

ALAWWAL INVEST COMPANY
(FORMERLY KNOWN AS SAUDI HOLLANDI CAPITAL)
(Limited Liability Company)
FINANCIAL STATEMENTS
31 December 2016
together with the
INDEPENDENT AUDITOR'S REPORT



KPMG Al Fozan & Partners
Certified Public Accountants
KPMG Tower
Salahudeen Al Ayoubi Road
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com

Licence No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

To: **The Shareholders of**
Al Awwal Invest Company (Formerly known as Saudi Hollandi Capital)

Opinion

We have audited the accompanying financial statements of **Al Awwal Invest Company** (formerly known as Saudi Hollandi Capital) (the "Company") which comprise the balance sheet as at 31 December 2016, the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the balance sheet of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (SOCPA).

Basis of opinion

We conducted our audit in accordance with Auditing Standards endorsed in Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements in Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw your attention to Note 1 of the accompanying financial statements, which describes that the Company has converted to "Closed Joint Stock Company" (CJSC) on 29 March 2017. CMA imposed the deadline for this conversion as 31 December 2016. However, the legal formalities related to conversion to CJSC were completed on 29 March 2017.



Responsibilities of Management's and those charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Auditing Standards endorsed in Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**For KPMG Al Fozan & Partners
Certified Public Accountants**


Abdullah Hamad Al Fozan
License No: 348

Riyadh at: 2 Rajab1438H
Corresponding to: 30 March 2017



ALAWWAL INVEST COMPANY
(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
BALANCE SHEET
As at 31 December 2016
(Saudi Riyals in '000)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			
<u>Current assets:</u>			
Cash and bank balances	4	1	52,876
Time deposits	5	412,652	350,000
Due from a related party	6	18,455	18,914
Advance for investments		--	483
Prepayment and other current assets		277	592
Total current assets		431,385	422,865
<u>Non-current assets:</u>			
Investments	7	122,945	119,825
Total non-current assets		122,945	119,825
Total assets		554,330	542,690
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>Current liabilities:</u>			
Accrued expenses and other current liabilities		5,372	3,346
Provision for zakat and income tax	8	8,444	7,331
Total current liabilities		13,816	10,677
<u>Non-current liabilities:</u>			
Employees' end of service benefits		9,895	11,888
Total non-current liabilities		9,895	11,888
Total liabilities		23,711	22,565
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	9	400,000	400,000
Statutory reserve	10	20,978	19,405
Fair value reserve for AFS investment		2,110	(100)
Retained earnings		107,531	100,820
Total shareholders' equity		530,619	520,125
Total liabilities and shareholders' equity		554,330	542,690

The accompanying notes 1 to 16 form an integral part of these financial statements.

ALAWWAL INVEST COMPANY
(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
STATEMENT OF INCOME
For the year ended 31 December 2016
(Saudi Riyals in '000)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<u>REVENUE</u>			
Brokerage fees income, net		18,182	26,615
Asset management fee		20,891	25,048
Advisory and arranging fee		7,555	3,225
Special commission income		11,063	3,765
Fee for custody and other services		1,823	2,829
Trading gain		107	5,803
Realised gain on disposal of available for sale investments		—	652
Total revenue		59,621	67,937
<u>OPERATING EXPENSES</u>			
Salaries and employee related expenses	11	30,014	31,165
Rent and premises related expenses		2,576	2,088
General and administrative expenses	12	11,306	13,022
Total operating expenses		43,896	46,275
Net income for the year		15,725	21,662

The accompanying notes 1 to 16 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2016
(Saudi Riyals in '000)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		15,725	21,662
<i>Adjustments for:</i>			
Realised gain on disposal of available for sale investments		--	(652)
Employees' end of service benefits		2,869	1,914
		<u>18,594</u>	<u>22,924</u>
Changes in operating assets and liabilities:			
Due from a related party		459	17,609
Prepayment and other current assets		315	138
Accrued expenses and other current liabilities		2,026	(2,082)
		<u>21,394</u>	<u>38,589</u>
Zakat and Income tax paid		(6,328)	(11,876)
Employees' end of service benefits paid		(4,862)	(1,749)
Net cash generated from operating activities		<u>10,204</u>	<u>24,964</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Placements of time deposit, net		(62,652)	--
Sale proceed from disposal of available for sale investments		--	64,646
Advance for investments		483	(483)
Purchase of investments		(910)	(80,971)
Net cash used in investing activities		<u>(63,079)</u>	<u>(16,808)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(52,875)</u>	8,156
Cash and cash equivalents at the beginning of the year		<u>52,876</u>	<u>44,720</u>
Cash and cash equivalents at the end of the year	4	<u>1</u>	<u>52,876</u>
<u>Supplemental non-cash information:</u>			
Net changes in fair value of available-for-sale investments		<u>2,210</u>	<u>(996)</u>

The accompanying notes 1 to 16 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2016
(Saudi Riyals in '000)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Fair value reserve for AFS investment</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2015	400,000	17,239	896	89,234	507,369
Net income for the year	--	--	--	21,662	21,662
Transfer to statutory reserves	--	2,166	--	(2,166)	--
Net change in fair value	--	--	(344)	--	(344)
Net amount reclassified to profit or loss	--	--	(652)	--	(652)
Zakat and income tax (note 8)	--	--	--	(7,910)	(7,910)
Balance as at 31 December 2015	<u>400,000</u>	<u>19,405</u>	<u>(100)</u>	<u>100,820</u>	<u>520,125</u>
Net income for the year	--	--	--	15,725	15,725
Transfer to statutory reserves	--	1,573	--	(1,573)	--
Net change in fair value	--	--	2,210	--	2,210
Zakat and income tax (note 8)	--	--	--	(7,441)	(7,441)
Balance as at 31 December 2016	<u>400,000</u>	<u>20,978</u>	<u>2,110</u>	<u>107,531</u>	<u>530,619</u>

The accompanying notes 1 to 16 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Riyals in '000')

1. ORGANIZATION AND ACTIVITIES

Alawwal Invest Company (Formerly known as Saudi Hollandi Capital) ('the Company') is a Limited Liability Company and operating in the Kingdom of Saudi Arabia under Commercial Registration No. 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to 9 January 2008). The Company has 5 branches (2015: 5 branches) operating in the Kingdom of Saudi Arabia as at 31 December 2016.

With effect from 27 Safar 1438H (Corresponding to November 27, 2016), the name of the Company was changed from Saudi Hollandi Capital to Alawwal Invest Company.

The principal activities of the Company are to provide a full range of financial services, which include brokerage services and asset management services. The Company also provides equity lead arrangements, advisory and custodial services to its clients pursuant to the Capital Market Authority ("CMA") resolution number 1-39-2007 dated 8 Rajab1428 corresponding to 22 July 2007.

The address of the Company's head office is as follows:

Al Awwal Invest Company
Head Office
P.O. Box 1467
Riyadh 11431,
Kingdom of Saudi Arabia

On 23 June 2016, the Company's owners and Board of Directors approved to convert the legal status of the Company from "Limited Liability Company" to "Closed Joint Stock Company" as per new Company's Law issued by Ministry of Commerce and Investment in 2016. CMA imposed the deadline for this conversion as 31 December 2016. However, the legal formalities related to change in legal status were completed on 29 March 2017.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The accompanying 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.

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its By-laws for any changes to align the By-laws of The Law. Consequently, the Company shall present the amended By-laws to the shareholders' in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than 24/07/1438H (corresponding to 21 April 2017).

b) *Basis of measurement*

These financial statements have been prepared under the historical cost convention, except for available for sale investments which are stated at fair value, using the accrual basis of accounting and the going concern concept.

ALAWWAL INVEST COMPANY
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(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Riyals in '000')

2. BASIS OF PREPARATION (continued)

c) *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company. All financial information presented in SR has been rounded to the nearest thousand except where otherwise disclosed.

d) *Estimates and judgments*

The preparation of these financial statements require management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company exercises judgment in considering impairment of available-for-sale investments. This includes determination of a significant and prolonged decline in the fair value below its cost. In making this judgment, the Company evaluates among other factors, the volatility in prices.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) *Cash and cash equivalents*

For the purpose of reporting cash flows, cash and cash equivalents comprise cash with banks and other short-term liquid investments, if any, with original maturities of three months or less, which are available to the Company without any restrictions.

b) *Available for sale investments*

Available for sale investments principally consist of less than 20% share in quoted equity investments, which are not held for trading purposes and where the Company does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the available for sale investments, if any, is charged to the statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

c) *Held for trading investment*

Investments in trade securities which are purchased for trading purposes are initially recorded at cost and then re-measured and stated in the balance sheet at market value and included under current assets. Realized gain or loss on sale of trade securities and changes in market value at balance sheet date are credited or charged to statement of income.

ALAWWAL INVEST COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals in '000')

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) *Impairment of financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. For asset carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income;

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. For asset carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income;

For equity investments held as available-for-sale, a significant and prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On de-recognition, any cumulative gain or loss previously recognized in equity is included in the statement of income for the year.

e) *Provisions*

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

f) *Zakat and income tax*

Zakat and income tax are provided for in the financial statements in accordance with Saudi General Authority of Zakat and Income Tax ("GAZT") regulations. Zakat and income tax are charged to the statements of changes in shareholders' equity.

g) *Employees' end of service benefits*

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

h) *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.

ALAWWAL INVEST COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals in '000')

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue recognition

The revenue for the various services rendered are recognised as follows:

- Revenue from equity brokerage is recognized at the time when the deal is executed on behalf of customer and is presented net of discounts.
- Fee received on asset management and other similar services that are provided over an extended period of time are recognized over the period when the service is being provided.
- Management advisory service fees are recognized based on the applicable service contracts on a time-proportionate basis.
- Special commission on current account and placements are recognized on accrual basis that takes into account effective yield.

j) Assets held in trust or in a fiduciary capacity

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in the financial statements; these are treated as off-balance sheet items. Similarly, client money held by the Company is not treated as asset of the Company and accordingly is not included in the financial statements; these are treated as off-balance sheet items.

k) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. CASH AND BANK BALANCES

	<u>2016</u>	<u>2015</u>
Cash in hand	1	1
Short term deposits	--	52,875
Cash and cash equivalents	1	52,876

This included deposits with Alawwal Bank "related party". These carried commission rate ranging between 0.70% to 1.30% per annum with maturity date up to January 2016.

Alawwal Bank meets operational expenses of the Company under service level agreement.

5. TIME DEPOSITS

Time deposits are placed with Alawwal Bank "related party" and carry commission rate ranging between 3.05% to 3.75% per annum (31 December 2015: 0.70% to 1.30% per annum). The maturity date up to May 2017 (31 December 2015: up to January 2016).

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(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
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For the year ended 31 December 2016
(Saudi Riyals in '000')

6. RELATED PARTY TRANSACTIONS AND BALANCES

Related party of the Company includes Alawwal Bank ('the Bank') and its affiliated companies. In the ordinary course of business, the Company transacts with related parties on mutually agreed terms approved by the Company's Board of Directors.

In addition to note 4 and 5, the Company entered into following transactions with the related party during the year.

	<u>2016</u>	<u>2015</u>
Advisory and arranging fee	455	1,055
Fee for custody and other services	1,824	2,829
Special commission income	11,063	3,765
Operating expenses charged by the Bank under Service Level Agreement (Note 6.1)	6,937	7,046

In addition to note 4 and 5, the following balance results from the above mentioned transactions:

	<u>2016</u>	<u>2015</u>
Due from a related party	18,455	18,914

- 6.1 The Bank provides certain services to the Company as per Service Level Agreement (the "Agreement") signed between the Company and the Bank. These services include support for IT, finance, human resource, legal and other administrative functions. The Bank collects and makes payments for and on behalf of the Company and maintains bank accounts of Company's brokerage customers.

7. INVESTMENTS

Investments as at December 31 classified as available for sale are as under:

	<u>Market value</u>		<u>Cost</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Available for sale investments				
<u>Mutual Funds</u>				
Al-Yusr Saudi Riyal Morabaha Fund	39,724	38,802	38,395	38,395
Saudi Riyal Money Market Fund	27,890	26,333	26,936	26,025
Al Yusr Morabaha & Sukuk Fund	46,329	45,142	44,693	44,693
Al Yusr Saudi Hollandi Fund for Initial IPO	9,002	9,548	10,811	10,812
	<u>122,945</u>	<u>119,825</u>	<u>120,835</u>	<u>119,925</u>

ALAWWAL INVEST COMPANY
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8. PROVISION FOR ZAKAT AND INCOME TAX

Zakat and income tax charge for the year ended 31 December comprises the following:

	<u>2016</u>	<u>2015</u>
Zakat (8.1)	6,342	6,462
Income tax (8.2)	1,099	1,448
Total	<u>7,441</u>	<u>7,910</u>

8.1 The main elements of the Zakat base as at 31 December are as follows:

	<u>2016</u>	<u>2015</u>
Shareholders' equity	240,000	240,000
Adjusted net income	8,239	11,861
Provisions and reserves	5,441	6,619
Zakat Base	<u>253,680</u>	<u>258,480</u>
Zakat charge for the year at 2.5%	<u>6,342</u>	<u>6,462</u>

8.2 Income tax charge for the year is as follows:

	<u>2016</u>	<u>2015</u>
Non-Saudi shareholders share of adjusted net income @ 40% (2015: 40%)	5,493	7,240
Income tax for the year at 20%	<u>1,099</u>	<u>1,448</u>

8.3 The movement in zakat and income tax provision

	<u>2016</u>			<u>2015</u>
	Zakat	Income Tax	Total	Total
Balance as at 1 January	8,061	(730)	7,331	11,297
Provision during the year (Note 8.1)	6,342	1,099	7,441	9,643
Reversal of provision for prior years	--	--	--	(1,733)
	6,342	1,099	7,441	7,910
Payments during the year for current year	--	--	--	(2,311)
Payments during the year for prior years	(6,328)	--	(6,328)	(9,565)
Balance as at 31 December	<u>8,075</u>	<u>369</u>	<u>8,444</u>	<u>7,331</u>

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8. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

8.4 Status of assessment

The Company filed its zakat and income tax returns to General Authority of Zakat and Income Tax ("GAZT") up to the years ended 31 December 2015. The zakat and tax return for the year ended 2015 is under review by the GAZT. The GAZT raised the final assessments for the years 2008 to 2013, which resulted in additional zakat and tax liability of approximately SR 0.831 million. Moreover, for the year 2014, the Company also received initial assessment for additional zakat of approximately SR 2,596. The Company has filed appeals for the above final and initial assessments which are currently under review by the respective appeal committees.

The Company's zakat and tax return for the year ended 31 December 2016 is due to be filed on or before 30 April 2017.

9. SHARE CAPITAL

At 31 December 2016, the share capital of the Company was SR 400 million divided into 400,000 shares of SR 1,000 each, which are fully paid and owned by the Bank.

10. STATUTORY RESERVE

In accordance with the Company's Articles of Association and the previous Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. The Company is currently in the process of amending its Articles of Association as described in note 2a.

This reserve is currently not available for distribution to the shareholders of the Company.

11. SALARIES AND EMPLOYEE RELATED EXPENSES

	<u>2016</u>	<u>2015</u>
Salaries	20,463	22,647
Employees' bonus	1,650	1,500
Terminal benefits GOSI	1,414	1,519
End of service benefits	2,869	1,914
Other staff cost	3,618	3,585
	<u>30,014</u>	<u>31,165</u>

12. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
Cost under service level agreement (Note 12.1)	6,913	7,046
Communication expenses	3,056	2,213
Professional expenses	355	1,140
Stationery and printing	432	211
Travel	160	211
Other general expenses	390	2,201
	<u>11,306</u>	<u>13,022</u>

12.1 This represents charge under the Service Level Agreement with the Bank and as disclosed in note 6.1.

ALAWWAL INVEST COMPANY
(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals in '000')

13. ASSETS HELD IN FIDUCIARY CAPACITY

These represent:

- a) Mutual funds' assets managed by the Company amounting to SAR 2.08 billion as at 31 December 2016 (31 December 2015: SAR 2.05 billion); and
- b) Clients' cash accounts with the Bank amounted to SAR 1.54 billion as at 31 December 2016 (31 December 2015: SAR 1.42 billion).

Consistent with the Company's accounting policy, as these assets are held by the Company in fiduciary capacity, such balances are not included in the Company's financial statements.

14. REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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:

	<u>2016</u>	<u>2015</u>
Capital Base:		
Tier I Capital	528,509	520,125
Tier II Capital	2,110	--
Total Capital Base	530,619	520,125
Minimum Capital Requirement:		
Market Risk	--	--
Credit Risk	38,941	38,842
Operational Risk	10,974	11,569
Total Minimum Capital Required	49,915	50,411
Capital Adequacy Ratio:		
Surplus in Capital	480,704	469,714
Total Capital Ratio (times)	10.63	10.32

- a) Capital Base of the Company comprise of
 - **Tier-1 capital** consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves, with certain deductions as per the Rules.
 - **Tier-2 capital** consists of 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 are 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.

ALAWWAL INVEST COMPANY
(Formerly known as Saudi Hollandi Capital)
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Riyals in '000')

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include balances with bank, available for sale investments and certain other assets and other liabilities.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions which may cause certain sources of funding to dry up immediately.

The Company's current assets are significantly more than its current liabilities at year end resulting from the shareholders' support for administrative and other expenses. Thus, Company does not have any major current liabilities requiring extensive liquidity.

Credit risk

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. Financial assets, which potentially are subject to concentration of credit risk, principally consist of bank balances, time deposits and balances due from a related party. The Company's bank balances and time deposits are held with the Bank, which has sound financial standing.

Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments.

The Company is exposed to special commission rate risk with respect to the time deposit maintained with the Bank and investment in units of mutual fund where the underlying investments are mainly in money market placements. The Company does not have any commission bearing liabilities at year end. To guard against the risk, the Company monitors the changes in commission rates on a regular basis.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the accompanying financial statements are prepared under the historical cost method, except for the revaluation of the available for sale investments at fair value through equity, differences may 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.

16. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 28 Jumada II 1438H. (correspondence 27 March 2017).