

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT

**DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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INDEPENDENT AUDITORS' REPORT

March 28, 2017

To the Shareholders of Derayah Financial Company:
(A Closed Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Derayah Financial Company (the "Company") as of December 31, 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (27) which form an integral part of the financial statements. These financial statements, which were prepared by the Company to comply with the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. 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 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 misstatement. 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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-Laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

A handwritten signature in blue ink, consisting of a large, stylized 'B' followed by several horizontal strokes.

By: _____
Bader I. Benmohareb
License Number 471

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
Balance sheet
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31,	
		2016	2015
Assets			
Current assets			
Cash and cash equivalents	4	9,200,340	130,844,237
Investments held for trading	5	20,596,398	29,314,592
Margin clients receivables – net	6	54,726,483	-
Accrued brokerage fees	7	13,217	2,880,699
Due from related parties	23	3,289,292	1,297,888
Other assets	8	2,962,508	3,376,245
Total current assets		90,788,238	167,713,661
Non-current assets			
Investment held to maturity		6,000,000	-
Available for sale investments	9	65,585,607	35,675,878
Client receivable		20,342,192	18,874,692
Property and equipment, net	10	19,301,648	17,198,838
Intangible assets, net	11	7,309,710	7,206,159
Total non-current assets		118,539,157	78,955,567
Total assets		209,327,395	246,669,228
Liabilities and shareholders' equity			
Current liabilities			
Bank overdraft		-	19,005,910
Accrued expenses		5,699,488	7,782,035
Employees related liabilities		4,628,045	13,851,556
Provision for zakat	12	3,112,948	4,282,943
Total current liabilities		13,440,481	44,922,444
Non-current liabilities			
Employees' end of service benefits	13	4,435,189	5,302,141
Total liabilities		17,875,670	50,224,585
Shareholders' equity			
Share capital	14	152,000,000	152,000,000
Statutory reserve	15	4,060,663	3,281,873
Retained earnings		21,345,975	29,536,862
Reserve for contributions towards ESOP	16	10,769,282	11,208,000
Fair value reserve	9	3,275,805	417,908
Total shareholders' equity		191,451,725	196,444,643
Total liabilities and shareholders' equity		209,327,395	246,669,228
Contingent liabilities	26		

The notes on pages 6 to 18 form an integral part of these financial statements.

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
Statement of income
(All amounts in Saudi Riyals unless otherwise stated)

		For the year ended December 31,	
	Note	2016	2015
Operating Income			
Brokerage fees - net	17	41,342,043	79,335,367
Asset management fees - net		15,025,132	25,463,108
Murabaha commission income		15,966,506	12,018,067
Unrealized loss from investments held for trading	5	(1,248,667)	(1,590,120)
(Loss) Gain from sale of investments held for trading		(1,293,784)	3,833,852
Gain from sale of available for sale investments		1,055,090	38,088
Total operating income		70,846,320	119,098,362
Expenses			
Salaries and related benefits		(32,831,999)	(38,433,193)
Provision for contributions towards ESOP	16	-	(4,596,000)
General and administrative expenses	19	(19,569,158)	(19,129,092)
Marketing expenses		(571,971)	(1,558,478)
Allowance for doubtful accounts	6	(7,520,524)	-
Total expenses		(60,493,652)	(63,716,763)
Operating income		10,352,668	55,381,599
Other income	18	852,062	1,998,186
Income before zakat		11,204,730	57,379,785
Zakat	12	(3,416,827)	(4,749,152)
Net income		7,787,903	52,630,633
Earnings per share:	20		
Operating income		0.68	3.64
Net income		0.51	3.46

The notes on pages 6 to 18 form an integral part of these financial statements.

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

		For the year ended December 31,	
	Note	2016	2015
Cash flows from operating activities			
Income before zakat		11,204,730	57,379,785
<i>Adjustments for:</i>			
Depreciation and amortization			
Allowance for doubtful accounts	10 -11	4,439,414	3,281,215
Employees end of service benefits provision	6	7,520,524	-
Unrealized loss on investments held for trading	13	1,099,318	1,808,581
Loss (Gain) from sale of investments held for trading	5	1,248,667	1,590,120
Gain from sale of available for sale investments		1,293,784	(3,833,852)
Margin clients receivables		(1,055,090)	(38,088)
Receivables from clients	6	(62,247,007)	-
Contribution towards ESOP		(1,467,500)	(1,467,500)
Gain from sale of property and equipment	16	(438,718)	4,596,000
<i>(Increase) / decrease in operating assets</i>		(12,150)	-
Investments held for trading, net			
Accrued brokerage fees		6,175,743	(13,304,092)
Due from related parties		2,867,482	(2,833,460)
Other assets		(1,991,404)	1,010,512
<i>Increase / (decrease) in operating liabilities</i>		413,737	262,702
Accrued expenses and other current liabilities			
Overdraft		(11,306,058)	(595,504)
Zakat paid		(19,005,910)	19,005,910
End of service benefits paid	12	(4,586,822)	(3,150,319)
	13	(1,966,270)	-
Net cash (used in) provided by operating activities		(67,813,530)	63,712,010
Cash flows from investing activities			
Purchase of Investments held to maturity		(6,000,000)	-
Purchase of available for sale investments	9	(89,304,392)	(387,252)
Sale proceeds from available for sale investments		63,307,650	388,827
Purchase of property and equipment	10	(3,801,961)	(14,810,579)
Purchase of intangible assets	11	(2,843,814)	(4,520,388)
Sale proceeds from property and equipment		12,150	-
Net cash used in investing activities		(38,630,367)	(19,329,392)
Cash flows from financing activity			
Payment of cash dividends		(15,200,000)	-
Net cash used in financing activity		(15,200,000)	-
Net change in cash and cash equivalents		(121,643,897)	44,382,618
Cash and cash equivalents at the beginning of the year		130,844,237	86,461,619
Cash and cash equivalents at the end of the year		9,200,340	130,844,237
Supplemental non-cash information			
Changes in fair value reserve for available for sale investments	9	2,857,897	361,509

The notes on pages 6 to 18 form an integral part of these financial statements.

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
Statement of changes in shareholders' equity
For the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

	Retained earnings / (accumulated loss)					Reserve for contributions towards ESOP		Fair value reserve		Total
	Share capital	Statutory reserve	GCC shareholders	Non-GCC shareholders	Total	ESOP				
Balance as at December 31, 2014	152,000,000	-	(17,345,460)	(2,466,438)	(19,811,898)	6,612,000	56,399	138,856,501		
Reserve for contributions towards ESOP (Note 16)	-	-	-	-	-	4,596,000	-	4,596,000		
Net income for the year	-	-	52,630,633	-	52,630,633	-	-	52,630,633		
Transfer from retained earnings as a result of a change in shareholders (Note 12)	-	-	(2,466,438)	2,466,438	-	-	-	-		
Transfer to statutory reserve (Note 15)	-	3,281,873	(3,281,873)	-	(3,281,873)	-	-	-		
Fair value reserve (Note 9)	-	-	-	-	-	-	361,509	361,509		
Balance as at December 31, 2015	152,000,000	3,281,873	29,536,862	-	29,536,862	11,208,000	417,908	196,444,643		
Reserve for contributions towards ESOP (Note 16)	-	-	-	-	-	(438,718)	-	(438,718)		
Net income for the year	-	-	7,787,903	-	7,787,903	-	-	7,787,903		
Dividends distribution	-	-	(15,200,000)	-	(15,200,000)	-	-	(15,200,000)		
Transfer to statutory reserve (Note 15)	-	778,790	(778,790)	-	(778,790)	-	-	-		
Fair value reserve (Note 9)	-	-	-	-	-	-	2,857,897	2,857,897		
Balance as at December 31, 2016	152,000,000	4,060,663	21,345,975	-	21,345,975	10,769,282	3,275,805	191,451,725		

The notes on pages 6 to 18 form an integral part of these financial statements.

DERAYAH FINANCIAL COMPANY**(A Closed Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

1 General

Derayah Financial Company (the "Company") is a Closed Joint Stock Company registered in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010266977 dated 10 Jumada II 1436H (corresponding to March 30, 2015). On December 31, 2014 the CMA approved a request from Derayah Finance Company to become a Saudi company after the foreign partners sold their shares in the Company. As a result, the commercial registration changed from a mixed company to 100% Saudi company on March 2015.

The principal activities of the Company are to provide brokerage, advisory, custodian services, dealing as principal and dealing as agent. The Company has commenced its business on 8 Rajab 1430H (corresponding to July 1, 2009) under license number 08109-27 from the Capital Market Authority ("CMA"), dated 19 Jumada' II 1429H (corresponding to June 23, 2008). The Company's registered office is located at the following address:

Olaya main street, Olaya Centre
P.O. Box 286546, Riyadh 11323
Kingdom of Saudi Arabia

The Company has a branch in Dammam operates under Commercial Registration No. 2050101980 dated 23 Shawwal1435H (corresponding to August 19, 2014) and there is other branch in Jeddah operates under Commercial Registration No. 4030286122 dated 13 Safar1437H (corresponding to November 25, 2015).

2 Basis of preparation**Statement of compliance**

The accompanying financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis of measurement

The financial statements have been prepared on a historical cost basis except for investments held for trading and available for sale which are measured at fair value, and using the accrual basis of accounting.

Functional and presentation currency

These financial statements are presented in Saudi Riyals which is the functional currency.

Use of estimates and judgments

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

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

Critical accounting estimates and judgments made in applying the Company's accounting policies include:

Share-based payment

The Company 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 determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant and also to estimate the most appropriate inputs to the valuation model requires significant judgment.

DERAYAH FINANCIAL COMPANY

(A Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2016

(All amounts in Saudi Riyals unless otherwise stated)

3 Significant accounting policies

The accounting policies set out below have been consistently applied to all the years presented in the financial statements. Certain comparative amounts have been reclassified to conform to the current year's presentation.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, 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.

Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of individual item of property and equipment.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognized in the statement of income when incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

- | | |
|------------------------------------|------------------------------------|
| • Leasehold improvements | the lower of 5 years or lease term |
| • Computer and office equipment | 4 years |
| • Furniture, fixtures and fittings | 5 years |

Intangible assets

Intangible assets comprise mainly of internally developed software.

Expenditures on internally developed software is recognized as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment, if any.

Amortization is recognized in statement of income on a straight-line basis over the estimated useful life of the software from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is four years.

Amortization method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Subsequent expenditures on software assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed in the income statement as incurred.

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. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

Operating leases

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

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

Assets held in trust or in a fiduciary capacity

Assets held in trust or in fiduciary capacity are not treated as assets of the Company and accordingly are not included in the financial statements and are treated as off balance sheet items.

Investments

Held for trading

Investments are classified as "Held for trading" if they are purchased for the purpose of resale in the short term. Investments held for trading are initially recorded at cost made by the Company for the purpose of acquiring the securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognized in the statement of income. Realized gains or losses at disposal and unrealized gains or losses are determined on average cost basis.

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 of liquidity or changes in special commission rates, exchange rates or equity prices. All investments classified as 'available-for-sale' are initially recognized at cost and subsequently measured at fair value. Unrealized gain or loss arising from a change in fair value is recognized in "Unrealized gain/(losses) on investments" under 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 statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to the net book value of the unit as declared by the respective fund manager at each valuation date. Impairment in value of the above mentioned investments, if any, is charged to the statement of income.

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

Investments held to maturity

Investments are classified as "held to maturity" if the intention is to hold these to maturity date and there is capability to achieve this. Investments held to maturity are initially recorded at cost. The cost includes the purchase price plus all expenditure made by the Company for the purpose of acquiring the investment. These are subsequently measured at amortised cost less any amount written off and allowance for impairment charge, if any.

Segment reporting:

A business segment is group of assets, operations or entities:

- i) engaged in revenue producing activities
- ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment
- iii) financial information is separately available

Reserve for contributions towards ESOP

The share-based arrangements between the employees and the Company are settled in equity instruments of the Company and are classified as equity-settled, share-based payment transactions. Such equity-settled arrangements are at fair value on grant date and recorded as a part of shareholders' equity under "reserve for contribution toward employee share ownership plan" in the financial statements. The Company accounts for such arrangements through amortizing the fair value of the equity instruments granted to Company's employees through statement of income as an employee cost over the vesting period and is currently shown separately in the income statement with a corresponding increase in equity as "reserve for contribution toward employee share ownership plan".

DERAYAH FINANCIAL COMPANY**(A Closed Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

Impairment of financial assets

Financial assets (other than available for sale investments and held for trading investments) are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

Revenue recognition*Brokerage fee income*

Fee income from transaction-type services such as brokerage services, are recognized on execution of the deals.

Asset management fees

Fees charged for managing private funds and discretionary portfolios are recognised as revenue rateably as the services are provided. Subscription fees from fund subscription are recognised upon the time of subscription. Fund performance income is recognised at the year end, when the Fund results meet the annual pre-set target.

Murabaha commission income

Income from Murabaha commission is recognized on a time proportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with customers. No additional income is charged on the overdue balances.

Payables and accruals

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

Provisions

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

Expenses

Marketing expenses are those arising from the Company's efforts underlying the marketing functions. All other expenses, excluding salaries and other employee benefits and financial charges, are classified as general and administrative expenses.

Zakat and income tax

The Company is subject to the Regulations of General authority of Zakat & Tax ("GAZT"). Zakat provision is charged to the income statement. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

4 Cash and cash equivalents

	2016	2015
Cash at banks		
Murabaha	4,000,340	5,844,237
	5,200,000	125,000,000
	<u>9,200,340</u>	<u>130,844,237</u>

DERAYAH FINANCIAL COMPANY**(A Closed Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016**

(All amounts in Saudi Riyals unless otherwise stated)

5 Investments held for trading

	2016	2015
Derayah IPO Fund	5,750,563	12,866,573
Discretionary Portfolio Management (DPM)	14,845,835	16,448,019
	<u>20,596,398</u>	<u>29,314,592</u>

The investments held for trading represents the investments in the mutual funds, the following is the movement during the year:

	2016	2015
Opening balance as of January 1	29,314,592	13,766,768
Additions during the year	9,186	113,940,801
Sold during the year	(7,478,713)	(96,802,857)
Revaluation loss	(1,248,667)	(1,590,120)
	<u>20,596,398</u>	<u>29,314,592</u>

6 Margin clients receivables - net

	Note	2016	2015
Margin clients receivables	23,26	62,247,007	-
Allowance for doubtful accounts		(7,520,524)	-
		<u>54,726,483</u>	<u>-</u>

During the year 2016, the Company's Board and Derayah Trading Finance Fund agreed to purchase receivables belonging to the clients who filed lawsuits against the Fund Manager (the Company) for not liquidating their portfolios. They agreed to purchase such receivables at the book values amounting to SAR 62.2 million.

7 Accrued brokerage fees

Accrued brokerage fees represent the brokerage fee amount due from clients for brokerage services rendered by the Company.

8 Other assets

	2016	2015
Prepayments	1,019,869	863,805
Advances to employees	806,854	2,222,634
Other current assets	1,135,785	289,806
	<u>2,962,508</u>	<u>3,376,245</u>

9 Investments Available for sale

	2016	2015
Derayah Trading Finance Fund	28,203,076	11,017,940
Durat Al Khalij Real Estate Fund	25,489,697	22,930,625
Derayah Real Estate Income Fund (1)	10,073,300	-
Other mutual funds	1,819,534	1,727,313
	<u>65,585,607</u>	<u>35,675,878</u>

	2016	2015
Opening balance as of January 1	35,675,878	35,277,856
Additions during the year	89,304,392	387,252
Sold during the year	(62,252,560)	(350,739)
Revaluation gain	2,857,897	361,509
	<u>65,585,607</u>	<u>35,675,878</u>

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

Fair Value reserve

The following is the movement in the fair value reserve for the years ended December 31:

	2016	2015
Opening balance as of January 1	417,908	56,399
Revaluation gain of available for sale investments	2,857,897	361,509
Balance at December 31	<u>3,275,805</u>	<u>417,908</u>

10 Property and equipment, net

	Leasehold improvements	Computers and office equipment	Furniture, fixtures and fittings	Land	Work in progress	Total
Cost						
Balance at beginning of the year						
Additions during the year	2,814,105	19,622,074	1,307,955	12,299,352	-	36,043,486
Disposals	-	-	90,455	-	3,158,781	3,801,961
Transfer from work in progress	-	-	(12,150)	-	-	(12,150)
Balance at end of the year	<u>1,047,777</u>	<u>648,756</u>	<u>186,103</u>	<u>-</u>	<u>(1,882,636)</u>	<u>-</u>
	<u>4,097,102</u>	<u>20,588,335</u>	<u>1,572,363</u>	<u>12,299,352</u>	<u>1,276,145</u>	<u>39,833,297</u>
Accumulated depreciation						
Balance at beginning of the year						
Charge during the year	2,269,251	15,404,728	1,170,669	-	-	18,844,648
Disposals	194,264	1,451,364	53,523	-	-	1,699,151
Balance at end of the year	<u>-</u>	<u>-</u>	<u>(12,150)</u>	<u>-</u>	<u>-</u>	<u>(12,150)</u>
	<u>2,463,515</u>	<u>16,856,092</u>	<u>1,212,042</u>	<u>-</u>	<u>-</u>	<u>20,531,649</u>
Net book value						
As at December 31, 2016	<u>1,633,587</u>	<u>3,732,243</u>	<u>360,321</u>	<u>12,299,352</u>	<u>1,276,145</u>	<u>19,301,648</u>
As at December 31, 2015	<u>544,854</u>	<u>4,217,346</u>	<u>137,286</u>	<u>12,299,352</u>	<u>-</u>	<u>17,198,838</u>

11 Intangible assets, net

Intangible assets comprise mainly of internally developed software.

	Intangible assets	Total
Cost		
Balance at beginning of the year		
Net additions during the year	26,228,831	26,228,831
Balance at end of the year	<u>2,843,814</u>	<u>2,843,814</u>
	<u>29,072,645</u>	<u>29,072,645</u>
Accumulated amortization		
Balance at beginning of the year		
Amortization charge for the year	19,022,672	19,022,672
Balance at end of the year	<u>2,740,263</u>	<u>2,740,263</u>
	<u>21,762,935</u>	<u>21,762,935</u>
Net book value		
As at December 31, 2016	<u>7,309,710</u>	<u>7,309,710</u>
As at December 31, 2015	<u>7,206,159</u>	<u>7,206,159</u>

12 Provision for zakat and income tax

a) Status of assessments

Zakat and income tax declarations were filed with General authority of Zakat & Tax ("GAZT") for all the years up to December 31, 2015 and final assessments for these years are awaited from the GAZT.

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b) Zakat base

The provision for zakat charge is based on the following:

GCC share of:	2016	2015
Shareholders' equity - as per DZIT	201,049,052	142,350,061
Book value of long term assets - as per DZIT	(38,639,046)	(37,274,444)
Cash dividends	(15,200,000)	-
Sukuk	(6,000,000)	-
Available for sale investments	(37,382,531)	-
	103,827,476	105,075,617
Adjusted income for the year	20,690,445	66,242,110
Zakat base	124,517,921	171,317,727
Zakat calculated for the year at 2.5% of zakat base	3,112,948	4,282,943

c) Provision movement

The movement in provision for zakat and tax during the years ended December 31, is as follows:

	2016	2015
Balance at beginning of the year	4,282,943	2,684,110
Charge for the year	3,416,827	4,749,152
Payments during the year	(4,586,822)	(3,150,319)
Balance at end of the year	3,112,948	4,282,943

d) Adjusted net income for the year

The adjusted net income for the year reconciliation is as follows:

	2016	2015
Net income for the year	11,204,730	57,379,785
Depreciation and amortization differences between DZIT and the Company	(370,644)	867,624
Contribution for employee share ownership plan	-	4,596,000
Allowance for doubtful accounts	7,520,524	-
Other provisions	(12,150)	-
Unrealized loss from investments held for trading	1,248,667	1,590,120
Employee end of service provision for the year	1,099,318	1,808,581
Adjusted net income for the year	20,690,445	66,242,110

On December 31, 2014, the Capital Market Authority (CMA) approved the selling of certain shares. As a result of these transactions the Company became a 100% Saudi company as opposed to a mixed entity, therefore, zakat provision will be charged to the statement of income instead of the statement of changes in shareholders' equity. Subsequently, on March 30, 2015 the Company obtained a new commercial registration to reflect its 100% Saudi status.

13 Employees end of service benefits

	2016	2015
Balance at beginning of the year	5,302,141	3,493,560
Additions during the year	1,099,318	1,808,581
Paid during the year	(1,966,270)	-
Balance at end of the year	4,435,189	5,302,141

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14 Share capital

At December 31, 2016 and 2015, the share capital of the Company was Saudi Riyals 152 million divided into 15,200,000 shares of Saudi Riyals 10 each, which is fully paid.

15 Statutory reserves

As required by the Saudi Arabian Regulations for Companies, 10% of the net income for the year after absorbing accumulated losses shall be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital.

16 Reserve for contributions towards ESOP

The Board of Directors of the Company in 2010 approved an Employee Share Ownership Plan ESOP (the "Plan") for the benefit of certain executive and non-executive employees of the Company.

The Plan is accounted for as an equity-settled share based payment plan. Under the Plan, grant and vesting of equity shares of the Company is subject to satisfaction of service conditions.

The share capital increase to settle the vested shares under the Plan will be financed from the retained earnings after absorbing accumulated losses, setting aside amounts for statutory reserve and any other distribution as per the By-laws of the Company. Under the Plan, a maximum 2,250,000 shares can be issued after satisfying the vesting conditions. The fair value of shares at grant date have been determined using valuation technique. The following is the movement in number of shares granted under the Plan:

	2016	2015
Shares at the beginning of the year	934,013	954,013
Granted during the year	53,000	-
Forfeited	(78,000)	(20,000)
Shares at the end of the year	<u>909,013</u>	<u>934,013</u>

Expense recognized towards the Plan which were recorded in the reserve for contributions towards ESOP in shareholders' equity during the year ended December 31, 2016 was Nil (2015: Saudi Riyals 4,596,000).

17 Operating Income**Income from a fund managed by the Company**

The Company is the Fund Manager of Derayah Trading Finance Fund (the "Fund") a related party. As per terms and conditions of the Fund, the Company earns management fee and share of revenues from the Fund as follows:

- a. Management fee at the rate of 0.5 percent of the Fund's daily net asset values.
- b. On financing provided by the Fund to customers of the Company, the Company will receive share of income as follows:
 - (i) 60 % of:
 - gross Income from financing assets;
 - gross Income from brokerage after deducting tadawul fees and discounts and rebates given to customers;
 - gross income from investing in low risk Shariah assets.
 - (ii) 100 % of gross income from brokerage earned above performance target achieved per customer.

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18 Other income

	2016	2015
Price Streamer fees	459,808	448,560
Foreign currency exchange gain and loss	392,254	98,341
Rental income	-	1,095,340
Custody fees from IPO Fund	-	202,951
Human Recourse Development Fund (HDAF)	-	152,994
	<u>852,062</u>	<u>1,998,186</u>

19 General and administrative expenses

	Note	2016	2015
Professional expenses		5,280,235	6,713,498
Utilities		3,953,891	3,619,997
IT expenses		2,886,946	2,644,672
Amortization for intangible assets	11	2,740,263	2,065,922
Rental expenses		2,019,265	1,718,319
Depreciation for property and equipment	10	1,699,151	1,215,293
Office maintenance		256,715	458,924
Bank charges		47,483	45,608
Other		685,209	646,859
		<u>19,569,158</u>	<u>19,129,092</u>

20 Earnings per share

Earnings per share for the years ended December 31, 2016 and 2015 were computed by dividing the operating income and net income to the weighted averages of the number of shares outstanding of 15.2 million shares.

21 Segmental reporting

The Company is organized into the following major business segments:

Brokerage	The Brokerage division provides facilities and services in trading International Equities, options, bonds, indices, Islamic certificates and regional Equities.
Investment	The Investment division is engaged in the investment activities.
Asset Management and Murabaha	Fees from asset management of discretionary portfolio management fund and Murabaha commission income.
Others	Others include the unallocated corporate activities.

The Company's total assets and liabilities, operating income and expenses, and net income, by business segments, are as follows:

2016	Brokerage	Investment	Asset management & Murabaha	Other	Total
Total assets	108,264,284	16,832,867	82,074,237	2,156,007	209,327,395
Total liabilities	10,307,299	(370,825)	7,726,761	212,435	17,875,670
Total operating income (loss)	41,342,043	(1,487,362)	30,991,639	-	70,846,320
Other income	-	-	-	852,062	852,062
Depreciation and amortization	(2,559,813)	92,094	(1,918,937)	(52,758)	(4,439,414)
Operating expenses	(32,321,464)	1,162,829	(24,229,453)	(666,150)	(56,054,238)
Net income	6,460,766	(232,439)	4,843,247	133,156	11,204,730

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21 Segmental reporting (continued)

2015	Brokerage	Investment	Asset management & Murabaha	Other	Total
Total assets	141,280,056	33,274,415	68,647,145	3,467,612	246,669,228
Total liabilities	32,904,207	946,381	15,545,253	828,744	50,224,585
Total operating income	79,335,367	2,281,820	37,481,175	-	119,098,362
Other income	-	-	-	1,998,186	1,998,186
Depreciation and amortization	(2,149,659)	(61,828)	(1,015,585)	(54,143)	(3,281,215)
Operating expenses	(39,593,833)	(1,138,786)	(18,705,697)	(997,232)	(60,435,548)
Net income	37,591,875	1,081,206	17,759,893	946,811	57,379,785

The Company's assets, liabilities, and operations are entirely in Saudi Arabia.

22 Assets under management

These represent client's cash accounts with the Company as at December 31, 2016 Saudi Riyals 1,456 million (2015: Saudi Riyals 2,208 million) to be used for the purpose of making investment on behalf of the clients.

Consistent with its accounting policy, such balances are not included in the Company's financial statements.

23 Related party transactions and balances

In the ordinary course of business, the Company enters into transactions with the following related parties, which are based on prices and contract terms approved by the Company's management.

Name of related party	Relationship
<i>Managed funds:</i>	Funds managed by the Company, acting as Fund Manager on behalf of Unit-holders.
Derayah Trading Finance Fund (DTFF)	
The Saudi Fund for Logistics Services	
Derayah IPO Fund	
Derayah Real Estate Income Fund (1)	
Derayah Real Estate Income Fund (2)	
Durat Al Khalij Real Estate Fund	
Derayah Freestyle Saudi Equity Fund	
Derayah Private Fund No.100	
<i>Related party - others:</i>	
Taha Al Kuwaiz	Chairman of Board of Directors
Rukn Al Derayah	Shareholder
Abdulaziz Al Jammaz & Brothers Co.	Shareholder

The following are the details of related party transactions during the years ended December 31:

Name of related party	Nature of transaction	Amount of transaction	
		2016	2015
Rukn Al Derayah	Awan service advisory fee	1,774,922	352,200
Taha Al Kuwaiz	Repayment of loan	-	220,794
Abdulaziz Al Jammaz & Brothers Co.	Rental income	-	4,324,830

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23 Related party transactions and balances (continued)

The summary of compensation to key management personnel for the years is as follows:

	2016	2015
Salaries and employee related benefits	9,850,822	15,911,310
Employee share ownership plan	-	3,086,978
	<u>9,850,822</u>	<u>18,998,288</u>

Balances resulting from transactions with related parties is as follow:

Particulars of related party	Note	Nature of balance	Closing balance	
			2016	2015
<i>Managed funds</i>				
Derayah Trading Finance Fund	9	Available for sale investments	28,203,076	11,017,940
Durat Al Khalij Real Estate Fund	9	Available for sale investments	25,489,697	22,930,625
Derayah Real Estate Income Fund (1)	9	Available for sale investments	10,073,300	-
Derayah IPO Fund	5	Held for trading	5,750,563	12,866,573
Rukn Al Derayah		Receivable	245,665	1,297,888
Derayah Private Fund No.100		Receivable	40,000	-
Derayah Real Estate Income Fund (1)		Receivable	1,156,451	-
Durat Al Khalij Real Estate Fund		Receivable	855,390	-
Derayah Real Estate Income Fund (2)		Receivable	323,915	-
The Saudi Fund for Logistics Services		Receivable	562,120	-
Derayah Freestyle Saudi Equity Fund		Receivable	105,751	-
Derayah Trading Finance Fund	6,26	Purchase of margin clients receivables	62,247,007	-

24 Financial instruments and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, investments, other current 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. Cash and cash equivalents, accrued brokerage fees, due from related parties and other current assets are the significant class of financial assets that carry credit risk. Credit risk is managed by the Company restricting its dealings to creditworthy counterparties and by continuously monitoring of credit exposure to counter parties.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused either by factors specific to the individual security, the issuer of the security, or factors affecting all securities traded in the market. The Company is not directly exposed to market risk as it has not invested in listed securities as at balance sheet date.

The Company is indirectly exposed to market risk through its investment in a managed fund (Note 4) that provides fully collateralized financing to trading clients of the Company for investment in securities listed in the Saudi Stock Exchange.

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Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value and difficulty in mobilizing and releasing funds to meet remote contingent commitments caused by insufficient liquidity in the managed Fund's account to meet redemption requests.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's liquidity commitments. Re-balancing of the managed funds financing assets is also done for managing liquidity as these financial assets can be liquidated within 5 business days.

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 Saudi Arabian Riyals and the Company is not significantly exposed to 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 revaluation of the held for trading investments and the Available for sale at Fair value, 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.

25 Regulatory requirements of the share capital and the capital adequacy ratio

In accordance with Capital Market Authority (the CMA) circular no. X/6/11098/14 dated November 19, 2014 read in conjunction with Article 74(b) of the Prudential Rules issued by the CMA (the Rules), given below are the capital base, minimum capital requirement and total capital ratio as at December 31, 2016 and 2015:

	Saudi Riyals in thousands	
	2016	2015
Capital base		
Tier-I Capital		
Tier-II Capital	168,848	176,022
Total capital base	3,276	418
	172,124	176,440
Minimum capital requirement		
Credit Risk		
Market Risk	60,477	40,417
Operational Risk	3,377	304
Total minimum capital requirement	15,978	17,117
Total capital ratio	79,832	57,838
Surplus in capital	2.16	3.05
	92,292	118,602

- a) The above information has been extracted from the monthly Capital Adequacy Model for December 31, 2016 and December 31, 2015 respectively, as submitted to CMA.
- b) The capital base consists of Tier I and Tier II capital as per Article 4 and 5 of the Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Rules.
- c) The Company is required to maintain adequate capital as specified in Pillar I of the Rules. The capital adequacy ratio shall not be less than 1.
- d) The Company is required to disclose the prescribed information as required under Pillar III of the Rules on the Company website. However, such information is not subject to review or audit by the external auditors of the Company.

DERAYAH FINANCIAL COMPANY**(A Closed Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2016****(All amounts in Saudi Riyals unless otherwise stated)****26 Contingent liabilities**

Lawsuits were filed against the Company by some brokerage customers whose shares went down below the value of the financing provided by the Company. Plaintiffs require the Company to pay around SAR 48 million as the Company did not liquidate the portfolio when the coverage amounted to 125% of the financing. As per the financing agreement, it is stated that "the Company is entitled to, not obliged to, liquidate the portfolio whenever it sees appropriate, and it is entitled to identify the assets to be offered for sale. The client undertakes not to challenge company's decision in this respect thereon, and the Company has no liability for not exercising such rights, for any reason", as per Article 12 of the financing agreement. Also, it states in Article 16 that "the Company shall not be liable for any losses or damages (including income loss) borne by the client due to the Company's actions under "liquidation rights". The Company is not liable in the case of not exercising the procedures stipulated under this item". Accordingly, the Company's management sees that the Company's legal position is sound.

27 Approval of the financial statements

The financial statements have been approved by the Board of Directors on 28 Jumada Al Thani 1438H (corresponding to March 27, 2017).