



ANNUAL REPORT 2016



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



His Royal Highness
Prince Mohammad Bin Nayef Al-Saud
Crown Prince, Deputy Prime Minister,
Minister of Interior



Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al-Saud



His Royal Highness
Prince Mohammad Bin Salman Al-Saud
Second Crown Prince,
Minister of Defence

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Board of Directors

Mr. Saleh Eid Hamdan Al-Husseini

Chairman
Independent Board Member

Mr. Zaid Al-Gwaiz *

Independent Board Member

Dr. Bernd Van Linder **

Board Member
Managing Director of Alawwal BANK

Mr. Salman M Al-Deghaither

Independent Board Member

Mr. Omar Al-Hoshen ***

Independent Board Member

Mr. Khalid Al-Muammar

Chief Executive Officer of Alawwal Invest

*Mr. Zaid AlQwais attended the Board of Directors meeting of the Q1 2016 before submitting his resignation by the end of the same quarter.

**Dr.Bernd van Linder resigned as of 31/12/2016. Mr.Soren King Nikolajsen appointed as broad member as of 22/2/2017.

***Mr. Omar Al-Hoshan joined the Board of Directors in Q2 2016.

Senior Management



FROM LEFT TO RIGHT

Mr. Ali Al Gudaihi
Deputy Head of Asset Management

Mr. Imran Iqbal
Head of Business Development
& Wealth Management

Mr. Ali Al Faraj
Chief Compliance Officer & AML/CTF

Mr. Khalid Al-Muammar
Chief Executive Officer (CEO)

Mr. Abdallah Saade
Head of Investment Banking

Mr. Fahad Al Rashed
Brokerage & Securities Services
Unit Head

Mr. Ahmed Al Somali
Head of Operation and SLA

Mrs. Amal Al-Shemrakh
Internal Audit Manager



DIRECTORS' REPORT



Directors' Report

For The Year Ended
31 December 2016

1. INTRODUCTION

The Board of Directors of Alawwal INVEST is pleased to present its annual report for the financial year ended 31 December 2016.

Please note that 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 year 2016 proved to be extremely challenging both in the markets overall and for Alawwal INVEST. Although the local equity market was up slightly for the year, trading volumes were significantly reduced from the previous year. This was driven by a number of factors including geopolitics and instability in the region, oil prices remaining relatively low and a slowdown in China. This led to market volatility resulting in reduced trading volumes as clients preferred to wait until there was less uncertainty and more stability.

Despite these challenging market conditions, there were some notable achievements by Alawwal INVEST in 2016. These included significant progress towards transferring the margin trading product from the bank to support our brokerage clients. In Asset Management, the fund managers were able to focus on performance resulting in some of the funds achieving top rankings amongst competitors. We were also able to attract some new clients in Asset Management despite an overall drop in Assets Under Management as clients preferred to move to cash or overseas. Arranging revenues from Investment Banking increased as a result of newly signed mandates and a healthy pipeline of deals brought forward from the previous year.

We expect 2017 to be as challenging, if not more, due to sustained low oil prices and continued market uncertainty. However, with a focused effort and superior service, we will continue to try attract and maintain clients.

2. BUSINESS REVIEW

2.1 Asset Management

Background of Services

With a broad base of tradition and experience accumulated over many years, Alawwal Invest, the investment arm of Alawwal Bank, provides a comprehensive system of investment tools and financial solutions with added value and competitive advantage. Alawwal Invest seeks to exceed the expectations of clients aspiring to develop their capital within secure channels and will help grow revenues based on strong and solid foundations.

Alawwal Invest Asset Management offers its clients both packaged and customized solutions depending on their particular investment needs. It manages 16 conventional and Shariah-compliant Mutual Funds and Fund of Funds, offering investors access to local, regional and global markets through a team of experienced and qualified professionals. Asset Management also offers Managed Accounts for High Net Worth individuals as well as for corporate and institutional clients.

Review of 2016

In spite of the current market volatility and instability especially in the region, Alawwal Invest Asset Management continued to build upon its impressive performance record of previous years. No less than 4 of its 16 funds ranked in the top 3 in their categories

Most of Alawwal Invest Mutual Funds had participated in IPO's issuance and rights issues in the market. This has given our funds the opportunity to further diversify its holdings and enhance their returns.

In 2016, Alawwal Invest Asset Management received CMA approval to make some changes in the terms and conditions of some funds. Most changes are related to Mutual Funds Board formation, also other changes were made to give a greater opportunity to enhance returns.

Outlook for 2017

In 2017, Alawwal Invest seeks to continue the outstanding performance in managing the mutual funds and investments. Alawwal Invest Asset Management aims to increase its market share in personal investments business by aggressively marketing its funds, investment products and other investment services which suit its valuable clients.

We will also continue our plan and expand further in the challenging and remunerative business of managing discretionary portfolios for the High Net Worth segment in various assets classes, in domestic and international markets.

2.2 Brokerage

Background of Services

Alawwal INVEST Brokerage is the execution arm of Alawwal INVEST. It offers clients a wide range of products including local equity, international equity, and fixed income products in both local & international markets.

For Local Equity Brokerage, clients rely on our multiple trading channels including Alawwal INVEST e-Tadawul, mobile solutions and Centralized Share Trading Unit to trade on all Tadawul listed stocks, ETF and Sukuk.

For clients who are dealing in International markets, Alawwal INVEST Brokerage offers a full range of market leading brokerage services including execution, clearing and safekeeping.

Market Summary

[Source: Tadawul Annual Report 2016 published on Tadawul Website]

The total value of shares traded in the Saudi stock market (Tadawul) for the year 2016 reached SAR 1,156.9 billion compared to SAR 1,660.62 billion for the previous year, decreasing by 30.33%.

The total number of transactions executed during the year 2016 reached 27.27 million compared to 30.44 million trades for the previous year, decreasing by 10.41%. The total number of shares traded for the year 2016 reached 67.73 billion compared to 66.27 billion during the previous year, increasing by 2.19%.

The daily average value of shares traded during the year 2016 reached SAR 4,646.53 million compared to SAR 6,616.02 million for the previous year, decreasing by 29.77%.

By the end of 2016, TASI (Tadawul All Shares Index) closed at 7,210.43 points compared to 6,911.76 points by the end of the previous year, increasing by 4.32%.

Three additional companies listed on Tadawul during 2016 making

the total number of listed companies to reach 176 if you also include the suspended ones.

Review of 2016

Alawwal INVEST's total value of shares traded for the year 2016 reached SR 29.30 billion compared to SAR 50.9 billion for the previous year, decreasing by 42.40%. The total number of transactions executed during 2016 reached 596 thousand compared to 731 thousand transactions for the previous year, decreasing by 18.40%. Alawwal INVEST's online total value of shares traded for 2016 reached SAR 12.67 billion compared to SAR 19.55 billion for the previous year, decreasing by 35.19%. Alawwal INVEST online channels have contributed 43% of Alawwal INVEST's total value traded in 2016 compared to 38% in the previous year.

Alawwal INVEST total value traded in International Markets & Fixed Income reached SAR 4.206 billion (US\$1,121.60 million) compared to SAR 3.41 billion (US\$908 million) for the previous year, increasing by 23.30%.

Outlook for 2017

Alawwal INVEST aims to increase our market share in both local and International brokerage by development of the electronic trading channels for all local and International financial markets to meet current customers' needs and demands.

2.3 Investment Banking

Background of Services

Investment Banking Department (IBD) offers a wide array of services including Initial Public Offerings (IPO), Rights Issues (RI), Mergers & Acquisitions (M&A), Sukuk Issues, Private Placements as well as managing Alawwal INVEST's investments in IPOs and RI Offerings.

For IPOs and RIs, IBD plays one or more of three roles namely, Financial Advisor, Lead Manager and Underwriter.

IBD also arranges M&A transactions for its corporate clients, where IBD may act as a sell-side or a buy-side advisor.

Review of 2016

During the year 2016, IBD serviced its clients on a number of transactions and managed to successfully complete two ECM Transactions, one DCM transaction, one M&A Transaction, and two private placement transactions. During 2016, IBD did not make any investments in IPOs and RIs as has been the case in the last couple of years.

Outlook for 2017

It is expected that 2017 will yet be another tough year for the

investment banking industry in the Kingdom due to the general unfavorable market condition prevailing for the last 18 months. Given the signed mandates and the pipeline brought forward from 2016, IBD is expecting that the level of activities in 2017 will be fairly similar to that of 2016. The TASI IPO and RI market has been fairly dry since the end of H1 2016 and there are no signs that there will be major activities in this respect in 2017. Accordingly, it is not expected that IBD will make serious proprietary investments in 2017.

2.4 Operations

Alawwal INVEST Operations Group's critical role in day to day functions is the basis for the company to provide financial products and services to the current and potential clients. Operations have played an important part in supporting the overall business strategy of 2016. Being focused on operational excellence, the Operations Group has built a reputation of "never sleeping" throughout the year, where departmental support has been administered for all product and services.

Operations has re-engineered and automated various business processes to attain optimized productivity with the appropriate resource utilization as part of its several projects executed in 2016.

2.5 Compliance

Alawwal Invest's Compliance Department is responsible for assisting the company, its management and Board, in identifying, measuring and mitigating any compliance exposures. The Compliance function remit includes:

- Monitoring regulatory changes
- Conducting compliance risk assessments
- Drafting, maintaining and implementing policies and procedures
- Increasing staff awareness
- Monitoring, checking and reviewing compliance with CMA rules and regulations, and
- Reporting on the status of compliance and controls to the Board of Alawwal INVEST

2.6 Risk Management

Alawwal INVEST addresses all of its current risks and exposures in line with internal requirements (mandated by both the capital holder and Alawwal's Board) and in line with regulatory requirements. At the moment, however, Alawwal INVEST has not formed a separate, centralized, dedicated risk management unit and risk management team. The justification for this rests with the following sets of factors:

- a) The current risk profile and composition of risks inherent in the business;
- b) The current level and complexity of Alawwal INVEST operations;
- c) The rationale to align with the overall, enterprise-level risk policies, governance and framework set out by Alawwal INVEST capital holder and benefit from their expertise.

Therefore, to ensure optimum effectiveness and efficiency, certain functions have been outsourced subject to Service Level Agreements between Alawwal INVEST and its capital holder. However, the monitoring of Alawwal INVEST day-to-day risk management processes has been established within Alawwal INVEST and managed through Alawwal INVEST Risk Management Committee.

The process and risk management techniques are regularly reviewed and updated to ensure consistency with Alawwal INVEST risk-taking activities taking into account the size and complexity of its operations, its business environment, its regulatory environment and the strategy of Alawwal INVEST.

The Risk Management department drives the company's short / long term objectives from a risk perspective, as well as performing its day-to-day functions, to provide the Risk Management Committee / Board of Directors with a reasonable assurance that the company is adequately controlling and mitigating its risks.

The Operational Risk team, being part of the Group Risk department, forms a central risk function ensuring staff understand the main risks and responsibilities with respect to Operational Risk Management (ORM) in their day-to-day activities.

Alawwal INVEST is exposed to market risk on its proprietary investment portfolio in the form of interest rate risk and equity price risk. On proprietary investments, the company has an approved proprietary investment policy including board approved exposure limits to various asset classes, which limits risk exposure to the level of approved risk appetite.

Effective liquidity risk management helps to ensure the firm's ability to meet its cash flow obligations and in maintaining diverse funding sources to support the business. Often, liquidity risk arises due to structural mismatches in the maturity pattern of assets and liabilities. Alawwal INVEST liquidity management strategy is characterized by significant portion of the proprietary investment to be in liquid asset.

2.7 Business Development & Wealth Management

The Business Development department was created to assist the three business areas of Brokerage, Asset Management & Investment Banking to help increase their revenues. It is also responsible for

assisting the CEO with devising and implementing the strategy of Alawwal INVEST.

In 2015, the Business Development team was merged with the Wealth Management team to benefit from synergies. The role of the Wealth Manager is to bring in new clients for Brokerage & Asset Management as well as manage the existing relationships. Given that the objectives of both teams are similar it made sense to align them.

From a business development point of view, in 2016 we worked with an international consultant firm to develop a new strategy for Alawwal Invest. This involved analyzing current and expected market conditions and our strengths & weaknesses to determine how to maximize resources to grow this business.

From a wealth management point of view, 2016 was very challenging given the general uncertainty in the market. It was difficult to attract new clients in general though there were some achievements in DPMs and Mutual Funds.

2017 is expected to be another tough year due to market conditions and general uncertainty. Despite this we believe that through a focused approach we will be able to yield positive results.

3. STRATEGY

Alawwal INVEST's ambition is to become a leading provider of innovative investment banking and wealth management solutions in addition to providing private and institutional clients with superior investment products and advisory services while maintaining higher than average fee margins backed by a strong service/value proposition.

In 2016 we worked with an international consulting firm to devise a new strategy for Alawwal INVEST. The main focus of the new strategy was to grow our Asset Management business through offering new products; get more mandates for Investment Banking through referrals from Alawwal Bank and to gain efficiencies in Brokerage by encouraging more online activity. More details are given below.

3.1 Brokerage

The overall objective for the Brokerage business is to increase revenues mainly by growing market share in local equity as well as other initiatives. Given the current volatility in the economic, customers are understandably cautious. Hence, 2017 will fluctuate in trading volumes according to the financial results of different sectors in financial market resulting in a more challenging environment to grow market share. Despite this we are planning to

go ahead with a number of specific strategies which include:

- Increase our customer base by focusing on the highly active traders
- Diversify brokerage income by focusing on margin lending, international equities and fixed income brokerage
- Streamlining processes and maximizing trader efficiency with a focus to increase online trading amongst our customers
- Continuous communication with relevant services to meet the customer's needs.

3.2 Asset Management

The main aim of the Asset Management business is to increase AUM. 2017 will be challenging both in terms of maintaining high performance as well as attracting new customers. However we will continue to apply specific strategies to achieve targets by the following:

- Launch of new funds (including private & closed-end funds) according to customer needs
- Continue to focus on performance and maintain top ranking amongst competitors
- Increase the number of DPM mandates by offering different solutions to our customers
- Implementing the portfolio management system to help grow the business without compromising controls

3.3 Investment Banking

The objective of the Investment Banking business is to grow the different business lines and further develop the brand equity. This may be achieved through:

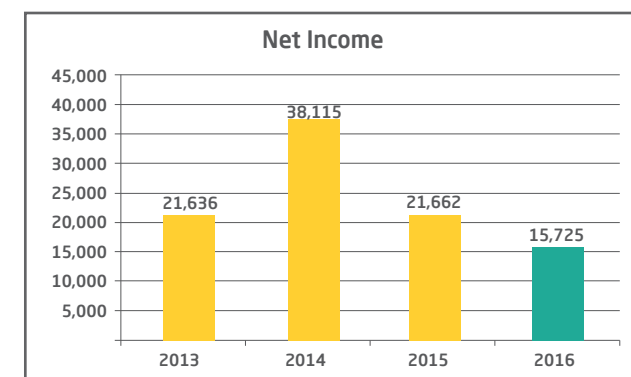
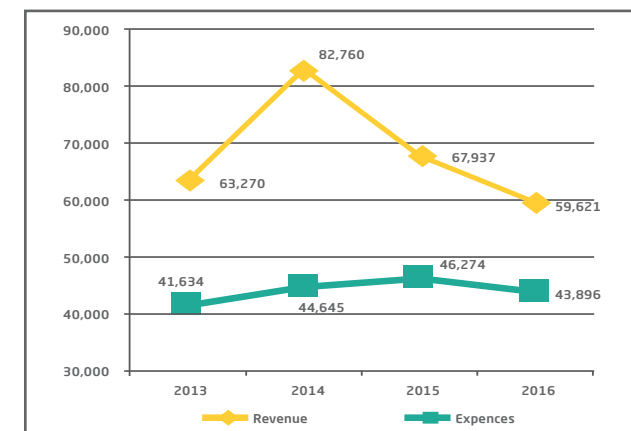
- Penetrating the TASI IPO market;
- Leverage our mid-cap clients base to assist companies to list on Nomu;
- Leverage our solid track record in Rights Issues to attract new clients in this respect;
- Leverage our experience in the insurance sector to serve insurance clients with their corporate actions;
- Target mid-sized corporate for sukuk issuance;
- Focus on winning more M&A mandates;
- Identify direct investment opportunities as they arise.

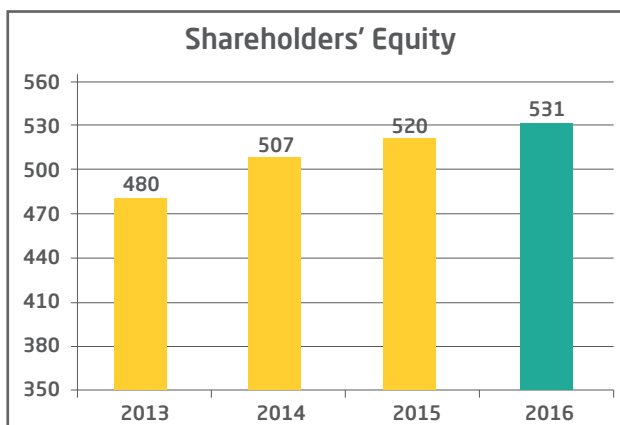
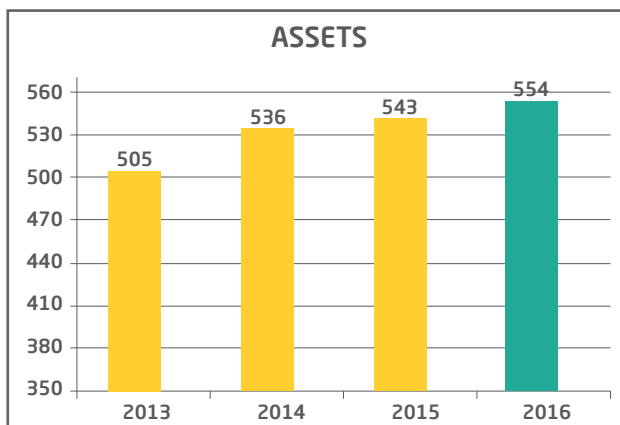
4. FINANCIAL HIGHLIGHTS

In 2016, driven by the decline in the Tadawul All Share Index (TASI), Alawwal INVEST reported a 12% reduction in revenues mainly from Brokerage activities. 2016 was a challenging year for the brokerage business as the value of shares traded on Tadawul was down by 30.33% compared to 2015, leading to a 32% decline in Alawwal INVEST's brokerage revenue.

Asset Management income has decreased by 17% as compared to 2015 mainly from challenging market conditions in 2016. Alawwal INVEST was able to noticeably grow its income from Investment Banking by 134% compared to the same period last year. The Investment Banking department expects its revenue to grow further in 2017.

Total Assets and Shareholders' Equity grew by 2% and 2% to SAR 544 million and SAR 531 million, respectively in 2016.





5. FINANCIAL REPORTING STANDARDS & AUDIT

Alawwal INVEST prepares its Financial Statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. And as required by the Capital Market Authority.

5.1 2016 Audit Activities:

In November 2014 Alawwal Invest established an independent Internal Audit department. The Head of Internal Audit reports to the Audit Committee which in turn reports to the Board of Directors.

Internal audit represents the ultimate internal control function within the organization so that the independent assessment of internal controls performed at each management level is ensured.

The internal audit function provides Alawwal Invest management with an independent and objective assessment of the effectiveness of the internal control framework. This objective is achieved by following a risk based audit plan which is approved by the audit committee on a yearly basis. Through its annual plan Internal Audit Department provides independent assurance that the management of key risks across the Company is conducted in line with the approved risk framework, risk policies and relevant operating policies and procedures.

The Audit Committee has periodic discussions with the management, the internal auditors and the external auditors on matters affecting financial statements, internal controls, various governance and control issues then advises the Board of Directors accordingly. The Board acknowledges receipt of that advice.

5.2 SAFETY OF INTERNAL CONTROL SYSTEM

The Audit committee is a sub-committee of the Board. In addition to maintaining a satisfactory control environment and independence of the internal audit function, it reviews the specific internal audit findings and ensures prompt resolution by the management. The Audit committee relays its findings to the Board on a regular basis.

The Board acknowledges that internal audit system functions to the required level of appropriateness. The latter was based on Audit Committee's opinion that internal controls have been adequate in achieving Internal Audit objectives.

6. BOARD OF DIRECTORS

The membership status of the Company's directors during 2016 and their directorship in Saudi listed companies were as follows:

NAME	MEMBERSHIP STATUS	DIRECTORSHIP IN OTHER LISTED COMPANIES
Mr.Saleh Eid Hamdan Al-Husseini	Chairman - Independent	• Saudi Industrial Investment Group (Board Member)
Mr.Salman Al-Deghaither	Independent	N/A
Dr.Bernd van Linder	Executive	• Alawwal BANK - (Board Member) • Watanyia Insurance Company (Board Member - as Alawwal BANK representative)
Mr.Omar Al- Hoshan*	Independent	• Medgulf (Board Member)

Mr.Khalid Al-Muammar	Executive	<ul style="list-style-type: none"> • Takween Advanced Industries - Board Member • Also Member of the Audit Committee at Gulf Union Insurance Company
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The Board of Directors convened four times during the year as per the table below:

NAME	SESSIONS ATTENDED	Attendance Dates			
		Q1 28 Mar	Q2 23 Jun	Q3 16 Oct	Q4 21 Dec
Mr.Saleh Eid Hamdan Al-Husseini	4	√	√	√	√
Mr.Zaid Al-Gwaiz**	1	√	-	-	-
Mr.Salman Al-Deghaither	4	√	√	√	√
Dr.Bernd van Linder	4	√	√	√	√
Mr.Omar Al-Hoshan	3	-	√	√	√
Mr.Khalid Al-Muammar	4	√	√	√	√

* Mr. Omar Al-Hoshan joined the Board of Directors in Q2 2016.

** Mr. Zaid AlQwaiz attended the Board of Directors meeting of the Q1 2016 before submitting his resignation by the end of the same quarter.

Board Committees:

The Board of Directors in 2011 has formed three committees - the Executive Committee, the Audit Committee, and the Remuneration & Compensation Committee.

6.1 Executive Committee

The Executive Committee is empowered by the Board as per decision number (3) of the meeting held on 16-10-2011. The primary function of Executive Committee is to approve the strategic decisions and to oversee the over-all functioning of Alawwal INVEST and shall be accountable to the Board of Directors for the performance of the Company. The duties and responsibilities of the Executive Committee included the following:

- Approve long term business and strategic objectives for the Company and make sure that the objectives are achieved.
- Approve the changes related to the corporate governance structure and management structure of the Company. This would also include entering into partnerships, joint ventures, disinvestments, expansions, acquisitions and strategic tie-ups.

- Responsible for overseeing compliance of governance principles stipulated by the CMA and other applicable regulatory authorities.
- Validate and approve major capital projects and investments, as well as strategic and non-ordinary contracts.
- Review and approve margin lending facility amounts that are beyond the powers of the Credit Committee.

The Committee consists of the Chairman and two members of the Board and no meetings was convened in 2016.

Dr. Bernd van Linder (Chairman)

Mr. Salman Al-Deghaither

Mr. Khalid Al-Muammar

6.2 Audit Committee

The Audit Committee was appointed by the Board as per decision number (1) of the meeting held on 16-10-2011, guided by the Resolution no. 3-4-2011 dated 19-02-1432H (23-01-2011G) issued by CMA Board of Directors; and also in accordance with Article no. 60 of 'Authorized Persons Regulations' issued by the Capital Market Authority (CMA) of Saudi Arabia.

The Purpose of the Committee is to examine and evaluate the adequacy and effectiveness of the Company's governance, risk management process, internal control structure and the quality of performance in carrying out assigned responsibilities to achieve the Company's strategic goals and objectives. In doing so, the Audit Committee will take guidance from the regulations issued by the CMA and /or by any other related authority. The Audit Committee is an independent committee reporting to the Board of Directors. Its members shall not be less than three, including a specialist in financial and accounting matters. Executive board members are not eligible for Audit Committee membership. The Chairman and the members of the Audit Committee shall be appointed by the Board of Directors.

The duties and responsibilities of the Audit Committee included the following:

- Concur in the appointment, replacement, or dismissal of the Head of Internal Audit.
- To supervise the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
- To recommend outsourcing the Internal Audit function to Alawwal Bank or to one of the top five audit firms if required.
- Review and approve the audit plan for internal audit.

- To supervise the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
- To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.
- To review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.
- To recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; upon any such recommendation, regard must be made to their independence.
- To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.
- To review together with the external auditor the audit plan and make any comments thereon.
- To review the external auditor's comments on the financial statements and follow up the actions taken about them.
- To review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.
- To review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.
- To Meet with company officers, external auditors, or outside counsel, as necessary.
- To Review important and sensitive areas related to operations of Alawwal Invest to further strengthen financial control and integrity (material transactions, related party transactions, litigations, zakat payments).
- To review with Management and the Head of Internal Audit the charter, plans, activities, staffing and organizational structure on the Internal Audit Function.
- To review the effectiveness of the Internal Audit function, including compliance with IIA's (Institute of Internal Auditors) standards for the Professional Practice of Internal Auditing.
- To review all circulars coming from CMA or any other Government organization relevant to the responsibility of the Audit function and Audit Committee.
- To review the findings of any examinations by regulatory agencies, and any auditor observations.

- Consider and approve the internal audit function and ensure that internal audit has adequate and qualified resources and appropriate access to information to enable the audit to function effectively in accordance with relevant professional standards. The committee must also ensure that the review has sufficient influence and that it is not restricted by administrative restrictions or other restrictions.

The audit committee convened four meetings during the year 2016.

Mr. Omar Al-Hoshan (Chairman)

Mr. Osama Al-Hedaithi

Mr. Abdulrhman A-Izugaibi

Mr. Zaid Al-Qwais (Chairman)*

** Mr. Zaid AlQwais attended the Audit Committee meeting of the Q1 2016 before submitting his resignation by the end of the same quarter.*

6.3 Remuneration & Compensation Committee

The Remuneration & Compensation Committee was appointed by the Board as per decision number (2) of the meeting dated 16/10/2011, guided by the Resolution no. 3-4-2011 dated 19-02-1432H (23-01-2011G) issued by CMA Board of Directors. The duties and responsibilities of the Remuneration & Compensation Committee included the following:

- To review and recommend to the Board of Directors the policies and structure for remuneration of executives and employees;
- To assist the management on the establishment of a formal and transparent procedure for employee retention, succession planning, career development and remuneration;
- Review and recommend to the Board specific requests from the management for implementation of a special remuneration packages including annual performance bonus or other performance linked incentives;
- Oversee the performance appraisal method
- The Committee consists of the Chairman and two members of the Board and will meet once a year.

The committee convened one meeting during the year 2016.

Mr. Saleh Eid Hamdan Al Hussein (Chairman)

Dr. Bernd van Linder

Mr. Khalid Al-Muammar

7. BOARD OF DIRECTORS AND SENIOR EXECUTIVE COMPENSATION

(All amounts in SAR thousands)

DETAILS	EXECUTIVE BOARD MEMBERS	NON-EXECUTIVE BOARD MEMBERS	SIX EXECUTIVE MANAGERS IN COMPANY RECEIVING HIGHEST COMPENSATION, INCLUDING CEO AND FINANCE MANAGER
Salaries & Compensations	Nil	Nil	3,748
Allowances	Nil	Nil	1,785
Periodical & Annual Remunerations	Nil	463	940
Incentives Plans	Nil	Nil	Nil
Any other compensations or benefits (in kind paid monthly or annually)	Nil	Nil	Nil

8. EXTERNAL AUDITORS

On 05 Jumada II I, 1438 (02 February, 2017), the Board of Directors have appointed KPMG Al Fozan & Partners as joint external auditors for the year ended 31 December 2016 for a remuneration of SAR 110,000 (2015: SAR100,000).

9. PAYMENTS OF ZAKAT, INCOME TAX & OTHERS

Zakat and income tax are paid as follows:

9.1 Saudi Shareholders

Zakat attributable to Saudi shareholders for the year amounted to approximately SAR 6.3 million (2015: SAR 6.4 million), which will be deducted from their share of future dividends.

9.2 Non-Saudi Shareholders

Income tax payable on the current year's share of income is approximately SAR 1.1 million (2015: SAR1.4 million), which will be deducted from their share of future dividends.

The below table reflects major payments made to governmental agencies:

PAYMENT	2016 (SAR 000)	2015 (SAR 000)
Zakat & Income Tax	7441	7,910
GOSI	1,414	1,519
Visas and passports	51	54
Total	8,906	9,483

10. APPLICABLE REGULATIONS

Alawwal INVEST has adhered to the provision of regulations issued by the Capital Market Authority. During 2016, no penalties were levied on the Company by regulatory authorities.

11. DECLARATIONS

The Board of Directors hereby declares that:

- Proper books of account have been maintained
- The Company prepares its Financial Statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants, and as required by the Capital Market Authority.
- Internal Audit Control was properly and efficiently implemented.
- The Company has no existing contracts in which a Director, the CEO, the Finance Manager or any associate has a material interest.
- There is no doubt as to the Company's ability to continue as a going concern.

12. CONCLUSION

The Board of Directors of Alawwal INVEST extends its regards and gratitude to the Custodian of the Two Holy Mosques, His Majesty King Salman bin Abdulaziz Al Saud, and to HRH Crown Prince Mohammad bin Naif bin Abdulaziz Al Saud, Deputy Primer and the Minister of Interior, HRH Deputy Crown Prince Mohammad bin Salman Al Saud, Second Deputy Primer and the Minister of Defense.

The Board of Directors also extends its thanks and appreciation to HE. the Minister of Finance, HE. the Minister of Commerce and Investment, HE. the Governor of the Saudi Arabian Monetary Agency and HE. The Chairman of the Capital Market Authority for their continued support to the Authorized Persons community. The Board of Directors also extends its thanks and appreciation to the shareholder, customers and correspondents of Alawwal INVEST for their continuing confidence and support.

Finally, appreciation must be given to the company's management and staff for their dedication and team work, without which this year's achievements would not have been possible.



AUDITORS' REPORT



Independent Auditors' Report

For The Year Ended
31 December 2016

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
Certified Public Accountant
Registration No . 348

Riyadh at: 2 Rajab1438H
Corresponding to: 30 March 2017



FINANCIAL STATEMENTS



BALANCE SHEET

As at December 31,
Amounts in SAR'000

	NOTE	2016	2015
ASSETS			
CURRENT ASSETS:			
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
NON-CURRENT ASSETS:			
Investments	7	122,945	119,825
TOTAL NON-CURRENT ASSETS		122,945	119,825
TOTAL ASSETS		554,330	542,690
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
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
NON-CURRENT LIABILITIES:			
Employees' end of service benefits		9,895	11,888
TOTAL NON-CURRENT LIABILITIES		9,895	11,888
TOTAL LIABILITIES		23,711	22,565
SHAREHOLDERS' EQUITY			
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.

STATEMENT OF INCOME

For the year ended December 31,
Amounts in SAR'000

	NOTE	2016	2015
REVENUE			
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
OPERATING EXPENSES			
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.

STATEMENT OF CASH FLOWS

For the year ended December 31,
Amounts in SAR'000

	NOTE	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		15,725	21,662
Adjustments for:			
Realised gain on disposal of available for sale investments		--	-652
Employees' end of service benefits		2,869	1,914
		18,594	22,924
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
		21,394	38,589
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		10,204	24,964
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		-63,079	-16,808
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		-52,875	8,156
Cash and cash equivalents at the beginning of the year		52,876	44,720
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	1	52,876
SUPPLEMENTAL NON-CASH INFORMATION:			
Net changes in fair value of available-for-sale investments		2,210	-996

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31,
Amounts in SAR'000

	SHARE CAPITAL	STATUTORY RESERVE	FAIR VALUE RESERVE FOR AFS INVESTMENT	RETAINED EARNINGS	TOTAL
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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended December 31,
Amounts in SAR'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.

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.

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

NOTES TO THE FINANCIAL STATEMENT

For the year ended December 31,
Amounts in SAR'000

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 are 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.

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

	2016	2015
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).

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.

	2016	2015
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:

	2016	2015
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

NOTES TO THE FINANCIAL STATEMENT

For the year ended December 31,
Amounts in SAR'000

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:

	MARKET VALUE		COST	
	2016	2015	2016	2015
AVAILABLE FOR SALE INVESTMENTS				
MUTUAL FUNDS				
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>

8. PROVISION FOR ZAKAT AND INCOME TAX

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

	2016	2015
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:

	2016	2015
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:

	2016	2015
Non-Saudi shareholders share of adjusted net income @ 40% (2015: 40%)	<u>5,493</u>	<u>7,240</u>
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

	2016			2015
	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	<u>(6,328)</u>	--	<u>(6,328)</u>	<u>(9,565)</u>
Balance as at 31 December	<u>8,075</u>	<u>369</u>	<u>8,444</u>	<u>7,331</u>

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.

NOTES TO THE FINANCIAL STATEMENT

For the year ended December 31,
Amounts in SAR'000

11. SALARIES AND EMPLOYEE RELATED EXPENSES

	2016	2015
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

	2016	2015
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.

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:

	2016	2015
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.

15. FINANCIAL INSTRUMENTS & 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

NOTES TO THE FINANCIAL STATEMENT

For the year ended December 31,
Amounts in SAR'000

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).

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