MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
TOGETHER WITH THE
INDEPENDENT AUDITOR'S REPORT

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2016
(Saudi Riyals)

INDEX	**PAGE**

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INDEPENDENT AUDITOR'S REPORT

TO SHAREHOLDERS OF
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Joint Stock Company)
Riyadh – Kingdom of Saudi Arabia

Scope of audit:

We have audited the accompanying consolidated balance sheet of **Middle East Financial Investment Company** (the "Company"), and its subsidiary (collectively the "Group") as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, including related notes from 1 to 26, which form an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the management of the Company and have been prepared by them and presented to us together with all the information and explanations, which we required. Our responsibility is to express an opinion on these consolidated financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our audit opinion.

Unqualified opinion:

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

i) present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia;

ii) comply with the requirements of the Regulations for Companies and the By-laws of the Company in so far as they affect the preparation and presentation of the financial statements.

For Dr. Mohamed Al-Amri & Co.

د. محمد العمري وشركاه - محاسبون قانونيون
س.ت: ١٠١٠٤٢٣٩٨٢
Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362

20 Jumada II' 1438 (H)
19 March 2017 (G)

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED BALANCE SHEET
For the year ended 31 December 2016
(Saudi Riyals)

	Notes	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	4	**26,794,381**	31,104,640
Margin loans	5	**11,999,392**	43,298,822
Held for trading investments	6	**5,091,599**	1,830,264
Receivable from Souk Sharq Fund	11	**12,000,000**	6,000,000
Deposit against letter of guarantee	15	**17,973,700**	17,973,700
Murabaha receivables	11	**10,166,667**	-
Accrued income and other current assets, net	7	**36,292,412**	22,533,961
Total current assets		**120,318,151**	122,741,387
Non-current assets			
Available-for-sale investments	8	**147,094,108**	158,156,786
Equity accounted investee	9	**3,771,325**	6,077,814
Receivable against the sale of investment property	10	**120,000,000**	120,000,000
Receivable from Souk Sharq Fund	11	**22,403,906**	28,403,906
Long-term receivables	12	**4,650,000**	4,350,000
Property and equipment, net	13	**3,974,533**	3,784,343
Total non-current assets		**301,893,872**	320,772,849
TOTAL ASSETS		**422,212,023**	443,514,236
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Payable to Souq Sharq Fund	11	**-**	30,001
Accrued expenses and other current liabilities	14	**4,868,299**	5,807,091
Provision for zakat and income tax	15	**6,250,215**	7,397,580
Total current liabilities		**11,118,514**	13,234,672
Non-current liabilities			
Employees' end of service benefits	16	**3,401,277**	2,712,073
Total non-current liabilities		**3,401,277**	2,712,073
Total liabilities		**14,519,791**	15,946,745
Shareholders' equity			
Share capital	17	**400,000,000**	400,000,000
Statutory reserve	18	**9,058,281**	8,553,886
Other reserves		**(9,025,015)**	(9,502,665)
Retained earnings		**7,658,966**	28,516,270
Total shareholders' equity		**407,692,232**	427,567,491
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**422,212,023**	443,514,236

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2016
(Saudi Riyals)

	Notes	2016	2015
REVENUES			
Asset management and subscription fees		**32,917,593**	31,223,730
Realized gain on sale of held for trading investments, net		**609,206**	5,094,389
Realized gain on sale of available-for-sale investments, net		**10,128,173**	18,768,694
Dividend income		**2,183,903**	434,898
Profit on Murabaha placement		**166,667**	-
Brokerage fee income		**2,147,674**	3,283,066
Advisory services income		**-**	350,000
Special commission income		**2,701,576**	1,276,576
Unrealized gain / (loss) on held for trading investments	6	**31,440**	(143,136)
Share of loss from equity accounted investee	9	**(1,402,292)**	(1,540,081)
Interest income		**4,200,000**	4,200,000
Other income		**297,295**	420,900
Foreign exchange loss		**(209,841)**	(512,208)
Total revenues		**53,771,394**	62,856,828
EXPENSES			
Salaries and employees' related expenses		**(28,226,621)**	(26,700,535)
Depreciation expenses	13	**(960,684)**	(1,555,194)
Rent expenses		**(1,505,550)**	(1,732,548)
Interest expense		**-**	(83,339)
Impairment charges, net	20	**(1,639,247)**	8,544,306
Other general and administrative expenses	19	**(16,395,346)**	(14,216,948)
Total expenses		**(48,727,448)**	(35,744,258)
NET INCOME FOR THE YEAR		**5,043,946**	27,112,570
EARNINGS PER SHARE	21	**0.13**	0.68

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016
(Saudi Riyals)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**5,043,946**	27,112,570
Adjustments to reconcile net income to net cash from operating activities:		
Realized gain on sale of held for trading investments, net	**(609,206)**	(5,094,389)
Unrealized (gain) / loss on held for trading investments	**(31,440)**	143,136
Realized gain on sale of available-for-sale investments, net	**(10,128,173)**	(18,768,694)
Profit on Murabaha placement	**(166,667)**	-
Share of loss from equity accounted investee	**1,402,292**	1,540,081
Impairment charges, net	**1,639,247**	(8,544,306)
Depreciation expenses	**960,684**	1,555,194
Provision for employees' end of service benefits	**1,083,726**	980,706
Loss on disposal of property and equipment	**-**	23,835
	(805,591)	(1,051,867)
Changes in operating assets and liabilities:		
Purchase of held for trading investments	**(27,191,632)**	(3,075,100)
Proceeds from sale of held for trading investments	**24,570,943**	34,383,246
Receivable against sale of investment property	**-**	6,826,500
Receivables from Souk Sharq Fund	**-**	6,000,000
Payable to Souq Sharq Fund	**(30,001)**	(4,824,558)
Deposit against bank guarantee	**-**	(17,973,700)
Accrued income and other assets	**(13,758,451)**	(9,452,024)
Accrued expenses and other liabilities	**(938,792)**	2,070,082
	(18,153,524)	12,902,579
Employees end-of-service benefits paid	**(394,522)**	(478,294)
Zakat and tax paid	**(6,544,220)**	(7,119,206)
Net cash (used in) / generated from operating activities	**(25,092,266)**	5,305,079
INVESTING ACTIVITIES		
Margin loans	**31,299,430**	(31,854,778)
Murabaha placement	**(10,000,000)**	-
Long term receivables	**(300,000)**	-
Purchase of property and equipment	**(1,150,874)**	(1,334,396)
Proceeds from disposal of property and equipment	**-**	109,360
Purchase of available-for-sale investments	**(10,647,479)**	(45,000,000)
Proceeds from disposal of available-for-sale investments	**31,580,930**	33,649,095
Net cash generated from / (used in) investing activities	**40,782,007**	(44,430,719)

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
For the year ended 31 December 2016
(Saudi Riyals)

	Note	**2016**	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term loan		**-**	3,060,000
Long-term borrowings		**-**	(5,776,900)
Dividends paid		**(20,000,000)**	-
Net cash used in financing activities		**(20,000,000)**	(2,716,900)
Decrease in cash and cash equivalents		**(4,310,259)**	(41,842,540)
Cash and cash equivalents, at the beginning of the year		**31,104,640**	72,947,180
Cash and cash and equivalents, at the end of the year		**26,794,381**	31,104,640
Supplemental non-cash information			
Change in fair value of available for sale investments and foreign exchange difference		**477,650**	(9,182,626)
Transfer from work in progress to property and equipment	13	**183,309**	237,913

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2016
(Saudi Riyals)

	Notes	**Share capital**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 1 January 2016		**400,000,000**	**8,553,886**	**(9,502,665)**	**28,516,270**	**427,567,491**
Net income for the year		**--**	**--**	**--**	**5,043,946**	**5,043,946**
Transfer to statutory reserve		**--**	**504,395**	**--**	**(504,395)**	**--**
Change in fair value of available-for-sale investments and foreign exchange difference during the year, net		**--**	**--**	**477,650**	**--**	**477,650**
Dividends paid		**--**	**--**	**--**	**(20,000,000)**	**(20,000,000)**
Zakat and income tax	15	**--**			**(5,396,855)**	**(5,396,855)**
Balance as at 31 December 2016		**400,000,000**	**9,058,281**	**(9,025,015)**	**7,658,966**	**407,692,232**
Balance as at 1 January 2015		400,000,000	5,842,629	(320,039)	10,619,077	416,141,667
Net income for the year		--	--	--	27,112,570	27,112,570
Transfer to statutory reserve		--	2,711,257	--	(2,711,257)	--
Change in fair value of available-for-sale investments and foreign exchange difference during the year, net		--	--	(9,182,626)	--	(9,182,626)
Zakat and income tax	15	--	--	--	(6,504,120)	(6,504,120)
Balance as at 31 December 2015		400,000,000	8,553,886	(9,502,665)	28,516,270	427,567,491

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

1. GENERAL

Middle East Financial Investment Company (the "Company") is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010237038 issued in Riyadh on Sha'ban 2, 1428 H (corresponding to 15 August 2007) and Ministerial Resolution No. 200/K dated Rajab 30, 1428 H (corresponding to 13 August 2007) announcing the formation of the Company.

The objectives of the Company are to participate in financial security activities, deal as an agent and as an underwriter, perform management activities to establish and arrange investment funds, manage portfolios, perform arranging, advisory and custody services for the purposes of the administrative procedures related to the investment funds, portfolio management, and financial brokerage in accordance with the license of the Capital Market Authority ("CMA") No. 06029-37 dated 21 Jumada II 1427 H (corresponding to 17 July 2007 G).

These consolidated financial statements comprise of the financial statements of the Company and its subsidiary Jeser Real Estate Development Company (collectively referred to as "the Group"). The financial statements of the subsidiary are prepared for the same reporting period as that of the Company. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated.

The Company's subsidiary, Jeser Real Estate Development Company ("Jeser") is a Saudi Limited Liability Company, which is owned 100% by the Company as follows.

	Ownership percentage	
	Direct	**Indirect***
Jeser Real-Estate Development Company	**99.9**	**0.1**

*Although not legally owned by the Company, the other shareholder has assigned his share of investment to the benefit of the Company.

The objectives of the subsidiary are to purchase land for construction of buildings for the purpose of sale or lease; in addition manage, maintain, develop, buy and own, sell and purchase, and utilize real estate and land for the benefit of the Company. The subsidiary is also permitted to invest in other entities which engage in similar real estate activities.

2. BASIS OF PREPARATION

Statement of compliance
These consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis of measurement
These consolidated financial statements have been prepared on historical cost basis using the accrual basis of accounting and the going concern concept, except for investments held for trading and available-for-sale investments, which are measured at fair value.

Functional and presentation currency
The consolidated financial statements are presented in Saudi Riyals ("SR") which is the functional currency of the Group.

2. BASIS OF PREPARATION (Continued)

Critical accounting judgements, estimates and assumptions
The preparation of consolidated financial statements in conformity with SOCPA requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

Impairment of available for-sale investments
The Group exercises judgement to consider impairment on the available-for-sale investments. This includes determination of a significant and prolonged decline in the fair value below its cost. In making this judgement, the Group evaluates among other factors, the normal volatility in price. In addition, the Group considers impairment appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment of other non-current assets
Other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Determination of Control
The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investor's rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Additionally, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in the financial statements:

Cash and cash equivalents
For the purpose of statement of cash flows, cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments with original maturities of three months or less, which are available to the Group without any restriction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Held for trading investments
An investment is classified as held for trading if they are purchased for the purpose of resale in short-term. Investments held for trading are recognised initially at cost plus attributable transaction costs on trade date, which is the date on which the Group becomes a party to the contractual provisions of the investment. Subsequent to initial recognition, these investments are measured at fair value and changes therein are recognised in the statement of income.

Available-for-sale investments
The Group's investments in equity securities are classified as available-for-sale investments (AFS) if these are not purchased for trading. AFS investments are initially recognized at cost plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in shareholders' equity as fair value reserve.

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 consolidated balance sheet date. Fair value of investments in mutual funds is determined by reference to declared net asset values.

For securities where 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 include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

If the fair value of the AFS investments held by the Group cannot be determined reliably, these AFS investments are stated at cost.

On de-recognition, any cumulative gain or loss previously recognized in equity is included in the consolidated statement of income for the year.

Equity accounted investees
Investment in associates in which the Group has equity interest more than 20% but less than 50% and exercises significant influence is recorded using the equity method, under which the investment is stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the investee companies.

Margin loans
Margin loans are granted in-line with the CMA Authorized Person Regulations, which allow the Group to grant credit facilities under certain business specifications. These represents Shariah compliant products in the form of Murabaha agreements which are stated at amortized cost less allowance for doubtful loans.

Margin loans are initially recognized when cash is advanced to customers. They are derecognized when customers repay their obligations; the loans are written off, or the loans are sold and substantially all the risks and rewards of ownership are transferred. The Group in the ordinary course of business holds shares as collateral to mitigate credit risk on margin loans.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties
Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged so as to write-off the cost less estimated residual value over their estimated useful lives, using the straight-line method. Gains from these investments are reported upon the sale of investment.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment losses if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the statement of income when incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of individual item of property and equipment. The estimated useful lives of the principal classes of assets are as follows:

	Years
Leasehold improvements	7
Furniture and fixtures	5
Office equipment	5
Information technology equipment	4
Network communication equipment	4
Software and licenses	7
Motor vehicles	5

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

Provision for end-of-service benefits
End-of-service benefits are payable as a lump-sum to all employees employed under the terms and conditions of the Saudi Labor Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled to, should the employee leaves at the consolidated balance sheet date. Benefit payments are based on employees' final salaries and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.

Foreign currency translation
Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translations of foreign currency transactions are included in the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Zakat and income tax

The Group's Saudi and GCC shareholders are subject to Zakat in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") as applicable in the Kingdom of Saudi Arabia. The zakat charge is computed on the zakat base. An estimate of zakat arising there from is provided as a charge to shareholders' equity.

The Group's foreign shareholders are subject to income tax in accordance with Regulations of ("GAZT") as applicable in the Kingdom of Saudi Arabia. Income tax is computed on adjusted net income. An estimate of income tax arising therefrom is provided as a charge to shareholders' equity.

Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Revenue recognition

- Asset management fees are recognized based on the certain agreed percentage of NAV of funds being managed. The Group as a Fund Manager charges asset management fees to its Funds on account of management, administration, subscription and custody at the rates agreed under offer documents of each fund.

- Portfolio and other advisory fees, service fees and custodian fees included under other income, are recognized based on the applicable service contract.

- Special commission income is recognized on accrual basis.

- Dividends from investments are recognized when right to receive the dividend is established.

- Rental income is recognized on an accrual basis using straight line method over the lease terms. When the Group provides incentives to its tenants, the cost of incentives are recognized over the lease-term, on a straight-line basis, as a reduction of rental income.

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 expense for operating leases is charged to the consolidated statement of income on a straight-line basis over the term of the operating lease.

Fiduciary assets

Assets under management:
The Group offers assets management services to its customers, which include management of certain mutual funds and investments. Such assets are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

Clients' cash accounts:
Clients' cash accounts are not treated as assets of the Group and accordingly are not included in the accompanying consolidated financial statements.

(Saudi Riyals)

4. CASH AND CASH EQUIVALENTS

	2016	2015
Cash in hand	**20,000**	15,000
Cash at banks – current accounts	**26,774,381**	31,089,640
	26,794,381	31,104,640

5. MARGIN LOANS

These loans earn special commission income at an average rate of 10% per annum (2015: 10% per annum). Margin loans at 31 December 2016 and 2015 were neither past due nor impaired.

6. HELD FOR TRADING INVESTMENTS

Held for trading investments at 31 December are as follows:

2016	**Cost**	**Fair value**	**Unrealized gain/(loss)**
Mutual fund (a)	**5,060,159**	**5,091,599**	**31,440**

2015	Cost	Fair value	Unrealized gain/(loss)
Equity securities	1,973,400	1,830,264	(143,136)

(a) This represents investment made during the year in 46,311.34 units (31 December 2015: Nil) of MEFIC Saudi Riyal Murabaha Fund, an open-ended fund managed by the Company.

7. ACCRUED INCOME AND OTHER CURRENT ASSETS, NET

	Notes	**2016**	2015
Accrued management fees		**17,847,527**	12,534,645
Advance to property manager	7(a)	**1,998,207**	1,998,207
Accrued performance fees		**6,814,232**	--
Prepaid expenses		**1,679,980**	4,050,464
Prepaid rent		**--**	613,065
Interest receivable from Souk Sharq	10, 11	**4,200,000**	4,200,000
Receivable from employees		**3,041,618**	635,152
Custody fees receivable		**220,000**	220,000
Dividends receivable	11	**2,136,000**	81,625
Others		**714,853**	560,808
		38,652,417	24,893,966
Provision for doubtful debts – other assets		**(2,360,005)**	(2,360,005)
		36,292,412	22,533,961

(a) This represents advance payment made to the property manager of the Souq Sharq. The cumulative provision for impairment of this balance amounts to SR 1.99 million as at 31 December 2016.

(Saudi Riyals)

8. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments at December 31 were as follows:

2016	**Book value**	**Fair value**	**Unrealized gain / (loss)**
Real estate funds (a)	**75,950,000**	**71,168,550**	**(4,781,450)**
Mutual funds (b)	**40,647,480**	**39,268,362**	**(1,379,118)**
Unquoted foreign equity investment (c)	**11,865,752**	**11,823,480**	**(42,272)**
Quoted foreign equity investment (d)	**1,464,096**	**1,504,103**	**40,007**
Al Waad Investment portfolios (e)	**1,191,795**	**1,140,644**	**(51,151)**
Discretionary portfolios (f)	**25,000,000**	**22,188,969**	**(2,811,031)**
	156,119,123	**147,094,108**	**(9,025,015)**

2015	Book value	Fair value	Unrealized gain / (loss)
Real estate funds (a)	75,950,000	74,272,714	(1,677,286)
Mutual funds (b)	38,030,000	34,575,344	(3,454,656)
Unquoted foreign equity investment (c)	11,865,753	11,829,498	(36,255)
Quoted foreign equity investment (d)	1,743,600	2,078,496	334,896
Al Waad Investment portfolios (e)	15,070,100	15,854,552	784,454
Discretionary portfolios (f)	25,000,000	19,546,182	(5,453,818)
	167,659,453	158,156,786	(9,502,665)

(a) This represents the Group's investment in the following real estate funds managed by the Group and governed by the Real Estate Fund Regulations issued by the Capital Market Authority ("CMA"):

Funds	**2016**		2015	
	Number of units	**Fair Value**	Number of units	Fair Value
Real Estate Income Fund	**60,000**	**599,442**	60,000	600,006
MEFIC Manazel Qurtoba II Fund	**5,000**	**5,977,634**	5,000	6,355,214
Souk Sharq Fund	**35,000**	**29,730,264**	35,000	32,302,206
CAYAN MEFIC Office Tower Fund	**20,000**	**18,831,986**	20,000	20,015,288
MEFIC Al Qannas II Fund	**15,000**	**16,029,225**	-	-
Investment subscription money - MEFIC Al Qannas II Fund		**-**		15,000,000
		71,168,551		74,272,714

(Saudi Riyals)

8. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

(b) This includes the investment in the following funds

Funds	**2016**		2015	
	Number of units	**Fair Value**	Number of units	Fair Value
MEFIC Amwal AlKhaleej (Sports) Fund – Closed Private Equity Fund	**-**	**-**	5,000	6,885,739
MEFIC IPO Fund	**147,193**	**19,963,290**	147,193	17,323,789
Al Awwal Saudi Equity Fund	**-**	**-**	29,582	436,877
Al Awwal Food & Healthcare Fund	**-**	**-**	199,581	1,669,979
Al Awwal Egyptian Equity Fund	**-**	**-**	50,848	367,426
MEFIC Local Equity Fund	**50,000**	**4,285,375**	50,000	3,824,815
KMEFIC Gulf Gate Fund	**339,774**	**4,372,217**	339,774	4,066,719
MEFIC Private Equity Opportunities Fund	**10,647**	**10,647,479**	-	-
		39,268,361		34,575,344

(c) This represent investment in unquoted shares of Marsa Al-Seef Investment Company Limited, registered in Cayman Island. The company was established with the principal aim of investing in Marsa Al-Seef project, a real estate development in the Kingdom of Bahrain.

(d) This represents 251,909 preferred shares (2015: 300,000 preferred shares) in Ahli United Bank UK Student Accommodation Company. The company is currently under liquidation and has distributed 87% of the total 2,000,000 units from its underlying investment in AUB UK Student Accommodation Fund with the balance 13% to be distributed in the coming year.

(e) As at 31 December 2016, the underlying investment comprises of two investment portfolios (2015: two portfolios) that mainly comprise of investment in shares, futures, forwards and certain fixed deposits. Impairment of SR 0.73 million against the investment in one of two portfolios has been recognized in the Statement of Income during the year. The accumulated provision for impairment amount to SR 1.33 million as at 31 December 2016.

(f) This represents amount invested in a discretionary equity portfolio managed by the asset management division of the Company.

(Saudi Riyals)

9. EQUITY ACCOUNTED INVESTEE

The movement in equity accounted investee for the year ended 31 December is as follow:

Company	**Share %**	**Country of incorporation**	**Balance as at 1 January 2016**	**Share in loss**	**Impairment**	**Balance as at 31 December 2016**
Medical Tube Industry Co.	20	Saudi Arabia	**6,077,814**	**(1,402,292)**	**(904,197)**	**3,771,325**
Total			**6,077,814**	**(1,402,292)**	**(904,197)**	**3,771,325**

Company	Share %	Country of incorporation	Balance as at 1 January 2015	Share in loss	Impairment	Balance as at 31 December 2015
Medical Tube Industry Co.	20	Saudi Arabia	8,247,809	(1,540,081)	(629,914)	6,077,814
Total			8,247,809	(1,540,081)	(629,914)	6,077,814

Medical Tube Industry Company ("the Associate") was established in 2005 having registered office in the Kingdom of Saudi Arabia, Riyadh. The Associate is mainly involved in production of medical instruments.

10. RECEIVABLE AGAINST SALE OF INVESTMENT PROPERTY

	2016	2015
Receivable against sale of investment property	**120,000,000**	120,000,000

In December 2014, the subsidiary sold the leasehold rights of the property "Souk Sharq" to Souk Sharq Fund (the "Fund') which is managed by the majority shareholder. The total consideration of disposal was SR 300 million out of which SR 180 million was paid in cash by the Fund and SR 120 million is payable over a maximum period of 15 years with repayment dates starting after 3 years from the date of disposal. Such amount of SR 120 million carries an interest rate of 3.5% per annum.

11. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Group transacts business with its related parties. Related parties include its shareholders and their affiliated companies, managed investment funds, the Board of Directors, and key management personnel. Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The transactions with related parties are carried out on mutually agreed terms approved by the management of the Group.

The significant transactions with related parties during the year and the related amounts are as follows:

Transactions	**2016**	2015
Asset management fees	**25,234,486**	26,223,217
Dividend income	**2,136,000**	48,000
Board remuneration	**1,122,000**	640,000
Interest Income – Souk Sharq Fund	**4,200,000**	4,200,000

(Saudi Riyals)

11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

In addition to the above transaction the Group has entered into following related party transactions:

(i) Murabaha receivables

	2016	2015
Murabaha placement – principal outstanding	**10,000,000**	-
Accrued profit on Murabaha placement	**166,667**	-
	10,166,667	-

This represents Murabaha transaction with CAYAN MEFIC Office Tower fund carrying a profit rate of 10% p.a.

(ii) The Group has invested in units of the following funds managed by the Company.

	2016	2015
MEFIC Local Equity Fund (50,000 units)	**-**	5,000,000
CAYAN MEFIC Office Tower Fund (20,000 units)	**-**	20,000,000
MEFIC Al Qannas II Fund (15,000 units)	**-**	15,000,000
Investment subscription money - MEFIC Private Equity Opportunities Fund	**10,647,479**	-

(iii) Units held in the funds managed by the Company included under investments.

	2016		2015	
	Number of units	**Holding %**	Number of units	Holding %
Real Estate Income Fund	**60,000**	**0.62%**	60,000	0.62%
Souk Sharq Fund	**35,000**	**19.44%**	35,000	19.44%
MEFIC SAR Murabaha Fund	**46,311.34**	**1.74%**	-	-
MEFIC Amwal Sports Fund	-	-	5,000	11.90%
MEFIC Manazel Qurtoba II Fund	**5,000**	**5.00%**	5,000	5.00%
MEFIC IPO Fund	**147,193.35**	**25.29%**	147,193.35	20.09%
MEFIC Local Equity Fund	**50,000**	**34.96%**	50,000	45.61%
CAYAN MEFIC Office Tower Fund	**20,000**	**31.91%**	20,000	31.91%

(iv) Receivable from Souk Sharq Fund – During the year 2014, under the sale and assignment agreement between the Company and Souk Sharq Fund ("the Fund"), the Fund was assigned the right to collect rent due from tenants at the time of transfer of the leasehold property amounting to SR 40.4 million. During the year 2015, the Company entered into a debt restructuring agreement with the Fund to allow repayment of this receivable in installments over a period of 7 years. Accordingly, the Company reclassified the rent receivable as a balance receivable from the Fund and reversed the provision for doubtful recovery there on. The first installment of SR 6 million was collected by the Company during 2015. The arrangement carries no interest.

	2016	2015
Receivables from Souk Sharq Fund	**34,403,906**	34,403,906
Less: Current portion of receivables from Souk Sharq Fund	**(12,000,000)**	(6,000,000)
	22,403,906	28,403,906

(Saudi Riyals)

11. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(v) Payable to Souk Sharq Fund – This represents the amount of rentals on leasehold property collected by the Company on behalf of the Souk Sharq Fund during the year ended December 31, 2016. Nil (2015: SR 30,001)

In addition to related party balances disclosed elsewhere in the financials following are the balances outstanding with related parties at the balance sheet date:

Balances	**2016**	2015
Accrued management fees from Funds managed by the Company	**17,847,527**	12,534,645
Accrued performance fees from Amwal Sports Fund managed by the Company	**6,814,232**	--
Accrued interest income – Souk Sharq Fund managed by the Company	**4,200,000**	4,200,000
Long-term receivables (Note 12)	**4,650,000**	4,350,000
Accrued board remuneration	**1,028,000**	527,000
Accrued dividend from funds managed by Company		
- Real Estate Income Fund	**36,000**	36,000
- Souk Sharq Fund	**2,100,000**	-

12. LONG-TERM RECEIVABLES

	2016	2015
Loan to executive personnel (a)	**2,300,000**	2,000,000
Advance to Associate Company(b)	**2,350,000**	2,350,000
	4,650,000	4,350,000

(a) This represents loans to the senior executives of the Company. These loans carry an interest rate of 1.75% per annum (31 December 2015: 1.75% p.a.).

(b) This advance was provided to Medical Tube Industry Company and carries no interest and has no fixed maturity date.

(Saudi Riyals)

13. PROPERTY AND EQUIPMENT, NET

	Leasehold improvements	Furniture and fixtures	Office equipment	Information technology equipment	Network communication equipment	Software and licenses	Motor vehicles	Work in progress	Total
Cost									
As at 1 January 2016	**3,418,319**	**1,418,366**	**1,068,636**	**1,265,123**	**6,117,616**	**9,383,801**	**459,847**	**408,088**	**23,539,796**
Additions	**14,500**	**31,475**	**10,398**	**57,949**	**--**	**135,059**	**--**	**901,493**	**1,150,874**
Transfer	**--**	**--**	**--**	**--**	**--**	**183,309**	**--**	**(183,309)**	**--**
As at 31 December 2016	**3,432,819**	**1,449,841**	**1,079,034**	**1,323,072**	**6,117,616**	**9,702,169**	**459,847**	**1,126,272**	**24,690,670**
Accumulated depreciation									
As at 1 January 2016	**2,842,640**	**1,197,418**	**928,303**	**1,038,259**	**5,977,468**	**7,717,717**	**53,648**	**--**	**19,755,453**
Charge for the year	**128,236**	**71,077**	**43,924**	**112,261**	**66,613**	**446,603**	**91,970**	**--**	**960,684**
Disposals	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
As at 31 December 2016	**2,970,876**	**1,268,495**	**972,227**	**1,150,520**	**6,044,081**	**8,164,320**	**145,618**	**--**	**20,716,137**
Net book value									
As at 31 December 2016	**461,943**	**181,346**	**106,807**	**172,552**	**73,535**	**1,537,849**	**314,229**	**1,126,272**	**3,974,533**
As at 31 December 2015	575,679	220,948	140,333	226,864	140,148	1,666,084	406,199	408,088	3,784,343

(Saudi Riyals)

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016	2015
Accrued employees' salaries and other benefits	**852,483**	3,023,699
Accrued professional fee	**1,330,808**	1,036,333
Communication and networking charges	**115,103**	178,986
Accrued IT maintenance expense	**48,678**	--
Accrued insurance premium	**115,960**	--
Accrued rent expense	**223,121**	--
Payable to GOSI	**147,715**	137,655
Accrued Board members' fee	**1,028,000**	527,000
Withholding tax payable	**3,526**	10,281
Commission and placement fee payable	**735,202**	--
Accrued maintenance expenses	**23,850**	15,866
Accrued security service expenses	**24,000**	12,000
Others	**219,853**	865,271
	4,868,299	5,807,091

15. PROVISION FOR ZAKAT AND INCOME TAX

The Group has recognized provision for zakat and Income tax for the year in accordance with Saudi Arabian Zakat and Income Tax Regulations and recognized in shareholders' equity.

(a) Components of zakat base

The following are the significant components of the zakat base of the Saudi and GCC shareholders for the year ended 31 December:

2016	**Company**	**Subsidiary**
Shareholders' equity	**400,000,000**	**148,133,615**
Accumulated profit	**8,516,271**	**--**
Statutory reserve	**8,553,886**	**6,396,252**
Adjusted net income for the year	**4,354,321**	**3,988,253**
Provisions	**2,775,115**	**2,296,963**
Property and equipment, net	**(3,658,917)**	**--**
Long-term investments	**(118,705,028)**	**(37,414,095)**
Dividend income from Saudi companies	**(15,208)**	**--**
Impairment of available-for-sale investment	**(735,050)**	**--**
Others	**593,532**	**--**

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

2015	Company	Subsidiary
Shareholders' equity	410,619,077	135,374,079
Statutory reserve	5,842,629	4,541,101
Adjusted net income for the year	6,804,253	9,071,453
Provisions	2,555,978	11,791,496
Property and equipment, net	(3,895,631)	--
Long-term investments	(133,253,331)	(37,693,600)
Dividend income from Saudi companies	(45,624)	--

(Saudi Riyals)

15. PROVISION FOR ZAKAT AND INCOME TAX (Continued)

(b) The movement in the provision for zakat for the year ended 31 December is as follows:

2016	**Company**	**Subsidiary**	**Total**
As at 1 January	**2,871,106**	**4,329,574**	**7,200,680**
Reversal during the year	**(379,380)**	**(481,383)**	**(860,763)**
Payments made during the year	**(2,491,726)**	**(3,848,191)**	**(6,339,917)**
Charge for the year	**2,197,763**	**3,949,004**	**6,146,767**
As at 31 December	**2,197,763**	**3,949,004**	**6,146,767**

2015	Company	Subsidiary	Total
As at 1 January	3,337,648	4,423,562	7,761,210
Payments made during the year	(2,860,406)	(3,918,320)	(6,778,726)
Charge for the year	2,393,864	3,824,332	6,218,196
As at 31 December	2,871,106	4,329,574	7,200,680

(c) The movement in the provision for tax for the year ended 31 December is as follows:

2016	**Company**	**Subsidiary**	**Total**
As at 1 January	**84,373**	**112,527**	**196,900**
Prior year charge	**1,093**	**6,310**	**7,403**
Payment during the year	**(85,466)**	**(118,837)**	**(204,303)**
Charge for the year	**53,994**	**49,454**	**103,448**
As at 31 December	**53,994**	**49,454**	**103,448**

2015	Company	Subsidiary	Total
As at 1 January	--	251,456	251,456
Charge for the year	173,439	112,485	285,924
Payment during the year	(89,066)	(251,414)	(340,480)
As at 31 December	84,373	112,527	196,900

(d) Status of assessments

The Company has submitted its zakat and income tax returns for financial years from 2007 through 2015 with the General Authority for Zakat and Tax (“GAZT”). The Company received zakat assessments for the years from 2007 to 2011 raising additional demand of SAR 19.64 million. The Company paid SAR 1.67 million of the additional liability and filed an appeal against the remaining liability to Higher Appeal Committee (HAC); a bank guarantee of SAR 17.97 million is submitted to GAZT as required by the zakat and income tax laws of the Kingdom of Saudi Arabia.

The above additional exposure is on account of disallowance of certain long-term investments by GAZT. The basis of this additional aggregate Zakat liability is being contested by the Company and pending the outcome of these actions no additional liability is recorded in the financial statements. The Company has formally contested these assessments and is awaiting a response from GAZT.

The Company believes that the ultimate outcome of the appeals filed and actions taken by the Company cannot be determined reliably at this stage and consequently no provision was booked for such additional Zakat liability as at 31 December 2016.

(Saudi Riyals)

15. PROVISION FOR ZAKAT AND INCOME TAX (Continued)

The Subsidiary

The Subsidiary has filed its Zakat and income tax returns for the years from establishment date up to and including the financial year 2015 with the General Authority of Zakat and Tax (the "GAZT"). and has received restricted certificate upto the year 2015. However, the Subsidiary has not yet received the assessments from GAZT for any of these years.

16. PROVISION FOR EMPLOYEES' END-OF-SEVICE BENEFITS

The movement in the provision for employees' end-of-service benefits for the year ended 31 December is as follows:

	2016	2015
Balance at the beginning of the year	**2,712,073**	2,209,661
Payments made during the year	**(394,522)**	(478,294)
Charge for the year	**1,083,726**	980,706
Balance at the end of the year	**3,401,277**	2,712,073

17. SHARE CAPITAL

As at 31 December 2016, authorized, issued and fully paid-up share capital of the Company was SR 400 million divided into 40 million shares (31 December 2015: 40 million shares) with a nominal value of SR 10 each.

The shareholding of the Company's issued and fully paid-up share capital was as follows:

	Ownership percentage	**Number of shares**	**Share capital SR**
Saudi shareholders	**45%**	**18,000,000**	**180,000,000**
Foreign shareholder (a)	**40%**	**16,000,000**	**160,000,000**
The Arab Investment Company (TAIC) (b)	**15%**	**6,000,000**	**60,000,000**
	100%	**40,000,000**	**400,000,000**

(a) The Company's 40% share capital is owned by AUB Bank Bahrain ("AUB"), a pan GCC banking group. During the year, AUB obtained necessary clearance from the Capital Market Authority (CMA), of Saudi Arabia to acquire 40% share capital of the Company. However, other legal formalities in connection with the transfer of shares are in process.

(b) TAIC is a closed joint stock company owned by the Arab states and registered in the Kingdom of Saudi Arabia. 58.65% of TAIC is owned by Saudi and GCC shareholders and therefore out of 15% of TAIC's holding in the Company, 8.8% is considered Saudi and GCC shareholding, which is subject to zakat while the remaining 6.2% is considered subject to tax liability together with Kuwait Middle East Financial Investment Company - KMEFIC.

18. STATUTORY RESERVE

In accordance with its by-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve. The Company may discontinue such transfers when such reserve reaches 50% of its share capital. Such reserve will be allocated at fiscal period-end, and is not subject to dividend distribution.

(Saudi Riyals)

19. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Professional fee	**4,936,323**	2,775,709
Repairs and maintenance expense	**1,910,942**	1,644,189
Marketing and advertising	**764,600**	420,578
Travel expense	**986,153**	1,079,438
Communication expense	**404,441**	384,706
Commission and placement fee	**3,384,749**	4,145,659
Brokerage rebate	**231,535**	254,772
Insurance expense	**332,951**	323,795
Subscriptions	**368,028**	362,498
Publication, printing and stationery	**216,186**	425,308
CMA and license renewal fee	**259,750**	256,493
Tadawul fee	**217,160**	201,135
Utilities	**205,249**	193,234
Office cleaning expense	**261,160**	261,139
Security service expense	**144,000**	159,933
Bank charges	**107,037**	109,028
Withholding tax	**68,633**	21,078
Board member's fee	**1,122,000**	640,000
Others	**474,449**	558,256
	16,395,346	14,216,948

20. IMPAIRMENT CHARGES, NET

This represents impairment (reversals)/ charges in relation to:

	Note	**2016**	2015
Rent receivables		**-**	(10,776,912)
Other assets	7 (a)	**-**	999,104
Available-for-sale investment	8 (e)	**735,050**	603,588
Investment in an associate	9	**904,197**	629,914
		1,639,247	(8,544,306)

21. EARNINGS PER SHARE

Earnings per share are calculated by dividing operating income and net income for the year by the weighted average number of shares for the years ended 31 December 2015 and 2016.

22. FIDUCIARY ASSETS

Assets under management:
These represent the mutual funds' assets and investments managed by the Group on behalf of its customers, which amount to **SR 2,274,699,088** as at 31 December 2016 (31 December 2015: SR 2,446,165,330). Consistent with the Group's accounting policy, such balances are not included in the Group's consolidated financial statements.

Clients' cash accounts:
Pursuant to the CMA's Authorized Persons Regulations requiring Client money segregation, the Group holds Clients' money in Omnibus accounts at a local bank to carry out its dealing, managing and custody activities. The Group is holding clients' cash accounts, which amounts to **SR 58,720,646** as at 31 December 2016 (31 December 2015: SR 96,609,664). Consistent with the Group's accounting policy, such balances are not included in the Group's consolidated financial statements.

(Saudi Riyals)

23. SEGMENT INFORMATION

The Group operates solely in the Kingdom of Saudi Arabia. For management purposes, the Group is organized into business units based on services provided and has the following reportable segments:

Corporate
Corporate manages future corporate development and controls all treasury related functions. All proprietary investments are incubated within this business segment, which also comprise strategy and business development, legal and compliance, finance, operations, human resources and client relation management.

Asset management
Asset management services include management of certain mutual funds and investments on behalf of the Group's customers.

Management monitors the operating results of the operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss.

The Group does not track liabilities by business segment and these are accordingly disclosed as corporate liabilities.

Year ended 31 December 2016	**Note**	**Corporate**	**Asset management**	**Others**	**Total**
Total revenues		**18,706,127**	**32,917,593**	**2,147,674**	**53,771,394**
Expenses					
Salaries and employee – related Expenses		**(7,130,036)**	**(13,545,115)**	**(7,551,470)**	**(28,226,621)**
Depreciation expenses	13	**(392,631)**	**(72,532)**	**(495,521)**	**(960,684)**
Rent expenses		**(416,409)**	**(511,249)**	**(577,892)**	**(1,505,550)**
Other general and administrative expenses	19	**(4,389,106)**	**(9,308,028)**	**(2,698,212)**	**(16,395,346)**
Impairment charges, net	20	**(1,639,247)**	**--**	**--**	**(1,639,247)**
Total expenses		**(13,967,429)**	**(23,436,924)**	**(11,323,095)**	**(48,727,448)**
Net income / (loss) for the year		**4,738,698**	**9,480,669**	**(9,175,421)**	**5,043,946**
As at 31 December 2016					
Total assets		**274,517,224**	**133,645,342**	**14,049,457**	**422,212,023**
Total liabilities		**14,519,791**	**--**	**--**	**14,519,791**

(Saudi Riyals)

23. SEGMENT INFORMATION (Continued)

Year ended 31 December 2015	Note	Corporate	Asset management	Others	Total
Total revenues		28,000,032	31,223,730	3,633,066	62,856,828
Expenses					
Salaries and employee – related Expenses		(7,692,502)	(10,566,676)	(8,441,357)	(26,700,535)
Depreciation expenses	13	(635,610)	(117,417)	(802,167)	(1,555,194)
Rent expenses		(495,377)	(580,735)	(656,436)	(1,732,548)
Interest expense on borrowings		(83,339)	--	--	(83,339)
Other general and administrative expenses	19	(4,415,917)	(5,481,690)	(4,319,341)	(14,216,948)
Impairment charges	20	8,544,306	--	--	8,544,306
Total expenses		(4,778,439)	(16,746,518)	(14,219,301)	(35,744,258)
Net income / (loss) for the year		23,221,593	14,477,212	(10,586,235)	27,112,570
As at 31 December 2014					
Total assets		276,124,496	122,138,958	45,250,782	443,514,236
Total liabilities		15,946,745	--	--	15,946,745

24. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

The Capital Market Authority (the "CMA") has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules.

In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

Description	**2016**	2015
Capital base:		
Tier-1 Capital	**407,692,232**	427,424,355
Tier-2 Capital	**--**	--
Total capital base (A)	**407,692,232**	427,424,355
Minimum Capital Requirement:		
Market risks	**1,371,957**	1,255,452
Credit risks	**208,212,406**	207,065,776
Operational risks	**12,181,862**	13,499,096
Total minimum capital requirement (B)	**221,766,225**	221,820,324
Surplus (C=A-B)	**185,926,007**	205,604,031
Capital adequacy ratio (D=A/B)	**1.84**	1.93

24. REGULATORY CAPITAL REQUIREMENTS AND 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, with certain deductions as per the Rules.

- **Tier-2 capital** consists of subordinated loans, cumulative preference shares and revaluation reserves, with certain deductions as per the Rules.

b) The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in the Rules.

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.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. 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 Group has established procedures to manage credit exposure including evaluation of borrowers' credit worthiness, formal credit approvals, assigning credit limits, obtaining collaterals such as managing borrowers' portfolios. Individual margin loan contracts generally are for terms not exceeding twelve months.

Concentration of credit risk arises 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. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group's policy over credit risk is to minimize exposure to counter parties with perceived higher risk of default by dealing only with counter parties that evaluated to be credit worthy based on risk assessment procedures performed, Know Your Customer (KYC) and compliance procedures conducted prior to accepting a customer. The Group extends financing to customers after obtaining adequate collaterals in the form of approved securities as to ensure adequate customer liquidity to meet repayment obligations and mitigate credit risk.

Credit risk is monitored on a daily basis for adequacy of collateral coverage in accordance with the applicable risk management policy and if required, additional margin calls are issued to customers to pledge additional assets and customer portfolios are fully / partly liquidated to ensure compliance with the applicable risk management policy.

b. 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 Group's borrowings and lending, where fluctuations in commission rates, if any, are reflected in the results of operations.

c. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, Kuwaiti Dinar, Sterling Pound and US Dollars. Management monitors the fluctuations in currency exchange rates and believes that the Group is not exposed to significant foreign exchange risk.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

d. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can arise by market disruptions, which may cause certain sources of funding to be unavailable. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments.

e. 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 Group's financial instruments are compiled under the historical cost convention, differences can arise between the book values and the fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

26. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the board of directors on 16 Jumada II' 1438 H corresponding to 15 March 2017 G.