

Blominvest Saudi Arabia
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2016

AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOMINVEST SAUDI ARABIA (A SAUDI JOINT STOCK COMPANY)

Scope of Audit:

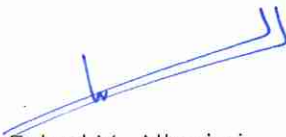
We have audited the accompanying balance sheet of Blominvest Saudi Arabia - a Saudi Joint Stock Company (the "Company") as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility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

Unqualified opinion:

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

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

for Ernst & Young



Fahad M. Altoaimi
Certified Public Accountant
Registration No. 354



Riyadh: 1 Jumad Thani 1438H
(28 February 2017)

Blominvest Saudi Arabia
(A Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2016

	<i>Note</i>	2016 SR	2015 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	25,304,769	23,534,484
Time deposits	4	139,000,000	50,000,000
Prepayments, accrued income and other receivables	5	74,718,459	56,935,374
TOTAL CURRENT ASSETS		239,023,228	130,469,858
NON-CURRENT ASSETS			
Property and equipment	6	1,520,852	2,376,754
Investment properties	7	59,005,196	59,005,196
Available for sale investments	8	90,821,526	218,658,348
TOTAL NON-CURRENT ASSETS		151,347,574	280,040,298
TOTAL ASSETS		390,370,802	410,510,156
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank overdraft	9	52,972	4,672,451
Current portion of term loan	9	-	37,500,000
Accrued expenses and other payables	10	12,765,410	12,365,959
Zakat and income tax payable	11	10,161,753	8,675,730
TOTAL CURRENT LIABILITIES		22,980,135	63,214,140
NON-CURRENT LIABILITIES			
Employees' terminal benefits		1,335,559	1,298,306
Term loan	9	55,000,000	55,000,000
TOTAL NON-CURRENT LIABILITIES		56,335,559	56,298,306
TOTAL LIABILITIES		79,315,694	119,512,446
SHAREHOLDERS' EQUITY			
Share capital	12	245,000,000	245,000,000
Retained earnings		48,418,279	32,858,120
Statutory reserve		7,195,277	4,859,476
Unrealised gain on available for sale investments	8	10,441,552	8,280,114
TOTAL SHAREHOLDERS' EQUITY		311,055,108	290,997,710
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		390,370,802	410,510,156

The attached notes 1 to 21 form part of these financial statements.

Blominvest Saudi Arabia
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STATEMENT OF INCOME

For the Year Ended 31 December 2016

	<i>Note</i>	2016 SR	2015 SR
OPERATING INCOME			
Advisory and asset management fees		54,603,844	53,887,946
(Loss) gain on sale of available for sale investments		(1,889,098)	2,425,656
Special commission income		3,000,444	1,402,303
TOTAL OPERATING INCOME		55,715,190	57,715,905
OPERATING EXPENSES			
General and administration	13	(20,782,286)	(18,651,795)
Management and related fees		(11,640,565)	(12,460,247)
Commission		(6,616)	(82,017)
Financial charges	9	(570,626)	(291,822)
TOTAL OPERATING EXPENSES		(33,000,093)	(31,485,881)
INCOME FROM MAIN OPERATIONS		22,715,097	26,230,024
Dividend income from trading portfolio		642,916	843,963
NET INCOME FOR THE YEAR		23,358,013	27,073,987
EARNINGS PER SHARE:			
Attributable to income from main operations	14	0.93	1.07
Attributable to income for the year	14	0.95	1.11

The attached notes 1 to 21 form part of these financial statements.

Blominvest Saudi Arabia
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STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2016

	Note	2016 SR	2015 SR
OPERATING ACTIVITIES			
Net income for the year		23,358,013	27,073,987
Adjustments for:			
Depreciation	6	906,305	712,544
Provision for employees' terminal benefits		37,253	528,915
Loss (Gain) on sale of available for sale investments		1,889,098	(2,425,656)
Amortization of premium on available for sale investments		(27,620)	(180,042)
		<u>26,163,049</u>	<u>25,709,748</u>
Changes in operating assets and liabilities:			
Prepayments, accrued income and other receivables		(17,783,085)	(23,780,013)
Accrued expenses and other payables		399,451	10,726,616
		<u>8,779,415</u>	<u>12,656,351</u>
Cash from operations		8,779,415	12,656,351
Zakat and tax paid		(3,976,030)	(4,735,980)
		<u>4,803,385</u>	<u>7,920,371</u>
INVESTING ACTIVITIES			
Purchase of investment properties		-	(32,999,037)
Purchase of property and equipment		(50,403)	(1,253,582)
Purchase of available for sale investments		(92,912,835)	(212,157,984)
Proceeds from sale of available for sale investment		220,406,701	204,527,602
Dividends received		642,916	843,963
		<u>128,086,379</u>	<u>(41,039,038)</u>
Net cash from (used in) investing activities			
FINANCING ACTIVITIES			
Bank overdraft		(4,619,479)	2,093,819
Time deposit		(89,000,000)	(50,000,000)
Term loan paid		(37,500,000)	-
		<u>(131,119,479)</u>	<u>(47,906,181)</u>
Net cash used in financing activities			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,770,285	(81,024,848)
Cash and cash equivalents at the beginning of the year		23,534,484	104,559,332
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	<u><u>25,304,769</u></u>	<u><u>23,534,484</u></u>
NON-CASH TRANSACTION:			
Change in unrealised gain on available for sale investments	8	<u><u>2,161,438</u></u>	<u><u>1,905,526</u></u>

The attached notes 1 to 21 form part of these financial statements.

Blominvest Saudi Arabia
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended 31 December 2016

	<i>Share Capital SR</i>	<i>Proposed Capital increase SR</i>	<i>Retained earnings SR</i>	<i>Statutory reserve SR</i>	<i>Unrealised gain on available for sale investments SR</i>	<i>Total SR</i>
Balance at 31 December 2014	145,000,000	100,000,000	14,603,279	2,152,078	6,374,588	268,129,945
Transfer from proposed capital	100,000,000	(100,000,000)	-	-	-	-
Net income for the year	-	-	27,073,987	-	-	27,073,987
Transfer to statutory reserve	-	-	(2,707,398)	2,707,398	-	-
Zakat and income tax (note 11)	-	-	(6,111,748)	-	-	(6,111,748)
Changes in unrealised gain on available for sale investments (note 8)	-	-	-	-	1,905,526	1,905,526
Balance at 31 December 2015	245,000,000	-	32,858,120	4,859,476	8,280,114	290,997,710
Net income for the year	-	-	23,358,013	-	-	23,358,013
Transfer to statutory reserve	-	-	(2,335,801)	2,335,801	-	-
Zakat and income tax (note 11)	-	-	(5,462,053)	-	-	(5,462,053)
Changes in unrealised gain on available for sale investments (note 8)	-	-	-	-	2,161,438	2,161,438
Balance at 31 December 2016	245,000,000	-	48,418,279	7,195,277	10,441,552	311,055,108

The attached notes 1 to 21 form part of these financial statements.

Blominvest Saudi Arabia
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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

1 ACTIVITIES

Blominvest Saudi Arabia, (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia. The Company is registered under commercial registration numbered 1010254040 dated 24 Rajab 1429H, (corresponding to 27 July 2008). The Company is engaged to act as agent and principal, underwriting, managing, arranging, advisory and custodial services of financial securities in accordance with the license issued by Capital Market Authority (CMA) numbered 08094-37 dated 21 Muharram 1429H (corresponding to 30 January 2008) and license issued by Saudi Arabian General Investment Authority numbered 262/1 dated 19 Safar 1429H (corresponding to 27 February 2008).

The Company commenced its operations on 30 September 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Saudi Organisation for Certified Public Accountants’ accounting standards that are generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of bank balances, cash on hand and time deposits that are readily convertible into known amounts of cash and have an original maturity period of three months or less when purchased.

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.

Investment properties

Investment properties are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold lands are not depreciated.

Available for sale investments

Investments that are bought neither with the intention of being held to maturity nor for trading purposes are classified as available for sale investments and are carried at their fair value.

Unrealised gains or losses on revaluation of these investments are credited or charged to the statement of changes in shareholders’ equity. Any decline, other than temporary, in the value of available for sale investments is charged to the statement of income.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long term assets

The carrying values of long term assets 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. The excess of carrying value over the estimated recoverable amount is charged to the statement of income.

Accounts payable and accruals

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 Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Loans and borrowings

Loans and borrowings are recognised at the proceeds received value by the Company.

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

Revenue recognition

- (i) *Investment Banking income*
Advisory income is recognized as revenue when services are rendered and completed as per the advisory engagement with clients.
- (ii) *Management fee from funds*
Fees charged for managing mutual funds are recognised as revenue ratably as the services are provided. Fund performance income is recognised when the fund results meet the preset targets.
- (iii) *Income from bank deposit*
Income from bank deposits is recognised based on effective yield basis on the outstanding balances.

Operating lease

Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

Statutory reserve

As required by the Saudi Arabian Regulations for Companies, the company must transfer 10% of the net income for the year (after deducting losses brought forward) to the statutory reserve till it has built up a reserve equal to 50% of the capital. The reserve is not available for distribution.

Employees' terminal benefits

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

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Customers' funds

The Company receives funds from customers, for the purpose of carrying out securities transactions on behalf of customers. Such deposits are held in a fiduciary capacity whereby the deposits cannot be used to generate income for the Company. Accordingly these deposits are not recognized in these financial statements.

Segmental reporting

A segment is a distinguishable component of the Company that is engaged either 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.

3 CASH AND CASH EQUIVALENTS

	2016 SR	2015 SR
Cash at hand	584	2,742
Bank balances	<u>25,304,185</u>	<u>23,531,742</u>
	<u>25,304,769</u>	<u>23,534,484</u>

Bank balance includes SR 381,239 (2015: 20,761) deposit in a current account maintained with related parties (shareholders) and having effective special commission rate based on the market rate.

4 TIME DEPOSITS

Time deposits represent deposits with a local commercial bank with investment grade credit rating and have an original maturity of more than three months from date of acquisition. The average variable special commission rate on the time deposits as at 31 December 2016 is based on the market rate.

5 PREPAYMENTS, ACCRUED INCOME AND OTHER RECEIVABLES

	2016 SR	2015 SR
Accrued management fee, net (note 9)	67,907,195	51,265,508
Prepaid expense	2,154,737	1,395,753
Accrued special commission income	188,583	248,958
Other receivables	<u>4,467,944</u>	<u>4,025,155</u>
	<u>74,718,459</u>	<u>56,935,374</u>

As at 31 December 2016, accrued management fee of a nominal value of SR 2,824,145 (2015: SR Nil) were considered impaired (note 13).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

6 PROPERTY AND EQUIPMENT

The cost of property and equipment is depreciated on a straight-line basis over the following estimated useful lives:

Equipment	5 years	Computer software	3 years
Office furniture	5 years	Leasehold improvement	10 years or rent period whichever is shorter
Computer hardware	3 years	Motor vehicles	5 years

	<i>Equipment</i> SR	<i>Office furniture</i> SR	<i>Computer hardware</i> SR	<i>Computer software</i> SR	<i>Leasehold improvement</i> SR	<i>Motor vehicles</i> SR	<i>Total</i> 2016 SR	<i>Total</i> 2015 SR
<i>Cost:</i>								
At the beginning of the year	1,817,235	734,254	2,224,308	3,975,283	3,721,667	186,500	12,659,247	11,405,665
Additions during the year	17,399	-	16,403	16,601	-	-	50,403	1,253,582
At the end of the year	<u>1,834,634</u>	<u>734,254</u>	<u>2,240,711</u>	<u>3,991,884</u>	<u>3,721,667</u>	<u>186,500</u>	<u>12,709,650</u>	<u>12,659,247</u>
<i>Depreciation:</i>								
At the beginning of the year	1,774,392	725,483	1,238,742	3,699,409	2,686,241	158,226	10,282,493	9,569,949
Charge for the year	13,165	2,526	368,253	140,491	372,170	9,700	906,305	712,544
At the end of the year	<u>1,787,557</u>	<u>728,009</u>	<u>1,606,995</u>	<u>3,839,900</u>	<u>3,058,411</u>	<u>167,926</u>	<u>11,188,798</u>	<u>10,282,493</u>
<i>Net book amounts:</i>								
<i>At 31 December 2016</i>	<u>47,077</u>	<u>6,245</u>	<u>633,716</u>	<u>151,984</u>	<u>663,256</u>	<u>18,574</u>	<u>1,520,852</u>	
<i>At 31 December 2015</i>	<u>42,843</u>	<u>8,771</u>	<u>985,566</u>	<u>275,874</u>	<u>1,035,426</u>	<u>28,274</u>		<u>2,376,754</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

7 INVESTMENT PROPERTIES

Investment properties represent the following:

- (a) Two plots of land in Al Khobar, Saudi Arabia. The total cost of investment at 31 December 2016 is SR 26,894,868 (2015: SR 26,894,868) including survey and other fees of SR 1,402,500 (2015: SR 1,402,500). The title deeds of the investment properties are registered in the name of Chairman of the Company through a trust agreement that confirm the holding of land on behalf of the Company.
- (b) Forty nine plots of land in Riyadh, Saudi Arabia amounting to SR 32,110,328 (2015: SR 32,110,328), representing 50% of the total value of these properties. The title deeds of the investment properties are registered in the name of Chairman of the Company through a trust agreement that confirm the holding of land on behalf of the Company.

8 AVAILABLE FOR SALE INVESTMENTS

Available for sale investments consists of investments in local, regional and international bonds and equities. The movements in available for sale investments are set out below:

	<i>2016</i>		
	<i>Cost</i>	<i>Unrealised Gain (Loss)</i>	<i>Fair Value</i>
Mutual funds (note 8.1)	11,586,500	(155,862)	11,430,638
Real Estate funds (note 8.2)	36,600,000	13,018,862	49,618,862
Bonds (8.3)	12,654,413	871,053	13,525,466
Local equities (note 8.4)	19,539,061	(3,292,501)	16,246,560
	80,379,974	10,441,552	90,821,526
	210,378,234	8,280,114	218,658,348
	<i>2015</i>		
	<i>Cost</i>	<i>Unrealised Gain (Loss)</i>	<i>Fair Value</i>
Mutual funds (note 8.1)	135,445,184	11,317	135,456,501
Real Estate funds (note 8.2)	35,400,000	11,192,153	46,592,153
Bonds (8.3)	20,182,034	1,156,387	21,338,421
Local equities (note 8.4)	19,351,016	(4,079,743)	15,271,273
	210,378,234	8,280,114	218,658,348

8.1 Investments in mutual funds represent units 1,239 (2015: 1,239 units), units 2,300 (2015: 2,300), units 17,230 (2015: 17,230) and units Nil (2015: 29,646) in the Company's managed Blom Saudi Arabia Fund, Blom Arab Market Balanced Fund, Al Mazaya Saudi Equity Fund and Blom Saudi IPO Fund respectively.

8.2 Investment in real estate funds represent 1,400 units (2015: 1,400 units), 400 units (2015: 400 units) and 12 units (2015: Nil) in the Company's managed Blom Okaz Real Estate Fund, Blom Solidere Real Estate Fund 3 and Ammoriya Fund respectively.

8.3 Investments in Bonds represent 2 Bonds (2015: 3 Bonds) as issued by entities incorporated outside Saudi Arabia. The Bonds are listed on various Stock Exchanges outside Saudi Arabia and those are stated at fair value.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

8 AVAILABLE FOR SALE INVESTMENTS (continued)

8.4 Investment in local equities represents portfolio managed by a local asset management company authorized by Capital Market Authority of Saudi Arabia. The breakdown of trading portfolio, as at the year-end is as follows:

	2016 SR	2015 SR
Local equities listed in Saudi Stock Exchange	<u>16,246,560</u>	<u>15,271,273</u>

9 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of major related party transactions during the year:

a) Transactions with related parties included in the statement of income are as follows:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>	
		2016 SR	2015 SR
Shareholders	Financial charges	570,626	291,822
Real estate funds under management	Management fees *	51,808,099	46,759,000
Mutual funds under management	Management and placement fees *	2,727,715	5,891,445
Senior management (refer note below)	Commission paid	120,000	144,858

*Accrued management fee as of year-end is disclosed in note 5 to the financial statements.

Senior management commission

A commission is paid to the senior management of the Company when they arrange to get the unit holders to subscribe to the units of the real estate funds managed by the Company. The commission is paid at the rate of 2% of subscription amount.

b) Transactions with related parties included in the balance sheet are as follows:

Bank overdraft

The Company is maintaining overdraft account amounting to SR 52,972 (2015: SR 4,672,451) with one of the shareholders, Blom Bank in Lebanon. The overdraft account accrues special commission at the rate of 0.5% per annum.

Term loan

On 29 June 2011, the Company had obtained a term loan from Blom Bank in Lebanon, amounting to SR 37,500,000. The term loan was repaid in June 2016.

On 12 September 2013, the Company had obtained a term loan from Blom Bank in Lebanon, amounting to SR 55,000,000. The loan accrues special commission at the rate equals to three months LIBOR and is repayable on 19 November 2018.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

10 ACCRUED EXPENSES AND OTHER PAYABLES

	2016 SR	2015 SR
Accrued management and related fees	10,231,109	9,613,734
Accrued bonus	2,104,558	2,372,317
Accrued fees	338,611	267,646
Interest payable	55,687	24,620
Other	35,445	87,642
	<u>12,765,410</u>	<u>12,365,959</u>

11 ZAKAT AND INCOME TAX

a) Zakat

Charge for the year

The zakat charge consists of the current year provision amounting to SR 3,441,853 (2015: SR 3,630,957)

The provision is based on the following:

	2016 SR	2015 SR
Equity	245,000,000	261,755,357
Opening balance of provisions and other adjustments	90,677,824	97,618,607
Book value of long term assets	(9,324,248)	(23,880,295)
	<u>326,353,576</u>	<u>335,493,669</u>
Adjusted income for the year	17,845,792	27,602,003
	<u>344,199,368</u>	<u>363,095,672</u>
Zakat base	344,199,368	363,095,672
Share of Saudi shareholder in the Zakat base @ 40%	137,679,747	145,238,269
	<u>3,441,853</u>	<u>3,630,957</u>

The differences between the financial and zakat results are mainly due to provisions which are not allowed in the calculation of adjusted losses.

Movement in provision during the year:

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

	2016 SR	2015 SR
At the beginning of the year	7,976,784	4,916,261
Provision made during the year	3,441,853	3,630,957
Paid during the year	(1,703,354)	(570,434)
	<u>9,715,283</u>	<u>7,976,784</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2016

11 ZAKAT AND INCOME TAX (continued)

b) Income tax

Charge for the year

The income tax charge consist of the current year provision amounting to SR 2,020,200 (2015: SR 2,480,791)

Movement in provision during the year

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

	2016 SR	2015 SR
At the begining of the year	698,946	2,383,701
Provision made during the year	2,020,200	2,480,791
Paid during the year	(2,272,676)	(4,165,546)
Balance at the end of the year	<u>446,470</u>	<u>698,946</u>

Status of assessment

The Company has filed its income tax and zakat declarations for the periods ended 30 June 2009, 31 December 2009 and for the years ended 31 December 2010 through 2015 with the General Authority for Zakat and Income Tax (the "GAZT").

The GAZT has issued initial assessments for the years 2010 to 2014 requesting for additional zakat of SR 2,009,861 by disallowing the deduction of available for sale investments. The Company has filed an appeal contesting the initial assessment of the GAZT. However, no decision has been finalised on the appeal. Based on information submitted in the appeal, management is confident that the revised assessment for years 2010 to 2014 by the GAZT will result in no additional zakat/tax liability to be settled.

12 SHARE CAPITAL

The Company's authorised, issued and fully paid share capital is 24,500,000 shares (2015: 24,500,000 shares) of SR 10 each.

13 GENERAL AND ADMINISTRATION EXPENSES

	2016 SR	2015 SR
Staff costs	11,897,456	12,541,047
Bad debt expense (note 5)	2,824,145	-
Legal and professional fees	1,145,246	1,398,591
Rent and premises	1,133,886	1,107,792
Depreciation (note 6)	906,305	712,543
Advertising	99,163	195,935
Withholding tax	67,049	99,407
Others	2,709,036	2,596,480
	<u>20,782,286</u>	<u>18,651,795</u>

14 EARNINGS PER SHARE

Earnings per share is calculated by dividing the income from main operations and net profit for the year by the weighted average number of shares 24,500,000 shares (2015: 24,500,000 shares) outstanding at the end of the year.

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15 RISK MANAGEMENT

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Company is subject to special commission rate risk on its special commission bearing liabilities, which primarily comprises of term loan.

The following table demonstrates the sensitivity of the income to reasonably possible changes in special commission rates, with all other variables held constant. The sensitivity of the income is the effect of the assumed changes in special commission rates on the Company's profit for one year, based on the floating rate financial liabilities held at 31 December.

		<i>Increase/decrease in basis points</i>	<i>Effect on income for the year SR</i>
2016	Term loan in Saudi Riyal	+/- 100	55,053
2015	Term loan in Saudi Riyal	+/- 100	97,172

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. At the balance sheet date, no significant concentrations of credit risk were identified by management.

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The table below shows the maximum exposure to credit risk for the components of the balance sheet.

	2016 SR	2015 SR
Cash and bank balances and time deposit	164,304,769	73,534,809
Accrued income and other receivables	72,563,722	55,242,411
	<u>236,868,491</u>	<u>128,777,220</u>

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company is not exposed to significant liquidity risk. Deposits are generally placed for a period of less than 6 months to manage the Company's liquidity requirements. All liabilities on the Company's balance sheet, other than end of service benefits and term loan, are payable on a current basis.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals and US dollars during the year.

16 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, time deposits, investments and other receivables. Its financial liabilities consist of bank overdraft, term loan and other payables.

The fair values of financial instruments are not materially different from their carrying values.

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17 SEGMENT REPORTING

The Company is organized into the following main operating segments:

- *Arranging and advising activities* include introducing parties in relation to securities business, advising on corporate finance business or acting in any way to bring about a deal in a security, advising a person on the merits of dealing in a security or exercising any right to deal conferred by a security.
- *Managing activities* include managing securities belonging to another person in circumstances involving the exercise of discretion.
- *Dealing activities* include engagement in trading in a security, whether as principal or agent, and dealing include the sale, purchase, manage the subscription for or underwriting securities.
- *Others including private wealth management* represents certain assets, liabilities, operating income or expenses of the Company, which have been derived from proprietary investments and other income.

	<i>Arranging and Advising Activities</i> SR	<i>Managing Activities</i> SR	<i>Dealing Activities</i> SR	<i>Others including Private Wealth Management</i> SR	<i>Total</i> SR
2016					
Total assets	109,303,825	261,548,437	-	19,518,540	390,370,802
Total liabilities	22,208,394	53,141,515	-	3,965,785	79,315,694
Total operating income	-	54,535,814	-	1,179,376	55,715,190
Total expenses	(4,604,097)	(27,950,974)	-	(445,022)	(33,000,093)
Net income	(4,604,097)	26,584,840	-	1,377,270	23,358,013
2015					
Total assets	66,010,033	105,911,620	-	238,588,503	410,510,156
Total liabilities	18,536,332	29,741,130	-	71,234,984	119,512,446
Total operating income	3,855,711	50,023,191	-	3,837,003	57,715,905
Total expenses	(3,059,270)	(16,082,815)	-	(12,343,796)	(31,485,881)
Net income	796,441	33,940,376	-	(7,662,830)	27,073,987

All activities of the Company are conducted in the Kingdom of Saudi Arabia.

18 CUSTOMERS' FUNDS

The assets under management outstanding at end of the year including mutual funds and discretionary portfolios amounted to SR 3,814,789,815 (2015: SR 3,556,834,229).

19 CAPITAL MANAGEMENT

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

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

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20 CAPITAL ADEQUACY

Capital Market Authority has issued Prudential Regulations (the “Rules”) dated 30 December 2012 (corresponding to 17 Safar 1434H) pursuant to Royal Decree No. M/30 dated 2/6/1424H. According to the Rules, CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under Pillar I. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	2016	2015
	SR'000	SR'000
<i>Capital base</i>		
Tier I	300,468	282,376
Tier II	28,257	40,538
<i>Total</i>	328,725	322,914
<i>Minimum capital</i>		
Market risk	663	1,210
Credit risk	105,198	123,045
Operational risk	8,381	6,050
<i>Total</i>	114,242	130,305
<i>Capital adequacy ratio</i>	2.88	2.48
<i>Surplus</i>	214,483	192,609

- a) Capital Base of the Company comprise of
- Tier-1 capital consists of paid-up share capital, retained earnings, share premium (if any), reserves excluding revaluation reserves.
 - Tier-2 capital consists of subordinated loans, cumulative preference shares and revaluation reserves
- b) The minimum capital requirements for market, credit & operational risk are calculated as per the requirements specified in the part 3 of the Prudential Rules issued by the CMA.
- c) The Company’s business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company’s ability to continue as a going concern, and to maintain a strong capital base.

21 APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors, in its meeting held on 1 Jumad Thani 1438H (corresponding to 28 February 2017), approved the financial statements.