ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2018
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/sa

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Independent Auditors' Report

To the Shareholders of Alawwal Invest Company

Opinion

We have audited the financial statements of **Alawwal Invest Company** ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the 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 professional code of conduct and ethics that are endorsed in the 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.

Responsibilities of Management and Those Charged with Governance for the Financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, Company's Articles of Association and for such internal control 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Independent Auditors' Report

To the Shareholders of Alawwal Invest Company (continued)

Auditors' Responsibilities for the Audit of the Financial statements (Continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism 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, then 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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 of Alawwal Invest Company ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Nasser Ahmed Al Shutairy
License No: 454

Al Riyadh: 24 Rajab 1440H
Corresponding to: 31 March 2019

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Certified Public Accountants
KPMG Al Fozan & Partners

ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(Amount in SAR '000s')

	Notes	31 December 2018	31 December 2017	1 January 2017
ASSETS				
Investments	*6*	**118,651**	124,720	122,945
Deferred tax assets	*14*	**574**	674	809
Non-current assets		**119,225**	125,394	123,754
Investments	6	**425,584**	416,699	412,652
Margin finance receivables	7	**246,650**	193,968	--
Due from related party	*9*	-	4,049	18,455
Other current assets		**707**	1,801	277
Cash and cash equivalents	*8*	**15,108**	7,147	1
Current assets		**688,049**	623,664	431,385
TOTAL ASSETS		**807,274**	749,058	555,139
EQUITY				
Share capital	*10*	**400,000**	400,000	400,000
Statutory reserve	*10*	**22,691**	21,645	20,978
Fair value reserve		--	3,885	2,110
Retained earnings		**112,361**	104,760	106,010
Total equity		**535,052**	530,290	529,098
LIABILITIES				
Defined benefit obligation	*11*	**11,915**	12,318	12,225
Non-current liabilities		**11,915**	12,318	12,225
Bank borrowings	*12*	**246,048**	193,800	--
Other payables and accruals	*13*	**4,059**	4,810	5,372
Due to related party	*9*	**2,649**	--	--
Zakat and income tax payable	*14*	**7,551**	7,840	8,444
Current liabilities		**260,307**	206,450	13,816
Total liabilities		**272,222**	218,768	26,041
TOTAL EQUITY AND LIABILITIES		**807,274**	749,058	555,139

The accompanying notes 1 to 25 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amount in SAR '000s')

	Notes	For the year ended 31 December 2018	2017
REVENUES			
Asset management fee	17	**14,572**	17,457
Investment banking income	18	**6,803**	3,289
Brokerage fee income		**10,051**	11,164
Special commission income	19	**20,216**	15,544
Fee for custody and other services		**849**	1,067
Gain on investments at fair value through profit or loss, net		**1,607**	--
		54,098	48,521
EXPENSES			
Salaries and employee related expenses		**22,716**	25,547
Rent and premises related expenses		**2,381**	2,165
Special commission expense on borrowings		**8,223**	4,200
Other general and administrative expenses	20	**10,314**	10,513
		43,634	42,425
TOTAL OPERATING INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		**10,464**	6,096
Zakat and Income tax	14	**(7,616)**	(6,821)
NET INCOME / (LOSS) FOR THE YEAR		**2,848**	(725)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Gain on fair value of available-for- sale investments		--	1,775
Related tax		--	(142)
Items that will not be reclassified to profit or loss			
Actuarial gain on defined benefit obligation		1,914	284
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**1,914**	1,917
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,762**	1,192

The accompanying notes 1 to 25 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amount in SAR '000s')

	Share capital	Statutory reserve	Fair value Reserve	Retained earnings	Total
Balance as at 1 January 2018	**400,000**	**21,645**	**3,885**	**104,760**	**530,290**
Impact of adopting IFRS 9 as at 01 January 2018	--	--	(3,885)	3,885	-
Balance as at 1 January 2018	**400,000**	**21,645**	--	**108,645**	**530,290**
Net income for the year	--	--	--	2,848	2,848
Other comprehensive income	--	--	--	1,914	1,914
	--	--	--	4,762	4,762
Transfer to statutory reserve	--	1,046	--	(1,046)	--
Balance as at 31 December 2018	**400,000**	**22,691**	--	**112,361**	**535,052**
Balance as at 1 January 2017	400,000	20,978	2,110	106,010	529,098
Net loss for the year	--	--	--	(725)	(725)
Other comprehensive income	--	--	1,775	142	1,917
	--	--	1,775	(583)	1,192
Transfer to statutory reserve	--	667	--	(667)	--
Balance as at 31 December 2017	400,000	21,645	3,885	104,760	530,290

ALAWWAL INVEST COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amount in SAR '000s')

	Notes	For the year ended 31 December 2018	2017
OPERATING ACTIVITIES			
Net income for the year before zakat and income tax		**10,464**	6,096
Adjustments for:			
End-of-service benefits	*11*	**1,943**	2,065
Gain on investments at fair value through profit or loss, net		**(1,607)**	-
Changes in operating assets and liabilities:			
Margin finance receivables		**(52,682)**	(193,968)
Other current assets		**1,094**	(1,524)
Related party balances		**6,698**	14,406
Other payables and accruals		**(751)**	(562)
Cash generated used in operating activities		**(34,841)**	(173,487)
End-of-service benefits paid	*11*	**(432)**	(1,688)
Zakat and income tax paid	*14*	**(7,805)**	(7,432)
Net cash used in operating activities		**(43,078)**	(182,607)
INVESTING ACTIVITIES			
Proceeds from sale of investments		**7,676**	--
Placement of time deposits		**(8,885)**	(4,047)
Net cash generated from / (used in) investing activities		**(1,209)**	(4,047)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		**52,248**	193,800
Net cash generated from financing activities		**52,248**	193,800
Net increase in cash and cash equivalents		**7,961**	7,146
Cash and cash equivalents at beginning of the year		**7,147**	1
Cash and cash equivalents at the end of the year		**15,108**	7,147

The accompanying notes 1 to 25 form an integral part of these financial statements

1. ORGANIZATION AND ACTIVITIES

Alawwal INVEST Company ('the Company') is a Saudi Closed Joint Stock 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 (2016: 5 branches) operating in the Kingdom of Saudi Arabia as at 31 December 2017.

The principal activities of the Company are to provide a full range of financial services, which include brokerage services, asset management services and margin lending. The Company also provides arranging, 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 "a Limited Liability Company" to "a Closed Joint Stock Company" as per new Company's Law issued by Ministry of Commerce and Investment in 2016. The legal formalities related to change in legal status were completed on 29 March 2017.

2. BASIS OF PREPARATION

2.1. Statement of compliance

These financial statements presenting the operations conducted by the Company for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by Saudi Organisation for Certified Public Accountants ("SOCPA").

For all years up to and including the year ended 31 December 2017, the Company prepared its financial statements in accordance with generally accepted accounting standards as issued by SOCPA ("Previous GAAP"). These financial statements are the first financial statements of the Company prepared in accordance with IFRS, and accordingly IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The date of transition to IFRS is 1 January 2017.

An explanation of how the transition to IFRS has affected the previously reported equity as at 31 December 2017 and 1 January 2017; and comprehensive income for the year ended 31 December, 2017, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended 31 December 2017 is provided in Note 4.

2.2. Basis of measurement

These financial statements have been prepared on a going concern basis under historical cost convention except for the following items:

- Financial assets classified as "at fair value through profit or loss" are measured at fair value; and
- Defined benefit obligations are measured at present value of future obligations using Projected Unit Credit Method.

2. BASIS OF PREPARATION (CONTINUED)

2.3. Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SAR") which is the functional and presentational currency of the Company. All amounts have been rounded to the nearest thousands.

2.4. Use of judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

- *Measurement of expected credit loss allowance (Note 2.4.1)*
- *Fair value measurement (Note 2.4.2)*
- *Defined benefits obligations – employees' benefits (Note 3 (g))*

2.4.1 <u>Measurement of expected credit loss allowance</u>

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's expected credit losses calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns probability of default (PD) to the individual grades.
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and economic inputs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.4.2 <u>Fair value measurement</u>

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

2. BASIS OF PREPARATION (CONTINUED)

2.4. *Use of judgements, estimates and assumptions (continued)*

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirely in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each financial reporting date, the management of the Company analyzes the movements in the values of assets which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management of the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management of the Company also compares the changes in the fair value of each asset with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented except for the adoption of IFRS 9 as mentioned in note 3(a). Where policies are applicable only from or before 1 January 2018, those policies are particularly specified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments

Effective 1 January 2018, the Company has adopted the following accounting standards and the impact of the adoption of these standards is explained below.

Adoption of IFRS 9 – Financial instruments

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

<u>Policy applicable from 1 January 2018</u>

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in the statement of profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly originated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

Classification and measurement of financial assets

On initial recognition, a financial asset is classified and measured at amortized cost, FVOCI or FVTPL.

Financial Asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and commission on the principal amount outstanding.

Financial Asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at fair value through FVOCI only if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial Asset at fair value through profit or loss ("FVTPL")

All financial assets not classified as measured at amortized cost or FVOCI as described above are measure at FVTPL.

Business model assessment
The Company assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and commission

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission / Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Classification of financial liabilities

The Company classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL.

Impairment of financial assets

The Company recognizes loss allowances for ECL on the overdraft loans extended to its customers under margin lending facilities.

No impairment loss is recognized on equity investments. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and other financial instruments on which credit risk has not increased significantly since their initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of investment grade. 12-month ECL is the ECL that results from modelled default events within 12 months of the reporting date.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

De-recognition
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Investments held for trading are recognised initially at cost on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the investment. Upon initial recognition, attributable transaction costs are recognised in the statement of profit or loss when incurred.

Policy applicable before 1 January 2018

Initial recognition and measurement

The Company classifies its financial assets in the following categories:

- *Held for trading,*
- *Available-for-sale investments*

The classification depends on the purpose for which the investments were acquired and is determined at the time of initial classification. Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible.

Held for trading
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 fair value and included under current assets. Realized gain or loss on sale of trade securities and changes in fair value recognized in the statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

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 fair 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.

Financial liabilities

The Company classifies its financial liabilities at amortised cost and initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective yield method.

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;

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 transferred to the statement of income.

De-recognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Exemptions applied

IFRS 1 'First-time Adoption of International Financial Reporting Standards' allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the exemption in relation to IFRS 9.

Accordingly, the Company has adopted IFRS 9 as issued by International Accounting Standards Board in July 2014 with a date of transition of 1 January 2018, as disclosed in Note 3.2 to these financial statements.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition to IFRS 9 were recognised in the opening retained earnings (1 January 2018) and other reserves of current period. Accordingly, the information presented in

(Amount in SAR '000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

comparative periods reflects the requirements of SOCPA GAAP and therefore is not comparable to the information presented under the requirements of IFRS 9 for the year ended 31 December 2018.

Therefore, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period only.

The assessment of business model has been made on the basis of facts and circumstances that existed at the date of transition.

IFRS 7- Financial Instruments: Disclosures

To reflect the differences between IFRS 9 and previous GAAP, IFRS 7 Financial Instruments: Disclosures were updated and the Company has adopted it, together with IFRS 9, for year beginning 1 January 2018. Changes include transition disclosures as shown in Note 4.

I. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

	Original classification under previous GAAP	New classification under IFRS 9	Original carrying value under previous GAAP	New carrying value under IFRS 9
Financial assets				
Margin finance receivables	Loans and Receivables	Amortised cost	193,968	193,968
Other current assets	Current assets	Amortised cost	1,801	1,801
Cash and Cash equivalents	Loans and Receivables	Amortised cost	7,147	7,147
Due from related party	Loans and Receivables	Amortised cost	4,049	4,049
Investments				
Time deposits	Amortised cost	Amortised cost	416,699	416,699
Mutual funds	Available for sale	FVTPL	124,720	124,720
			748,384	748,384
Financial liabilities				
Short term borrowings	Amortised cost	Amortised cost	193,800	193,800
Other payables	Amortised cost	Amortised cost	4,810	4,810
			198,610	198,610

(Amount in SAR '000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

II. Reconciliation of carrying amounts under previous GAAP to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under previous GAAP to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

Financial assets	Previous GAAP carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
Amortized cost				
Margin finance receivables	193,968	--	--	193,968
Due from related party	4,049	--	--	4,049
Other current assets	1,801	--	--	1,801
Cash and cash equivalents	7,147	--	--	7,147
	206,965	--	--	**206,965**
Investment:				
Time deposits (Amortised cost)	416,699	--	--	416,699
Available for Sale	124,720	(124,720)	--	--
Fair value through profit or loss	--	124,720	--	124,720
	541,419	--	--	541,419

Financial liabilities	Previous GAAP carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
At Amortized cost				
Bank borrowing	193,800	--	--	**193,800**
Other payables	4,810	--	--	**4,810**
	198,610	**--**	**--**	**198,610**

III. Impact on retained earnings and fair value reserve

	Fair value reserve	Retained earnings
Closing balance under previous GAAP (31 December 2017)	**3,885**	**106,710**
IFRS transition adjustments	**--**	**(1,950)**
Reclassification of fair value reserve to retained earnings under IFRS 9 due to classification of AFS investments as FVTPL	**(3,885)**	**3,885**
Opening balance under IFRS 9 (1 January 2018)	**--**	**108,645**

(Amount in SAR '000s')

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

ii) The following table provides the carrying value of financial assets and financial liabilities in the statement of financial position.

	2018		
	Mandatorily at fair value through profit or loss	**Amortized cost**	**Total carrying amount**
Financial assets			
Margin finance receivables	**-**	**246,650**	**246,650**
Other current assets	**-**	**707**	**707**
Cash and cash equivalents	**-**	**15,108**	**15,108**
Investments-Time deposits		**425,584**	**425,584**
Investment at fair value through profit or loss	**118,651**	**-**	**118,651**
	118,651	**688,049**	**806,700**
Financial liabilities			
Bank borrowings	**-**	**246,048**	**246,048**
Other payables	**-**	**4,059**	**4,059**
Due to related party	**-**	**2,649**	**2,649**
	-	**252,756**	**252,756**

	2017		
	Mandatorily at fair value through profit or loss	Amortized cost	Total carrying amount
Financial assets			
Margin finance receivables	--	193,968	193,968
Other current assets	--	1,801	1,801
Cash and cash equivalents	--	7,147	7,147
Investments-time deposits	--	416,699	416,699
Available for sale investments	124,720	--	124,720
	124,720	619,615	744,335
Financial liabilities			
Bank borrowings	--	193,800	193,800
Other payables	--	4,810	4,810
	--	198,610	198,610

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is an enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(b) IFRS 15 – Revenue from contracts with customers

IFRS 15 'Revenue from Contracts with Customers' was adopted in May 2014. The Company has applied IFRS 15 as part of its transition to IFRS. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Company has assessed that the impact of IFRS 15 is not material on the financial statements of the Company as at the initial adoption and the reporting date.

The Company recognises revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue	The Company recognises revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

Based on the above five steps the revenue recognition policy for each major revenue stream is as follow:

Asset management fees
Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Company attributes the revenue from management fees to the services provided during the year, because

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 15 – Revenue from contracts with customers

the fee relates specifically to the Company's efforts to transfer the services for that period. The asset management fees is not subject to any clawbacks.

Investment banking income
Advisory and investment banking services revenue is recognised based on services rendered under the applicable service contracts using the five-step approach to revenue recognition above.

Brokerage income
Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Company is satisfied when the Company carries out the transaction, which triggers immediate recognition of the revenue, as the Company will have no further commitments.

(c) Cash and cash equivalents

Cash and cash equivalents includes bank balances and deposits with original maturities of three months or less, if any. It also includes bank overdrafts which form an integral part of the Company's cash management and are likely to fluctuate from overdrawn to positive balances. Bank overdrafts, where there is no right of set-off, are shown as borrowings within current liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

Determine whether an arrangement contains a lease
At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payment and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

Leased assets
Leases of property and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as financed leases. The lease assets are measured initially at an amount equal to the lower of their fair value and present value of the minimum lease payments. Subsequent to initial recognition, the assets area accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's financial statements.

Leased payments
Payments made under operating leases are recognized in statement of income on a straight line bases over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

(e) Impairment on non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses in respect of non-financial assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Provisions

A provision is recognised if, as a result of a past event, 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost in the statement of profit or loss.

(g) Employee benefits

Defined benefits obligation- employees' benefits
The Company operates a defined benefit plan under the Saudi Arabian Law applicable based on employees' accumulated periods of service at the date of the statement of financial position. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method as per IAS 19 Employee benefits.

The cost of providing benefits under Company's defined benefit plan is determined using the projected unit credit method by a professionally qualified actuary and arrived at using actuarial assumptions based on market expectations at the date of the statement of financial position. These valuations attribute entitlement benefits to the current period (to determine current service cost), and to the current and prior periods (to determine the present value of defined benefit obligations). Re-measurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through the statement of other comprehensive income in the period in which these occur. Re-measurements are not reclassified to the statement of profit or loss in subsequent periods.

Past service costs are recognized in the statement of profit or loss on the earlier of:
- the date of the plan amendment or curtailment; and
- the date that Company recognizes restructuring-related costs

Financing cost is calculated by applying the discount rate to the net defined benefit liability or asset.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss is recognized in the statement of profit or loss during the period in which the settlement or curtailment occurs.

The defined benefit liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate).

The Company's net obligation in respect of employees' end-of-service benefits is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods. That benefit is discounted to determine it's present value. Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the opening balance with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Re-measurements are not reclassified to statement of profit or loss.

The Company recognises the following changes in the defined benefits obligation under 'Salaries and employee related expenses' in the profit and loss account:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Interest expense

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Employee benefits (continued)

The calculation of defined benefits obligation is performed annually by a qualified actuary using the projected unit credit method.

Fixed Compensation
The fixed compensation includes salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation, performance appraisal and pay scales structure. The competitiveness of pay scales is monitored and maintained through participation in regular market pay surveys.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences are generally recognised in statement of profit or loss. However, foreign currency differences arising from the translation of the available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to statement of profit or loss) are recognised in other comprehensive income.

(h) Assets under management

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

(i) Margin lending policy

Margin lending receivables are initially recognized when the underlying funds are disbursed to customers. They are derecognized when either customers repay their obligations, or the balance is written off, or substantially all the risks and rewards of ownership are transferred to another party.

(j) Clients' cash accounts

The Company holds cash in clients' cash accounts with Banque Saudi Fransi to be used for investments on their behalf. Such balances are not included in the financial statements.

(k) Zakat and income tax

Zakat
The Company's Saudi shareholders are subject to Zakat in accordance with the Regulations of the General Authority for Zakat and Taxation (the "GAZT") as applicable in the Kingdom of Saudi Arabia. The zakat charge is computed on the zakat base. An estimate of Zakat arising therefrom is provided by a charge to the statements of changes in shareholders' equity.

Income tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. The Company's foreign shareholders are subject to income tax in accordance with Regulations of Zakat and Income Tax as applicable in the Kingdom of Saudi Arabia. Income tax is computed on adjusted net income. An estimate of income tax arising there from is provided by a charge to statements of changes in shareholders' equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Zakat and income tax (continued)

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Company and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(l) Contingent liabilities

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Company; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at reporting date and disclosed under contingent liabilities in the financial statements.

(m) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Company's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.Segment results that are reported to the Company's Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Dividends

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

(o) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current / non-current classification. An asset as current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

4. NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2019:

1) IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The impact on the statement of financial position as at December 31, 2018 is estimated to be an increase of 0.02% in assets and liabilities.

   The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as 1 January 2019, with no restatement of comparative information.

2) Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 clarify that:

   - on amendment, curtailment or settlement of a defined benefit plan, Company now uses updated actuarial assumptions to determine its current service cost and net special commission expense for the period; and
   - the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

   The impact is not considered to be material to the Company.

3) The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

   - IFRIC 23 Uncertainty over Tax Treatments
   - Prepayment features with Negative Compensation (Amendment to IFRS 9)
   - Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)
   - Annual improvements to IFRS Standards 2015-2017 Cycle – various standards
   - Amendments to References to Conceptual Framework in IFRS Standards
   - IFRS 17 *'Insurance contracts'*

(Amount in SAR '000s')

5. EXPLANATION TO TRANSITION TO IFRS

As stated in note 2, these financial statements are prepared in accordance with IFRS. The basis of preparation and accounting policies set out in note 2 and 3 respectively have been applied. In preparing these financial statements, the Company has adjusted amounts reported previously in accordance with the Previous GAAP. Further, certain other adjustments and presentation improvements have also been made in these financial statements.

An explanation of the transition from the Previous GAAP to IFRSs and other adjustments are set out in the following tables and the notes that accompany the tables:

Reconciliation of statement of financial position

		31 December 2017		
	Notes	**Previous GAAP**	**Adjustments**	**IFRSs**
Assets				
Investments		**124,720**	-	**124,720**
Deferred tax assets	*5(b)*	**-**	674	**674**
Non-current assets		**124,720**	674	**125,394**
Time deposits	*5(d)(i)*	**416,699**	(416,699)	**-**
Investments	*5(d)(i)*	**-**	416,699	**416,699**
Margin finance receivables		**193,968**	--	**193,968**
Due from related party		**4,049**	-	**4,049**
Other current assets		**1,801**	--	**1,801**
Cash and cash equivalents		**7,147**	-	**7,147**
Current assets		**623,664**	-	**623,664**
Total assets		**748,384**	674	**749,058**
Equity				
Share capital		**400,000**	-	**400,000**
Statutory reserve		**21,645**	-	**21,645**
Fair value reserve		**3,885**	--	**3,885**
Retained earnings	*5(c)*	**106,710**	(1,950)	**104,760**
Total equity		**532,240**	(1,950)	**530,290**
Liabilities				
Defined benefit obligation	*5(a)*	**9,694**	2,624	**12,318**
Non-current liabilities		**9,694**	2,624	**12,318**
Bank borrowings		**193,800**	-	**193,800**
Other payables and accruals		**4,810**	-	**4,810**
Zakat and income tax provision		**7,840**	-	**7,840**
Current liabilities		**206,450**	-	**206,450**
Total liabilities		**216,144**	2,624	**218,768**
Total liabilities and equity		**748,384**	674	**749,058**

(Amount in SAR '000s')

5. EXPLANATION TO TRANSITION TO IFRS (CONTINUED)

Reconciliation of statement of financial position

		31 December 2016		
	Notes	Previous GAAP	Adjustments	IFRSs
Assets				
Investments		**122,945**	--	**122,945**
Deferred tax asset	*5(b)*	**--**	809	**809**
Non-current assets		**122,945**	809	**123,754**
Time deposits	*5(d)(i)*	**412,652**	(412,652)	**--**
Investments	*5(d)(i)*	**--**	412,652	**412,652**
Due from related parties		**18,455**	--	**18,455**
Other current assets		**277**	--	**277**
Cash and cash equivalents		**1**	--	**1**
Current assets		**431,385**	--	**431,385**
Total assets		**554,330**	809	**555,139**
Equity				
Share capital		**400,000**	--	**400,000**
Statutory reserve		**20,978**	--	**20,978**
Fair value reserve		**2,110**	--	**2,110**
Retained earnings	*5(c)*	**107,531**	(1,521)	**106,010**
Total equity		**530,619**	(1,521)	**529,098**
Liabilities				
Defined benefit obligation	*5(a)*	**9,895**	2,330	**12,225**
Non-current liabilities		**9,895**	2,330	**12,225**
Other payables and accruals		**5,372**	--	**5,372**
Zakat and income tax provision		**8,444**	--	**8,444**
Current liabilities		**13,816**	--	**13,816**
Total liabilities		**23,711**	2,330	**26,041**
Total liabilities and equity		**554,330**	809	**555,139**

(Amount in SAR '000s')

5. EXPLANATION TO TRANSITION TO IFRS (CONTINUED)

Reconciliation of statement of profit or loss

		31 December 2017		
	Notes	Previous GAAP	Adjustments	IFRSs
Revenues				
Asset management fees		**17,457**	**--**	**17,457**
Investment banking income		**3,289**	**--**	**3,289**
Brokerage fee income		**11,164**	**--**	**11,164**
Special commission income	*5(d)(ii)*	**9,254**	6,290	**15,544**
Fee for custody and other services		**1,067**	--	**1,067**
Income from margin lending	*5(d)(ii)*	**6,290**	(6,290)	**--**
		48,521	--	**48,521**
Expenses				
Salaries and employee related expenses	*5(a)*	**24,969**	578	**25,547**
Rent and premises related expenses		**2,165**	**--**	**2,165**
Impairment charges				
Special commission expense on borrowings		**4,200**	**--**	**4,200**
Other general and administrative expenses		**10,513**	**--**	**10,513**
		41,847	578	**42,425**
TOTAL OPERATING INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		**6,674**	(578)	**6,096**
Zakat and Income tax	*5(d)(iii)*	**--**	(6,821)	**(6,821)**
NET INCOME FOR THE YEAR		**6,674**	(7,399)	**(725)**
OTHER COMPREHENSIVE INCOME*				
Items that may be reclassified to profit or loss				
Gain on fair value of available-for- sale investments, net of tax	*5(d)(iv)*		1,775	**1,775**
Related tax			(142)	**(142)**
Items that will not be reclassified to profit or loss				
Actuarial gain on defined benefit obligation, net of tax	*5(a)*		284	**284**
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR			1,917	**1,917**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,674**	(5,482)	**1,192**

*All amounts in statement of other comprehensive income were previously presented directly in the statement of changes in equity, as other comprehensive income was not presented under Previous GAAP.

a) Until 2017, the liability for End of service benefits for employees has been measured as per the provisions of Saudi labour laws. Under IFRSs, end of service benefits are classified as a defined benefit plan and liability is determined using the project unit method based on actuarial valuation performed at the end of the reporting period.

The impact arising from the change is summarized as follows:	**31 December 2017**	1 January 2017
Defined benefit obligation	**2,624**	2,330
Retained earnings	**(2,624)**	(2,330)

(Amount in SAR '000s')

5. EXPLANATION TO TRANSITION TO IFRS (CONTINUED)

	For the year ended 31 December 2017
Impact in the statement of profit or loss	**578**
Impact in the statement of other comprehensive income, net of tax	**284**

(b) Under previous GAAP, deferred tax assets and related deferred tax income in respect of net taxable temporary differences were not recognized in the financial statements. Under IFRSs, the deferred tax assets have been recognized in respect of temporary differences between accounting and tax bases of certain financial statement line items.

The impact arising from the change is summarized as follows:	31 December 2017	1 January 2017
Deferred tax assets	**674**	809
Retained earnings	**674**	809
Impact in the statement of profit or loss	**7**	
Impact in the statement of other comprehensive income	**(142)**	

(c) Cumulative impact on retained earnings of adjustments in note 5(a) and 5(b) above is summarized below:

	31 December 2017	1 January 2017
Deferred tax assets	**674**	809
Defined benefits obligations	**(2,624)**	(2,330)
Net change	**1,950**	(1,521)

(d) Reclassifications and changes made for better presentation

(i) Term deposits have been classified as Investments instead of being shown as time deposits as a separate line in statement of financial position.

(ii) Income earned on margin lending which was presented separately in the financial statements for the year ended 31 December 2017, has been presented as Special commission income in current year.

(iii) In accordance with IFRS 12 'Income Taxes', the Company has reported Zakat and income tax provision in the statement of comprehensive income. Under Previous GAAP, Zakat and tax provision was reported in statement of changes in equity. The transition has not resulted in any change to the zakat and income taxes policy in either current or prior period.

(iv) Under previous GAAP, changes in fair value of investments were presented directly in equity under Fair value reserve. Under IFRS, it is presented in other comprehensive income.

(e) The Company's operating, investing and financing cash flows reported under Previous GAAP did not significantly differ from IFRS as endorsed in KSA.

(Amount in SAR '000s')

6. INVESTMENTS

	Notes	**31 December 2018**	**31 December 2017**	**1 January 2017**
Non-current:				
Available for sale	***6.1***	**--**	124,720	122,945
FVTPL	***6.1***	**118,651**	--	--
Current:				
Time deposits	***6.2***	**425,584**	416,699	412,652
Total		**544,235**	541,419	535,597

6.1 Mutual funds	**31 December 2018**		31 December 2017		1 January 2017	
	Cost	**Fair value**	Cost	Fair value	Cost	Fair value
Al-Yusr Saudi Riyal Morabaha Fund	**38,395**	**41,231**	38,395	40,389	38,395	39,724
Saudi Riyal Money Market Fund	**26,936**	**28,990**	26,936	28,398	26,936	27,890
Al Yusr Morabaha & Sukuk Fund	**44,693**	**48,430**	44,693	47,266	44,693	46,329
Al Yusr Saudi Hollandi Fund for Initial IPO	-	-	10,811	8,667	10,811	9,002
	110,024	**118,651**	120,835	124,720	120,835	122,945

6.2 Time deposits are placed with Alawwal Bank "related party" and carry commission rate ranging between 3.10% to 3.15% per annum (31 December 2017: 1.95% to 2.05% per annum; 31 December 2016: 3.05% to 3.75% per annum). The maturity date is up to May 2019 (31 December 2017: up to May 2018; 31 December 2016: up to May 2017).

7. MARGIN FINANCE RECEIVABLES

The company extends margin lending facilities on a selective basis to its customers for the purpose of investing in the Saudi equity market. These facilities are extended up to a maximum period of one year and bear special commission rate based on base rate (12%) less a specific percentage as per policy according to the amount of limit obtained.

The facilities are collateralised by underlying equities and cash held in the customers' investment accounts. As at 31 December 2018, the outstanding amount of margin lending receivables is neither past due nor impaired, hence no expected credit loss has been recorded in these financial statements.

8. CASH AND CASH EQUIVALENTS

	Note	**31 December 2018**	31 December 2017	1 January 2017
Cash in hand		**1**	1	1
Cash at bank-Current account		**15,107**	25	--
Short term deposits	*8.1*	**--**	7,121	--
		15,108	7,147	1

8.1 Short term deposits comprise of deposit with Alawwal Bank "related party" carrying special commission rate of 3.10% per annum with maturity date of 10 March 2018.

(Amount in SAR '000s')

9. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company transacts with related parties on mutually agreed terms approved by the Company's Board of Directors. The significant transactions with related parties and the related amounts other than those disclosed elsewhere in these financial statements are as follows:

	2018	2017
Advisory and arranging fee	**402**	255
Fee for custody and other services	**815**	1,067
Special commission income	**10,410**	9,254
Special commission expense	**8,223**	4,200
Rent expense	**1,213**	1,358
Operating expenses charged by the Bank under Service Level Agreement (Note 9.1)	**7,026**	6,916

9.1 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.

In addition to Note 6, 8, 12 and amounts disclosed elsewhere in these financial statements following balances are also outstanding in respect of related parties:

	31 December 2018	31 December 2017
Due from related party	**-**	4,049
Due to related party	**2,649**	-

Remuneration paid to Key management personnel and board of directors is as follows:

	Executives		**Board of Directors**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
Managerial remuneration	**3,618**	3,446	**350**	350	**3,968**	3,796
Bonus and incentives	**758**	676	**-**	-	**758**	676
Employee benefits	**1,668**	1,524	**-**	-	**1,668**	1524
	6,044	5,646	**350**	350	**6,394**	5,996
Number of persons	**6**	6	**3**	3	**9**	9

10. SHARE CAPITAL AND RESERVES

Share capital
The authorized, issued and fully paid up share capital of the Company, amounting to SAR 400 million divided into 400,000 shares of SAR 1,000 each, which is fully paid and owned by Alawwal Bank.

Statutory reserve
In accordance with its By-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 30% of its share capital. This Statutory Reserve is not available for distribution to shareholders.

(Amount in SAR '000s')

11. DEFINED BENEFIT OBLIGATION

The movement in defined benefit obligation for the year ended 31 December is as follows:

	31 December 2018	31 December 2017	1 January 2017
Balance at beginning of the year	**12,318**	12,225	11,888
Current service cost	**1,355**	1,507	1,396
Interest cost	**588**	558	468
Re-measurement (gain) / loss recognized in other comprehensive income	**(1,914)**	(284)	3,335
Benefits paid during the year	**(432)**	(1,688)	(4,862)
Balance at the end of the year	**11,915**	12,318	12,225

11.1 Principal actuarial assumptions

The following were the principal actuarial assumptions:

Particulars	**2018**	2017	2016
Discount Rate used %	**4.60%**	4.60%	4.60%
Rate of future salary growth %	**5.38%**	5.38%	5.38%
Retirement age	**60**	60	60

Discount rate used
This rate was used to calculate the actuarial present value of the projected benefits. As per International Accounting Standard 19 "Employee Benefits", the rate used to discount employee benefit obligation is determined by reference to the market yields at the end of the reporting period. In case of the Company, the discount rate was derived with reference to US dollar denominated Kingdom of Saudi Arabia government traded bonds with maturities consistent with the estimated term of the employee benefit obligation.

Rate of growth in salary
The rate of 5.38% has been assumed as the long-term salary growth rate and is broadly consistent with the benchmark salary increment rate of the region.

Sensitivity analysis
Incorporating reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, the amount of defined benefit obligations would have been:

	31-Dec-18		31-Dec-17		31-Dec-16	
	Increase	**Decrease**	Increase	Decrease	Increase	Decrease
Discount rate + / - 1%	10,747	13,281	11,081	13,768	11,090	13,557
Future salary growth + / - 1%	13,247	10,752	13,735	11,084	13,527	11,092

12. BANK BORROWINGS

The Company has an overdraft credit facility of SAR 600 million from Alawwal Bank to finance margin lending facilities. As at 31 December 2018, the amount of this facility utilized by the Company amounted to SAR 246.05 million (2017:193.8 Million; 2016: Nil). It carries special commission rate of one month SAIBOR plus 1.25%.

(Amount in SAR '000s')

13. OTHER PAYABLES AND ACCRUALS

	31 December 2018	31 December 2017	1 January 2017
Accrued employees benefits	**2,237**	2,513	1,650
Other expenses	**1,822**	2,297	3,722
	4,059	4,810	5,372

14. ZAKAT AND INCOME TAX

	For the year ended 31 December	
	2018	2017
Zakat for the year	**6,519**	6,304
Income tax for the year	**997**	524
Deferred tax expense / (income) for the year	**100**	(7)
	7,616	6,821

14.1 The principal elements of the Company's Zakat base are as follows:

	2018	2017
Shareholders' Equity	**240,000**	240,000
Adjusted Net Income	**7,474**	3,931
Provisions and Reserves	**13,301**	8,210
Zakat base	**260,775**	252,141
Zakat charge for the year at 2.5%	**6,519**	6,304

14.2 Income tax for the year is as follows:

	2018	2017
Non-Saudi shareholders share of adjusted net income @ 40% (2017:40%)	**4,983**	2,620
Income tax for the year at 20%	**997**	524

14.3 Movement in zakat and income tax provision

	2018	**2017**
Balance as at the beginning of the year	**7,840**	8,444
Zakat provision during the year *(Note 13.1)*	**6,519**	6,304
Income tax provision during the year *(Note 13.2)*	**997**	524
	15,356	15,272
Payments during the year for prior years	**(7,805)**	(7,432)
Balance at the end of the year	**7,551**	7,840

14.4 Status of assessment

The tax/zakat assessment of the Company is finalized up to the year ended 31 December 2013.

For the year 2014, the Company also received initial assessment for additional zakat of approximately SAR 2.596 million. The Company has filed an appeal against the initial assessment, which is currently under review by the respective appeal committees.

For the years ended December 2015 and 2017, the assessments have not yet been received by the Company.

The Company's zakat and tax return for the year ended 31 December 2018 is due to be filed on or before 30 April 2018.

(Amount in SAR '000s')

14. ZAKAT AND INCOME TAX (CONTINUED)

14.5 Deferred tax asset

	For the year ended 31 December 2018				
	Net balance as at 1 January	**Recognized in profit or loss account**	**Recognized in OCI**	**Other**	**Deferred tax asset**
Investments at FVTPL	**--**	**(68)**	**--**	**-311**	**-379**
Available for sale investments	**(311)**	**--**	**--**	**311**	**--**
Defined benefits obligation	**985**	**(32)**	**--**	**--**	**953**
	674	**(100)**	**--**	**--**	**574**

	For the year ended 31 December 2017			
	Net balance as at 1 January	Recognized in profit or loss account	Recognized in OCI	Deferred tax asset
Available for sale investments	-169	--	-142	-311
Defined benefits obligation	978	7	--	985
	809	7	-142	674

15. CLIENTS' CASH ACCOUNTS

At 31 December 2018, the Company was holding clients' cash accounts amounting to SAR 1.73 billion (2017: SAR 1.53 Billion), to be used for investments on the clients' behalf. Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

16. ASSETS UNDER MANAGEMENT

These represent the mutual funds', and discretionary portfolios' assets related to the funds unitholders managed by the Company, which amount to SAR 2.14 billion as at 31 December 2018 (2017: SAR 2.05 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

17. ASSET MANAGEMENT FEE

	For year ended 31 December	
	2018	2017
Management fee from Mutual funds	**11,291**	13,280
Management fee from DPMs	**3,281**	4,177
	14,572	17,457

18. INVESTMENT BANKING INCOME

	For year ended 31 December	
	2018	2017
Mergers and acquisitions	**6,353**	1,500
Private placement	**450**	1,164
Others	**-**	625
	6,803	3,289

(Amount in SAR '000s')

19. SPECIAL COMMISSION INCOME

	For year ended 31 December	
	2018	2017
Margin lending income	**9,806**	6,290
Short term deposits with Alawwal Bank	**10,410**	9,254
	20,216	15,544

20. GENERAL AND ADMINISTRATION EXPENSES

	For year ended 31 December	
	2018	2017
Expenses under Service Level agreement (Note 9.1)	**7,026**	6,916
Communication expenses	**1,979**	1,824
Professional expenses	**667**	555
Stationery and printing	**166**	134
Traveling	**94**	69
Other expenses	**382**	1,015
	10,314	10,513

21. FAIR VALUE MEASUREMENTS

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. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the carrying amounts and fair values of assets and liabilities measured at fair value, including their levels in the fair value hierarchy.

All fair value measurements disclosed are recurring fair value measurements.

	31 December 2018				
Financial assets measured at fair value	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Open-ended funds	**118,651**	**-**	**118,651**	**-**	**118,651**
	118,651	**-**	**118,651**	**-**	**118,651**

(Amount in SAR '000s')

21. FAIR VALUE MEASUREMENTS (CONTINUED)

	31 December 2017				
Financial assets measured at fair value	Carrying value	Level 1	Level 2	Level 3	Total
Open-ended funds	124,720	-	124,720	-	124,720
	124,720	-	124,720	-	124,720

The fair value of investments classified within Level 2 is determined either using unadjusted net asset value. The unadjusted net asset value is used when the units in a fund are redeemable at the reportable net asset value at, or approximately at, the measurement date.

There were no transfers between fair value measurement categories.

The above table does not include fair value information for financial assets and financial liabilities not measured at fair value, for which carrying amount is a reasonable approximate of fair value.

22. OPERATING SEGMENTS

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

Investment banking services
Investment banking provides corporate finance advisory, private placements, public offerings of equity and debt securities, trade sales, mergers, acquisition, divestitures, spin-offs, syndications and structured products.

Brokerage
Brokerage operates under the brand of Alawwal INVEST and acts as principal and agent, providing custody and clearing services to clients, providing access to regional exchanges.

Asset management services
The Company's asset management include fund management services which invest in equity instruments and money market instruments

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

(Amount in SAR '000s')

22. OPERATING SEGMENTS (CONTINUED)

Inter-segment pricing is determined on an arm's length basis.

A. Information about reportable segments

Information related to each reportable segment is set out below. Segment profit before tax is used to measure performance because management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

	2018				
	Reportable segments				
	Investment Banking	**Brokerage**	**Asset Management Services**	**Corporate**	**Total**
External revenues	**6,803**	**20,706**	**16,179**	**10,410**	**54,098**
Segment revenue	**6,803**	**20,706**	**16,179**	**10,410**	**54,098**
Segment income before zakat and tax	**3,957**	**7,479**	**12,775**	**(13,747)**	**10,464**
Salaries and employee - related expenses	**2,680**	**3,844**	**2,837**	**13,355**	**22,716**
Rent and premises related expenses	**140**	**261**	**272**	**1708**	**2,381**
Special commission expense on borrowings	**-**	**8,223**	**-**	**-**	**8,223**
Other general expenses	**27**	**910**	**348**	**9,029**	**10,314**
Segment assets	**707**	**246,650**	**118,651**	**441,266**	**807,274**
Segment liabilities	**1,027**	**249,335**	**1,849**	**20,011**	**272,222**

	2017				
	Reportable segments				
	Investment Banking	Brokerage	Asset Management Services	Corporate	Total
External revenues	3,289	18,521	17,457	9,254	48,521
Segment revenue	3,289	18,521	17,457	9,254	48,521
Segment income before zakat and	(370)	9,003	13,583	(16,120)	6,096
Salaries and employee - related	3,523	4,003	3,195	14,826	25,547
Rent and premises related expenses	103	197	199	1,666	2,165
Special commission expense on	-	4,200	-	-	4,200
Other general expenses	32	1,118	481	8,882	10,513
Segment assets	1,801	193,968	124,720	428,569	749,058
Segment liabilities	919	198,395	1,655	17,799	218,768

B. *Geographic information*

The Company earns all its revenues and all its assets are located in Kingdom of Saudi Arabia.

(Amount in SAR '000s')

23. RISK MANAGEMENT

The Company manages its business risks in the creation, optimization and protection of enterprise value as well as creation of value for its investors. Therefore, Risk management is an integral part of corporate strategy to ensure effectiveness and value addition. Risk management goal is to understand and manage the risks rather than to avoid it.

The Company has designed its risk management framework to identify measure, monitor, mitigate, insure and reassess its key risks based upon changes in internal and external environment. The framework supports to achieve its strategic objective to optimize the risk return trade-off by either maximizing return for a given level of risk or reduce the risk for a given level of return. The Risk Management division, which is a vital link between business lines and management, develops and communicates risk appetite to risk owners and continuously monitors it to ensure risk exposures are within management's acceptable level.

The Company has exposure to the following risks arising from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

23.1 Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge its contractual obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit risk including evaluation of customers' credit worthiness, formal credit approvals and obtaining collateral.

With respect to credit risk arising from other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The table below shows the maximum exposure to credit risk for the components of the financial statements.

	Total maximum exposure as at 31 December 2018	Total maximum exposure as at 31 December 2017
Investments	**425,584**	416,699
Cash and cash equivalents	**15,108**	7,147
Margin finance receivables	**246,650**	193,968
Other current assets	**707**	1,801
	688,049	619,615

Cash and cash equivalents

The Company kept its surplus funds with Alawwal bank having sound credit rating. As per Fitch ratings, Alawwal bank's long term debt and short debts are rated as BBB+ and F-2 respectively and A3 and P-2 as per Moody's ratings.

Investment team focuses on the Sharia compliant products and markets where it can comprehend the inherent risks. The Company monitors and manages credit risk of its investments with tools i.e. policy & procedures and risk appetite that include limits for concentration, country, industry and acceptable rating levels for counterparties etc. The stringent approval framework of investment and exhaustive evaluation process timely alerts

23. RISK MANAGEMENT (CONTINUED)

Margin finance receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristic of each customer. However, management also considers the factors that may influence the credit risk of its customers base, including the default risk of the industry and the country in which customers operate.

As on 31 December 2018 and 2017, none of the margin finance receivables are neither past due nor impaired. The facilities are collateralised by underlying equities and cash held in the customers' investment accounts.

23.2 Market risk

Market risk is made up of key risks – commission rate risk, foreign exchange risk and equity price risk. Market risk is measured, monitored and managed with a blend of quantitative and qualitative approach along with experienced talent and quantitative tools include sensitivity analysis and Value at Risk approach. In addition, exposure limits for individual transactions, concentration, maturities and other risk parameters captures the risk timely.

Foreign exchange risk

Currency risk is the risk that the value of a financial investment may fluctuate due to change in foreign exchange rates. Management closely monitors the exchange rate fluctuations and believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals with Saudi Arabian Riyals.

Cash flow and fair value 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's commission rate risk arise mainly from margin lending receivables, short-term borrowings and time deposits with the Bank. The Company has limited commission rate risk due to the short-term maturity of these financial instruments. The Company has an over-draft credit facility with Alawwal Bank to satisfy its liquidity requirements.

23.3 Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that sufficient funds are available to meet any commitment as they arise.

23.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to shareholders.

(Amount in SAR '000s')

23. RISK MANAGEMENT (CONTINUED)

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Management Team. This responsibility is supported by the group of overall standard for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- documentation of controls and procedures
- requirements for
  - appropriate segregation of duties between various functions, roles and responsibilities;
  - reconciliation and monitoring of transactions; and
  - periodic assessment of operational risks faced,
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and

risk mitigation, including insurance if this is effective

24. CAPITAL REGULATORY REQUIREMENT AND CAPITAL ADEQUACY

The Company's objectives when managing capital are, to comply with the minimum capital requirements set by CMA; to safeguard the Company's ability to continue as a going concern and to maintain an adequate capital base throughout the year.

The Company monitors the capital adequacy and related ratios using the framework established by CMA effective 1 January 2014. Accordingly, the Company's Pillar 1 requirement related to Tier capital base, minimum capital requirement and capital adequacy ratio are as follows.

	2018	2017
	SR '000	SR '000
Capital Base:		
Tier-1 Capital	**534,478**	528,355
Tier-2 Capital	**-**	3,885
Total Capital Base	**534,478**	532,240
Minimum Capital:		
Credit Risk	**89,759**	80,876
Operational Risk	**10,909**	10,462
Total Minimum Capital	**100,668**	91,338
Surplus Capital	**433,810**	440,902
Capital Adequacy Ratio (times)	**5.31**	5.83

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.

25. APPROVAL OF FINANCIALS STATEMENTS

These financials statements were approved on 21 Rajab 1440H, corresponding to 28 March 2019.