# ALKHABEER CAPITAL
# (A SAUDI CLOSED JOINT STOCK COMPANY)

# CONSOLIDATED FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2017

# CONSOLIDATED FINANCIAL STATEMENTS
Year Ended 31 December 2017

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of Alkhabeer Capital and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

### Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the provisions of Companies' Law and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

04/Rajab/1439H
21 March 2018

Jeddah

17/411/00

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# CONSOLIDATED BALANCE SHEET
As at 31 December 2017

| | Note | ***2017*** ***SR '000*** | *2016* *SR '000* |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 3 | **33,909** | 155,189 |
| Murabaha placement | 4 & 7 | **177,539** | - |
| Accounts receivable and prepayments | 5 | **109,129** | 28,106 |
| Investments held for trading | 6 | **1,330,406** | 1,267,634 |
| Due from related parties | 7 | **45,486** | 116,960 |
| Assets held for distribution | 20 | **-** | 229 |
| **TOTAL CURRENT ASSETS** | | **1,696,469** | 1,568,118 |
| **NON-CURRENT ASSETS** | | | |
| Zakat and income tax reimbursable | 12 | **2,196** | - |
| Property and equipment | 8 | **46,833** | 43,495 |
| **TOTAL NON-CURRENT ASSETS** | | **49,029** | 43,495 |
| **TOTAL ASSETS** | | **1,745,498** | 1,611,613 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Due to related parties | 7 | **-** | 84,000 |
| Short term portion of sharia compliant financing | 11 | **51,500** | 14,000 |
| Accrued expenses and other liabilities | 9 | **130,705** | 95,768 |
| Short-term murabaha contracts | 10 | **292,737** | 327,440 |
| Dividends payable | | **638** | 20,330 |
| Provision for zakat and income tax | 12 | **2,196** | - |
| **TOTAL CURRENT LIABILITIES** | | **477,776** | 541,538 |
| **NON-CURRENT LIABILITIES** | | | |
| Employees' terminal benefits | | **10,633** | 11,275 |
| Long-term murabaha contracts | 10 | **135,500** | 95,000 |
| Long-term portion of sharia compliant financing | 11 | **179,803** | 83,158 |
| **TOTAL NON-CURRENT LIABILITIES** | | **325,936** | 189,433 |
| **TOTAL LIABILITIES** | | **803,712** | 730,971 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 13 | **813,203** | 813,203 |
| Statutory reserve | 15 | **30,047** | 23,933 |
| Retained earnings | | **98,536** | 43,506 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **941,786** | 880,642 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,745,498** | 1,611,613 |

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

# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

| | Note | **2017** SR '000 | 2016 SR '000 |
|---|---|---|---|
| Fee income | 16 | **53,748** | 51,405 |
| Unrealised (losses)/gains on trading investments | 6 | **(44,703)** | 96,542 |
| Realised gains on trading investments | 6 | **156,953** | 40,226 |
| Dividend income | | **21,323** | 16,616 |
| Income from murabaha placement | | **158** | 2,545 |
| **TOTAL OPERATING INCOME** | | **187,479** | 207,334 |
| | | | |
| **OPERATING EXPENSES** | | | |
| Selling and marketing | 17 | **(6,674)** | (7,773) |
| General and administration | 18 | **(85,531)** | (102,619) |
| **TOTAL OPERATING EXPENSES** | | **(92,205)** | (110,392) |
| | | | |
| **NET OPERATING INCOME** | | **95,274** | 96,942 |
| Murabaha and financing expenses | | **(34,141)** | (25,674) |
| Other income | | **11** | 24 |
| **INCOME FOR THE YEAR FROM CONTINUING OPERATIONS** | | **61,144** | 71,292 |
| | | | |
| **DISCONTINUED OPERATIONS** | | | |
| Loss from discontinued operations | | **-** | (160) |
| **NET INCOME FOR THE YEAR** | | **61,144** | 71,132 |
| | | | |
| **EARNINGS PER SHARE FROM CONTINUING OPERATIONS** | | | |
| Weighted number of outstanding shares (in thousands) | 13 | **81,320** | 81,320 |
| Attributable to net operating income (in SR) | 19 | **1.17** | 1.19 |
| Attributable to net income (in SR) | 19 | **0.75** | 0.88 |
| | | | |
| **EARNINGS PER SHARE INCLUDING DISCONTINUED OPERATIONS** | | | |
| Attributable to net income for the year (in SR) | 19 | **0.75** | 0.87 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Note | *2017 SR '000* | *2016 SR '000* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Income from continuing operations | | **61,144** | 71,292 |
| Loss from discontinued operations | | **-** | (160) |
| Net income for the year | | **61,144** | 71,132 |
| Adjustments for: | | | |
| Unrealised loss/(gain) on investments | 6 | **44,703** | (96,542) |
| Realised gains on investments | 6 | **(156,953)** | (40,326) |
| Depreciation | 8 | **3,116** | 2,995 |
| Provision for employees' terminal benefits | | **2,472** | 3,343 |
| Allowances for doubtful debts, net of recoveries | 17 | **(742)** | 594 |
| Profit on disposal of property and equipment | | **(11)** | (24) |
| Cost incurred in relation to dissolution | 20 | **60** | - |
| Uncollected dividend | 5 | **(4,901)** | - |
| Operating loss before changes in operating assets and liabilities | | **(51,112)** | (58,828) |
| Changes in operating assets and liabilities | | | |
| Accounts receivable and prepayments | | **(2,721)** | 1,831 |
| Due from related parties | | **32,474** | (2,279) |
| Accrued expenses and other liabilities | | **39,838** | (8,788) |
| Due to related parties | | **(84,000)** | (82,812) |
| Purchase of investments held for trading | | **(617,534)** | (349,504) |
| Proceeds from disposal of investments held for trading | | **628,452** | 360,532 |
| Cash used in operations | | **(54,603)** | (139,848) |
| Employees' terminal benefits paid | | **(3,114)** | (1,354) |
| Zakat and income tax paid | 12 | **-** | (1,889) |
| Net cash used in operating activities | | **(57,717)** | (143,091) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 8 | **(6,481)** | (23,025) |
| Proceeds from disposal of property and equipment | | **38** | 24 |
| Murabaha placement | 7 | **(177,539)** | 47,809 |
| Net cash (used in)/from investing activities | | **(183,982)** | 24,808 |
| **FINANCING ACTIVITIES** | | | |
| Murabaha contracts | 10 | **5,797** | 170,838 |
| Sharia compliant financing | 11 | **134,145** | 97,158 |
| Cash received from Sanabel | 20 | **169** | - |
| Dividends paid | 14 | **(19,692)** | (18,441) |
| Net cash from financing activities | | **120,419** | 249,555 |
| Net (decrease) / increase in cash and cash equivalents | | **(121,280)** | 131,272 |
| Cash and cash equivalents at the beginning of the year | | **155,189** | 24,144 |
| **Cash and cash equivalents attributable to continuing operation** | | **33,909** | 155,416 |
| Cash and cash equivalents attributable to discontinued operation | | **-** | (227) |
| **Cash and cash equivalents at the end of the year** | 3 | **33,909** | 155,189 |
| **NON CASH SUPPLEMENTARY INFORMATION** | | | |
| Subscription of units of funds managed by group, not yet paid | 7 | **-** | 84,000 |
| In-kind investment in fund and companies managed by the Group | | **640,103** | - |
| Receivable against investments sold | 5 | **77,560** | - |
| Sale of equity to fund | 7 | **-** | 64,000 |
| Payable against investment purchased | 9 | **39,000** | - |

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

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

| | *Note* | *Share capital SR '000* | *Statutory reserve SR '000* | *Retained earnings SR '000* | *Foreign currency translation reserve SR '000* | ***Shareholders' equity SR '000*** |
|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | | 813,203 | 16,820 | 70,063 | 84 | **900,170** |
| Net income for the year | | - | - | 71,132 | - | **71,132** |
| Transfer to statutory reserve | 15 | - | 7,113 | (7,113) | - | **-** |
| Zakat and income tax reimbursed | 12 | - | - | (1,889) | - | **(1,889)** |
| Other provision | 9 | - | - | (50,000) | - | **(50,000)** |
| Dividend | 14 | - | - | (38,771) | - | **(38,771)** |
| Foreign currency movement | | - | - | 84 | (84) | **-** |
| Balance at 31 December 2016 | | 813,203 | 23,933 | 43,506 | - | **880,642** |
| Net income for the year | | - | - | 61,144 | - | **61,144** |
| Transfer to statutory reserve | 15 | - | 6,114 | (6,114) | - | **-** |
| Zakat and income tax | 12 | - | - | (2,196) | - | **(2,196)** |
| Zakat and income tax reimbursable | 12 | - | - | 2,196 | - | **2,196** |
| **Balance at 31 December 2017** | | **813,203** | **30,047** | **98,536** | **-** | **941,786** |

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

## 1. ACTIVITIES

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

The Commercial Registration of the Parent Company was amended on 7 Shawal 1432H corresponding to 5 September 2011 by increasing the share capital from SR 424,933,820 (42,493,382 shares of SR 10 each) to SR 813,202,930 (81,320,293 shares of SR 10 each). The Parent Company is owned 98.43% by Saudi shareholders and 1.57% by foreign shareholders (2016: same).

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

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

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

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

The head office of the Parent Company is in Jeddah with the following branches:

| Branch | Commercial Registration Number: | Date |
|---|---|---|
| Riyadh | 1010439273 | 11/02/1437H |

The Parent Company has an investment in the following subsidiaries:

**Alkhabeer Capital DIFC**

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

**Sanabel Investment Company B.S.C. (c) ("Sanabel")**

Sanabel Investment Co. B.S.C. (c) ("Sanabel") was established on 15 December 2008 in the Kingdom of Bahrain under Commercial Registration No. 70609-1 and operated under an investment business firm – category 1 (Islamic Principles).

The shareholders of Sanabel on 24 November 2016 resolved to dissolve the Company. On 11 July 2017, Central Bank of Bahrain confirmed that liquidation process is completed.

## 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 Parent 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 Parent Company's operations, is consolidated in these consolidated financial statements. However, other entities acquired, primarily, with an investment perspective are classified as investments held for trading, and measured at fair value, as disclosed in note 6.

**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 Parent 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 consolidated 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 Parent Company's functional and presentation 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 accounting principles generally accepted in the Kingdom of Saudi Arabia 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 consolidated financial statements are disclosed in note 28.

**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 investments held for trading include:

- 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 and companies. 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 balance sheet at fair value. All transaction costs are recognised directly in consolidated statement of income. 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 entities, 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.

**Sharia compliant financing**
Sharia compliant financing is recognised at the value of the proceeds received by the Group.

## 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 United Arab Emirates 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 United Arab Emirates, 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. CASH AND CASH EQUIVALENTS

| | ***2017*** | *2016* |
|---|---|---|
| | ***SR ’000*** | *SR ’000* |
| Cash at bank | 27,135 | 155,189 |
| Short term placements | 6,774 | - |
| | 33,909 | 155,189 |

Short term placements are with original contractual maturity of less than three months and carry profit rate of 1.63% (31 December 2016: nil).

## 4. MURABAHA PLACEMENT

Murabaha placements are with company managed by the Group. These murabaha placements carried profit rate of 4.25% and 5.70% (31 December 2016: nil).

## 5. ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | ***2017*** | *2016* |
|---|---|---|
| | ***SR ’000*** | *SR ’000* |
| Accounts receivable, gross (note ‘a’) | **3,846** | 6,342 |
| Allowance for doubtful receivable (note ‘b’) | **(2,896)** | (6,034) |
| Accounts receivable, net | **950** | 308 |
| | | |
| Advances to suppliers and other assets | **4,095** | 7,772 |
| Allowance for impairment (note c) | **-** | (5,000) |
| Advances to suppliers and other assets, net | **4,095** | 2,772 |
| | | |
| Margin deposit (notes 12 and 26) | **14,208** | 14,208 |
| Prepayments | **3,125** | 2,286 |
| Dividend receivable | **4,901** | - |
| Receivable against investment sold (note d) | **77,560** | - |
| Other receivables | **4,290** | 8,532 |
| | **109,129** | 28,106 |

## 5. ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

a) It is not the practice of the Group to obtain collateral over receivables and the majority are, therefore, unsecured. As at 31 December 2017, the accounts receivable, gross included balances amounting to SR 2.89 million which were past due for more than 120 days and fully provided for (2016: SR 6.03 million).

b) Movements in the allowance for impairment of receivables were as follows:

| | ***2017*** ***SR '000*** | *2016* *SR '000* |
|---|---|---|
| At 1 January | **6,034** | 10,969 |
| Net (recovery)/charge for the year | **(742)** | 594 |
| Written off | **(2,396)** | (5,529) |
| At 31 December | **2,896** | 6,034 |

c) During the year, the Group written off certain balances and related equivalent impairment allowance of SR 5 million.

d) The total receivable against investment sold is past due as per the signed agreement.

## 6. INVESTMENTS HELD FOR TRADING

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

| | ***2017*** ***SR '000*** | *2016* *SR '000* |
|---|---|---|
| At 1 January | **1,267,634** | 1,205,794 |
| Additions during the year | **1,257,637** | 349,504 |
| Capital distribution (note c) | **(397,642)** | - |
| Sold during the year | **(909,473)** | (424,532) |
| | **1,218,156** | 1,130,766 |
| **Unrealised (losses)/gains:** | | |
| - continued operations | **(44,703)** | 96,542 |
| **Realised gains:** | | |
| - continued operations | **156,953** | 40,226 |
| - discontinued operations | **-** | 100 |
| | **156,953** | 40,326 |
| At 31 December | **1,330,406** | 1,267,634 |

a) During the year 2017, the Group has sold certain of its investments to companies managed by the Group.

b) Certain of the investments and returns generated from them are pledged against Sharia compliant financing (note 11 and note 26).

c) During the year, some of the funds managed by the Group distributed part of its underlying assets.

## 6. INVESTMENTS HELD FOR TRADING (continued)

d) The unit holdings of the Group as of 31 December 2017 and 31 December 2016, in the funds and companies managed by the Group are as follows:

| **Name of Fund** | **2017** | 2016 |
|---|---|---|
| Alkhabeer US Real Estate Income Fund | **11%** | 11% |
| Alkhabeer Industrial Private Equity Fund II | **-** | 65% |
| Alkhabeer Healthcare Private Equity Fund | **9%** | 9% |
| Alkhabeer SME Fund I | **98%** | 98% |
| Alkhabeer Real Estate Opportunity Fund I | **38%** | 38% |
| Alkhabeer Real Estate Residential Development Fund II | **2%** | 72% |
| Alkhabeer Land Development Fund II | **3%** | 15.4% |
| Alkhabeer Central London Residential Fund I | **4.4%** | 4.4% |
| Alkhabeer Education Private Equity Fund I | **36%** | 30% |
| Alkhabeer Saudi Real Estate Income Fund I | **25%** | 70% |
| Alkhabeer Hospitality Fund I | **75%** | 100% |
| Alkhabeer Real Estate Opportunity Fund II | **100%** | - |

| **Name of Company** | **2017** | 2016 |
|---|---|---|
| Alkhabeer Industrial Private Equity Company – III Ltd. | **100%** | - |
| Alkhabeer GCC Opportunity Company | **100%** | - |

## 7. 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* | |
|---|---|---|---|---|---|
| | | ***2017*** | *2016* | ***2017*** | *2016* |
| | | ***SR'000*** | *SR'000* | ***SR'000*** | *SR'000* |
| Investments in managed funds and companies | Investments acquired/disposed by the Group and realised/unrealised gain/loss thereon | **62,772** | 302,020 | **1,330,406** | 1,267,634 |
| | Management, custody and subscription fees reduced by payments received | **2,165** | (1,634) | **44,871** | 42,706 |
| | Expenses and advances | **54,361** | 67,913 | **615** | 10,254 |
| | Sale of equity to managed funds | **(64,000)** | 69,000 | **-** | 64,000 |
| | Sale of property investment to funds and companies managed by the Group | **593,103** | 107,100 | **-** | - |
| | Gain from sale of equity and property investment to managed funds and companies as referred above | **136,698** | 40,101 | **-** | - |
| | **Due from related parties** | | | **45,486** | 116,960 |
| | Subscription of units of funds and companies managed by the Group, not yet paid | **(84,000)** | (82,812) | **-** | 84,000 |
| | **Due to related parties** | | | **-** | 84,000 |
| | Murabaha placement with managed funds and companies | **177,539** | (47,809) | **177,539** | - |
| | **Total murabaha placement** | | | **177,539** | - |

The Group has issued a corporate guarantee on behalf of a related party (note 26) and pledged its investments for a facility obtained by a related party (note 6).

**Remuneration of key management**

Key management personnel including members of the Boards of Directors of the Parent Company and its subsidiary, 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:

| | ***2017*** | *2016* |
|---|---|---|
| | ***SR '000*** | *SR '000* |
| Salaries and other short term benefits | **16,045** | 17,684 |
| Post-employment benefits | **967** | 1,054 |
| | **17,012** | 18,738 |

## 8. 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 | 4 and 11 | Vehicles | 5 |
| Office and computer equipment | 3-4 | | |

| | *Land* | *Building* | *Leasehold improvements* | *Office and computer equipment* | *Furniture and fixtures* | *Vehicles* | *Capital work in progress (note b)* | ***Total 2017*** | *Total 2016* |
|---|---|---|---|---|---|---|---|---|---|
| | *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 | 1,985 | 16,454 | 1,149 | 485 | 23,575 | **64,848** | 45,279 |
| Additions | - | - | 452 | 1,447 | 137 | 36 | 4,409 | **6,481** | 23,025 |
| Transfers (note a) | - | - | 8,524 | - | - | - | (8,524) | **-** | - |
| Disposals | - | - | - | (14) | - | (125) | - | **(139)** | (74) |
| | 6,966 | 14,234 | 10,961 | 17,887 | 1,286 | 396 | 19,460 | **71,190** | 68,230 |
| Attributable to assets held for distribution | - | - | - | - | - | - | - | **-** | (3,382) |
| At the end of the year | 6,966 | 14,234 | 10,961 | 17,887 | 1,286 | 396 | 19,460 | **71,190** | 64,848 |
| **Accumulated depreciation** | | | | | | | | | |
| At the beginning of the year | - | 5,728 | 1,972 | 12,395 | 996 | 262 | - | **21,353** | 21,814 |
| *Depreciation:* | | | | | | | | | |
| - Continued operations | - | 468 | 142 | 2,330 | 105 | 71 | - | **3,116** | 2,906 |
| - Discontinued operations | - | - | - | - | - | - | - | **-** | 89 |
| Relating to disposals | - | - | - | (13) | - | (99) | - | **(112)** | (74) |
| | - | 6,196 | 2,114 | 14,712 | 1,101 | 234 | - | **24,357** | 24,735 |
| Attributable to assets held for distribution | - | - | - | - | - | - | - | **-** | (3,382) |
| At the end of the year | - | 6,196 | 2,114 | 14,712 | 1,101 | 234 | - | **24,357** | 21,353 |
| Net book amounts | | | | | | | | | |
| **At 31 December 2017** | **6,966** | **8,038** | **8,847** | **3,175** | **185** | **162** | **19,460** | **46,833** | |
| At 31 December 2016 | 6,966 | 8,506 | 15 | 4,045 | 159 | 229 | 23,575 | | 43,495 |

a) Upon completion during the year, the carrying amount of building constructed on a leased land, was transferred to relevant category. This building is depreciated over the period of the lease term.

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

## 9. ACCRUED EXPENSES AND OTHER LIABILITIES

| | ***2017*** | *2016* |
|---|---|---|
| | ***SR '000*** | *SR '000* |
| Other provision | **50,000** | 50,000 |
| Remuneration payable | **22,275** | 23,200 |
| Payable against investment purchased | **39,000** | - |
| Payables | **10,109** | 15,318 |
| Accrued expenses | **8,354** | 5,852 |
| Vacation allowance | **930** | 1,365 |
| Others | **37** | 33 |
| | **130,705** | 95,768 |

## 10. MURABAHA CONTRACTS

These represent commodity murabaha contracts executed with investors through Discretionary Portfolio Managers (DPMs). The murabaha contracts carry profit rates of 5.25% to 7.25% (31 December 2016: 5.25% to 6.25%) and are subject to 1%(31 December 2016: 1%) management fee. The maturity period ranges between one to three years from the date of contract. The murabaha contracts were classified into short and long term according to their contractual maturities.

Movement for the year end murabaha contract balance as follows,

| | ***2017*** | *2016* |
|---|---|---|
| | ***SR '000*** | *SR '000* |
| Opening Balance | **422,440** | 251,602 |
| Murabaha expenses for the year | **27,218** | 23,444 |
| Murabaha obtained | **330,500** | 376,000 |
| Murabaha repaid | **(351,921)** | (228,606) |
| Closing Balance | **428,237** | 422,440 |
| Short-term murabaha contracts | **292,737** | 327,440 |
| Long-term murabaha contracts | **135,500** | 95,000 |

## 11. SHARIA COMPLIANT FINANCING

a) During 2016, the Group obtained a sharia compliant financing from a local bank with an approved limit of SR 100 million to be repaid over 5 years. The Group has drawn down SR 50 million on 11 August 2016 and SR 50 million on 30 October 2016. The financing carries profit rate of 7.05% and is secured against certain "investments held for trading" and all returns generated from respective investments (note 6).

b) During 2017, the Group obtained a sharia compliant financing from a local bank amounting to SR 150 million. The facility is repayable over a period of two years, carried a profit rate of SIBOR + 2.5% and is secured against certain "investments held for trading" and all returns generated from respective investments (note 6). Repayment of sharia compliant financing is scheduled as follows:

| | ***31 Dec 2017*** | *31 Dec 2016* |
|---|---|---|
| | ***SR'000*** | *SR'000* |
| 31 December 2017 | **-** | 14,000 |
| 31 December 2018 | **51,500** | 14,000 |
| 31 December 2019 | **89,000** | 14,000 |
| 31 December 2020 | **51,500** | 14,000 |
| 31 December 2021 | **44,000** | 44,000 |
| | **236,000** | 100,000 |
| Less: unamortized portion of upfront fee | **(4,697)** | (2,842) |
| | **231,303** | 97,158 |
| Less: current portion shown under current liabilities | **(51,500)** | (14,000) |
| Non-current portion shown under non-current liabilities | **179,803** | 83,158 |

**11. SHARIA COMPLIANT FINANCING (continued)**

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

**12. ZAKAT AND INCOME TAX**

| **Provision for zakat and income tax as of 31 December** | ***2017*** <br> ***SR '000*** | *2016* <br> *SR '000* |
|---|---|---|
| Zakat | **2,055** | **-** |
| Income tax | **141** | **-** |
| | **2,196** | **-** |

The provision is based on the following:

| | ***2017*** <br> ***SR '000*** | *2016* <br> *SR '000* |
|---|---|---|
| Equity | **866,816** | 867,805 |
| Provisions and other adjustments | **511,219** | 262,146 |
| Book value of long term assets | **(1,359,274)** | (1,196,153) |
| | **18,761** | (66,202) |
| Saudi shareholders' share of adjusted income for the year | **63,456** | **-** |
| Adjusted zakat base | **82,217** | **-** |

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

**Movement in provision during the year**

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

| | ***2017*** <br> ***SR '000*** | *2016* <br> *SR '000* |
|---|---|---|
| At 1 January | **-** | **1,684** |
| Charge for the year | **2,055** | **-** |
| Paid during the year | **-** | **(1,684)** |
| At 31 December | **2,055** | **-** |

**Income Tax**

Income tax charges for the years ended 31 December 2017 and 31 December 2016 are based on the adjusted taxable income calculated on the portion of equity owned by the foreign shareholders. 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:

| | ***2017*** <br> ***SR '000*** | *2016* <br> *SR '000* |
|---|---|---|
| At 1 January | **-** | 205 |
| Charge for the year | **141** | - |
| Paid during the year | **-** | (205) |
| At 31 December | **141** | **-** |

**Status of assessments**

General Authority of Zakat and Tax (GAZT) raised an assessment with additional liability amounting to SR 10.36 million for the period ended 31 December 2008. The Company filed an appeal with 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 Higher Appeal Committee (HAC). The HAC 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.

**12. ZAKAT AND INCOME TAX (continued)**

**Status of assessments (continued)**

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

The Company has filed its tax and zakat returns for the years ended 31 December 2011 through 2016 and is currently waiting for GAZT's review.

**13. SHARE CAPITAL**

The share capital of the Group, amounting to SR 813,202,930 is divided into 81,320,293 shares of SR 10 each (2016: same).

**14. DIVIDEND**

During 2017, the Group has paid net dividend of SR 19.69 million (2016: SR 18.44 million) to the shareholders out of total dividend payable as at 31 December 2016, amounting to SR 20.3 million, after deducting zakat and income tax. The remaining SR 0.61 million will be paid in due course.

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. The dividend was approved by the shareholders in the General Assembly meeting dated 15 May 2016 and delegated the distribution decision to the Board of Directors of the Group. During 2016, the Company has paid net dividend of SR 18.44 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.

**15. 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 regulations for companies effective from May 2016, the Group through Extra Ordinary General Assembly meeting dated 25 December 2016 amended and approved its Articles of Association with 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.

**16. FEE INCOME**

| | ***2017*** ***SR '000*** | *2016* *SR '000* |
|---|---|---|
| Advisory fees | **1,100** | - |
| Management, custody and subscription fees | **52,648** | 51,405 |
| | **53,748** | 51,405 |

## 17. SELLING AND MARKETING EXPENSES

| | *2017* SR '000 | *2016* SR '000 |
|---|---|---|
| Salaries and benefits | **4,486** | 5,615 |
| Incentive | **2,002** | - |
| Net (recoveries) / charge for the year (note 5) | **(742)** | 594 |
| Other | **928** | 1,564 |
| | **6,674** | 7,773 |

## 18. GENERAL AND ADMINISTRATION EXPENSES

| | *2017* SR '000 | *2016* SR '000 |
|---|---|---|
| Salaries and benefits | **58,690** | 64,801 |
| Legal and consultancy | **11,336** | 19,138 |
| Communication | **3,651** | 4,598 |
| Business travel | **2,543** | 3,353 |
| Depreciation | **3,116** | 2,906 |
| Rent and premises related expenses | **1,716** | 1,736 |
| Office supplies | **462** | 1,157 |
| Utilities | **536** | 558 |
| Insurance | **327** | 329 |
| Other | **3,154** | 4,043 |
| | **85,531** | 102,619 |

## 19. EARNINGS PER SHARE

Earnings per share from continuing operations is calculated based on net income from continuing operation / net income divided by the weighted average number of shares in issue during the year (note 13).

Earnings for the year per share including discontinued operations for comparative year is calculated based on net income including discontinued operations divided by the weighted average number of shares in issue during the year (note 13).

## 20. ASSETS HELD FOR DISTRIBUTION AND DISCONTINUED OPERATIONS

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

Upon dissolution during the year 2017, net assets of Sanabel after incurring related legal expenses of SR 0.06 million were transferred to the Parent Company at their carrying values.

## 21. 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. Majority of Group's commission bearing assets and liabilities carry fixed rate. However, a Sharia compliant financing obtained by the Group during the year carry a variable commission rate and exposes the Group to cash flow commission rate risk.

**21. RISK MANAGEMENT (continued)**

***Commission rate risk (continued)***
Accordingly, with all variables held constant, a 0.25% change of applicable commission rate would have resulted SR 0.375 million lower/higher profit for the year 2017.

***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 2017 and 31 December 2016 are payable within 12 months from the consolidated balance sheet date except certain long-term murabaha contract and long term portion of sharia compliant financing which have maturity of more than 12 months from the balance sheet date. As of the reporting date, the Group has adequate liquid assets to discharge the liabilities or commitments as they fall due.

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

***Held for trading investments***
*Funds and companies managed by the Group, externally managed entities and other investments*
The Group's investment in funds and companies managed by the Group, externally managed entities and other investments as at 31 December 2017 and 31 December 2016, of 1,330.41 million and SR 1,267.63 million, respectively, has been classified as held for trading. The market risks on these investments are monitored on an individual basis. A 10% (2016: 10%) change in the entity's net assets values will increase or decrease the net income by SR133.04 million (2016: SR 126.76 million) (note 6).

***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 is not exposed in equity price risk as none of its investments are quoted.

***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.

**22. 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.

**22. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO (continued)**

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

| | ***2017*** | *2016* |
|---|---|---|
| | ***SR '000*** | *SR '000* |
| **Capital base** | | |
| Tier-1 Capital | **939,590** | 880,642 |
| Tier-2 Capital | **-** | - |
| Total Capital Base | **939,590** | 880,642 |
| **Minimum capital requirement** | | |
| Credit Risk | **864,203** | 682,571 |
| Market Risk | **255** | 101 |
| Operational Risk | **31,584** | 34,051 |
| Total minimum capital required | **896,042** | 716,723 |
| **Capital Adequacy Ratio** | | |
| Total capital ratio (time) | **1.05** | 1.23 |
| Surplus in capital | **43,548** | 163,919 |

**23. 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 entities 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.

## 23. SEGMENTAL INFORMATION (continued)

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 2017*** | | | | |
| Total operating income | **123,781** | **60,230** | **3,468** | **187,479** |
| Net operating income | **87,688** | **36,735** | **(63,279)** | **61,144** |
| *Year ended 31 December 2016* | | | | |
| Total operating income | 149,669 | 57,430 | 235 | 207,334 |
| Income from discounting operations | - | - | (160) | (160) |
| Net operating income | 121,157 | 27,620 | (77,645) | 71,132 |

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

| **Geographical Segments** | *Kingdom of Saudi Arabia SR '000* | *Kingdom of Bahrain (discontinued operations) SR '000* | *United Arab Emirates SR '000* | *Total SR '000* |
|---|---|---|---|---|
| ***Year ended 31 December 2017*** | | | | |
| Total operating income | **187,479** | **-** | **-** | **187,479** |
| Net operating income | **61,274** | **-** | **(130)** | **61,144** |
| *Year ended 31 December 2016* | | | | |
| Total operating income | 207,334 | - | - | 207,334 |
| Net operating income | 71,292 | (160) | - | 71,132 |

## 24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and 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 and companies managed by the Group is obtained from net asset values disclosed in the audited financial statements of those funds and companies, net asset values provided by the external fund managers or recent sale transactions. In real estate funds and companies, 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 and companies.

## 25. ASSETS HELD UNDER FIDUCIARY CAPACITY

The Group holds assets on behalf of its customers. As the Group acts in a fiduciary capacity, these assets are not included in the consolidated balance sheet. As at 31 December 2017, the Group holds assets under management amounting to SR 3,444 million (2016: SR 3,159 million) on behalf of, and for the beneficial interest of, its customers.

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

## 26. 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 deposit of SR 14.208 million (2016: SR 14.208 million) with a local bank in respect of guarantees issued in favour of GAZT (notes 5 and 12).

c) The Board of Directors has authorised future capital expenditure, amounting to SR 10.2 million (2016: SR 15.9 million) in connection with leasehold improvements and construction under progress.

d) The Parent Company issued a corporate guarantee on behalf of a related party for an outstanding amount of SR 120 million (2016: SR 120 million). The related party simultaneously issued a back-to-back corporate guarantee to the Parent Company. This amount is due for settlement by the respective related party on 31 December 2020.

e) The Parent Company pledged units of its investment in entity on behalf of a related party for an amount of SR 300 million. The related party simultaneously pledged assets back-to-back for an equivalent value to the Parent Company. (note 6)

## 27. OPERATING LEASES

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

| | ***2017*** | *2016* |
|---|---|---|
| | ***SR '000*** | *SR '000* |
| Within one year | **900** | 900 |
| From 1 to 5 years | **4,500** | 4,500 |
| Over 5 years | **6,000** | 6,900 |
| | **11,400** | 12,300 |

## 28. 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.

## 28. 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 3.84 million (31 December 2016: SR 6.34 million), and the provision for doubtful debts was SR 2.89 million (31 December 2016: SR 6.03 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 entities 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 and comapanies 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 criteria or circumstances changes.

**Going concern**

There are no significant doubts upon the Group's ability to continue as a going concern. Accordingly, these consolidated financial statements have been prepared on going concern basis.

## 29. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 25 February 2018 (corresponding to 9 Jumad Thani 1439 H).