



Audit – Consultants – Zakat & Tax

Al-Bassam & Al-Nemer

Allied Accountants

(Member firm of PKF International)

RIYAD CAPITAL
(A Limited Liability Company)
Financial Statements
For the year ended 31 December 2016
together with the
INDEPENDENT AUDITOR'S REPORT



Audit – Consultants – Zakat & Tax

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INDEPENDENT AUDITOR'S REPORT

TO THE PARTNER
RIYAD CAPITAL
(A LIMITED LIABILITY COMPANY)
Riyadh, Saudi Arabia

SCOPE OF AUDIT

We have audited the accompanying balance sheet of Riyadh Capital ('the Company') as of 31 December 2016 and the related statement of income, cash flows and changes in partner's equity for the year then ended and the related notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 175 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.


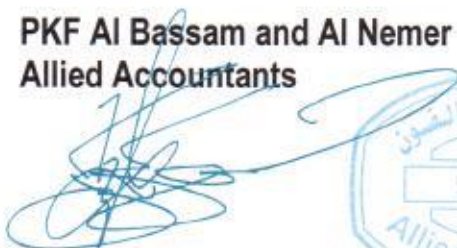
We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining,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

UNQUALIFIED OPINION

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

1. Present fairly, in all material respects, the financial position of the Company as of 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia; and
2. Comply with the requirements of the Regulations for Companies and the Company's articles of association with respect to the preparation and presentation of the financial statements.

PKF Al Bassam and Al Nemer
Allied Accountants



Ibrahim A. Al Bassam
Certified Public Accountant
License No.337

23 February 2017
26 Jumada Al awal 1438

RIYAD CAPITAL
(A Limited Liability Company)
BALANCE SHEET
As at 31 December 2016
(Saudi Arabian Riyals)

	<i>Note</i>	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			
<i>Current assets</i>			
Balances with bank	15.6	325,840,824	582,079,185
Accrued income	4	76,378,693	92,841,019
Prepayments and other current assets	5	6,187,235	5,180,897
Total current assets		<u>408,406,752</u>	<u>680,101,101</u>
<i>Non-current assets</i>			
Available-for-sale investments	6	403,478,136	195,804,368
Capital work-in-progress	7	14,819,874	9,792,582
Fixed Assets		354,488	-
Total non-current assets		<u>418,652,498</u>	<u>205,596,950</u>
Total assets		<u>827,059,250</u>	<u>885,698,051</u>
 <u>LIABILITIES AND PARTNER'S EQUITY</u>			
<i>Current liabilities</i>			
Accrued expenses and other current liabilities	8	24,909,340	28,621,041
Accrued Zakat	9	5,690,330	3,804,340
Total current liabilities		<u>30,599,670</u>	<u>32,425,381</u>
<i>Non-current liabilities</i>			
Employees' end-of-service benefits		30,861,348	28,672,548
Total non-current liabilities		<u>30,861,348</u>	<u>28,672,548</u>
Total liabilities		<u>61,461,018</u>	<u>61,097,929</u>
<u>PARTNER'S EQUITY</u>			
Capital	10	200,000,000	200,000,000
Statutory reserve	11	100,000,000	100,000,000
Retained earnings		453,206,618	519,653,109
Unrealised gain on available-for-sale investments		12,391,614	4,947,013
Total partner's equity		<u>765,598,232</u>	<u>824,600,122</u>
Total liabilities and partner's equity		<u>827,059,250</u>	<u>885,698,051</u>

The accompanying notes (1) to (18) form an integral part of these financial statements.

RIYAD CAPITAL
(A Limited Liability Company)
STATEMENT OF INCOME
For the year ended 31 December 2016
(Saudi Arabian Riyals)

	<i>Note</i>	<u>2016</u>	<u>2015</u>
<u>REVENUES</u>			
Asset management fee, net		130,089,079	197,403,073
Commission on brokerage services, net		71,347,811	94,277,854
Corporate investment banking fees		16,196,787	23,357,182
Special commission income on deposits	<i>15.1</i>	8,293,389	3,009,748
Realised gain / (loss) on investments, net		139,377	(826,912)
Dividends income		2,065,261	1,303,576
Other income		-	423,756
Total revenues		228,131,704	318,948,277
<u>EXPENSES</u>			
Employees' salaries and related benefits		105,482,681	112,458,009
Other general and administrative expenses	<i>13</i>	47,209,524	54,316,645
Total expenses		152,692,205	166,774,654
Income before Zakat		75,439,499	152,173,623
Zakat	<i>9</i>	(1,885,990)	(3,804,340)
Net income for the year		73,553,509	148,369,283

The accompanying notes (1) to (18) form an integral part of these financial statements.

RIYAD CAPITAL
(A Limited Liability Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	73,553,509	148,369,283
<i>Adjustments to reconcile net income to net cash from operating activities</i>		
Realised (gain) / loss on investment, net	(139,377)	826,912
Depreciation	72,322	-
Dividend income	(2,065,261)	(1,303,576)
Employees' end-of-service benefits	4,233,873	6,551,780
Zakat charge for the year	1,885,990	3,804,340
	<u>77,541,056</u>	<u>158,248,739</u>
<i>Changes in operating assets and liabilities</i>		
Prepayments and other current assets	(1,006,338)	2,821,045
Accrued income	16,462,327	(6,165,909)
Accrued expenses and other current liabilities	(3,711,701)	6,275,428
	<u>89,285,344</u>	<u>161,179,303</u>
Zakat paid	-	(36,151,969)
Employees' end-of-service benefits paid	(2,045,074)	(1,623,110)
Net cash from operating activities	<u>87,240,270</u>	<u>123,404,224</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of held-for-trading investments	-	(1,232,718)
Proceeds from sale of held-for-trading investments	-	1,679,757
Purchase of available-for-sale investments	(204,666,667)	(56,376,049)
Proceeds from sale of available-for-sale investments	4,576,877	6,376,049
Dividends income	2,065,261	1,303,576
Purchase of fixed assets	(426,810)	-
Capital work-in-progress	(5,027,292)	(9,792,582)
Net cash used in investing activities	<u>(203,478,631)</u>	<u>(58,041,967)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	(140,000,000)	(215,998,214)
Net cash used in financing activities	<u>(140,000,000)</u>	<u>(215,998,214)</u>
Net decrease in balances with bank	(256,238,361)	(150,635,957)
Balances with bank at the beginning of the year	<u>582,079,185</u>	<u>732,715,142</u>
Balances with bank at the end of the year	<u>325,840,824</u>	<u>582,079,185</u>
Supplemental non-cash information		
Net changes in fair value of available-for-sale and transfer to income statement	<u>7,444,601</u>	<u>(7,955,162)</u>

The accompanying notes (1) to (18) form an integral part of these financial statements.

RIYAD CAPITAL
(A Limited Liability Company)
STATEMENT OF CHANGES IN PARTNER'S EQUITY
For the year ended 31 December 2016
(Saudi Arabian Riyals)

	<u>Capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Unrealised gain on available- for-sale investments</u>	<u>Total</u>
Balance at 1 January 2016	200,000,000	100,000,000	519,653,109	4,947,013	824,600,122
Net changes in fair value of available- for-sale investment	-	-	-	7,986,457	7,986,457
Unrealised loss on available-for-sale investments released to income statement due to sale	-	-	-	(541,856)	(541,856)
Net income for the year	-	-	73,553,509	-	73,553,509
Dividends distribution (Note 12)	-	-	(140,000,000)	-	(140,000,000)
Balance at 31 December 2016	<u>200,000,000</u>	<u>100,000,000</u>	<u>453,206,618</u>	<u>12,391,614</u>	<u>765,598,232</u>
Balance at 1 January 2015	200,000,000	100,000,000	587,282,040	12,902,175	900,184,215
Net changes in fair value of available- for-sale investments	-	-	-	(9,229,113)	(9,229,113)
Unrealised gain on available-for-sale investments released to income statement due to sale	-	-	-	1,273,951	1,273,951
Net income for the year	-	-	148,369,283	-	148,369,283
Dividends distribution (Note 12)	-	-	(215,998,214)	-	(215,998,214)
Balance at 31 December 2015	<u>200,000,000</u>	<u>100,000,000</u>	<u>519,653,109</u>	<u>4,947,013</u>	<u>824,600,122</u>

The accompanying notes (1) to (18) form an integral part of these financial statements.

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Riyad Capital ("the Company") is a limited liability company established and registered in Riyadh, the Kingdom of Saudi Arabia under commercial registration No. 1010239234, dated 12 Shawwal 1428H (corresponding to 24 October 2007).

The principal activities of the Company are dealing as a principal and agent, underwriting, management of investment funds and clients' portfolios, arranging, providing advisory and custody services as per license of the Capital Market Authority ("CMA") number 07070-37, dated 4 Jumad Thani 1428H (corresponding to 19 June 2007).

The Company's registered office is located at the following address:

Riyad Capital
6775 Takhassusi St., Olaya
Riyadh 12331-3712
P.O. Box 21116
Riyadh 11475

Subsequently, On 25 Rabi Al Thani 1438 corresponding to 23 January 2017, the Company received the related approval letter from the Ministry of Commerce and Investments regarding the transformation of the Company's legal entity from limited liability to One Person Closed Joint Stock Company.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The accompanying financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA") and to comply with the requirements of the Companies Law and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

The financial statements were authorized for issue by the Board of Managers on 26 Jumada Al Awal 1438H corresponding to 23 February 2017.

b) *Basis of measurement*

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

c) *Functional and presentation currency*

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

d) *Use of estimate and judgments*

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

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

2. BASIS OF PREPARATION (CONTINUED)

d) *Use of estimate and judgments (Continued)*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) *Cash and cash equivalents*

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

b) *Held-for-trading investments*

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

c) *Available-for-sale investments*

Available-for-sale investments are those investments that are intended to be held for an unspecified period of time, which may be sold in response to needs or liquidity or changes in special commission rates, exchange rates or equity prices.

All investments classified as "available-for-sale" are initially recognized and subsequently measured at fair value. Unrealized gain or loss arising from a change in their fair value is recognized in "Unrealized gain/ (loss) on investments" within equity. On de-recognition, any cumulative gain or loss previously recognized in equity is included in the statement of income. Permanent diminution in value of the above mentioned investments, if any, is charged to the statement of income.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net assets values.

Foreign exchange gain or loss on available-for-sale debt security investments are recognized in statement of income.

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) *Impairment of financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. Impairment is determined as follows:

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

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

e) *Capital work-in-progress*

Capital work-in-progress is stated at cost and not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

f) *Fixed assets*

Fixed assets are stated at cost net of accumulated depreciation and any impairment in value. The cost of fixed assets is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

Office Equipment	5 years
Software	3 years

g) *Provisions*

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

h) *Zakat*

The Zakat charge is computed based on the net income of the Company for the year before zakat charge. However, the Company does not file a separate Zakat to the General Authority if Zakat and Tax ("GAZT") as Riyad Bank ("the Parent Company") submits a consolidated / single Zakat return for the entire Group based on its consolidated Zakat base and settles Zakat liability accordingly. The Company's Zakat liability is accordingly payable to the Parent Company and is limited to the amount of Zakat charged in these financial statements.

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) *Employees' end-of-service benefits*

Employees' end of service benefits, calculated in accordance with Saudi Arabian labor regulations, are accrued and charged to statement of income.

j) *Assets under management*

The Company offers asset management services to its customers, which include management of certain mutual funds. Such assets are held in fiduciary capacity and are not treated as assets of the Company. Accordingly these are not included in the financial statements and are treated as off-balance sheet items.

k) *Revenue recognition*

Asset management and advisory fee income

Fees and commissions are recognized when the service has been provided. 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 asset management, financial planning and custody services are recognized over the period when the service is provided.

Brokerage commission income

Income from brokerage services is recognized when the deal is executed.

Underwriting fee income

Underwriting fee income is recognized when the shares are allotted to the investors.

Special commission income on deposits

Special commission income on deposits for all commission-bearing financial instruments, are recognized in the statement of income on the effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective yield, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Dividend income

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

l) *Expenses*

All expenses not directly attributable to the earning of revenue are classified as general and administrative expenses.

m) *Foreign currency translation*

Transactions denominated in foreign currencies are translated to the functional currency of the Company at exchange rates ruling on the date of a transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to the functional currency of the Company at the foreign exchange rate ruling at that date. Exchange differences arising on such translations are recognized in the statement of income currently.

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

4. ACCRUED INCOME

Accrued income includes corporate investment banking fees and asset management fees earned but not collected by the Company.

5. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2016</u>	<u>2015</u>
Prepaid rent	1,664,802	1,664,802
Refundable deposits	2,250,480	1,501,200
Prepaid software maintenance and subscription	862,653	943,917
Prepaid housing allowance	895,838	614,766
Prepaid insurance expense	255,813	244,857
Others	257,649	211,355
	<u>6,187,235</u>	<u>5,180,897</u>

6. AVAILABLE-FOR-SALE INVESTMENTS

	<u>Cost</u>		<u>Fair value</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Investment funds (Note 15b)	378,555,216	185,726,049	380,313,148	183,085,099
Shares in Riyad REIT fund	7,400,000	-	8,214,000	-
Listed equity shares	5,131,306	5,131,306	14,950,988	12,719,269
	<u>391,086,522</u>	<u>190,857,355</u>	<u>403,478,136</u>	<u>195,804,368</u>

The movements during the year in available for sale investments were as follows:

	<u>2016</u>	<u>2015</u>
Opening balance	195,804,368	155,033,481
Purchased during the year	204,666,667	56,376,049
Disposed off during the year	(4,437,500)	(7,650,000)
	<u>396,033,535</u>	<u>203,759,530</u>
Net unrealized gain/ (loss) for the year	7,444,601	(7,955,162)
At the end of the year	<u>403,478,136</u>	<u>195,804,368</u>

7. CAPITAL WORK-IN-PROGRESS

The amount represents the implementation cost for new systems that are under progress as at 31 December 2016 and it is expected to be completed in 2017.

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2016</u>	<u>2015</u>
Accrued employees' related expenses	15,000,000	13,000,000
Accrued expenses	7,723,633	9,643,118
Withholding tax payable	932,854	914,105
Others	1,252,853	5,063,818
	24,909,340	28,621,041

9. ACCRUED ZAKAT

The Company does not submit a separate Zakat return as the Parent Company submits a consolidated / single Zakat return for the entire Group based on its consolidated Zakat base and settles Zakat liability accordingly. The Company is not required to make any payment to Zakat authorities accordingly. Zakat amount charged to these financial statements is payable to the Parent Company, who ultimately settles the Zakat liability on behalf of the Company (Note 15.7).

The Company's share of Zakat for the year amounted to SR 1,885,990 (2015: SR 3,804,340), which has been estimated based on the Company's income for the year before Zakat and is charged to statement of income (Note 15.7).

10. CAPITAL

As at 31 December 2016, the Company's paid-up capital of SR 200 million (31 December 2015: SR 200 million) was divided into 20 million parts (31 December 2015: 20 million parts) of SR 10 each.

11. STATUTORY RESERVE

In accordance with the Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer at least 10% of its net income each year to statutory reserve until such reserve equals to 50% of its share capital. This reserve is not available for distribution to the shareholders. As at 31 December 2014, the statutory reserve balance reached to 50% of the Company's share capital. The Board of Managers have resolved to discontinue additional transfer to statutory reserve once the threshold of 50% is reached.

12. DIVIDENDS DISTRIBUTION

The Board of Managers in their meeting held on 1 Jumada Al Thani 1437H (corresponding to 10 March 2016) approved the cash dividends of SR 140 million equivalent to SR 7 per part, for the year ended 31 December 2015. During the current financial year, the Company have distributed SR 140 million to its partner. (2015: SR 215,998,214).

13. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

		<u>2016</u>	<u>2015</u>
Service charges	15.4	20,675,859	26,623,044
Rent and related expenses		5,985,802	6,739,334
Legal and professional fees		3,533,677	4,417,932
Repair and maintenance		7,019,941	7,101,682
Communication		6,227,344	5,564,427
Others		3,766,901	3,870,226
		47,209,524	54,316,645

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

14. ASSETS UNDER MANAGEMENT

These represent:

- a) Investment assets managed by the Company amounted to SR 16.6 billion as at 31 December 2016 (31 December 2015: SR 26.1 billion); and
- b) Clients' cash accounts with Riyad Bank amounted to SR 4,033 million as at 31 December 2016 (31 December 2015: SR 2,863 million).

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

15. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Company comprise of Riyad Bank and its subsidiaries and affiliated companies and the investment funds managed by the Company. The transactions are carried out on mutually agreed terms approved by the management of the Company. Transactions are mainly with the Parent Company.

- a) *Transactions with the Parent Company include the following:*

Transactions		<u>2016</u>	<u>2015</u>
Special commission income on deposits	15.1	<u>8,293,389</u>	<u>3,009,748</u>
Assets management Fees	15.2	<u>2,102,284</u>	<u>2,808,045</u>
Corporate investment banking fees	15.3	<u>2,764,487</u>	<u>3,945,682</u>
Service charges	15.4	<u>20,675,859</u>	<u>26,623,044</u>
Rent expenses		<u>1,339,536</u>	<u>1,461,312</u>
Employees' end-of-service benefits		<u>818,702</u>	<u>1,167,185</u>
Dividends paid	15.8	<u>140,000,000</u>	<u>215,998,214</u>

- 15.1 This represents special commission income earned on time deposits placed with the Parent Company.
- 15.2 This represents fees earned from managing the portfolio of the parent Company.
- 15.3 This represents fees earned from advisory work performed by the Company on receivable factoring arrangements entered into by the Parent Company with the end-customer.
- 15.4 Service charges include cost of IT support, banking services, marketing, human resources and other back-office expenses, which are performed by the Parent Company under a Service Level Agreement.
- 15.5 All the above transactions are settled through the bank account maintained with the Parent Company on periodic basis and no balances are outstanding in respect of the above transactions.
- 15.6 The Company maintains its bank accounts with the Parent Company and held bank balances of SR 325,840,824 as at 31 December 2016 (31 December 2015: SR 582,079,185).
- 15.7 As explained in Note 9, the Company's Zakat liability is paid to Zakat authorities by the Parent Company and thus the accrued Zakat is due to the Parent Company.
- 15.8 This represents the dividend paid to Riyad Bank from the excess retained earnings, brought forward from previous periods as part of a Board of managers' decision.

RIYAD CAPITAL
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Arabian Riyals)

15. RELATED PARTY TRANSACTIONS AND BALANCES - Continued

15.9 The Parent company, as a settlement agent for Riyadh Capital, has issued a letter of guarantee to the Saudi Stock Exchange (Tadawul) relating to the settlement of transactions processed through Riyadh Capital at the request of the exchange. This letter of guarantee has no monetary ceiling and no definite period and cannot be cancelled without the prior consent of Tadawul.

b) Transactions and balances with mutual funds managed by the Company:

	<u>2016</u>	<u>2015</u>
Transactions		
Assets management fee	<u>102,930,369</u>	<u>143,475,576</u>
Dividend income	<u>2,065,261</u>	<u>1,303,576</u>
Realised loss from sale of available for sale investments – Mutual fund	<u>541,856</u>	<u>-</u>
Balances		
Investments in funds	<u>6 380,313,148</u>	<u>183,085,099</u>
Shares in Riyadh REIT fund	<u>8,214,000</u>	<u>-</u>
Accrued income – Asset management fee	<u>69,088,159</u>	<u>74,768,066</u>

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit Risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. Balances with bank is the only class of financial assets held by the Company which is exposed to credit risk. Balances with bank are placed with the Parent Company, which has sound credit rating and hence the credit risk is limited.

Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair value or the future cash flows of the financial instruments. The Company does not have a significant special commission rate risk except for that relating to time deposits that are placed with the Parent Company from time to time. These deposits carry floating special commission rate and have short term maturity. All deposits are subject to re-pricing on a regular basis. Management regularly monitors the changes in special commission rate and as the deposits are short term, management believes that the special commission rate risk to the Company on these deposits is also not significant.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with the financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Financial assets of the Company as at year-end mainly included balances with bank and available-for-sale investments which can be utilized to meet changing liquidity requirements. Management monitors forecasted cash flow on a regular basis and ensures that positive cash flows from operating activities are maintained to fund the Company's future commitments.

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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - Continued

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in SR and exposures in foreign currencies are not significant therefore there is no significant currency risk.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As the accompanying financial statements are prepared under the historical cost method, except for the measurement of the available-for-sale investments at fair value, differences may arise between the book value 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.

17. REGULATORY CAPITAL REQUIREMENT AND CAPITAL ADEQUACY RATIO

The Capital Market Authority (the "CMA") has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	SR'000	
	As at 31 December	
	2016	2015
Capital Base:		
Tier 1 capital	753,207	819,653
Tier 2 capital	12,392	4,947
Total Capital Base	765,599	824,600
Minimum Capital Required:		
Credit risk	160,926	100,505
Operational risk	46,113	51,124
Market risk	217	546
Total Minimum Capital Required	207,256	152,175
Capital Adequacy Ratio:		
Surplus in Capital	558,343	672,425
Capital Adequacy Ratio (times)	3.69	5.42

Capital Base of the Company comprises of:

Tier-1 capital consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves for available for sale investments.

Tier-2 capital consists of revaluation reserves.

The minimum capital requirements for market, credit and operational risks are calculated as per the requirements specified in the Prudential Rules.

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

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18. COMPARATIVE FIGURES

Certain figures for the prior year have been reclassified to conform to the presentation made in the current year; however there is no impact of such reclassifications to the overall presentation of the financial statements.