

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2015  
with  
**INDEPENDENT AUDITORS' AUDIT REPORT**

**CONSOLIDATED FINANCIAL STATEMENTS**

---

<b>CONTENTS</b>	<b>Page</b>
Auditors' Report on the Consolidated Financial Statements to the shareholders of NCB Capital Company	1-2
Consolidated Statement of Balance Sheet	3
Consolidated Statement of Income	4
Consolidated Statement of Cash Flows	5
Consolidated Statement of Changes in Equity	6-7
Notes to the Consolidated Financial Statements	8-39



**KPMG Al Fozan & Partners**  
Certified Public Accountants  
Zahran Business Centre, Tower A, 9th Floor  
Prince Sultan Street  
PO Box 55078  
Jeddah 21534  
Kingdom of Saudi Arabia

Telephone +966 12 698 9595  
Fax +966 12 698 9494  
Internet [www.kpmg.com.sa](http://www.kpmg.com.sa)

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

## INDEPENDENT AUDITORS' REPORT

The Shareholders  
NCB Capital Company  
(Saudi Closed Joint Stock Company)

We have audited the accompanying consolidated financial statements of NCB Capital Company (the "Company") and its subsidiaries (collectively referred as "the Group") which comprises the consolidated balance sheet as at December 31, 2015 and the related consolidated statements of income, cash flows and changes in Equity for the year then ended and the attached notes 1 through 25 which form an integral part of these consolidated financial statements.

### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with article 123 of the Regulations for Companies and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Opinion

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

- 1) present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

**For KPMG Al Fozan & Partners**

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, Jumada Al Thani 18, 1437H  
Corresponding to March 27, 2016

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED BALANCE SHEET**  
**As at December 31, 2015**  
**(Expressed in Saudi Riyals ‘000)**

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
<b>Current assets</b>			
Balances with banks		<b>516,754</b>	200,551
Amount due from The National Commercial Bank	19 (a)	<b>5,707</b>	6,886
Investments	4	<b>847,209</b>	1,135,140
Prepayments and other assets	5	<b>92,171</b>	44,749
<b>Total current assets</b>		<b>1,461,841</b>	1,387,326
<b>Non-current assets</b>			
Investments	4	<b>64,211</b>	70,286
Prepayments and other assets	5	<b>7,334</b>	11,317
Investment in an associate, net	6	<b>25,221</b>	28,260
Property and equipment	7	<b>171,966</b>	150,838
<b>Total non-current assets</b>		<b>268,732</b>	260,701
<b>Total assets</b>		<b>1,730,573</b>	1,648,027
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Dividend payable	8	<b>372,405</b>	2,729
Deferred income		<b>909</b>	3,284
Amount due to The National Commercial Bank	19 (a)	<b>6,195</b>	13,497
Accounts payable and accruals	9	<b>170,911</b>	213,512
<b>Total current liabilities</b>		<b>550,420</b>	233,022
<b>Non-current liabilities</b>			
Accounts payable and accruals	9	<b>19,942</b>	14,633
Employee benefits	10	<b>60,987</b>	68,023
<b>Total non-current liabilities</b>		<b>80,929</b>	82,656
<b>Total liabilities</b>		<b>631,349</b>	315,678
<b>Equity</b>			
Share capital	11	<b>1,000,000</b>	1,000,000
Shares held under Employees’ Share Scheme	12 (c)	<b>(181,215)</b>	(77,383)
Statutory reserve	13	<b>80,248</b>	47,748
Other reserves		<b>11,953</b>	8,766
Share based payments	12	<b>10,194</b>	8,250
Retained earnings		<b>165,293</b>	292,384
<b>Equity attributable to equity holders of the parent</b>		<b>1,086,473</b>	1,279,765
Non-controlling interests		<b>12,751</b>	52,584
<b>Total equity</b>		<b>1,099,224</b>	1,332,349
<b>Total liabilities and equity</b>		<b>1,730,573</b>	1,648,027

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

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF INCOME**  
**For the year ended December 31, 2015**  
**(Expressed in Saudi Riyals '000)**

	<i>Notes</i>	<b><u>2015</u></b>	<b><u>2014</u></b>
Fees from services, net			
Asset Management		<b>363,526</b>	373,502
Brokerage		<b>274,446</b>	366,501
Investment Banking		<b>39,541</b>	6,464
		<b><u>677,513</u></b>	<u>746,467</u>
Income from held for trading investments, net		<b>2,752</b>	10,678
Exchange loss		<b>(703)</b>	504
<b>Total operating income</b>		<b><u>679,562</u></b>	<u>757,649</u>
Salaries and employee related expenses		<b>229,307</b>	243,911
Rent and premises related expenses		<b>11,435</b>	10,655
Depreciation	7	<b>24,072</b>	21,507
Provision for impairment in available-for-sale investments	4	<b>686</b>	25,046
Impairment charge on property and equipment	7	<b>--</b>	16,035
Other general and administrative expenses	14	<b>105,141</b>	136,902
<b>Total operating expenses</b>		<b><u>370,641</u></b>	<u>454,056</u>
<b>Net operating income for the year</b>		<b><u>308,921</u></b>	<u>303,593</u>
Other income		<b>14,964</b>	2,114
Share of results in an associate, net	6	<b>77</b>	2,261
<b>Total non-operating income</b>		<b><u>15,041</u></b>	<u>4,375</u>
<b>Net income for the year before zakat</b>		<b><u>323,962</u></b>	<u>307,968</u>
Zakat expense for the year	22	<b>(35,000)</b>	(27,817)
<b>Net income for the year after zakat</b>		<b><u>288,962</u></b>	<u>280,151</u>
Attributable to:			
Equity holders of the parent		<b>291,535</b>	297,371
Non-controlling interests		<b>(2,573)</b>	(17,220)
		<b><u>288,962</u></b>	<u>280,151</u>
Basic and diluted earnings per share (SR) – attributable to equity holders of the parent	15	<b><u>3.14</u></b>	<u>3.10</u>

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

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2015**  
**(Expressed in Saudi Riyals ‘000)**

	<i>Notes</i>	<b><u>2015</u></b>	<b><u>2014</u></b>
<b>Cash flows from operating activities:</b>			
Net income for the year before non-controlling interests and zakat		<b>323,962</b>	307,968
<i>Adjustments to reconcile net income to net cash from operating activities:</i>			
Income from held for trading investments, net		<b>(2,752)</b>	(10,678)
Share of results in an associate	6	<b>(77)</b>	(2,261)
Property and equipment written off	7	<b>--</b>	16,035
Share based payments		<b>10,887</b>	11,125
Exchange loss		<b>703</b>	504
Provision for impairment in available-for-sale investments	4	<b>686</b>	25,046
Depreciation	7	<b>24,072</b>	21,507
Loss on disposal of property and equipment		<b>18</b>	--
Gain on disposal of available-for-sale investments		<b>(280)</b>	(1,168)
Operating income before changes in operating assets and liabilities		<b>357,219</b>	368,078
<i>Working capital adjustments</i>			
Prepayments and other assets		<b>(44,142)</b>	8,658
Investments		<b>290,683</b>	(335,384)
Employees' end of service benefits, net		<b>(7,036)</b>	(10,993)
Deferred income		<b>(2,375)</b>	985
Amounts due from / to The National Commercial Bank, net		<b>(6,123)</b>	10,050
Account payable and accruals		<b>(72,328)</b>	27,415
<b>Net cash from operating activities</b>		<b>515,898</b>	68,809
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	7	<b>(45,229)</b>	(33,293)
Purchase of available-for-sale investments		<b>(1,432)</b>	(1,707)
Sale of available-for-sale investments		<b>11,842</b>	14,456
Sale of property and equipment		<b>12</b>	--
<b>Net cash used in investing activities</b>		<b>(34,807)</b>	(20,544)
<b>Cash flows from financing activities:</b>			
Dividend paid	8	<b>(2,439)</b>	(2,165)
Acquisition of non-controlling interest	23	<b>(26,539)</b>	--
Movement in non-controlling interests		<b>(32,078)</b>	41,934
Purchase of employees' shares by Baco	12 (c)	<b>(103,832)</b>	(27,678)
<b>Net cash (used in) / from financing activities</b>		<b>(164,888)</b>	12,091
Net increase in cash and cash equivalents		<b>316,203</b>	60,356
Cash and cash equivalents at beginning of the year		<b>200,551</b>	140,195
<b>Cash and cash equivalents at end of the year</b>		<b>516,754</b>	200,551
<b>NON-CASH SUPPLEMENTARY INFORMATION</b>			
Share based payment		<b>10,887</b>	11,125
Net unrealized gain on available-for-sale investments		<b>4,745</b>	16,679
Dividend	8	<b>400,771</b>	--
Dividend on unallocated / forfeited shares	8	<b>28,656</b>	3,363

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

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2015**  
**(Expressed in Saudi Riyals ‘000)**

	Attributable to equity holders of the parent								
	<i>Share capital</i>	<i>Shares held under Employees' Share Scheme</i>	<i>Statutory reserve</i>	<i>Other reserves</i>	<i>Share based payments</i>	<i>Retained earnings</i>	<i>Subtotal</i>	<i>Non-controlling interests</i>	<i>Total</i>
Balance as at January 1, 2015	1,000,000	(77,383)	47,748	8,766	8,250	292,384	1,279,765	52,584	1,332,349
Income / (loss) for the year	--	--	--	--	--	291,535	291,535	(2,573)	288,962
Net unrealized gain / (loss) on available-for-sale investments	--	--	--	4,745	--	--	4,745	--	4,745
Share of associate's reserves (note 6)	--	--	--	(1,558)	--	--	(1,558)	(1,558)	(3,116)
Share based payments	--	--	--	--	10,887	--	10,887	--	10,887
Transfer from share based payments to retained earnings (note 12 (b))	--	--	--	--	(8,943)	8,943	--	--	--
Transfer to statutory reserve (note 13)	--	--	32,500	--	--	(32,500)	--	--	--
Acquisition of NCI without change in control (note 23 (a))	--	--	--	--	--	(22,954)	(22,954)	(3,585)	(26,539)
Purchase of employees' shares by Baco (note 12 (c))	--	(103,832)	--	--	--	--	(103,832)	--	(103,832)
Dividend (note 8)	--	--	--	--	--	(400,771)	(400,771)	--	(400,771)
Dividend on unallocated shares (note 8)	--	--	--	--	--	28,656	28,656	--	28,656
Other movement in non-controlling interests (note 23 (b))	--	--	--	--	--	--	--	(32,117)	(32,117)
<b>Balance as at December 31, 2015</b>	<b><u>1,000,000</u></b>	<b><u>(181,215)</u></b>	<b><u>80,248</u></b>	<b><u>11,953</u></b>	<b><u>10,194</u></b>	<b><u>165,293</u></b>	<b><u>1,086,473</u></b>	<b><u>12,751</u></b>	<b><u>1,099,224</u></b>

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



**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2015**  
**(Expressed in Saudi Riyals ‘000)**

	Attributable to equity holders of the Company							Non-	
	<i>Share capital</i>	<i>Shares held under Employees' Share Scheme</i>	<i>Statutory reserve</i>	<i>Other reserves</i>	<i>Share based payments</i>	<i>Retained earnings</i>	<i>Subtotal</i>	<i>controlling interests</i>	<i>Total</i>
Balance as at 1 January 2014	1,000,000	(49,705)	15,229	(7,424)	19,134	2,160	979,394	28,359	1,007,753
Income / (loss) for the year	--	--	--	--	--	297,371	297,371	(17,220)	280,151
Net unrealized gain on available-for-sale Investments	--	--	--	16,679	--	--	16,679	--	16,679
Share of associate's reserves (note 6)	--	--	--	(489)	--	--	(489)	(489)	(978)
Share based payments	--	--	--	--	11,125	--	11,125	--	11,125
Transfer from share based payments to retained earnings (note 12 (b))	--	--	--	--	(22,009)	22,009	--	--	--
Transfer to statutory reserve (note 13)	--	--	32,519	--	--	(32,519)	--	--	--
Purchase of employees' shares by Baco (note 12 (c))	--	(27,678)	--	--	--	--	(27,678)	--	(27,678)
Dividend on forfeited shares (note 8)	--	--	--	--	--	3,363	3,363	--	3,363
Other movement in non-controlling interests	--	--	--	--	--	--	--	41,934	41,934
Balance as at December 31, 2014	<u>1,000,000</u>	<u>(77,383)</u>	<u>47,748</u>	<u>8,766</u>	<u>8,250</u>	<u>292,384</u>	<u>1,279,765</u>	<u>52,584</u>	<u>1,332,349</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**1. GENERAL**

These consolidated financial statements comprise the financial statements of NCB Capital Company (“the Company” or “NCBC”) and its subsidiaries (hereinafter collectively referred as “the Group”). NCB Capital, a Saudi Joint Stock Company, was formed in accordance with Capital Market Authority’s Resolution No. 2-83-2005 dated Jumad Awal 21, 1426H (June 28, 2005), and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010231474 dated Rabi Awal 29, 1428H (April 17, 2007). The ownership structure of the Company is detailed in note 11.

The Company has operations in Kingdom of Saudi Arabia and its Head Office is located at the following address:

NCB Capital Head Office  
NCB Regional Building  
Al Maather Street  
P.O. Box 22216  
Riyadh 11495  
Saudi Arabia

The objective of the Company is to conduct the following Securities Activities, as defined in the Securities Business Regulations (Regulation No 2-83-2005 dated Jumada Al Awal 21, 1426H issued by the Board of the Capital Market Authority):

- a) Dealing;
- b) Arranging;
- c) Managing;
- d) Advising; and
- e) Custody

The Board of Directors of the Company in its meeting held on April 29, 2015 resolved to liquidate the Bahrain Branch operations (the “Branch”) with effect from September 30, 2015 and place the Branch into voluntary liquidation. Consequently, all the assets and liabilities of the Branch have been transferred to the Head Office at their carrying values. No adjustment has been made in these consolidated financial statements arising as a result of liquidation of Bahrain Branch operations. As of December 31, 2015 the legal proceedings to liquidate the Branch is under process.

The consolidated financial statements of the Group include the financial statements of the Company and following subsidiaries up to December 31, 2015:

**Oryx Regional Private Equity Fund**

The Company has a 50% (December 31, 2014: 50%) ownership interest in Oryx Regional Private Equity Fund (the “Fund”), which was formed on February 12, 2007 as a closed-ended investment fund. The remaining 50% interest in the Fund is owned by The National Commercial Bank (The “Bank”). The Fund has been established for a period ending on the tenth anniversary of the initial closing date but may be extended for up to a maximum of two years. The Company acquired control over the Fund as at April 17, 2007. The Fund’s objective is to invest in companies which have a strong competitive advantage and good growth potential. The Fund’s primary geographic focus for investment is the Middle East and North Africa (MENA) region.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**1. GENERAL (continued)**

**Eastgate Capital Holdings Inc.**

Effective January 1, 2008, the Company acquired control over Eastgate Capital Holdings Inc. (an exempt company with limited liability incorporated in the Cayman Islands) and its subsidiaries from the Bank at book value which approximated to its fair value. The takeover of the business was facilitated by the incorporation of Eastgate Capital Group Inc.

The objective of Eastgate Capital Holdings Inc. is to source, structure and invest in attractive private equity and real estate development opportunities across emerging markets, with a particular focus on the MENA region.

During the year, the Company acquired remaining 30% ownership interest in Eastgate Capital Holdings Inc through purchase of shares from shareholders of Eastgate Capital Holdings Inc. for consideration of SR 26.54 million (note 23). As at December 31, 2015, the Company has a 100% (2014: 70%) ownership interest in Eastgate Capital Holdings Inc.

**The Capital Partnership (Cayman) Holdings Limited**

The Capital Partnership (Cayman) Holdings Limited (“TCPCHL”), registered in the Cayman Islands was formed as a special purpose entity with the principal objective of acquisition of The Capital Partnership Group Limited (“TCPG”).

The Company will start the process of liquidating TCPCHL subject to the lapse of certain provisions of share buy-back agreement signed with respect to the disposal of the ownership interest in TCPG. The legal formalities in respect of disposal of ownership interest in TCPG were completed during November 2012.

**Baco W.L.L. (“Baco”)**

Baco is a limited liability company incorporated in the Kingdom of Bahrain on January 16, 2007. It is a structured entity formed for the sole purpose of executing NCB Capital Company's employee share ownership plans and is fully owned by the Company. Hence, the financial statements of Baco have been consolidated in these consolidated financial statements.

**NCBC Investment Management Umbrella Company Plc**

During 2012, NCBC formed a company in Ireland, NCBC Investment Management Umbrella Company Plc, under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities “UCITS”) Regulation 2011 and received its authorization certificate to start its operations on November 21, 2012, from the Central Bank of Ireland. Moreover, Central Bank of Ireland has approved ten sub-funds.

NCBC Investment Management Umbrella Company Plc. launched the following two funds, which are registered in Dublin and have been pre-approved by the Capital Markets Authority through its letter dated May 6, 2010 to carry out their activities in the Kingdom of Saudi Arabia.

- NCB Capital Saudi Arabian Equity Fund
- NCB Capital GCC Equity Fund

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**1. GENERAL (continued)**

**NCBC Investment Management Umbrella Company Plc (continued)**

The current portfolio of each fund is held through Subsidiary Companies (SPVs) incorporated in the Kingdom of Bahrain on June 3, 2012, as listed below:

- NCB Capital KSA Equity Company W.L.L.
- NCB Capital GCC Equity Company W.L.L.

NCBC has invested USD 10 million in each of these funds. Since NCBC Investment Management Umbrella Company Plc, underlying SPV companies and funds are controlled by NCB Capital Company, these entities have been consolidated in these consolidated financial statements.

During the year, the management has redeemed the assets of NCB Capital GCC Equity Fund and currently is in the process of liquidating the Fund and the related SPV i.e. NCB Capital GCC Equity Company W.L.L.

**NCB Capital Real Estate Investment Company**

NCB Capital, on September 8, 2013, formed a special purpose entity, NCB Capital Real Estate Investment Company (REIC), registered in the Kingdom of Saudi Arabia. The primary objective of REIC is to hold and register the real estate assets on behalf of real estate funds.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by Saudi Organization of Certified Public Accountants (“SOCPA”) as per the requirements of Capital Market Authority (“CMA”). These consolidated financial statements were approved by the Board of Directors on March 27, 2016.

Certain comparative figures have been regrouped to conform to the presentation in the current period. These reclassifications are not material in nature.

**b) Basis of measurement**

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of investments held for trading and investments held as available-for-sale.

**c) Functional and presentation currency**

These consolidated financial statements have been presented in Saudi Riyals (SR), which is the functional currency of the Company. The financial information have been rounded off to the nearest thousand.

**d) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2015 (note 1).

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

---

**2. BASIS OF PREPARATION (continued)**

**d) Basis of consolidation (continued)**

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Company in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from company's shareholders' equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**e) Significant accounting judgements, estimates and assumptions**

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and accompanying disclosures and disclosures of contingent liabilities. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

*(i) Classification of investments*

Upon acquisition of an investment, management decides whether it should be classified as investments held for trading or available-for-sale.

Classification of investments as fair value through statement of income and held for trading depends on certain criteria as stated in note 3 (g).

*(ii) Valuation of investments in hedge funds and unquoted private equity funds*

Investments in hedge funds, classified under 'Held for trading' investments, are valued based on the net assets values provided by the underlying fund administrator or fund manager as at the year end.

*(iii) Impairment of available-for-sale equity investments*

The Group exercises judgment to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as provision for impairment in investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment in investments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**2. BASIS OF PREPARATION (continued)**

**e) Significant accounting judgements, estimates and assumptions (continued)**

*(iv) Impairment of non-financial assets*

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent to those from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows based on earnings 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. In determining fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are identified, it is based on discounted future cash flow calculations of future distributable dividends.

*(v) Share-based payments*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 12.

*(vi) End of service benefits*

The cost of the defined benefit plan (end of service benefits) and the present value of the end of service benefits obligation are determined using external actuarial valuations. An external actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

*(vii) Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

**a) Foreign currencies**

The consolidated financial statements are presented in Saudi Riyals, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the subsidiaries is U.S Dollars and of the associate is Egyptian Pounds.

Foreign currency transactions of individual Group companies are translated into functional currency at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are retranslated into functional currency at the rates ruling at the balance sheet dates. Any differences are taken to the consolidated statement of income.

On consolidation, the results of overseas operations are translated into Saudi Riyals at rates approximating to those ruling when the transactions took place. All assets and liabilities of the foreign subsidiaries and associated undertakings are translated into Saudi Riyals at the rates of exchange ruling on the balance sheet date. Exchange differences arising on translation are taken directly to a separate component of statement of changes in equity (foreign exchange retranslation reserve relating to subsidiaries under ‘other reserves’).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined and any differences are taken to the consolidated statement of changes in equity. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

**b) Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**c) Property and equipment**

Property and equipment are stated at cost and presented net of accumulated depreciation and accumulated impairment losses, if any. Freehold land and capital work in progress is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	5 years
Furniture and fixtures	10 years
Equipment	6 to 7 years
Software and licences	4 years
Motor vehicles	5 years
Buildings and structures	40 years

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Property and equipment (continued)**

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of income.

Property and equipment are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**d) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

**e) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Business combinations and goodwill (continued)**

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and is measured at fair value with changes in fair value recognised either in consolidated statement of income or as a charge to consolidated statement of changes in equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**f) Investment in an associate**

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income. The recoverable amount of the investment in the associate is considered to be the higher of fair value less costs to sell and its value in use.

Gains or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Investments**

All investment securities are measured at fair value, including acquisition charges associated with the investment at that date (acquisition date) except for those transaction charges related to investments held for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums and discounts on investments (excluding those classified as held for trading) are amortised using the effective interest rate method and recognised in the consolidated statement of income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of the business on the reporting date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same, or is based on the expected cash flows or the underlying Net Asset Value (NAV) which is reflective of the fair value of these securities.

The subsequent period end accounting treatment for each class of investments are determined on the basis as set out in the following paragraphs:

*Held for trading*

Investments classified as held for trading, are acquired principally for the purpose of selling or repurchasing in the short term. Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises and is disclosed as 'income from held for trading investments, net'.

*Available for sale investments*

Available-for-sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized directly in the consolidated statement of changes in equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

**h) Impairment of financial assets**

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. For available-for-sale investments carried at fair value, impairment loss, which is the difference between cost (net of any principal payment and amortisation) and current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from the consolidated statement of changes in equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) Impairment of financial assets (continued)**

Impairment is determined as follows:

- a. For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the profit and loss;
- b. For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- c. For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Financial assets are written off only in circumstances where all possible means of recovery have been exhausted.

**i) Share based payments**

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In cases, where an award is forfeited (i.e. when the vesting conditions relating to award are not satisfied), the Group reverses the expense relating to such awards previously recognized in the consolidated statement of income.

Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

**j) Employees' benefits**

*Defined unfunded benefit plan*

This represents end of service benefits plan.

End-of-service benefits as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plan ("the plan") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on government bonds at the reporting date that have maturity dates approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefits plan is determined using the projected unit credit method to determine the Company's present value of the obligation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Employees' benefits (continued)**

*Saving plan benefits*

A defined contribution plan is a post-employment benefit plan under which an entity pays/accrues fixed contributions and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as employee benefit expense in consolidated statement of income in the period during which related services are rendered by employees.

The Company operates a contribution benefit plan ('the plan') for all the employees wherein all the employees are encouraged to contribute 5% of the basic salary before any benefits or deductions, and the Company contributes a certain percentage according to specified rules of the plan, starting from 10% up to maximum of 200% of the employee's cumulative contribution based on the number of years of an employee's enrollment in the plan.

*Termination benefits*

Termination benefits are recognized as an expense when the Group is demonstrably committed without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before retirement date, or to provide termination benefits as a result of an offer to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer for voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

*Short term benefits*

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**k) Deferred income**

Deferred income represents the subscription fee income received by securities division from its customers relating to the future periods. The subscription fee income is recognized over the period of subscription in the consolidated statement of income.

**l) Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**m) Provisions**

Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured. Certain provisions are based on management's estimate of the actual amount payable. The provision has been included in 'accounts payable and accruals'.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and is included in 'other income' in the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n) Zakat**

Zakat is provided for in accordance with Saudi Arabian fiscal regulations and is computed as the higher of Company’s Zakat base or the “adjusted profits” for the period. Zakat is paid by the Company on behalf of the shareholders and is charged to the consolidated statement of income.

**o) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before the revenue is recognized.

*Fees and commissions*

Fees and commissions are recognized on an accrual basis when the service has been provided.

*Portfolio and other management advisory and service fees*

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

*Interest income*

Interest income is recognized in the consolidated statement of income on the effective yield basis.

*Dividend income*

Dividend income is recognized when the right to receive payment is established.

**p) Cash and cash equivalents**

For the purpose of the statement of cash flows, ‘cash and cash equivalents’ are defined as the amount included in balances with banks with an original maturity of less than ninety days.

**q) Derecognition of financial instruments**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires. A financial liability (or a part of financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expired.

**r) Offsetting**

Financial assets and financial liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under accounting standards generally accepted in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**s) Operating segment**

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segmental reporting is based on business segments. The business segments are determined based on Group's management and internal reporting structure.

**t) Fiduciary assets**

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group, and accordingly, are not included in the consolidated financial statements.

**u) Shares held under employees' shares scheme**

The Company's own equity instruments which are reacquired through Baco (i.e. shares held under employees' shares scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'retained earnings' component of equity in the consolidated statement of equity.

**v) Transactions with NCI**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**4. INVESTMENTS**

Investments are classified as follows:

	<u>2015</u>	<u>2014</u>
(i) Held for Trading		
- Mutual funds and direct equity investments managed by the Group	<b>737,083</b>	1,011,811
- Unquoted hedge funds	<b>110,126</b>	123,329
(ii) Available-for-sale		
Unquoted private equity funds, net (note 'a' below)	<u><b>64,211</b></u>	<u>70,286</u>
<b>Total</b>	<u><b>911,420</b></u>	<u>1,205,426</u>

- a. The Group has recognized an impairment loss of SR 0.69 million (December 31, 2014: SR 25.05 million) on available-for-sale investments in the consolidated statement of income. The table below illustrates the movement in the provision for available-for-sale investments during the year:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

**4. INVESTMENTS (continued)**

	<u>2015</u>	<u>2014</u>
Opening balance	<b>109,934</b>	93,663
Provision for impairment	<b>686</b>	25,046
Reversal of provision for impairment	<u>--</u>	<u>(8,775)</u>
Closing balance	<u><b>110,620</b></u>	<u>109,934</u>

**5. PREPAYMENTS AND OTHER ASSETS**

	<u>2015</u>	<u>2014</u>
Prepaid expenses	<b>2,269</b>	1,791
Staff loans (note ‘a’ below)	<b>11,894</b>	13,950
Accrued income	<b>64,554</b>	37,750
Trade receivables	<b>11,756</b>	2,575
Others (note ‘b’ below)	<u><b>9,032</b></u>	<u>--</u>
	<u><b>99,505</b></u>	<u>56,066</u>

- a) It includes non-current portion of staff loans amounting to SR 7.33 million (2014: SR 11.32 million).  
b) Others represent deposit with Bahrain branch liquidator for settlement of any liability and will be released after completion of liquidation process (Note 1).

**6. INVESTMENT IN AN ASSOCIATE, NET**

Oryx Regional Private Equity Fund (“ORPEF”) has a 30.4% (December 31, 2014: 30.4%) interest in H.C Securities and Investment S.A.E., an entity engaged in investment and brokerage services in the Arab Republic of Egypt. The carrying value of the investment as of December 31, 2015 was SR 25.22 million (December 31, 2014: SR 28.26 million). The Group’s share of the associate’s income for the year ended December 31, 2015 amounting to SR 0.077 million has been recognized in the consolidated statement of income (December 31, 2014: SR 2.26 million).

The below table illustrates the movements in the investment in an associate:

	<u>2015</u>	<u>2014</u>
Opening balance	<b>28,260</b>	26,977
Share of profit	<b>77</b>	2,261
Share of other reserves recognized directly in the associate’s statement of changes in equity	<b>(752)</b>	146
Exchange difference on translation of investment in an associate	<u><b>(2,364)</b></u>	<u>(1,124)</u>
Closing balance	<u><b>25,221</b></u>	<u>28,260</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**7. PROPERTY AND EQUIPMENT**

	<i>2015</i>				<i>2014</i>			
	<i>Land, building and leasehold improvements</i>	<i>Furniture, Equipment, software and vehicles</i>	<i>Capital work in progress</i>	<i>Total</i>	<i>Land, and leasehold improvements</i>	<i>Furniture, Equipment, software and vehicles</i>	<i>Capital work in progress</i>	<i>Total</i>
<b>Cost</b>								
Opening	117,384	125,014	8,883	<b>251,281</b>	114,912	90,833	28,747	234,492
Additions	--	--	45,229	<b>45,229</b>	--	--	33,293	33,293
Transfers	518	26,395	(26,913)	--	2,472	37,270	(39,742)	--
Impairment charge	--	--	--	--	--	(3,089)	(13,415)	(16,504)
Disposals and retirements	--	(146)	--	<b>(146)</b>	--	--	--	--
<b>Closing</b>	<b>117,902</b>	<b>151,263</b>	<b>27,199</b>	<b>296,364</b>	117,384	125,014	8,883	251,281
<b>Accumulated depreciation</b>								
Opening	34,233	66,210	--	<b>100,443</b>	28,756	50,649	--	79,405
Depreciation charge	2,256	21,816	--	<b>24,072</b>	5,477	16,030	--	21,507
Adjustment	--	--	--	--	--	(469)	--	(469)
Disposals and retirements	--	(117)	--	<b>(117)</b>	--	--	--	--
<b>Closing</b>	<b>36,489</b>	<b>87,909</b>	<b>--</b>	<b>124,398</b>	34,233	66,210	--	100,443
<b>Net book value</b>	<b>81,413</b>	<b>63,354</b>	<b>27,199</b>	<b>171,966</b>	83,151	58,804	8,883	150,838



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

**8. DIVIDEND PAYABLE**

The following table illustrates the movement in dividend payable:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Opening	2,729	8,257
Dividend approved (note ‘a’ below)	400,000	--
Dividend paid to employees with vested shares	(2,439)	(2,165)
Dividend on vested shares	771	--
Dividend on forfeited shares	--	(3,363)
Dividend on unallocated shares	(28,656)	--
Closing	<u>372,405</u>	<u>2,729</u>

- a) The shareholders of the Company in their General Assembly Meeting held on December 22, 2015, approved a cash dividend of SR 4 per share (amounting in total to SR 400 million).

**9. ACCOUNTS PAYABLE AND ACCRUALS**

	<u>2015</u>	<u>2014</u>
Staff related payables	59,449	76,194
Customer rebates and operational errors (note 16)	14,014	12,866
Accrued expenses and other payable (note ‘a’ below)	117,390	139,085
	<u>190,853</u>	<u>228,145</u>

- a) It includes non-current portion amounting to SR 19.94 million (2014: SR 14.64 million).

**10. EMPLOYEE BENEFITS**

	<u>2015</u>	<u>2014</u>
Employees’ end-of-service benefits (note ‘a’ below)	51,537	53,427
Saving plans	9,450	9,756
Termination benefits	--	4,840
	<u>60,987</u>	<u>68,023</u>

- b) Movement in net liability recognised in the consolidated balance sheet:

	<u>2015</u>	<u>2014</u>
Net liability at the beginning of the year	53,427	53,083
Charge for the year	9,096	11,260
Benefits paid / reversal during the year	(10,986)	(10,916)
Net liability at the end of the year	<u>51,537</u>	<u>53,427</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**11. SHARE CAPITAL**

The authorized, issued and fully paid share capital of the Company consists of one hundred million (100,000,000) shares of SR 10 each. The ownership structure of the Company is given below:

<u>Description</u>	<u>No. of shares held</u>		<u>Percentage ownership held</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Shares held by The National Commercial Bank	<b>90,712,060</b>	90,712,060	<b>90.71</b>	90.71
Shares held by Baco under share based payment plan as at the year end (note 12):				
- Unallocated to the employees	<b>7,163,796</b>	4,232,864	<b>7.16</b>	4.23
- Allocated to the employees (unvested)	<b>914,779</b>	773,883	<b>0.92</b>	0.78
- Allocated to the employees (vested)	<b>1,209,365</b>	4,281,193	<b>1.21</b>	4.28
	<b><u>100,000,000</u></b>	<u>100,000,000</u>	<b><u>100.00</u></b>	<u>100.00</u>

**12. SHARE BASED PAYMENTS**

The Company offers Long Term Incentive Plan (LTIP) as share based payment plan to certain eligible executives. The plan aims at rewarding them for the achievement of long term corporate success, which is measured based on adjusted Return on Equity (ROE). The plan vests over a period of three years. The Company's actual performance is assessed at the end of each year during the vesting period and is linked to risk variables later.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the plan ('the vesting date'). The expense, recognized for the plan at each reporting date until the vesting date, reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The total expense recognised for employees' services received during the year ended December 31, 2015, under the LTIP amounted to SR 8.67 million (December 31, 2014: SR 11.13 million) and is included in the 'salaries and employee related expenses' with a corresponding increase in the consolidated statement of changes in equity, as per the accounting standards generally accepted in the Kingdom of Saudi Arabia.

- a) Following is the movement in the allocated shares, unallocated shares and vested shares during the year ended December 31, 2015:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

**12. SHARE BASED PAYMENTS (continued)**

<u>Description</u>	<b>2015</b>		
	<u>Unallocated to the employees</u>	<u>Allocated to the employees (unvested)</u>	<u>Allocated to the employees (vested)</u>
Opening number of shares	4,232,864	773,883	4,281,193
Shares granted under Long Term Incentive Plan	(914,779)	914,779	--
Shares vested / forfeited during the year	215,205	(773,883)	558,678
Buy back of vested shares by Baco- transfer to unallocated shares (note “c” below)	3,630,506	--	(3,630,506)
<b>Closing number of shares</b>	<b>7,163,796</b>	<b>914,779</b>	<b>1,209,365</b>

  

<u>Description</u>	<b>2014</b>		
	<u>Unallocated to the employees</u>	<u>Allocated to the employees (unvested)</u>	<u>Allocated to the employees (vested)</u>
Opening number of shares	2,796,899	2,699,316	3,791,725
Shares forfeited during the year	710,452	(710,452)	--
Shares vested during the year	(563,020)	(1,214,981)	1,778,001
Buy back of vested shares by Baco- transfer to unallocated shares (note “c” below)	1,288,533	--	(1,288,533)
<b>Closing number of shares</b>	<b>4,232,864</b>	<b>773,883</b>	<b>4,281,193</b>

- b) During the year ended 31 December 2015, upon completion of vesting period under LTIP, rights of certain employees to receive 558,678 shares were vested. At 31 December 2015, NCBC has transferred the accumulated reserve in equity (in respect of vested shares) amounting to SR 8.94 million, from ‘share based payments’ to ‘retained earnings’ of the Company (i.e. on vesting, NCBC has transferred the accumulated balance from one component of equity to another).

Until 31 December 2015, NCBC has transferred the accumulated reserve in equity (in respect of vested shares) amounting to SR 125.65 million (2014: SR 116.71 million) from ‘share based payments’ to ‘retained earnings’ component of consolidated statement of changes in equity.

- c) During the year ended 31 December 2015, Baco has purchased 3,630,506 shares for a consideration of SR 103.83 million at an average exercise price of SR 28.60 per share, from some of the employees whose rights to receive shares have vested (2014: 1,288,533 shares for a consideration of SR 27.67 million at an average share price of SR 21.48 per share). At December 31, 2015 the balance of shares held under employees’ share scheme is SR 181.215 million (2014: SR 77.383 million).

**13. STATUTORY RESERVE**

In accordance with Regulation for Companies, a minimum of 10% of the annual net income (after zakat and deducting the brought forward losses) is required to be transferred to the statutory reserve until this reserve equals 50% of the paid up capital of the Company. The Company may resolve to discontinue such transfers when the reserves total 50% of the capital. The reserve is not available for distribution.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**14. OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2015</u>	<u>2014</u>
IT related expenses	17,171	24,489
Communication	15,252	13,652
Outsourced staff	10,274	7,609
Legal and other professional services	10,052	6,140
Consultancy	9,423	21,272
Marketing and promotional expenses	8,151	13,633
Statutory expenses	7,715	2,296
Business travel	7,204	6,986
Sales incentive (note 19 (a))	6,104	8,295
Training	4,120	3,767
Withholding taxes	2,416	20,393
Provision for operational errors	762	2,680
Repairs and maintenance	753	850
Others	5,744	4,840
	<u>105,141</u>	<u>136,902</u>

**15. BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing the net income after zakat for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share amounts are calculated by dividing the net income after zakat attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculation of diluted earnings per share is not applicable as the Company has issued no financial instruments which may have a dilutive effect.

Weighted average number of ordinary shares are as follows:

	<u>2015</u>	<u>2014</u>
Issued ordinary shares	100,000,000	100,000,000
Effect of shares held by Baco (note 11 and 12)	(7,163,796)	(4,232,864)
<b>Weighted average number of ordinary shares at December 31</b>	<u><b>92,836,204</b></u>	<u><b>95,767,136</b></u>

**16. CONTINGENCIES AND COMMITMENTS**

As at December 31, 2015, the Group has received certain operational error claims from its customers against which management has made full provision of SR 8.4 million (December 31, 2014: SR 8.4 million) which is management's best estimate to settle the obligation at the reporting date and is included under accounts payable and accruals.

As at December 31, 2015, the Group has a commitments totaling SR 3.26 million (December 31, 2014: SR 4.7 million) in respect of private equity call commitments and for IT software amounting to SR 5.8 million (December 31, 2014: SR 10.2 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

---

**17. FIDUCIARY ASSETS**

The Group holds assets on behalf of its customers. As the Group acts in a fiduciary capacity, these assets are not included in the consolidated balance sheet. Following is the detail of assets held in a fiduciary capacity:

	<u>2015</u>	<u>2014</u>
Assets under management		
- Asset management division	<b>77,879,913</b>	55,112,389
- Securities division	<b>828,377</b>	2,054,142
Cash balances held under brokerage accounts	<b>6,912,541</b>	3,983,325

**18. OPERATING LEASES**

The total future minimum lease payments under non-cancelable operating leases are due as follows:

	<u>2015</u>	<u>2014</u>
Within 12 months	<b>2,088</b>	2,289
1-5 years	<b>760</b>	1,993
	<u><b>2,848</b></u>	<u>4,282</u>

**19. RELATED PARTY TRANSACTIONS**

a) Transactions with The National Commercial Bank (the Bank – Parent Company)

<b>Transactions</b>	<u><b>2015</b></u>	<u><b>2014</b></u>
Management and performance fee charged to the Bank	<b>35,778</b>	46,103
Investment banking fee charged to the Bank	<b>5,060</b>	--
Incentive expense charged by the Bank	<b>6,104</b>	8,295
IT related expenses charged by the Bank	<b>16,163</b>	19,591
<b>Consolidated balance sheet</b>		
Balances with the Bank	<b>449,373</b>	129,314
Amount due from the Bank	<b>5,707</b>	6,886
Amount due to the Bank	<b>6,195</b>	13,497
<b>Assets held in a fiduciary capacity</b>		
Bank's assets under management	<u><b>3,899,743</b></u>	<u>3,702,930</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**19. RELATED PARTY TRANSACTIONS (continued)**

b) Transactions with key management personnel

Key management personnel of the Company comprise senior executive management and the Board of Directors. Details of the remuneration of the key management personnel charged to the Group's consolidated financial statements and balances with key management personnel outstanding at the year-end are as follows:

	<u>2015</u>	<u>2014</u>
Short term benefits (consolidated statement of income)	35,262	35,971
Termination benefits	18,750	--
End-of-service benefits (consolidated balance sheet)	5,732	3,344
Loans and advances – interest free (consolidated balance sheet)	1,933	1,460

c) Mutual funds managed by the Company

**Transactions**

Management fee earned on mutual funds managed by the Group	<u>267,293</u>	<u>304,421</u>
--	----------------	----------------

**Consolidated balance sheet**

Investment in mutual funds and direct equity investments managed by the Group (note 4 (i))	<u>737,083</u>	<u>976,710</u>
--	----------------	----------------

**20. SEGMENT INFORMATION**

An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity).
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

For management purposes, the Group is organised into the following operating segments:

Securities	The Securities Division consists of the International Securities and E-Business Unit which provides facilities and services in trading International Equities, Options, Bonds, Indices, Islamic Certificates and GCC and Arabic Equities to international clients. It also manages the accounts / portfolios of local clients by providing facilities and services in trading Local Equities.
Investment Banking	The Investment Banking Division is involved in the following activities: Merger and Acquisition Advisory Services, Initial Public Offering Advisory Services, Real Estate Advisory Services and Privatization and Private Placements.
Asset & Wealth Management	The Asset & Wealth Management Division is engaged in the management of clients' assets and in the development and sales of asset management products and services.
Eastgate Capital Holdings Inc.	Eastgate Capital Holdings Inc. is an overseas subsidiary and its principal activity is to source, structure and invest in attractive private equity and real estate development opportunities across emerging markets, with a particular focus on the MENA region.

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**20. SEGMENT INFORMATION (continued)**

	<i>2015</i>				
<u>Description</u>	<u>Securities</u>	<u>Investment Banking</u>	<u>Asset &amp; wealth Management</u>	<u>Eastgate Capital Holdings Inc.</u>	<u>Total</u>
Total operating income	274,446	29,685	343,971	31,460	<b>679,562</b>
Impairment on available-for-sale Investments	--	--	686	-	<b>686</b>
Total operating expenses	124,714	19,895	195,305	30,041	<b>369,955</b>
Net operating income	<b>149,732</b>	<b>9,790</b>	<b>147,980</b>	<b>1,419</b>	<b>308,921</b>
Non-operating income	8,587	--	5,784	670	<b>15,041</b>
Net income (before zakat and non-controlling interest)	<b>158,319</b>	<b>9,790</b>	<b>153,764</b>	<b>2,089</b>	<b>323,962</b>
<i>Reportable segment assets and liabilities</i>					
Total assets	796,114	39,945	877,090	17,424	<b>1,730,573</b>
Total liabilities	14,122	53,069	559,092	5,066	<b>631,349</b>

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**20. SEGMENT INFORMATION (continued)**

	2014				
<u>Description</u>	<u>Securities</u>	<u>Investment Banking</u>	<u>Asset &amp; wealth Management</u>	<u>Eastgate Capital Holdings Inc.</u>	<u>Total</u>
Total operating income	365,843	6,444	349,145	36,217	757,649
Impairment on available-for-sale Investments	--	--	25,046	--	25,046
Total operating expenses	140,463	20,364	233,742	34,441	429,010
Net operating income / (loss)	225,380	(13,920)	90,357	1,776	303,593
Non-operating income	2,114	--	2,261	--	4,375
Net income / (loss) (before zakat and non-controlling interest)	227,494	(13,920)	92,618	1,776	307,968
<i>Reportable segment assets and liabilities</i>					
Total assets	619,813	10,260	984,913	33,041	1,648,027
Total liabilities	15,452	39,002	239,034	22,190	315,678



**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**20. SEGMENT INFORMATION (continued)**

Geographical concentration of reportable segments' assets and liabilities (based on the location of assets and liabilities), are presented as below:

	2015						
	<u>Kingdom of Saudi Arabia</u>	<u>Kingdom of Bahrain</u>	<u>United Arab Emirates</u>	<u>Egypt</u>	<u>North America</u>	<u>Other regions</u>	<u>Total</u>
Balances with banks	449,612	1,113	18,997	--	47,001	31	516,754
Amount due from The National Commercial Bank	5,707	--	--	--	--	--	5,707
Investments	737,083	--	--	--	174,337	--	911,420
Prepayments and other assets	82,203	9,032	8,270	--	--	--	99,505
Investment in an associate	--	--	--	25,221	--	--	25,221
Property and equipment	171,966	--	--	--	--	--	171,966
<b>Total Assets</b>	<b>1,446,571</b>	<b>10,145</b>	<b>27,267</b>	<b>25,221</b>	<b>221,338</b>	<b>31</b>	<b>1,730,573</b>
Dividend payable	372,405	--	--	--	--	--	372,405
Deferred income	909	--	--	--	--	--	909
Amount due to The National Commercial Bank	6,195	--	--	--	--	--	6,195
Account payable and accruals	182,721	446	7,686	--	--	--	190,853
Employee benefits	60,987	--	--	--	--	--	60,987
<b>Total Liabilities</b>	<b>623,217</b>	<b>446</b>	<b>7,686</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>631,349</b>

**NCB CAPITAL COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

**20. SEGMENT INFORMATION (continued)**

Geographical concentration of reportable segments' assets and liabilities (based on the location of assets and liabilities), are presented as below:

	2014						
	Kingdom of Saudi Arabia	Kingdom of Bahrain	United Arab Emirates	Egypt	North America	Other regions	Total
Balances with banks	129,550	9,569	22,273	--	39,119	40	200,551
Amount due from The National Commercial Bank	6,886	--	--	--	--	--	6,886
Investments	999,905	--	11,905	--	193,616	--	1,205,426
Prepayments and other assets	46,302	3,690	6,074	--	--	--	56,066
Investment in an associate	--	--	--	28,260	--	--	28,260
Property and equipment	150,085	--	753	--	--	--	150,838
Total Assets	1,332,728	13,259	41,005	28,260	232,735	40	1,648,027
Dividend payable	2,729	--	--	--	--	--	2,729
Deferred income	3,284	--	--	--	--	--	3,284
Amount due to The National Commercial Bank	13,497	--	--	--	--	--	13,497
Account payable and accruals	214,446	2,882	10,817	--	--	--	228,145
Employee benefits	60,941	7,082	--	--	--	--	68,023
Total Liabilities	294,897	9,964	10,817	--	--	--	315,678

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**21. RISK MANAGEMENT**

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposure relating to his or her responsibilities. The Group is exposed to credit risk, market risk and liquidity risk. The independent risk control process does not include business risks such as changes in environment, technology and industry. They are monitored through the Group's strategic planning process.

**Credit risk**

It is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in positive fair value of derivatives.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

*a) Credit quality of financial assets*

The credit quality of the financial assets is managed using the external credit ratings of Moody's, S&P and Fitch, whichever is the lowest. The table below shows the credit quality by class of asset using Moody's credit ratings.

<b>2015</b>		
	<b>Balances with <u>banks</u></b>	<b>Amount due from <u>bank (NCB)</u></b>
<b>Performing</b>		<b>Total</b>
High grade (Aaa-Baa3)	516,754	5,707
	<u>516,754</u>	<u>5,707</u>
		<u><b>522,461</b></u>
<b>2014</b>		
	<b>Balances with <u>banks</u></b>	<b>Amount due from <u>bank (NCB)</u></b>
<b>Performing</b>		<b>Total</b>
High grade (Aaa-Baa3)	200,551	6,886
	<u>200,551</u>	<u>6,886</u>
		<u><b>207,437</b></u>

All the financial assets of the Group, including staff loans and receivables, are classified as performing, as they are neither past due nor impaired, except for receivables amounting to SR 1.9 million which were considered impaired (December 31, 2014: SR 1.9 million).

Receivables amounting to SR 4.6 million (December 31, 2014: SR 4.5 million) are past due but not considered to be impaired, which relate to the customers with no default history. The receivables past due comprises SR 4.6 million (December 31, 2014: SR 4.5 million) aged three months to one year and Nil (December 31, 2014: Nil) aged more than one year.

*b) An industry sector analysis of the Group's financial assets*

The tables below show an industry sector analysis of the Group's financial assets exposure. The Group does not hold any collateral for any of its financial assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

**21. RISK MANAGEMENT (continued)**

**Credit risk (continued)**

*b) An industry sector analysis of the Group's financial assets (continued)*

	<b>2015</b>			<b><u>Total</u></b>
	<b><u>Balances with banks</u></b>	<b><u>Amount due from bank (NCB)</u></b>	<b><u>Off balance sheet related commitments</u></b>	
Banks and other financial institutions	516,754	5,707	3,264	<b>525,725</b>
	<b>2014</b>			<b><u>Total</u></b>
	<b><u>Balances with banks</u></b>	<b><u>Amount due from bank (NCB)</u></b>	<b><u>Off balance sheet related commitments</u></b>	
Banks and other financial institutions	200,551	6,886	4,696	212,133

**Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

*a) Held for Trading investments*

The Group has a small number of investments at December 31, 2015 and December 31, 2014, and the market risks on these investments are monitored on an individual basis. A 10% (December 31, 2014: 10%) change in the fund's net asset values will increase or decrease the net income by SR 84.7 million (December 31, 2014: SR 113.5 million) (note 4).

*b) Available for sale investments (equity price risk)*

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and the value of individual stocks. The Group has unquoted investments in private equity funds carried at net asset value as reported by the fund's manager. In respect of such investments carried at fair value, a 10% change in net asset value will increase or decrease other reserves in the consolidated statement of changes in equity by SR 6.4 million (December 31, 2014: SR 7 million) (note 4).

*c) Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group's exposure to interest rate risk primarily arising from its placements with banks, which mature within 90 days.

A change of 25 basis points in interest rate in Saudi Riyals at the reporting date would have increased / (decreased) net income by the amounts shown below. This analysis assumes that all other variables remain constant.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**21. RISK MANAGEMENT (continued)**

**Market risk (continued)**

*d) Interest rate risk (continued)*

	<u>2015</u>		<u>2014</u>	
	<u>25 bps</u>	<u>25 bps</u>	<u>25 bps</u>	<u>25 bps</u>
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Balances with banks	1,292	(1,292)	501	(501)

*d) Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. It has set limits on positions by currency. Positions are monitored regularly to ensure positions are maintained within established limits. The Group had the following significant net exposures denominated in foreign currencies:

	<u>2015</u>	<u>2014</u>
	<u>Long / (short)</u>	<u>Long / (short)</u>
US Dollars (USD)	772,738	766,749
Egyptian Pounds (EGP)	25,221	28,260
Pound Sterling (GBP)	3,117	3,126
Euro (EUR)	1,563	2,175
Bahrain Dinar (BHD)	(266)	(6,965)

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at December 31, 2015 on its foreign currency positions. The analysis is performed for reasonably possible movement of the currency rate against the SR with all other variables held constant. A negative/positive amount in the table reflects a potential net reduction/increase in net income. As the Saudi Riyal is pegged against the US\$ and Bahrain Dinar (BHD), there is unlikely to be an impact on the consolidated statement of income in respect of the US\$ and BHD exposure.

	<u>2015</u>			
	<u>Decrease in</u>	<u>Effect on</u>	<u>Increase in</u>	<u>Effect on</u>
	<u>currency</u>	<u>net profit</u>	<u>currency</u>	<u>net profit</u>
	<u>rate in %</u>	<u>SR '000</u>	<u>rate in %</u>	<u>SR '000</u>
Pound Sterling (GBP)	15%	(468)	15%	468
Euro (EUR)	15%	(234)	15%	234

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**21. RISK MANAGEMENT (continued)**

**Market risk (continued)**

*d) Currency risk (continued)*

	<i>2014</i>			
	Decrease in currency rate in %	Effect on net profit SR '000	Increase in currency rate in %	Effect on net profit SR '000
Pound Sterling (GBP)	15%	(469)	15%	469
Euro (EUR)	15%	(326)	15%	326

A reasonably possible movement in the following currencies will also impact the equity of the Group. A negative / positive amount in the table below reflects a potential net reduction/increase in equity (under other reserves in consolidated statement of changes in equity).

	<i>2015</i>			
	Decrease in currency rate in %	Effect on equity SR '000	Increase in currency rate in %	Effect on equity SR '000
Egyptian Pounds (EGP)	15%	(3,783)	15%	3,783

  

	<i>2014</i>			
	Decrease in currency rate in %	Effect on equity SR '000	Increase in currency rate in %	Effect on equity SR '000
Egyptian Pounds (EGP)	15%	(4,239)	15%	4,239

**Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on regular basis.

**Analysis of financial liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Group's financial liabilities at December 31, 2015 and December 31, 2014 based on contractual undiscounted repayment obligations. As the Group does not have any interest bearing liabilities, totals in the table match with the figures appearing on the consolidated balance sheet. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. Repayments which are subject to notice are treated as if notice were to be given immediately.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

**21. RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

**Analysis of financial liabilities by remaining contractual maturities (continued)**

<u>Financial liabilities</u>	<u>2015</u>					<u>Total</u>
	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	
Amount due to The National Commercial Bank	--	6,195	--	--	--	<b>6,195</b>
Dividend payable	371,344	--	1,061	--	--	<b>372,405</b>
Accounts payable and accruals	--	87,325	5,107	3,042	--	<b>95,474</b>
<b>Total undiscounted financial liabilities</b>	<b>371,344</b>	<b>93,520</b>	<b>6,168</b>	<b>3,042</b>	<b>--</b>	<b>474,074</b>

  

<u>Financial liabilities</u>	<u>2014</u>					<u>Total</u>
	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	
Amount due to The National Commercial Bank	--	13,497	--	--	--	13,497
Dividend payable	--	--	2,729	--	--	2,729
Accounts payable and accruals	--	91,879	48,178	2,862	--	142,919
<b>Total undiscounted financial liabilities</b>	<b>--</b>	<b>105,376</b>	<b>50,907</b>	<b>2,862</b>	<b>--</b>	<b>159,145</b>

**22. ZAKAT**

**Charge for the year**

Zakat charge for the year ended December 31, 2015 amounted to SR 35 million (December 31, 2014: SR 27.8 million).

The principal elements of the zakat base of the Group are as follows:

	<u>2015</u>	<u>2014</u>
Non-current assets	<b>268,732</b>	260,701
Non-current liabilities	<b>108,101</b>	109,828
Opening shareholders' equity	<b>1,332,349</b>	1,007,753
Net income before zakat	<b>323,962</b>	307,968

**Zakat liability**

The movement in Zakat provision during the year ended December 31 is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	<b>33,674</b>	25,202
Charge for the year	<b>35,000</b>	27,817
Payments during the year	<b>(27,025)</b>	(19,345)
<b>Balance at end of the year</b>	<b>41,649</b>	<b>33,674</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals '000**

---

**22. ZAKAT (continued)**

The Company has filed all the Zakat declarations until the financial year ended 31 December 2014 and obtained restricted Zakat certificate valid until April 30, 2016. The Company has filed an objection with the DZIT regarding deduction of investments from the Zakat base for the year ended December 31, 2014 which is under review by the DZIT.

The Department of Zakat and Income Tax (DZIT) issued query letter for the years 2008 to 2011 which has been duly responded by the Company. Furthermore, the DZIT has recently conducted a field inspection to the company's books and records for the years 2008 to 2013 and it is currently working on assessment for these years. In the year 2012, the DZIT has challenged the deduction of investments amounting to SR 63.8 million from the Zakat base and requested the Company to settle an additional Zakat liability of SR 1.6 million. The Company has filed an appeal against the DZIT claim. The appeal will be reviewed and considered by DZIT while raising the final assessment for the years up to 2013.

**23. TRANSACTIONS WITH NCI**

*a) Eastgate Capital Holdings Inc*

During the year, the Company acquired remaining 30% ownership interest in Eastgate Capital Holdings Inc through purchase of 675,000 shares from shareholders of Eastgate Capital Holdings Inc. for total consideration of SR 26.54 million. This has resulted into an acquisition retaining control and accordingly the excess of consideration paid over the NCI acquired amounting to SR 22.95 million has been adjusted as a debit to retained earnings.

*b) NCBC Investment Management Umbrella Company Plc*

During the year, the NCI of the NCB Capital Saudi Arabian Equity Fund has completely redeemed its investments in the Fund. Accordingly, the Company has 100% holding in this fund.

**24. CAPITAL MANAGEMENT**

The Group's objectives when managing capital are to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

During the year ended December 31, 2013, new Prudential Rules (the "rules") were introduced by the CMA pursuant to its Resolution Number 1-40-2012 dated 17/2/1434H corresponding to 30/12/2012G. The rules state that an authorised person shall continually possess a capital base which corresponds to not less than the total of the capital requirements as prescribed under Part 3 of Prudential Rules.

	<u>2015</u>	<u>2014</u>
<b>Capital base:</b>		
Tier I capital	<b>999,097</b>	1,222,105
Tier II capital	<u><b>11,953</b></u>	<u>8,765</u>
Total	<u><u><b>1,011,050</b></u></u>	<u><u>1,230,870</u></u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2015**  
**Expressed in Saudi Riyals ‘000**

---

**24. CAPITAL MANAGEMENT (continued)**

	<u>2015</u>	<u>2014</u>
<b>Minimum capital requirement:</b>		
Credit Risks	<b>160,437</b>	152,367
Market Risks	<b>162,919</b>	241,268
Operational Risks	<b>97,037</b>	116,460
Total	<b>420,393</b>	510,095
Total capital ratio	<b>2.41</b>	2.41
<b>Surplus in Capital</b>	<b>590,657</b>	720,775

**25. FAIR VALUE**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As these consolidated financial statements are prepared under historical cost convention, except for the measurement at fair value of investments held for trading and investments held as available-for-sale method, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.