ALKHABEER CAPITAL
(A SAUDI CLOSED JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED FINANCIAL STATEMENTS
Year Ended 31 December 2016

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

Scope of audit

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

Unqualified opinion

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

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

29 Jumad Awwal 1438 H
26 February 2017

Jeddah

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CONSOLIDATED BALANCE SHEET
As at 31 December 2016

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

The accompanying notes 1 to 29 form an integral part of these unconsolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

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

The accompanying notes 1 to 29 form an integral part of these unconsolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

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

The accompanying notes 1 to 29 form an integral part of these unconsolidated financial statements.

1. ACTIVITIES

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

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

- investments that are acquired for the purpose of selling and/or repurchasing in the near term. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price: and

- investments in certain funds. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Group.

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(c) For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

3. MURABAHA PLACEMENT

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

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

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

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

4. ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

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

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

5. INVESTMENTS HELD FOR TRADING

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

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

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

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

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

5. INVESTMENTS HELD FOR TRADING (continued)

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

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

6. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

Remuneration of key management

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

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

7. PROPERTY AND EQUIPMENT

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

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

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

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

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

9. MURABAHA CONTRACTS

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

10. SHARIA COMPLIANT FINANCING

During the year, the Company obtained a sharia compliant financing from a local bank with sanctioned limit of 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 profit rate of 7.05% and is secured against certain "investments held for trading" and all returns generated from respective investments (note 5). Repayment of sharia compliant financing is scheduled as follows:

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

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

11. ZAKAT AND INCOME TAX

Provision for Zakat and Income Tax as of 31 December	***2016*** ***SR '000***	*2015* *SR '000*
Zakat	-	1,684
Income tax	-	205
	-	1,889

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

11. ZAKAT AND INCOME TAX (continued)

Zakat

The provision is based on the following:

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

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

Movement in provision during the year

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

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

Income Tax

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

Movement in provision during the year

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

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

Status of assessments

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

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

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

11. ZAKAT AND INCOME TAX (continued)

Status of assessments (continued)

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

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

12. SHARE CAPITAL

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

13. DIVIDEND

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

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

14. STATUTORY RESERVE

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

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

15. FEE INCOME

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

16. SELLING AND MARKETING EXPENSES

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

17. GENERAL AND ADMINISTRATION EXPENSES

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

18. EARNINGS PER SHARE

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

19. ASSETS HELD FOR DISTRIBUTION AND DISCONTINUED OPERATIONS

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

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

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

19. ASSETS HELD FOR DISTRIBUTION AND DISCONTINUED OPERATIONS (continued)

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

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

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

20. RISK MANAGEMENT

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

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

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

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

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

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

20. RISK MANAGEMENT (continued)

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

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

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

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

21. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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

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

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

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

22. SEGMENTAL INFORMATION

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

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

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

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

Others:
Others include advisory, arranging, underwriting and infrastructure.

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

Business Segments

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

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

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

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

24. ASSETS HELD UNDER FIDUCIARY CAPACITY

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

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

25. CONTINGENCIES AND CAPITAL COMMITMENTS

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

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

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

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

26. OPERATING LEASES

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

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

27. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

27. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of accounts receivable (continued)
Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

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

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

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

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

a) The Group provides investment management services to number of investors with respect to investment in managed funds by the Group;
b) The Group generate capital gains and income from its investments which will, in turn, be distributed to the current and potential investors; and
c) The Group evaluates its investments' performance on a fair value basis, in accordance with the policies set out in these consolidated financial statements.

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

28. BOARD OF DIRECTORS' APPROVAL

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

29. COMPARATIVE FIGURES

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