

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND INDEPENDENT AUDITOR'S REPORT

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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Independent auditor's report to the shareholders of Derayah Financial Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Derayah Financial Company (the "Company") as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2017;
- the statement of income for the year ended December 31, 2017;
- the statement of cash flows for the year ended December 31, 2017;
- the statement of changes in shareholders' equity for the year ended December 31, 2017; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers



Bader I. Benmohareb
License Number 471

March 25, 2018

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)

Balance sheet

(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31,	
		2017	2016
Assets			
Current assets			
Cash and cash equivalents	4	10,968,658	9,200,340
Investments held for trading	5	21,035,026	20,596,398
Margin clients receivables, net	6	33,120,561	54,726,483
Accrued brokerage fees	7	2,655,018	13,217
Investment held to maturity	8	3,699,552	-
Due from related parties	25	8,065,667	3,289,292
Other assets	9	7,100,426	2,962,508
Total current assets		86,644,908	90,788,238
Non-current assets			
Investment held to maturity	8	6,000,000	6,000,000
Investment available for sale	10	41,295,178	65,585,607
Client receivable		20,402,500	20,342,192
Property and equipment, net	12	20,872,436	19,301,648
Intangible assets, net	13	7,255,534	7,309,710
Total non-current assets		95,825,648	118,539,157
Total assets		182,470,556	209,327,395
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Bank overdraft		15,720	-
Due to related party		218,750	-
Accrued expenses		4,073,690	5,699,488
Employees related liabilities		1,731,568	4,628,045
Provision for zakat	14	2,100,025	3,112,948
Total current liabilities		8,139,753	13,440,481
Non-current liabilities			
Employees' end of service benefits	15	5,808,400	4,435,189
Total liabilities		13,948,153	17,875,670
Shareholders' equity			
Share capital	16	161,090,130	152,000,000
Statutory reserve	17	4,060,663	4,060,663
Retained earnings		56,660	21,345,975
Reserve for contributions towards ESOP	18	-	10,769,282
Fair value reserve	11	3,314,950	3,275,805
Total shareholders' equity		168,522,403	191,451,725
Total liabilities and shareholders' equity		182,470,556	209,327,395

The notes on pages 7 to 21 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)

	Note	For the year ended December 31,	
		2017	2016
Operating Income			
Brokerage fees, net	19	35,915,046	41,342,043
Asset management fees, net		16,467,303	15,025,132
Murabaha commission income		8,726,631	15,966,506
Unrealized gain (loss) from investments held for trading	5	1,981,918	(1,248,667)
Gain (loss) from sale of investments held for trading	5	836,373	(1,293,784)
Gain from sale of available for sale investments		2,095,407	1,055,090
Total operating income		66,022,678	70,846,320
Expenses			
Salaries and related benefits		(29,106,834)	(32,831,999)
General and administrative expenses	21	(21,003,582)	(19,569,158)
Marketing expenses		(1,062,623)	(571,971)
Allowance for doubtful accounts	6	(28,817,415)	(7,520,524)
Total expenses		(79,990,454)	(60,493,652)
Operating (loss) / income		(13,967,776)	10,352,668
Other income	20	3,336,034	852,062
(Loss) / income before zakat		(10,631,742)	11,204,730
Zakat	14	(3,057,573)	(3,416,827)
Net (loss) / income		(13,689,315)	7,787,903
(Loss) / earnings per share:	22		
Operating (loss) / income		(0.87)	0.64
Net (loss) / income		(0.85)	0.48

The notes on pages 7 to 21 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)

	Note	For the year ended December 31,	
		2017	2016
Cash flows from operating activities			
(Loss) / income before zakat		(10,631,742)	11,204,730
<i>Adjustments for:</i>			
Depreciation and amortization	12 -13	5,097,342	4,439,414
Allowance for doubtful accounts	6	(7,520,524)	7,520,524
Employees end of service benefits provision	15	1,450,340	1,099,318
Unrealized (gain) / loss on investments held for trading	5	(1,981,918)	1,248,667
(Gain) / loss from sale of investments held for trading	5	(836,373)	1,293,784
Gain from sale of available for sale investments	10	(2,095,407)	(1,055,090)
Margin clients receivables	6	29,126,446	(62,247,007)
Receivable from clients		(60,308)	(1,467,500)
ESOP provision rebate	18,20	(1,679,152)	(438,718)
Loss / (gain) from sale of property and equipment		10,403	(12,150)
<i>(Increase) / decrease in operating assets</i>			
Accrued brokerage fees		(2,641,801)	2,867,482
Due from related parties		(4,776,375)	(1,991,404)
Other assets		(4,137,918)	413,737
Purchase of Investments held to maturity	8	(3,699,552)	(6,000,000)
Purchase of available for sale investments	10	(139,056,577)	(89,304,392)
Sale proceeds from available for sale investments	10	165,481,558	63,307,650
Purchase of Investment held for trading	5	(33,142,963)	(9,186)
Sale proceeds from Investment held for trading	5	35,522,626	6,184,929
<i>Increase/ (Decrease) in operating liabilities</i>			
Accrued expenses and other current liabilities		(4,522,275)	(11,306,058)
Overdraft		15,720	(19,005,910)
Due to Related party		218,750	
Zakat paid	14	(4,070,496)	(4,586,822)
End of service benefits paid	15	(77,129)	(1,966,270)
Net cash provided by / (used in) operating activities		15,992,675	(99,810,272)
Cash flows from investing activities			
Purchase of property and equipment	12	(3,812,520)	(3,801,961)
Purchase of intangible assets	13	(2,826,715)	(2,843,814)
Sale proceeds from property and equipment		14,878	12,150
Net cash used in investing activities		(6,624,357)	(6,633,625)
Cash flows from financing activity			
Dividends paid		(7,600,000)	(15,200,000)
Net cash used in financing activity		(7,600,000)	(15,200,000)
Net change in cash and cash equivalents		1,768,318	(121,643,897)
Cash and cash equivalents at the beginning of the year		9,200,340	130,844,237
Cash and cash equivalents at the end of the year		10,968,658	9,200,340
Supplemental non-cash information			
Changes in fair value reserve for available for sale investments	11	39,145	2,857,897
Work in progress transferred to property, plant and equipment	12	1,276,145	-
Capital increase through ESOP	18	9,090,130	-
Write off for uncollectable receivables	6	36,337,939	-

The notes on pages 7 to 21 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, 2017
(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			
Balance as at December 31, 2015	152,000,000	3,281,873	29,536,862	-	11,208,000	417,908	196,444,643
Reserve for contributions towards ESOP (Note 18)	-	-	-	-	(438,718)	-	(438,718)
Net income for the year	-	-	7,787,903	-	-	-	7,787,903
Dividends distribution	-	-	(15,200,000)	-	-	-	(15,200,000)
Transfer to statutory reserve (Note 17)	-	778,790	(778,790)	-	-	-	-
Fair value reserve (Note 11)	-	-	-	-	-	2,857,897	2,857,897
Balance as at December 31, 2016	152,000,000	4,060,663	21,345,975	-	10,769,282	3,275,805	191,451,725
Capital increase	9,090,130	-	-	-	-	-	9,090,130
Reserve for contributions towards ESOP (Note 18)	-	-	-	-	(10,769,282)	-	(10,769,282)
Net income for the year	-	-	(13,689,315)	-	-	-	(13,689,315)
Dividends distribution	-	-	(7,600,000)	-	-	-	(7,600,000)
Transfer to statutory reserve (Note 17)	-	-	-	-	-	-	-
Fair value reserve (Note 11)	-	-	-	-	-	39,145	39,145
Balance as at December 31, 2017	161,090,130	4,060,663	56,660	-	-	3,314,950	168,522,403

The notes on pages 7 to 21 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, 2017

(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 Capital Market Authority ("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 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).

Company's ownership structure

Shareholder's Name	Ownership %
Rukn Al Derayah	26%
Abdulaziz bin Ibrahim AlJammaz & Brothers	9.31%
Prince Fahad Bin Saad Bin Faisal Al Saud	6.52%
Sanad Investments Company	6.21%
Wasl Commercial Investment Company	6.21%
Al Touq Holding Co.	6.21%
Others	39.52%

2 Basis of preparation

Statement of compliance

The accompanying financial statements have been prepared in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA") as appropriate to the circumstances of the Group.

SOCPA Board of Directors in their meeting held on Thursday, July 18, 2013, (corresponding to 10 Ramadan 1434H), agreed to apply the International Financial Reporting Standards (IFRSs) as endorsed in Saudi Arabia, after being approved by SOCPA, all at once. The earliest date for application for all entities (other than listed entities) is for financial periods starting on January 1, 2018. In this regard the Company has hired consultants to support the Company with respect to the IFRS conversion process

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 and the going concern concept.

Functional and presentation currency

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

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2017
(All amounts in Saudi Riyals unless otherwise stated)

2. Basis of preparation (continued)

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.

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.

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2017

(All amounts in Saudi Riyals unless otherwise stated)

3 Significant accounting policies (continued)

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 term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

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.

DERAYAH FINANCIAL COMPANY
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Notes to the financial statements for the year ended December 31, 2017

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

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".

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The carrying value of all financial assets and financial liabilities reflected in the financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at the balance sheet date.

Foreign currency transactions

Transactions and balances

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates prevailing at the dates of the respective transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to Saudi Arabian Riyal at exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates are recognized in the statement of income

Receivables

Receivables are carried at original invoice amount less provision for doubtful debts. A provision against doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables or when the receivable is outstanding for more than one year. Such provisions are charged to the statement of income. When a receivable is uncollectible, it is written-off against the provision for doubtful receivables. Any subsequent recoveries of amounts previously written-off are credited in the statement of income.

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.

DERAYAH FINANCIAL COMPANY
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Notes to the financial statements for the year ended December 31, 2017

(All amounts in Saudi Riyals unless otherwise stated)

3. Significant accounting policies (continued)

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

	2017	2016
Cash at banks	10,968,658	4,000,340
Murabaha	-	5,200,000
	<u>10,968,658</u>	<u>9,200,340</u>

5 Investments held for trading

	2017	2016
Derayah IPO Fund	5,564,988	5,750,563
Discretionary Portfolio Management (DPM)	15,470,038	14,845,835
	<u>21,035,026</u>	<u>20,596,398</u>

DERAYAH FINANCIAL COMPANY
(A Closed Joint Stock Company)

Notes to the financial statements for the year ended December 31, 2017

(All amounts in Saudi Riyals unless otherwise stated)

5. Investments held for trading (continued)

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

	2017	2016
Opening balance as of January 1	20,596,398	29,314,592
Additions during the year	33,142,963	9,186
Sold during the year	(35,522,626)	(7,478,713)
Revaluation gain (loss)	2,818,291	(1,248,667)
	<u>21,035,026</u>	<u>20,596,398</u>

6 Margin clients receivables - net

	Note	2017	2016
Margin clients receivables	23,25	33,120,561	62,247,007
Allowance for doubtful accounts*		-	(7,520,524)
		<u>33,120,561</u>	<u>54,726,483</u>

***Allowance for doubtful accounts:**

	2017	2016
Balance at the beginning of the year	7,520,524	-
Provided for during the year	28,817,415	7,520,524
Written off during the year	(36,337,939)	-
Balance at the end of the year	<u>-</u>	<u>7,520,524</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 and according to the decision made by the Company's Board dated on 31st December, 2017. The Board has approved writing off the uncollectable accounts after taking all the necessary administrative, legal and judicial measures for collection based on closing prices as at 31st December, 2017 considering that there are cases are subject to other courts.

7 Accrued brokerage fees

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

8 Investments held-to-maturity

	2017	2016
Treasury bills	3,699,552	-
Sukuk (a)	6,000,000	6,000,000
	<u>9,699,552</u>	<u>6,000,000</u>

(a) The Sukuk with Bank Albilad was invested during 2016 and is earning commission income at a profit rate of 3 months SAIBOR plus 200 basis points. The maturity date of the sukuk is August 2021.

9 Other assets

	2017	2016
Prepayments	1,529,240	1,019,869
Advances to employees	2,859,228	806,854
Other current assets	2,711,958	1,135,785
	<u>7,100,426</u>	<u>2,962,508</u>

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Notes to the financial statements for the year ended December 31, 2017

(All amounts in Saudi Riyals unless otherwise stated)

10 Investments Available for sale

	2017	2016
Derayah Trading Finance Fund	-	28,203,076
Durat Al Khalij Real Estate Fund	25,870,752	25,489,697
Derayah Real Estate Income Fund (1)	14,214,103	10,073,300
Other mutual funds	210,323	1,819,534
Derayah Health Care Fund	1,000,000	-
	41,295,178	65,585,607
	2017	2016
Opening balance as of January 1	65,585,607	35,675,878
Additions during the year	139,056,577	89,304,392
Sold during the year	(163,386,151)	(62,252,560)
Revaluation gain	39,145	2,857,897
	41,295,178	65,585,607

11 Fair value reserve

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

	2017	2016
Opening balance as of January 1	3,275,805	417,908
Revaluation gain of available for sale investments	39,145	2,857,897
Balance at December 31	3,314,950	3,275,805

12 Property and equipment, net

	Leasehold improvements	Computers and office equipment	Furniture, fixtures and fittings	Land	Work in progress	Total
Cost						
January 1, 2016	2,814,105	19,622,074	1,307,955	12,299,352	-	36,043,486
Additions during the year	235,220	317,505	90,455	-	3,158,781	3,801,961
Disposals	-	-	(12,150)	-	-	(12,150)
Transfer from work in progress	1,047,777	648,756	186,103	-	(1,882,636)	-
December 31, 2016	4,097,102	20,588,335	1,572,363	12,299,352	1,276,145	39,833,297
Additions during the year	1,114,265	3,477,549	496,851	-	-	5,088,665
Disposals	-	(208,365)	(33,600)	-	-	(241,965)
Transfer from work in progress	-	-	-	-	(1,276,145)	(1,276,145)
December 31, 2017	5,211,367	23,857,519	2,035,614	12,299,352	-	43,403,852
Accumulated depreciation						
January 1, 2016	2,269,251	15,404,728	1,170,669	-	-	18,844,648
Charge during the year	194,264	1,451,364	53,523	-	-	1,699,151
Disposals	-	-	(12,150)	-	-	(12,150)
December 31, 2016	2,463,515	16,856,092	1,212,042	-	-	20,531,649
Charge during the year	504,188	1,579,829	132,434	-	-	2,216,451
Disposals	-	(199,837)	(16,847)	-	-	(216,684)
December 31, 2017	2,967,703	18,236,084	1,327,629	-	-	22,531,416
Net book value						
As at December 31, 2017	2,243,664	5,621,435	707,985	12,299,352	-	20,872,436
As at December 31, 2016	1,633,587	3,732,243	360,321	12,299,352	1,276,145	19,301,648

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(All amounts in Saudi Riyals unless otherwise stated)

13 Intangible assets, net

Intangible assets comprise mainly of internally developed software.

	Intangible assets
Cost	
January 1, 2016	26,228,831
Net additions during the year	2,843,814
December 31, 2016	<u>29,072,645</u>
Net additions during the year	2,826,715
December 31, 2017	<u>31,899,360</u>
Accumulated amortization	
January 1, 2016	19,022,672
Amortization charge for the year	2,740,263
December 31, 2016	<u>21,762,935</u>
Amortization charge for the year	2,880,891
December 31, 2017	<u>24,643,826</u>
Net book value	
As at December 31, 2017	<u>7,255,534</u>
As at December 31, 2016	<u>7,309,710</u>

14 Provision for zakat**(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, 2017 and final assessments for these years are awaited from the GAZT.

(b) Zakat base

The provision for zakat charge is based on the following:

GCC share of:	2017	2016
Shareholders' equity - as per GAZT	172,197,673	201,049,052
Book value of long term assets - as per GAZT	(16,660,377)	(38,639,046)
Cash dividends	(7,600,000)	(15,200,000)
Sukuk	(6,000,000)	(6,000,000)
Capital work in progress	(1,276,145)	-
Available for sale investments	(41,295,178)	(37,382,531)
	<u>99,365,973</u>	103,827,476
Adjusted income for the year	(15,364,976)	20,690,445
Zakat base	<u>84,000,997</u>	124,517,921
Zakat calculated for the year at 2.5% of zakat base	<u>2,100,025</u>	3,112,948

(c) Provision movement

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

	2017	2016
Balance at beginning of the year	3,112,948	4,282,943
Charge for the year	3,057,573	3,416,827
Payments during the year	(4,070,496)	(4,586,822)
Balance at end of the year	<u>2,100,025</u>	3,112,948

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(All amounts in Saudi Riyals unless otherwise stated)

14. Provision for zakat (continued)
(d) Adjusted net income for the year

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

	2017	2016
Net income for the year	(10,631,742)	11,204,730
Depreciation and amortization differences between GAZT and the Company	(4,212,059)	(370,644)
Allowance for doubtful accounts	-	7,520,524
Loss on sale of property, plant and equipment	10,403	-
Other provisions	-	(12,150)
Unrealized (gain) loss from investments held for trading	(1,981,918)	1,248,667
Employee end of service provision for the year	1,450,340	1,099,318
Adjusted net income for the year	<u>(15,364,976)</u>	<u>20,690,445</u>

15 Employees end of service benefits

	2017	2016
Balance at beginning of the year	4,435,189	5,302,141
Additions during the year	1,450,340	1,099,318
Paid during the year	(77,129)	(1,966,270)
Balance at end of the year	<u>5,808,400</u>	<u>4,435,189</u>

16 Share capital

During the year, the Company's General Assembly approved the Company's capital increase from Saudi Riyals 152 million to Saudi Riyals 161 million by transferring Saudi Riyals 9 million from ESOP, which was proposed by the Company's Board of Directors on On May 1, 2017, and authorized by the CMA on May 11, 2017 and by Ministry of Commerce and Investment on July 11, 2017. The legal procedure related to this increase has been finalized during 2017.

17 Statutory reserves

In accordance with the Company's Articles of Association and the previous Saudi Arabian Regulations for Companies, the Company was required to set aside 10% of the net income to a statutory reserve until such reserve equals 50% of the Company's share capital. The new Saudi Arabian Regulations for Companies issued on May 6, 2016 (corresponding to Rajab 28, 1437H) requires companies to set aside 10% of their annual net income to a statutory reserve until such reserve reaches 30% of the share capital. The reserve is not available for distribution to the shareholders of the Company

18 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:

	2017	2016
Shares at the beginning of the year	909,013	934,013
Granted during the year	-	53,000
Forfeited	-	(78,000)
Distributed share	(909,013)	-
Shares at the end of the year	<u>-</u>	<u>909,013</u>

DERAYAH FINANCIAL COMPANY**(A Closed Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2017**

(All amounts in Saudi Riyals unless otherwise stated)

19 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 previous 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.

Derayah Financial Company is the fund manager of Derayah Trade Finance Fund (the Fund) and is a related party. Revenues earned by the Fund's assets according to the current terms and conditions of the Fund shall be distributed as follows:

All revenues shall be set aside from revenue sources as defined in the Fund's Terms and Conditions and then distributed to three possible tiers. The first and second tiers have a maximum size as follows:

1. Tier 1: Net assets of the Fund at the beginning of the evaluation period multiplied by three months SIBOR at the beginning of the evaluation period divided by twelve months.
2. Tier 2: Net assets of the Fund at the beginning of the evaluation period multiplied by 5% divided by twelve months.

Revenue sources are routed to Tier 1 until they reach their maximum size, then the remaining revenue sources are routed to Tier 2 until they reach their maximum size. The remaining revenue sources are routed to Tier 3.

Tiers between the Fund and the Fund Manager are shared as follows:

- Tier 1: 100% to the Fund
 Tier 2: Equally between the Fund and the Fund Manager
 Tier 3: to the Fund Manager

The Fund Manager has management fees calculated on a monthly basis equal to 0.50% of the Fund's net assets annually, which are deducted after Tiers distribution between the Fund and the Fund Manager."

20 Other income

	2017	2016
ESOP provision rebate	1,679,152	-
Price Streamer fees	332,039	459,808
Foreign currency exchange gain and loss	1,023,292	392,254
Other	301,551	-
	<u>3,336,034</u>	<u>852,062</u>

DERAYAH FINANCIAL COMPANY**(A Closed Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2017**

(All amounts in Saudi Riyals unless otherwise stated)

21 General and administrative expenses

	Note	2017	2016
Professional expenses		5,198,684	5,280,235
Utilities		4,583,819	3,953,891
IT expenses		3,152,948	2,886,946
Amortization for intangible assets	13	2,880,891	2,740,263
Rental expenses		1,637,010	2,019,265
Depreciation for property and equipment	12	2,216,451	1,699,151
Office maintenance		381,341	256,715
Bank charges		268,274	47,483
Other		684,164	685,209
		<u>21,003,582</u>	<u>19,569,158</u>

22 Earnings per share

Earnings per share for the years ended December 31, 2017 and 2016 were computed by dividing the operating income and net income to the weighted averages of the number of shares outstanding of 161.09 shares. Number of shares for comparative year were modified to reflect the increase in number of shares.

23 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.
Other	Unallocated corporate activities.

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

			Asset management & Murabaha		
2017	Brokerage	Investment		Other	Total
Total assets	81,548,938	35,395,322	58,288,447	7,237,849	182,470,556
Total liabilities	7,222,306	988,116	5,066,353	671,377	13,948,153
Total operating income	35,915,046	4,913,698	25,193,934	-	66,022,678
Other income	-	-	-	3,336,034	3,336,034
Depreciation and amortization	(2,639,485)	(361,120)	(1,851,564)	(245,173)	(5,097,342)
Operating expenses	(38,780,846)	(5,305,781)	(27,204,256)	(3,602,229)	(74,893,112)
Net loss	(5,505,285)	(753,203)	(3,861,886)	(511,368)	(10,631,742)
			Asset management & Murabaha		
2016	Brokerage	Investment		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 / (loss)	6,460,766	(232,439)	4,843,247	133,156	11,204,730

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

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24 Assets under management

These represent client's cash accounts with the Company as at December 31, 2017 Saudi Riyals 1,492 million (2016: Saudi Riyals 1,456 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.

25 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>	
Rukn Al Derayah	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	
		2017	2016
Rukn Al Derayah	Awan service advisory fee	879,913	1,774,922

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

	2017	2016
Salaries and employee related benefits	6,734,656	9,850,822
	6,734,656	9,850,822

DERAYAH FINANCIAL COMPANY**(A Closed Joint Stock Company)****Notes to the financial statements for the year ended December 31, 2017**

(All amounts in Saudi Riyals unless otherwise stated)

25. Related party transactions and balances (continued)

Balances resulting from transactions with related parties is as follow:

Particulars of related party	Note	Nature of balance	Closing balance	
			2017	2016
<i>Managed funds</i>				
Derayah Trading Finance Fund		Available for sale investments	-	28,203,076
Derayah Trading Finance Fund	10	Payable	102,500	-
Durat Al Khalij Real Estate Fund		Available for sale investments	25,870,752	25,489,697
Derayah Real Estate Income Fund (1)	10	Available for sale investments	14,214,103	10,073,300
Derayah IPO Fund		Payable	70,625	-
Derayah IPO Fund	5	Held for trading	5,564,988	5,750,563
Rukn Al Derayah		Receivable	-	245,665
Derayah Private Fund No.100		(Payable) / receivable	(20,000)	40,000
Derayah Real Estate Income Fund (1)		Receivable	1,890,974	1,156,451
Durat Al Khalij Real Estate Fund		Receivable	2,583,357	855,390
Derayah Real Estate Income Fund (2)		Receivable	1,627,981	323,915
The Saudi Fund for Logistics Services		Receivable	515,764	562,120
Commercial Real Estate Fund		Receivable	9,375	-
Derayah Food Services Fund		Payable	692,992	-
Derayah Freestyle Saudi Equity Fund		Receivable	25,625	105,751
Derayah Trading Finance Fund		Purchase of margin clients receivables	-	62,247,007
Derayah RIET Fund	6,26	Receivable	745,225	-

26 Financial instruments and risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value risk, and commission rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivable against margin / murabaha financing, due from related parties, advance awaiting investment, other receivables, due to related parties, loans to employees, short-term borrowings and accrued interest and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and financial liabilities are offset and net amounts are reported in the financial statements, when the Group has a legally enforceable right to off-set the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously

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.

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26. Financial instruments and risk management (continued)

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.

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.

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

In accordance with 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, 2017 and 2016:

	Saudi Riyals in thousands	
	2017	2016
Capital base		
Tier-I Capital	157,952	168,848
Tier-II Capital	3,315	3,276
Total capital base	161,267	172,124
Minimum capital requirement		
Credit Risk	66,247	60,477
Market Risk	4,443	3,377
Operational Risk	19,998	15,978
Total minimum capital requirement	90,688	79,832
Total capital ratio	1.78	2.16
Surplus in capital	70,579	92,292

- The above information has been extracted from the monthly Capital Adequacy Model for December 31, 2017 and 2016 respectively, as submitted to CMA.
- 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.
- 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.
- 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.

28 Approval of the financial statements

The financial statements have been approved by the Board of Directors on March 25, 2018 (corresponding to Rajab 8, 1439H).