



ALKHABEER CAPITAL ANNUAL REPORT 2017

ALKHABEER CAPITAL
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ANNUAL REPORT
2017

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

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

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

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CORPORATE OVERVIEW

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

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

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

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

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

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

OUR VALUES

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

OUR MISSION

To be the company of choice; the company 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.

OUR AWARDS

Throughout the year, Alkhabeer Capital continued to receive attention from prominent industry stakeholders for its private equity expertise and leadership, fund performance and human capital development. This recognition – from industry peers, business journal readers and awards juries representing the region’s banking and financial sector – is a clear reflection of the hard work, innovative thinking and entrepreneurial spirit that has made Alkhabeer Capital one of the most successful alternative investment asset managers in Saudi Arabia.



BANKER MIDDLE EAST – BEST PRIVATE EQUITY COMPANY IN SAUDI ARABIA

In June, Alkhabeer Capital was named the “Best Private Equity Company” in Saudi Arabia by the leading industry publication Banker Middle East magazine, a member of the CPI Financial publishing group. The winners were determined by the readership of the magazine, along with the more than 75,000 registered users of CPI Financial’s online news portal. Alkhabeer Capital was also part of a select group of institutions that, in the opinion of the judges, demonstrate outstanding qualities of leadership and performance.



ISLAMIC BUSINESS & FINANCE – BEST ISLAMIC INVESTMENT FUND

Finishing the year on a high note, Alkhabeer Capital won the Best Islamic Investment Fund award by Islamic Business & Finance magazine, a member of the CPI Financial publishing group. This award was in recognition of the success of Saudi Real Estate Income Fund I (“Malga”), a closed-ended private fund that invests in an income-generating residential compound in Saudi Arabia’s capital city of Riyadh.



GREAT PLACE TO WORK® – BEST WORKPLACES IN ASIA

In June, The Great Place to Work® Institute published its Best Workplaces in Asia list, which features 60 of the best workplaces across Asia. Alkhabeer Capital was ranked sixth under the Best Small & Medium Workplaces category, jumping 18 spots from its 24th place ranking on the list in 2016.



GREAT PLACE TO WORK® – BEST WORKPLACES IN SAUDI ARABIA

Alkhabeer Capital was also ranked first among Saudi Arabia’s investment companies – and eighth overall in the country – by the Great Place to Work® Institute. This list, which includes 20 companies from various public and private sectors, recognizes organizations in Saudi Arabia that are dedicated to sustaining high-trust cultures for their employees. This was the seventh consecutive year that Alkhabeer Capital earned a top ranking on the list.



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



ISLAMIC BUSINESS & FINANCE – BEST ISLAMIC INVESTMENT FUND



RANKED FIRST AMONG SAUDI ARABIA’S INVESTMENT COMPANIES AND EIGHTH OVERALL IN THE COUNTRY



BEST GCC EQUITY FUND FOR “ALKHABEER GCC EQUITY FUND”



BEST ASSET MANAGEMENT COMPANY IN THE MIDDLE EAST



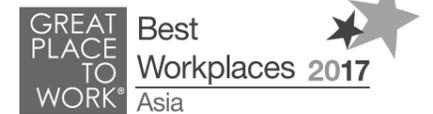
‘BEST EMPLOYERS’ IN THE MIDDLE EAST



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



BANKER MIDDLE EAST – BEST PRIVATE EQUITY COMPANY IN SAUDI ARABIA



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

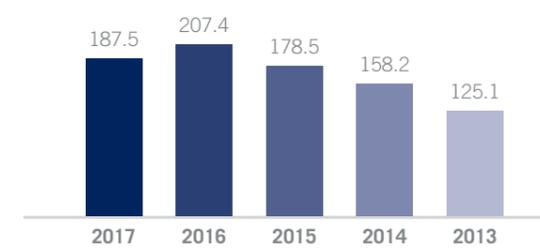
FINANCIAL HIGHLIGHTS

(SAR '000)	2017	%	2016	%	2015	%	2014	%	2013
EARNINGS									
Total Revenue	187,490	-10%	207,358	13%	178,514	16%	158,180	26%	125,063
Operating Expenses	-92,205	-17%	-110,552	-1%	-112,098	11%	-100,878	23%	-81,747
Financing Expenses	-34,141	-	-25,674	-	-4,618	-	-	-	-
Net Income	61,144	-14%	71,132	6%	67,149	17%	57,302	32%	43,316
FINANCIAL POSITION									
Shareholder's Equity	941,786	7%	880,642	-2%	900,170	3%	873,680	3%	846,412
Total Assets	1,745,498	8%	1,611,613	16%	1,384,315	47%	940,212	8%	873,043
Investments	1,330,406	5%	1,267,634	5%	1,205,794	70%	708,946	6%	671,505
Total Liabilities	803,712	10%	730,971	51%	484,145	628%	66,532	150%	26,631
Assets Under Management	4,774,120	8%	4,426,995	10%	4,010,786	20%	3,335,071	34%	2,498,180
PROFITABILITY									
Net Income Margin	32.6%		34.3%		36.2%		36.2%		34.6%
Return on Average Assets	3.6%		4.7%		5.8%		6.3%		5.1%
Operating Expenses-to-Income ratio	49%		53%		61%		64%		65%
Earnings per Share (SAR)	0.75		0.87		0.83		0.70		0.53

% Change

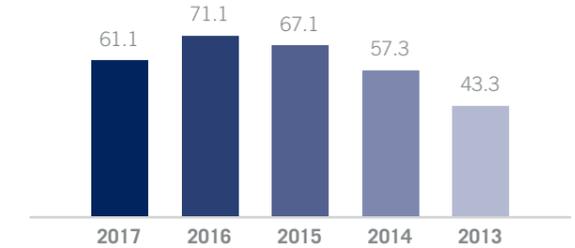
TOTAL REVENUE

SAR MILLIONS



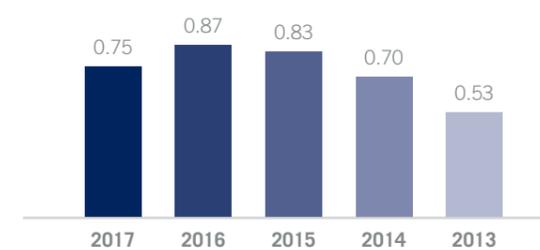
NET INCOME

SAR MILLIONS



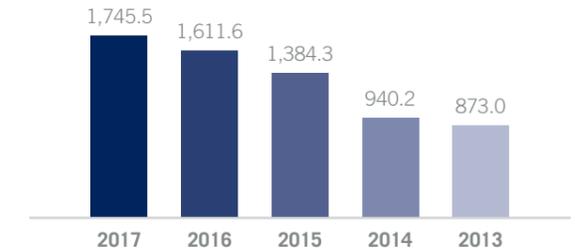
EARNING PER SHARE

SAR



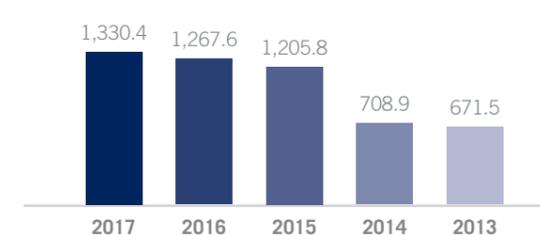
TOTAL ASSETS

SAR MILLIONS



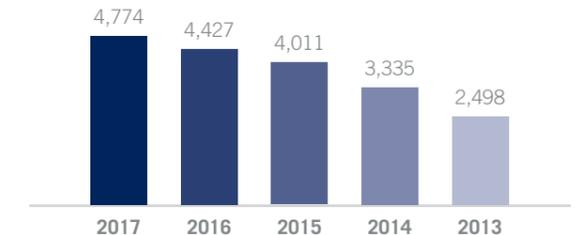
INVESTMENTS

SAR MILLIONS



ASSETS UNDER MANAGEMENT

SAR MILLIONS



INVESTMENT PORTFOLIO 2017

CURRENT INVESTMENTS

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	AUM SIZE*
Real Estate					
Alkhabeer Land Development Fund II	Private Closed-Ended	7-Dec-11	Saudi Arabia	2018	1,346.20
Alkhabeer Central London Residential Fund I	Private Closed-Ended	19-Nov-12	UK	2018	64.08
Alkhabeer Residential Real Estate Development Fund I (MASAKEN I)	Private Closed-Ended	29-Dec-12	Saudi Arabia	2018	62.16
Alkhabeer US Real Estate Income Fund	Private Closed-Ended	2-Jul-14	US	2019	113.48
Alkhabeer Real Estate Opportunity Fund I	Private Closed-Ended	7-Dec-14	Saudi Arabia	2019	631.33
Alkhabeer Real Estate Residential Development Fund II	Private Closed-Ended	31-Dec-14	Saudi Arabia	2018	83.19
Alkhabeer Saudi Real Estate Income Fund I	Private Closed-Ended	8-Dec-16	Saudi Arabia	2021	358.67
Alkhabeer Hospitality Fund I	Private Closed-Ended	22-Dec-16	Saudi Arabia	2019	124.40
Alkhabeer GCC Opportunity company	Private Closed-Ended	27-Dec-17	Saudi Arabia	2022	505.00
Alkhabeer Real Estate Opportunity Fund II	Private Closed-Ended	28-Dec-17	Saudi Arabia	2022	340.00

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	TARGETED EXIT YEAR	PRODUCT SIZE*
PRIVATE EQUITY					
Alkhabeer Industrial Private Equity Fund I	Private Closed-Ended	31-Dec-12	UAE	2019	99.17
Alkhabeer SME Fund I	Private Closed-Ended	28-Dec-14	Saudi Arabia	2018	34.96
Alkhabeer Healthcare Private Equity Fund I	Private Closed-Ended	31-Dec-14	Saudi Arabia	2018	162.67
Alkhabeer Education Private Equity Fund I	Private Closed-Ended	31-Dec-15	Saudi Arabia	2020	158.15
Alkhabeer Industrial Private Equity Company III	Private Closed-Ended	26-Dec-17	Saudi Arabia	2022	155.00

Private Closed-Ended

*(SAR millions as of 31 Dec 2017, unless otherwise stated)

**These are Closed-Ended investment products which are established and offered by way of private placement, in compliance with the implemented regulations issued by the CMA.

EXITED INVESTMENTS

PRODUCT NAME**	TYPE	INCEPTION DATE	GEOGRAPHY	EXIT DATE	TOTAL DISTRIBUTIONS (SAR MILLIONS)	RETURN ON INVESTMENT
Real Estate						
Alkhabeer Land Development Fund I	Private Closed-Ended	10-Jul-10	Saudi Arabia	10-Mar-14	306.5	85.10%
Alkhabeer Real Estate Fund I	Private Closed-Ended	1-Nov-10	Saudi Arabia	19-Oct-15	121.2	40.54%
Alkhabeer Real Estate Fund II	Private Closed-Ended	1-Nov-10	Saudi Arabia	30-May-16	165.6	65.65%
Alkhabeer Industrial Private Equity Fund II	Private Closed-Ended	29-Dec-13	UAE	24-Dec-17	201.1	54.72%

PRODUCT NAME	TYPE	INCEPTION DATE	GEOGRAPHY
Capital Markets			
Alkhabeer GCC Equity Fund	Private Closed-Ended	03 Jul 2011	GCC
Alkhabeer Liquidity Fund	Private Closed-Ended	12 Feb 2012	GCC
Alkhabeer Saudi Equity Fund	Private Closed-Ended	01 Jul 2013	Saudi Arabia
Alkhabeer IPO Fund	Private Closed-Ended	03 Dec 2015	GCC, MENA

Private Closed-Ended

Public Open-Ended

**These are Closed-Ended investment products which are established and offered by way of private placement, in compliance with the implemented regulations issued by the CMA.

BOARD OF DIRECTORS REPORT SUMMARY

TO OUR ESTEEMED SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the Annual Report of Alkhabeer Capital for the fiscal year 2017. Despite the continued volatile global economic backdrop and prevailing geopolitical challenges in regional markets, your Company's performance was, by the grace of God, broadly satisfactory.

On the economic front, the volatility that impacted the global markets in 2016 abated slightly during 2017, allowing the upswing in economic activity to strengthen.

Closer to home, 2017 will be remembered as the year the Saudi economy experienced the early effects of a transformation. The government - as part of its wide-ranging vision 2030 strategy - aims to reduce the economy's reliance on oil as the major source of revenue, by boosting investment in the private sector. Subsidy reform was a key constituent of the Saudi economic restructuring story. The government also took steps to address the high level of youth unemployment by imposing fees on expatriate workers. Unsurprisingly, the uncertainties created by these and other changes influenced investor sentiment and contributed to unpredictable financial market conditions. But we are confident that the Kingdom will benefit over the long term from these reforms, which will bring our economy and markets in line with global standards and norms.

Despite the difficult start to the year, we remained focused on our clients and operating efficiently, while continually pursuing opportunities.

Against this backdrop, which had a particularly strong impact on the asset management sector, our results in 2017 were solid, and once again demonstrated the benefits of our balanced business approach.

KEY SOCIAL & ECONOMIC HIGHLIGHTS IN 2017

2017 was a pivotal year for Saudi Arabia where, in particular, in June 2017 Prince Mohammed bin Salman bin Abdulaziz Al Saud was named Saudi Arabia's new crown prince. Since his appointment, one of Prince Mohammed's key projects has been 'Saudi Vision 2030', a wide-ranging plan to diversify Saudi Arabia's economy and reduce its dependence on oil.

In December 2017, Saudi Arabia announced its budget for 2018, the largest ever, which clearly demonstrates the government's optimism for its economic diversification and expansion plans. With the 2018 budget, the government is reversing its strategy to cut spending on contracts and is recommitted to investing in the future, which could be good news for the Saudi equity market which had a lackluster 2017. Also, as part of this new fiscal strategy, is the value added tax (VAT).

FINANCIAL PERFORMANCE

Overall, and in the context of a very challenging year for our industry, Alkhabeer Capital has delivered strong operating and financial results over the past 12 months.

Net revenues for the year declined to SAR 186 million, with net income falling to SAR 61 million, down 10% and 14% respectively, year on year. This was principally due to the devaluation of Alkhabeer Capital's Real Estate portfolio, following a downturn in the real estate sector in Saudi Arabia.

Whilst there was a decline in the net revenue during 2017, our AUMs grew to SAR 4.8 billion, representing an increase of 8%.

DIVIDENDS

In light of the Company's robust financial and business performance, the Board of Directors is pleased to propose a cash dividend of 3%.

BUSINESS RESULTS

We made excellent progress in diversifying our business portfolio and product offerings. Highlights include the launching of three funds, which is in line with our strategy to focus on income-generating assets, and also the exit and partial investment exits.

During the year, we made excellent progress in implementing our strategy that is focused primarily on alternative investment asset management. Underpinned by real estate and private equity as the two main pillars, our strategy is targeting key sectors such as education, healthcare and religious tourism.

STRATEGY

Looking forward, our strategy will be to continue diversifying our business by developing and launching Real Estate Investment Traded (REITs), investing in income-generating assets, and building our Waqf service offering.

We will also continue to build on our successful private equity offering by targeting the healthcare and education and religious tourism sectors.

We look for long-term relationships, understanding our clients' needs, developing insights to inform our value propositions, and choosing the right opportunities to maximize the benefits of our expertise.

OUTLOOK

Looking ahead, 2018 is expected to bring further challenges and uncertainty, which will put added pressure on asset management companies to focus on key areas, such as restructuring product portfolios and streamlining operations.

The government's economic reforms, diversification and privatization plans will present further challenges in Saudi Arabia, but they will also present opportunities in 2018. We believe Alkhabeer Capital has the strategic focus and capabilities to tackle the emerging challenges and opportunities. We approach the year from a position of strength and a versatile pool of talent. We believe that we are well equipped and flexible enough to make continued

progress in this evolving environment and look forward to the challenges and rewards of a exciting year.

Our primary objective remains unchanged - to ensure that our clients achieve the long-term outcomes that they expect - and we remain fully focused on this goal.

I would like to take this opportunity to thank our Board of Directors for their contribution to our company. I am also grateful for the enormous progress made by our senior management team, and I must, of course thank our team for their unbridled commitment. Finally, I would like to recognize our shareholders for their continued patience and support.



MUSAAD M. ALDREES
Chairman



AMMAR AHMED SHATA
Founder and Executive Director

CHIEF EXECUTIVE OFFICER'S REPORT

The first half of 2017 saw the continuance of the volatile and challenging market conditions, geopolitical tensions, and deep political divisions experienced in the region in 2016. Although the global economic outlook improved moderately in the second half of 2017, this did little to improve market performance and investor sentiment. In spite of the continued economic reform programs and subsequent challenges, which exerted pressure on the private sector, the Company was able to achieve good results as compared to the sector as a whole.

Recognizing that markets and investor sentiment may continue to fluctuate, we are resolute on the objectives that we outlined in 2017: diversification of our business, cost management, and cash management, and these will remain in focus in 2018, in the belief that the outcomes of economic reforms as envisaged by the State will yield long-term positive results.

FINANCIAL PERFORMANCE

Despite the challenging market conditions, we ended the year with assets under management (AUMs) of SAR 4.8 billion, an increase of 8% over 2016. This clearly demonstrates our strength as a business. Whilst our AUMs increased, net revenue and net income for the year were SAR 186 million and SAR 61 million, respectively, which reflected a decline of 10% and 14%, respectively, compared to 2016. The decline was heavily influenced by the downturn in the market, particularly in the real estate sector.

BUSINESS DEVELOPMENT

We are confident that, with the measures taken to develop strong product capabilities across our product lines, combined with the strength of our business teams, we will remain well positioned to identify and seize opportunities to deliver further growth for the business.

Continuing our focus from 2016, we are firm on our real estate strategy of targeting hospitality opportunities within the holy cities of Makkah and Medina, in line with Saudi Vision 2030. Based on our assessment of the current economic climate and changing investment preferences, income-generating investment products will form the main theme for real estate acquisitions, going forward.

In 2017, we laid the foundation to establish a Real Estate Investment Traded (REIT) initiative in 2018. During the year, we also launched the Alkhabeer GCC Opportunity Fund and Alkhabeer Opportunity Fund II, while we restructured our Alkhabeer Real Estate Residential Development Fund II following the significant changes in the Saudi real estate market.

Our Private Equity team continued its efforts towards achieving the objectives that were outlined last year., i.e. to focus investments on defensive sectors such as education and healthcare. To augment our private equity strategy, we established the Alkhabeer Industrial Private Equity Fund III.

We also reactivated our Investment Banking department to focus on providing IPO Advisory Services for the recently launched NOMU parallel market.

In 2017, we further strengthened our reputation for excellence. This was demonstrated by numerous awards and accolades for our business. Alkhabeer Capital was named Best Private Equity Company in Saudi Arabia by Banker Middle East at its annual Industry Awards. We also received recognition for our Shari'a-compliant offering, earning us the award of Best Islamic Investment Fund by Islamic Business & Finance. In December 2017, Alkhabeer Capital was ranked sixth on the Best Workplaces in Asia survey by Great Place to Work® under the "Best Small & Medium Workplaces" category.

MARKET DEVELOPMENTS

The government has introduced a number of initiatives to stimulate the capital markets activity in the Kingdom, key highlights of which are:

- The possible inclusion of Saudi stocks to the MSCI, coupled with the government's decision to allow foreign investment, both of which will help increase focus and interest in the Saudi Capital Market.
- The introduction of REITs to introduce diversity to Capital Markets and provide a boost to the Real Estate sector as well as increasing overall liquidity in the market. This will provide Authorized Persons (APs) who are not affiliated with banks, the opportunity to increase their AUMs and operating revenue.

- Introduction of the NOMU parallel market - which has lighter listing requirements than the primary market, and will offer companies that do not meet the listing requirements of the primary market to raise capital that they may otherwise not be able to raise through conventional sources such as bank finance.

These developments are a clear indication of the government's focus towards driving the growth of the KSA Capital Markets to diversify the Saudi Economy in line with the objectives of the 2030 vision.

In light of the recent regulatory changes to the Real Estate sector namely, the white land tax and the subsequent devaluation of real estate development assets, there is an increasing focus by investors to invest in private, income-generating assets and REITs. Alkhabeer Capital's strategy is fully aligned with the requirements of the market and as a result we will gradually exit our real estate development assets and increase focus on income-generating assets and REITs.

LOOKING AHEAD

In view of the short term effects of the State's continued economic reform programs and related plans for the private sector, and the continuing challenges from market volatility and the global political developments, we expect to witness a fiscal year filled with challenges. Notwithstanding these challenges, Alkhabeer is well placed to adapt to these changing conditions, and we remain committed to identifying new investment opportunities that fit within our overall risk-return profile, which will lessen the effects of these challenges on our financial results.

Our primary objective will remain unchanged – to ensure that our clients achieve the long-term outcomes that they expect – and we remain fully focused on this goal. We enter the new financial year with a broad range of capabilities which can adapt to changing investor appetites to enable us to remain competitive in a rapidly changing market.



AHMED SAUD GHOUTH
Chief Executive Officer

MARKET OVERVIEW

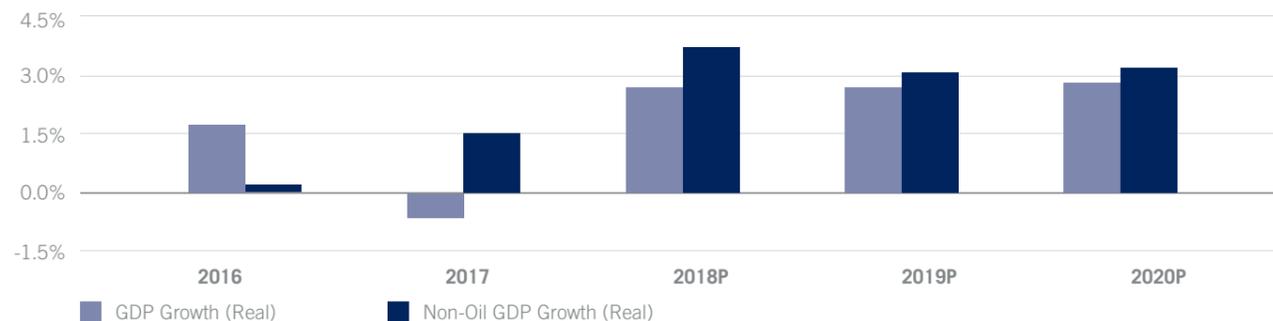
2017 was an eventful year for the Kingdom on the economic front, with the government taking several key steps towards its goal of reducing dependence on oil and reforming the Saudi economy and society. Chief among them were presenting the largest budget in the nation's history, and implementing tax reforms, such as the introduction of sin tax on harmful goods. The government is also cognizant of the high levels of youth unemployment and steps have been taken to address the issue through levies on expats and the creation of more jobs for locals. Large projects are also in the pipeline to develop areas dedicated to tourism and entertainment. The introduction of Value Added Tax (VAT) and reduction in subsidies will further propel the Kingdom towards achieving its Vision 2030 goals.

The non-oil sector in Saudi Arabia grew 1.5% in 2017, driven by growth in the manufacturing and services sectors. However, in view of long-term price stability, there were strategic output cuts carried out in this sector, which led to a contraction in this sector in 2017. On balance, this drop outweighed the faster growing non-oil sector, GDP contracted by 0.5% in 2017, per data provided by the Ministry of Economy and Planning. The government expects the economy to grow by 2.7% in 2018, driven by a 3.7% increase in non-oil GDP. The IMF, in its January 2018 update in the World

Economic Outlook report, forecast that the Saudi economy will grow by a modest 1.6% in 2018, although still higher than its earlier forecast of 1.1% growth. Although the organization raised its growth forecast for the Saudi economy, it continued to remain conservative in its assessment, highlighting that the government's fiscal adjustments would weigh on GDP growth.

Non-oil private sector PMI® indicated expansion throughout 2017 which stood at 57.3 in December, buoyed by strong increases in both output and new orders. The government boosted spending to SAR 354 billion during the fourth quarter, accounting for about 38% of all spending for 2017. Inflation, which remained subdued throughout 2017 amid weak demand on the back of the government's austerity measures and volatile oil prices, is expected to pick up pace in 2018, driven by the introduction of VAT, the short-term effects of the fuel price hike and the rise in electricity tariffs.

SAUDI GDP GROWTH



Source: Saudi 2018 Budget

GOVERNMENT ACTIONS INDICATE STRONG RESOLVE TO BOOST NON-OIL REVENUES

The 'Saudi National Transformation Program' (NTP) was redrafted in September 2017 to better suit the ever changing economic, demographic and technological needs. Notwithstanding the changes, the focus continues to remain on aggressively growing the non-oil economy through initiatives in tourism, taxation and Saudization.

2017 saw progress towards achieving the government's goal of reducing dependence on oil revenues through various measures, which included imposition of 100% tax on tobacco products and energy drinks and a 50% tax on soft drinks in mid-2017. This resulted in additional tax revenue of approximately SAR 7.5 billion in the second half of the year. 2018 heralded a long overdue hike in electricity tariffs and gasoline prices, along with the introduction of VAT. Gasoline prices are up over 80% for Octane-91 and over 125% for Octane-95, while electricity tariff has risen almost threefold. Diesel and kerosene were spared price hikes, considering their usage in industrial applications and commercial transportation. These decisions display a strong government resolve to reduce subsidies and better align the expenditure mix to support growth in the non-oil sector.

In August 2017, the Shoura Council approved the draft VAT law, heralding a first for any Gulf nation. VAT was implemented across the nation from 1st January 2018, where the new 5% tax imposed on food, clothes, fuel, entertainment, electronics, telephone, water and electricity bills is expected to add an estimated SAR 35 billion to the government's coffers in 2018. The government plans to spend the additional revenue on infrastructure and

development works. The introduction of VAT and the increase in fuel prices could lead to higher consumer prices that could possibly affect private consumption in the short term. However, the introduction of VAT is a prudent step in the government's initiative to reduce dependence on oil. If the global economic growth remains robust and oil prices continue to rise the adverse impact of VAT on demand could be momentary, extending to possibly just a few quarters.

The removal of subsidies and the sharp increase in prices of utilities and fuels to affect low and middle-income Saudi households could adversely. The Kingdom, accordingly, announced a slew of steps to cushion the impact on such households and to reduce unemployment among local youth.

MORE STEPS TO INCREASE JOB OPPORTUNITIES FOR LOCALS AND REDUCE IMPACT OF HIGHER COSTS

Among the steps announced by the government to address unemployment and the impact of rising costs were the Saudization program, the new levies on expats and Citizens Account Program. The Ministry of Labor and Social Development amended its existing Nitaqat system for organizations in 2017 by increasing the mandatory employment ratio of Saudi nationals to expatriate employees. The amended system will promote the government's Saudization drive by rating and incentivizing private sector organizations based on their efforts in employing Saudi nationals. Additionally, the Saudi Arabian Monetary Authority (SAMA) has mandated that all insurance companies must reach 100% Saudization for jobs related to sale or marketing of insurance products

to individuals by 1st February 2018, which will further boost the Saudization program. As a result of all these efforts, the number of Saudi citizens entering the job market climbed in the latter half of 2017. Over 84,000 locals enrolled in the labor market in October and November alone as the government enforced the Saudization of many jobs and roped in various private sector players to offer job opportunities for young Saudis.

The Citizens Account Program, a cash transfer program targeted to help low and middle-income Saudi households cope with increased costs, was approved in December 2017. The government plans to spend about SAR 50 billion, with a monthly payment of SAR 1,000 to state employees for a year and bonuses amounting to about SAR 5,000 for pensioners and soldiers. In December, the government made the first payment of SAR 2 billion towards the Citizens Account and around 50% of eligible households received about SAR 938 on average per family.

The government also announced a new fee on expatriates working in the private sector and their dependents. The primary aim of the expat levy seems to be to discourage immigration and replace foreign workforce with locals over the long term. According to the General Authority for Statistics, the move has already started to bear fruit as over 94,000 expat workers left the nation during the July-September 2017 period. Further, as part of a nationwide crackdown against violators of residency and labor regulations, authorities have arrested 337,281 foreigners, most of them without residence or work permits, since November 2017.

GOVERNMENT SPENDING IN 2018 TO PROVIDE A BOOST TO GROWTH

Since oil prices crashed in 2014, growth and government revenues have been greatly affected, leading to a sharp increase in the fiscal deficit. The resulting austerity measures resulted in an economic contraction in 2017. However, with the recent recovery in oil prices and effective measures to raise non-oil revenues, the government took steps to reverse public austerity measures in its recent budget by raising spending to its highest ever. On the revenue side, the budget is reform focused, while care has been taken to cushion the negative impact of reforms through higher expenditure and support to low and middle-income groups. We expect the expansionary budget, with a strong focus on diversifying the revenue base, to bolster economic growth in 2018 and beyond.

The budgeted revenue for 2018 is achievable, in our view, given the expected stability in oil prices and the increase in non-oil revenue. On the other hand, total expenditure is expected to reach over SAR 1 trillion, including the additional state investment expenditure of around SAR 133 billion - SAR 83 billion from the Public Investment Fund (PIF) and SAR 50 billion from the National Development Funds, which is a big positive for the economy and a shift away from the austerity measures of the past few years.

For the first time since the government began revealing its spend on defense in 2016, military expenditure overtook education as the largest component of the budget. The government intends to spend SAR 210 billion on defense, which equates to 21% of total expenditure, or SAR 210 billion, edging out education spending at 19.6% of total expenditure, or SAR 192 billion. This is understandable considering the political instability in the region. Among the large expenditure heads, spending on education is lower than 2017, as the focus in 2018 is on cushioning the impact of tax increases on the economy. Capital expenditure is projected to increase 14.0% from 2017 to stand close to 13.5% of the nation's GDP. It includes allocations for housing and various development sectors, which would help contribute to economic growth and employment opportunities.

The government expects the budget deficit for 2018 to be SAR 195 billion or 7.3% of GDP, lower than the estimated 8.9% of GDP in 2017 and sharply below the 12.8% of GDP in 2016. In 2017, the Saudi government, through four monthly Riyal denominated sukuk issuances between July and October, raised SAR 47 billion, to enable it to address its budget deficit. In total, the government funded the actual deficit of SAR 230 billion (16% higher than budgeted) by raising SAR 134 billion through debt and SAR 78 billion from internal sources and reserves in 2017. With the government set on an expansionary path, it has extended its target of achieving budget surplus from the year 2020 to 2023. We expect global liquidity to remain easy through 2018 and see little challenge in funding the budget deficit in 2018.

BUDGETED REVENUE AND EXPENDITURE

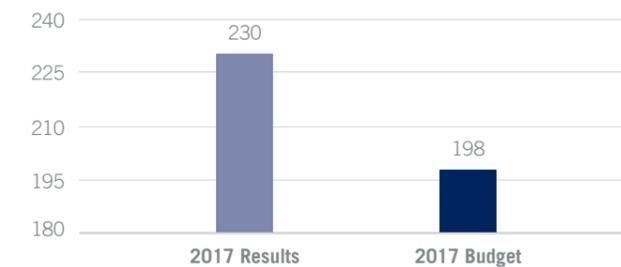
SAR BILLIONS



Source: Ministry of Finance

ESTIMATED VS ACTUAL DEFICIT IN 2017

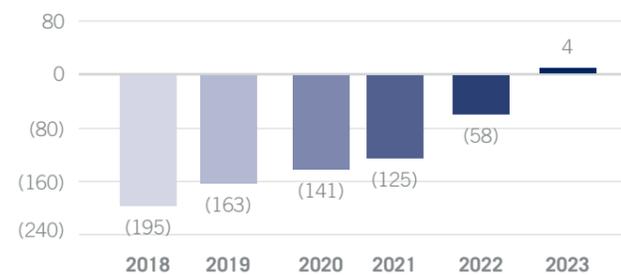
SAR BILLIONS



Source: Ministry of Finance

(DEFICIT) / SURPLUS

SAR BILLIONS



Source: Ministry of Finance

2017 WAS A TURNAROUND YEAR FOR OIL

Oil markets witnessed a seismic shift in 2017, after OPEC, Russia and other major oil producing countries agreed to production cuts that will extend through 2018, resulting in declining inventories and steadily rising prices, thereby marking an end to oil-market oversupply that lasted nearly three years.

BRENT CRUDE OIL FUTURES

IN USD



Source: Bloomberg

The Energy Information Agency (EIA), in its January 2018 Short-Term Energy Outlook report, highlighted that Brent crude oil prices will average around \$60 per barrel in 2018 and \$61 per barrel in 2019, while WTI crude oil is expected to average around \$56 per barrel in 2018 and \$57 per barrel in 2019. 2017 witnessed a reversal in the demand-supply balance led by OPEC's production cut agreement. However, going forward, the EIA expects demand to increase at a slower pace compared to supply - it expects the increased production levels in Libya towards the end of 2017 to continue into 2018 and overall OPEC production to return to pre-agreement levels by 2019. We believe 2018 will witness consolidation in global oil prices and we are cautiously optimistic on the outlook.

CAPITAL MARKET REFORMS TAKE SHAPE

The Tadawul All Share Index gained a mere 0.2% during 2017, amid political and economic uncertainty and the continued impact of low oil prices. In a key market development, Saudi Arabia was added to the MSCI Emerging Markets watch list in 2017 following introduction of several capital market reforms over the last few years. The possible inclusion of 32 major Saudi stocks in the MSCI index

in the foreseeable future could give the country a potential weight of 2.4% in the index and potential inflows to the market could be in tens of billions of SAR. At the beginning of 2018, Tadawul announced additional market reforms, including the introduction of a market-making program, and steps to allow asset managers to aggregate orders. Further reforms, expected to be undertaken in the second quarter, will gear the nation towards winning emerging market status.

2017 also witnessed first steps towards a possible listing of Saudi Aramco, through an IPO in the second half of 2018. Valued at around SAR 7.5 trillion, Aramco would by far be the most valued listed company in the world. Touted as the biggest IPO ever globally, it would help support the inclusion of Saudi Arabia in the MSCI Emerging Markets Index. To put the enormity of Aramco's potential record listing into context, all companies listed in Saudi Arabia over the past decade had a combined size of around SAR 75 billion at the time of listing, compared to Aramco's expected SAR 375 billion. A public offering of such enormous size could be a disruptor to local market dynamics. Additionally, there is a possibility that the correlation of the index to oil prices would increase substantially, making the market more prone to volatile oil prices, rather than to the diversifying Saudi economy.

The government is looking to list Aramco's shares on the domestic Tadawul stock exchange along with major global exchanges, such as New York, London and Hong Kong. However, listing on foreign exchanges could expose the company to additional disclosures, compliance costs and foreign lawsuits. An exclusive listing on Tadawul, together with a private placement to a strategic investor as a precursor to an international IPO, is also an option. Considering the issue size, participation by foreign investors will be the key to success and the recent exchange reforms are geared towards making them comfortable about investing in the country.

Another key initiative has been the introduction of Real Estate Investment Traded (REITs) which have gained popularity after the market regulator put the required framework in place for them to be traded on the stock market in 2016. As of December 2017, there were seven REITs listed on the Tadawul, with a collective market cap of SAR 3.7 billion. Investment strategies of REITs in Saudi Arabia are split between specific-asset class approach and mixed-asset approach across asset classes in the region such as office, retail, education, residential, hospitality and logistics.

The REIT market has huge potential given the current opportunities and structure of the market. For one, many of the current REITs are promoted by non-bank affiliates, which have developed expertise in the Saudi real estate sector over the past few years, promoting private placement real estate funds. The REITs have provided these institutions an opportunity to increase their AUMs and client base. The major transformation in the REIT market will come from participation by key banking groups, who can attract a diverse range of clients to the market. We expect banks to strengthen their real estate market capabilities and their operations in the sector going forward and be a part of this market. The future of REITs will be defined by the number of distinctive properties that REITs can invest in and their ability to tie-up long-term lease agreements. Another opportunity is that the regulator has allowed for investment of up to 25% of capital in foreign assets. We also expect investors to start looking for investment opportunities beyond the major cities, increase use of leverage to lift yields and look for investments in development assets. Over time, we expect REITs to boost private sector participation in the financing of real estate sector by enabling access to additional pools of capital, in line with the government's effort to stimulate the real estate sector.

In other capital market developments, the approval of NOMU-parallel market listing rules in early 2017, resulted in an alternative NOMU market. As of 31 December 2017, eight companies with a market cap of about SAR 2.2 billion, were listed on NOMU. The relaxed listing rules on the NOMU market are likely to benefit a wider spectrum of issuers who wish to list their shares on the stock exchange to raise capital. Further, the NOMU market will also enable private equity players to exit their investments, especially considering that the market for acquisitions remains subdued. We expect that the establishment of NOMU and the opening-up of capital markets will enable the Kingdom to attract foreign investment and also provide SMEs the chance to tap into additional capital resources to expand their businesses.

THRUST TOWARDS SOCIAL REFORMS WITH TOURISM AS A KEY FOCUS AREA

The Kingdom's efforts towards social reforms are aimed at developing the tourism and entertainment industries and expanding the consumer markets, and the gradual easing of social and economic restrictions go hand in hand with this aim. Initiatives for women have the potential to expand the consumer market, as well as drive growth through their participation in the labor market.

New projects along the Red Sea coast, the Jeddah waterfront and the construction of the massive mega city 'NEOM' are all geared towards creating job opportunities and to bolster the nation's GDP. The Red Sea project, construction for which is anticipated to start in the latter part of 2019, is designed to develop the region into a global tourism destination. The first phase of construction is anticipated to be completed by 2022. These developments, which would have been difficult to envisage just a few years back, give us high confidence in our belief that a new era of development is about to start in the nation. The NEOM industrial zone, which will be powered entirely by wind and solar energy, will focus on a host of potentially attractive industries, including biotechnology, food, advanced manufacturing and entertainment. The government is also planning to build a one of its kind world-class entertainment and leisure city in Al Qidiya near Riyadh. The recent lifting of ban on cinemas could see building of about 300 cinema halls over the next decade.

Meanwhile, in an effort to boost religious tourism, the Public Investment Fund, in 2017, formed two real estate development companies to bolster the capacity of Mecca and Medina to accommodate more pilgrims. The project aims to build about 70,000 new hotel rooms and 9,000 housing units in Mecca and 500 housing units and 80,000 hotel rooms in Medina which could contribute to about SAR 8 billion annually to the nation's GDP by 2030. We believe that given the exorbitant cost of land around the holy mosques, the

government should consider extending the lease period for lands for periods longer than 50 years to attract more international hotel operators to make substantial investments. Meanwhile, the government also decided to start issuing tourist visas in the first quarter of 2018, in a step to promote tourism.

PIF - THE CATALYST FOR SAUDI PRIVATE EQUITY INDUSTRY

The increasing role of the PIF is expected to boost the relatively nascent private equity (PE) industry in the Kingdom. The government's plan to increase the PIF's financial clout to SAR 1.5 trillion by 2020 will result in the PIF becoming one of the world's most powerful sovereign wealth funds. Its combined \$65 billion investment in Blackstone infrastructure fund and SoftBank's technology fund has put the PIF firmly in the global spotlight. In 2017, the PIF established a Fund of Funds, a new investment vehicle with a capital of SAR 4 billion, to empower the private sector by providing local SMEs with access to capital by investing in venture capital and private equity funds.

Furthermore, the government's privatization and investment plan is likely to attract interest, both domestic as well as international, with KKR, Citigroup, Goldman Sachs and Credit Suisse among a growing band of western investment banks and private equity firms expanding in the Kingdom. Additionally, the NOMU market will, over time, enable PE investors to exit their investments through a relatively hassle-free listing process, as exiting via a NOMU listing would be an attractive proposition for PE players, particularly in a subdued environment for mergers and acquisitions. The key sectors that are expected to benefit and attract foreign private equity investments in the Kingdom include retail, education, healthcare, tourism and entertainment. We expect the possible inclusion of Saudi Arabia in the MSCI Emerging Markets and the planned relaxation to allow 100% foreign ownership in the healthcare and education sectors to further fuel overseas interest in the nation.

We also expect the PIF's Fund of Funds to create a favorable private equity and venture capital ecosystem in Saudi Arabia. We believe that opportunities for investment offered by the Saudi market over the next decade are highly attractive and funds operating here will be able to take exposure on ell-run businesses at reasonable valuations.

BRIGHT PROSPECTS ON THE HORIZON FOR SAUDI REAL ESTATE SECTOR

Saudi Arabia's real estate sector continued to witness softness through 2017, as low occupancy levels across most asset classes led to a gradual softening of rents. However, the government launched several initiatives to address the challenges faced by the sector, such as the white land tax and affordable housing schemes, among others, which are expected to improve availability of land and spur demand going forward.

The nation's housing ministry is in talks with potential investors from Asia to build 1 million low-cost homes over the next five years. The private sector has also shown a keen interest in the Saudi real estate market and the government will spend more than SAR 59 billion until 2020 to make housing finance available to locals at affordable rates. Furthermore, SAMA plans to scrap administrative fees, thereby allowing mortgage holders to switch from one lender to other without incurring any extra cost. Meanwhile, the Saudi Real Estate Refinance Company will inject additional liquidity into the real estate financing market and aims to boost loan growth to SAR 500 billion by 2026. The above measures are in line with the government's strategy to increase home ownership among Saudis to 52% by 2020.

Ongoing projects such as King Abdullah Financial District in Riyadh and the Jeddah Waterfront are also expected to change the dynamics of the commercial real estate market in Saudi Arabia. The Capital Market Authority's decision to allow listing of REITs on the exchange will bring more transparency in the real estate market over time and increase participation of private players in the financing of real estate projects. We expect that as the industry matures over time, REITs will positively impact the overall real estate sector.

In our view, the initiatives announced by the Saudi government to stimulate the real estate market under its 'Vision 2030' plan will attract more investments from the private sector. While the government's efforts to stimulate the real estate sector will take time to filter through, we believe that these initiatives are a step in the right direction for the development of a more active real estate market in the coming years.

REFORMS AND INVESTMENTS TO DRIVE THE KINGDOM'S GROWTH IN 2018 AND BEYOND

2017 can be termed as a year of transformation for Saudi Arabia's economy as a series of economic and capital market reforms were announced to revive growth and diversify the oil-dependent economy. The several tax reforms announced in 2017 and at the beginning of 2018 herald a substantial change for the nation. The government's continuing focus on Saudization will enhance job opportunities for locals and help reduce the high unemployment rate. The slew of market reforms implemented over the past few years could see the Kingdom being added to the MSCI Emerging Markets Index soon. Economic reforms apart, the other big development of 2017 was the Kingdom's focus to develop its tourism and entertainment industries.

With the progressive policies of the government, we expect the reform process in Saudi Arabia to continue and growth to pick up pace, as investment opportunities open up. We, at Alkhabeer, believe that being a prominent local private equity player gives us an advantage to invest in the right opportunities that are likely to open-up over the coming years from the government's pro-reforms stance.

REVIEW OF OPERATIONS AND ACTIVITIES

ASSET MANAGEMENT

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

Our current portfolio of 15 funds and investment vehicles targets alternative asset classes, providing clients with diversification through sectoral and geographic scope, and differentiated return objectives. Alkhabeer Capital always aims to align its interests alongside its clients by investing in the funds it creates, which is one of the strongest contributing factors to the success of our funds. We continually monitor economic conditions, market opportunities and client requirements to develop new investment solutions that anticipate our clients' evolving investment management needs.

2017 HIGHLIGHTS

- Starting in early 2016, Alkhabeer Capital modified its strategy with a sharpened focus on real estate and private equity. For real estate, Alkhabeer launched an ambitious plan to establish a REIT program which aims to acquire income-generating assets across key cities in Saudi Arabia. Whereas, for private equity, Alkhabeer Capital continued its focus on defensive sectors such as education and healthcare.
- Incepted two real estate products in December 2017. The first company acquired a residential compound in AlKhobar, and the second fund acquired residential and mixed-use land plots in Jeddah.
- Incepted one private equity company in December 2017 which acquired a majority stake in an industrial company based in Dubai.
- Partial exits were made from three real estate funds, while a full exit was successfully completed from one private equity fund.
- The number of Discretionary Portfolio Management (DPM) accounts for capital markets grew by 69 percent.
- Total assets under management (AUMs) grew by 8% percent to SAR 4.8 million.

REVIEW OF OPERATIONS AND ACTIVITIES

REAL ESTATE

Alkhabeer Capital focuses on the creation of real estate investment products that are unique, well-managed and high performing in comparison with their peer group. We endeavor to provide competitive risk-adjusted returns from direct property ownership through our sector-leading capabilities and our disciplined approach to investment performance. We cater to investors with varying risk appetites and differing return objectives. Our investment philosophy is built around our understanding of real estate investment at a strategic as well as an asset level. Investment opportunities are created using extensive research, a deep understanding of real estate fundamentals, and meticulous valuation processes. We offer a diverse product range locally and internationally, encompassing all main categories of real estate investment management including core, core-plus, value-added and opportunistic real estate strategies and investments. The Real Estate division comprises of three specialist units – Portfolio Management, Development, and Acquisitions – staffed by professionals with a proven local and international track record in real estate investment, development and funds management.

2017 HIGHLIGHTS

- Adopted a strategic shift towards hospitality opportunities within Makkah and Medina, in line with Kingdom of Saudi Arabia's Vision 2030 and National Transformation Plan 2020, which recognize religious tourism as a key driver of GDP growth.
- Continued to adopt an opportunistic approach towards acquiring income-generating real estate assets across key cities in Saudi Arabia.
- Launched an ambitious plan to establish a REIT program which aims to reach SAR 8 billion by 2020.
- Incepted Alkhabeer GCC Opportunity Company in December 2017 which acquired a 486-unit compound in AlKhobar.
- Developed strategic partnership with a leading real estate developer and property manager who specializes in income generating properties.
- As a result of significant changes in the local real estate market, the Fund Manager completed a strategic restructuring of Alkhabeer Real Estate Residential Development Fund II ("Masharif") which resulted in downsizing the Fund size from SAR 300 million to SAR 90 million.
- Incepted Alkhabeer Opportunity Fund II with a capital of SAR 340 million. The fund was able to acquire residential and mixed-use plots in Masharif Masterplan (north Jeddah) and Alworood District (Old Airport, Jeddah).
- Continued the partial exit of Alkhabeer Central London Residential Fund I and Alkhabeer Residential Real Estate Development Fund (Masaken), through sale of residential units.
- Successfully completed SAR 1.08 billion of cash and in-kind sale transactions in Alkhabeer Land Development II.

REVIEW OF OPERATIONS AND ACTIVITIES

PRIVATE EQUITY

Alkhabeer Private Equity is a trusted partner to family businesses in Saudi Arabia and the rest of the region. Private Equity services target sectors such as education and healthcare.

We work closely with the senior management of our portfolio companies to create operating and financial value. We invest in potential targets through opportunity-specific funds that are significantly seeded by proprietary capital from Alkhabeer Capital. Target companies are selected with the following investment strategies:

1. Growth Capital Partnerships: Acquisition of majority stakes in companies with strong growth prospects through a combination of capital increase and seller's cash out. We work with management to institutionalize the business in preparation for long term sustainable growth.
2. Buyouts: Acquisition of significant majority or outright ownership positions in selected companies where management is independent from owners.
3. Pre-IPO Stakes: Acquisition of significant minority stakes in blue-chip companies with IPO prospects.

2017 HIGHLIGHTS

- Continued to focus investments in defensive sectors such as education and healthcare, together with a cautiously opportunistic approach to manufacturing businesses that have strong exporting activities.
- Signed the sales agreement for the exit of Alkhabeer Industrial Private Equity Fund 1, successfully concluded the exit from Alkhabeer Industrial Private Equity Fund 2 in 2017, and established the Alkhabeer Industrial Private Equity Fund III.

REVIEW OF OPERATIONS AND ACTIVITIES

CAPITAL MARKETS

Over the past few years, Alkhabeer Capital has developed a track record in managing Money Market Murabaha, through its Discretionary Portfolio Management (DPM) platform. The Murabaha offering provides investors with competitive returns.

2017 HIGHLIGHTS

- Murabaha AUM has increased over the course of 2017 from SAR 430 million to SAR 540 million.
- In 2017, the Capital Markets Department was involved in structuring Alkhabeer's REIT program.

REVIEW OF OPERATIONS AND ACTIVITIES

PRODUCT DEVELOPMENT

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

2017 HIGHLIGHTS

- Structured and developed two new real estate products: Alkhabeer GCC Opportunity Company and Alkhabeer Real Estate Opportunity Fund II.
- Structured and developed one new private equity product: Alkhabeer Industrial Private Equity Company III.
- Continued supporting the development of Alkhabeer's Waqf platform.
- Monitored the progress of the funds/products through the representation on the Fund Monitoring Taskforce and Product Development Committee.
- Updated product offering documentation in line with the updated CMA regulations.
- Support in the generation of Investor Reports and CMA requested reports for all funds.

REVIEW OF OPERATIONS AND ACTIVITIES

AWQAF MANAGEMENT



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

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

A major key function of the recently formed Awqaf General Authority's mandate is to assist and regulate new Waqf products. The Awqaf General Authority is also working in conjunction with the CMA on introducing Awqaf Investment Funds regulations.

The CMA announced that Waqf Investment Funds, as a business-line, will be introduced during 2018, with product roll out expected to hit the market by 2019.

2017 HIGHLIGHTS

Alkhabeer Capital, in collaboration with the CMA, is developing and structuring a Waqf Fund. By leveraging its knowledge and experience in the Waqf sector, Alkhabeer Capital is strategically placed to play a significant role in introducing this service.

REVIEW OF OPERATIONS AND ACTIVITIES

INVESTMENT BANKING

The Investment Banking Department (IBD) was reactivated during Q2 to be more externally focused. The IBD will provide the full range of capital raising and advisory services. In order to provide the most relevant service, Alkhabeer Capital's investment banking services will focus on three broad categories:

1. EQUITY CAPITAL MARKETS

The growing Saudi market is becoming an attractive option for businesses to obtain capital and create liquidity for shareholders. Therefore, Alkhabeer Capital is committed to supporting businesses and their management through every phase of the Initial Public Offering process, ensuring that companies meet all of their objectives.

Alkhabeer's vast experience allows provision of financial advisory and lead manager services on all aspects of the IPO process.

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

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

2. DEBT CAPITAL MARKETS AND DEBT ADVISORY

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

- Sukuks
- Conventional Debt Raising, and
- Structured Finance

3. MERGERS AND ACQUISITIONS

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

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

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

2017 HIGHLIGHTS

- In 2017, Alkhabeer's IBD was reactivated to be externally focused with a primary focus on providing Nomu IPO Advisory services.
- During the year, the Investment Banking Department was appointed as a financial advisor to a reputed medical company in connection with its proposed listing on the Parallel Market in Saudi Arabia.
- Separately, the IBD has also had positive discussions with a number of companies in the GCC and the Middle East to potentially list foreign entities on the Parallel Market, in anticipation of the revised Parallel Market listing rules.

REVIEW OF OPERATIONS AND ACTIVITIES

FUND ADMINISTRATION, CUSTODY & OPERATIONS

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

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

The Division also has a separate team which manages over 20 special purpose vehicles (SPVs) which serve the diversified activities and purposes of managed funds. In addition, Alkhabeer Capital has developed close professional relationships with legal firms who have extensive knowledge of local and international laws and regulations. Together with a dedicated administration team, this collective expertise and experience provides the Company with a significant competitive differentiator in the market.

2017 HIGHLIGHTS

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

BUSINESS DEVELOPMENT & PLACEMENT

Alkhabeer Capital's Business Development & Placement (BDP) team offers investment products in Saudi Arabia and other GCC states. The overarching aim is to seek the creation of long-term value for Alkhabeer Capital from clients, markets, and relationships. Our BDP team is able to draw on their knowledge to build, manage and leverage relationships with clients, comprising ultra-high-net-worth and

high-net-worth individuals, family offices and institutions. In addition, the team introduces clients to new products and transactions, and communicates the progress of their investment portfolios. It also provides clients with reports on the latest developments in local, regional and international investment markets, and the prevailing environments, and available investment opportunities in various markets.

2017 HIGHLIGHTS

- Grew the overall client base by 21 percent, with a significant increase in the number of institutional clients.
- The percentage of repeat business reached to 39% by the end of 2017.

PLACEMENT BY TYPE OF CLIENT



PLACEMENT BY ASSET CLASS



REVIEW OF SUPPORT FUNCTIONS

HUMAN CAPITAL

Alkhabeer Capital places the highest priority on attracting, developing and retaining the best people in the industry, in order to provide a key competitive advantage. During 2017, in line with its strategic focus on alternative investments asset management, the Company took steps to ensure optimum staffing levels for the real estate and private equity divisions, and also for the critical back office functions that support them. At the end of the year, the Company's headcount stood at 70, with females accounting for 27%.

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

INFORMATION TECHNOLOGY

Alkhabeer Capital views the utilization of cutting-edge technology as a key strategic driver and business enabler. During 2017, the Company continued to upgrade its information and communications technology (ICT) infrastructure. Key developments included migration of email environment from Exchange on-premises to Exchange online to achieve higher service availability.

Alkhabeer Capital views regional expansion as a significant contributor to improved company growth, when used in conjunction with local and regional initiatives. In light of this, Alkhabeer Capital has invested in data and technology to upgrade its IT infrastructure in its Dubai office. This is in line with the Company's goal of expanding operations in the region.

IT played a pivotal role in augmenting the IT infrastructure during the renovation of the Company's head office. This upgrade to the latest Cisco switches will address the ever-changing security threats while providing increased bandwidth and speed. In addition, a controller-based Wireless Solution was installed to provide network connectivity.

A critical project involved upgrading the Backup Environment to the latest Backup Software (Veeam Backup for Exchange Online and Backup Exec 2016). The high-speed data cartridges and the new enhanced Tape library will significantly improve performance.

Information security continued to be a priority during 2017. A new security system was installed to detect, monitor, analyze and mitigate cyber threats targeted at Alkhabeer Capital. To support business continuity planning, the Company's disaster recovery site was successfully tested, and external penetration testing of the ICT infrastructure was conducted.

CORPORATE COMMUNICATIONS

During 2017, Alkhabeer Capital continued to leverage its media relationships to roll out a targeted outreach program aimed at raising awareness of the company's key achievements and milestones, while elevating the media profile of its leadership. Media activities during the year included the release of six announcements, along with two high-level interviews.

In May 2017, Alkhabeer Capital CEO Ahmed Ghouth was featured on the cover of Al Tijara magazine where he outlined the key factors that enabled the Company to perform well above industry expectations in 2016, achieving outstanding financial results vis-a-vis its peers despite economic uncertainty and geopolitical tensions in the region.

In July 2017, Alkhabeer Capital was featured by Banker Middle East magazine in a special winners' supplement after being named Best Private Equity Company in Saudi Arabia the previous month. Banker Middle East sat down with CEO Ahmed Ghouth for a cover story detailing Alkhabeer's past successes, along with his outlook for the rest of the year.

RESEARCH REPORTS

Alkhabeer Capital continued to build its profile as a thought leader and industry expert through its research capabilities. In line with its commitment to leverage new opportunities created by national development imperatives, Alkhabeer Capital published its inaugural Makkah Hospitality Report in Q4. This report examined the opportunities and prospects in the Holy City's hospitality sector, highlighting key indicators and anticipated trends for the coming years.

The firm also continued publishing its Monthly Monitor Report, which captures key topics and trends affecting regional markets, the macro economy, capital markets, private equity and real estate.

FINANCIAL REVIEW SUMMARY

This review provides a summary and analysis of Alkhabeer Capital's financial performance for the year ended 31 December 2017. The Notes to the Consolidated Financial Statements provide additional relevant information.

REVENUES

Total revenue in 2017 decreased by 10% to SAR 187.5 million compared with SAR 207.3 million for the previous year.

Return on investments contributed SAR 134 million, reflecting a decline of 14% from SAR 156 million in 2016, mainly due to decrease in unrealized gains on trading investments in 2017.

The contribution from management and placement fees grew by 5% to SAR 53.7 million. This was driven by an 8% growth in assets under management which stood at 4.77 at the end of December 2017.

EARNINGS BY SEGMENT

SAR '000	PROPRIETARY CAPITAL	ASSET MANAGEMENT	OTHERS	TOTAL
Operating income	132,781	60,230	3,468	187,479
Net operating income	87,677	36,735	(63,279)	61,144

GEOGRAPHIC SEGMENTS

SAR '000	SAUDI ARABIA	UNITED ARAB EMIRATES	TOTAL
Operating income	187,479	-	187,479
Net operating income	61,274	(130)	61,144

Despite the economic turbulence in 2017, dividend income grew by 28% to SAR 21.3 million from SAR 16.6 million in 2016.

OPERATING EXPENSES

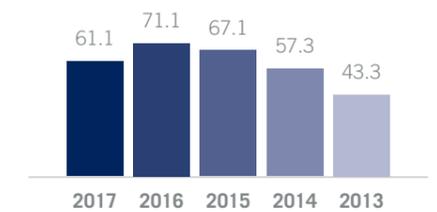
Total operating expenses decreased by 16% to SAR 92 million compared with SAR 110 million for the previous year. Operating expenses-to-income ratio, improved to 49% compared with 53% in 2016, due to cost optimization initiatives.

EARNINGS

Net income declined by 14% to SAR 61.1 million from SAR 71.1 million in 2016. This resulted in a decrease in earnings per share to 0.75 compared with SAR 0.87 in the previous year.

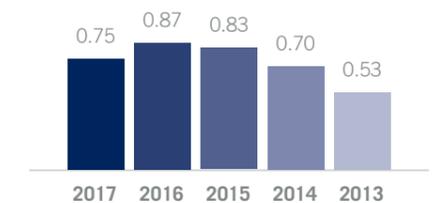
NET INCOME

SAR MILLIONS



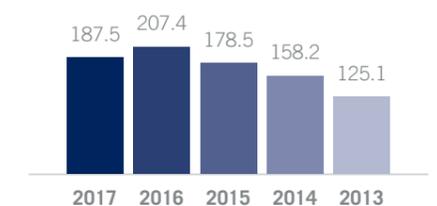
EARNING PER SHARE

SAR



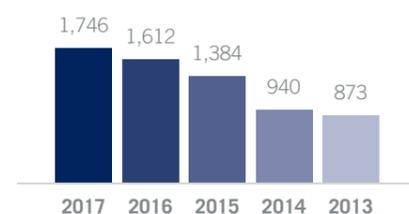
TOTAL REVENUE

SAR MILLIONS



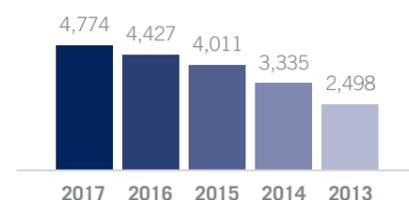
TOTAL ASSETS

SAR MILLIONS



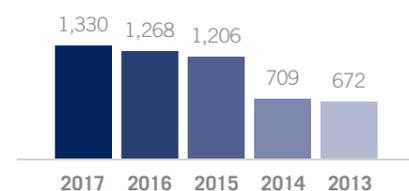
ASSETS UNDER MANAGEMENT

SAR MILLIONS



INVESTMENTS

SAR MILLIONS



Consolidated Balance Sheet

ASSETS

As at 31 December 2017, total consolidated assets stood at SAR 1,745 million, a growth of 8% over SAR 1,611 million at the end of 2016. This was a direct result of growth in investments.

The upward trend in total assets was led primarily by investments. The investments portfolio grew by 5% to SAR 1,330 million in 2017 from SAR 1,267 million in the previous year, driven primarily by alternative investments.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with banks, cash in hand, and Murabaha placements. Cash and bank balances decreased by 78% to SAR 34 million in 2017 from SAR 155 million in the previous year due to an increase in Investments. Assets held on behalf of clients in a fiduciary capacity are not included in the consolidated balance sheet of Alkhabeer Capital. As at 31 December 2016, the Company held fiduciary assets under management of SAR 3.44 billion (2016: SAR 3.16 billion).

ASSETS UNDER MANAGEMENT

As at 31 December 2017, total assets under management stood at SAR 4.774 billion, a growth of 8% over SAR 4.426 billion at the end of 2016. This reflects the Company's long-held commitment to provide clients with risk-adjusted returns across a range of Shari'a-compliant private funds and discretionary portfolios.

LIABILITIES

Total liabilities increased to SAR 804 million in 2017 from SAR 731 million in the previous year, driven mainly by an increase in liabilities & financing. In 2017, Alkhabeer Capital had a Shari'a-compliant financing balance of SAR 231 million.

Financing for 2017

The following table shows information related to any Shari'a-compliant financing extended to the Company as at 31 December 2017:

Term of Financing	5 years
Principal Amount of Financing	250,000,000
Part Amortized by Prepaid Fees	(4,697,000)
Outstanding Amount	231,303,000
Paid Amount *	14,000,000

* Please refer to Note No. (11) to the attached audited financial statements for details of financing repayment scheduling, all amounts are in Saudi Riyals unless stated otherwise.

Details of Alkhabeer's Capital's outstanding debt as at the end of FY 2017 are presented in the attached audited financial statements (Attachment 1). For details, please refer to the current and non-current liabilities section in the consolidated statement of financial position, and notes thereon.

SHAREHOLDERS' EQUITY

At the end of 2017, shareholders' equity increased by 7% to SAR 941.8 million, up from SAR 880.6 million at the end of 2016. The increase was driven primarily by the associated increase in retained earnings and SAR 7.1 million was transferred to the statutory reserve, in accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia.

CAPITAL ADEQUACY

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

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

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

CAPITAL ADEQUACY

(SAR '000)	2017	2016
Alkhabeer Capital's net capital	939,590	800,642
Minimum net capital required	896,042	714,723

CAPITAL ADEQUACY RATIO

(SAR '000)	2017	2016
Total Capital Ratio	1.05	1.23
Surplus in Capital	43,548	163,919

SUBSIDIARIES

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

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

The below table includes details of AKC's SPV (special purpose vehicles):

COMPANY NAME	CAPITAL (SAR)	PERCENTAGE OWNERSHIP	MAIN ACTIVITY OF THE COMPANY	COUNTRY OF INCORPORATION	HEAD OFFICE
New gulf for real estate investments	300,000	99%	Custody of the real estate assets owned by the funds managed by AKC	Saudi Arabia	Jeddah
Medad Investments limited	300,000	98%	Custody of the private equity fund's assets or portfolios established and managed by AKC	Saudi Arabia	Jeddah
Abr al sharq investments holding	300,000	98%	Owning shares in private and public companies in the kingdom on behalf of others	Saudi Arabia	Jeddah

RISK MANAGEMENT REVIEW

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

POTENTIAL RISK & RISK MANAGEMENT POLICY

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

CREDIT RISK

Credit risk refers to the risk where the customer or counterparty may default on its contractual obligation resulting in a loss to the Company. Alkhabeer does not lend money in the form of loans or advances to its clients and specifically, margin lending is not currently practiced by Alkhabeer.

Therefore, presently, the only credit risk Alkhabeer may face is counterparty risk. Alkhabeer adopts a credit strategy for monitoring and controlling the counterparty risk by setting limits for each counterparty in line with prudential regulations and internal approved policies. All counterparty limits are reviewed and approved by the Director of Risk and Governance Division. Subsequently all counterparty limits are approved annually by the Investment Committee. As a policy, our dealing with any counterparty is restricted to only those with at least a BBB- rating. In case the counterparty is rated below investment grade, a higher internal approval authority is required.



MARKET RISK

Market risk is the risk that takes into account the changes in market prices in the respective asset class which will affect the Company's income or the value of its holdings of financial instruments. Alkhabeer invests in multiple asset classes which contain a market risk element due to their susceptibility to fluctuation in prices. Alkhabeer mainly invests in money markets, capital markets, real estate, and private equity.

Since Alkhabeer's business model is to invest mainly in its managed funds, the market risk exposure to such investment is monitored and managed through a disciplined Investment Policy set by the board in which limits, parameters, processes and proper governance are detailed and followed.

LIQUIDITY RISK

Liquidity risk emerges as a result of the inability to manage unplanned shortage, changes to finance resources, or the failure to address market changes that affect the ability to liquidate assets promptly and with minimal losses.

The efficient management of liquidity risk begins with the development of written policies and procedures, including the policy of minimal acceptable levels of liquidity. Liquidity risk management is performed by continuous liquidity monitoring, measuring and reporting.

OPERATIONAL RISK

Operational risk relates to the potential for losses stemming from inadequate or failed internal control processes, people and systems. It also applies to external events such as system crashes or settlement problems that could impact Alkhabeer's ability to balance its trading books. Additionally, operational risk includes exposure to fines and penalties and/or punitive damages resulting from supervisory actions, or private settlements.

Alkhabeer uses a set of tools to identify, measure and rectify operational incidents. In addition, Alkhabeer has a professional indemnity insurance policy that covers any damages to third parties resulted from unintentional lapses or system breakdowns.

RISK AND GOVERNANCE DIVISION

The Risk and Governance Division is responsible for the day-to-day oversight of the various risks to which Alkhabeer Capital is exposed, including credit, market, operational/regulatory and money laundering risks.

The division employs a wide range of risk assessment, analysis and reporting tools and state-of-the-art risk models. Independent systems including Advent and World-Check for anti-money laundering and regulatory compliance, and aCCelerate for operational risk. In addition, an Internal Capital Adequacy Model has been developed and implemented in line with CMA requirements. The Company's capital adequacy is monitored on a monthly basis covering historic and forecasted figures in order to ensure that the Company maintains adequate capital coverage.

COMPLIANCE AND MLR DEPARTMENT

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

RISK DEPARTMENT

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

RISK AND GOVERNANCE FRAMEWORK

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

CORPORATE GOVERNANCE REVIEW

Alkhabeer Capital is committed to abide by CMA Regulations. It attaches great importance to the proper policies and procedures, transparency, accountability, and compliance with applicable laws, control rules and conditions, and principles of equity and social responsibility

Alkhabeer Capital's governance policy includes the principles that regulate the following aspects:

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

GOVERNANCE FRAMEWORK

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

CODE OF BUSINESS CONDUCT

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

CONFLICT OF INTEREST

Alkhabeer Capital did not, nor has it entered into, any contract in which any of its board members, ED, CEO, CFO or partners has or had any material interest that has not been approved. Refer to Note (7) of the Consolidated Financial Statements regarding related party transactions.

COMPLIANCE

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

REPORTING SUSPICIOUS ACTIVITIES

All Alkhabeer Capital's employees are responsible for reporting to the Compliance & MLR Department any actual or potential violations. The Company has adopted a policy of confidential reporting of breaches of its code of business conduct. The purpose of this policy is to encourage employees to report any wrongful practices, play an active role in day-to-day operations, enhance the level of employee involvement, maintain a professional business environment, measure employee awareness of applicable laws and regulations, and assure employees that their concerns are taken seriously. During 2017, the Compliance Department conducted AML training session for all Alkhabeer employees.

DETAILS OF ANY PUNISHMENT, PENALTY OR PREVENTIVE RESTRICTION

The Company did not receive any fines or penalties from the Capital Market Authority, however, it received a fine of SAR 10,000 for not having a segregated offices for males and females.

DISCLOSURE AND TRANSPARENCY

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

STRATEGY STATEMENT

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

SUCCESSION PLANNING

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

CONTROL FUNCTIONS

INTERNAL AUDIT

Internal Audit is an independent unit reporting to the Board’s Audit Committee that consists of three independent members. To raise the independence and effectiveness of the function, the Unit has an agreement with KPMG to execute the audits and report the results to the Audit Committee. The approved audit plan is implemented throughout the year, and all of its recommendations are applied. The Audit Committee, Board of Directors and Executive Management are kept informed of the progress of implementation of the audit plan.

The Internal Audit Unit also conducts special reviews or inquiries, as and when required.

RESULTS OF THE ANNUAL REVIEW OF INTERNAL CONTROL PROCEDURES WITHIN THE COMPANY

The Internal Audit Unit audited Alkhabeer Capital’s operations during 2017, in accordance with the Annual Audit Plan which was approved by the Audit Committee, to verify the effectiveness of the Company’s internal control systems, to safeguard Company’s assets, and to evaluate the suitability of the Company’s performance in mitigating risks. As a result of these audits and reviews, there were no fundamental weaknesses uncovered in the internal control systems of the Company.

The Internal Audit Department completed all planned audits for 2017. Further, follow up and closing of the findings identified during the reviews was one of the important tasks that the Internal Audit focused on during the year.

COMPLIANCE AND MLR

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

RISK

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

LEGAL

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

FINANCE AND ACCOUNTING

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

KEY SHAREHOLDERS

The following Shareholders have a stake in the Company of five percent or above:

SHAREHOLDER NAME	OWNERSHIP %
Bakr Mohammed Awad Binladin	15.679%
Sara Trade Holding Co.	10.452%
Alkhabeer National Co.	9.755%
Abdullah & Said M.O. Binzagr Co. Ltd.	7.686%

CORPORATE SOCIAL RESPONSIBILITY

Corporate stewardship is a fundamental part of our business at Alkhabeer Capital. Our aim is to achieve sustainable development by delivering economic, social and environmental benefits for all stakeholders. We manage this through our Corporate Social Responsibility (CSR) Committee which oversees a diverse program of educational and community outreach activities, sponsorship of events that support the development of the Shari'a-compliant investment banking sector and the national economy, and initiatives to support young Saudi nationals realize their full potential. A selection of the Company's CSR activities in 2017 is listed below:

EDUCATIONAL AND COMMUNITY OUTREACH ACTIVITIES

IE BUSINESS SCHOOL EXECUTIVE EDUCATION 2017

Jeddah – 27 January - 3 February 2017

As part of our ongoing corporate social responsibility activities, Alkhabeer hosted an International Executive Program in Islamic Finance in partnership with King Abdulaziz University and the Saudi-Spanish Center for Islamic Economics and Finance. An interactive program that enables participants such as CEOs, managing directors, strategy directors, and chief representatives to understand the Islamic principles. Executive Director, Ammar Shata, was invited to be part of the judging panel for the program's final exam.

BREAST CANCER AWARENESS LECTURE

Jeddah – 22 November 2017

Alkhabeer coordinated with the International Medical Center, Jeddah, to provide a lecture to Alkhabeer ladies in an effort to raise breast cancer awareness. A specialist was on hand to offer advice and guidance on early detection of breast cancer and provide one-on-one assessment.

SUSTAINABILITY COMMITTEE OF PRINCE MAJID BIN ABDUL AZIZ SOCIETY FOR COMMUNITY DEVELOPMENT

HRH Prince Mishal bin Majid invited Mr. Adnan A. Tashkandi, Acting Head of the Awqaf Services, to be a member of the Sustainability Committee of Prince Majid bin Abdul Aziz Society for Community Development. This committee acts as an advisory body to the board of directors of the Majid Society with regard to its investment and sustainability strategic planning. Since then, Mr. Adnan has been an active committee member, attending more than 6 meetings during 2017.

INITIATIVES TO SUPPORT FUTURE GENERATIONS

ALKHABEER INTERNSHIP PROGRAM

A summer internship at Alkhabeer is an excellent way to learn business skills, partner with a mentor, build connections and get real-world experience before graduation. Interns are assigned to a department corresponding to their chosen field of study, and a mentor who is on hand to provide professional development and guidance. At the end of the program, a reference letter is issued, indicating the trainee's period of experience and performance evaluation. In 2017, five students were enrolled in the program.

BOARD OF DIRECTORS' REVIEW

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

The Board of Directors held five regular meetings and two exceptional meetings during 2017. The Board performs a pivotal and vital role in determining the Company's strategic direction and ensuring its implementation, within a framework of controls and incentives. This applies to the Board's three permanent committees: The Board's Investment Committee, the Audit Committee, and the Nomination & Remuneration Committee.

The independent Board member Mr. Wan Abdul Rahim Kamel resigned and retired from the Board on 18 October 2017.

DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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

- Alkhabeer has properly maintained its accounting records.
- The internal control system was properly prepared and effectively implemented.
- There is no doubt that Alkhabeer has the resources to continue its business.
- Alkhabeer did not have, nor did it not enter into, any contract in which any member of the Board, the Executive Director, the CEO, the Chief Financial Officer or any of their associates has or had any material interest that has not been approved except as disclosed in Note (7) to the Consolidated Financial Statements regarding related party transactions.

BOARD MEMBERS' PROFILES



MUSAAD MOHAMMAD ALDREES

Chairman
Member of the Board's Investment Committee

A longstanding and renowned businessman, Musaad has played a leading role in developing and expanding a group of family companies in various business sectors. He was Member of the Board of Executive Directors at the Saudi American Glass Factory, entirely owned by Dubai Investment Company. He was also a Member of the Board of Mohammad Saad Aldrees and Sons Limited Company (which later became a public company and got listed on the Saudi Stock Market), Mohammad Saad Aldrees Sons Limited Company, Mohammad Saad Aldrees and Sons Holding Company, and Aldrees Industrial & Trading Company. In addition to completing various training courses in KSA, the USA and the UK, Musaad is a graduate of the Institute of Public Administration in Riyadh, Saudi Arabia.



AMMAR AHMED SHATA

Executive Director
Member of the Board's Investment Committee

Ammar Shata is the founder and Executive Director of Alkhabeer Capital. He is also a Board Director of Jeddah Development & Urban Regeneration Company, and a Board Director of Murooj Jeddah Company Limited. He has more than 27 years of experience in Corporate Banking, Islamic Finance, Asset Management and Private Equity. He began his investment banking career in 1990. Since then, he has held several leadership positions in a number of major Saudi banks, including National Commercial Bank, Al Baraka Investment Development Group, and the Islamic Financial Analyst (CFA) Charterholder, Ammar holds a Bachelor's degree in Electrical Engineering and a Master's degree in Financial Economic Planning from the University of Southern California, USA.



SAEID MOHAMMED BINZAGR

Vice Chairman
Chairman of the Board's Investment Committee

Saeid Binzagr has over 20 years of experience in commerce and industry. He is the Chairman of Binzagr Barwil Marine Transport Company and Avon Beauty Arabia LLC. In addition, he is a Board Director of Abdullah & Said M. O. Binzagr Co., Binzagr Factory for Insulation Materials Company, Binzagr Co-Ro, International Marketing & Communications Company, Said M. O. Binzagr & Partners Co., Binzagr Unilever Limited, Binzagr for Industrial and Commercial Investments Company Co., Diyar Al-Khayyal for Real Estate Development, the Saudi Industrial Property Authority (MODON) and the Jeddah Chamber of Commerce. Saeid holds a Bachelor's degree in Science from Linfield College, Oregon, USA.



MUHANAD HAYDAR BINLADIN (Non-Independent Director)

Muhanad is an Assistant General Manager of Administration and Finance, as well as the Acting General Manager of Investments Division at Mohammed Binladin Co. Previously, he served as Chief Accountant for Binladin Industrial Co. Muhanad is the owner of Cultural Thought Est. and the founder and partner in Nutrition Zone L.L.C and Zileej DMCC, an Emirati company specialized in computer software development. He is also a Board Director of Zileej DMCC, Sky Steel Systems (UAE) and Makani Bayn Alkhotoot, a Saudi company specialized in parking management and services. Muhanad holds a Master's degree in Innovation and Technology Management from the Grenoble Graduate School of Business, France, and a Bachelor's degree in Finance from the King Fahad University of Petroleum & Minerals, KSA.



MOHAMMED NAWAF BABGI (Non-Independent Director)

Member of the Board's Investment Committee

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



MOHAMMED A. MOUMENA (Independent Director)

Chairman of the Nomination & Remuneration Committee

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



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

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



WAN ABDUL RAHIM KAMIL
(Independent Director)
Member of the Nomination & Remuneration
Committee

An Islamic capital markets consultant and expert, Wan currently serves as Consultant to the Securities Commission and a Board Director in First International Consulting Co, both in Malaysia. He previously worked for Bank Islam Malaysia, and was Chief Executive Officer of Abrar Discounts Berhad. Wan is a lecturer on Sukuk, liquidity management, treasury, and other related Islamic finance subjects. He studied statistics at Mara Institute of Technology, in addition to completing a number of professional development programs in leadership development at Harvard University, and the International Institute of Islamic Banking and Economic Studies in Cyprus.



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

Issam is an Islamic finance expert and currently serves as the Managing Partner of Newbury Economic Consulting that he established in Kuwait. He is also the Associate Partner of Emark Consulting & Training Company, and the advisor to the Chairman of the International Investor Company in Kuwait. He was the Founder of Rasameel Structured Finance Company in Kuwait where he served as the Chairman and Managing Director. Issam has held high positions in several institutions, including Chairman of the Board of Ain Takaful Insurance Company, Sorrooh Investment Company, and Board Director at Dubai Wire Company and Kuwait Catalyst Company, among others. Issam holds a Bachelor's degree in Economics & Business Administration from the University of Kuwait, and a Master's degree (Dist.) from the University of Hull in the UK.

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

The table below shows the organizational structure of the Board of Directors and the classification of its members as of the end of 2017, in addition to the names of companies in which the Board member is also a member of their boards:

NAME	MEMBER CLASSIFICATION	MEMBERSHIP IN BOARDS OF DIRECTORS OF OTHER COMPANIES (LISTED OR NON-LISTED)
Musaad Mohammad Aldrees (Chairman of the Board)	Non-Executive	NA
Ammar Ahmed Shata (Executive Director)	Executive	Member of the Board, Jeddah Development & Urban Regeneration Co. Member of the Board, Murooj Jeddah Company Limited Member of the Board, Alkhabeer Capital (DIFC) Limited Member of the Board, Jeddah Chamber of Commerce Chairman of the Board, Avon Beauty Arabia Company Member of the Board, Binzagr Co-Ro Company Member of the Board, Binzagr Unilever Limited Chairman of the Board, Binzagr Barwil Marine Transport Company
Saeid Mohammed Binzagr (Vice Chairman of the Board)	Non-Executive	Member of the Board, Abdullah & Saeid M.O. Binzagr Company Member of the Board, Binzagr Factory for Insulation Materials Company Member of the Board, Diyar Al-Khayyal Company Member of the Board, International Marketing & Communications Company Member of the Board, Saudi Industrial Property Authority (MODON) Member of the Board, Binzagr Company Member of the Board, Binzagr Company for Industrial and Commercial Investments
Muhanad Haydar Binladin	Non-Executive	Chairman of the Board, Zaleej Company Member of the Board, Makani Bayn Alkhotoot Member of the Board, Sky Steel Systems Member of the Board, Waraq Arab Paper Member of the Board, Saqifat Al Safa Member of the Board, Sara Real Estate Company Member of the Board, Alraeda Company for Education Development
Mohammed Nawaf Babgi	Non-Executive	Member of the Board, Tasheelat Real Estate Investment Company Member of the Board, Tasheelat Marketing Company. Member of the Board, Tasheelat Holding Company. Member of the Board, Souk Sahl Company. Member of the Board, Sahl Transport Company. Member of the Board, Bahamdan Group
Mohammed A. Moumena	Independent	Member of the Board, Middle East Healthcare Company Member of the Board, Fransa Invest Bank Member of the Board, Al-Wedad Charity Foundation Member of the Board, Edward W. Kelley & Partners Member of the Board, Initial Saudi Arabia Group
Abdulkader Hayward Thomas	Independent	Member of the Board, Shape for Economic Consultancy Member of the Board, Shape Financial Corporation Member of the Board, Shape Knowledge Services Chairman of the Board, Alkhabeer Capital (DIFC) Limited
Wan Abdul Rahim Kamil	Independent	Member of the Board, First International Consulting
Issam Zaid Al Tawari	Independent	Founder and Partner Member, Newbury Economic Consulting Member of the Board, Alkhabeer Capital (DIFC) Limited

BOARD MEMBERS' ATTENDANCE

The Board of Directors held five (5) regular meetings and two (2) other exceptional meetings during 2017. The following table shows attendance at each board meeting:

MEMBER'S NAME	FIRST MEETING	SECOND MEETING	THIRD MEETING	1 ST EXCEPTIONAL MEETING IN 2017	FOURTH MEETING	2 ND EXCEPTIONAL MEETING IN 2017	FIFTH MEETING	TOTAL
	20 FEBRUARY	24 APRIL	13 AUGUST	17 & 18 OCTOBER	18 OCTOBER	15 NOVEMBER	25 DECEMBER	
Musaad Mohammad Aldrees	▼	▼	▼	▼	▼	▼	▼	7
Ammar Ahmed Shata	▼	▼	▽	▼	▼	▼	▼	6
Saeid Mohammed Binzagr	▼	▽	▼	▼	▼	▽	▼	5
Muhanad Haydar Binladin	▼	▼	▼	▼	▼	▼	▼	7
Mohammed Nawaf Babgi	▼	▼	▼	▼	▼	▼	▼	7
Mohammed A. Moumena	▼	▼	▼	▼	▼	▼	▼	7
Abdulkader Hayward Thomas	▼	▼	▼	▼	▼	▽	▼	6
Issam Zaid Al Tawari	▼	▼	▼	▼	▼	▽	▼	6
Wan Abdul Rahim Kamil	▼	▼	▼	▼	▼	▽	▼	6

▼ Attended ▼ Attended Electronically ▽ Excused Absence

BOARD MEMBERS' REMUNERATION

The Members of the Board have not received any remuneration during 2017 in spite of their excellent performance towards achieving the Company's objectives. The allowances received by Non-executive and Independent Members of the Board, however, amounted to SAR 1,125,000 for the financial year 2017.

SHAREHOLDINGS OF BOARD MEMBERS AND RELATED PERSONS

The following table shows any interest in Alkhabeer Capital owned by Board members and any person related to them, and any change in such interest during 2017:

NAME OF BOARD MEMBER	RELATED PERSON	NUMBER OF SHARES AS AT BEGINNING OF 2017	PERCENTAGE SHAREHOLDING AS AT BEGINNING OF 2017	NUMBER OF SHARES AS AT END OF 2017	PERCENTAGE SHAREHOLDING AS AT END OF 2017	SHARE PAR VALUE (SAR)
Musaad Mohammed Aldrees	-	1,600,000	1.97%	1,600,000	1.97%	10
Ammar Ahmed Shata	Alkhabeer National Company for Commercial Projects Management	7,929,143*	9.75%	7,933,143	9.75%	10
Mohammed Nawaf Babgi	-	1,000**	0%	0	0%	10
Saeid Mohammed Binzagr	-	1,000**	0%	0	0%	10
Abdulkader Hayward Thomas	-	1,000**	0%	0	0%	10
Wan Abdul Rahim Kamil	-	1,000**	0%	0	0%	10
Issam Zaid Al Tawari	-	1,000**	0%	0	0%	10
Muhanad Haydar Binladin	-	1,000**	0%	0	0%	10
Mohammed A. Moumena	-	1,000**	0%	0	0%	10

* Includes 7,928,143 shares owned by Alkhabeer National Company for Commercial Projects Management, in which Mr. Ammar Ahmed Shata holds 48.6% of its shares and 1,000 shares owned directly by Mr. Ammar Ahmed Shata as Board membership guarantee shares in the Board of Directors of Alkhabeer Capital.

** The 1,000 shares represent the Board membership guarantee shares in the Board of Directors of Alkhabeer Capital. However, as per the new Corporate Law, no guarantee shares are required to be owned by each Board member and therefore, they have been returned to the original owners.

BUSINESS ACTIVITIES AND CONTRACTS WITH RELATED PARTIES

The Board of Directors declares that there are no business activities or contracts to which Alkhabeer Capital is party, or in which any member of the Board, the CEO, the Chief Financial Officer or any party related to any of them, has an interest.

TRANSACTIONS BETWEEN ALKHABEER CAPITAL AND RELATED PARTIES

Alkhabeer Capital did not enter into any for-profit transaction with any related parties during 2017.

BOARD COMMITTEES

The Board of Directors presides over three main committees whose membership was formed by the Board: The Audit Committee, the Nominations & Remuneration Committee, and the Board Investment Committee. These committees play an important role in assisting the Board of Directors to perform its assigned regular duties. The following is a short description of the competences and tasks of the Board Committees, as well as the structure of their members and the number of their meetings held during the year:

AUDIT COMMITTEE

The Audit Committee supports the Board's supervisory functions in ensuring the integrity of financial statements, the qualification and independence of the external auditors, and the sound performance of the Company's Internal Audit function. The Audit Committee met five (5) times during 2017. The following table lists each member's attendance:

MEMBER'S NAME		FIRST MEETING	SECOND MEETING	THIRD MEETING	FOURTH MEETING	FIFTH MEETING	TOTAL
		19 FEB	23 APR	19 JUL	17 OCT	24 DEC	5
Saleh H. A. Hussain	Chairman	▼	▼	▼	▼	▼	5
Abdulkader Thomas	Member	▼	▼	▼	▼	▼	5
Issam Zaid Al Tawari	Member	▼	▼	▼	▼	▼	5

▼ Attended ▼ Attended Electronically ▽ Excused Absence

NOMINATION & REMUNERATION COMMITTEE

The Nomination & Remuneration Committee supports the Board's supervisory functions to ensure the independence of directors and the integrity of the Company's remuneration policy. The Nomination & Remuneration Committee met six (6) times during 2017.

MEMBER'S NAME		FIRST MEETING	SECOND MEETING	THIRD MEETING	FOURTH MEETING	FIFTH MEETING	SIXTH MEETING	TOTAL
		19 FEB	18 MAY	13 AUG	16 OCT	13 NOV	14 DEC	6
Mohammed Moumena	Chairman	▼	▼	▼	▼	▼	▼	6
Wan Kamil	Member	▼	▼	▼	▼	▼	▼	6
Abdulkader Thomas	Member	▼	▼	▼	▼	▼	▼	6

▼ Attended ▼ Attended Electronically ▽ Excused Absence

BOARD'S INVESTMENT COMMITTEE

The role of the Investment Committee is to assist the Board in its investment policies review and approval functions, investment strategies and transactions, monitoring the Company's financial performance, and monitoring the performance of investments. The Committee also oversees the Company's capital and financial resources. The Investment Committee met five (5) times during 2017.

MEMBER'S NAME		FIRST MEETING	SECOND MEETING	THIRD MEETING	FOURTH MEETING	FIFTH MEETING	TOTAL
		19 FEB	27 MAR	25 MAY	28 SEP	17 DEC	5
Saeid Mohamed Binzagr	Chairman	Attended	Attended Electronically	Excused Absence	Attended	Attended	4
Ammar Ahmed Shata	Member	Attended	Attended	Attended	Attended	Excused Absence	4
Musaad Mohammed Aldrees	Member	Attended	Attended	Attended	Attended	Attended	5
Mohammed Nawaf Babgi	Member	Attended Electronically	Attended	Excused Absence	Attended	Excused Absence	4
Ahmed Saud Ghouth	Member	Attended	Attended	Attended	Attended	Attended	5

Attended Attended Electronically Excused Absence

SHARI'A ADVISORY

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

DISCLOSURE OF REMUNERATION AND COMPENSATION

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

DESCRIPTION	FIVE OF THE TOP EXECUTIVES WHO RECEIVED THE HIGHEST REMUNERATION AND COMPENSATION, INCLUDING THE EXECUTIVE DIRECTOR, THE CHIEF EXECUTIVE OFFICER, THE DEPUTY CHIEF EXECUTIVE OFFICER, AND THE CHIEF FINANCE OFFICER	
	EXECUTIVE DIRECTORS	NON-EXECUTIVE AND INDEPENDENT DIRECTORS
Salaries and Compensation	-	-
Allowances	-	SAR 1,125,000
Periodic and Annual Remuneration	-	-
Incentive Plans	-	-
Any other compensation of in-kind benefits payable monthly or annually	-	-

The data listed in the above table includes the following:

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

MANAGEMENT COMMITTEES

The Executive Management is supported by the following Management Committees:

INVESTMENT COMMITTEE

The Investment Committee (IC) has overall responsibility for reviewing the various corporate risks, and approving their mitigation initiatives. The IC also approves investment proposals within the authority levels as mandated via Alkhabeer's authority matrix and ensures that up-to-date policies and procedures are in place. The Investment Committee's sub-committees are:

- Assets & Liabilities Management Committee
- Product Development Committee

ASSETS & LIABILITIES MANAGEMENT COMMITTEE

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

PRODUCT DEVELOPMENT COMMITTEE

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

COMPLIANCE COMMITTEE

The Compliance Committee, which is chaired by the Executive Director, is responsible for assisting the Board and Management to oversee the Company's compliance with the laws and regulations applicable to its business, specifically those of the Capital Market Authority, and compliance with internal policies and procedures, and the Corporate Governance Manual, while advising Management on best practices in compliance.

ENTERPRISE RISK MANAGEMENT COMMITTEE

The primary responsibility of the Committee is to ensure that sound policies, procedures and practices are in place for the enterprise-wide management of the Company's credit, market and operational risks. The Committee meets once every quarter.

PEOPLE MANAGEMENT COMMITTEE

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

INFORMATION TECHNOLOGY COMMITTEE

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

BUSINESS CONTINUITY PLAN COMMITTEE

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

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

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

EXECUTIVE MANAGEMENT



AMMAR AHMED SHATA
Executive Director



AHMED SAUD GHOUTH
Chief Executive Officer



HISHAM OMAR BAROOM
Deputy Chief Executive Officer



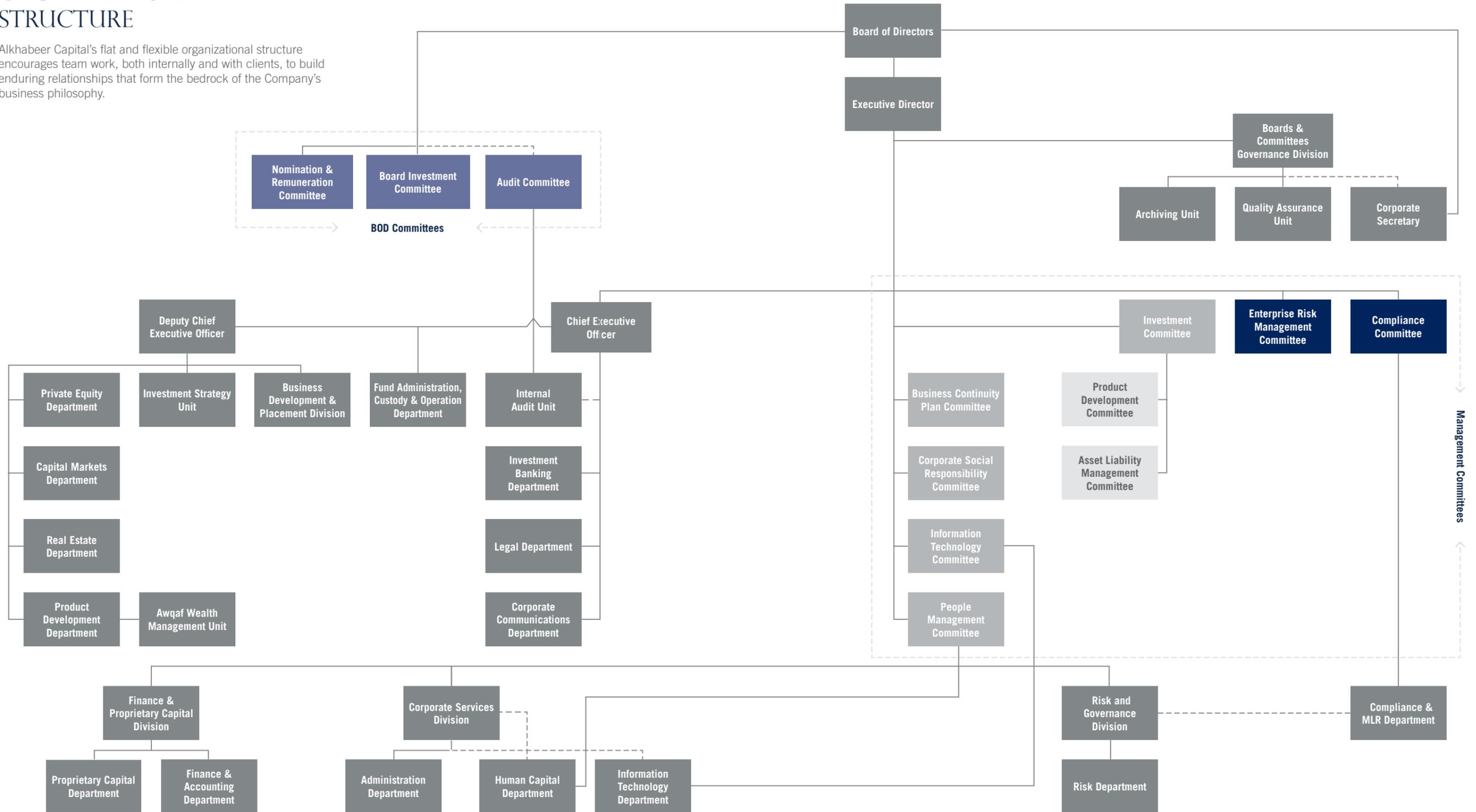
TAMER ABDELRAHEEM
Chief Financial Officer



IBRAHIM SAAD
Director, Risk and Governance Division

ORGANIZATIONAL STRUCTURE

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



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

■ BOD Committees ■ Management Committees – Includes BOD Member ■ Management Committees

■ Management Sub Committees - - - Shows direct reporting — Shows administrative reporting

PILLAR 3 DISCLOSURE

Based on the Capital Market Authority's requirements, a Pillar 3 Disclosure report was prepared by the company for 2017 and approved by the Board. A copy of the report was uploaded on the Company's website.

www.alkhabeer.com/pillar_iii/

SHARI'A REVIEW REPORT

05/06/1439
21/02/2018



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Annual 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 to you the Shari'a Advisor's Report for Alkhabeer Capital (hereinafter 'Company'). In compliance with the letter of appointment we the undersigned have reviewed the Company's businesses & activities for the year ended 31st December 2017.

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

We have reviewed all products, transactions, Agreements and pertinent documentation adopted by the Company during year ended 31st December 2017 and an audit was conducted upon Company's activities as detailed in the Shari'a Audit report which was performed to ensure that the Company's activities were in compliance with the set rules, principles and guidelines in addition to soliciting all information, documentations that were deemed necessary to reach to sound conclusions.

Based on the above and taking in consideration the recommendations set out in the Shari'a Audit report, it is our opinion that the reviewed transactions, related documentation & processes, business activities and dealings entered into by the Company during the year ended 31st December 2017 are in compliance with the Islamic Shari'a Rules, Principles and Guidelines.

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



On behalf of Shariyah Review Bureau W.L.L.
21/02/2018

AKC-189-07-01-02-18

SHARIYAH REVIEW BUREAU
THE CENTRAL BANK OF KUWAIT

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AUDITOR'S REPORT



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

Opinion

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

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

Basis for Opinion

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

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

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

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

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

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

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



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

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

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

for Ernst & Young

Ahmed L. Rida
Certified Public Accountant
License No. 356

04/Rajab/1439H
21 March 2018

Jeddah

17/411/00



CONSOLIDATED BALANCE SHEET

As at 31 December 2017

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended 31 December 2017

1. ACTIVITIES

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

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

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

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

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

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

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

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

The Parent Company has an investment in the following subsidiaries:

ALKHABEER CAPITAL DIFC

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

SANABEL INVESTMENT COMPANY B.S.C. (C) ("SANABEL")

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The Parent Company is an investment entity and, as such, does not consolidate all of the entities it may control. The assets, liabilities, results of operations and cash flows of the Subsidiary as detailed in note 1, which forms an integral part of the Parent Company's operations, is consolidated in these consolidated financial statements. However, other entities acquired, primarily, with an investment perspective are classified as investments held for trading, and measured at fair value, as disclosed in note 6.

BASIS OF CONSOLIDATION

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

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

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

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

ACCOUNTING CONVENTION

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the Kingdom of Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Significant estimates used in preparation and presentation of these consolidated financial statements are disclosed in note 28.

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

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

TRADE DATE ACCOUNTING

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

INVESTMENT ENTITY

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

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

INVESTMENTS HELD FOR TRADING

The Group classifies its investments at initial recognition. The investments held for trading include:

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

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

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

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

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

PROPERTY AND EQUIPMENT

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

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

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

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

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

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. Income and expenses are presented on a net basis only when permitted under accounting standards generally accepted in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions.

ASSETS HELD FOR DISTRIBUTION AND DISCONTINUED OPERATIONS

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

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

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

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

SHARI'A COMPLIANT FINANCING

Shari'a compliant financing is recognised at the value of the proceeds received by the Group.

IMPAIRMENT OF NON-CURRENT ASSETS OTHER THAN GOODWILL

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

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

FIDUCIARY ASSETS

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

ACCRUED EXPENSES AND OTHER LIABILITIES

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

PROVISIONS

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

ZAKAT AND INCOME TAX

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

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

EMPLOYEES' TERMINAL BENEFITS

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

FOREIGN CURRENCY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

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

REVENUE RECOGNITION

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

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

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

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

MURABAHA

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

EXPENSES

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

OPERATING SEGMENTS

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

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

3. CASH AND CASH EQUIVALENTS

	2017 SAR '000	2016 SAR '000
Cash at bank	27,135	155,189
Short term placements	6,774	-
	33,909	155,189

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

4. MURABAHA PLACEMENT

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

5. ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

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

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

- c) During the year, the Group written off certain balances and related equivalent impairment allowance of SAR 5 million.
- d) The total receivable against investment sold is past due as per the signed agreement.

6. INVESTMENTS HELD FOR TRADING

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

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

- a) During the year 2017, the Group has sold certain of its investments to companies managed by the Group.
- b) Certain of the investments and returns generated from them are pledged against Shari'a compliant financing (note 11 and note 26).
- c) During the year, some of the funds managed by the Group distributed part of its underlying assets.

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

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

NAME OF COMPANY	2017	2016
Alkhabeer Industrial Private Equity Company – III Ltd.	100%	-
Alkhabeer GCC Opportunity Company	100%	-

7. RELATED PARTY TRANSACTIONS AND BALANCES

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

TRANSACTIONS WITH	NATURE OF TRANSACTIONS	AMOUNT OF TRANSACTIONS DURING THE YEAR		BALANCES AT 31 DECEMBER	
		2017 SAR'000	2016 SAR'000	2017 SAR'000	2016 SAR'000
	Investments acquired/disposed by the Group and realised/unrealised gain/loss thereon	62,772	302,020	1,330,406	1,267,634
	Management, custody and subscription fees reduced by payments received	2,165	(1,634)	44,871	42,706
	Expenses and advances	54,361	67,913	615	10,254
	Sale of equity to managed funds	(64,000)	69,000	-	64,000
Investments in managed funds and companies	Sale of property investment to funds and companies managed by the Group	593,103	107,100	-	-
	Gain from sale of equity and property investment to managed funds and companies as referred above	136,698	40,101	-	-
	Due from related parties			45,486	116,960
	Subscription of units of funds and companies managed by the Group, not yet paid	(84,000)	(82,812)	-	84,000
	Due to related parties			-	84,000
	Murabaha placement with managed funds and companies	177,539	(47,809)	177,539	-
	Total Murabaha placement			177,539	-

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

REMUNERATION OF KEY MANAGEMENT

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

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

8. PROPERTY AND EQUIPMENT

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

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

	Land SAR '000	Building SAR '000	Leasehold improvements SAR '000	Office and computer equipment SAR '000	Furniture and fixtures SAR '000	Vehicles SAR '000	Capital work in progress (note b) SAR '000	Total 2017 SAR '000	Total 2016 SAR '000
Cost									
At the beginning of the year	6,966	14,234	1,985	16,454	1,149	485	23,575	64,848	45,279
Additions	-	-	452	1,447	137	36	4,409	6,481	23,025
Transfers (note a)	-	-	8,524	-	-	-	(8,524)	-	-
Disposals	-	-	-	(14)	-	(125)	-	(139)	(74)
	6,966	14,234	10,961	17,887	1,286	396	19,460	71,190	68,230
Attributable to assets held for distribution	-	-	-	-	-	-	-	-	(3,382)
At the end of the year	6,966	14,234	10,961	17,887	1,286	396	19,460	71,190	64,848
Accumulated depreciation									
At the beginning of the year	-	5,728	1,972	12,395	996	262	-	21,353	21,814
Depreciation:									
- Continued operations	-	468	142	2,330	105	71	-	3,116	2,906
- Discontinued operations	-	-	-	-	-	-	-	-	89
Relating to disposals	-	-	-	(13)	-	(99)	-	(112)	(74)
	-	6,196	2,114	14,712	1,101	234	-	24,357	24,735
Attributable to assets held for distribution	-	-	-	-	-	-	-	-	(3,382)
At the end of the year	-	6,196	2,114	14,712	1,101	234	-	24,357	21,353
Net book amounts									
At 31 December 2017	6,966	8,038	8,847	3,175	185	162	19,460	46,833	
At 31 December 2016	6,966	8,506	15	4,045	159	229	23,575		43,495

- a) Upon completion during the year, the carrying amount of building constructed on a leased land, was transferred to relevant category. This building is depreciated over the period of the lease term.
- b) Capital work in progress relates to contractor payments for ongoing construction and renovation work on the building owned by the Group.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

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

10. MURABAHA CONTRACTS

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

Movement for the year end Murabaha contract balance as follows,

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

11. SHARI'A COMPLIANT FINANCING

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

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

	2017 SAR'000	2016 SAR'000
31 December 2017	-	14,000
31 December 2018	51,500	14,000
31 December 2019	89,000	14,000
31 December 2020	51,500	14,000
31 December 2021	44,000	44,000
	236,000	100,000

Less: unamortized portion of upfront fee	(4,697)	(2,842)
	231,303	97,158
Less: current portion shown under current liabilities	(51,500)	(14,000)
Non-current portion shown under non-current liabilities	179,803	83,158

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

12. ZAKAT AND INCOME TAX

	2017 SAR '000	2016 SAR '000
PROVISION FOR ZAKAT AND INCOME TAX AS OF 31 DECEMBER		
Zakat	2,055	-
Income tax	141	-
	2,196	-

The provision is based on the following:

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

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

MOVEMENT IN PROVISION DURING THE YEAR

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

	2017 SAR '000	2016 SAR '000
At 1 January	-	1,684
Charge for the year	2,055	-
Paid during the year	-	(1,684)
At 31 December	2,055	-

INCOME TAX

Income tax charges for the years ended 31 December 2017 and 31 December 2016 are based on the adjusted taxable income calculated on the portion of equity owned by the foreign shareholders. The significant tax adjustments made to accounting net income relate to depreciation, employees' termination benefits and provision against doubtful receivables.

MOVEMENT IN PROVISION DURING THE YEAR

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

	2017 SAR '000	2016 SAR '000
At 1 January	-	205
Charge for the year	141	-
Paid during the year	-	(205)
At 31 December	141	-

STATUS OF ASSESSMENTS

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

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

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

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

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

13.SHARE CAPITAL

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

14.DIVIDEND

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

During the year ended 31 December 2016, the Board of Directors proposed a dividend of SAR 0.50 per share for the financial year 2015, totalling SAR 40.66 million before deducting Zakat and income tax, representing 5% of share capital of the Company. The dividend was approved by the shareholders in the General Assembly meeting dated 15 May 2016 and delegated the distribution decision to the Board of Directors of the Group. During 2016, the Company has paid net dividend of SAR 18.44 million to the shareholders out of total dividend amounting to SAR 40.66 million, after deducting Zakat and income tax due from shareholders amounting to SAR 1.89 million.

15.STATUTORY RESERVE

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

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

16.FEE INCOME

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

17.SELLING AND MARKETING EXPENSES

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

18.GENERAL AND ADMINISTRATION EXPENSES

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

19.EARNINGS PER SHARE

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

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

20.ASSETS HELD FOR DISTRIBUTION AND DISCONTINUED OPERATIONS

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

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

21.RISK MANAGEMENT

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

COMMISSION RATE RISK

Commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. Majority of Group's commission bearing assets and liabilities carry fixed rate. However, a Shari'a-compliant financing obtained by the Group during the year carry a variable commission rate and exposes the Group to cash flow commission rate risk.

Accordingly, with all variables held constant, a 0.25% change of applicable commission rate would have resulted SAR 0.375 million lower/higher profit for the year 2017.

CREDIT RISK

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

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

LIQUIDITY RISK

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

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. All of the Group's financial liabilities at 31 December 2017 and 31 December 2016 are payable within 12 months from the consolidated balance sheet date except certain long-term murabaha contract and long term portion of Shari'a-compliant financing which have maturity of more than 12 months from the balance sheet date. As of the reporting date, the Group has adequate liquid assets to discharge the liabilities or commitments as they fall due.

MARKET RISK

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

HELD FOR TRADING INVESTMENTS

Funds and companies managed by the Group, externally managed entities and other investments

The Group's investment in funds and companies managed by the Group, externally managed entities and other investments as at 31 December 2017 and 31 December 2016, of 1,330.41 million and SAR 1,267.63 million, respectively, has been classified as held for trading. The market risks on these investments are monitored on an individual basis. A 10% (2016: 10%) change in the entity's net assets values will increase or decrease the net income by SAR133.04 million (2016: SAR 126.76 million) (note 6).

EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and the value of individual stocks. The Group is not exposed in equity price risk as none of its investments are quoted.

CURRENCY RISK

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

22. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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

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

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

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

23. SEGMENTAL INFORMATION

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

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

CAPITAL MANAGEMENT:

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

ASSET MANAGEMENT:

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

OTHERS:

Others include advisory, arranging, underwriting and infrastructure.

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

BUSINESS SEGMENTS

	CAPITAL MANAGEMENT SAR '000	ASSET MANAGEMENT SAR '000	OTHERS SAR '000	TOTAL SAR '000
Year ended 31 December 2017				
Total operating income	123,781	60,230	3,468	187,479
Net operating income	87,688	36,735	(63,279)	61,144

Year ended 31 December 2016

Total operating income	149,669	57,430	235	207,334
Income from discounting operations	-	-	(160)	(160)
Net operating income	121,157	27,620	(77,645)	71,132

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

GEOGRAPHICAL SEGMENTS	KINGDOM OF SAUDI ARABIA SAR '000	KINGDOM OF BAHRAIN (DISCONTINUED OPERATIONS) SAR '000	UNITED ARAB EMIRATES SAR '000	TOTAL SAR '000
Year ended 31 December 2017				
Total operating income	187,479	-	-	187,479
Net operating income	61,274	-	(130)	61,144

Year ended 31 December 2016

Total operating income	207,334	-	-	207,334
Net operating income	71,292	(160)	-	71,132

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

25. ASSETS HELD UNDER FIDUCIARY CAPACITY

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

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

26. CONTINGENCIES AND CAPITAL COMMITMENTS

- 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.
- The Group has maintained a margin deposit of SAR 14.208 million (2016: SAR 14.208 million) with a local bank in respect of guarantees issued in favour of GAZT (notes 5 and 12).
- The Board of Directors has authorised future capital expenditure, amounting to SAR 10.2 million (2016: SAR 15.9 million) in connection with leasehold improvements and construction under progress.

- The Parent Company issued a corporate guarantee on behalf of a related party for an outstanding amount of SAR 120 million (2016: SAR 120 million). The related party simultaneously issued a back-to-back corporate guarantee to the Parent Company. This amount is due for settlement by the respective related party on 31 December 2020.
- The Parent Company pledged units of its investment in entity on behalf of a related party for an amount of SAR 300 million. The related party simultaneously pledged assets back-to-back for an equivalent value to the Parent Company. (note 6)

27. OPERATING LEASES

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

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

28. KEY SOURCES OF ESTIMATION UNCERTAINTY

IMPAIRMENT OF ACCOUNTS RECEIVABLE

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

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 SAR 3.84 million (31 December 2016: SAR 6.34 million), and the provision for doubtful debts was SAR 2.89 million (31 December 2016: SAR 6.03 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income of those periods.

FAIR VALUATION OF UNQUOTED INVESTMENTS

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

USEFUL LIFE OF PROPERTY AND EQUIPMENT

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

INVESTMENT ENTITY

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

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

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

GOING CONCERN

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

29. BOARD OF DIRECTORS' APPROVAL

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

LEGAL DISCLAIMER

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



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