

Blominvest Saudi Arabia
(A Mixed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2017



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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Blominvest Saudi Arabia
(A Mixed Joint Stock Company)

Opinion

We have audited the financial statements of Blominvest Saudi Arabia - A Mixed Joint Stock Company (the "Company"), which comprise the balance sheet as at 31 December 2017, and the statement of income, the statement of cash flows and the 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 Board of Directors 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 Board of Directors is responsible for overseeing the Company's financial reporting process.



INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Blominvest Saudi Arabia
(A Mixed Joint Stock Company) (continued)

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.

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.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Blominvest Saudi Arabia
(A Mixed Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with the Board of Directors 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


Fahad M. Altoaimi
Certified Public Accountant
License No. 354



Riyadh: 10 Rajab 1439H
(27 March 2018)

Blominvest Saudi Arabia
(A Mixed Joint Stock Company)

BALANCE SHEET

As at 31 December 2017

	<i>Note</i>	2017 SR	2016 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	36,429,409	25,304,769
Time deposits	4	-	139,000,000
Prepayments, accrued income and other receivables	5	105,077,122	74,718,459
TOTAL CURRENT ASSETS		141,506,531	239,023,228
NON-CURRENT ASSETS			
Property and equipment	6	1,049,645	1,520,852
Investment properties	7	57,546,324	59,005,196
Available for sale investments	8	149,955,832	90,821,526
TOTAL NON-CURRENT ASSETS		208,551,801	151,347,574
TOTAL ASSETS		350,058,332	390,370,802
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank overdraft	9	-	52,972
Accrued expenses and other payables	10	21,461,518	12,765,410
Zakat and income tax payable	11	10,659,600	10,161,753
TOTAL CURRENT LIABILITIES		32,121,118	22,980,135
NON-CURRENT LIABILITIES			
Employees' terminal benefits		1,752,742	1,335,559
Term loan	9	-	55,000,000
TOTAL NON-CURRENT LIABILITIES		1,752,742	56,335,559
TOTAL LIABILITIES		33,873,860	79,315,694
SHAREHOLDERS' EQUITY			
Share capital	12	245,000,000	245,000,000
Retained earnings		56,434,306	48,418,279
Statutory reserve		8,551,090	7,195,277
Unrealised gain on available for sale investments	8	6,199,076	10,441,552
TOTAL SHAREHOLDERS' EQUITY		316,184,472	311,055,108
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		350,058,332	390,370,802

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

Blominvest Saudi Arabia
(A Mixed Joint Stock Company)

STATEMENT OF INCOME

For the Year Ended 31 December 2017

	<i>Note</i>	2017 SR	2016 SR
OPERATING INCOME			
Advisory and asset management fees		36,881,442	54,603,844
Gain (loss) on sale of available for sale investments		2,438,981	(1,889,098)
Gain on sale of investment property		215,622	-
Special commission income		1,207,742	3,000,444
TOTAL OPERATING INCOME		40,743,787	55,715,190
OPERATING EXPENSES			
General and administration	13	(17,607,464)	(20,782,286)
Management and related fees		(9,915,821)	(11,640,565)
Commission		(4,062)	(6,616)
Financial charges	9	(367,337)	(570,626)
TOTAL OPERATING EXPENSES		(27,894,684)	(33,000,093)
INCOME FROM MAIN OPERATIONS		12,849,103	22,715,097
Dividend income from trading portfolio		709,029	642,916
NET INCOME FOR THE YEAR		13,558,132	23,358,013
EARNINGS PER SHARE:			
Attributable to income from main operations	14	0.52	0.93
Attributable to income for the year	14	0.55	0.95

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

Blominvest Saudi Arabia
(A Mixed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2017

	Note	2017 SR	2016 SR
OPERATING ACTIVITIES			
Net income for the year		13,558,132	23,358,013
Adjustments for:			
Depreciation	6	925,962	906,305
Provision for employees' terminal benefits		417,183	37,253
(Gain) loss on sale of available for sale investments		(2,438,981)	1,889,098
Amortization of premium on available for sale investments		25,766	(27,620)
Gain on sale of investment property		(215,622)	-
		<u>12,272,440</u>	<u>26,163,049</u>
Changes in operating assets and liabilities:			
Prepayments, accrued income and other receivables		(31,067,692)	(17,783,085)
Accrued expenses and other payables		8,696,108	399,451
		<u>(10,099,144)</u>	<u>8,779,415</u>
Cash (used in) from operations		(10,099,144)	8,779,415
Zakat and tax paid		(3,688,445)	(3,976,030)
		<u>(13,787,589)</u>	<u>4,803,385</u>
INVESTING ACTIVITIES			
Proceeds from sale of investment properties		1,954,994	-
Purchase of investment properties		(280,500)	-
Purchase of property and equipment		(454,755)	(50,403)
Purchase of available for sale investments		(298,016,133)	(92,912,835)
Proceeds from sale of available for sale investment		237,052,566	220,406,701
Dividends received		709,029	642,916
		<u>(59,034,799)</u>	<u>128,086,379</u>
Net cash (used in) from investing activities		(59,034,799)	128,086,379
FINANCING ACTIVITIES			
Bank overdraft		(52,972)	(4,619,479)
Time deposit		139,000,000	(89,000,000)
Term loan paid		(55,000,000)	(37,500,000)
		<u>83,947,028</u>	<u>(131,119,479)</u>
Net cash from (used in) financing activities		83,947,028	(131,119,479)
INCREASE IN CASH AND CASH EQUIVALENTS		11,124,640	1,770,285
Cash and cash equivalents at the beginning of the year		<u>25,304,769</u>	<u>23,534,484</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	<u><u>36,429,409</u></u>	<u><u>25,304,769</u></u>
NON-CASH TRANSACTION:			
Change in unrealised gain on available for sale investments	8	<u><u>(4,242,476)</u></u>	<u><u>2,161,438</u></u>

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

Blominvest Saudi Arabia
(A Mixed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended 31 December 2017

	<i>Share capital 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 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
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	245,000,000	48,418,279	7,195,277	10,441,552	311,055,108
Net income for the year	-	13,558,132	-	-	13,558,132
Transfer to statutory reserve	-	(1,355,813)	1,355,813	-	-
Zakat and income tax (note 11)	-	(4,186,292)	-	-	(4,186,292)
Changes in unrealised gain on available for sale investments (note 8)	-	-	-	(4,242,476)	(4,242,476)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	245,000,000	56,434,306	8,551,090	6,199,076	316,184,472

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

Blominvest Saudi Arabia (A Mixed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

1 ACTIVITIES

Blominvest Saudi Arabia, (the “Company”) is a Mixed 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.

Blominvest Saudi Arabia
(A Mixed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

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

	2017 SR	2016 SR
Cash at hand	24,797	584
Bank balances	<u>36,404,612</u>	<u>25,304,185</u>
	<u>36,429,409</u>	<u>25,304,769</u>

Bank balance includes SR 445,213 (2016: 381,239) 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 2017 is based on the market rate. The time deposits matured during the year.

5 PREPAYMENTS, ACCRUED INCOME AND OTHER RECEIVABLES

	2017 SR	2016 SR
Accrued management fee, net (note 9)	99,889,674	67,907,195
Prepaid expense	1,264,884	2,154,737
Accrued special commission income	188,583	188,583
Other receivables	<u>3,733,981</u>	<u>4,467,944</u>
	<u>105,077,122</u>	<u>74,718,459</u>

As at 31 December 2017, accrued management fee of a nominal value of SR 2,824,145 (2016: SR 2,824,145) were considered impaired (note 13).

Blominvest Saudi Arabia
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

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	Total 2017 SR	<i>Total 2016 SR</i>
<i>Cost:</i>								
At the beginning of the year	1,834,634	734,254	2,240,711	3,991,884	3,721,667	186,500	12,709,650	12,659,247
Additions during the year	-	-	223,956	166,399	64,400	-	454,755	50,403
At the end of the year	1,834,634	734,254	2,464,667	4,158,283	3,786,067	186,500	13,164,405	12,709,650
<i>Depreciation:</i>								
At the beginning of the year	1,787,557	728,009	1,606,995	3,839,900	3,058,411	167,926	11,188,798	10,282,493
Charge for the year	17,190	2,458	392,704	125,306	378,604	9,700	925,962	906,305
At the end of the year	1,804,747	730,467	1,999,699	3,965,206	3,437,015	177,626	12,114,760	11,188,798
<i>Net book amounts:</i>								
<i>At 31 December 2017</i>	29,887	3,787	464,968	193,077	349,052	8,874	1,049,645	
<i>At 31 December 2016</i>	47,077	6,245	633,716	151,984	663,256	18,574		1,520,852

Blominvest Saudi Arabia
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

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 2017 is SR 27,175,368 (2016: SR 26,894,868) including survey and other fees of SR 1,683,000 (2016: 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 seven plots of land in Riyadh, Saudi Arabia amounting to SR 30,370,956 (2016: 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.

The movement during the year was as following:

	2017 SR	2016 SR
At the beginning of the year	59,005,196	59,005,196
Additions	280,500	-
Disposals	(1,739,372)	-
At the end of the year	<u>57,546,324</u>	<u>59,005,196</u>

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:

	2017		
	Cost SR	Unrealised Gain (Loss) SR	Fair Value SR
Mutual funds (note 8.1)	69,177,928	(26,285)	69,151,643
Real Estate funds (note 8.2)	41,646,110	10,056,448	51,702,558
Bonds (8.3)	12,628,647	646,726	13,275,373
Local equities (note 8.4)	20,304,071	(4,477,813)	15,826,258
	<u>143,756,756</u>	<u>6,199,076</u>	<u>149,955,832</u>
	2016		
	Cost SR	Unrealised Gain (Loss) SR	Fair Value SR
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
	<u>80,379,974</u>	<u>10,441,552</u>	<u>90,821,526</u>

Blominvest Saudi Arabia
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

8 AVAILABLE FOR SALE INVESTMENTS (continued)

- 8.1 Investments in mutual funds represent 1,239 units (2016: 1,239 units), 2,300 units (2016: 2,300 units), 17,230 units (2016: 17,230 units) and 32,000 units (2016: Nil) in the Company's managed Blom Saudi Arabia Fund, Blom Arab Market Balanced Fund, Al Mazaya Saudi Equity and Blom MSCI Saudi Arabia Select Min Vol Fund respectively. Also, the Company has 13,957 units (2016: Nil) and 1,263,724 units (2016: Nil) in Commodity Trade Fund and Al Mubarak Trade Fund, respectively.
- 8.2 Investment in real estate funds represent 1,400 units (2016: 1,400 units), 400 units (2016: 400 units) and 12 units (2016: 12 units) in the Company's managed Blom Okaz Real Estate Fund, Blom Solidere Real Estate Fund 3, Ammoriya Fund, respectively. Also, the Company has 278,203 units (2016: Nil) and 712 units (2016: Nil) in Musharaka REIT fund and Mulkia Gulf Real Estate REIT fund, respectively.
- 8.3 Investments in Bonds represent 2 Bonds (2016: 2 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.
- 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:

	2017 SR	2016 SR
Local equities listed in Saudi Stock Exchange	<u>15,826,258</u>	<u>16,246,560</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>	
		2017 SR	2016 SR
Shareholders	Financial charges	367,337	570,626
Real estate funds under management	Management fees *	35,399,679	51,808,099
Mutual funds under management	Management and placement fees *	1,441,774	2,727,715
Senior management (refer note below)	Commission paid	-	120,000

*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 nil (2016: SR 52,972) with one of the shareholders, Blom Bank in Lebanon. The overdraft account accrues special commission at the rate of 0.5% per annum.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

9 RELATED PARTY TRANSACTIONS (continued)

Term loan

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 was repaid in June 2017.

10 ACCRUED EXPENSES AND OTHER PAYABLES

	2017 SR	2016 SR
Accrued management and related fees	20,089,953	10,231,109
Accrued bonus	946,454	2,104,558
Accrued fees	339,112	338,611
Interest payable	-	55,687
Other	85,999	35,445
	<u>21,461,518</u>	<u>12,765,410</u>

11 ZAKAT AND INCOME TAX

a) *Zakat*

Charge for the year

The zakat charge consists of the current year provision amounting to SR 3,016,078 (2016: SR 3,441,853)

The provision is based on the following:

	2017 SR	2016 SR
Equity	245,000,000	245,000,000
Opening balance of provisions and other adjustments	66,111,258	90,677,824
Book value of long term assets	(23,839,577)	(9,324,248)
	<u>287,271,681</u>	<u>326,353,576</u>
Adjusted income for the year	14,336,093	17,845,792
	<u>301,607,774</u>	<u>344,199,368</u>
Zakat base	301,607,774	344,199,368
	<u>120,643,109</u>	<u>137,679,747</u>
Share of Saudi shareholder in the Zakat base @ 40%	120,643,109	137,679,747
	<u>3,016,078</u>	<u>3,441,853</u>
Zakat charge for the year @ 2.5%	3,016,078	3,441,853

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

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11 ZAKAT AND INCOME TAX (continued)

Movement in provision during the year:

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

	2017 SR	2016 SR
At the beginning of the year	9,715,283	7,976,784
Provision made during the year	3,016,078	3,441,853
Paid during the year	(2,214,472)	(1,703,354)
	<u>10,516,889</u>	<u>9,715,283</u>

b) Income tax

Charge for the year

The income tax charge consist of the current year provision amounting to SR 1,170,214 (2016: SR 2,020,200)

Movement in provision during the year

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

	2017 SR	2016 SR
At the beginning of the year	446,470	698,946
Provision made during the year	1,170,214	2,020,200
Paid during the year	(1,473,973)	(2,272,676)
	<u>142,711</u>	<u>446,470</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 (2016: 24,500,000 shares) of SR 10 each.

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13 GENERAL AND ADMINISTRATION EXPENSES

	2017 SR	2016 SR
Staff costs	10,766,169	11,897,456
Rent and premises	1,178,943	1,133,886
Legal and professional fees	1,075,314	1,145,246
Depreciation (note 6)	925,962	906,305
Withholding tax	82,873	67,049
Advertising	43,848	99,163
Bad debt expense (note 5)	-	2,824,145
Others	3,534,355	2,709,036
	<u>17,607,464</u>	<u>20,782,286</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 (2016: 24,500,000 shares) outstanding at the end of the year.

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.

	Increase/decrease in basis points	Effect on income for the year SR
2017 Term loan in Saudi Riyal	+/- 100	nil
2016 Term loan in Saudi Riyal	+/- 100	55,053

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.

	2017 SR	2016 SR
Cash and bank balances and time deposit	36,404,612	164,304,769
Accrued income and other receivables	103,812,238	72,563,722
	<u>140,216,850</u>	<u>236,868,491</u>

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31 December 2017

15 RISK MANAGEMENT (continued)

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.

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
2017					
Total assets	98,016,333	234,539,082	-	17,502,917	350,058,332
Total liabilities	9,484,681	22,695,487	-	1,693,692	33,873,860
Total operating income	-	36,841,441	-	3,902,346	40,743,787
Total expenses	(3,905,256)	(23,710,482)	-	(278,946)	(27,894,684)
Net income	(3,905,256)	13,130,959	-	4,332,429	13,558,132
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

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31 December 2017

17 SEGMENT REPORTING (continued)

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 3,860,752,394 (2016: SR 3,814,789,815).

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.

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:

	<i>2017</i> <i>SR'000</i>	<i>2016</i> <i>SR'000</i>
<i>Capital base</i>		
Tier I	309,792	300,468
Tier II	5,553	28,257
<i>Total</i>	315,345	328,725
<i>Minimum capital</i>		
Market risk	438	663
Credit risk	136,724	105,198
Operational risk	7,776	8,381
<i>Total</i>	144,938	114,242
<i>Capital adequacy ratio</i>	2.18	2.88
<i>Surplus</i>	170,407	214,483

20 CAPITAL ADEQUACY (continued)

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 11 Jumad Thani 1439H (corresponding to 27 February 2018), approved the financial statements.