhabeer employees.

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

A fine of SAR 10,000 was imposed by the CMA for violation of Paragraph (a) of Article (43) of the Authorized Persons Regulations pertaining to suitability of investments to clients.

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 the shareholders' annual general assembly, the annual report, the financial statements, the periodic investment reports, the corporate website, 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 regional and global market changes, Alkhabeer's strategy clearly specified the objectives of growth for revenues and profits, development of new business and products, 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 this plan is to identify, develop and promote employees to ensure that there are no disruptions to the functioning of Alkhabeer Capital in the event of personnel leaving the Company.

CONTROL FUNCTIONS

INTERNAL AUDIT UNIT

The Internal Audit Unit is an independent unit reporting to the Board's Audit Committee and consists of three members, two of whom are independent members. To raise the independence and effectiveness of the function, the Unit has an agreement with Aldar International for Governance Consultancy to execute the audits and report the results to the Audit Committee. The approved audit plan is implemented throughout the year, and all 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 2019, in accordance with the annual Audit Plan that was approved by the Audit Committee, to verify the effectiveness of the Company's internal control systems, to safeguard the 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 Unit has completed all planned audits for 2019. Additionally, follow up and closing of the findings identified during the reviews was one of the important tasks that the Internal Audit Unit 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 that the internal audit function was executed without any lapses. We did not note any event of fraud during the year ended 31 December 2019.

COMPLIANCE AND MLR

The Compliance and MLR Department is responsible for the day-to-day activities of the Compliance functions and is also responsible for setting the strategy and planning the Compliance work. It is important to stress that all employees have a duty in respect of compliance. The Management must ensure that all employees are aware of this duty and that a commitment to compliance exists throughout Alkhabeer. At all levels, compliance with all regulatory requirements and observance of the highest standards of business conduct are followed.

RISK DEPARTMENT

The Risk 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 the Company's investment decisions by creating different controls to manage the quality of execution, reporting any exceptions and streamlining the workflow of many processes to ensure their timely and proper execution.

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, while also ensuring the implementation of best legal practices. The Department's functions include, without limitation, the 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, and 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 also monitors the implementation of the Company's strategic plan on a monthly basis to ensure that the actual financial performance is in line with the business plan of each area of operation. Any deviations from the plan is detected at an early stage, and appropriate remedial action is proposed and followed up.

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CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Although our overall purpose is placing the interests of our clients and partners first, we recognize and have always believed that demanding high levels of corporate social responsibility to the wider society is of utmost importance at Alkhabeer.

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

2019 HIGHLIGHTS

THE ENVIRONMENT

As part of our commitment towards responsible optimization of consumption, Alkhabeer endeavors to minimize the impact of its activities and products on the environment and conducts constant reviews to deliver continuous improvements in our environmental performance.

To ensure compliance, Alkhabeer's Corporate Social Responsibility Committee expended tremendous efforts in 2019 to formulate initiatives and produce ideas in line with the goals of the Kingdom's Vision 2030 of protecting the environment, preserving natural resources, and supporting sustainable development. These initiatives will be implemented in 2020 encompassing various environmental activities to reduce the adverse effect of paper, water, and plastic consumption within Alkhabeer and on a broader basis, on our Planet Earth.

INITIATIVES TO SUPPORT FUTURE GENERATIONS

Alkhabeer sponsored an event in 2019 organized and managed by the business accelerator Blossom, aimed at providing support to entrepreneurs and enabling women in technology. We believe in the young generations of the future and encourage their ideas, projects, and objectives. We endeavor to promote culture and development to inspire startup entrepreneurs and help them launch their enterprises confidently and successfully by availing to them requisite skills and competencies.

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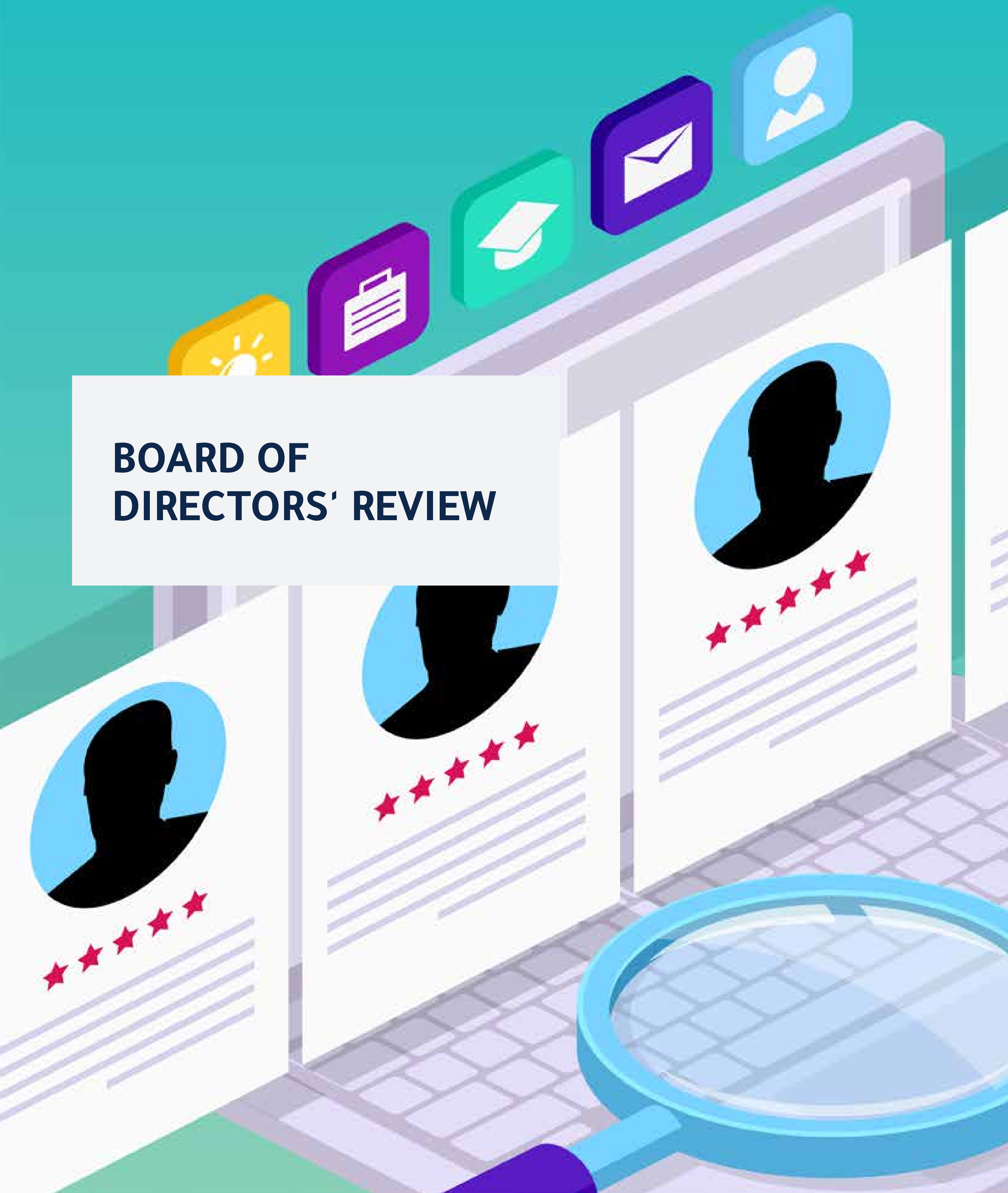
BOARD OF DIRECTORS' REVIEW



BOARD OF DIRECTORS' REVIEW

The Board of Directors held four periodic meetings in 2019. 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 exercised via 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 in all material aspects, confirms to the shareholders and all other stakeholders, that:

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

BOARD MEMBERS' PROFILES

MUSAAD MOHAMMAD SAAD ALDREES

Chairman

Member of the Nomination and Remuneration Committee

Musaad Mohammad Saad Aldrees is a longstanding and renowned businessman. He has played a leading role in developing and expanding a group of family companies in various business sectors. He was an active 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 boards of executive directors of Mohammad Saad Aldrees and Sons Limited Company (which later became a public company and was listed on the Saudi Stock Exchange), Mohammad Saad Aldrees Sons Limited Company, Mohammad Saad Aldrees and Sons Holding Company, and Aldrees Industrial & Trading Company (ALITCO) (a closed joint stock 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 Ahmed 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 several major Saudi banks, including the 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 Mohamed Binzagr has over 22 years of experience in commerce and industry. He is the Chairman of the Board of Directors of Avon Beauty (Arabia) LLC, the Chairman of the Board of Directors of Binzagr Barwil Marine Transport Company, the President and Chief Operating Officer of Abdullah & Saeid M.O. Binzagr Company Limited, the Co-President of Binzagr Factory for Insulation Materials Company, a Board member of Said M.O. Binzagr & Partners Company Limited, Binzagr Co-Ro Limited, Binzagr Unilever Limited, and the International Marketing & Communications Company Limited and a Board member and the founder of Diyar Al-Khayyal Company.

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

MOHANAD HAYDAR BINLADIN

Director

Member of the Audit Committee

Mohanad Haydar Binladin 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. Mohanad 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.

Mohanad 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.

KHALIL IBRAHIM FAWAZ

Director

Member of the Board's Investment Committee

Khalil Ibrahim Fawaz is the Chairman and Chief Executive Officer of Center for Corporate Services Company (a regional consulting company), and the Chairman and Chief Executive Officer of Move Forward International (a regional financial training company). He previously held the positions of Manager at PricewaterhouseCoopers (PwC); Vice President of Investment Banking at Alkhabeer Capital in Jeddah, Saudi Arabia; Head of Corporate Finance at Middle East Capital Group, a subsidiary of First National Bank (FNB); and Chief Financial Officer (CFO) at Zain Saudi Arabia in Riyadh. He is currently a member of several audit committees as well as board memberships in Saudi Arabia and Lebanon.

Khalil holds an MBA from the Lebanese American University in Beirut. He is also a Certified Public Accountant (CPA) by California Board of Accountancy, U.S.A.

MOHAMMED A. MOUMENA

Director

Chairman of the Nomination & Remuneration Committee

Mohammed A. Moumena 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 the Chairman of the Risk Management Committee at Fransa Invest Bank. He is also an Independent Board Member and the Chairman of the Nomination & Remuneration Committee of the Middle East Healthcare Company (Saudi-German Hospital in KSA), and at Initial Saudi Arabia Company. Mohammed also acts in a non-executive capacity for several other organizations involved in charitable work.

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

ABDULKADER H THOMAS

Director

Chairman of the Audit Committee

Abdulkader Thomas, an international expert in Islamic finance, is the Chief Executive Officer and a Board Director of Shape for Economic Consultancy in Kuwait and Shape Financial Corporation in the 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 Services 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 Islamic finance.

Abdulkader holds a Bachelor's Degree in Arab and Islamic Studies from the University of Chicago, USA, and a Master's Degree in Law and Diplomacy from the Fletcher School of Law and Diplomacy, the graduate school of international affairs of Tufts University, in Medford, Massachusetts, USA.

YASSIR KAMIL SINDI

Director

Member of the Board's Investment Committee, Member of the Nomination & Remuneration Committee

Yassir Kamil Sindi is the Managing Director and an 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. Yassir was also involved in the venture capital and private equity sectors as a Non-Executive Director at nCoTec LLP and the Frontiers Capital Partners LLP in the UK.

Yassir has a BSC in Chemical Engineering from Colorado School of Mines, USA, an MA in Economics from The Johns Hopkins University, USA, and an MBA from CASS Business School in London, UK (2002).

ISSAM ZAID MOHAMMED AL TAWARI

Director

Member of the Audit Committee

Issam Zaid Mohammed Al Tawari 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; the advisor to the Chairman of the International Investor Company; and the Founder of Rasameel Structured Finance Company where he served as the Chairman and Managing Director, all based out of Kuwait. Issam has held senior positions in several prominent institutions, including Chairman of the Board of Ain Takaful Insurance Company, and 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 an MBA from the University of Hull in the UK.

ORGANIZATIONAL STRUCTURE OF ALKHABEER'S BOARD OF DIRECTORS 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 2019, 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) or Management Position(s) Held
Musaad Mohammad Saad Aldrees (Chairman of the Board)	Non-Executive	Not a member of the board of directors of any other listed or non-listed company
Ammar Ahmed Shata (Executive Director)	Executive	General Manager of Alkhabeer National Company for Commercial Projects Management Ltd.
Saeid Mohammed Binzagr (Vice Chairman of the Board)	Non-Executive	Chairman of the Board, Avon Beauty Arabia Company
		Chairman of the Board, Binzagr Barwil Marine Transport Company
		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 and Founder, Diyar Al-Khayyal Company
		Member of the Board, International Marketing & Communications Company Limited
		Member of the Board, Binzagr Company for Industrial and Commercial Investments
Khalil Ibrahim Fawaz	Non-Executive	Chairman of the Board and CEO, Center for Corporate Services Company
		Chairman of the Board and CEO, Move Forward International
Mohanad Haydar Binladin	Non-Executive	General Manager, Zaleej Company
		General Manager, Makani Bayn Alkhotoot
		Director, First Specialists for Energy Systems LLC
		Member of the Board, Sky Steel Systems
Abdulkader Hayward Thomas.	Independent	Member of the Board, Shape for Economic Consultancy
		Member of the Board, Shape Financial Corporation
		Chairman of the Board, Alkhabeer Capital (DIFC) Limited
Issam Zaid Al Tawari	Independent	Director and Partner, Newbury Economic Consulting
		Director and Partner, Newberry International Real Estate Company
		Director and Partner, Moods International General Trading Co.
		Member of the Board, 19 Cleveland Square Limited
		Member of the Board, Alkhabeer Capital (DIFC) Limited
Yassir Kamil Sindi	Independent	Executive Director, Al-Faris Foodstuff Factory
Mohammed A. Moumena	Independent	Member of the Board, Initial Saudi Arabia Group
		Member of the Board, Middle East Healthcare Company
		Member of the Board, Fransa Invest Bank
		Member of the Board, Al-Wedad Charity Foundation
		Managing Partner, Edward W. Kelley & Partners

BOARD MEMBERS' ATTENDANCE

The Board of Directors held four (4) meetings during 2019. The following table shows attendance at each Board meeting:

MEMBER'S NAME	First Meeting 27 February	Second Meeting 30 April	Third Meeting 28 October	Fourth Meeting 25 December	Total
Musaad Mohammad Saad Aldrees	Attended	Attended	Attended	Attended	4
Ammar Ahmed Shata	Attended	Attended	Attended	Attended	4
Saeid Mohammed Binzagr	Attended	Attended	Attended	Excused Absence	3
Mohanad Haydar Binladin	Attended	Attended	Attended	Attended	4
Khalil Ibrahim Fawaz	Attended	Attended	Attended	Excused Absence	3
Mohammed A. Moumena	Attended	Attended	Attended	Attended	4
Abdulkader Hayward Thomas	Attended	Attended	Attended	Attended	4
Issam Zaid Al Tawari	Attended	Attended	Attended	Attended	4
Yassir Kamil Sindi	Attended	Attended	Attended	Attended	4

Attended   Attended Electronically   Excused Absence

SHAREHOLDINGS OF BOARD MEMBERS, SENIOR EXECUTIVES AND RELATED PERSONS

Alkhabeer Capital's 7th Extraordinary General Assembly held on Thursday 27/08/1440, corresponding to 02/05/2019, approved the Board's recommendation to increase Alkhabeer's share capital from SAR 813,202,930 to SAR 894,523,230, or 10% of the share capital, representing an increase in the number of issued shares from 81,320,293 ordinary shares to 89,452,323 ordinary shares, through the capitalization of SAR 54,754,62 of Alkhabeer's retained earnings balance. Alkhabeer received CMA's Letter No. S/3/6/5943/19 dated 21/12/1440, corresponding to 22/08/2019, whereby CMA approved Alkhabeer's application to amend the list of its shareholders to reflect the capital increase. Alkhabeer's commercial registration is in process of reissue to incorporate this change.

The following table shows any interest in Alkhabeer Capital owned by the Board Members, Senior Executives and any person related to them, and any change in such interest during 2019:

NAME	Classification	Related Person	Number of Shares as at the Beginning of 2019	Percentage Shareholding as at the Beginning of 2019	Number of Shares as at the End of 2019	Percentage Shareholding as at the End of 2019
Musaad Mohammad Saad Aldrees	Chairman of the Board	-	1,600,000	1.96%	1,760,000	1.96%
Ammar Ahmed Shata	Executive Director	Alkhabeer National Company for Commercial Projects Management *	3,236,230	3,98%	1,737,115	1,94%
Saeid Mohammed Obaid Binzagr	Director	(Father) Mr. Mohammed Obeid Saeid Binzagr	2,125,000	2.61%	2,337,500	2.61%
Saeid Mohammed Obaid Binzagr	Director	Abdullah & Saeid M.O. Binzagr Company **	6,250,000	7,68%	6,875,000	7,68%
Ahmed Saud Ghouth***	Chief Executive Officer	-	244,896	0.30%	269,385	0,30%

* Includes (1,737,115) shares owned by Alkhabeer National Company for Commercial Projects Management, which is fully owned by Mr. Ammar Ahmed Shata.

** Includes (6,875,000) 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.

*** On 31/12/2018, 4,096,913 shares were assigned to the shareholders of Alkhabeer National Company for Commercial Projects Management. The assignment was approved by the CMA on 07/02/2019. Whereas Mr. Ahmed Saud Ghouth was a shareholder in Alkhabeer National Company for Commercial Projects Management, his opening share balance in Alkhabeer's share capital became 244,896 shares, or 0.301% of the share capital. This also represents his shareholding as at the end of 2019 after the capital increase, as detailed in the disclosure stated at the beginning of this paragraph.

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, Senior Executives or any related person had an interest.

TRANSACTIONS BETWEEN ALKHABEER CAPITAL AND RELATED PARTIES

Alkhabeer Capital did not enter into any for-profit transaction(s) with any related parties during 2019.

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's 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's main committees, as well as the structure of their members and the number of their meetings held during 2019.

AUDIT COMMITTEE

The Audit Committee supports the Board's supervisory functions in ensuring the integrity of financial statements, the qualification and independence of the independent external auditors, and the sound performance of the Company's Internal Audit function. The Audit Committee met five (5) times during 2019. The following table lists each member's attendance:

MEMBER'S NAME		First Meeting 24 February	Second Meeting 29 April	Third Meeting 21 July	Fourth Meeting 27 October	Fifth Meeting 24 December	Total
Abdulkader Hayward Thomas*	Chairman	Attended	Attended	Attended	Attended	Attended	5
Issam Zaid Al Tawari	Member	Attended	Attended Electronically	Attended	Attended	Attended	5
Mohanad Haydar Binladin	Member	Attended	Attended	Attended Electronically	Attended	Attended	5
Othman Mohammed Bafaqih	Member	Attended	Attended	Attended Electronically	Attended	Attended	5

Attended Attended Electronically Excused Absence

* On 28/04/1441, corresponding to 25/12/2019, the Board of Directors resolved to accept the resignation of Board Member Mr. Abdulkader Hayward Thomas as Chairman of the Audit Committee due to personal circumstances. The resignation shall go into effect as from 31/12/2019. The Board also resolved to appoint Independent Board Member Issam Zaid Mohammed Al Tawari as Chairman of the Audit Committee effective 01/01/2020.

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 strategy. The Nomination & Remuneration Committee met three (3) times during 2019. The following table lists each member's attendance:

MEMBER'S NAME		First Meeting 13 February	Second Meeting 26 February	Third Meeting 9 October	Total
Mohammed A. Moumena	Chairman	Attended	Attended	Attended	3
Musaad Mohammad Saad Aldrees	Member	Attended	Attended	Attended Electronically	3
Yassir Kamil Sindi	Member	Excused Absence	Attended	Excused Absence	1

Attended Attended Electronically Excused Absence

BOARD'S INVESTMENT COMMITTEE

The Investment Committee supports the Board's functions in respect of reviewing and approving the Company's investment policies, strategies and transactions and monitoring the Company's financial performance and the performance of its investments. The Committee also oversees the Company's capital and financial resources. The Investment Committee held five (5) meetings during 2019.

The following table lists each member's attendance:

MEMBER'S NAME		First Meeting 26 February	Second Meeting 29 April	Third Meeting 25 September	Fourth Meeting 25 November	Fifth Meeting 18 December	Total
Saeid Mohammed Binzagr	Chairman	Attended	Attended	Attended	Attended	Attended	5
Ammar Ahmed Shata	Member	Attended	Attended	Attended	Excused Absence	Attended	4
Khalil Ibrahim Fawaz	Member	Attended	Attended	Attended	Attended	Attended	5
Yassir Kamil Sindi	Member	Attended	Attended Electronically	Attended	Attended	Attended	5
Ahmed Saud Ghouth	Member	Attended	Attended	Attended	Attended	Attended	5

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 the members of the Board of Directors and to five of the senior executives who received the highest remuneration and compensation, including the Executive Director, the Chief Executive Officer, the Deputy Chief Executive Officer, and the Chief Financial Officer.

DESCRIPTION	Executive Directors	Non-Executive and Independent Directors (SAR)	Five of the senior executives who received the highest remuneration and compensation, including the Executive Director, the Chief Executive Officer, and the Chief Financial Officer (SAR)
Salaries and Compensation	-	-	6,350,088
Allowances	-	1,190,240	1,953,912
Periodic and Annual Remuneration*	-	-	1,039,948
Incentive Plans	-	-	55,000
Commissions	-	-	-
Any other compensation or in-kind benefits payable monthly or annually	-	-	N/A

The data listed in the above table includes the following:

- Salaries and Compensation: Includes basic salary and fixed incentives.
- Allowances: Include housing and transport allowances, and meeting attendance fees.
- Periodic and Annual Remuneration: Includes annual incentives paid in cash.
- Incentive Plans: Include deferred remuneration, in accordance with the Company's remuneration policy.
- Any other compensation or 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 SENIOR EXECUTIVE IS ASSIGNED ANY REMUNERATION OR COMPENSATION

The Company has no knowledge of any arrangements or agreements pertaining to any assignment of salaries, remuneration or compensation by any Board member or senior executive.

MANAGEMENT COMMITTEES

The Executive Management is supported by the following Management Committees:

INVESTMENT COMMITTEE

The Investment Committee (IC) has an 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 AND LIABILITIES MANAGEMENT COMMITTEE

The Assets and Liabilities Management Committee (ALMC), which is chaired by the Executive Director, is the committee responsible for recommending the development of policies relating to the management of all assets and liabilities (balance sheet structure, funding structure, and hedging and investment limits) under the overall risk management framework. ALMC 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 or services, amendments to existing products or services, and supervision of the product development process.

COMPLIANCE COMMITTEE

The Compliance Committee, which is chaired by the Executive Director, is responsible for assisting the Board of Directors and the Company's Management team in overseeing 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 the Company's Management on best practices in compliance.

ENTERPRISE RISK MANAGEMENT COMMITTEE

The primary responsibility of this 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 also identifies key critical positions, and ensures that a succession plan is developed and in place, and that the scale of remuneration is in line with the marketplace.

INFORMATION TECHNOLOGY COMMITTEE

The Information Technology Committee is a management committee, in which its primary purpose is to approve the Company's IT strategy and supervise its implementation. The Committee is also responsible for supervising the 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 Plan (DRP) is tested at least once a year.

BUSINESS CONTINUITY MANAGEMENT COMMITTEE

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

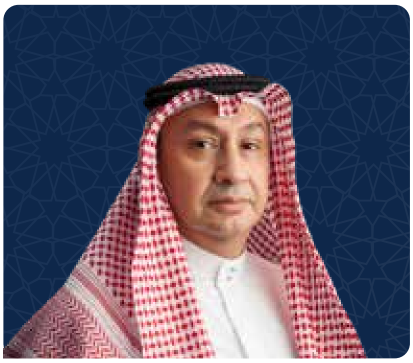
CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

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

الخبير المالية
Alkhabeer Capital

EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT



AMMAR AHMED SHATA
Executive Director

AHMED SAUD GHOUTH
Chief Executive Officer

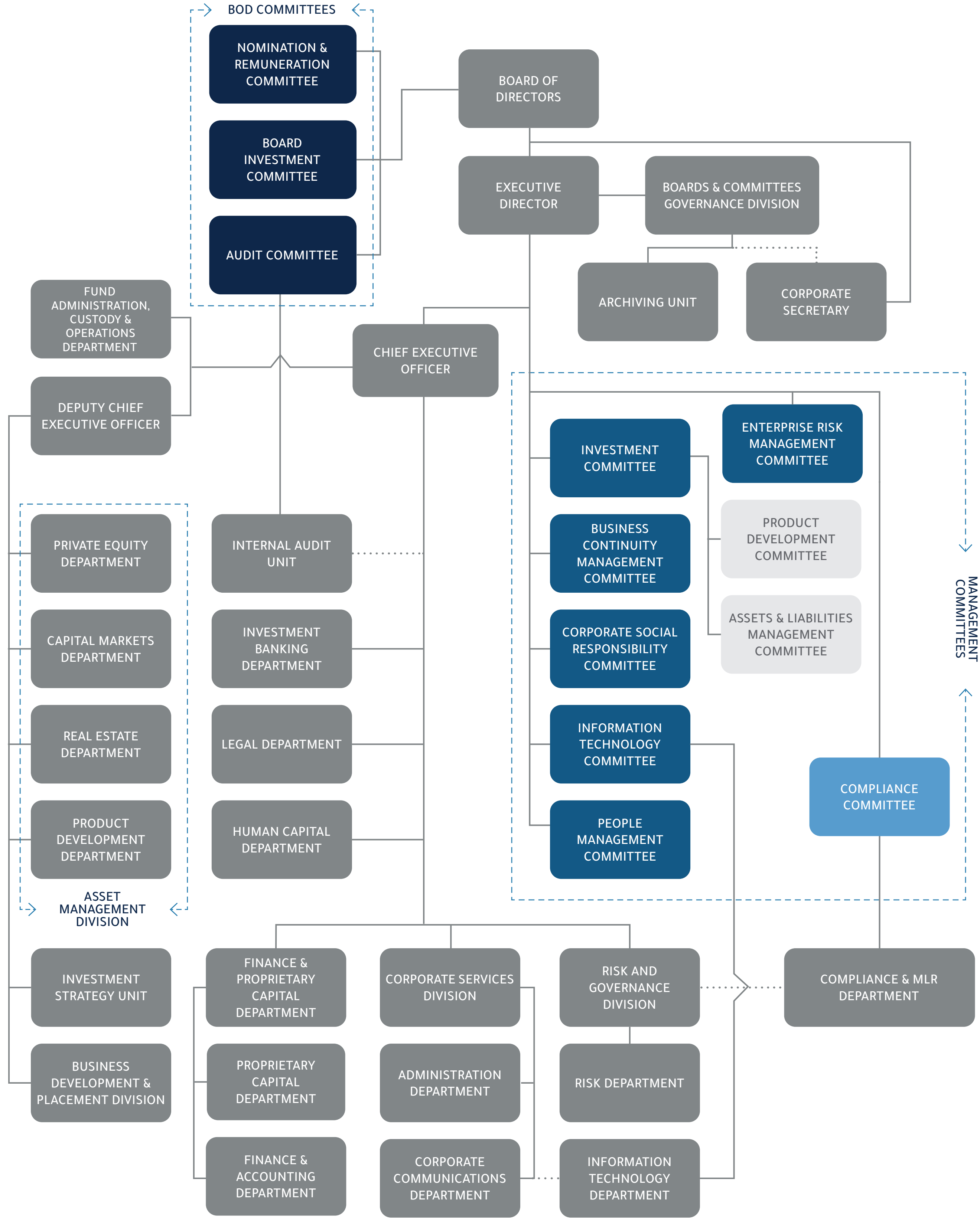
HISHAM OMAR BAROOM
Deputy Chief Executive Officer

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 teamwork, both internally and with clients, to build strong enduring relationships that form the bedrock of the Company's business philosophy.

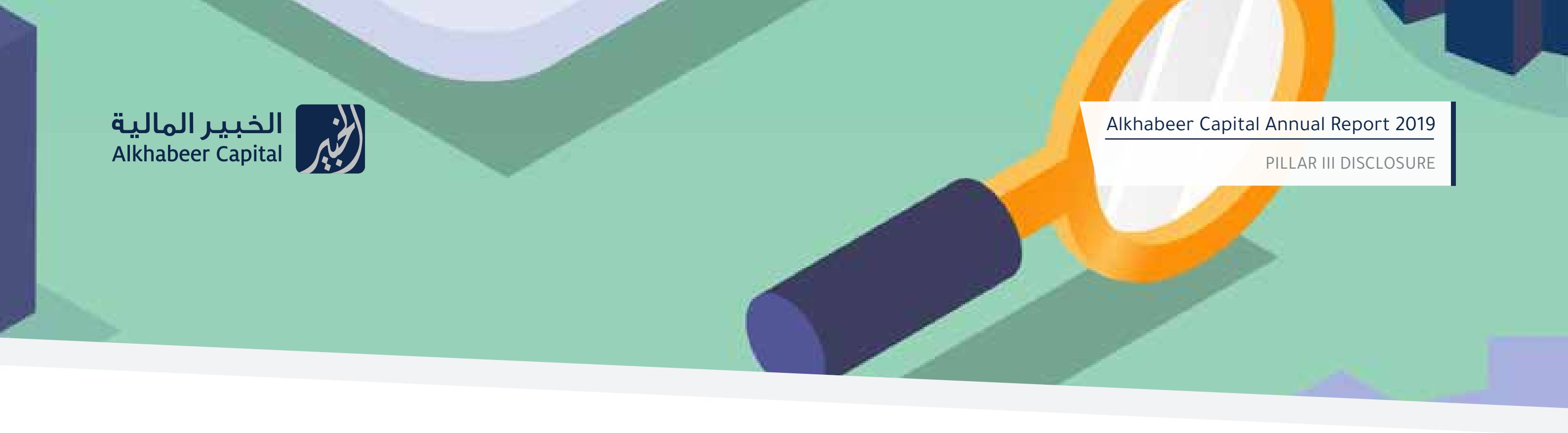


Division: More than one department / unit
Department: Two staff members or more
Unit: Less than two staff members

BOD Committees
Management Committees – Includes BOD Member
Management Committees
Management Sub-Committees
Shows Direct Reporting
Shows Administrative Reporting

الخبير المالية
Alkhabeer Capital

PILLAR III DISCLOSURE



PILLAR III DISCLOSURE

Based on the Capital Market Authority's requirements, a Pillar III Disclosure Report was prepared by the Company for 2019 and approved by the Board. A copy of the Report was uploaded to the Company's website at the following URL:

www.alkhabeer.com/pillar-iii-disclosures/

الخبير المالية
Alkhabeer Capital

SHARI'A REVIEW REPORT

SHARI'A REVIEW REPORT

AKC-446-13-02-03-20

SHARIYAH
REVIEW BUREAU

بسم الله الرحمن الرحيم

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

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

It is our pleasure to present to you the Shari'a Advisor Report for Alkhabeer Capital (hereinafter 'Company'). In compliance with the letter of appointment we the undersigned have reviewed the Company's businesses & activities for the year ended 31st December 2019.

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

We have reviewed all products, transactions, agreements and pertinent documentation adopted by the Company during year ended 31st December 2019 and an audit was conducted upon Company's activities as detailed in the Shari'a Audit report which was performed to ensure that the Company's activities were in compliance with the set rules, principles and guidelines in addition to soliciting all information, documentations that were deemed necessary to reach to sound conclusions.

Based on the above and taking in consideration the recommendations set out in the Shari'a Audit report, it is our opinion that the reviewed transactions, related documentation & processes, business activities and dealings entered into by the Company during the year ended 31st December 2019 are in compliance with the Islamic Shari'a Rules, Principles and Guidelines.

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

SHARIYAH REVIEW BUREAU

Shari'a Advisor
Sh. Muhammad Ahmad

18/03/2020

الخبير المالية
Alkhabeer Capital

FINANCIAL REPORT

FINANCIAL REPORT

Auditor's Report

Building a better working world

Ernst & Young & Co. (Certified Public Accountants)
General Partnership
King's Road Tower, 13th Floor
King Abdul Aziz Road (Malek Road)
P.O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Head Office – Riyadh

Registration No. 45/11/323
C.R. No. 4030276644

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

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ey.com/mena

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Alkhabeer Capital (A Saudi Closed Joint Stock Company)

Opinion
We have audited the financial statements of Alkhabeer Capital (A Saudi Closed Joint Stock Company), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its 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 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 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 Financial Statements
Management is responsible for the preparation and fair presentation of the 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 for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

Building a better working world

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Alkhabeer Capital (A Saudi Closed Joint Stock Company)

Auditor's Responsibilities for the Audit of the 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company 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. Reda
Certified Public Accountant
License No. 356

19 Shaban 1441H
12 April 2020

Jeddah

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**31 December 2019 SR '000**	31 December 2018 SR '000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**112,174**	22,390
Current portion of Murabaha placements	5	**46,963**	120,500
Accounts receivable, prepayments and other receivables	6	**39,972**	80,235
Due from related parties	7	**126,383**	88,170
Financial assets at fair value through profit or loss	8	**1,190,822**	1,380,362
Investment property	27	**147,538**	147,538
TOTAL CURRENT ASSETS		**1,663,852**	1,839,195
NON-CURRENT ASSETS			
Murabaha placements	5	**16,500**	41,200
Right of use assets	9	**6,988**	-
Property and equipment	10	**48,540**	47,160
TOTAL NON-CURRENT ASSETS		**72,028**	88,360
TOTAL ASSETS		**1,735,880**	1,927,555
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payables, accrued and other liabilities	11	**140,399**	222,276
Current portion of Murabaha contracts	12	**382,282**	247,050
Current portion of sharia compliant financing	13	**51,500**	126,500
Current portion of lease liability	9	**591**	-
TOTAL CURRENT LIABILITIES		**574,772**	595,826
NON-CURRENT LIABILITIES			
Murabaha contracts	12	**248,400**	240,900
Sharia compliant financing	13	**43,018**	93,898
Employees' terminal benefits	14	**14,199**	11,504
Long term portion of lease liability	9	**6,609**	-
TOTAL NON-CURRENT LIABILITIES		**312,226**	346,302
TOTAL LIABILITIES		**886,998**	942,128
SHAREHOLDERS' EQUITY			
Share capital	17	**894,523**	813,203
Statutory reserve	18	**35,574**	35,574
(Accumulated loss) / retained earnings		**(81,299)**	136,076
Actuarial gain, net	14	**84**	574
TOTAL SHAREHOLDERS' EQUITY		**848,882**	985,427
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,735,880**	1,927,555

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 SR '000	2018 SR '000
INCOME			
(Loss) / gain from investments at fair value through profit or loss, net	8	**(50,752)**	102,686
Fee income	19	**46,021**	64,515
Dividend income		**23,169**	19,789
Income from Murabaha placements		**6,637**	1,223
TOTAL OPERATING INCOME		**25,075**	188,213
OPERATING EXPENSES			
Selling and marketing	20	**(6,400)**	(9,177)
General and administrative	21	**(95,826)**	(89,637)
TOTAL OPERATING EXPENSES		**(102,226)**	(98,814)
NET OPERATING (LOSS) / INCOME		**(77,151)**	89,399
Fair value loss on option	11	**(5,535)**	-
Murabaha and financing expenses		**(42,182)**	(33,892)
Finance cost on leased liabilities	9	**(336)**	-
Other income		**1,350**	1,353
(LOSS) / PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		**(123,854)**	56,860
Zakat and income tax	3 & 15	**(3)**	(1,595)
(LOSS) / PROFIT AFTER ZAKAT AND TAX		**(123,857)**	55,265
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the profit or loss			
(Loss)/ gain on re-measurement of employees' terminal benefits	14	**(490)**	574
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(124,347)**	55,839
BASIC AND DILUTED EARNING PER SHARE			
Weighted number of shares (in thousands)	17	**86,741**	81,320
Attributable to net operating income (in SR)	29	**(0.89)**	1.10
Attributable to profit after zakat and income tax (in SR)	29	**(1.43)**	0.68

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

	Shar e capital SR '000	Statutory reserve SR '000	Retained earnings SR '000	Actuarial valuation reserve SR '000	**Total SR '000**
Balance at 1 January 2018	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 14)	-	-	-	574	**574**
Total comprehensive income for the year	-	-	55,265	574	**55,839**
Transfer to statutory reserve (note 18)	-	5,527	(5,527)	-	**-**
Dividend (note 16)	-	-	(12,198)	-	**(12,198)**
Balance at 31 December 2018	**813,203**	**35,574**	**136,076**	**574**	**985,427**
Loss before zakat and tax	-	-	(123,854)	-	**(123,854)**
Zakat and income tax	-	-	(3)	-	**(3)**
Other comprehensive loss (note 14)	-	-	-	(490)	**(490)**
Total comprehensive loss for the year	-	-	(123,857)	(490)	**(124,347)**
Increase in share capital (note 17)	81,320	-	(81,320)	-	**-**
Dividend (note 16)	-	-	(12,198)	-	**(12,198)**
Balance at 31 December 2019	**894,523**	**35,574**	**(81,299)**	**84**	**848,882**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 SR '000	2018 SR '000
OPERATING ACTIVITIES			
(Loss) / profit for the year before zakat and tax		**(123,854)**	56,860
Adjustments for:			
(Loss) / gain from investments at fair value through profit or loss, net	8	**50,752**	(102,686)
Fair value loss on option	11	**5,535**	-
Depreciation	10	**3,527**	3,459
Depreciation of right of use assets	9	**776**	-
Provision for employees' terminal benefits	14	**3,121**	2,476
Gain on disposal of property and equipment		**-**	(2)
Finance cost on leased liabilities	9	**336**	-
Operating loss before changes in operating assets and liabilities		**(59,807)**	(39,893)
Changes in operating assets and liabilities			
Accounts receivable, prepayments and other receivables, net	6	**(12,202)**	31,090
Due from related parties	7	**(38,213)**	(42,684)
Accounts payable, accrued and other liabilities	11	**(115,860)**	16,156
Purchase of financial assets at FVTPL	8	**(73,292)**	(147,880)
Proceeds from disposal of financial assets at FVTPL	8	**246,990**	124,058
Cash used in operations		**(52,384)**	(59,153)
Employees' terminal benefits paid	14	**(916)**	(1,031)
Finance cost paid		**(336)**	-
Net cash used in operating activities		**(53,636)**	(60,184)
INVESTING ACTIVITIES			
Purchase of property and equipment	10	**(4,907)**	(3,788)
Proceeds from disposal of property and equipment		**-**	4
Net movement in Murabaha placements	5	**144,237**	15,839
Net cash from investing activities		**139,330**	12,055
FINANCING ACTIVITIES			
Murabaha contracts	12	**142,732**	59,713
Sharia compliant financing	13	**(125,880)**	(10,905)
Dividends paid	16	**(12,198)**	(12,198)
Payment of principal portion of lease liabilities	9	**(564)**	-
Net cash from financing activities		**4,090**	36,610
Net increase / (decrease) in cash and cash equivalents		**89,784**	(11,519)
Cash and cash equivalents at the beginning of the year		**22,390**	33,909
Cash and cash equivalents at the end of the year		**112,174**	22,390
NON CASH SUPPLEMENTARY INFORMATION			
Investment purchased against opening receivable	6	**52,465**	-
Investment sold against payable	8	**-**	39,000
Payable against investment purchased during the year	11	**28,445**	109,986
Investment property transferred	27	**-**	147,538
Right of use asset and leased liabilities	9	**7,764**	-
Current portion of lease liability	9	**591**	-
Long term portion of lease liability	9	**6,609**	
Fund equity reduced by placement of Murabaha	5	**46,000**	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

1. ORGANIZATION AND ACTIVITIES

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

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

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

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

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

As at 31 December 2019, the Company operates through a branch with commercial registration 1010439273 registered in Riyadh (31 December 2018: same). The accompanying financial statements include the assets, liabilities and results of this branch.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

These 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 Company had investment in Alkhabeer Capital DIFC (‘the Subsidiary’) which is 100% owned by the Company. On 28 October 2019, the shareholders of the Company resolved to dissolve the Subsidiary and legal formalities in this regard completed on 21 November 2019. As the Company had only one subsidiary, effective from 21 November 2019 the Parent Company discontinued issuing consolidated financial statement. These financial statements are of the Company and the subsidiary till the date of its dissolution. The financial information of the Subsidiary for the current and prior year are disclosed in note 28.

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

a) The Company has obtained funds for purpose of providing investors with professional investment management services.

b) The Company’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 Company 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 Company as financial asset at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments”.

2.2 BASIS OF MEASUREMENT

These 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 financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency of the Company. 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 the Company's 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 Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Going concern

The Company's management has made an assessment of the Company'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 Company's ability to continue as a going concern. Therefore, these 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 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 Company based its assumptions and estimates on parameters available when these 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 Company. 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 asses

The Company uses a provision matrix to calculate ECLs for financial assets. The provision matrix is initially based on the Company's historical observed default rates. The Company 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 Company'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 Company's financial assets is disclosed in note 22.

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 Company'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 Company 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 Company 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 statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2019, except for:

3.1 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2019 the Company has adopted IFRS 16 "Leases" for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below:

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the simplified approach of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company has lease contracts for one branch and before adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased branch was not capitalised and the lease payments were recognised as rent expense in statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under "Prepayments and other receivables" and "Trade, accrued and other liabilities", respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of profit that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

Amounts recognised on 1 January 2019 in the statements of financial position and statement of comprehensive income:

	Statement of financial position	
	Right-of-use asset	Lease liabilities
As at 1 January 2019 (note 9)	**7,764**	7,764
Depreciation of right of use assets	**(776)**	-
Finance cost on leased liabilities	-	336
Payments	-	(900)
As at 31 December 2019	**6,988**	7,200

The effect of adoption IFRS 16 as at 1 January 2019 (increase/ (decrease)) is as follows:

	1 January 2019 SR ('000) Unaudited
Assets	
Right of use assets	7,764
Liabilities	
Lease liabilities in respect of right of use assets	7,764

3.2 FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded by the Company 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 Company'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 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 fair value of the item.

3.3 CURRENT VERSUS NON-CURRENT CLASSIFICATION

Assets

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

- Expected to be realised or intended to be 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 Company classifies all other liabilities as non-current.

3.4 FAIR VALUE MEASUREMENT

The Company measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each 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 Company.

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 Company 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 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 financial statements at fair value on a recurring basis, the Company 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 Company 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 indicate 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 Company'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 Company recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. For accounts receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company considers a financial asset in default when payments are not made as per contractual terms which may vary from obligor to obligor. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The Company 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 Company 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 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 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 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 Company's financial assets consist of cash and bank balances, Murabaha placements, accounts receivable, investments at fair value through profit or loss due from related parties and financial liabilities consist of Murabaha contracts, Sharia 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 Company's business model for managing them. With the exception of accounts receivables that do not contain a significant financing component, the Company 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 Company 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)

c) Financial assets at fair value through profit or loss (FVTPL)

a) Financial assets at amortised cost (debt instruments)

The Company 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 statement of profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade and other receivables.

b) Financial assets at fair value through OCI

Debt instruments

The Company 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 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.

Equity instruments

Upon initial recognition, the Company 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 statement of profit or loss when the right of payment has been established, except when the Company 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.

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 statement of financial position at fair value with net changes in fair value recognised in the 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 Company, are 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 Company makes an assessment of the objective of a business model under which an asset is held, 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 management's strategy focuses on 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 Company'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;
- 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 Company'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 Company's original expectations, the Company 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 placement risk 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 Company 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 Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company'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, financing, payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of financing and payables, net of directly attributable transaction costs. The Company's financial liabilities include accounts payable, other liabilities, Shariah compliant financing and murabaha contract.

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 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 Company has not designated any financial liability as at fair value through profit or loss.

Amortised cost

After initial recognition, long term payables are subsequently 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 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 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 Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company 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 Company 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 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 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 Company. 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 Company 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 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 Company, and accordingly, are not included in the financial statements.

2.11 PROVISIONS

Provisions are recognised when the Company 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 Company 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 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.

2.12 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 Company 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 Company 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 statement of profit or loss on a straight-line basis over the lease term.

2.13 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 Company 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 Company'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 Company 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 statement of profit or loss.

2.14 REVENUE RECOGNITION

Revenue is the gross inflow of economic benefits arising from the ordinary operating activities of the Company 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 Company, 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 Company 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.
- 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

Zakat

The Company is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") and is 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.

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
- 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
- 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 Company 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 Company 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.

3.17 DIVIDEND DISTRIBUTIONS

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

3.18 VALUE ADDED TAX (VAT)

Expenses and assets are recognised net of the amount of VAT, except when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

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 Company's financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

4.1 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 financial statements of the Company.

4.2 AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed. The Company is not expecting any change due to adoption of these amendments.

4.3 AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7: PROFIT RATE BENCHMARK REFORM

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing profit rate benchmark with an alternative nearly risk-free profit rate (an RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Company.

4.4 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 early adopts the amendments must apply them prospectively. The amendment to IFRS 10 and IAS 28 is not applicable on the Company.

4.5 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
- Determine net profit 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, or settlements of the Company.

5. MURABAHA PLACEMENTS

Murabaha placements carry profit rate ranging from of 4.25% to 6.5% per annum (31 December 2018: 4.25% to 5.7% per annum).

	31 December 2019 SR '000	31 December 2018 SR '000
Murabaha placement (note a)	**63,463**	161,700
Less: current portion	**(46,963)**	(120,500)
Long-term portion	**16,500**	41,200

a) During the year, the company placed Murabaha to a fund amounting to SR 46 million (note 8).

6. ACCOUNTS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2019 SR'000	31 December 2018 SR'000
Receivable against investment sold (note 'a')	-	52,465
Dividend receivable	**4,900**	4,900
Advance against investment	**17,107**	-
Contingent consideration (note b)	**6,110**	-
Margin deposit (note c)	**3,850**	14,208
Accounts receivable	**2,896**	3,483
Advances to suppliers	**2,909**	3,604
Prepayments	**1,577**	1,926
Other receivables	**3,519**	2,545
Allowance for impairment	**(2,896)**	(2,896)
	39,972	80,235

a) During the year, the Company settled outstanding receivable of SR 52.46 million by acquisition of an investment (note 8).

b) The amount represents the consideration to be paid if the underlying asset of the fund will achieve certain performance benchmark. As of the statement of financial position date, management, based on its assessment, has recorded the amount with equal amount of liability that may be paid to the fund, if certain performance threshold is delivered (note 11).

c) The Company has maintained a margin deposit of SR 3.85 million (31 December 2018: SR 14.208 million) with a local bank in respect of a guarantees issued in favour of GAZT. During the year, margin deposits amounting SR 10.36 million was released by the GAZT through the bank due to settlement of pending appeal (note 15).

7. RELATED PARTY TRANSACTIONS AND BALANCES

a) Related parties represent directors and key management personnel of the Company, fund and entities controlled or significantly influences by such parties. Significant related party transactions during the year and balances arising are described below:

		Amount of transactions for the year ended		Balances as at	
Transactions with Due from related parties	**Nature of transactions**	**31 December 2019 SR'000**	31 December 2018 SR'000	**31 December 2019 SR'000**	31 December 2018 SR'000
Funds under management and Companies	Investments acquired/disposed by the Company and gain/loss thereon	**(189,541)**	49,956	**1,190,822**	1,380,362
	Expenses and advances	**5,101**	17,348	**23,064**	17,963
	Management, custody and subscription fees reduced by payments received	**33,112**	25,336	**103,319**	70,207
	Gain from sale of equity and property investment to managed funds and companies as referred above	**66,793**	140,135	**-**	-
				126,383	88,170
Murabaha placement		**112,000**	19,539	**46,000**	158,000

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

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

	For the year ended 31 December 2019 SR '000	For the year ended 31 December 2018 SR '000
Salaries and other short-term benefits	**16,464**	17,142
Post-employment benefits	**1,074**	1,037
	17,538	18,179

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company 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:

	For the year ended 31 December 2019 SR '000	For the year ended 31 December 2018 SR '000
Opening balance	**1,380,362**	1,330,406
Purchased during the year	**101,737**	257,865
Transfers (note a)	**52,465**	(39,000)
Capital distribution (note b)	**-**	(147,537)
Sold during the year	**(292,990)**	(124,058)
Fair value loss, net	**(50,752)**	102,686
	1,190,822	1,380,362

a) During the year, the Company acquired an investment against outstanding receivable of 52.46 million (note 6). The seller has the option to buy back the investment within one year at the price sold of SR 52.46 million. Subsequently, the Company fair valued the investment after being transferred to a fund managed by the Company and, simultaneously, recorded a corresponding fair value liability of the option.

b) In 2018, a fund distributed its underlying asset, a property, to the units holders in proportionate to the units held by each investor (note 27). The property is classified as "investment property" in accordance with the accounting policy adopted.

c) Certain of the investments amounting to SR 162 million (2018: SR 408 million) are pledged against Sharia Compliant borrowings (note 13).

d) The details of the Company's holding in the managed funds or the companies:

Name of fund	31 December 2019	31 December 2018
Alkhabeer US Real Estate Income Fund I	**11%**	11%
Alkhabeer Industrial Private Equity Fund	**1%**	-
Alkhabeer Healthcare Private Equity Fund	**9%**	9%
Alkhabeer SME Fund I	**-**	98%
Alkhabeer Real Estate Opportunity Fund I	**38%**	38%
Alkhabeer Real Estate Residential Development Fund II	**8%**	-
Alkhabeer Land Development Fund II	**-**	3%
Alkhabeer Education Private Equity Fund I	**28%**	28%
Alkhabeer Hospitality Fund I	**75%**	75%
Alkhabeer Real Estate Opportunity Fund II	**100%**	100%
Alkhabeer REIT	**7%**	7%
Alkhabeer Education Private Equity Fund II	**88%**	100%
Alkhabeer Education Private Equity Fund III	**90%**	100%
Alkhabeer Education Private Equity Fund IV	**100%**	-
Name of companies		
Alkhabeer Industrial Private Equity Company – III Ltd.	**40%**	20%
Alkhabeer GCC Opportunity Company	**87%**	92%

e) Alkhabeer SME fund I and Alkhabeer land development fund II have been dissolved during the year.

9. RIGHT OF USE ASSETS

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	31 December 2019 SR '000	31 December 2018 SR '000
Cost:		
IFRS transition adjustments	**7,764**	-
Depreciation:		
Depreciation for the year	**(776)**	-
As at 31 December 2019	**6,988**	-

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	31 December 2019 SR '000	31 December 2018 SR '000
IFRS transition adjustments	7,764	-
Payment of principal portion of lease liabilities during the year	(564)	-
Lease liability as at 31 December 2019	7,200	-
Current portion of lease liability	(591)	-
Long term portion of lease liability	6,609	-

The following are the amounts recognized in profit or loss:

	31 December 2019 SR '000	31 December 2018 SR '000
Depreciation expense of right-of-use assets	776	-
Finance cost on leased liabilities	336	-
Total amount recognized in profit or loss	1,112	-

10.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 2019 SR '000
Cost								
At the beginning of the year	6,966	34,804	10,961	18,972	1,301	396	1,509	**74,909**
Additions	-	-	-	677	14	-	4,350	**5,041**
Transfers (note a)		3,591	-	-	-	-	(3,591)	**-**
Disposals	-	-	-	(313)	-	-	-	**(313)**
At the end of the year	**6,966**	**38,395**	**10,961**	**19,336**	**1,315**	**396**	**2,268**	**79,637**
Accumulated depreciation								
At the beginning of the year	-	6,669	2,921	16,665	1,194	300	-	**27,749**
Depreciation (note 21)		1,291	807	1,348	31	50	-	**3,527**
Related to disposals	-	-	-	(179)	-	-	-	**(179)**
At the end of the year	-	7,960	3,728	17,834	1,225	350	-	**31,097**
Net book amounts								
At 31 December 2019	**6,966**	**30,435**	**7,233**	**1,502**	**90**	**46**	**2,268**	**48,540**

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

	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
Cost								
At the beginning of the year	6,966	14,234	10,961	17,887	1,286	396	19,460	71,190
Additions	-	-	-	1,154	15	-	2,619	3,788
Transfers (note a)	-	20,570	-	-	-	-	(20,570)	-
Disposals	-	-	-	(69)	-	-	-	(69)
At the end of the year	**6,966**	**34,804**	**10,961**	**18,972**	**1,301**	**396**	**1,509**	**74,909**
Accumulated depreciation								
At the beginning of the year	-	6,196	2,114	14,712	1,101	234	-	24,357
Depreciation (note 21)	-	473	807	2,020	93	66	-	3,459
Discontinued operations	-	-	-	-	-	-	-	-
Related to disposals		-	-	(67)	-	-	-	(67)
At the end of the year	-	6,669	2,921	16,665	1,194	300	-	27,749
Net book amounts								
At 31 December 2018	6,966	28,135	8,040	2,307	107	96	1,509	47,160

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

11.ACCOUNT PAYABLES, ACCRUED AND OTHER LIABILITIES

	31 December 2019 SR '000	31 December 2018 SR '000
Payable against investment purchased	**28,445**	109,986
Fair value of the option (note 8a)	**5,535**	-
Contingent consideration (note 6b)	**6,110**	-
Accounts payable	**15,040**	13,546
Remuneration payable to employees	**10,375**	20,528
Accrued expenses	**24,205**	23,174
Other provisions	**48,000**	50,000
Provision for zakat and income tax	**-**	1,595
Other payables	**2,689**	3,447
	140,399	222,276

12.MURABAHA CONTRACTS

This represent commodity Murabaha contracts executed with investors through Discretionary Portfolio Managers (DPMs). The murabaha contracts are unsecured, carry profit rate ranging from 4.25% to 6.5% per annum (31 December 2018: 1.42% to 6.5% per annum) and are subject to 0.25% to 0.5% per annum (31 December 2018: 0.2% to 1% per annum) management fee.

	31 December 2019 SR '000	31 December 2018 SR '000
Murabaha contracts	**630,682**	487,950
Less: current portion	**(382,282)**	(247,050)
Long-term portion	**248,400**	240,900

13.SHARIA COMPLIANT FINANCING

a) During 2016, the Company obtained a sharia compliant financing from a local bank with an approved limit of SR 100 million to be repaid over 5 years. The Company has drawn down SR 50 million on 11 August 2016 and SR 50 million on 30 October 2016. The financing carries commercial profit and is secured against certain "financial assets at fair value through profit or loss" and all returns generated from respective investments (note 8).

b) During 2017, the Company obtained a sharia compliant financing from a local bank amounting to SR 150 million. The facility is repayable over a period of two years starting from June 2018, at agreed profit margin and is secured against certain "financial assets at fair value through profit or loss" and all returns generated from respective investments.

	31 December 2019 SR '000	31 December 2018 SR '000
Sharia compliant financing	**94,518**	220,398
Less: current portion	**(51,500)**	(126,500)
Long-term portion shown under non-current liabilities	**43,018**	93,898

14.EMPLOYEES' TERMINAL BENEFITS

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

	For the year ended 31 December 2019 SR '000	For the year ended 31 December 2018 SR '000
Balance at the beginning of the year	**11,504**	10,633
Current service cost	**2,591**	2,057
Profit	**530**	419
Benefits paid	**(916)**	(1,031)
Actuarial loss/ (gain), net	**490**	(574)
Balance at the end of the year	**14,199**	11,504

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

	31 December 2019 SR '000	31 December 2018 SR '000
Discount rate	**3.11%**	4.4%
Salary increase	**2.25%**	2.25%
Staff withdrawal rate	**6%**	6%

15.ZAKAT AND INCOME TAX

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

	31 December 2019 SR '000	31 December 2018 SR '000
Zakat for prior year	**3**	1,438
Income tax	**-**	157
	3	1,595

Current year provision was estimated as nil due to negative Zakat base as follows:

	For the year ended 31 December 2019 SR '000	For the year ended 31 December 2018 SR '000
Equity	**969,391**	914,993
Provisions and other adjustments	**456,742**	572,518
Book value of long term assets	**(1,364,952)**	(1,553,492)
	61,181	(65,981)
Saudi Shareholders' share of adjusted income for the year	**(118,869)**	57,527
Adjusted zakat base	**(57,688)**	(8,454)

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 2019 SR '000	31 December 2018 SR '000
Balance at the beginning of the year	**1,438**	2,055
Charge for the current year	**-**	1,438
Charge for prior year	**3**	-
Adjusted / paid during the year	**(1,441)**	(2,055)
Balance at the end of the year	**-**	1,438

Income tax

Income tax charges are based on the adjusted taxable income calculated on the portion of equity owned by the foreign shareholder. No provision has been made during the year due to taxable loss. 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 2019 SR '000	31 December 2018 SR '000
Balance at the beginning of the year	**157**	141
Charge for the year	**-**	157
Adjusted / paid during the year	**(157)**	(141)
Balance at the end of the year	**-**	157

Status of assessments

In earlier years, General Authority of Zakat and Tax (GAZT) raised an assessment with additional liability amounting to SR 10.36 million for the period ended 31 December 2008. The Company filed an appeal with the former Preliminary Appeal Committee (POC) against GAZT's assessment which is partially accepted. The Company was not satisfied with the POC decision and filed second appeal with the former Higher Appeal Committee (HAC). The HAC rendered its decision upholding POC decision and GAZT's treatment. The Company then filed an appeal to Board of Grievance (BOG) against HAC decision and lodged a bank guarantee against the disputed liability. Pending BOG decision, the Company, in year 2019, appealed to Settlement Committee. Settlement Committee decided that the Company to pay SR 5.1 million representing 50% of the disputed amount. Accordingly, GAZT instructed the bank to release the subject bank guarantee.

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

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

The GAZT has issued an assessment for the year ended 31 December 2017 and raised an additional tax and Zakat liability amounting to SR 35.8 million. The additional liability is principally on account of disallowed investments. The Company filed an objection against the GAZT assessment. The Company also registered the case with GSTC and provided comments on the GAZT's response. However, if investments are disallowed as a deduction from the Zakat base for the year 2017, it would result in potential Zakat liability to the Company which remains an industry wide unsolved issue and as of now, in view of the fact that zakat Regulations in Saudi Arabia are subject to different interpretations, it is not possible to assess any potential zakat impact reliably.

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

The Company has filed its tax and zakat returns for all the years ended 31 December 2018 and obtained restricted Zakat certificate valid until 30 April 2020.

16. DIVIDEND

During 2018, the Annual General Meeting of the Company approved a dividend of 3% of paid up capital amounting to SR 24,396 thousands 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 thousands through its meeting held on 24 December 2018 to be paid in 2019.

17.SHARE CAPITAL

The share capital of the Company, amounting to SR 894,523,230 is divided into 89,452,322 shares of SR 10 each (31 December 2018: 81,320,293 shares of SR 10 each). On 27 Sha'ban 1440H corresponding to 2 May 2019, the Company's share capital was increased from SR 813,202,930 to SR 894,523,230 by transferring the amount from retained earnings to share capital. The amendment to the Commercial Registration of the Company is under process. The Company is owned 98.43% by Saudi shareholders and 1.57% by foreign shareholders (31 December 2018: same).

18.STATUTORY RESERVE

In accordance with the Companies law, a minimum of 10% of the annual net income for the year is required to be transferred to the statutory reserve.

In accordance with Companies law and Articles of Association of the Company, 10% of the profit for the year has been transferred to statutory reserves in the prior years and no transfer was made in the current year on account of loss during the year. The Company has resolved to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

19.FEE INCOME

	For the year ended 31 December 2019 SR '000	For the year ended 31 December 2018 SR '000
Advisory fees	**-**	660
Management, custody and subscription fees	**46,021**	50,999
Structure fee	**-**	12,856
	46,021	64,515

20.SELLING AND MARKETING EXPENSES

	For the year ended 31 December 2019 SR '000	For the year ended 31 December 2018 SR '000
Salaries and benefits	**4,801**	4,565
Other	**1,599**	4,612
	6,400	9,177

21.GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2019 SR '000	For the year ended 31 December 2018 SR '000
Salaries and benefits	**48,549**	53,565
Legal and consultancy	**20,753**	15,041
Communication	**7,474**	4,500
Business travel	**3,074**	2,985
Depreciation (note 10)	**3,527**	3,459
Depreciation on right of use assets (note 9)	**776**	-
Rent and premises related expenses	**506**	1,696
Office supplies	**407**	341
Utilities	**534**	560
Insurance	**361**	339
Cost related to subsidiary	**1,385**	-
Other	**8,480**	7,151
	95,826	89,637

22.RISK MANAGEMENT

The Company's objective in managing risk is the creation and protection of shareholders' value. Risk is inherent in the Company'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 Company's continuing profitability and each individual within the Company is accountable for the risk exposure relating to his or her responsibilities. These limits reflect the business strategy and market environment of the Company as well as the level of the risk that the Company is willing to accept. The Company 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 Company'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 Company does not hold fixed rate financial assets which are carried at fair values that could expose the Company to fair value profit rate risk. However, the Company holds floating rate Shariah compliant borrowings, Murabaha contracts and Murabaha placements that expose the Company to cash flow profit rate risk. The Company's manages its rate risk on a dynamic basis keeping in view overall rate bearing assets and liabilities and the Company requirements.

The Company's Shariah compliant financing with floating rate of profit, are placed with a fund managed by the Company with identical terms. Accordingly, any changes in the applicable profit rate is passed on to the managed fund. Similarly, the Company's Murabaha contracts are of long term nature carrying fixed rate. However, certain Murabaha contracts, though carry fixed rate, were of short term nature and had a history of frequent rollover 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 Company invests in funds and other investments that are denominated in currencies other than the Saudi Riyal which are pegged to the Saudi Riyal accordingly the Company 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 Company's investments in equity securities. The Company is not exposed in equity price risk as none of the investment are quoted.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company 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 Company 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 Company's maximum exposure to credit risk for the components of the statement of financial position and respective expected credit loss is as follows:

	31 December 2019		31 December 2018	
Financial assets	**Exposure at default SR'000**	**Expected credit loss SR'000**	Exposure at default SR'000	Expected credit loss SR'000
Murabaha placements (note 5)	**63,463**	**-**	161,700	-
Due from related parties (note below)	**126,383**	**-**	88,170	-
Accounts receivables	**2,896**	**2,896**	60,848	2,896

	31 December 2019					
	Current SR'000	**< 1 Year SR'000**	**1-2 Years SR'000**	**2-3 Years SR'000**	**> 3 Years SR'000**	**Total SR'000**
Murabaha placements (note 5)	**63,463**	**-**	**-**	**-**	**-**	**63,463**
Due from related parties (note below)	**31,237**	**32,355**	**33,573**	**22,027**	**7,191**	**126,383**
Accounts receivables	**-**	**-**	**-**	**-**	**2,896**	**2,896**

	31 December 2018					
	Current SR'000	< 1 Year SR'000	1-2 Years SR'000	2-3 Years SR'000	> 3 Years SR'000	Total SR'000
Murabaha placements (note 5)	161,700	-	-	-	-	161,700
Due from related parties (note below)	33,873	20,044	30,987	3,266	-	88,170
Accounts receivables	-	137	57,800	-	2,911	60,848

In its capacity as fund manager, the Company have first right to recover the balance due from funds / Companies under management in respect of outstanding management fee, custody fee and administration fee. As at the date of financial statements, underlying funds / Companies have positive net assets value and management estimated that expected credit losses, if any, would not be material.

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 the Company will encounter 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 Company 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.

The Company's financial liabilities are payable within 12 months from the statement of financial position date except certain long-term murabaha contracts and non current portion of sharia compliant financing which have maturity of more than 12 months from the statement of financial position date.

23.FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

The Company'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, shariah compliant financing and Murabaha contracts.

The fair values of investments in funds managed by the Company 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 statement of financial position, all financial assets and financial liabilities falls under level 3 of fair value hierarchy. The fair values of financial instruments are not materially different from their carrying values (31 December 2018 same).

24.ASSETS HELD UNDER FIDUCIARY CAPACITY

The Company holds assets on behalf of its customers. As the Company acts in a fiduciary capacity, these assets are not included in the statement of financial position. As at 31 December 2019, the Company holds assets under management amounting to SR 3,015 million (31 December 2018: SR 4,218 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 financial statements.

25.CONTINGENCIES AND CAPITAL COMMITMENTS

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

b) The Company has maintained a margin deposit of SR 3.85 million (31 December 2018: SR 14.208 million) with a local bank in respect of a guarantee issued in favour of GAZT.

c) The Board of Directors has authorised future capital expenditure, amounting to SR 2.9 million (31 December 2018: SR 5 million) in connection with leasehold improvements and construction under progress.

d) The Company issued a corporate guarantee on behalf of a related party for an outstanding amount of SR 142.6 million (31 December 2018: SR 120 million). The related party simultaneously issued a back-to-back corporate guarantee to the Company. This amount is due for settlement by the respective related party on 21 January 2025.

26.REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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

During the year ended 31 December 2013, 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 2019 SR '000	31 December 2018 SR '000
Capital base		
Tier-1 capital	**848,882**	985,427
Tier-2 capital	**-**	-
Total capital base	**848,882**	985,427
Minimum capital requirement		
Credit risk	**716,145**	869,890
Market risk	**8,576**	7,945
Operational risk	**35,849**	32,838
Total minimum capital required	**760,570**	910,673
Capital Adequacy Ratio		
Total capital ratio (time)	**1.12**	1.08
Surplus in capital	**88,312**	74,754

27.INVESTMENT PROPERTY

The Company received property as a result of distribution of the assets by a fund managed by the Company (note 8). 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 2019 was SR 148,525 thousand (31 December 2018: SR 148,525 thousands). The property is registered in the name of "Tawasou Al-Thanya L.L.C" which has provided an undertaking that property is held by it on behalf of the Company.

28 INVESTMENTS IN SUBSIDIARY

Al Khabeer Capital DIFC

The Subsidiary was registered in Dubai, DIFC, and had a license 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.

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

	For the period ended 21 November 2019 SR '000	For the year ended 31 December 2018 SR '000
Opening balance	3,475	3,616
Transfer of net assets to the Company	(2,090)	-
Share of results till the date of dissolution	(1,385)	(141)
Closing balance	-	3,475

Summarized financial information

	As at 21 November 2019 SR '000	As at 31 December 2018 SR '000
Non-current assets	134	134
Current assets	3,978	3,978
Non-current liabilities	-	-
Current liabilities	2,022	637
Equity	2,090	3,475

29.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 17).

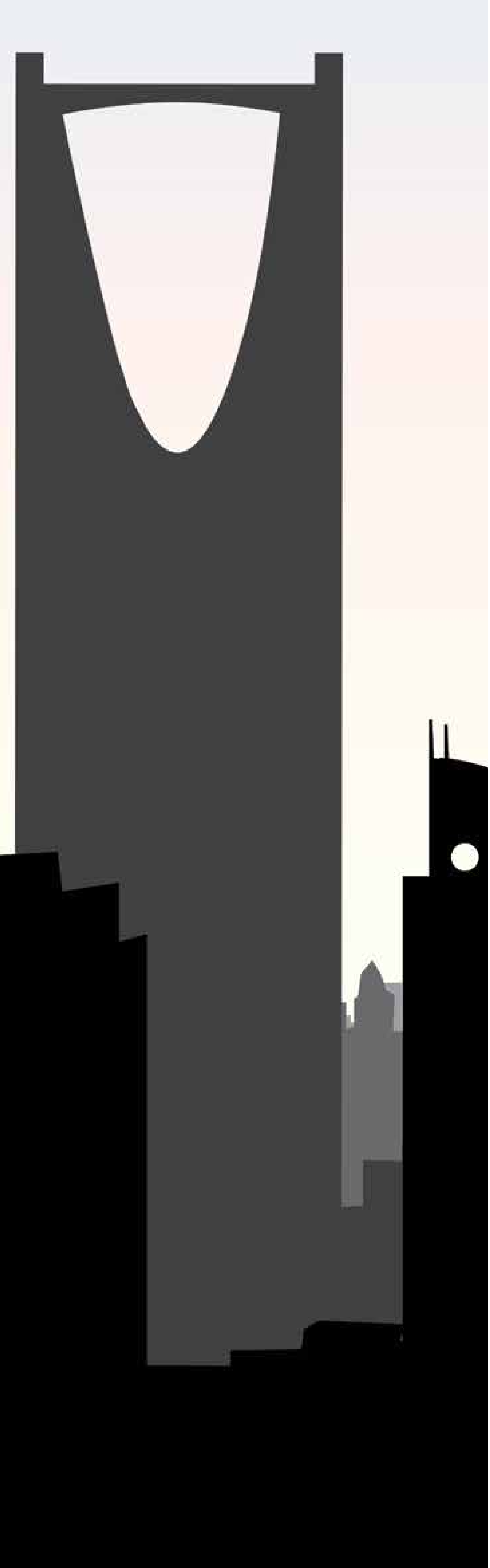
The diluted EPS is same as the basic EPS as the Company does not have any dilutive instruments in issue.

30.COMPARATIVE FIGURES

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

31.BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 11 March 2020 (corresponding to 16 Rajab 1441H).



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