

الاستثمار كابيتال
ALISTITHMAR CAPITAL



BOARD OF DIRECTORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2015

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The Board of Directors of Alistithmar for Financial Securities and Brokerage Company (hereinafter referred to as "Alistithmar Capital" or "ICAP") is pleased to present the Annual Report for the year ended December 31, 2015.

A. THE YEAR 2015 - a GLIMPSE

Despite challenging financial market conditions resulting from a combination of volatile regional geo-political situation and a testing economic environment emerging from the slide in oil prices, ICAP had an exciting, innovative and profitable year.

Highlights of the year included:

- Sharp increase in the market share of local brokerage business which stood at 7% on average for the year 2015. This was the third consecutive year of market share upsurge, surpassing its peers in terms of growth rate.
- Venturing into Real Estate Fund Management services with the successful launch of SAIB Saraya Tower Real Estate Development Fund and SAIB Fund- Hiteen Land, financing 2 iconic projects of over SR 1 bn in Khobar & Riyadh, and offering investors an attractive medium-term investment opportunity compatible with the Islamic principles.
- Addition to the range of Investment Funds offered to investors in KSA with the launch of 2 new equity funds namely SAIB GCC Income Fund and SAIB Saudi IPO Fund.
- Successful execution of the rights issue of United Cooperative Assurance as lead manager, underwriter and securing of diverse corporate finance deals, an internal milestone for a relatively young business segment
- Continued recognition by professional entities including winning a Special Achievement Award by Tatweej Excellence Award Academy in 2015.
- Further strengthening of the human and technological resource base that would support amplification of business growth, returns to stakeholders and, above all, the quality of service to its clients. With such investments made over the last several years, ICAP operates as a fully independent entity with all support functions housed within the entity.
- Continued support, empowerment and development of the young male and female Saudi generation to lead the future reflected in an increase in number of Saudi working for ICAP by 24% and an increase in number of female staff by 50% over last year.

With specific strategic and financial ambitions for the next few years, a solid governance structure, robust risk management and internal control processes and a team of seasoned professionals, ICAP is confident of its ability to face all challenges and continues to foresee a prosperous 2016.



B. FORMATION & LEGAL STATUS

ICAP is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia, with its Head Office based in Riyadh. ICAP was converted from a limited liability company to a Saudi closed joint stock company during 2015. ICAP offers brokerage, asset management, margin lending, custody, arranging and advisory services to retail and institutional clients in regional and international markets.

ICAP is subject to all applicable laws and regulations of the Kingdom of Saudi Arabia and is regulated by the Capital Market Authority (CMA).

C. OUR VALUES

While continuing to grow its business and offer a variety of investment products and services, ICAP's prime objective is to create value for its clients. We strongly believe that our uncompromising stance on our values has helped us strengthen our relationship with our clients.

Integrity

We conduct our business fairly, with honesty and transparency.

Performance

We constantly strive to achieve the highest possible standards of delivery in our day-to-day work and in the quality of the services we provide.

Customer Service

We work to deliver the best possible solutions and services to our clients, always putting their interests first in any business decisions.

D. MAJOR BUSINESS ACTIVITIES

BROKERAGE - Local & International Markets

ICAP acts on behalf of its clients to trade (purchase and sale shares) in local and international markets. Besides a reliable telephonic channel and welcoming team of dealers, the brokerage online platform ISTITHMARCOM provides clients with a user friendly platform with a depth of features that allow them to analyze the local market and execute trades in a state of the art manner. Moreover, this platform is available on multiple channels including tablets and smart phones.

ICAP also provides clients with trading access to international markets including US, GCC and other markets. All agreements and transactions are executed directly between ICAP and its clients who do not need to engage with any offshore financial intermediary. ICAP offers investment capabilities in different asset classes including equities, options, precious metals and ETFs in these international markets. ICAP expects to expand ISTITHMARCOM to include some international markets in 2016 that will provide its clients the opportunity to trade through the internet in these markets.



Margin Lending

ICAP's clients are provided margin lending facilities in the local and international markets, subject to special terms and conditions. ICAP provides different types of margin financing products including overdraft facility and Murabaha financing. Margin lending limits are strictly monitored by the Risk Management function.

Advisory

ICAP also has a sell-side research function to enhance the information efficiency and market transparency, and in turn, achieve investors' confidence. Staffed with a team of dynamic market analysts and industry experts who study the macroeconomic context and prospects of specific companies, clients are advised on potentially winning stocks. The research also clearly defines the sources of risks that might affect the economy and the equity market. Quarterly reports are publicly released to advise clients on profit estimates of specific stocks in local and GCC markets.

Moreover, members of the senior management of ICAP including the CEO and Head of Sell-Side Research are invited as regular guests on various business channels to share their views on local, regional and global economy and financial markets.

Custody

ICAP offers custody services to its clients covering their portfolios in any market they trade in. On behalf of its clients, it follows up third parties to effect corporate actions, collect dividends, adjust holdings after share split, and collect share bonus etc.

ASSET MANAGEMENT - Mutual Funds & Portfolio Management

ICAP provides conventional, Shariah-compliant and alternative investment funds relating to major markets including KSA, GCC, etc and global asset classes including fixed income (debt/Sukuk), money market and equities. These products and services are developed, managed and delivered through a dedicated team of asset management professionals and are supported by an in-house buy-side research team. Each fund has been structured to satisfy the varying needs of its clientele.

List of Equity & Fixed Income-Money Market funds

- SAIB Trade Finance Fund
- SAIB Sukuk Fund
- SAIB Saudi Equity Fund
- SAIB Saudi Companies Fund
- SAIB Saudi IPO Fund
- SAIB GCC Equity Fund
- SAIB Arab Companies Fund
- SAIB GCC Equity Income Fund
- GCC Strategic Fund

ICAP also provides portfolio management services through offering both discretionary and non-discretionary portfolio management. Each portfolio is managed according to the needs of client by offering discrete investment profiles (e.g. fixed income, money market, equity, balanced, growth etc.).



Real Estate Funds

Furthermore, ICAP successfully launched its first two Real Estate funds in 2015, which focus its investment strategy to provide the best opportunities for ICAP's clients in taking advantage of the vibrant real estate sector in Saudi Arabia allowing them to diversify their investments by achieving capital growth through investment structured mechanisms that is compliant with the rules and regulations imposed by the Capital Market Authority. Two funds were launched, namely SAIB Saraya Tower Real Estate Development Fund & SAIB Funds - Hiteen Land.

CORPORATE FINANCE SERVICES

The Corporate Finance division of ICAP is capable of providing clients with a full range of capital raising and strategic advisory services across equity capital markets (ECM), mergers and acquisitions (M&A), strategic and financial advisory (S&FA) and debt capital markets (DCM).

Staffed with a team of ardent, qualified professionals and personal engagement of senior management team, this recently established function has been able to quickly secure a range of diverse deals including being the lead manager for rights issue of United Cooperative Assurance during 2015.

E. OPERATING RESULTS AND FINANCIAL POSITION - Year 2015

The Company's net income before Zakat & Tax for the year ended December 31, 2015 was SR 28.5 million (2014: SR 53.2 million), posting a decrease of 46% from the last year. The decrease was due to the negative impact of declining regional financial markets and low oil prices.

Net brokerage Income (Local and International markets) being SR 49.8 million (2014: SR 60.8 million) posted a decrease of 18%, mainly owed to lower value traded on Tadawul (market value traded over Tadawul decreased by 23%). However ICAP's market share increased to an annual average of 7% (2014 Average: 4.8%).

Asset Management Income, which mainly includes management fee on assets under management in public and private mutual funds and portfolios posted an increase of 20%, income being SR 38.4 million (2014: SR 31.9 million) due to the launch of two new real estate funds during the year.

Commission income, which includes net commission earned on margin lending facilities provided to clients totaled SR 25 million (2014: SR 30.8 million), posting a decrease of 19% due to lower margin lending portfolio resulting from declining local financial market during the year.

Operating expenses were SR 92.4 million (2014: SR 78.5 million) reflecting an increase by 18%. This was mainly owed to the increase in salaries & employees related expenses and CMA penalties.

Note:

The company has not published any projected income statement.



F. AUDITORS' REPORT - Year 2015

The General Assembly of ICAP re-appointed PricewaterhouseCoopers Al Juraid as ICAP's auditors for the financial year 2015. No material misstatements were reported by the external auditors in their report on the financial statements for the year.

G. REGULATORY PENALTIES AND FINES

During 2015, ICAP paid SAR 2.4 million in penalties and fines to the CMA.

H. TWO YEAR'S FINANCIAL HIGHLIGHTS

	SAR (in '000')	
	2015	2014
Total revenues	120,862	131,732
Total expenses	92,376	78,465
Net income before Zakat & Tax	28,486	53,267
Total assets	686,200	923,583
Total liabilities	334,054	587,777
Total equity	352,146	335,806
Return on equity %	8.3%	17%
Return on assets %	3.5%	6.3%
Equity to total assets %	42.7%	36.9%
Capital Base	340,266	323,926
Minimum Capital Required	180,192	191,282
Capital Ratio (time)	1.8	1.69

I. RESTRUCTURING, EXPANSION AND CLOSURE OF OPERATIONS

ICAP had prepared a Five-year Strategy Plan (2015-2019) in Q4 2014 and had implemented an organization structure that would support the strategy. No significant changes were made to that structure during the year.

Though unfavorable market conditions in the latter part of 2015 had an impact on income from brokerage and equity-based investment management business and has translated into lower revenue and income forecast for 2016 compared to the target set in the strategy plan, however, in principle, we would continue efforts to attain growth through robust product and service offerings.

ICAP has no plans for any significant restructuring or closure of operations.



J. CORPORATE SOCIAL RESPONSIBILITY

ICAP continued to play its role towards the betterment of the society through sponsorship in BMG Foundation engaged in various social and cultural initiatives in Saudi Arabia and other countries.

K. COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors comprised of the following members as of Dec 31, 2015:

	<u>Name</u>	<u>Position</u>	<u>Classification</u>	<u>Directorship in other Companies</u>
1	Mr. Abdullah Al-Zaben	Chairman	Independent	- Alqassim Medical Services - Makkah Medical Centre - Aldar Media & Publishing - National Hail Healthcare
2	Mr. Abdulmalek Al-Sanea	Board Member	Non-Independent	- Saudi Orix Leasing - Medgulf
3	Mr. Faisal Al-Omran	Board Member	Non-Independent	- Amlak International
4	Mr. Badr Al Aswad*	Board Member	Non-Independent	None
5	Mr. Hassan Al Maghrabi*	Board Member	Non-Independent	None
6	Mr. Hammad Al-Belaid	Board Member	Independent	None

*Appointed during the year 2015, replacing Mr. Saleh Al-Augla and Mr. Sulaiman Al-Obeid.

Number of meetings held in 2015: 4

L. BOARD COMMITTEES

The Board of Directors has the following committees:

1. Audit Committee:

The Committee assists the Board in its oversight of the integrity of ICAP's financial statements and internal controls, compliance with legal and regulatory requirements, including ICAP's standards and policies, the qualifications, independence and performance of ICAP's external auditor and the performance of ICAP's internal audit function and its auditors.

Committee Members:

1. Mr. Maged Al Dakheel – Chairman
2. Mr. Salman Ahmed
3. Mr. Badr Al Aswad

Number of meetings held in 2015: 9



2. Nomination and Remuneration Committee:

The Committee assists the Board in making recommendations to the Board on Executive remuneration and incentive policies, remuneration packages of senior management, Company's recruitment, retention and termination policies for senior management.

Committee Members:

1. Mr. Abdulmalek Al Sanea - Chairman
2. Mr. Hammad Al-Belaih
3. Mr. Chandrasiri Hewapattini

Number of meetings held in 2015: 2

3. Credit and Risk Committee:

The Committee assists the Board in its oversight of ICAP's risk governance structure, ICAP's risk management and risk assessment guidelines and policies regarding market, credit, and liquidity and funding risk and ICAP's risk tolerance.

Committee Members:

1. Mr. Abdulmalek Al Sanea - Chairman
2. Mr. Hassan Al Maghrabi
3. Mr. Faisal Al-Omran

Number of meetings held in 2015: 5

4. Proprietary Investment Committee:

The Committee assists the Board in its oversight of ICAP's investment decisions, evaluation of all new products, funds, instruments & processes to be launched and admission of new business partners ranging from investment advisors, sub-investment managers, real estate fund managers, real estate developers, etc.

Committee Members:

1. Mr. Abdulmalek Al Sanea - Chairman
2. Mr. Faisal Al-Omran
3. Mr. Abdullah Al-Zaben
4. Mr. Hesham Abou Jamee

Number of meetings held in 2015: 4



M. DIRECTORS' ATTENDANCE

Four Board of Director's meeting were held during 2015 as follows:

<i>Date of Meeting</i>	<i>Members Attended</i>
February 17, 2015	Abdullah Al-Zaben, Abdulmalek Al-Sanea, Faisal Al-Omran, Salah Al Augla and Hammad Al-Belaihidi
May 26, 2015	Abdullah Al-Zaben, Abdulmalek Al-Sanea, Faisal Al-Omran, Badr Al Aswad, Hassan Al Maghrabi and Hammad Al-Belaihidi
September 08, 2015	Abdullah Al-Zaben, Abdulmalek Al-Sanea, Faisal Al-Omran, Badr Al Aswad, Hassan Al Maghrabi and Hammad Al-Belaihidi
December 09, 2015	Abdullah Al-Zaben, Abdulmalek Al-Sanea, Faisal Al-Omran, Badr Al Aswad, Hassan Al Maghrabi and Hammad Al-Belaihidi

N. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Description	Board Executive Members	Board Non-Executive / Independent Members	Five Senior Executives receiving the Highest Remuneration & indemnities including the CEO & CFO
	----- SR '000' -----		
- Salaries & Indemnities	-	-	3,603
- Allowances	-	-	1,530
- Periodic & Annual Remuneration	-	240	748
- Incentive Plans	-	-	666
- Any Other Remuneration payable monthly or yearly	-	-	691
TOTAL	-	240	7,238

O. RISK MANAGEMENT

Risk is defined as the potential for loss, either directly through loss of earnings or capital or indirectly through the imposition of constraints on an organization's ability to meet its business objectives. Such constraints pose a risk, by limiting a company's ability to conduct its business or to take advantage of opportunities to enhance its business.

In ICAP, the primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with ICAP's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns. ICAP's enterprise-wide risk management framework provides the foundation for achieving these goals.



Effective risk management intends to allow a greater control in achieving an appropriate balance between risks ICAP wishes to accept (at a price that is commensurate to that risk) and risks it wishes to mitigate. Although risk management seeks to monitor the risks identified and to keep them within acceptable limits, ICAP views the purpose of risk management from a purely prudential objective to a broader economic objective.

ICAP's Board of Directors has the responsibility for setting ICAP's tolerance for risk. The key principles of ICAP's risk appetite as approved by the Board are as follows:

Capital resources - ICAP prefers to maintain a buffer of at-least 10% of the internally assessed capital at any point in time

Operational Risk - ICAP wishes to not have operational losses of more than a specified amount over any one year

Reputation - ICAP wishes to not have any serious damage to its reputation through its operations or existence

For risk and capital management purposes, ICAP also is in compliance with the CMA's "Prudential Rules" regulation which covers this aspect of prudent risk management and adequate capital management to mitigate any risks.

In addition to the above, ICAP's Internal Audit function reports to the Audit Committee of the Board of Directors and provides an independent validation of business and support units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a company-wide basis.

The following provides a description of ICAP's significant risks including the methods on how ICAP manages these risks:

Credit Risk

Credit risk is the risk of loss due to an obligor's non-payment of an outstanding debt, loan or other line of credit (either the principal or interest (coupon) or both). The principal sources of credit risk for ICAP arise from two potential sources (1) Margin facilities to corporate clients and retail clients - both conventional and Islamic facilities and (2) Proprietary Investments of ICAP.

ICAP has a comprehensive framework of managing credit risk which includes an independent credit risk review function and credit risk monitoring process. With respect to the margin facilities provided by ICAP, there is a detailed policy that covers the parameters that should be considered prior to the acceptance of a client for the provision of margin facilities, rules of disbursement, different controls that need to be in place during the facility period, etc. There are stipulated minimum coverage ratios required for the disbursement of margin facilities depending on the market.

The Risk Management Department is engaged in frequent monitoring of the different limits and controls that are in place for the provision of such facilities. In addition to the minimum coverage ratios, there are controls in terms of maximum limit per client, tenor limits, margin calls, and various other risk controls in order to minimize the credit risk arising from these facilities.



Market Risk

This is the risk that the value of an investment will decrease due to movements in market factors. The market risk factors considered by ICAP are equity risk, interest rate risk, foreign exchange risk, credit spread risk, underwriting risk, commodity risk and settlement risk. ICAP has very little market risk given that it does not operate an active trading book. It invests its excess cash in carefully analyzed and selected investment after appropriate due diligence.

ICAP does not have an active trading book, however it has established a detailed Investment policy guideline that it should follow which prescribes the trading limits, investment limits, exposure limits, etc. that shall be strictly followed in case of any positions that ICAP takes as principal.

The monitoring and control of market risk is handled by the risk management function which is responsible for ensuring market risk exposures are measured in accordance with defined policies and reported daily against prescribed control limits.

Liquidity Risk

This is the risk of ICAP not having available sufficient resources to enable it to meet its obligations as they fall due or can only secure such resources at excessive cost. The two aspects of liquidity are asset liquidity and funding liquidity.

Funding liquidity risk arises when the necessary liquidity to fund obligations cannot be obtained at the expected terms and when required. Asset liquidity risk arises when the assets are not able to be disposed at its current market value without affecting liquidity of the asset.

When it comes to funding liquidity risk, ICAP monitors the liquidity position regularly to meet any commitments in a timely manner. ICAP also carries out stress testing to assess the worst case scenario in terms of liquidity crisis with a view to assess ICAP's ability to maintain an adequate capital position in such a scenario.

ICAP also closely monitors the availability of funding lines to meet the commitments. It seeks to maintain a cushion of unencumbered, liquid investment that can be liquidated in times of meeting unexpected cash flows arising from the normal course of business. ICAP has a Board-approved Liquidity Risk Policy which addresses the above aspects.

Operational Risk

Operational risk is defined as per Basel II regulations, as the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. In general, there are four main causes that are identified in standard operational risk definitions. Operational risk events can occur when there are inadequacies or failures due to People (human factors), Processes, Systems or External events. In order to manage the operational risks within ICAP, it operates a 'three line of defense' model as indicated below:



The first line of defense is business line management. It has the primary responsibility for the identification, management and mitigation of the risks associated with the products and processed of its business. It engages in regular testing and certification of the adequacy and effectiveness of controls and compliance with ICAP's policies and procedures

The second line of defense is ICAP's Risk Management Department. This department is responsible for identifying the potential sources of risks that can arise as a result of the differing business lines and support functions in ICAP. It is also responsible for the preparation and maintenance of the detailed risk register which identified the potential sources of risk and the possible controls that have to be in place in order to mitigate the identified risks.

The third line of defense is Audit. ICAP's internal audit is responsible for assessing compliance with the risk register and for providing independent evaluation of the adequacy and effectiveness of the risk control framework. The Head of Internal Audit reports to the Audit Committee which is a Board committee.

P. BUSINESS CONTINUITY PLAN

ICAP recognizes the importance of planning for Business Continuity and continued to make progress in this area in 2015. An effective Business Continuity Plan ("BCP") will facilitate ICAP in mitigating a serious disruptive crisis in a controlled, timely, and structured manner. It also helps the company to effectively manage any disruption in its operations and to recover as quickly and effectively as possible from an unforeseen disaster or emergency that may interrupt normal business operations in full or in part. During 2015, ICAP further strengthened the testing of its Business Continuity Plan and procedures. Differing tests of various extents were completed on two separate occasions during the year. The results of the tests were taken into account to continuously improve the BCP Plan and procedures to successful and provide confidence that ICAP will be able to handle such a crisis, should it occur. ICAP will continue testing its process for business continuity at least twice a year, as per the recommendation of the Board.

Q. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

Internal Audit monitors the effectiveness of internal control structures across the whole of ICAP focusing on the areas of greatest risk to the company as determined by a risk-based approach. Internal Audit accomplishes this by independently reviewing the design effectiveness and operating efficiency of internal control systems and policies established by both business management and by risk management and control functions to ensure that ICAP is operating within its stated risk appetite and in compliance with the regulatory framework. The Head of Internal Audit reports to the Audit Committee on all related matters. Executive management is responsible for ensuring that recommendations made by the Internal Audit function are implemented within an agreed timetable.



During 2015, Internal Audit reviewed a number of activities and processes of Alistithmar Capital following this risk-based approach. Reports of these audits have been submitted to the Audit Committee, highlighting areas where the effectiveness of controls or management's effectiveness in addressing control deficiencies was found to be less than satisfactory. On an overall basis, audits of the effectiveness of the internal control environment conducted during 2015 confirmed that systems and procedures for the ongoing identification, evaluation and management of the significant risks faced by ICAP were in place throughout the year. Internal Audit management was pleased with the cooperation received, as some findings have been closed soon after the audits were completed. This reflects the management's keenness to improve processes to the most efficient levels.

R. INVESTMENT IN AFFILIATED COMPANIES

ICAP has no investment in affiliated companies.

S. COMPANY BORROWING

ICAP has an overdraft facility from The Saudi Investment Bank to finance margin loans and murabaha financing granted to its customers with a maximum limit of SR 1.2 billion and outstanding balance as at December 31, 2015 is SR 287 million. The overdraft facility agreement is subject to annual renewal.

T. BOARD MEMBERS & ITS RELATED PARTIES - INTEREST, CONTRACTUAL SECURITIES & SUBSCRIPTION RIGHTS IN THE COMPANY & ITS SUBSIDIARIES SHARES OR DEBT INSTRUMENTS

Neither the Board members nor any related parties has any interest, contractual securities & subscription rights in ICAP's or its subsidiaries' shares or debt instruments.

U. BOARD MEMBERS, CHAIRMAN, CEO, CFO & ITS RELATED PARTIES - CONTRACTS AND TRANSACTIONS

ICAP has entered into service level agreements with the Saudi Investment Bank namely Rent & Premises, Mailing, Archiving and Information Technology Service Agreements (Refer Note -7 of the Audited Financial Statements). ICAP does not have any business and/or contract in which the Board Members, Chairman, CEO, CFO, and any related parties has any interest.

V. CONCLUSION

The Board of Directors would like to express its gratitude to the Government of the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al-Saud, and in particular to the Capital Market Authority, for its continued and constructive support. The Board also acknowledges with appreciation the confidence of ICAP's clients and the dedication and loyalty of ICAP's employees.

Abdullah Al-Zaben
Chairman