

الاستثمار كابيتال
Alistithmar Capital



**ALISTITHMAR FOR FINANCIAL SECURITIES
AND BROKERAGE COMPANY**
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS FOR THE YEAR
ENDED DECEMBER 31, 2016 AND
INDEPENDENT AUDITORS' REPORT

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

January 31, 2017

To the Shareholders of Alistithmar for Financial Securities and Brokerage Company
(A Saudi Closed Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Alistithmar for Financial Securities and Brokerage Company (the "Company") as of December 31, 2016 and the related statements of income, cash flows and changes in equity for the year then ended, and the notes from (1) to (22) which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. 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 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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Khalid A. Mahdhar', written over a horizontal line.

By: _____
Khalid A. Mahdhar
License Number 368

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

BALANCE SHEET*(All Amounts In Saudi Riyals Unless Otherwise Stated)*

	Note	As at December 31,	
		2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	3	74,750,536	1,284,996
Margin loans and murabaha financing		238,889,628	497,337,793
Accrued management fees and commission income		18,894,221	13,214,625
Prepaid expenses and other assets	4	6,273,612	13,873,268
Total current assets		338,807,997	525,710,682
Non-current assets			
Investments	5	66,520,143	143,152,142
Property and equipment, net	6	6,649,343	10,828,270
Goodwill		11,879,718	11,879,718
TOTAL ASSETS		423,857,201	691,570,812
LIABILITIES			
Current liabilities			
Bank overdraft	7	7,650,855	286,853,415
Accrued expenses and other liabilities	8	17,225,329	13,837,806
Provision for zakat and income tax	9	13,195,836	10,824,824
Total current liabilities		38,072,020	311,516,045
Non-current liabilities			
Employees' termination benefits	10	11,494,543	12,079,862
Employees' long-term benefits	11	17,793,037	15,828,818
TOTAL LIABILITIES		67,359,600	339,424,725
Shareholders' equity			
Share capital	1	250,000,000	250,000,000
Statutory reserve	12	24,764,284	23,799,354
Retained earnings		79,716,187	78,731,815
Changes in fair value reserve - available for sale investments		2,017,130	(385,082)
TOTAL SHAREHOLDERS' EQUITY		356,497,601	352,146,087
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		423,857,201	691,570,812
COMMITMENTS AND CONTINGENCIES	16		

HESHAM ABOU JAMEE
Chief Executive Officer

ZAHOOB AMANULLAH
Chief Financial Officer

The accompanying notes on pages 6 to 16 form an integral part of these financial statements.

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF INCOME*(All Amounts In Saudi Riyals Unless Otherwise Stated)*

	Notes	For the year ended December 31, 2016	For the period from March 10 to December 31, 2015
OPERATING INCOME			
Brokerage fee income, net		38,849,293	35,478,578
Asset management fee, net		26,017,152	32,812,331
Commission income, net	7, 13	18,284,048	20,078,520
Realized gains on sale of available for sale investments		2,200,707	5,336,815
Corporate finance		1,945,000	1,453,729
Other income		751,191	845,523
Total operating income		88,047,391	96,005,496
OPERATING EXPENSES			
Salaries and employee-related expenses	7	50,805,933	49,706,551
Business service charges	7	4,833,609	5,478,169
Depreciation	6	4,664,413	4,628,804
Subscription fees		4,494,799	3,158,461
Legal and professional fees		1,247,596	2,401,161
Other general, administrative and marketing expenses	14	12,351,739	12,843,235
Total operating expenses		78,398,089	78,216,381
NET INCOME FOR THE YEAR / PERIOD		9,649,302	17,789,115
EARNINGS PER SHARE:			
	15		
Operating income for the year / period		3.52	3.84
Net income for the year / period		0.39	0.71

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ZAHOOR AMANULLAH
Chief Financial Officer

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ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS*(All Amounts In Saudi Riyals Unless Otherwise Stated)*

	For the year ended December 31, 2016	For the period from March 10 to December 31, 2015
CASH FLOW FROM OPERATIONS		
Net income for the year / period	9,649,302	17,789,115
Adjustments to reconcile net income to net cash generated from operations:		
Depreciation	4,664,413	4,628,804
Loss / (gain) on sale of property and equipment	283	(99)
Realized gains on sale of available for sale investments	(2,200,707)	(5,336,815)
Changes in working capital:		
Margin loans and murabaha financing	258,448,165	319,502,346
Accrued management fees and commission income	(5,679,596)	(5,807,715)
Prepaid expenses and other assets	7,599,656	621,286
Accrued and other liabilities	3,387,523	6,001,964
Employees' termination benefits, net	(585,319)	1,037,027
Employees' long-term benefits, net	1,964,219	895,756
Zakat and income tax paid	(5,328,988)	(7,595,014)
Net cash generated from operating activities	271,918,951	331,736,655
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to property and equipment	(487,177)	(3,117,262)
Proceeds from sale of property and equipment	1,408	99
Purchase of available for sale investments	(2,806,882)	(108,530,130)
Proceeds from sale of available investments	84,041,800	17,816,770
Net cash generated from / (used in) investing activities	80,749,149	(93,830,523)
CASH FLOW FROM FINANCING ACTIVITY		
Change in bank overdraft	(279,202,560)	(237,367,543)
Net cash used in financing activity	(279,202,560)	(237,367,543)
Net change in cash and cash equivalents	73,465,540	538,589
Cash and cash equivalents at beginning of the year / period	1,284,996	746,407
Cash and cash equivalents at end of the year / period	74,750,536	1,284,996
Supplemental non-cash information:		
Net changes in fair value of available for sale investments	2,402,212	(5,137,245)
Estimated zakat and income tax charged to equity	(7,700,000)	(6,910,000)

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ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY
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STATEMENT OF CHANGES IN EQUITY

(All Amounts In Saudi Riyals Unless Otherwise Stated)

	Note	Share capital	Statutory reserve	Retained earnings	Changes in fair value reserve - available for sale investments	Total
Balance as at March 10, 2015		250,000,000	22,020,441	69,631,613	4,752,163	346,404,217
Net income for the period		-	-	17,789,115	-	17,789,115
Zakat and income tax	9	-	-	(6,910,000)	-	(6,910,000)
Transfer to statutory reserve	12	-	1,778,913	(1,778,913)	-	-
Net movement for the period	5	-	-	-	(5,137,245)	(5,137,245)
Balance as at December 31, 2015		250,000,000	23,799,354	78,731,815	(385,082)	352,146,087
Net income for the year		-	-	9,649,302	-	9,649,302
Zakat and income tax	9	-	-	(7,700,000)	-	(7,700,000)
Transfer to statutory reserve	12	-	964,930	(964,930)	-	-
Net movement for the year	5	-	-	-	2,402,212	2,402,212
Balance as at December 31, 2016		250,000,000	24,764,284	79,716,187	2,017,130	356,497,601

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ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All Amounts In Saudi Riyals Unless Otherwise Stated)

1. GENERAL

Alistithmar for Financial Securities and Brokerage Company - Alistithmar Capital (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company was converted from a limited liability company to a Saudi closed joint stock company on Jumada Awal 19, 1436H (corresponding to March 10, 2015). The Company operates under Commercial Registration No. 1010235995 issued in Riyadh on Rajab 8, 1428 H (corresponding to July 22, 2007). The Company also operates its activities under Authorization License number (7061-15) dated Jumada Awal 16, 1428 H (corresponding to June 2, 2007) issued by the Capital Market Authority (CMA).

The Company's first fiscal period under legal status of a closed joint stock company is from the date of ministerial resolution, March 10, 2015 and ended on December 31, 2015. The Company's statutory financial statements for the subsequent years will be prepared from January 1 and end at the end of December of each Gregorian year.

The Company's registered postal address is as follows:

Alistithmar for Financial Securities and Brokerage Company - Alistithmar Capital
P. O. Box 6888
Riyadh 11452
Kingdom of Saudi Arabia

The Company's share capital of SR 250 million as at December 31, 2016 and 2015 consists of 25,000,000 fully paid shares of SR 10 each, and is wholly-owned by the Saudi Investment Bank.

The principal activities of the Company are dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, arrangement and advisory and custody services relating to financial securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of available-for-sale investments to fair value, and in compliance with the accounting standards generally accepted in Saudi Arabia and promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting standards requires the use of certain critical 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 revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Foreign currency translation

(a) Reporting currency

These financial statements are presented in Saudi Riyals ("SR") which is the functional currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and highly liquid investments that are readily convertible into cash with original maturities of three months or less from the date of original acquisition.

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All Amounts In Saudi Riyals Unless Otherwise Stated)

Margin loans and murabaha financing

Margin loans and murabaha financing are recognized when cash is advanced to the borrowers. They are derecognized when either borrower repays their obligations, or the balance is sold or written-off, or substantially all the risks and rewards of ownership are transferred to other party.

Margin loans and murabaha financing are carried at the amount advanced to the customers, including related transaction cost less any provision for credit losses, if any. A provision against credit losses is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. All margin loans and murabaha financing at December 31, 2016 are maturing within one year.

Available for sale investments

Available for sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices or that not classified as held to maturity or held for trading. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the balance sheet date.

All investment securities are initially recognized upon acquisition at cost, including acquisition charges associated with the investment. Subsequently, available for sale investments are measured at fair value at the balance sheet with any gain or loss arising from a change in the fair value is recognized directly under equity. On de-recognition, any cumulative gain or loss previously recognized in equity is included in the statement of income for the period/year.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date. Fair value of investments in mutual funds is determined by reference to declared net asset values.

For securities when there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that includes the use of mathematical models.

The input to these models is taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

For investments where the fair values cannot be reliably measured, these are carried at cost.

Goodwill

Goodwill represents the difference between the purchase value and the fair value of the net assets acquired at the purchase date. The price is determined as the fair value at the acquisition date. Goodwill is stated at the balance sheet date at cost reduced for impairment in value, if any.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation except work-in-progress which is carried at cost. Depreciation is charged to the statement of income, using the straight-line method to allocate the costs of the related assets over the following estimated useful lives:

	Number of years
Leasehold improvements	Over the lease period or 5 years, whichever is lesser
Computers	4
Vehicles	4
Furniture and office equipment	4-10

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of income, as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All Amounts In Saudi Riyals Unless Otherwise Stated)

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between the cost and fair value.
- For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective interest rate.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Zakat and income tax

In accordance with the regulations of the General Authority of Zakat and Tax (GAZT), the Company is subject to zakat attributable to the Saudi shareholders and to income taxes attributable to the foreign shareholders. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Employees' termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of income. The liability is calculated; at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

Employees' long-term benefits

The Company offers its eligible employee security and savings plans that are based on mutual contributions by the Company and the employees. Also, the Company offers its eligible Saudi employees long-term service award.

Income recognition

Brokerage fees are recognized on accrual basis upon delivery of services to customers and is stated net of discounts, if any, based on agreed applicable service contracts. Commission income from margin loans and murabaha financing are recognized based on the effective rate of return during the contract period, reduced by relevant commission charged by the Bank on funds provided to finance the margin loans and murabaha financing.

Asset management fees are recognized on the accrual basis as services are provided. Advisory, including corporate finance, custody and other service fees are recognized when the related services have been provided. Income on time deposits with the Bank is recognized on accrual basis.

Dividends income from investments is recognized when the Company's right to receive the dividends is established.

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016*(All Amounts In Saudi Riyals Unless Otherwise Stated)***Segment information**

(a) Business segment

A business segment is a group of assets, operations or entities:

- (i) Engaged in revenue producing activities;
- (ii) Results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance of assessment; and
- (iii) Financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risk and returns different from those operating in other economic environment.

Expenses

Expenses are measured and recognized as a period cost at the time when they are incurred. Expenses related to more than one financial period are allocated over such periods proportionately.

Operating lease

Rental expenses under operating leases are charged to the income statement over the period of the respective lease.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company and, accordingly, are not included in these accompanying financial statements. Such assets primarily comprise of clients' money accounts.

3. CASH AND CASH EQUIVALENTS

	As at December 31,	
	2016	2015
Cash on hand	10,000	10,000
Cash at bank (Note 7)	74,740,536	1,274,996
	74,750,536	1,284,996

4. PREPAID EXPENSES AND OTHER ASSETS

	As at December 31,	
	2016	2015
Receivable from customers	1,164,597	5,574,761
Staff personal loans	1,077,441	1,887,483
Staff advance housing	966,211	887,914
Prepaid insurance	882,173	1,415,313
Receivable from mutual funds	817,925	306,362
Subscriptions	762,812	1,326,032
Prepaid IT services	521,808	1,650,560
Prepaid maintenance expense	-	123,130
Other receivables	80,645	701,713
	6,273,612	13,873,268

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016*(All Amounts In Saudi Riyals Unless Otherwise Stated)***5. INVESTMENTS**

The available for sale investments in mutual funds, listed and unlisted companies comprise of the following:

	<u>As at December 31,</u>	
	<u>2016</u>	<u>2015</u>
<u>Investment in Mutual Funds</u>		
SAIB Saudi IPO Fund	25,000,000	25,000,000
SAIB Funds - Hitteen Land	12,500,000	12,500,000
SAIB Trade Finance Fund	7,858,792	82,703,271
SAIB Sukuk Fund	6,532,953	6,532,953
SAIB GCC Income Equity Fund	5,000,000	5,000,000
SAIB Saudi Companies Fund	4,958,232	10,000,000
SAIB Saraya Tower Real Estate Development Fund	1,800,000	1,800,000
<u>Investment in Equities</u>		
Listed shares		
Lazurde Company	852,036	-
Unlisted shares		
American Express	1,000	1,000
Total cost	<u>64,503,013</u>	143,537,224
Cumulative change in fair value	<u>2,017,130</u>	(385,082)
	<u>66,520,143</u>	<u>143,152,142</u>

The investment in unlisted shares is carried at cost, as its fair value cannot be reliably measured.

6. PROPERTY AND EQUIPMENT, NET

	<u>Computers</u>	<u>Leasehold improvements</u>	<u>Vehicles</u>	<u>Furniture and office equipment</u>	<u>Total</u>
Cost:					
January 1, 2016	20,135,137	7,819,440	190,625	4,973,007	33,118,209
Additions	302,970	-	-	184,207	487,177
Disposals	(16,592)	-	-	-	(16,592)
December 31, 2016	<u>20,421,515</u>	<u>7,819,440</u>	<u>190,625</u>	<u>5,157,214</u>	<u>33,588,794</u>
Accumulated depreciation:					
January 1, 2016	13,463,305	4,580,306	162,500	4,083,828	22,289,939
Charge for the year	2,978,919	1,279,093	28,124	378,277	4,664,413
Disposals	(14,901)	-	-	-	(14,901)
December 31, 2016	<u>16,427,323</u>	<u>5,859,399</u>	<u>190,624</u>	<u>4,462,105</u>	<u>26,939,451</u>
Net book value:					
December 31, 2016	<u>3,994,192</u>	<u>1,960,041</u>	<u>1</u>	<u>695,109</u>	<u>6,649,343</u>
Net book value:					
December 31, 2015	<u>6,671,832</u>	<u>3,239,134</u>	<u>28,125</u>	<u>889,179</u>	<u>10,828,270</u>

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016*(All Amounts In Saudi Riyals Unless Otherwise Stated)***7. RELATED PARTY TRANSACTIONS**

In the ordinary course of its activities, the Company transacts business with The Saudi Investment Bank (the Bank), the sole shareholder of the Company.

The Company has an overdraft facility from the Bank to finance the margin loans and murabaha financing granted to its customers with a maximum limit of SR 1,200 million (2015: SR 1,200 million). At December 31, 2016, the utilized amount of such facility is SR 8 million (December 31, 2015: SR 287 million). The Bank charged the Company commission expense on the utilized balance for the year ended December 31, 2016 amounting to SR 2.64 million (For the period ended December 31, 2015: SR 5.36 million).

The Company also maintains its operating bank account with The Saudi Investment Bank (see Note 3).

The Company has several agreements with the Bank as follows:

- i. Rent and premises related services agreement, under which the Bank provides to the Company the head office location and 4 branch locations (December 31, 2015: 8 branch locations), rental of existing property and equipment, location and equipment maintenance, utilities, communication and parking lots for the year ended December 31, 2016 amounting SR 3,833,785. (For the period ended December 31, 2015: SR 4,745,276).
- ii. Mailing service agreement, under which the Bank is to provide all mailing services to the Company through the Bank's Mail Department for the year ended December 31, 2016 amounting SR 39,000 (For the period ended December 31, 2015: SR 31,500).
- iii. Telephone recording agreement, under which the Bank is to provide recording services to the Company through the Bank's Administration Department for the year ended December 31, 2016 amounting SR NIL (For the period ended December 31, 2015: SR 2,200).
- iv. Archive service agreement, under which the Bank is to keep the Company's files through the Bank's Administration Department for the year ended December 31, 2016 amounting SR 80,000 (For the period ended December 31, 2015: SR 64,668).
- v. Information Technology (IT) agreement under which the Bank is to provide all IT services including services relating to e-mail, internet and related maintenance services for the year ended December 31, 2016 amounting SR 880,824 (For the period ended December 31, 2015: SR 634,525).

Salaries and employee related expenses include an amount of SR 7,063,911 for key management personnel (For the period ended December 31, 2015: SR 7,237,544).

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	As at December 31,	
	2016	2015
Rebate payable (Mutual funds)	10,290,435	5,370,828
Accrued bonus for employees	3,000,000	5,000,000
Accrued IT services	1,944,247	921,000
Accrued professional fees	648,000	628,000
GOSI Payable	357,501	363,497
Accrued utility charges	354,575	648,265
Subscription charges	123,916	281,610
Other	506,655	624,606
	17,225,329	13,837,806

ALISTITHMAR FOR FINANCIAL SECURITIES AND BROKERAGE COMPANY

(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016*(All Amounts In Saudi Riyals Unless Otherwise Stated)***9. PROVISION FOR ZAKAT AND INCOME TAX****Components of zakat base**

The significant components of the zakat base of the Saudi shareholders are principally comprised of the following:

<u>Zakat Base</u>	For the year ended December 31, 2016	For the period from March 10 to December 31, 2015
Shareholders equity - beginning of the year / period	352,531,169	332,645,690
Net income for the year / period, as adjusted	9,668,311	33,352,454
Provisions	12,079,862	10,940,595
Property and equipment, net	(9,788,883)	(13,405,182)
Investments	(64,502,013)	(143,152,142)
Goodwill	(11,879,718)	(11,879,718)
Total zakat base	288,108,728	208,501,697
Saudi shareholding percentage	90%	90%
Zakat base for Saudi shareholders for the year / period	259,297,855	152,691,790
Adjusted net income for Saudi shareholders	8,701,480	30,017,208
Estimated zakat for the year / period	6,482,446	3,817,295

The zakat is calculated at 2.5% of the zakat base for Saudi shareholders or adjusted net income for Saudi shareholders, whichever is higher.

<u>Taxable income</u>	For the year ended December 31, 2016	For the period from March 10 to December 31, 2015
Taxable income of the Company - foreign shareholders	7,467,604	21,868,924
Foreign shareholding percentage	10%	10%
Taxable income of ultimate foreign shareholders	746,760	2,186,892
Income tax calculated at 20%	149,352	437,378

The movement in provision for zakat and income tax during the year ended December 31, 2016 is summarized as follows:

	Zakat	Income tax	Total
Balance at the beginning of the year	9,905,454	919,370	10,824,824
Additions during the year	7,500,000	200,000	7,700,000
Payments during the year	(4,682,624)	(646,364)	(5,328,988)
Balance at the end of the year	12,722,830	473,006	13,195,836

The movement in provision for zakat and income tax during the period ended December 31, 2015 is summarized as follows:

	Zakat	Income tax	Total
Balance at the beginning of the period	10,033,300	1,476,538	11,509,838
Additions during the period	6,440,000	470,000	6,910,000
Payments during the period	(6,567,846)	(1,027,168)	(7,595,014)
Balance at the end of the period	9,905,454	919,370	10,824,824

The Company received and settled its assessment orders of zakat and income tax with the GAZT upto the year 2010. The Company also filed its zakat and income tax return for the years 2011 to 2015 and received interim assessments for the years 2012 and 2013, see Note 16.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016*(All Amounts In Saudi Riyals Unless Otherwise Stated)***10. EMPLOYEES' TERMINATION BENEFITS**

	<u>As at December 31,</u>	
	2016	2015
Balance at the beginning of the year / period	12,079,862	11,042,835
Additions during the year / period	2,096,194	2,292,734
Payments during the year / period	<u>(2,681,513)</u>	<u>(1,255,707)</u>
Balance at the end of the year / period	<u>11,494,543</u>	<u>12,079,862</u>

11. EMPLOYEES' LONG-TERM BENEFITS

	<u>As at December 31,</u>	
	2016	2015
Employees' long-term service award	7,284,522	6,697,591
Employees' saving plan	7,813,248	7,703,271
Employees' service security plan	<u>2,695,267</u>	<u>1,427,956</u>
	<u>17,793,037</u>	<u>15,828,818</u>

12. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company is required to allocate 10% of its net income each year to a statutory reserve until such reserve equal to thirty percent of its share capital. The Company may discontinue such transfers when such reserve reaches thirty percent of its share capital. Such reserve is not available for dividend distribution.

13. COMMISSION INCOME, NET

	<u>For the year ended December 31, 2016</u>	<u>For the period from March 10 to December 31, 2015</u>
Commission income	20,920,267	25,442,605
Commission expense	<u>(2,636,219)</u>	<u>(5,364,085)</u>
	<u>18,284,048</u>	<u>20,078,520</u>

14. OTHER GENERAL, ADMINISTRATIVE AND MARKETING EXPENSES

	<u>For the year ended December 31, 2016</u>	<u>For the period from March 10 to December 31, 2015</u>
IT services	5,665,835	5,295,725
Utility charges	1,451,550	809,183
Janitorial and cleaning services	1,351,015	875,361
Advertising and marketing	1,309,640	1,097,096
Travel and conveyance	558,205	494,781
Repairs and maintenance expenses	403,201	150,448
Independent directors' fee	240,000	206,000
Insurance cost	215,699	215,192
Stationery and supplies	182,674	305,291
Mail charges	66,863	258,238
Penalties and fines	60,000	2,330,000
Other	<u>847,057</u>	<u>805,920</u>
	<u>12,351,739</u>	<u>12,843,235</u>

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15. EARNINGS PER SHARE

Earnings per share from operating income and net income is calculated by dividing the operating income and net income for the year by the weighted average number of shares for the year ended December 31, 2016 and 2015 amounting to 25 million shares.

16. COMMITMENTS AND CONTINGENCIES

As at December 31, 2016, the Company has commitments to extend margin loans amounting to SR 162 million (December 31, 2015: SR 277 million).

During 2012 and 2013, the Company received interim assessments from the GAZT for additional Zakat amounting to SR 1.97 million and SR 2.23 million relating to the Company's 2011 and 2012 zakat filings, respectively, due to the disallowance of long-term investments in mutual funds from the zakat base. The Company, in consultation with its zakat advisors, has filed appeals with the GAZT, and is awaiting a response. The Company believes that it has the basis to challenge such amounts; accordingly, no liability was recorded in the financial statements for the year ended December 31, 2016.

17. FIDUCIARY ASSETS

Clients' money accounts

As at December 31, 2016, the Company is holding clients' money accounts, with the Bank, amounting to SR 1,402 million (December 31, 2015: SR 1,045 million), to be used for investments upon client discretion. Consistent with its accounting policy, such balances are not included in the Company's financial statements.

Assets under management

The market value of net assets under management at December 31, 2016 amounted to approximately SR 5,135 million (December 31, 2015: SR 4,394 million).

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include cash and cash equivalents, margin loans and murabaha financing, accrued management fees and commission income, available for sale investments, bank overdraft, accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of borrowers' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as managing borrowers' portfolios. Individual margin loan and murabaha financing contracts generally are for terms not exceeding twelve months.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through attempting to diversify its lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers.

The Company follows a credit methodology with its margin borrowing customers that allows maintaining certain collateral margin coverage against the granted margin loans. Any exception of individual margin loan from the coverage rule is closely watched by management to execute remedial cash margins or sale of the securities held.

Commission rate risk

Commission rate risk is the uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such rate risk is the Company's borrowings and lending's, where fluctuations in commission rates, if any, are reflected in the results of operations.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016*(All Amounts In Saudi Riyals Unless Otherwise Stated)***Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals accordingly the Company is not exposed to significant foreign exchange risk.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

Fair value

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. As the Company's financial instruments are compiled under the historical cost convention, except for available-for-sale investments which are carried at fair values, differences can arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

19. SEGMENTAL INFORMATION

The Company operates and conducts its business activities only in the Kingdom of Saudi Arabia. For management purposes, the Company is organized into business lines based on services provided and has the following three reportable segments:

- a. **Brokerage and Margin Lending** – this includes the brokerage & execution services by providing access to the Saudi Arabia and International markets and the extension of margin facilities for these markets for customers.
- b. **Asset Management** – this includes the management of conventional and Shariah compliant assets on behalf of investors which can be in the form of mutual funds or discretionary portfolio mandates.
- c. **Other** - this includes other business lines such as Investment banking, corporate finance and other custody and advisory services, in addition to the proprietary investments and corporate development and control functions.

Selected financial information as at December 31 and for the year / period then ended, summarized by business segments, is as follows:

	Brokerage and Margin Lending	Asset Management	Other	Total
<u>2016</u>				
Operating income	50,987,257	26,017,152	11,042,982	88,047,391
Operating expenses	41,647,617	31,433,628	5,316,844	78,398,089
Net Income	9,339,640	(5,416,476)	5,726,138	9,649,302
Total assets	241,314,850	15,189,000	167,353,351	423,857,201
Total liabilities	7,650,854	10,290,435	49,418,311	67,359,600
<u>2015</u>				
Operating income	55,557,098	32,812,331	7,636,067	96,005,496
Operating expenses	41,255,206	30,564,156	6,397,019	78,216,381
Net income	14,301,892	2,248,175	1,239,048	17,789,115
Total assets	501,676,787	8,875,630	181,018,395	691,570,812
Total liabilities	286,853,415	5,370,828	47,200,482	339,424,725

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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20. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO

In accordance with Pillar I of the Prudential Rules issued by the CMA (the Rules), the capital base, minimum capital requirement and capital adequacy ratio are as follows:

	As at December 31,	
	2016	2015
	(SAR in '000)	
Capital base:		
Tier 1 Capital	342,601	340,266
Tier 2 Capital	2,017	-
Total Capital Base	344,618	340,266
Minimum capital requirement:		
Market Risk	222	410
Credit Risk	85,438	156,687
Operational Risk	19,600	23,095
Total Minimum Capital Required	105,260	180,192
Capital adequacy ratio:		
Capital Ratio (time)	3.27	1.89
Surplus in capital	239,358	160,074

- a) The Company's business objectives when managing capital adequacy is to comply with the minimum capital requirements set forth by the CMA in the Rules, to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.
- b) The Company will disclose on annual basis certain information's as per Pillar III of the Rules for public on the Company website (www.icap.com.sa) however these are not subject to review or audit by the external auditors of the Company.

21. COMPARATIVE FIGURES

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

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on January 31, 2017.