

**Audi Capital Company**  
**(A Saudi Closed Joint Stock Company)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2017**



Building a better  
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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AUDI CAPITAL (A SAUDI CLOSED JOINT STOCK COMPANY)**

### **Opinion**

We have audited the financial statements of Audi Capital Company - A Saudi Closed Joint Stock Company (the "Company"), which comprise the balance sheet as at 31 December 2017, and the statement of income, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the 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 the Audit Committee for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF AUDI CAPITAL  
(A SAUDI CLOSED JOINT STOCK COMPANY) (continued)**

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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee 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



Yousef A. AlMubarak  
Certified Public Accountant  
Registration No. 427



Riyadh: 23 Jumada Al-Thani 1439H  
(11 March 2018)

Audi Capital Company  
(A Saudi Closed Joint Stock Company)

BALANCE SHEET

As of 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	5,085,598	29,382,812
Accounts receivable, prepayments and other current assets	4	16,242,361	20,691,893
Loans to customers	5	3,029,785	673,998
Held to maturity investments	7	-	38,536,376
<b>TOTAL CURRENT ASSETS</b>		<u>24,357,744</u>	<u>89,285,079</u>
<b>NON-CURRENT ASSETS</b>			
Available for sale investments	6	-	24,759,902
Held to maturity investments	7	91,464,639	37,507,000
Property and equipment	8	1,764,607	2,243,200
Intangible assets	9	4,387,447	1,502,514
<b>TOTAL NON-CURRENT ASSETS</b>		<u>97,616,693</u>	<u>66,012,616</u>
<b>TOTAL ASSETS</b>		<u>121,974,437</u>	<u>155,297,695</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	10	6,412,949	3,925,544
Zakat and income tax payable	11	318,778	318,878
<b>TOTAL CURRENT LIABILITIES</b>		<u>6,731,727</u>	<u>4,244,422</u>
<b>NON-CURRENT LIABILITY</b>			
Employees' terminal benefits		4,167,499	5,210,812
<b>TOTAL LIABILITIES</b>		<u>10,899,226</u>	<u>9,455,234</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	100,000,000	100,000,000
Statutory reserve		10,023,743	10,023,743
Retained earnings		1,051,468	35,817,818
Unrealized gain on available for sale investments	6	-	900
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>111,075,211</u>	<u>145,842,461</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>121,974,437</u>	<u>155,297,695</u>

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
<b>OPERATING INCOME</b>			
Dealing income, net	14	11,384,020	16,984,392
Managing income		8,612,283	17,115,679
Custody income		2,564,082	2,943,157
Arranging income		2,655,000	1,325,001
Advising income		-	7,351
<b>TOTAL OPERATING INCOME</b>		<u>25,215,385</u>	<u>38,375,580</u>
<b>OPERATING EXPENSES</b>			
General and administration expenses	15	<u>(35,395,609)</u>	<u>(31,889,403)</u>
<b>(LOSS) INCOME FROM MAIN OPERATIONS</b>		<u>(10,180,224)</u>	6,486,177
Exchange (loss) gain, net		(71,394)	7,769
Loss on disposal/write-off of property, equipment and intangible assets, net		(22,636)	-
<b>NET (LOSS) INCOME FOR THE YEAR</b>		<u><u>(10,274,254)</u></u>	<u><u>6,493,946</u></u>
<b>Earnings per share</b>			
<i>Attributable to:</i>			
(Loss) income from main operations	19	(1.02)	0.65
Net (loss) income		(1.03)	0.65

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 SR	2016 SR
<b>OPERATING ACTIVITIES</b>			
Net (loss) income for the year		(10,274,254)	6,493,946
Adjustments for:			
Depreciation and amortization	15	1,785,313	2,100,736
Provision for employees terminal benefits		1,086,250	1,046,834
Net amortization of premium and discount		676,454	323,473
Loss on disposal of held to maturity investments, net	14	527,025	-
Loss (gain) on disposal of available for sale investments, net	14	226,823	(5,202,082)
Exchange loss (gain), net		71,394	(7,769)
Loss on disposal / write-off of property, equipment and intangible assets, net		22,636	-
Gain on disposal of held for trading investments	14	-	(21,416)
		<u>(5,878,359)</u>	<u>4,733,722</u>
Changes in operating assets and liabilities:			
Accounts receivable, prepayments and other current assets		6,207,436	7,224,048
Accounts payable and accruals		2,487,658	(8,623,634)
Loans to customers		(2,355,787)	9,788,229
		<u>460,948</u>	<u>13,122,365</u>
Net cash from operations		460,948	13,122,365
Employees terminal benefits paid		(2,129,563)	(1,207,078)
Zakat and income tax paid	11	(353)	(887,233)
		<u>(1,668,968)</u>	<u>11,028,054</u>
Net cash (used in) from operating activities		<u>(1,668,968)</u>	<u>11,028,054</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	8	(352,328)	(93,792)
Purchase of intangible assets	9	(3,869,812)	(262,500)
Proceeds from disposal of property and equipment		7,851	-
Proceeds from disposal of held to maturity investments		93,496,529	-
Proceeds from disposal of available for sale investments		46,404,220	53,893,174
Proceeds from disposal of held for trading investments		-	296,360
Purchase of held to maturity investments		(110,192,665)	(37,507,000)
Purchase of available for sale investments		(21,872,041)	(35,412,096)
Purchase of held for trading investments		-	(274,944)
		<u>3,621,754</u>	<u>(19,360,798)</u>
Net cash from (used in) investing activities		<u>3,621,754</u>	<u>(19,360,798)</u>
<b>FINANCING ACTIVITY</b>			
Dividend paid	13	(26,250,000)	-
		<u>(26,250,000)</u>	<u>-</u>
Cash used in financing activity		<u>(26,250,000)</u>	<u>-</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(24,297,214)</u>	<u>(8,332,744)</u>
Cash and cash equivalents at the beginning of the year		<u>29,382,812</u>	<u>37,715,556</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	3	<u>5,085,598</u>	<u>29,382,812</u>
<b>Non-cash transaction:</b>			
Unrealized loss on available for sale investments, net		<u>900</u>	<u>1,756,206</u>

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company  
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Unrealized gain (loss) on available for sale investments SR</i>	<i>Total SR</i>
Balance at 1 January 2016	100,000,000	9,374,384	29,973,584	1,757,106	141,105,074
Net income for the year	-	-	6,493,946	-	6,493,946
Zakat and income tax (note 11)	-	-	(353)	-	(353)
Transfer to statutory reserve	-	649,359	(649,359)	-	-
Unrealized loss on available for sale investments during the year, net	-	-	-	(1,756,206)	(1,756,206)
Balance at 31 December 2016	100,000,000	10,023,743	35,817,818	900	145,842,461
Net loss for the year	-	-	(10,274,254)	-	(10,274,254)
Zakat and income tax (note 11)	-	-	1,757,904	-	1,757,904
Dividend paid (note 13)	-	-	(26,250,000)	-	(26,250,000)
Unrealized loss on available for sale investments during the year, net	-	-	-	(900)	(900)
<b>Balance at 31 December 2017</b>	<b>100,000,000</b>	<b>10,023,743</b>	<b>1,051,468</b>	<b>-</b>	<b>111,075,211</b>

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company  
(A Saudi Closed Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

**1 ACTIVITIES**

Audi Capital Company (the "Company") is a Saudi Closed Joint Stock Company, registered in Riyadh, Kingdom of Saudi Arabia. The Company has obtained a license number 692 dated 2 Jumad Al Awal 1427 H (corresponding to 30 May 2006) from the Saudi Arabian General Investment Authority ("SAGIA"). The Company is registered under commercial registration number 1010226747 dated 18 Dhul Hajjah 1427H (corresponding to 8 January 2007). The Company has also obtained a license number 06017-37 dated 22 Rabi Al Thani 1427H (corresponding to 20 May 2006) from the Capital Market Authority (the "CMA").

The Company is licensed to act as principal and agent for dealing service and to provide underwriting and managing mutual funds and portfolios, arranging, advising, custodial and international brokerage services.

**2 SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with accounting standards 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 for the measurement of available for sale investments at fair values.

*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 reporting date and the reported amounts of revenue and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

*Cash and cash equivalents*

For the purposes of statement of cash flows, cash and cash equivalents consists of cash on hand, current accounts and time deposits that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

*Investments*

*a) Held to maturity investments*

These represent investments having fixed or determinable payments and fixed maturity that the Company has the intention and ability to hold to maturity. These are initially recognized at fair value plus directly attributable transaction costs and after initial recognition these are re-measured at amortized cost, less provision for accumulated impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. The losses arising from the impairment of such investments, if any, are recognized in the statement of income.

*b) Held for trading investments*

These represent investments acquired for the purpose of selling and/or repurchasing in the near term. These are initially recorded at fair value with all transaction costs being directly recognized in the statement of income. These are subsequently measured at fair value with the changes in the fair values recorded in the statement of income.



Audi Capital Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Investments (continued)*

*c) 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 fair value and included under non-current assets. They include investment in equity instruments, bonds and mutual funds.

These are initially recognized at fair value plus directly attributable transaction costs. After initial measurement, these are re-measured at fair value. Unrealized gains and losses on the valuation of these investments are recognized directly in shareholders' equity as "unrealized gains (losses) on available for sale investments".

Decline, other than temporary, in the value of investments is charged to the statement of income.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where partial holdings are sold, the cost of investments sold, is accounted for on a weighted average basis.

Fair value is determined by reference to the market value if an active market exists. In the absence of active market, the fair value is determined through other indicators, otherwise, cost is considered to be the fair value.

*Loans to customers*

Loans to customers are carried at the gross amount due under the arrangement less any provision required for impairment based on a review of all outstanding amounts at reporting date.

*Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and any accumulated 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.

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 are amortized on a straight-line basis over the shorter of the useful life of the improvement and the term of the lease.

Expenditure for repair and maintenance is charged as expense. Other subsequent expenditure is capitalized only when it increases the value or materially extends the life of the related assets.

*Intangible assets*

Intangible assets are stated at cost less accumulated amortization and any accumulated impairment in value. Intangible assets represent computer software licenses and are amortized over their estimated useful life of 4 years.

*Impairment and uncollectibility of financial assets*

An assessment is made at each 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 recognized in the statement of income. Impairment is determined as follows:

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

Audi Capital Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Accounts payable and accruals***

Accounts payable and accruals are measured at fair value. Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the supplier or not.

***Zakat and income tax***

Zakat and income tax are provided for in accordance with the Saudi Arabian fiscal regulations. The provision is charged to retained earnings. Accordingly, amounts reimbursed by the shareholders for such zakat and income tax are also credited to retained earnings.

***Employees' terminal benefits***

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

***Statutory reserve***

In accordance with the Saudi Arabian Regulations for Companies and the Company's by-laws, the Company must set aside 10% of its income after zakat and income tax and after deducting losses brought forward in each year until it has built up a reserve equal to 30% of the capital. The reserve is not available for distribution.

***Revenue recognition***

Income from dealing and arranging services is recognized when the service has been provided. Special commission income, custody and managing income are recognized on an accrual basis. Advising income is recognized on an accrual basis or as the services are provided based on the nature of arrangement with the counter party.

***Foreign currencies***

Transactions in foreign currencies are recorded in Saudi Riyals at the rate 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 statement of income.

***Segment 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. Because the Company carries out all its activities in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

***Operating lease***

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

***Customers' investments***

The Company offers investment services to its customers, which include management of certain investments on behalf of its customers. Investments held through such arrangements are not treated as assets of the Company and accordingly, are not included in the balance sheet.

***Expenses***

Given the nature of the Company's business, all expenses are classified as general and administration expenses.

***Fair values***

For investments traded in organised markets, fair value is determined by reference to quoted market bid prices.

The fair value of special commission bearing items is estimated based on discounted cash flows using special commission rates for items with similar terms and risk characteristics.

Audi Capital Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

**3 CASH AND CASH EQUIVALENTS**

	2017 SR	2016 SR
Cash in hand	29,999	45,145
Cash at bank	5,055,599	6,337,667
Short term time deposit	-	23,000,000
	<u>5,085,598</u>	<u>29,382,812</u>

Short term time deposits have original maturity of less than 90 days from the date of acquisition and carry an average interest rate of 1.2% per annum.

**4 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER CURRENT ASSETS**

	2017 SR	2016 SR
Advance income tax / tax refund receivable (note 11)	6,328,943	4,571,039
Margin deposits (note 16)	2,216,906	2,216,906
Accrued revenue	2,050,023	7,083,990
Due from related parties (note 12)	1,803,629	-
Advances and prepayments	1,158,041	2,831,263
Advances to employees	1,080,375	2,402,227
Accrued special commission income	965,295	507,889
Fees receivable	300,006	725,056
Other receivables	339,143	353,523
	<u>16,242,361</u>	<u>20,691,893</u>

**5 LOANS TO CUSTOMERS**

Loans to customers represent securities lending transaction as allowed by the CMA. They are short term, interest bearing and secured loans.

**6 AVAILABLE FOR SALE INVESTMENTS**

	2017 SR	2016			Carrying value SR
		Cost SR	Changes in fair value SR	Impairment SR	
Sukuk – local / international	-	14,759,002	-	-	14,759,002
Mutual funds	-	10,000,000	900	-	10,000,900
	<u>-</u>	<u>24,759,002</u>	<u>900</u>	<u>-</u>	<u>24,759,902</u>

Audi Capital Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

7 HELD TO MATURITY INVESTMENTS

	2017		2016	
	<i>Carrying value</i> <i>SR</i>	<i>Market Value</i> <i>SR</i>	<i>Carrying Value</i> <i>SR</i>	<i>Market Value</i> <i>SR</i>
Government notes -fixed rate	<u>91,464,639</u>	<u>88,745,683</u>	<u>76,043,376</u>	<u>75,086,641</u>

As at 31 December, the contractual maturity of the above investments is as follows:

	2017 <i>SR</i>	2016 <i>SR</i>
Due within one year	-	38,536,376
Due after one year	<u>91,464,639</u>	<u>37,507,000</u>
	<u>91,464,639</u>	<u>76,043,376</u>

Audi Capital Company  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

**8 PROPERTY AND EQUIPMENT**

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	10 years	Motor vehicles	4 years	Motor vehicles	Office equipment and computers	4 years	Motor vehicles	Total 2017 SR	Total 2016 SR
	4 years	improvements SR	SR	vehicles SR	SR	SR	SR	SR	SR
<b>Cost:</b>									
At the beginning of the year		7,318,800		139,700	8,326,324		139,700	15,784,824	15,691,032
Additions		-		-	352,328		-	352,328	93,792
Disposals		(38,027)		-	-		-	(38,027)	-
At the end of the year		7,280,773		139,700	8,678,652		139,700	16,099,125	15,784,824
<b>Accumulated depreciation:</b>									
At the beginning of the year		6,070,599		124,084	7,346,941		124,084	13,541,624	12,277,933
Depreciation charge for the year		283,776		15,616	501,042		15,616	800,434	1,263,691
Relating to disposals		(7,540)		-	-		-	(7,540)	-
At the end of the year		6,346,835		139,700	7,847,983		139,700	14,334,518	13,541,624
<b>Net book amounts:</b>									
At 31 December 2017		933,938		-	830,669		-	1,764,607	2,243,200
At 31 December 2016		1,248,201		15,616	979,383		15,616		

Audi Capital Company  
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

**9 INTANGIBLE ASSETS**

	2017 SR	2016 SR
<i>Cost:</i>		
At the beginning of the year	7,737,724	7,475,224
Additions	3,869,812	262,500
At the end of the year	<u>11,607,536</u>	<u>7,737,724</u>
<i>Accumulated amortization:</i>		
At the beginning of the year	6,235,210	5,398,165
Amortization charge for the year	984,879	837,045
At the end of the year	<u>7,220,089</u>	<u>6,235,210</u>
<i>Net book value</i>	<u>4,387,447</u>	<u>1,502,514</u>

**10 ACCOUNTS PAYABLE AND ACCRUALS**

	2017 SR	2016 SR
Accrued expenses	3,719,303	2,420,108
Accounts payable and others	1,493,646	1,386,881
Accrued bonus employees	1,200,000	118,555
	<u>6,412,949</u>	<u>3,925,544</u>

**11 ZAKAT AND INCOME TAX**

*a) Zakat*

*Charge for the year*

The zakat charge provided for in the statement of changes in shareholders' equity amounting to SR 253 (2016: SR 353) representing provision for the current year.

The current year provision is based on the following:

	2017 SR	2016 SR
Share capital	100,000,000	100,000,000
Retained earnings	35,817,818	29,973,584
Statutory reserve	10,023,743	9,374,384
Provisions	3,081,250	4,163,978
	<u>148,922,811</u>	<u>143,511,946</u>
Book value of long term assets and cost of investments	(12,914,353)	(10,529,691)
Dividend paid	(26,250,000)	-
	<u>109,758,458</u>	<u>132,982,255</u>
(Adjusted loss) zakatable profit for the year	(8,758,023)	8,417,469
Zakat base	<u>101,000,435</u>	<u>141,399,724</u>
Saudi shareholders' share of the zakat base at 0.01% (2016: 0.01%)	<u>10,100</u>	<u>14,139</u>

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**11 ZAKAT AND INCOME TAX (continued)**

*a) Zakat (continued)*

*Movements in provision during the year*

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

	2017 SR	2016 SR
At the beginning of the year	388	305
Provided during the year	253	353
Paid during the year	(353)	(270)
	<u>288</u>	<u>388</u>

As at 31 December 2017, the Company has an advance tax payment including tax refund receivables amounting to SR 6,328,943 (2016: SR 4,571,039) (note 4).

*b) Income tax*

*Charge for the year*

In view of taxable losses, the Company has not provided for income tax for the current and prior year, relating to the non-Saudi shareholders' holding of 99.99% (2016: 99.99%) of the share capital.

*Movements in provision during the year*

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

	2017 SR	2016 SR
At the beginning of the year	318,490	1,205,453
Provided during the year	-	-
Paid during the year	-	(886,963)
	<u>318,490</u>	<u>318,490</u>

*c) Status of assessments*

During 2011, the Company received assessments from the General Authority of Zakat and Tax (the "GAZT") for the years 2007 and 2008 resulting in additional zakat and tax liabilities. Accordingly, the Company filed an appeal providing its detailed arguments against such assessments, which was not accepted by the GAZT and then the case was transferred to the Preliminary Appeal Committee ("PAC").

On 2 January 2014, PAC issued its resolution in connection with the above mentioned appeal. The resolution was partially in favor of the Company resulting in a due amount from GAZT amounting to SR 3,453,700. However, the Company filed an appeal to the High Appeal Committee ("HAC") against PAC resolution for the items adjudged against the Company.

On 26 July 2017, HAC issued its resolution which are in favor of the Company for almost all of the disputed items which resulted in a revised assessment issued by the GAZT showing a refund amount of SR 5,272,130. Accordingly, the tax position for the year 2007 and 2008 has been concluded as per the revised assessment issued by GAZT based on its letter no. 11973/16/1439 dated 1/4/1439 corresponding to 19 December 2017 which resulted in recording of additional income tax refund of SR 1,757,904 during 2017.

The GAZT has not yet finalised the assessments for the years from 2009 to 2016.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

**12 RELATED PARTY TRANSACTIONS AND BALANCES**

The following are details of major related party transactions during the year and the related party balances at the end of the year:

		2017 SR	2016 SR
Affiliates	Managing income	3,010,676	7,031,068
	Dealing income	1,413,245	5,833,688
	Custody income	350,153	603,078
	General and administration expenses – consultancy fees	(1,431,345)	-
Shareholder	Managing income	311,086	320,118
	Dealing income	1,375,070	60,497
	Custody income	272,188	104,839

The remuneration to the members of Board of Directors and Audit Committee is as follows:

	2017 SR	2016 SR
Board of Directors meeting attendance fees	200,000	200,000
Audit Committee meeting attendance fees	200,000	200,000

Related parties	Nature of account	Balances	
		2017 SR	2016 SR
Affiliates	Cash and cash equivalents	191,865	142,041
	Available for sale investments (Managed funds)	-	10,000,900
	Available for sale investments (banks and financial institutions)	-	14,759,005
	Accrued revenue	264,230	4,512,661
	Due from related parties (note 4)	146,247	-
	Accounts payable and accruals	116,771	82,839
	Accrued special commission income	-	254,225
Shareholders	Cash and cash equivalents	1,069,860	1,484,325
	Accrued revenue	51,643	52,732
	Due from related parties (note 4)	1,657,382	-
	Accounts payable and accruals	1,076,378	968,388

In addition, the Company maintains the following fiduciary accounts for related parties and their customers:

	Cash SR	Funds SR	Bonds SR	Equities SR	Total SR
As of 31 December 2017	38,322,914	63,871,814	2,074,952	702,357,373	806,627,053
As of 31 December 2016	72,563,853	273,562,093	307,068	831,343,814	1,177,776,828



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**13 SHARE CAPITAL**

The Company's share capital as at 31 December 2017 amounts to SR 100 million (2016: SR 100 million) divided into 10 million shares of SR 10 each (2016: 10 million shares of SR 10 each).

During 2017, the Company declared and paid dividend of SR 2.625 per share totaling SR 26,250,000 to its shareholders.

**14 DEALING INCOME, NET**

	2017 SR	2016 SR
Special commission income	6,373,017	4,932,910
Brokerage income	5,764,851	6,257,560
(Loss) gain on disposal of available for sale investments, net	(226,823)	5,202,082
Loss on disposal of held to maturity investments, net	(527,025)	-
Dividend income	-	570,424
Gain on disposal of held for trading investments, net	-	21,416
	<u>11,384,020</u>	<u>16,984,392</u>

**15 GENERAL AND ADMINISTRATION EXPENSES**

	2017 SR	2016 SR
Employee costs	22,256,862	21,548,603
Consultancy fees	2,431,958	799,375
Information technology, telecommunication and related expenses	1,905,454	1,921,585
Depreciation and amortization (notes 8 and 9)	1,785,313	2,100,736
Rent expense	1,457,687	1,669,732
Legal and professional fees	1,411,746	628,647
Repairs and maintenance expense	1,044,522	1,138,563
Insurance expense	791,425	738,784
Other expenses	2,310,642	1,343,378
	<u>35,395,609</u>	<u>31,889,403</u>

**16 COMMITMENTS AND CONTINGENCIES**

As of 31 December 2017, the Company in the capacity of a lessee, has ongoing rental agreements for its offices amounting to SR 1,227,600 (2016: SR 1,568,896) due in one year and SR 3,231,088 (2016: SR 4,994,780) due in the next 2 to 5 years.

The banker of the Company issued a guarantee of SR 2,216,906 to the GAZT against a margin deposit placed during 2014, which is still valid (note 4).

**17 CUSTOMERS' INVESTMENTS**

These represent funds invested by the Company on behalf of its customers under a fiduciary arrangement. The investments are made in different financial instruments such as time placements, equity shares, funds and bonds. These amounts are summarized below:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2017

17 CUSTOMERS' INVESTMENTS (continued)

As at 31 December 2017

	Cash SR	Funds SR	Bonds SR	Equities SR	Total SR
Advisory Clients	122,257,398	150,286,915	550,221,059	1,577,474,134	2,400,239,506
Managed Mutual Funds	32,896,622	6,517,850	1,790,214	115,267,481	156,472,167
Discretionary Clients	21,625,489	14,385,678	-	463,897,266	499,908,433
	<u>176,779,509</u>	<u>171,190,443</u>	<u>552,011,273</u>	<u>2,156,638,881</u>	<u>3,056,620,106</u>

As at 31 December 2016

	Cash SR	Funds SR	Bonds SR	Equities SR	Total SR
Advisory Clients	224,739,467	420,114,174	521,754,440	2,178,246,625	3,344,854,706
Managed Mutual Funds	66,490,853	204,255,071	-	231,483,803	502,229,727
Discretionary Clients	183,110,025	22,205,676	-	626,320,702	831,636,403
	<u>474,340,345</u>	<u>646,574,921</u>	<u>521,754,440</u>	<u>3,036,051,130</u>	<u>4,678,720,836</u>

Certain customers have pledged their investments, amounting to SR 454,676,198 as at 31 December 2017 (2016: SR 1,341,064,339), against their borrowings from the Company and from third parties.

18 SEGMENT INFORMATION

The Company is organized into the following main business segments:

- Dealing activities include trading in a security, whether as principal or agent, and to sale, purchase and to manage the subscription for/of underwriting securities.
- Managing activities include managing securities belonging to another person in circumstances involving the exercise of discretion.
- Custody activities include safeguarding assets belonging to another person including securities, or arranging for another person to do so, and custody includes taking the necessary administrative measures.
- Arranging 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 activities include advising a person on the merits of dealing in a security or exercising any right to deal conferred by a security.
- Others represent certain assets, liabilities, operating income or expenses of the Company, which have not been allocated to the above segments.

	Dealing activities SR	Managing activities SR	Custody activities SR	Arranging activities SR	Advising activities SR	Others SR	Total SR
2017							
Total assets	102,318,945	1,657,508	586,780	313,211	-	17,097,993	121,974,437
Total liabilities	-	1,282,534	62,380	-	-	9,554,312	10,899,226
Total operating income	11,384,020	8,612,283	2,564,082	2,655,000	-	-	25,215,385
Total expenses	(1,564,446)	(7,495,673)	(1,421,286)	(1,660,620)	(3,807,660)	(19,539,954)	(35,489,639)
Net income (loss)	9,819,574	1,116,610	1,142,796	994,380	(3,807,660)	(19,539,954)	(10,274,254)

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**18 SEGMENT INFORMATION (continued)**

	<i>Dealing activities SR</i>	<i>Managing activities SR</i>	<i>Custody activities SR</i>	<i>Arranging activities SR</i>	<i>Advising activities SR</i>	<i>Others SR</i>	<i>Total SR</i>
2016							
Total assets	131,324,096	7,876,615	648,118	725,056	-	14,723,810	155,297,695
Total liabilities	-	1,089,101	45,499	38,240	-	8,282,394	9,455,234
Total operating income	16,984,392	17,115,679	2,943,157	1,325,001	7,351	-	38,375,580
Total expenses	(2,025,566)	(6,815,218)	(2,017,826)	(735,992)	(5,338,141)	(14,948,891)	(31,881,634)
Net income (loss)	14,958,826	10,300,461	925,331	589,009	(5,330,790)	(14,948,891)	6,493,946

Total expenses include general and administration expenses, exchange (loss) gain and net loss on disposal/write-off of property, equipment and intangible assets.

**19 EARNINGS PER SHARE**

Earnings per share attributable to income from main operations and net income is calculated by dividing the income from main operations and the net income for the year, respectively, by the weighted average number of shares outstanding during the year which for 2017 were 10,000,000 shares (2016: 10,000,000 shares).

**20 RISK MANAGEMENT**

*Special commission rate risk*

The Company is subject to special commission rate risk on its special commission bearing assets, including, mainly investments, loans and bank deposits. The Company is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Company's exposure to special commission rate risks. Included in the tables are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

2017	<i>Non special commission bearing SR</i>	<i>Up to 1 year SR</i>	<i>2 to 5 Years SR</i>	<i>&gt; 5 years SR</i>	<i>Total SR</i>
Cash and cash equivalents	5,085,598	-	-	-	5,085,598
Accounts receivable, prepayments and other current assets	16,242,361	-	-	-	16,242,361
Loans to customers	-	3,029,785	-	-	3,029,785
Investments	-	-	36,476,878	54,987,761	91,464,639
Property and equipment	1,764,607	-	-	-	1,764,607
Intangible assets	4,387,447	-	-	-	4,387,447
<b>Total assets</b>	<b>27,480,013</b>	<b>3,029,785</b>	<b>36,476,878</b>	<b>54,987,761</b>	<b>121,974,437</b>
Accounts payable and accruals	6,412,949	-	-	-	6,412,949
Zakat and income tax payable	318,778	-	-	-	318,778
Employees' terminal benefits	4,167,499	-	-	-	4,167,499
<b>Total liabilities</b>	<b>10,899,226</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,899,226</b>
Special commission rate sensitivity gap	16,580,787	3,029,785	36,476,878	54,987,761	
Cumulative special commission rate gap	16,580,787	19,610,572	56,087,450	111,075,211	
Represented by shareholders' equity					111,075,211

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20 RISK MANAGEMENT (continued)

*Special commission rate risk (continued)*

2016	<i>Non special commission</i>				<i>Total SR</i>
	<i>bearing SR</i>	<i>Up to 1 year SR</i>	<i>2 to 5 Years SR</i>	<i>&gt; 5 years SR</i>	
Cash and cash equivalents	6,382,812	23,000,000	-	-	29,382,812
Accounts receivable, prepayments and other current assets	20,691,893	-	-	-	20,691,893
Loans to customers	-	673,998	-	-	673,998
Investments	10,000,900	38,536,376	-	52,266,002	100,803,278
Property and equipment	2,243,200	-	-	-	2,243,200
Intangible assets	1,502,514	-	-	-	1,502,514
<b>Total assets</b>	<b>40,821,319</b>	<b>62,210,374</b>	<b>-</b>	<b>52,266,002</b>	<b>155,297,695</b>
Accounts payable and accruals	3,925,544	-	-	-	3,925,544
Zakat and income tax payable	318,878	-	-	-	318,878
Employees' terminal benefits	5,210,812	-	-	-	5,210,812
<b>Total liabilities</b>	<b>9,455,234</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,455,234</b>
Special commission rate sensitivity gap	31,366,085	62,210,374	-	52,266,002	
Cumulative special commission rate gap	31,366,085	93,576,459	93,576,459	145,842,461	
Represented by shareholders' equity					145,842,461

*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. Financial assets, which are potentially subject to concentration of credit risk, consist principally of bank balance, loans, investments and other assets.

The table below shows the maximum exposure to credit risk for components of the balance sheet:

	2017 SR	2016 SR
Bank balances	5,055,599	29,337,667
Loans to customers	3,029,785	673,998
Held to maturity investments	91,464,639	76,043,376
Accounts receivable and other current assets	8,755,382	13,289,591
Available for sale investments	-	14,759,002
	<b>108,305,405</b>	<b>134,103,634</b>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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20 RISK MANAGEMENT (continued)

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available through its principal shareholder. The table below summarises the maturities of the Company's assets and liabilities at 31 December, based on contractual payment dates.

2017	Up to 1 year SR	2 to 5 Years SR	> 5 years SR	No fixed maturity SR	Total SR
Cash and cash equivalents	5,055,599	-	-	29,999	5,085,598
Accounts receivable, prepayments and other current assets	16,242,361	-	-	-	16,242,361
Loans to customers	3,029,785	-	-	-	3,029,785
Investments	-	36,476,878	54,987,761	-	91,464,639
Property and equipment	-	-	-	1,764,607	1,764,607
Intangible assets	-	-	-	4,387,447	4,387,447
<b>Total assets</b>	<b>24,327,745</b>	<b>36,476,878</b>	<b>54,987,761</b>	<b>6,182,053</b>	<b>121,974,437</b>
Accounts payable and accruals	6,412,949	-	-	-	6,412,949
Zakat and income tax payable	318,778	-	-	-	318,778
Employees' terminal benefits	-	-	-	4,167,499	4,167,499
<b>Total liabilities</b>	<b>6,731,727</b>	<b>-</b>	<b>-</b>	<b>4,167,499</b>	<b>10,899,226</b>
<b>Liquidity gap</b>	<b>17,596,018</b>	<b>36,476,878</b>	<b>54,987,761</b>	<b>2,014,554</b>	
<b>Cumulative gap</b>	<b>17,596,018</b>	<b>54,072,896</b>	<b>109,060,657</b>	<b>111,075,211</b>	
Represented by shareholders' equity					<b>111,075,211</b>
2016	Up to 1 year SR	1 to 5 Years SR	> 5 years SR	No fixed maturity SR	Total SR
Cash and cash equivalents	29,337,667	-	-	45,145	29,382,812
Accounts receivable, prepayments and other current assets	20,691,893	-	-	-	20,691,893
Loans to customers	673,998	-	-	-	673,998
Investments	38,536,376	-	52,266,002	10,000,900	100,803,278
Property and equipment	-	-	-	2,243,200	2,243,200
Intangible assets	-	-	-	1,502,514	1,502,514
<b>Total assets</b>	<b>89,239,934</b>	<b>-</b>	<b>52,266,002</b>	<b>13,791,759</b>	<b>155,297,695</b>
Accounts payable and accruals	3,925,544	-	-	-	3,925,544
Zakat and income tax payable	318,878	-	-	-	318,878
Employees' terminal benefits	-	-	-	5,210,812	5,210,812
<b>Total liabilities</b>	<b>4,244,422</b>	<b>-</b>	<b>-</b>	<b>5,210,812</b>	<b>9,455,234</b>
<b>Liquidity gap</b>	<b>84,995,512</b>	<b>-</b>	<b>52,266,002</b>	<b>8,580,947</b>	
<b>Cumulative gap</b>	<b>84,995,512</b>	<b>84,995,512</b>	<b>137,261,514</b>	<b>145,842,461</b>	
Represented by shareholders' equity					<b>145,842,461</b>

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20 RISK MANAGEMENT (continued)

*Currency risk*

Currency risk is the risk that the value of assets and liabilities denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The table below summarises the Company's exposure in different currencies based on values in Saudi Riyals, based on exchange rates at 31 December:

2017	<i>Saudi Riyals SR</i>	<i>US Dollars SR</i>	<i>Lebanese Pounds SR</i>	<i>Other currencies SR</i>	<i>Total SR</i>
Cash and cash equivalents	2,591,358	2,063,658	-	430,582	5,085,598
Accounts receivable, prepayments and other current assets	12,741,923	3,490,605	-	9,833	16,242,361
Loans to customers	3,029,785	-	-	-	3,029,785
Investments	-	91,464,639	-	-	91,464,639
<b>Total assets</b>	<b>18,363,066</b>	<b>97,018,902</b>	<b>-</b>	<b>440,415</b>	<b>115,822,383</b>
Accounts payable and accruals	5,414,579	997,801	-	569	6,412,949
Zakat and income tax payable	318,778	-	-	-	318,778
Employees' terminal benefits	4,167,499	-	-	-	4,167,499
<b>Total liabilities</b>	<b>9,900,856</b>	<b>997,801</b>	<b>-</b>	<b>569</b>	<b>10,899,226</b>
<b>Net gap</b>	<b>8,462,210</b>	<b>96,021,101</b>	<b>-</b>	<b>439,846</b>	
2016	<i>Saudi Riyals SR</i>	<i>US Dollars SR</i>	<i>Lebanese Pounds SR</i>	<i>Other currencies SR</i>	<i>Total SR</i>
Cash and cash equivalents	25,665,193	3,220,422	-	497,197	29,382,812
Accounts receivable, prepayments and other current assets	17,446,213	3,178,457	22,841	44,382	20,691,893
Loans to customers	673,998	-	-	-	673,998
Investments	10,000,900	52,266,002	38,536,376	-	100,803,278
<b>Total assets</b>	<b>53,786,304</b>	<b>58,664,881</b>	<b>38,559,217</b>	<b>541,579</b>	<b>151,551,981</b>
Accounts payable and accruals	3,011,942	913,602	-	-	3,925,544
Zakat and income tax payable	318,878	-	-	-	318,878
Employees' terminal benefits	5,210,812	-	-	-	5,210,812
<b>Total liabilities</b>	<b>8,541,632</b>	<b>913,602</b>	<b>-</b>	<b>-</b>	<b>9,455,234</b>
<b>Net gap</b>	<b>45,244,672</b>	<b>57,751,279</b>	<b>38,559,217</b>	<b>541,579</b>	

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**20 RISK MANAGEMENT (continued)**

*Equity price risk*

Equity price risk is the risk that the fair value of equities would change as a result of changes in the levels of equity indices and the value of individual stocks.

As at 31 December 2017 and 2016, the Company has no equity instruments and therefore is not directly exposed to equity price risk.

**21 CAPITAL REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO**

The capital base, minimum capital requirement and capital adequacy ratio of the Company as per the CMA's Prudential Rules are as follows:

	2017 SR '000	2016 SR '000
<i>Capital Base:</i>		
Tier 1 Capital	106,688	144,339
Tier 2 Capital	-	1
<b>Total Capital Base</b>	<u>106,688</u>	<u>144,340</u>
<i>Minimum Capital Requirement:</i>		
Market risk	1,962	6,590
Credit risk	82,399	67,315
Operational risk	8,849	7,910
<b>Total Minimum Capital Required</b>	<u>93,210</u>	<u>81,815</u>
<i>Capital Adequacy Ratio:</i>		
<b>Total Capital Ratio (times)</b>	<u>1.14</u>	<u>1.76</u>
<b>Tier 1 Capital Ratio (times)</b>	<u>1.14</u>	<u>1.76</u>
<b>Surplus in the capital</b>	<u>13,478</u>	<u>62,525</u>

- a) The capital base consists of Tier 1 capital (which includes share capital, statutory reserve, audited retained earnings less intangible assets) and Tier 2 capital (included unrealized gain on available for sale investments) as per article 4 and 5 of the Prudential Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules.
- b) The Company manages its capital base in light of Pillar I and Pillar II of the Prudential Rules - the capital base should not be less than the minimum capital requirement.
- 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.

**22 APPROVAL OF FINANCIAL STATEMENTS**

The Board of Directors, in its meeting held on 6 Jumad Althani 1439H (corresponding to 22 February 2018), approved the financial statements.

**23 COMPARATIVE FIGURES**

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.