



2013
ANNUAL REPORT

IN THE NAME OF ALLAH,
THE MERCIFUL,
THE COMPASSIONATE

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

[Ash-Shu'ara (The Poets) 181]

CONTENT

04 Corporate Overview	39 Risk Management Review
07 Awards	39 Risk Governance Structure
08 Financial Highlights	40 Management Risk Committees
10 Board of Directors' Report	41 Internal Control
13 Market Overview	41 Compliance & MLR
17 Business Model	41 Market & Operational Risk
19 Asset Management	43 Corporate Governance Review
19 Real Estate Investment	43 Governance Framework
19 Private Equity	43 Code of Business Conduct
20 Capital Markets	43 Reporting Suspicious Activities
22 Product Development	43 Strategy Statement
23 Funds Portfolio	43 Compliance
25 Investment Banking	44 Disclosure and Transparency
27 Business Development and Placement	44 Succession Planning
29 Review of Operations	44 Control Function
29 People	45 Shareholders
29 Technology	47 Board of Directors
30 Corporate Communications	49 Board Committees
30 Awards	51 Management Committees
30 Research	52 Organization Structure
33 Financial Review	54 Executive Management Profiles
37 Corporate Social Responsibility	57 Shari'ah Review Report
	59 Auditors' Report
	60 Consolidated Financial Statements

CORPORATE OVERVIEW

PROFILE

Alkabeer Capital is a leading asset management and investment firm. We provide financial products and services that help institutions, family groups and qualified investors access and allocate capital to deliver real and enduring economic value. Our Shari'ah-compliant products and services are built upon strong deal sourcing that is distinguished by executional vigor, attractive values, and a profound understanding of clients' needs and risk profiles. Headquartered in Jeddah, Kingdom of Saudi Arabia, Alkabeer Capital is regulated by the Capital Market Authority (CMA).

Our asset management services focus on alternative solutions in the areas of real estate, private equity and capital markets; while our advisory services help clients improve their capital structures with a wide range of investment banking and corporate finance solutions. We are experts in the Saudi and GCC markets, although our experience and investments span the broader MENA region as well as select global mature markets such as the United States and the United Kingdom.

OUR VALUES

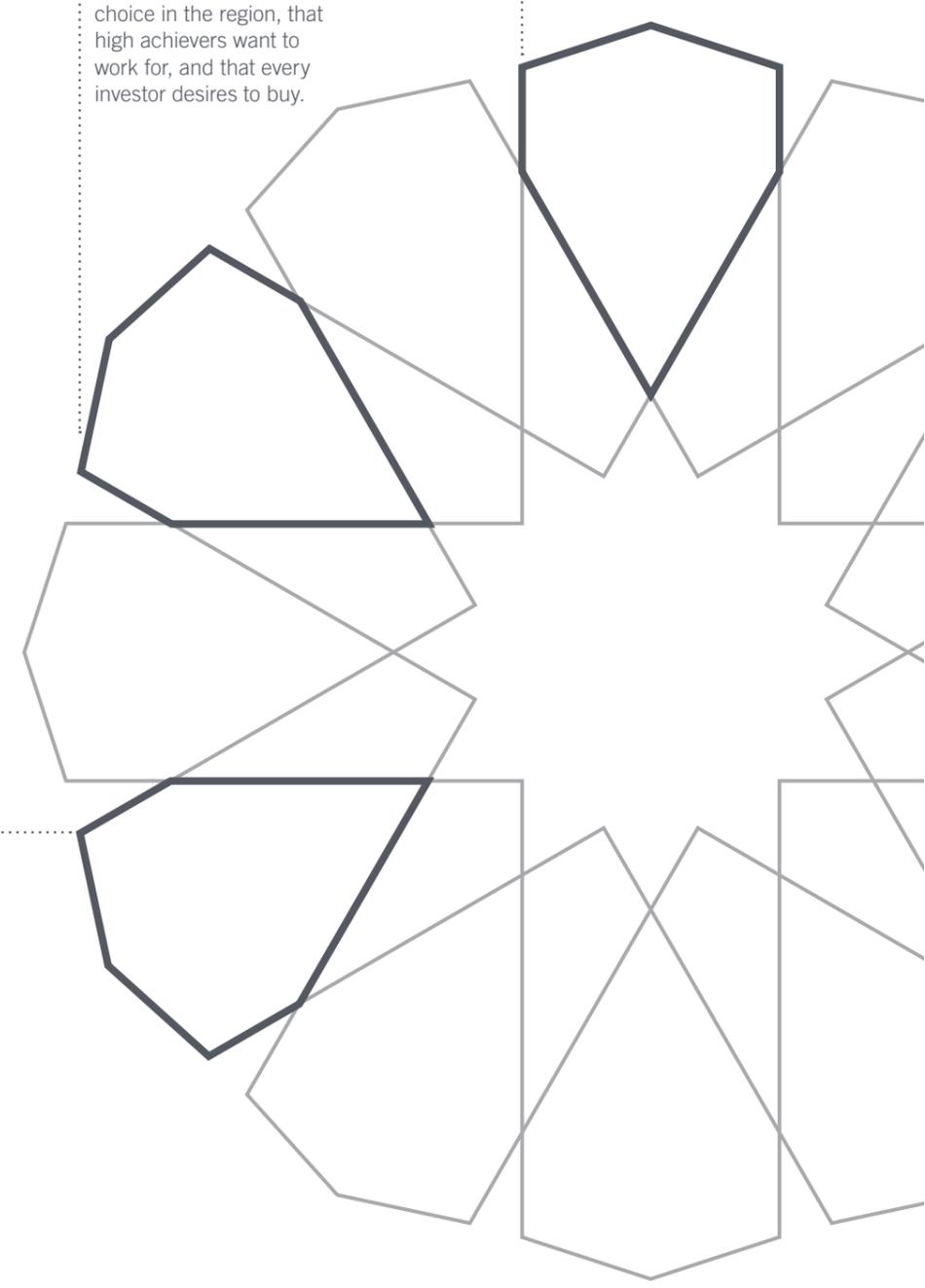
- Placing the interests of our clients and partners first
- Endeavoring continuously to anticipate our clients' needs and changes in the markets where we operate
- Maximizing the value of our shareholders' equity
- Taking pride in our efficiency and professionalism
- Encouraging creativity, innovation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

OUR MISSION

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

OUR VISION

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



2013 AWARDS



BEST ISLAMIC FUND MANAGER



BEST ASSET MANAGER
MIDDLE EAST AWARD



ED & CEO AMMAR SHATA WINS
'MAN OF THE YEAR'



BEST ASSET MANAGEMENT
COMPANY IN THE MIDDLE EAST



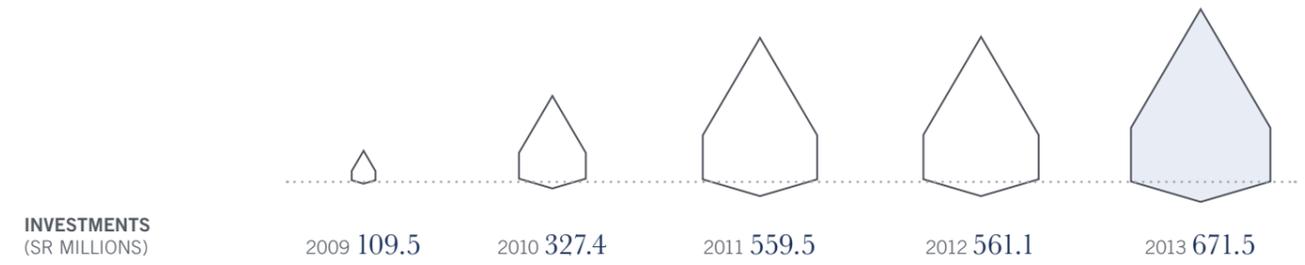
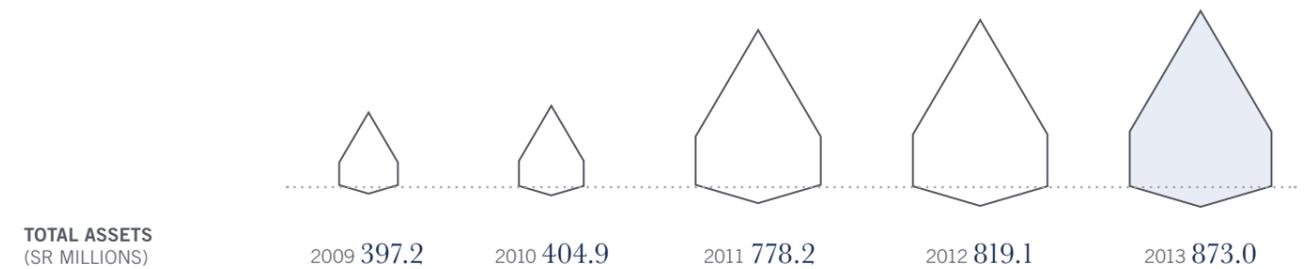
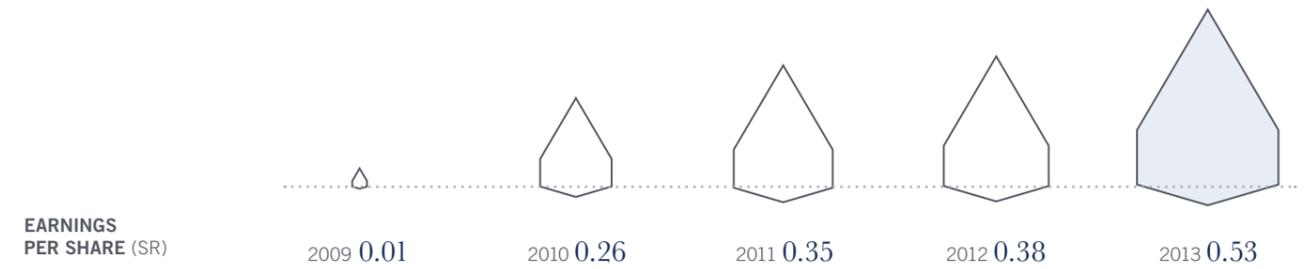
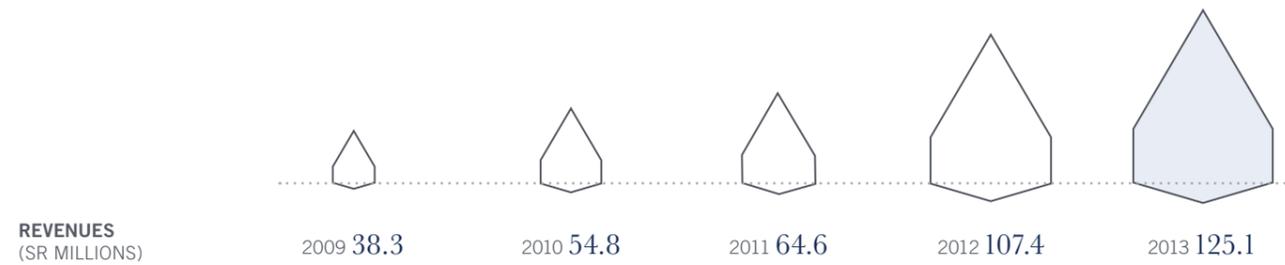
'BEST EMPLOYERS'
IN THE MIDDLE EAST



2ND PLACE: 'BEST WORKING ENVIRONMENT'
IN THE FINANCIAL SECTOR

FINANCIAL HIGHLIGHTS

	2013	2012	2011	2010	2009
EARNINGS (SR MILLION)					
Total Revenue	125.06	107.35	64.60	54.81	38.29
Operating Expense	81.75	76.31	45.47	43.80	38.06
Net Income	43.32	31.04	19.15	11.00	0.22
FINANCIAL POSITION (SR MILLION)					
Shareholders' Equity	846.41	803.10	771.88	393.84	384.23
Total Assets	873.04	819.10	778.22	404.87	397.17
Investments	671.51	561.06	559.49	327.44	109.53
Assets Under Management	2,496.73	1,641.70	1,442.87	535.84	34.00
PROFITABILITY					
Net Income Margin	34.64%	28.92%	29.62%	20.07%	0.57%
Return on Average Equity	5.25%	3.94%	3.28%	2.83%	0.06%
Return on Average Assets	5.12%	3.89%	3.24%	2.74%	0.06%
Cost-to-Income Ratio	65.36%	71.08%	70.38%	79.93%	99.43%
Earnings per Share (SR)	0.53	0.38	0.35	0.26	0.01



BOARD OF DIRECTORS' REPORT

TO OUR ESTEEMED SHAREHOLDERS

We take pleasure in presenting you with the annual report and consolidated financial statements of your Company, Alkhabeer Capital, for the fiscal year (FY) ended 31 December 2013. Despite a continued volatile global economic backdrop and prevailing geo-political challenges in regional markets, your Company has, by the grace of God, posted an impressive performance and continued to meet its ambitious targets for growth.

FINANCIAL PERFORMANCE

Alkhabeer reported a strong financial performance during 2013 as planned, with total revenues increasing by 17 percent to SAR 125.1 million compared to 2012. Net income grew by 40 percent to SAR 43.3 million from SAR 31.0 million the previous year, with earnings per share rising by 39 percent to SAR 0.53, from SAR 0.38. At the end of 2013, total assets had grown to SAR 873.0 million, up 6.6 percent from the end of 2012; while shareholders' equity stood at SAR 846.4 million, an increase of 5.4 percent over the previous year.

By the end of 2013, total assets under management, which are a significant indicator of our business success, had grown by 52 percent to SAR 2.50 billion from SAR 1.64 billion at the end of the previous year. The market value of the investment portfolio grew by 19.6 percent to SAR 671.5 million in 2013 compared with SAR 561.1 million in 2012, with the return on investment rising to 5.3 percent, resulting in an improved net income margin of 21 percent.

As a result of this strong financial performance, which underlines the validity of our business model, we are recommending a dividend distribution to you of 4.7 percent per share before deduction of any dues, subject to approval of the General Assembly Meeting to be held on May 8, 2014. Constituting the first cash dividend to be paid by the Company to its shareholders, this marks a major milestone in our growth and development.

BUSINESS RESULTS

During 2013, we made excellent progress in diversifying our business portfolio and product offerings. Highlights include the launch of our third public investment fund – the Alkhabeer Saudi Equity Fund; and our second private equity fund through a private placement – the Alkhabeer Industrial Private Equity Fund II. Also during 2013, the number of our advisory contracts increased, with new mandates including advising a publicly-listed company on its proposed acquisition of an industrial concern. We also introduced our new discretionary portfolio management service for high net-worth individuals. Rounding off an active and successful year, there was a 31 percent increase in client participation in our investment funds, while the number of clients grew by 33 percent, reflecting the growing strength of our business development and placement capability through our investment funds.

PEOPLE

Our business is about people, which is why we place the highest priority on attracting, developing and retaining the best in the industry, to provide us with a key competitive advantage. During 2013, we further strengthened our management, business and support teams with the appointment of additional highly-qualified and experienced professionals; and maintained our extensive investment in training and development, mentoring and coaching, and staff welfare. Encouragingly, our commitment to human capital best practice was recognized by a further two leading industry awards during the year.

GOVERNANCE

During 2013, we further strengthened our compliance framework with the completion of totally revised policy and procedures for most departments, and a new compliance manual. Anti-money laundering (AML) training was conducted in-house; and client screening was refined to ensure compliance with 'know-your-customers' (KYC) regulations. In the area of risk management, new state-of-the-art systems for operational risk and compliance-monitoring were introduced.

SOCIAL RESPONSIBILITY

As a Shari'ah-compliant financial institution, we are conscious of our responsibility to act as a concerned corporate citizen, and to contribute to the well-being of society. A key pillar of our corporate social responsibility policy is to support the development of future generations. In this respect, during 2013, we sponsored a number of educational initiatives; and provided financial support to educational institutions that sponsor and financially support outstanding and intelligent Muslim students.

BOARD OF DIRECTORS REMUNERATION

Notwithstanding the Company's performance, the Board of Directors did not receive any remuneration for their outstanding contributions to the achievement of the Company's objectives in 2013. Salaries of independent directors and allowances and benefits received by directors as employees and management staff of the Company for FY 2013 amounted to SR 3,894,375, as follows:

Salaries & Benefits	Allowances	Remuneration	Commissions
3,734,375	160,000	NIL	NIL

DIVIDENDS

The Board of Directors proposed dividends for the first half of FY 2014 of 4.7 percent of the share par value. In addition, dividends are expected to be distributed for the second half of FY 2014, such that the total dividends distributed as at the end of the year are not less than 5 percent.

INITIAL PUBLIC OFFERING

The date for the Company's initial public offering (IPO) is subject to regulatory approval by the Capital Market Authority, and suitable market conditions. Therefore, your Company is taking the necessary steps to be IPO-ready at the opportune time.

FUTURE OUTLOOK

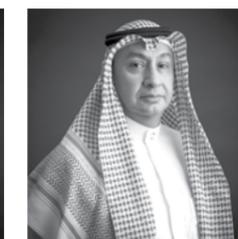
Due to our solid achievements in 2013, we look forward to next year as a pivotal launching pad to new horizons and higher levels of achievement in spite of anticipated challenges. These include intensified competition, ongoing market volatility and regional geo-political tensions; while in Saudi Arabia, we will see a continuation of the ripple effects of new labor regulations. Our response will be to maintain our prudent approach to investment opportunities, continue to preserve capital, and pursue further growth in order to enhance shareholder value.

ACKNOWLEDGMENTS

The Board of Directors takes this opportunity to express our sincere appreciation for your enduring support and confidence as shareholders of Alkhabeer Capital; the trust and loyalty of our clients and investors; the positive collaboration of our business partners; and the constructive advice of the Capital Market Authority in Saudi Arabia. Finally, we would like to pay tribute to the professionalism, commitment and contribution of our management and staff during another challenging but successful year.



Saleh Mohammed Bin Laden
Chairman



Ahmed Saleh Shata
Executive Director and CEO

MARKET OVERVIEW

This overview contains selected extracts from the 'Market Insights - 2014 Outlook' research report published by Alkhabeer Capital in January 2014. The full report is available on the Company's website.

GLOBAL ECONOMY

Following an uncertain 2012, the global economy showed signs of improvement in 2013. Economic data indicates that some of the economic uncertainty that characterized much of 2011 and 2012 seems to have diminished significantly, with advanced economies, especially the US, exhibiting a more grounded recovery. The Eurozone also started to show signs of a recovery, albeit uneven, and exited from a long recession during the second quarter of 2013. Business climate indicators have improved significantly across a number of countries. We expect global economic growth to pick up to around 3.6 percent in 2014, from about 2.9 percent in 2013. In our opinion, global confidence remains pinned on the improving outlook for the US, which looks on course for faster growth in 2014. Despite the bright spots, downside risks to this optimistic outlook persist. Europe's debt crisis seems far from over, given that some vulnerable nations could need a fresh bailout. Additionally, unemployment continues to remain a challenge in advanced economies, while key emerging markets could continue to struggle with their structural problems.

GCC ECONOMY

After having witnessed two years of sustained economic growth, the pace of growth in the GCC countries slowed in 2013, hurt largely by the weak oil sector. Oil production declined in 2013, on the back of lower demand from the US owing to the shale revolution and slower demand growth in China. However, the decrease in oil exports was offset to some extent by an increase in non-oil exports. We believe that the non-oil sector will continue to grow in 2014, albeit at a slower pace,

as the GCC economies push for more diversification led by an increase in government expenditure on infrastructure and social sectors. We expect economic growth in the GCC region to rise to 4.4 percent in 2014 from 3.7 percent in 2013. Going forward, rising break-even oil prices and high youth unemployment would continue to remain a challenge in the GCC region.

US ECONOMY

With the US economy ending 2013 on a strong footing, latest projections indicate that growth in 2014 will remain fairly strong. The economy has continued to reap the benefits of ultra-low interest rates and high liquidity, with the labor market exhibiting strong signs of improvement. The waning impact of sequester cuts is likely to result in the economy being less impacted by the fiscal drag in 2014. With the US Federal Reserve initiating steps to taper its asset purchases from January 2014, the focus will remain on the central bank's monetary policy stance.

EUROPEAN ECONOMY

The European economy has seemingly begun to turn the corner, with growth supported by the European Central Bank's monetary policy, and significant current account improvement in peripheral economies. Recent economic data has been quite encouraging, with the composite Purchasing Managers' Index recording five successive months of rising activity in November. Business surveys also suggest that activity is beginning to stabilize in the periphery, with recovery taking some initial foothold in the core. The Eurozone exited recession in the second quarter of 2013, with GDP expanding by 0.3 percent from the first three months of the year on the back of fiscal consolidation and structural reforms undertaken in the region. However, growth in the coming quarters is expected to be slow given the deleveraging process underway.

EMERGING ECONOMIES

Most of the emerging economies witnessed slowing growth in 2013, as a result of varied country specific factors ranging from falling export demand, weak commodity prices, policy paralysis and slowing credit. Credit rating agencies issued several rating downgrades and lowered outlook for a number of these nations. Some of these countries, such as India, Thailand and Indonesia have large current account deficits, and are highly dependent on foreign capital. These nations witnessed weakening currencies in the summer of 2013, as heightened speculations of US tapering resulted in capital outflows. The IMF lowered its 2013 growth forecast for emerging economies to 4.5 percent from the earlier forecast of 5.0 percent growth. India and Brazil, in particular, had to suffer major downgrades to their outlook. The Fund expects emerging economies to slowly gather pace and grow at 5.0 percent in 2014.

EQUITIES

Following a broad-based stellar performance by US equities in 2013, we expect returns in 2014 to be more modest. Although equities would be supported by the expected continued recovery in the US economy, it would be difficult to replicate the returns of 2013. Improved labor market data and other economic indicators prompted the Fed to announce it would start tapering its bond purchases from early 2014 by US\$ 10 billion per month. However, it is expected that the Fed under the new chair would be cautious in scaling back its monetary stimulus further, and would increase the pace of taper only if it is reasonably convinced of a sustained strength in the economy. We believe that continued broad-based economic growth leading to a rise in private consumption, and easing fiscal headwinds, should likely see increased investments in the economy. Corporate profits have surged to record high levels while wages have remained stagnant. Consequently, US companies are cash rich, and an uptick in the investment cycle could be substantially positive. However, an improvement in the labor market could make it difficult for companies to maintain the current low costs of production. Unless supported by significant increase in consumer demand, the sustainability of margins could be put to test in 2014 and could act as a headwind for the market.

In 2014, we expect focus to shift to earnings growth, which should receive a boost from the uptick in global economic growth. We continue to favor US equities on account of robust corporate fundamentals and improving pace of economic growth. Last year we had recommended exposure to cash rich dividend-paying firms, and this year our stance is no different. We have also upgraded Eurozone equities to overweight. The region's economy is showing signs of improvement, while valuations remain compelling. We believe that equity markets in developed economies will continue to outperform emerging market equities in 2014. Meanwhile, downside for GCC equities remains limited, with markets trading at attractive dividend yields. Lower oil prices are a key risk for the region.

FIXED INCOME

2013 was a year of two halves, with the global debt markets witnessing significant volatility in the second half of the year, due largely to lack of clarity over the stance that the Fed would adopt regarding its accommodative policies. However, when the taper did finally arrive in December, the reaction of the debt market was fairly muted, with yields remaining range-bound. Overall, during 2013, safe haven sovereign debt instruments (US treasuries, UK Gilts and German Bunds) underperformed, while the performance of high-yielding instruments was mixed. We believe that investments in such instruments in 2014 would be too risky given the uncertain Fed policy, and would therefore recommend staying away from corporate and sovereign fixed income instruments, investment grade and high-yield alike.

CURRENCIES

In 2013, the currency market was largely held hostage to shifting expectations about the stance by central banks on monetary policy. The influence of the much-feared sovereign debt crisis in the Eurozone steadily faded, manifesting itself in an improvement in investor confidence in the region, and falling bond yields in peripheral Eurozone economies. The US dollar briefly surpassed multi-year highs in the middle of the year but failed to sustain at the elevated levels as the Fed, contrary to market expectations, continued to maintain its monetary stimulus and refrained from tapering its bond buying program. Improving investor

confidence and initial signs of an economic recovery in the Eurozone have put sovereign debt fears in the region on the backburner. The changing environment aided the Euro to breach fresh intermediary highs against the US dollar and the Japanese yen towards the end of 2013. The UK pound maintained its upward momentum against most peers, as economic data in the nation continued to indicate a strong recovery. The robust economic recovery and improving fiscal conditions in the UK have stoked belief that the BoE would be ahead of other major global central banks in embracing a tighter monetary policy stance.

With the Fed having announced that it would be tapering its monetary stimulus and the economy broadly gaining strength, the outlook for the US dollar versus the euro remains positive. The euro could see some pressure as the ECB maintains its highly accommodative stance to avert the possibility of a deflation in the Eurozone. Meanwhile, the possibility of sustained monetary stimulus would continue to pressurize the yen. We continue to remain positive on the pound, and view the UK as one of the economies most likely to outperform on growth expectations.

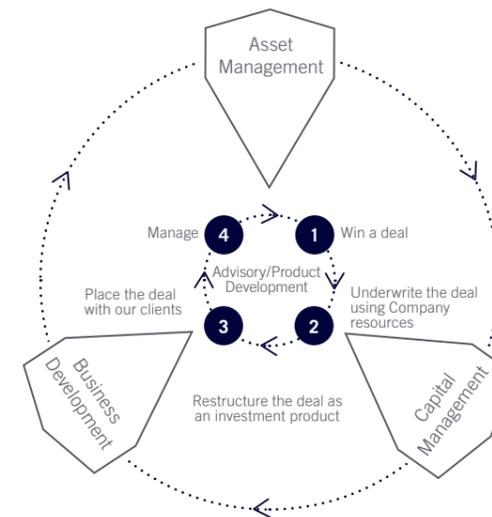
COMMODITIES

Contrary to expectations, the price of precious metals dropped sharply in 2013, affected by fears of tapering of bond purchases by the US Federal Reserve. A massive sell-off by ETFs further added to the worst decline in more than three decades. Moreover, inflation in key developed markets has stubbornly refused to pick up, reducing the demand for this asset class as a hedge against inflation. As the global economy recovers and systemic risks decrease, investors are likely to avoid exposure to the safe haven assets.

For crude oil, 2013 witnessed increased supply from non-OPEC countries, with the US leading in production of non-conventional oil. Moreover, subdued economic growth in the US resulted in crude oil stockpiles rising in the nation. Despite this, oil prices were relatively stable, as excess supply in the market was offset by a drop in Libyan output and fears of war in Syria. In 2014, we believe that non-OPEC supply will continue to increase, led by supply from US tight oil formations and Canadian oil sands. In addition, we also expect supply to

increase from the OPEC members. Libya and Iraq claim to have streamlined their production, while Iran expects to pump around 4 million barrels per day within six months following the anticipated easing of international sanctions. Therefore, we anticipate crude oil prices to remain range bound in 2014, as rising demand will be offset by the likely increased oil supply from Iran and Libya.

BUSINESS MODEL



Alkabeer's business model is based on specific key value steps:

- Assessment of deals and acquisition of the best deal
- Underwriting the deal using proprietary capital
- Selling down the deal to clients
- Managing the fund after closing

The Company's proprietary capital is used as a funnel to underwrite deals and to fuel the engine of growth. Alkabeer endeavors to invest its capital and take advantage of attractive investment opportunities to maximize value to shareholders and investors, and enable its clients to invest in portfolios and investment funds.

Alkabeer's business units work in close harmony to ensure the highest levels of efficiency and performance throughout the investment cycle:

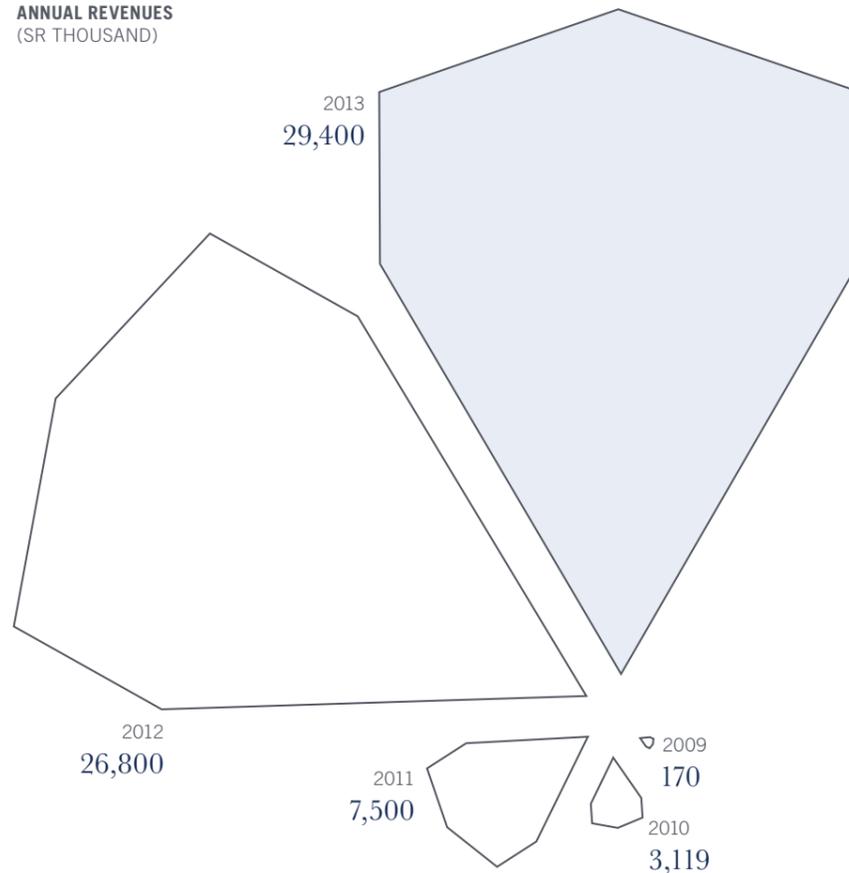
- **Research** identifies investment trends and opportunities, and **Business Development** provides feedback on the needs of clients and investors
- **Asset Management** selects promising investment opportunities
- **Product Development** structures these opportunities into investment solutions and products to cater to the needs of clients
- **Proprietary Capital** provides required funding to underwrite selected investment deals
- **Placement** offers the investment opportunity to clients and investors to participate in the offering alongside Alkabeer
- **Fund Administration, Custody & Operations** assist the **Fund Manager** with back office operations to manage the investment and keep investors informed of progress

Alkabeer has developed a set of parameters and criteria for the successful implementation of its business model, including:

- In-depth market research and analysis
- Innovative design and structuring of products and services
- Investment management and performance monitoring to ensure highly efficient use of capital; transparent management of risks; and maximization of returns and capital value
- Retention in high-caliber, qualified and experienced investment and support professionals
- Utilization of cutting-edge technology to support the business and improve efficiency
- Building brand awareness to support new business development activities
- Aligning the interests of shareholders, clients, investors and employees

ASSET MANAGEMENT

**ASSET MANAGEMENT
ANNUAL REVENUES**
(SR THOUSAND)



During 2013, Alkhabeer made excellent progress in diversifying its business portfolio and product offerings. Highlights include the launch of the Company's third public investment fund, and its second private equity fund through a private placement; the launch of new discretionary portfolio management services; and the winning of new M&A advisory mandates.

By efficiently allocating capital to the real economy, our funds aim to generate enduring returns to our clients, while addressing their diverse investment objectives. Alkhabeer Capital Asset Management delivers strong risk-adjusted returns across a range of Shari'ah-compliant public and private funds and discretionary portfolios, which it manages for local and international clients. From listed equities and commodities to real estate and private equity, our funds provide investors with exposure to Saudi, GCC and global markets. We blend our deep market knowledge with extensive experience in the sectors in which we invest, to structure world-class funds that meet our clients' needs.

The result is a track record of identifying excellent opportunities, and structuring investment vehicles that achieve solid risk-adjusted returns. Our funds target both conventional and alternative asset classes, providing clients with diversification through sector and geographic scope, and differentiated return objectives. Alkhabeer Capital always aims to align its interests alongside its clients by investing in the funds it creates, which is one of the strongest contributing factors to the success of our funds. We continually monitor market opportunities and client requirements to develop new investment solutions that anticipate our clients' evolving wealth management needs.

REAL ESTATE

Alkhabeer Capital Real Estate focuses on the creation of new investment products that are unique, well-managed and of high performance in comparison with their peer group. We endeavour to provide competitive risk-adjusted returns from direct property ownership through our sector-leading capabilities and our disciplined approach to investment performance. We cater to clients with varying risk appetites and differing return objectives.

Our investment philosophy is built around our understanding of real estate investment at a strategic as well as an asset level. Investment opportunities are created using extensive research, a deep understanding of real estate fundamentals, and meticulous valuation processes. We offer a diverse product range locally and internationally, encompassing all main categories of real estate investment management, including core, core-plus, value-added and opportunistic real estate strategies and investments.

PRIVATE EQUITY

Alkhabeer Private Equity team is closely involved with the senior management of our portfolio companies to realize both operational and financial value for all parties, including our co-investors. We invest in potential targets through opportunity-specific funds that are significantly seeded by proprietary capital from Alkhabeer Capital.

Target companies are primarily selected with an eye to the following investment strategies:

1. Acquisition of majority stakes in non-core operating companies owned by family groups
2. Acquisition of significant minority stakes in blue-chip companies with IPO prospects
3. Acquisition partnerships with international players
4. Investments in small and medium size enterprises

DEVELOPMENTS IN 2013

Despite many investors remaining cautious of private equity as an asset class, Alkhabeer continued its consistent track record during 2013. The Company launched its second private equity fund through a private placement.

ALKHABEER INDUSTRIAL PRIVATE EQUITY FUND II

This is the second private placement close-ended industrial private equity fund to be launched by Alkhabeer Capital in a period of two years. During 2013, Alkhabeer acquired a majority shareholding in Express Publishing and Investment Limited, UAE. Established in 1990, the Express Group comprises two companies which provide corrugated and flexible packaging products. Express Pack Print is the second-largest manufacturer in the UAE of corrugated packing for industrial and consumer products; while Express Flexi Pack manufactures a broad range of flexible packaging materials including plastic OPP labels for beverage bottles, and aluminum foil lids for single-serve food products.

CAPITAL MARKETS

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

DEVELOPMENTS IN 2013

Highlights of the year include the launch of the Company’s third public investment fund, and the soft launch of a new discretionary portfolio management service.

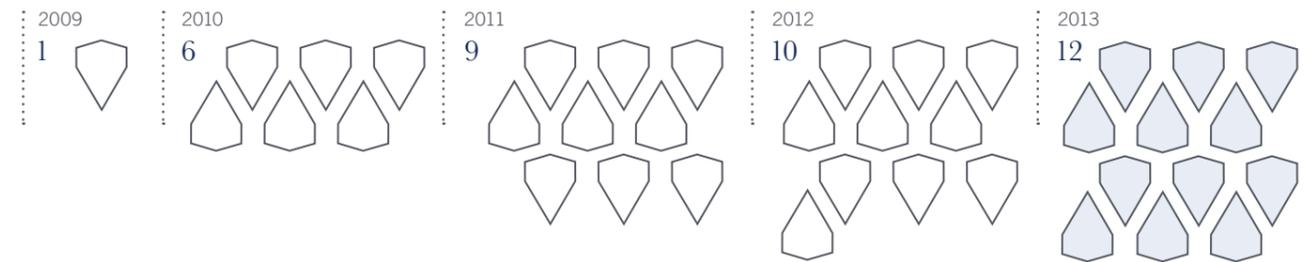
ALKHABEER SAUDI EQUITY FUND

Alkhabeer launched this new public investment fund alongside its existing public GCC Equity Fund. The fund seeks long-term capital appreciation by investing in Shari’ah-compliant companies listed on the Saudi Stock Exchange (Tadawul). The fund is benchmarked against the S&P Shari’ah Index.

DISCRETIONARY PORTFOLIO MANAGEMENT

Alkhabeer’s Discretionary Portfolio Management program provides tailor-made solutions based on clients’ specific investment criteria and risk profile. The program offers investment plans across equity and fixed income in the region as well as structured and principal protected notes and funds on various markets, strategies and geographies. For regional equities, Alkhabeer has introduced, in a cooperation agreement with Saudi Fransi Capital (a subsidiary of Banque Saudi Fransi) the soft launch of a new discretionary portfolio management service, which will be officially launched in 2014. Under this agreement, Alkhabeer will use Saudi Fransi Capital’s infrastructure for brokerage and custody services in different financial markets, and to facilitate multiple operations in various currencies. This will give Alkhabeer added flexibility in trading and executing operations related to its clients’ managed portfolios.

NUMBER OF INVESTMENT FUNDS



PRODUCT DEVELOPMENT

Product development plays a strategic role at the very beginning of the investment cycle. The Product Development Department develops and structures investment opportunities that have been identified by Asset Management into innovative investment solutions and products. These products and investment solutions are managed by competent portfolio managers to realize risk-adjusted returns, cater to the needs of the client base, and diversify Alkhabeer's product portfolio.

The Department oversees the activities of the Boards of Directors of all Alkhabeer Funds through effective coordination between Board Members and Fund Managers. It is also responsible for preparing and distributing detailed reports on the performance of funds to investors. The Department is backed by specialized professionals with solid experience in investment funds development, financial analysis, economic and market research, and the study of applicable investment laws.

DEVELOPMENTS IN 2013

The Product Development structured and launched two new funds in 2013: 1) Alkhabeer Industrial Private Equity Fund II which is a private placement investment fund and 2) Alkhabeer Saudi Equity Fund which is the second public investment fund that invests in the equity markets and it is managed by the Capital Markets Department. Other developments included expanding the role of the Product Development Committee to enhance its effectiveness. The purpose of this Committee, which is a sub-committee of the Risk and Investment Committee, is to supervise the product development process, and to assist Alkhabeer's business lines in making enlightened decisions regarding the introduction of new products and services.

The department is currently studying the structuring of various investment strategies and opportunities proposed by the Asset Management teams for the purposes of offering new products to Alkhabeer clients.

FUNDS PORTFOLIO

ALKHABEER CAPITAL FUND	FUND TYPE	INCEPTION DATE	ASSET CLASS	GEOGRAPHY	EXIT DATE	FUND SIZE (SAR as at 31 Dec 2013 unless otherwise stated)
Alkhabeer Land Development Fund I (ALDF I)		10 July 2010	Real Estate	Saudi	The initial Fund Term expired on 10 July 2013 and was extended for 1 year till 10 July 2014. There is an additional one year extension option.	300,012,676
Alkhabeer Land Development Fund II (ALDF II)		7 Dec 2011	Real Estate	Saudi	7 Dec 2014, with optional extension by 1 year	848,166,298
Alkhabeer Real Estate Fund I (AREF I)		1 Nov 2010	Real Estate	Saudi	The initial Fund Term expired on 1 Nov 2013 and was extended for an extra year till 1 Nov 2014. There is an additional one year extension option.	40,196,684
Alkhabeer Real Estate Fund II (AREF II)		30 June 2010	Real Estate	Saudi	30 June 2015	14,497,845
Alkhabeer Global Commodity Fund (AGCF)		1 Aug 2011	Commodity	Global	Fund is closed as at 31 Dec 2013	933,738
Alkhabeer GCC Equity Fund (AGEF)		3 July 2011	Equities	GCC	Open	15,599,333
Alkhabeer Residential Real Estate Fund 1 ('Masaken')		29 Dec 2012	Real Estate	Saudi	26 Dec 2015 with optional extension by 1 year	87,712,566
Alkhabeer Industrial Private Equity Fund (AIPEF)		31 Dec 2012	Private Equity	UAE	30 Dec 2015 with 2 optional one-year extensions	134,441,116 (as of 30 June 2013)
Alkhabeer Industrial Private Equity Fund II (AIPEF II)		29 Dec 2013	Private Equity	UAE	26 Dec 2017 with optional extension by 1 year	130,000,000
Alkhabeer Liquidity Fund (Haseen)		12 Feb 2012	Money Market	Currently GCC International exposure is possible.	Open	136,167,179
Alkhabeer Central London Residential 1 Fund (ACLRF I)		19 Nov 2012	Real Estate	UK	18 Nov 2015, with optional extension by 1 year	125,254,726
Alkhabeer Saudi Equity Fund (ASEF)		1 July 2013	Equities	Saudi	Open	17,195,683



INVESTMENT BANKING

Alkhabeer Investment Banking aims to be the advisor of choice for our clients in Saudi Arabia and in the region. We work with family businesses and with companies of different sizes, and pride ourselves on an unmatched deal execution experience that comes with a wide range of sector-specific knowledge. This enables us to manage complex deals in a timely and efficient manner.

In order to provide the most relevant service, we categorize our investment banking services into three groups designed to mirror the needs of our clients:

1. MERGERS AND ACQUISITIONS

We believe that our presence in Jeddah, the gateway to the holy cities of Makkah and Medina, has been a great enabler for us to advise on an increasing number of cross-border M&A deals that span most of the Muslim world. In Saudi Arabia, we have an unmatched expertise in tackling the several aspects of an M&A deal without ignoring the cultural considerations attached to such deals in the Kingdom.

Our service offering under M&A includes

- Mergers
- Sales
- Acquisitions
- Cross-border deals
- Joint ventures

2. FINANCING

Whether debt or equity financing, Alkhabeer has a track record of advising clients on fulfilling their financing requirements. This successful record of accomplishments is a result of Alkhabeer's wide reach within the investors' community in the Kingdom, and our deep understanding of the investment assessment requirements.

Our service offering under Financing includes

- Private placements of equity
- Private placements of Sukuk
- Debt arranging

3. CORPORATE FINANCE ADVISORY

Our Corporate Finance Advisory team provides comprehensive solutions that focus on growth and value creation.

Our service offering under Corporate Finance Advisory includes

- Family office restructuring
- Corporate restructuring
- Capital restructuring
- Cost of capital
- Recapitalization
- Distribution policy

DEVELOPMENTS IN 2013

During 2013, Alkhabeer Investment Banking advised on a number of high-profile transactions. These included advising a publicly-listed company on their acquisition of an industrial manufacturing company.

BUSINESS DEVELOPMENT & PLACEMENT

The key role of the Business Development & Placement team is to offer Alkhabeer's investment products in Saudi Arabia and other GCC states. Its responsibilities include provision of support to Asset Management division heads to enable them to determine and select the right opportunities for different asset classes. The team endeavors to strengthen Alkhabeer's relations and expand its investor base, which includes institutions and high net worth individuals; as well as the affluent segment which grew by 41 percent in 2013. The team introduces clients to new products and transactions offered by the Company; communicates with them on their investments in Alkhabeer funds; and provides them with reports on the latest developments in local, regional and international investment markets, and the prevailing environments and available investment opportunities in various markets.

DEVELOPMENTS IN 2013

During 2013, there was a 31 percent increase in client participation in the Company's investment funds, while the number of clients grew by 33 percent, reflecting the growing strength of Alkhabeer's placement capability.

CLIENT PARTICIPATION GROWTH IN THE COMPANY'S INVESTMENTS



REVIEW OF OPERATIONS

SUPPORT FUNCTIONS

PEOPLE

Alkhabeer's multinational and multi-disciplined team provides the Company with a key competitive advantage. During 2013, the highest priority continued to be placed on attracting, developing and retaining the best people in the industry. As the result of a successful recruitment drive, additional high-caliber professionals were appointed to further strengthen the Company's management, business and support teams. At the end of the year, total headcount had risen to 86 people versus 79 at the end of 2012, comprising 13 different nationalities; and with Saudi nationals accounting for 58 percent of the headcount against 52 percent at the end of the previous year.

The Company maintained its extensive program of training and development, mentoring and coaching, and cultural change management; while also reviewing and updating staff benefits in line with the market. With its flat and flexible organizational structure, Alkhabeer encourages staff to work together, internally and with clients, to build enduring relationships, which form the bedrock of the Company's business philosophy. During the year, user-acceptance testing of a new Oracle-based human resource management system (HRMS) was successfully completed, and will be implemented during the second quarter of 2014. This will enhance the integration and responsiveness of the Company's personnel-related systems and procedures.

HR AWARDS

Alkhabeer's commitment to human capital best practice was recognized by two awards during the year. In the prestigious annual AON Hewitt survey, the Company was named as one of the top 15 employers in the Middle East, and was the sole winner from Saudi Arabia and number one among all financial institutions in the MENA region. Additionally, Alkhabeer achieved second place in the annual awards for the best working environment in Saudi Arabia's financial services and insurance sectors.

TECHNOLOGY

The implementation of cutting-edge-technology acts as a strategic enabler and business driver for Alkhabeer Capital. During 2013, the Company continued its substantial investment in information and communications technology (ICT) and implemented various new systems and solutions. These include Chase Cooper Operational Risk Management System and Document Management and Electronic Archiving Systems. During the year, Alkhabeer built and tested its disaster recovery site located in Bahrain as part of business continuity plan (BCP); and conducted an external penetration testing of its ICT infrastructure in line with the Company's information security policy. To further strengthen BCP, the Company installed a standby generator and initiated development of a private cloud to provide an enhanced disaster recovery solution.

Alkhabeer's investment in ICT serves to strengthen its technological and operational infrastructure, improve productivity and efficiency, and enhance client service. In order to manage the Company's future investment in ICT, a new IT Management Committee was established in 2013.

CORPORATE COMMUNICATIONS

Throughout 2013, Alkhabeer implemented an intensive corporate communications strategy aimed at positioning and raising awareness of the Alkhabeer brand in order to support the Company's business lines. Public relation activities during the year included the Executive Director and CEO, the Deputy CEO, and the Chief Investment Strategist taking part in 15 television and radios interviews; the distribution of 20 economic and market research reports; and the release of 11 media statements. Additionally, the corporate communication department revamped the company website and launch it before the end of the year.

AWARDS

Alkhabeer also achieved further industry recognition by the receipt of four prestigious awards in 2013. These include 'Best Asset Manager Middle East' at the 8th Annual Islamic Business & Finance Awards; 'Best Asset Management Company in the GCC' at the 2013 World Finance Awards; and 'Best Islamic Fund Manager' at the 2013 Banker Middle East Industry Awards. In addition, the Executive Director and CEO, Mr. Ammar Shata, was named 'Man of the Year 2013' at the World Finance Awards, for his vision and contribution to the region's Shari'ah-compliant financial services industry.

RESEARCH

During 2013, Alkhabeer published 20 economic and market research reports for the benefit of its clients, and the industry as a whole. These analytic reports covered a variety of topics, including global and regional economic developments and outlooks; market and sector overviews and opportunities; regional socio-political concerns; and regulatory issues.

2013 RESEARCH REPORTS

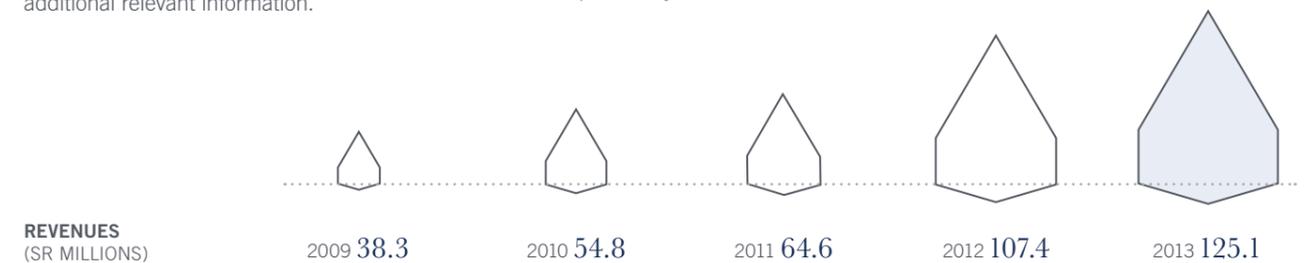
Report	Issue Date
Market Insights 2013	6 January
Earnings Analysis	24 January
2013 Outlook - A GCC Perspective	30 January
2013 Outlook	1 March
A Trilogy About Saudi Arabia	19 March
Capital Markets Note - Q1 2013 Update	3 April
US Commercial & Real Estate Market	24 April
Q1 2013 Update of Capital Markets	29 April
IMF update on Saudi Arabia - A Critical Analysis	23 May
Saudi Mortgage Reforms: An Analysis	27 May
Perspective on Global Markets	13 June
Government Decision to Counter Project Delays in Saudi Arabia	14 June
US Commercial & Residential Real Estate Market	9 July
Egypt - At the Crossroads	22 July
Inflation in Saudi Arabia: An Analysis	31 August
Q3 2013 Update of Capital Markets	23 October
Lebanon's Banking System - A Hope for the Economy	15 November
Arab Youth Unemployment	20 November
Saudi Arabia - The Way Ahead	28 November
Economic Impact of Repatriation of Workers	6 December

FINANCIAL REVIEW

This review provides a summary and analysis of the financial performance of Alkabeer Capital for the year ended 31 December 2013. The Notes to the Consolidated Financial Statements provide additional relevant information.

REVENUES

Total revenues in 2013 increased by 16.8% to SAR 125 million, compared with SAR 107 million the previous year.



Return on investments contributed around SAR 87 million, reflecting a strong growth of 24.3% from SAR 70 million in 2012. The contribution from management and placement fees grew by 8% to SAR 32.1 million. This was driven by the growth in assets under management, which stood at SAR 2.49 billion at the end of December 2013.

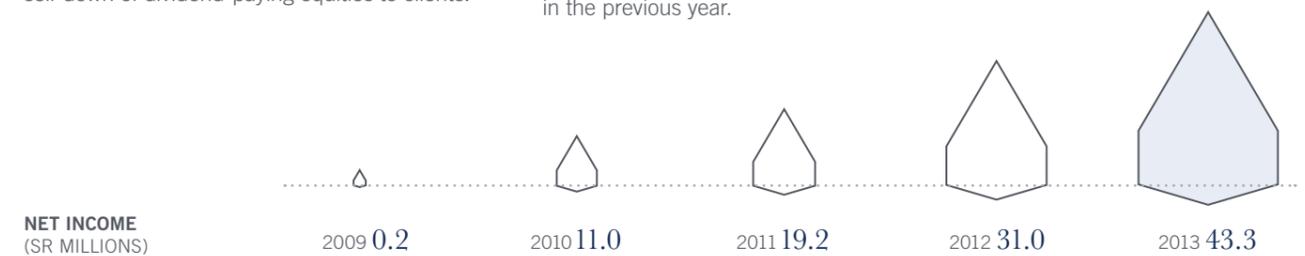
Realized gains on trading Investments more than doubled in 2013. This exponential growth is primarily due to AKC's successful strategy in generating higher returns from alternative investments, mainly private equity, real estate, and capital markets. Dividend income declined by SAR 1.6 million over the previous year, due mainly to the sell-down of dividend-paying equities to clients.

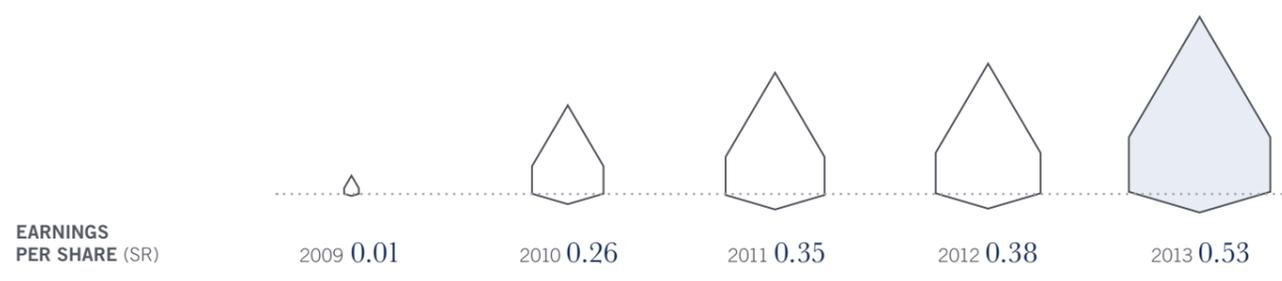
OPERATING EXPENSES

Total operating expenses grew by 7.1% to SAR 81.7 million in 2013, from SAR 76.3 million the previous year. The main driver behind this increase was the recruitment of new staff to support the Company's strategic and business growth. Nevertheless, the cost-to-income ratio improved to 65% compared with 71% in 2012.

EARNINGS

Net income grew significantly by 39.6% to SAR 43.3 million, from SAR 31 million in 2012. This resulted in basic (common) earnings per share increasing to SAR 0.53, compared with SAR 0.38 in the previous year.





EARNINGS BY SEGMENT

BUSINESS SEGMENTS

SAR '000	Proprietary Capital	Asset Management	Others	Total
Operating income	90,538	31,812	2,713	125,063
Net operating income	84,921	15,230	(56,835)	43,316

GEOGRAPHIC SEGMENTS

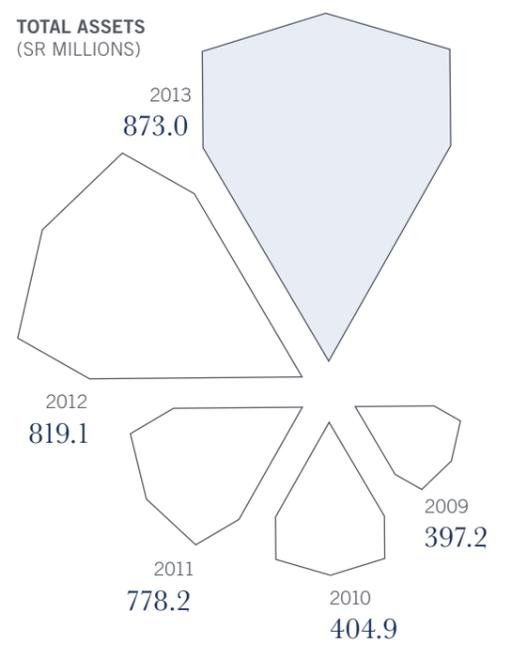
SAR '000	Saudi Arabia	Bahrain	Total
Operating income	85,696	39,367	125,063
Net operating income	13,851	29,465	43,316

CONSOLIDATED BALANCE SHEET

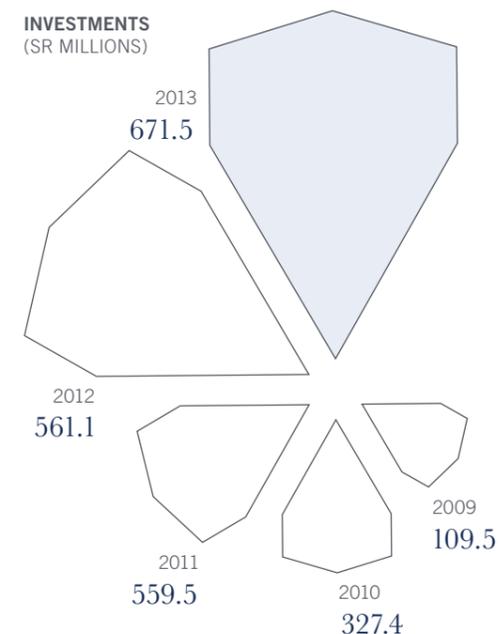
ASSETS

As at 31 December 2013, total consolidated assets stood at SAR 873.0 million, a growth of 6.6% over SAR 819.1 million at the end of 2012. The growth was a direct result of an improvement in earnings and total current liabilities during the year.

The upward trend in total assets was led primarily by investments held-for-trading. The investments portfolio grew by 19.7% to SAR 671.5 million in 2013, from SAR 561.1 million the previous year, driven primarily by private equity and real estate.



INVESTMENTS (SR MILLIONS)

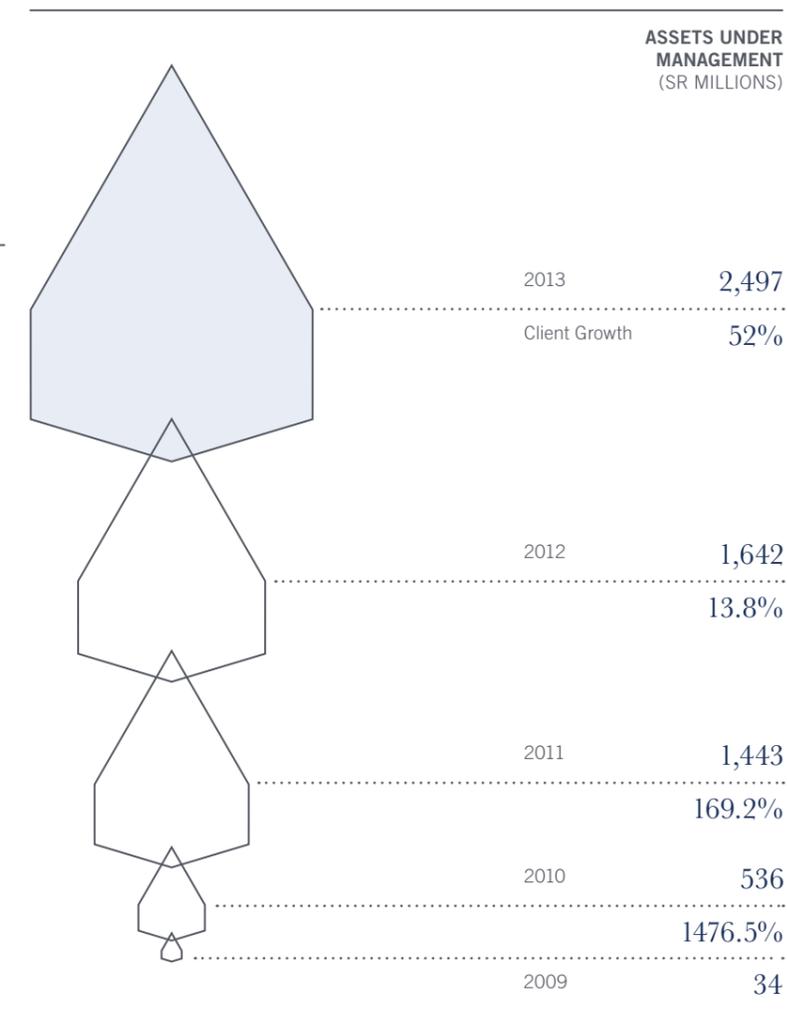


CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of balances with banks, cash on hand, and placements with financial institutions; with original maturities of 90 days or less. Cash and bank balances, which declined by 51% to SAR 74 million in 2013, from SAR 151 million the previous year, were utilized mainly for the acquisition of new investments. Placements with financial institutions declined by SAR 19 million in 2013, due mainly to redirecting funds to higher-yielding investment opportunities. Assets held on behalf of clients in a fiduciary capacity are not included in the consolidated balance sheet. As at 31 December 2013, the Company held fiduciary assets under management of SAR 1,805 million (2012: SAR 1,116 million).

ASSETS UNDER MANAGEMENT

As at 31 December 2013, total assets under management stood at SAR 2.49 billion, a growth of 52% over SAR 1.64 billion at the end of 2012. This reflects the Company's long-held commitment to provide clients with a risk-adjusted return across a range of Shari'ah-compliant public and private funds, and discretionary portfolios.



CORPORATE SOCIAL RESPONSIBILITY

LIABILITIES

Total liabilities grew by 66% to SAR 26.6 million in 2013 from SAR 16 million the previous year, driven mainly by an increase in payables and accrued expenses. Alkhabeer Capital does not have any short-term or long-term borrowings outstanding (whether repayable on demand or otherwise). Neither has the Company issued any classes of convertible debt instruments, contractually-based securities, warrants or similar rights, during the financial year.

SHAREHOLDERS' EQUITY

At the end of 2013, shareholders' equity had increased by 5.4% to SAR 846.4 million, from SAR 803.1 million at the end of 2012. The increase is represented primarily by retained earnings, given the positive results achieved during the year. SAR 4 million was transferred to the statutory reserve from annual net income in 2013, in accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia.

CAPITAL ADEQUACY

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

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

Capital Adequacy / Year

(figures in SAR'000)	2013	2012
Alkhabeer's net capital	785,905	324,713
Minimum net capital required	241,017	50,000

As a prominent Shari'ah-compliant financial institution, we are conscious of our responsibility to act as a concerned corporate citizen, and to contribute to the well-being of society. A key pillar of our corporate social responsibility policy is to support the development of future generations. In this respect, we sponsored a number of educational initiatives in 2013, as well as engaging in community-outreach activities. We are also committed to supporting the development of the Islamic financial services sector through participating in industry conferences and seminars, and issuing economic and market research reports.

SPONSORSHIP OF PALESTINIAN STUDENTS TO STUDY IN RENOWNED BRITISH UNIVERSITIES

As part of its efforts to grant aid to outstanding Palestinian students, Alkhabeer continued to pay the costs of a Palestinian student's special summer study at Oxford University, UK. The student received a full scholarship, including airfare, accommodation, extracurricular activities, meals, books, and tuition fees. Students are selected for this scholarship upon the recommendation of their schools based on outstanding academic performance.

The three-week Heritage Summers program, in association with the British Council, is an academic, cultural and social program that also acts as a vehicle for better understanding between students of different backgrounds. This is best achieved by engaging young people during the phase of their lives when they are still developing their awareness of the rest of the world.

The program allows students to experience life as independent university scholars, and occupy their time in the pursuit of learning. It is interspersed with a range of opportunities for enjoying all that the University of Oxford has to offer. Students benefit from guest lectures, group activities and study tours in the historical city of Oxford, including visits to famous museums such as the Ashmolean, and the Bodleian Library. Activities also include a visit to the City of London, attending a Shakespearian play, and visiting the formal gardens at nearby Blenheim Palace.

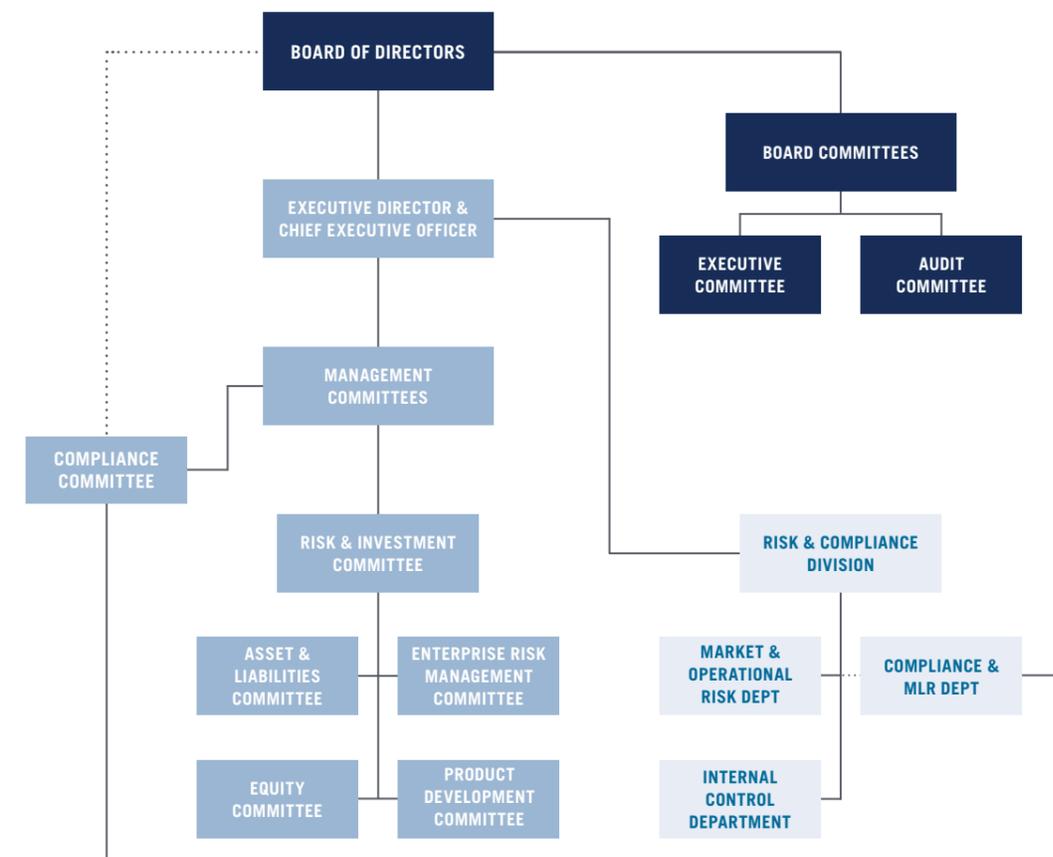
Students from Arab and other countries participate in the Heritage Summers program at Oxford University, including Saudi Arabia, the United Arab Emirates, Tunisia, Turkey, Egypt, India, Poland, Australia, Kazakhstan, and the United States.

RISK MANAGEMENT REVIEW

Risk is inherent in Alkhabeer Capital's activities, and managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability, and all employees are accountable for the risk exposure relating to their responsibilities. Alkhabeer Capital is primarily exposed to commission rate risk, credit risk, market risk, liquidity risk, operational risk and repetitional risk.

RISK GOVERNANCE STRUCTURE

The management of risk lies with the Board of Directors through its committees or assigned members; and with the Management through the Executive Director & CEO, the Risk & Investment Committee and its subcommittees, and the Risk and Compliance Division.



MANAGEMENT RISK COMMITTEES

COMPLIANCE COMMITTEE

The Compliance Committee, which is chaired by a Board Member, is responsible for assisting the Board and the management to oversee the Company's compliance program with respect to compliance with the laws and regulations applicable to its business, specifically including those of the CMA; and compliance with internal policies and procedures, and the Corporate Governance Manual, while advising Management on best practices in compliance.

RISK & INVESTMENT COMMITTEE

The Risk & Investment Committee (RIC) has the overall responsibility to review the various corporate risks and to approve their mitigation initiatives. The RIC also approves investment proposals within the authority levels mandated to it via Alkhabeer's authority matrix, and ensures that up-to-date policies and procedures are in place.

RIC sub committees:

- Enterprise Risk Management Committee
- Assets and Liabilities Committee
- Product Development Committee
- Equity Investment Committee

Enterprise Risk Management Committee

The primary responsibility of the Enterprise Risk Management Committee is to ensure that sound policies, procedures and practices are in place for the enterprise-wide management of the Company's material risks; and to report the results of its activities to the Risk and Investment Committee (RIC). Enterprise risk management (ERM) is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings. ERM is a structured and disciplined approach that aligns strategy, processes, people, technology and knowledge, with the purpose of evaluating and managing the uncertainties the enterprise faces as it creates value.

Beyond traditional financial and insurable risks, the Enterprise Risk Management Committee must extend their oversight to encompass a wide variety of risks, including non-traditional risks. The ERM Committee's primary goal is to evaluate, monitor and report practices relating to the credit risk, market risk and operational risk.

Asset & Liability Committee

The Asset & Liability Committee (ALCO) is the body for recommending the development of policies relating to all asset and liability management (balance sheet structure, funding structure, hedging and investment setting limits) under the overall risk management framework. ALCO is a key component of liquidity risk management within Alkhabeer. It monitors the liquidity position of the Company and issues periodic reports to RIC.

Product Development Committee

The purpose of the Product Development Committee (PCD) is to assist Alkhabeer's business lines in making enlightened decisions with regard to the introduction of new products / services, and amendments to existing products / services, and supervise the product development process.

Equity Risk Committee

The charter of the Equity Risk Committee governs the activities of Alkhabeer Capital's proprietary investment in direct listed equities and IPO investments, but does not govern the activities of investment funds managed by the Company. The Committee is responsible for monitoring the portfolio and, in discharging its role, is empowered to investigate any matter with full access to all books and records of the portfolio.

RISK & COMPLIANCE DIVISION STRUCTURE

The Risk & Compliance Division is responsible for the day-to-day oversight of the various risks to which Alkhabeer Capital is exposed, including credit and internal control risks, market and operational risks, and compliance and money laundering risks.

INTERNAL CONTROL

The Internal Control department is responsible for proper execution of approval decisions by the Risk & Investment Committee (RIC); the monitoring and reporting of any deviation from the approval conditions set by the RIC, or exceptions to the approved policies and procedures; the safe keeping of documents, and the review and safekeeping of clients' account opening forms; and the proper disbursement in accordance with appropriate authorities, and custody of all policies and procedures and setting and renewal of counterparty limits.

COMPLIANCE & MLR

The Compliance & Money Laundering Reporting (MLR) department is responsible for the day-to-day activities of the Compliance functions, and for setting the strategy and planning of the Compliance activities.

DEVELOPMENTS IN 2013

(a) the Compliance Monitoring Program (CMP), in 2013 where, the CMP will ensure all staff are in compliance with the CMA and internal rules and regulations that affect the day to day operations of the Company; and

(b) update the AML Manual to ensure that the Company complies with all obligations under the Anti-Money Laundering and Counter-Terrorist Financing Rules. All staff members attend in-house training twice a year in Anti-Money Laundering and Counter-Terrorist Financing for which the Company has engaged Thomson Reuters.

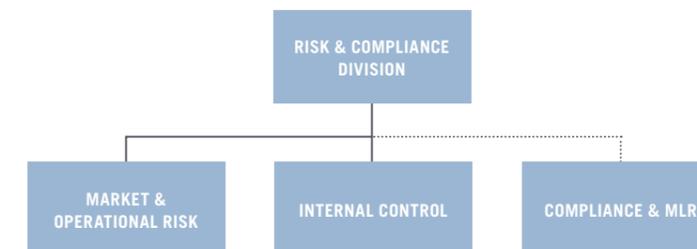
MARKET & OPERATIONAL RISK

The Market & Operational Risk department is responsible for the day-to-day identification, measurement and monitoring of the Company's exposure to market (including liquidity) and operational risks.

RISK TOOLS, MODELS AND SYSTEMS

The division employs a wide range of risk assessment, analysis and reporting tools; and state-of-the-art risk models. Independent systems include a document management system (DMS), Advert system for market risk, and aCCelerate system for operational risk and compliance monitoring.

Note: Additional information, including definitions of the main risks to which Alkhabeer Capital is exposed, and how the Company seeks to limit such risks, are contained in the Risk Management section of the Notes to the Consolidated Financial Statements, which form part of this annual report.



CORPORATE GOVERNANCE REVIEW

Alkhabeer Capital is committed to adopting Capital Market Authority regulations. The Company places the highest level of importance to implementing the proper processes and procedures; transparency and accountability; compliance with applicable laws and regulatory requirements; and the principles of equity and social responsibility.

Alkhabeer's policy of sound governance provides the basis for regulating the following aspects:

- Management and supervision of operations
- Promotion of ethical and responsible decision-making
- Timely submission of balanced disclosures
- Recognition of the legitimate rights of all stakeholders
- Definition and management of risks
- Encouragement and rewarding of improved performance in an equitable and responsible manner

GOVERNANCE FRAMEWORK

Alkhabeer's corporate governance framework consists of a code of business conduct; strategy statement; compliance; succession planning; policies and operating procedures; internal control and risk management processes; internal and external auditing procedures; compliance; and effective communications, disclosure and transparency.

CODE OF BUSINESS CONDUCT

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

REPORTING SUSPICIOUS ACTIVITIES

All Alkhabeer employees are responsible for reporting to the Compliance & MLR Department any actual or potential violations. The Company has adopted a policy of confidential reporting of breaches of the Company's code of business conduct. The purpose of this policy is to encourage employees to report any wrongful practices; play an active role in day-to-day operations; enhance the level of employee involvement; maintain a professional business environment; measure employee awareness of applicable laws and regulations; and assure employees that their concerns are taken seriously.

STRATEGY STATEMENT

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

COMPLIANCE

Alkhabeer adopts comprehensive policies and procedures to ensure full compliance with the regulations of the CMA of Saudi Arabia; and the laws and regulations issued by regulatory authorities in other jurisdictions where the Company conducts its activities. The Compliance Committee is responsible for ensuring compliance with relevant laws, and legal and administrative requirements.

DISCLOSURE AND TRANSPARENCY

Alkhabeer adopts a corporate communications policy in compliance with regulatory requirements to ensure that disclosures are fair, transparent and comprehensive. Main communications channels include a shareholders' annual general assembly; an annual report and financial statements; periodic investment reports; corporate website and brochure; press releases and media announcements; and employee communications.

SUCCESSION PLANNING

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

CONTROL FUNCTIONS

LEGAL AND GOVERNANCE DEPARTMENT

The Legal and Governance Department plays a pivotal role in ensuring the integrity of the Company's operations and products and protecting its rights and the rights of its clients, internally and externally; and also ensures the implementation of best legal practices. The department's functions include, without limitation: provision of accurate legal advice on Alkhabeer's investment and management activities; follow-up of the progress of disputes, settlements and legal proceedings in courts at all levels, and with any other agencies having legal jurisdiction; preparation of legal studies of interest to the Company; drafting agreements between the Company and other entities; organizing periodic seminars for Company employees to familiarize them with laws and new legislations, and assist them in their implementation; and updating the corporate governance requirements commensurate with developments. The Legal Department also comprises the Quality Assurance Unit, which is charged with the review and editing of all documents, correspondence and publications; as well as all collateral related to introduction of the Company's products; in both Arabic and English.

INTERNAL AUDIT UNIT

Internal Audit is an independent unit reporting to the Board's Audit Committee. It consists of three members of the Board of Directors. The Unit prepares an annual audit plan, which is submitted to the Audit Committee and the Executive Director and CEO, for approval. The approved audit plan is implemented throughout the year, encompassing all Company departments, and all of its recommendations are applied. The Audit Committee, Board of Directors and Executive Management are kept informed of the progress of implementation of the audit plan. The Internal Audit Unit also conducts special reviews or inquiries as and when required.

FINANCE AND ACCOUNTING

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

SHAREHOLDERS

The following shareholders have a stake in the Company of 5% or above:

Shareholder Name	Ownership %
Alkhabeer National Company for Commercial Projects Management	13.75%
Sara Trade Holding Co.	10.45%
Al Bait For National Development Holding Co.	10.45%
Abdullah & Said M.O. Binzagr Co. Ltd.	7.69%
Bakr Mohammed Awad Binladen	5.23%
Other shareholders	52.43%
TOTAL	100%

BOARD OF DIRECTORS

Alkhabeer's Board of Directors consists of prominent business leaders who contribute to the success of the Company with their expertise and business networks. The structure of the Board of Directors reflects a balance between the numbers of executive, non-executive and independent directors, such that the percentage of independent directors is not less than one third.

As stipulated in the Company's corporate governance manual, the Board of Directors holds regular meetings. Its members perform a pivotal role in determining the Company's strategic direction and ensuring its implementation, within a framework of controls and incentives. This applies to the Board's three permanent committees: the Executive Committee, the Audit Committee, and the Nomination and Remuneration Committee.

BOARD MEMBERS' PROFILES

SALEH MOHAMMED BINLADEN Chairman of the Board

Member of the Executive Committee

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

AMMAR AHMED SHATA Executive Director and CEO

Member of the Executive Committee

The founder of Alkhabeer Capital, Ammar Shata began his investment banking career in 1990. He has held leadership positions in a number of major Saudi banks, including National Commercial Bank, Al Baraka Investment Development Group, and the Islamic Development Bank. A Chartered Financial Analyst (CFA), Ammar Shata holds a Bachelor's degree in Electrical Engineering, and a Master's degree in Financial Economic Planning, from the University of Southern California, USA.

ABDULLAH SAEED BIN ZAGR (Non-Independent Director)

Chairman of the Executive Committee

An experienced businessman and business leader, Abdullah Bin Zagr is chairman or director of numerous companies, including Bin Zagr Co., Rubaiyat Group, ASCO, and BFSA. He holds university degrees from Seaford University and Manchester University, United Kingdom.

AYMEN ISMAIL ABU DAWOOD (Non-Independent Director)

Member of the Executive Committee

A seasoned businessman and business leader, Aymen Abu Dawood is the chairman of Alpine Wealth Management, and a board member of many companies, including Abu Dawood Group, Helvetica Arab General, and Bank Alkhair.

He holds a Bachelor's degree in Mechanical Engineering from the University of Arizona, USA.



Saleh Mohammed Binladen



Ammar Ahmed Saleh Shata



Abdullah Saeed Bin Zagr



Aymen Ismail Abu Dawood



Musaad Mohammad al Drees

**MUSAAD MOHAMMAD AL DREES
(Non-Independent Director)**

Member of the Nomination and Remuneration Committee

A longstanding and venerable businessman, Musaad Al Drees has developed and expanded a group of family companies in various business sectors. He is a board member of ALTCO, Al Drees Industrial and Trading Group, and Darat Al Salam for Development and Investment. Musaad Al Drees graduated from the IPA in 1985.



Mohammad Nawaf Babgi

**MOHAMMAD NAWAF BABGI
(Non-Independent Director)**

Member of the Audit Committee

An experienced business executive, Mohammed Babgi is Deputy Managing Director for Strategic Affairs and Execution at Bahamdan Group; and was formerly Chief of Staff at Sara Holding Group.



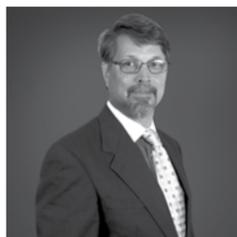
Saad Mohammed Al Azem

**SAAD MOHAMMED AL AZEM
(Independent Director)**

Member of the Nomination and Remuneration Committee

Saad Al Azem is a Founding Shareholder and Chief Executive Officer of Al Azem Financial Consulting Company, and a Board Member of the Crow Horwath International Group.

He holds an MBA degree in Finance and International Management from the American Graduate School of International Management, Arizona, USA; and a Bachelor's degree in Industrial Engineering from King Saud University, Riyadh, Kingdom of Saudi Arabia.



Abdulkader Thomas

**ABDULKADER THOMAS
(Independent Director)**

Member of the Audit Committee

Abdulkader Thomas is Chief Executive Officer of Shape for Economic Consultancy, and an international expert in Islamic finance. He has held high positions in many institutions, including Publisher and Chief Executive Officer of American Journal of Islamic Finance; Member of the Administrative Committee of Guidance Financial Group; and Acting Chief Executive of the Islamic Investment Banking Unit at United Kuwait Bank.

Abdulkader Thomas holds a Bachelor's degree in Arab and Islamic Studies from the University of Chicago, USA; and a Master's degree in Law and Diplomacy from the Fletcher School of Law and Diplomacy, USA.

**WAN ABDUL RAHEEM KAMIL
(Independent Director)**

Chairman of the Nomination and Remuneration Committee

An Islamic capital markets consultant and expert, Wan Kamil currently serves as Consultant to the Securities Commission in Malaysia. He previously worked for Bank Islam Malaysia, and was Chief Executive Officer of Abrar Discounts Berhad.

He is a lecturer on Sukuk, liquidity management, treasury, and other related Islamic finance subjects. Wan Kamil studied statistics at Mara Institute of Technology, in addition to a number of professional development programs in leadership development at Harvard University, as well as the International Institute of Islamic Banking and Economic Studies in Cyprus.



Wan Abdul Raheem Kamil

BOARD COMMITTEES

EXECUTIVE COMMITTEE

The role of the Executive Committee is to assist the Board in its investment policies review and approval functions, investment strategies and transactions, monitoring the Company's financial performance, and monitoring the performance of investments. The Committee also oversees the Company's capital and financial resources.

Abdullah Saeed Bin Zagr	Chairman
Saleh Mohammed Binladen	Member (Chairman of the Board)
Ammar Ahmed Shata	Member (Executive Director and CEO)
Mohammed Babgi	Member

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee supports the Board's supervisory functions to ensure the independence of directors, and the integrity of the Company's remuneration policy.

Wan Kamil	Chairman (Independent)
Musaad Mohammed Al Drees	Member
Abdulkader Thomas	Member (Independent)
Saad Mohammed Al Azem	Member (Independent)

AUDIT COMMITTEE

The Audit Committee supports the Board's supervision functions in ensuring the integrity of financial statements, the qualification and independence of the external auditors, and the sound performance of the Company's Internal Audit function.

Saleh Hussein	Chairman (Independent)
Abdulkader Thomas	Member (Independent)
Saad Mohammed Al Azem	Member (Independent)

BOARD MEMBERS' ATTENDANCE – JANUARY TO DECEMBER

Name	First Meeting	Second Meeting	Third Meeting	Fourth Meeting	%
Saleh Binladen	▲	◊	▲	▲	%75
Abdullah Bin Zaghr	▲	▲	▲	▲	%100
Ammar Shata	▲	▲	▲	▲	%100
Ayman Abu Dawood	◊	▲	◊	▲	%50
Musaad Al Drees	▲	▲	▲	▲	%100
Mohammed Babgi	▲	▲	▲	▲	%100
Saadallah Al Azem	▲	▲	▲	▲	%100
Abdulkader Thomas	▲	▲	◊	▲	%75
Wan Kamil	▲	▲	▲	▲	%100

▲ Attended in person

◊ Excused absent

BOARD OF DIRECTORS REMUNERATION

Notwithstanding the Company's performance, the Board of Directors did not receive any remuneration for their outstanding contributions to the achievement of the Company's objectives in 2013. Salaries of independent directors and allowances and benefits received by directors as employees and management staff of the Company for FY 2013 amounted to SR 3,894,375, as follows:

Salaries & Benefits	Allowances	Remuneration	Commissions
3,734,375	160,000	NIL	NIL

DIVIDENDS

The Board of Directors proposed dividends for the first half of FY 2014 of 4.7% of the share par value. In addition, dividends are expected to be distributed for the second half of FY 2014, such that the total dividends distributed as at the end of the year are not less than 5%.

SHARIAH ADVISORY

Alkhabeer Capital's Shari'ah Advisory function is managed by the Shariyah Review Bureau (SRB), which provides product consultation, structuring, compliance certificates (Fatwas) and Shari'ah supervisory audits. SRB employs around 33 of the world's leading and reputable Shari'ah scholars from diverse geographical locations such as Saudi Arabia, Malaysia, Algeria, Egypt, UAE, Sudan and Bahrain. They provide Alkhabeer Capital with a swift turnaround in Shari'ah approvals, and offer consultation solutions to meet the Company's strategic business needs.

EXECUTIVE MANAGEMENT

The Executive Management of Alkhabeer Capital is headed by the Executive Director and Chief Executive Officer, who is responsible for the day-to-day running of the Company. He is assisted by a highly-qualified and experienced management team. Profiles of managers are listed at the end of this review.

EXECUTIVE MANAGEMENT REMUNERATION

The aggregate Executive Management remuneration, including basic salaries, fixed allowances and bonus distribution, totaled SAR 13.9 million in 2013.

MANAGEMENT COMMITTEES

The Executive Management is supported by the following Management Committees:

COMPLIANCE COMMITTEE

The Compliance Committee is responsible for assisting the Board and the management to oversee the Company's compliance program with respect to compliance with the laws and regulations applicable to its business, specifically including those of the CMA; and compliance with internal policies and procedures, and the Corporate Governance Manual, while advising Management on best practices in compliance.

PEOPLE MANAGEMENT COMMITTEE

The People Management Committee is responsible for periodically reviewing and monitoring the development of Alkhabeer's human capital resources. The Committee identifies key critical positions, and ensures a succession plan is developed and that the scale of remuneration is in line with the market place.

INFORMATION TECHNOLOGY COMMITTEE

The Information Technology Committee is a Management Committee chaired by the Executive Director and CEO. The Committee meets at least twice a year. Its primary purpose is to approve the Company's IT strategy and supervise its implementation. The Committee is also responsible for supervising IT functionality from a business and risk point of view; and ensuring proper segregation of duties (Chinese walls) in line with compliance requirements. Additional responsibilities include ensuring that the IT Policy & Procedures are regularly updated; supervising the management of critical information in line with the Business

Continuity Plan; and ensuring that the Disaster Recovery Plan is tested at least once a year.

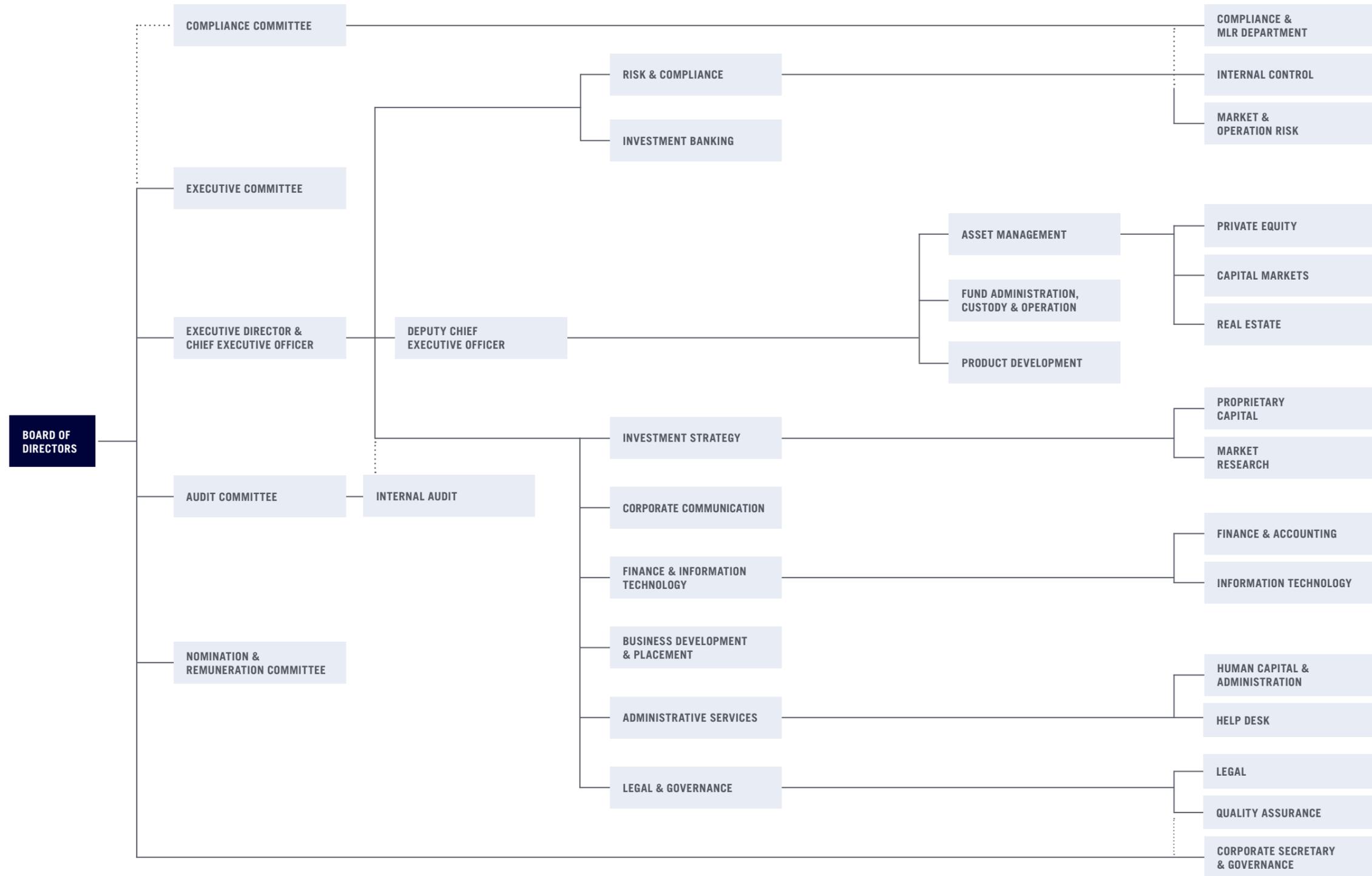
RISK AND INVESTMENT COMMITTEE

The Risk and Investment Committee (RIC) has the overall responsibility to review the various corporate risks and to approve their mitigation initiatives. The RIC also approves investment proposals within the authority levels mandated to it via Alkhabeer's authority matrix, and ensures that up-to-date policies and procedures are in place.

RIC Subcommittees:

- Enterprise Risk Management Committee
- Assets and Liabilities Committee
- Product Development Committee
- Equity Risk Committee

ORGANIZATIONAL STRUCTURE



EXECUTIVE MANAGEMENT PROFILES

AMMAR AHMED SHATA

Executive Director & CEO

The founder of Alkhabeer Capital, Ammar Shata began his investment banking career in 1990. He has held leadership positions in a number of major Saudi banks, including National Commercial Bank, Al Baraka Investment Development Group, and the Islamic Development Bank. Ammar has been instrumental in transforming conventional finance into Shari'ah compliant financial products. Under his guidance and leadership as Executive Director and CEO, Alkhabeer is now recognized as a leading Shari'ah-compliant investment and asset management company. A Chartered Financial Analyst (CFA), he holds a Bachelor's Degree in Electrical Engineering, and a Master's Degree in Economic Planning, from the University of Southern California, USA.

AHMED SAUD GHOUTH

Deputy Chief Executive Officer

In 1999, Ahmed Ghouth began his career in corporate banking, Islamic finance, asset management, real estate and private equity. Prior to taking up his present position at Alkhabeer, which includes responsibility for overseeing the Asset Management business, he was Managing Director of Corporate Banking and Structured Finance, where he was instrumental in originating and executing several marquee debt, real estate and private equity transactions. He also serves as a board member on several private and public funds managed by Alkhabeer. Ahmed holds a Bachelor's degree in Accounting from the King Fahad University of Petroleum and Minerals, Saudi Arabia.

ABDELFAHATTAH EL-TAWIL

Chief Risk & Compliance Officer

Since 1980, Abdelfattah El-Tawil has held several executive positions with major financial institutions in the Middle East and Europe. Prior to joining Alkhabeer, he was Executive Director at AFMC, a consulting firm specializing in risk management, financial engineering and debt restructuring. His long experience in risk management, coupled with his knowledge of international and local markets, has enabled him to provide valuable risk and credit advice, and to effectively instill a sound risk culture in various organizations, in line with international standards. Abdelfattah graduated from the Faculty of Commerce at the University of Cairo, Egypt; and holds an MBA from TSU University, Texas, USA.

HENRI CHAOL, Ph.D.

Chief Investment Strategist

As Chief Investment Strategist of Alkhabeer, Dr. Henri Chaoul is responsible for its proprietary capital investment, and the general strategy of the firm. Previously, he was Board Member and Chief Executive Officer of Master Capital Group SAL, a financial broker based in Lebanon providing cutting-edge financial trading platforms to clients in the Middle East and North Africa. From time to time, he lectures MBA students on investment banking and corporate finance at the Olayan School of Business of the American University of Beirut. Henri is a board member of Bonds.com, a publicly-quoted company in the United States focused on electronic trading of fixed income instruments; and also CreditBank, a commercial bank based in the Lebanon, and one of its top five commercial lenders. He holds a BA in Economics from the American University of Beirut, and a Ph.D. in Economics from Columbia University in New York, USA.

TAMER ABDEL RAHEEM

Chief Financial and Administrative Officer

Since 1993, Tamer has worked in the trading, banking, manufacturing, and real estate sectors. He has extensive experience in the disciplines of finance and accounting, corporate finance, financial planning, cost analysis, advisory, process restructuring, and project management. Tamer holds a Bachelor's degree in Accounting from Cairo University, Egypt. He is a Certified Management Accountant, and holds the General Securities Qualification from Saudi Arabia's Capital Market Authority.

TARIQ KHALED HAYAT

Chief Corporate Communication Officer

Tariq Hayat has more than 17 years experience in both regional and international corporate communications, with particular expertise in the financial services industry. Prior to joining Alkhabeer, he served as Head of Corporate Communication for almost 10 years at Arcapita Bank, a global investment firm headquartered in Bahrain. Previously, Tariq worked with Investors Bank as an IT Officer; and with the General Organization for Youth and Sports (GOYS) as head of Public Relations in the President's Office. He also worked with Legend Advertising Company as Planning Productivity and Quality Manager. Tariq holds an MBA from the University of Strathclyde, UK; and a BSc in Computer Science and Information Technology from the University of Bahrain.

SHARI'AH REVIEW REPORT



AKC-AD-05-03-14

Shariyah Review Bureau
دار المراجعة الشرعية

بسم الله الرحمن الرحيم

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

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

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

In compliance with the letter of appointment we the undersigned have reviewed the Company's businesses & activities for the period from 1st of January 2013 to 31st December 2013.

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

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

In our opinion the reviewed transaction, related documentation & processes, business activities and dealings entered into by the Company during the year ended 31st December 2013 are in compliance with the Islamic Shari'a Rules and Principles.

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

On behalf of Shariyah Review Bureau W.L.L.
19 /03/ 2014



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مملكة البحرين

FINANCIAL STATEMENTS

ALKHABEER CAPITAL – CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

- 57 Auditors' report
- 58 Consolidated balance sheet
- 59 Consolidated statement of income
- 60 Consolidated statement of cash flows
- 61 Consolidated statement of changes in shareholders' equity
- 62 Notes to the consolidated financial statements



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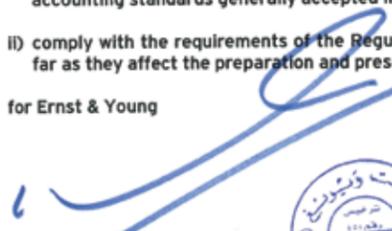
**AUDITORS' REPORT TO THE SHAREHOLDERS
OF ALKHABEER CAPITAL
(A Saudi Closed Joint Stock Company)**

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 of 31 December 2013 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's Board of Directors and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

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

- i) present fairly, in all material respects, the financial position of the Group as of 31 December 2013 and the 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



25 Rabi Thani 1435 H
25 February 2014

Jeddah

13/55/PG

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2013

	Note	2013 SR '000	2012 SR '000
ASSETS			
CURRENT ASSETS			
Cash and bank balances	3	74,366	151,095
Placements with financial institutions	3	-	19,000
Accounts receivable and prepayments	4	44,567	13,811
Investments held for trading	5	671,505	561,058
Due from related parties	6	45,806	40,156
TOTAL CURRENT ASSETS		836,244	785,120
NON-CURRENT ASSETS			
Zakat due from shareholders		17,191	13,183
Property and equipment	7	19,608	20,796
TOTAL NON-CURRENT ASSETS		36,799	33,979
TOTAL ASSETS		873,043	819,099
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accrued expenses and other liabilities	8	15,926	6,784
Provision for zakat and income tax	9	4,023	3,958
TOTAL CURRENT LIABILITIES		19,949	10,742
NON-CURRENT LIABILITY			
Employees' terminal benefits		6,682	5,260
TOTAL LIABILITIES		26,631	16,002
SHAREHOLDERS' EQUITY			
Share capital	10	813,203	813,203
Statutory reserve	11	4,375	43
Transaction costs on issue of share capital	10	(10,623)	(10,623)
Retained earnings		39,374	390
Foreign currency translation reserve		83	84
TOTAL SHAREHOLDERS' EQUITY		846,412	803,097
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		873,043	819,099

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 SR '000	2012 SR '000
Fee income	12	32,087	29,650
Unrealised gains on trading investments	5	45,819	49,299
Realised gains on trading investments	5	41,028	20,703
Dividend income		5,310	6,931
Income from Murabaha deposits		19	759
TOTAL OPERATING INCOME		124,263	107,342
OPERATING EXPENSES			
Selling and marketing expenses	13	(9,922)	(10,031)
General and administration expenses	14	(71,825)	(66,274)
TOTAL OPERATING EXPENSES		(81,747)	(76,305)
NET OPERATING INCOME		42,516	31,037
Other income		800	6
NET INCOME FOR THE YEAR		43,316	31,043
EARNINGS PER SHARE			
Weighted number of outstanding shares (in thousands)	10	81,320	81,320
Attributable to net operating income (in SR)	15	0.52	0.38
Attributable to net income (in SR)	15	0.53	0.38

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 SR '000	2012 SR '000
OPERATING ACTIVITIES			
Net income for the year		43,316	31,043
Adjustments for:			
Unrealised gains on investments	5	(45,819)	(49,299)
Realised gains on investments	5	(41,028)	(20,703)
Dividend income		(5,310)	(6,931)
Depreciation	7	2,612	3,368
Provision for terminal benefits		2,378	1,745
Provision for doubtful debts	4	3,442	4,216
Loss/(gain) on disposal of property and equipment		5	(6)
Intangible assets written off		-	1,110
Other receivables written off	4	-	2,924
Operating loss before changes in operating assets and liabilities		(40,404)	(32,533)
Changes in operating assets and liabilities			
Placements with financial institutions	3	-	5,624
Accounts receivable and prepayments		(36,545)	(6,908)
Due from related parties		(5,650)	(16,313)
Purchase of investments held for trading	5	(544,133)	(519,196)
Proceeds from disposal of investments held for trading	5	520,533	587,633
Dividends received		7,657	4,152
Accrued expenses and other liabilities		9,142	5,865
Cash (used in)/from operations		(89,400)	28,324
Employees' terminal benefits paid		(956)	(841)
Zakat and income tax paid	9	(3,943)	(1,070)
Net cash (used in)/from operating activities		(94,299)	26,413
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(1,432)	(610)
Proceeds from disposal of property and equipment		3	66
Net cash used in investing activities		(1,429)	(544)
Net (decrease)/increase in cash and cash equivalents		(95,728)	25,869
Net foreign exchange difference		(1)	178
Cash and cash equivalents at the beginning of the year	3	170,095	144,048
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	74,366	170,095

CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Share capital SR '000	Statutory reserve SR '000	Transaction costs on issue of share capital SR '000	(Accumulated losses) / retained earnings SR '000	Foreign currency translation reserve SR '000	Total SR '000
Balance at 1 January 2012		813,203	-	(10,623)	(30,610)	(94)	771,876
Net income for the year		-	-	-	31,043	-	31,043
Transfer to statutory reserve	11	-	43	-	(43)	-	-
Zakat and income tax	9	-	-	-	(3,958)	-	(3,958)
Zakat and income tax reimbursable from shareholders	9	-	-	-	3,958	-	3,958
Foreign currency translation reserve of a subsidiary		-	-	-	-	178	178
Balance at 31 December 2012		813,203	43	(10,623)	390	84	803,097
Net income for the year		-	-	-	43,316	-	43,316
Transfer to statutory reserve	11	-	4,332	-	(4,332)	-	-
Zakat and income tax	9	-	-	-	(4,008)	-	(4,008)
Zakat and income tax reimbursable from shareholders	9	-	-	-	4,008	-	4,008
Foreign currency translation reserve of a subsidiary		-	-	-	-	(1)	(1)
Balance at 31 December 2013		813,203	4,375	(10,623)	39,374	83	846,412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

1 ACTIVITIES

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

The Commercial Registration of the Company was amended on 7 Shawal 1432H corresponding to 5 September 2011 by increasing the share capital from SR 424,933,820 (42,493,382 shares of SR 10 each) to SR 813,202,930 (81,320,293 shares of SR 10 each). The Company is owned 98.50% by Saudi shareholders and 1.50% by foreign shareholders (2012: 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:

Alkhabeer International Company B.S.C. (c)

Effective 15 December 2011 (corresponding to 20 Muharram 1433H), AKC acquired 99.99% ownership interest in Alkhabeer International Company B.S.C. (c) ("AKI" or the "Subsidiary"). The acquisition of AKI 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 AKI 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 AKI were consolidated with AKC effective from the date of acquisition (i.e. 15 December 2011 (corresponding to 20 Muharram 1433H) at their carrying amounts.

Furthermore, the excess of consideration paid by AKC over AKI's net assets acquired as a result of the acquisition (goodwill) was reflected as a deduction in equity and no new goodwill was recognised as a separate asset in the consolidated balance sheet.

AKI was formed 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) license issued by the Central Bank of Bahrain (CBB) on 10 November 2008.

AKI's activities are regulated by the CBB and supervised by a Shari'a Advisor whose role is defined in AKI's articles of association. The principal activities of AKI 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 AKI's Shari'a Advisor.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

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

ACCOUNTING CONVENTION

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

FUNCTIONAL AND PRESENTATION CURRENCY

These 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.

BASIS OF CONSOLIDATION

These consolidated financial statements include assets, liabilities and the result of the operations of the Company and its subsidiary (see note 1). A subsidiary company is that in which the Group has directly or indirectly, a long term investment comprising an interest of more than 50% in the voting capital or over which it exerts control. A subsidiary company is consolidated from the date on which the Group obtains control until the date control ceases. The consolidated financial statements are prepared on the basis of the audited financial statements of the Company and its subsidiary. The financial statements of the subsidiary are prepared for the same reporting period as the parent Company, using the consistent accounting policies. All the intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation.

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

The amount of non-controlling interest is immaterial to the consolidated financial statements and therefore not separately recognised in these consolidated financial statements.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

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

TRADE DATE ACCOUNTING

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

INVESTMENTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments classified as held for trading, which comprise investments in a short term discretionary portfolio and funds managed by the Group, are acquired principally for the purpose of selling or repurchasing in the short term. Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises.

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

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

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is 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.

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:

- 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;
- 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;
- 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.

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 assessment are accounted for in the year in which assessment is finalised.

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

EMPLOYEES' TERMINAL BENEFITS

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

TRANSACTION COSTS

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

FOREIGN CURRENCY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

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

REVENUE RECOGNITION

Fixed fees received under financial services agreements are non-refundable. These are initially recorded as unearned income and subsequently earned when the related milestones have been met or the agreement is terminated by the client.

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

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

Finance income on Murabaha placements is recognised on a time proportionate basis.

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

EXPENSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 CASH AND CASH EQUIVALENTS

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following at the date of the consolidated balance sheet.

	2013 SR '000	2012 SR '000
Cash and bank balances	74,366	151,095
Placements with financial institutions	-	19,000
	74,366	170,095

Placements with financial institutions represented funds placed with financial institutions in Murabaha deposits, with an original maturity of three months or less. The average yield on Murabaha deposits

was 0.7%. All Murabaha deposits matured during the year ended 31 December 2013.

4 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2013 SR '000	2012 SR '000
Commodity Murabaha receivable (see note 'a' below)	6,010	6,441
Accounts receivable, gross	6,487	8,230
Allowance for doubtful receivable (see note 'b' below)	(10,164)	(6,767)
Accounts receivable, net	2,333	7,904
Margin deposit (notes 9 and 21)	10,357	-
Advance for purchase of investment	25,000	-
Advance to suppliers	2,807	700
Prepayments	2,766	1,140
Other receivables	1,304	4,067
	44,567	13,811

a) The gross commodity Murabaha receivable relates to AKI's placement with Arcapita Bank B.S.C. (the 'bank') which matured on 26 March 2012.

Arcapita. (the 'Bank') filed a plan of reorganization in 2013, which was approved by the Bank's creditors and the US Bankruptcy Court on 11 June 2013 and the Bank officially emerged from chapter 11 on 17 September 2013. Pursuant

to the plan of reorganization, the assets of the Bank were transferred to RA Holding Corp, a newly formed

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

AKI has sought payment of this amount and filed to include itself in the Bank's list of liabilities at an amount of USD 1.59 million (i.e. SR. 5.98 million). During the year, AKI received intimation that the expected amount it will receive is 7.7% of the commodity Murabaha receivable and consequently has decided to recognise an impairment loss of SR 5.53 million

b) As at 31 December 2013, accounts receivable amounting to SR 10.6 million (2012: SR 6.8 million) were impaired. Movements in the allowance for impairment of receivables were as follows;

	2013 SR '000	2012 SR '000
At 1 January	6,767	2,662
Charge for the year (note 13)	3,442	4,216
Amounts written off	(45)	(111)
At 31 December	10,164	6,767

As at 31 December, the ageing of unimpaired accounts receivable is as follows:

	Neither			Past due but not impaired			
	Total SR '000	past due nor impaired SR '000	< 30 days SR '000	30 – 60 days SR '000	60 – 90 days SR '000	90 – 120 days SR '000	>120 days SR '000
2013	2,333	-	-	-	-	-	2,333
2012	7,904	-	94	94	-	-	7,716

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain

collateral over receivables and the vast majority are, therefore, unsecured.

5. INVESTMENTS HELD FOR TRADING

	2013 SR '000	2012 SR '000
Investments in funds managed by AKC (see note 'a' below)	520,127	534,123
Quoted shares	4,786	6,049
Externally managed funds	-	20,886
Other (see note 'b' below)	146,592	-
	671,505	561,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

5. INVESTMENTS HELD FOR TRADING (continued)

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

	2013 SR '000	2012 SR '000
Balance at 1 January	561,058	559,493
Additions during the year	544,133	519,196
Sold during the year	(520,533)	(587,633)
Unrealised gains	45,819	49,299
Realised gains	41,028	20,703
Balance at 31 December	671,505	561,058

a) The valuation of the investment in funds managed by AKC is according to Net Asset Valuations (NAV) obtained from the fund managers based on the audited financial statements or recent market transactions of the units of the respective funds, and the unrealised gain or loss is credited or charged to the consolidated statement of income.

b) This represents the advance paid for an investment in a fund to be launched by Alkhabeer Capital. Once the fund is launched the amount will be reclassified to "Investments in funds managed by AKC".

The unit holdings of AKC and AKI as of 31 December in the funds managed by AKC is as follows (see note 'a' below):

Name of Fund	2013			2012		
	AKC	AKI	Group	AKC	AKI	Group
Alkhabeer Land Development Fund I	59%	41%	100%	36%	13%	49%
Alkhabeer Land Development Fund II	-	-	-	-	2%	2%
Alkhabeer Real Estate Fund I	1%	-	1%	48%	-	48%
Alkhabeer Real Estate Fund II	100%	-	100%	99%	1%	100%
Alkhabeer Global Commodity Fund	100%	-	100%	34%	66%	100%
Alkhabeer GCC Equity Fund	100%	-	100%	100%	-	100%
Alkhabeer Residential Real Estate Development Fund I "MASAKEN I"	-	-	-	26%	27%	53%
Alkhabeer Industrial Private Equity Fund I	9%	16%	25%	14%	76%	90%
Alkhabeer Liquidity Fund HASSEEN	-	15%	15%	-	99.9%	99.9%
Alkhabeer Saudi Equity Fund	100%	-	100%	-	-	-
Alkhabeer Central London Residential Fund I	-	-	-	-	33.6%	33.6%

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

6. RELATED PARTY TRANSACTIONS AND BALANCES

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

Transactions with	Nature of transactions	Amount of transactions during the year		Balance at 31 December	
		2013 SR'000	2012 SR'000	2013 SR'000	2012 SR'000
Mutual funds managed by AKC	Investments acquired/disposed by the Group and realised/unrealised gain/loss thereon	132,596	102,720	666,719	534,123
	Management, custody and subscription fees reduced by payments received	31,184	15,369	33,669	18,943
	Pre-incorporation expenses	1,337	1,768	1,337	2,221
	Proceeds receivable on liquidation and disposal of the units in the funds	(5,992)	-	-	5,992
	Sale of equity investments in manufacturing companies (as a sale consideration units were acquired in a mutual fund holding those investments in manufacturing companies)	128,300	128,000	10,800	-
	Unrealised gain on the above transaction (to the extent of Group's investment in the fund as at 31 December)	17,775	19,630	-	-
	Realised gain on the above transaction (arising as a result of sale of units in the fund to AKC's shareholders)	1,974	2,181	-	13,000
				45,806	40,156

REMUNERATION TO 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:

	2013 SR '000	2012 SR '000
Salaries and other short term benefits	13,896	10,053
Post employment benefits	1,022	1,090
	14,918	11,143

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

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 SR '000	Building SR '000	Leasehold improvements SR '000	Office and computer equipment SR '000	Furniture and fixtures SR '000	Vehicles SR '000	Total 2013 SR '000	Total 2012 SR '000
COST								
At the beginning of the year	6,966	14,234	3,793	9,405	1,036	183	35,617	35,480
Additions	-	-	114	1,157	78	83	1,432	610
Disposals	-	-	-	(19)	(13)	-	(32)	(473)
At the end of the year	6,966	14,234	3,907	10,543	1,101	266	37,017	35,617
ACCUMULATED DEPRECIATION								
At the beginning of the year	-	3,856	3,321	6,559	990	95	14,821	11,866
Depreciation	-	468	401	1,678	23	42	2,612	3,368
Relating to disposal	-	-	-	(11)	(13)	-	(24)	(413)
At the end of the year	-	4,324	3,722	8,226	1,000	137	17,409	14,821
Net book amounts								
At 31 December 2013	6,966	9,910	185	2,317	101	129	19,608	
At 31 December 2012	6,966	10,378	472	2,846	46	88		20,796

8 ACCRUED EXPENSES AND OTHER LIABILITIES

	2013 SR '000	2012 SR '000
PAYABLE FOR SERVICES	7,423	4,891
ACCRUED EXPENSES AND OTHER PAYABLES	8,503	1,893
	15,926	6,784

9 ZAKAT AND INCOME TAX

Charge for the year	2013 SR '000	2012 SR '000
Zakat	3,872	3,880
Income tax	136	78
	4,008	3,958

Zakat

The provision is based on the following:

	2013 SR '000	2012 SR '000
Equity	801,438	801,005
Provisions and other adjustments	8,625	6,795
Book value of long term assets	(701,117)	(686,595)
	108,946	121,205
Saudi shareholders' share of adjusted income for the year	45,949	34,019
Zakat base	154,895	155,224

MOVEMENT IN PROVISION DURING THE YEAR

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

	2013 SR '000	2012 SR '000
At the beginning of the year	3,880	1,031
Charge for the year	3,872	3,880
Paid during the year	(3,865)	(1,031)
At the end of the year	3,887	3,880

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

9 ZAKAT AND INCOME TAX (continued)

INCOME TAX

Income tax charges for the years ended 31 December 2013 and 31 December 2012 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, employee 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:

	2013 SR '000	2012 SR '000
At the beginning of the year	78	39
Charge for the current year	136	78
Paid during the year	(78)	(39)
At the end of the year	136	78

STATUS OF ASSESSMENTS

In prior years, the parent Company received an assessment relating to the return filed for the period ended 31 December 2008 with an additional liability of SR 10.357 million and filed an appeal against this assessment. During the year ended 31 December 2013, the Preliminary Appeal Committee (PAC) rendered their decision upholding DZIT's treatment. The parent Company has filed an appeal with Higher Appeal Committee (HAC) against PAC's decision in this regard and lodged a bank guarantee for the disputed liability, amounting to SR 10.357 million (see notes 4 and 21).

The parent Company also received an assessment for the year 2009 with an additional liability of SR 3.585 million and filed an appeal with PAC against DZIT's assessment.

Management of the parent Company is confident of a favourable outcome of the appeals and as such no provision has been made in respect of these additional amounts in these consolidated financial statements.

Assessments for the years ended 31 December 2010 through 31 December 2012 have not yet been raised.

10 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 (2012: same).

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

Transaction costs on raising share capital of SR 424.9 million in 2008, amounted to SR 10.6 million. This amount was included in the consolidated statement of changes in shareholders' equity under a separate caption

Transaction costs of AKI on raising capital of AKI in 2008 amounted to SR10.6 million. This was included in the consolidated statement of changes in shareholders' equity under accumulated losses/retained earnings.

11 STATUTORY RESERVE

In accordance with the Regulation for Companies, a minimum of 10% of the annual net income (after deducting zakat and income tax and brought

forward losses) is required to be transferred to the statutory reserve until this reserve equals 50% of the paid up capital of the Company. This reserve is not available for distribution.

12 FEE INCOME

	2013 SR '000	2012 SR '000
Advisory fees	903	1,802
Management, custody and subscription fees	31,184	27,848
	32,087	29,650

13 SELLING AND MARKETING EXPENSES

	2013 SR '000	2012 SR '000
Salaries and benefits	5,463	5,246
Provision for doubtful receivables (note 4)	3,442	4,216
Other	1,017	569
	9,922	10,031

14 GENERAL AND ADMINISTRATION EXPENSES

	2013 SR '000	2012 SR '000
Salaries and benefits	50,707	39,169
Rent and premises related expenses	627	640
Depreciation (note 7)	2,612	3,368
Business travel	3,299	2,485
Legal and consultancy	7,577	11,118
Communication	2,211	2,990
Office supplies	518	614
Utilities	449	551
Insurance	403	391
Intangibles written off	-	1,110
Other	3,422	3,838
	71,825	66,274

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

15 EARNINGS PER SHARE

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

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

16 RISK MANAGEMENT

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

COMMISSION RATE RISK

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

CREDIT RISK

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

The Group is exposed to credit risk on bank balances, placements with financial institutions, 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 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 2013 and 31 December 2012 are payable within 12 months of the consolidated balance sheet date.

MARKET RISK

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

HELD FOR TRADING INVESTMENTS

Funds managed by the Group, discretionary portfolio, externally managed funds and other investments

The Group's investment in funds managed by the Group, discretionary portfolio, externally managed funds, and other investments as at 31 December 2013 and 31 December 2012, of SR 520 million and SR 555 million, respectively, has been classified as held for trading. The market risks on these investments are monitored on an individual basis. A 10% (2012: 10%) change in the fund's net asset values will increase or decrease the Group's net income by SR 52.0 million (2012: SR 55.5 million).

EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and the value of individual stocks. The Group holds investments in quoted shares amounting to SR 4.8 million (2012: 6.0 million). These shares are quoted on Tadawul Stock Exchange in Saudi Arabia.

A 10% (2012: 10%) change in the equity prices, with all other variables held constant will increase or decrease the Company's net income by SR 479 thousand (2012: SR 601 thousand).

The Group limits equity price risk by monitoring developments in equity markets.

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.

17 CAPITAL MANAGEMENT

The Company's objectives when managing capital is to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the

Company's ability to continue as a going concern and to maintain a strong capital base.

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

	2013 SR '000	2012 SR '000
Alkhabeer Capital net capital	785,905	324,713
Minimum net capital required	241,017	50,000

Until 31 December 2012, the minimum capital requirement was calculated as the greater of (i) SR 50 million or (ii) 5% of higher of reported total revenue for the preceding 12 months or annualised revenue based on last quarter or (iii) 10% of the aggregate indebtedness, plus the amount by which the sum of net balance owed to the Company by any party exceeds 50% of the greatest of the above.

18 SEGMENTAL INFORMATION

Consistent with the Group's internal reporting process, business segments have been approved by the Company'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. They also provide discretionary fund and portfolio management. 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

18 SEGMENTAL INFORMATION (continued)

BUSINESS SEGMENTS

	Capital Management SR '000	Asset Management SR '000	Others SR '000	Total SR '000
As of 31 December 2013				
Operating income	90,538	31,812	1,913	124,263
Net operating income	84,921	15,230	(57,635)	42,516
As of 31 December 2012				
Operating income	76,986	26,856	3,500	107,342
Net operating income	69,913	8,135	(47,011)	31,037

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

Geographical Segments	Kingdom of Saudi Arabia SR '000	Kingdom of Bahrain SR '000	Total SR '000
As of 31 December 2013			
Operating income	84,896	39,367	124,263
Net operating income	13,051	29,465	42,516
As of 31 December 2012			
Operating income	86,566	20,776	107,342
Net operating income	22,856	8,181	31,037

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

20 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 2013, the Group holds assets under management amounting to SR 1,805 million (2012: SR 1,116 million) on behalf and for the beneficial interest of its customers.

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

21 CONTINGENCIES AND CAPITAL COMMITMENTS

a) Certain legal claims have been filed by the third parties against the parent Company in the normal course of business. The Group's management expects a favourable outcome of these claims and as such no provision has been made in these consolidated financial statements in respect of these claims.

b) The parent Company has maintained a margin of SR 10.357 million with a local bank for guarantee issued in favour of DZIT (note 4 and 9).
c) The Board of Directors has authorised future capital expenditure, amounting to SR 11.7 million (2012: SR 5.1 million).

22 OPERATING LEASES

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

	2013 SR '000	2012 SR '000
Within one year	450	-
From 1 to 5 years	4,050	-
Over 5 years	9,600	-
	14,100	-

23 KEY SOURCES OF ESTIMATION UNCERTAINTY

IMPAIRMENT OF ACCOUNTS RECEIVABLE

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

Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

At the consolidated balance sheet date, gross accounts receivable were SR 12.5 million (2012: SR 14.7 million), and the provision for doubtful debts was SR 10.2 million (2012: SR 6.8 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.

24 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 25 February 2014 (corresponding to 25 Rabi Thani 1435H).

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

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