

**Emirates NBD Capital KSA LLC  
(A Limited Liability Company)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

## **INDEPENDENT AUDITOR'S REPORT**

TO THE PARTNERS OF EMIRATES NBD CAPITAL KSA LLC

(A Limited Liability Company)

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Emirates NBD Capital KSA LLC (the "Company"), which comprises the balance sheet as at 31 December 2017, and the statement of income, statement of cash flows and statement of changes in partners' equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 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.

#### **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 are independent of the Company in accordance with professional code of 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management and the Audit Committee 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 provisions of Companies' Law 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.

The Audit Committee are responsible for overseeing the Company's financial reporting process.

#### **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 skepticism 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

## **INDEPENDENT AUDITOR'S REPORT**

TO THE PARTNERS OF EMIRATES NBD CAPITAL KSA LLC

(A Limited Liability Company) (continued)

### **Report on the Audit of the Financial Statements (continued)**

#### **Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- 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 the Audit Committee 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

#### **Report on other legal and regulatory requirements**

As stated in note 2 to the financial statements, the Company has taken certain steps in order to comply with the requirements of the Saudi Arabian Regulations for Companies in respect of losses exceeding one half of its capital. However, as of the date of this report, the related legal formalities were in progress.

For Ernst & Young

Yousef A. AlMubarak  
Certified Public Accountant  
License No. 427

Riyadh: 12 Rajab 1439H  
(29 March 2018)

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

BALANCE SHEET

As at 31 December 2017

	<i>Notes</i>	<b>2017</b>	2016
		<b>SR</b>	SR
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and bank balances	4	<b>36,001,199</b>	7,193,796
Term deposit	5	<b>42,000,000</b>	39,000,000
Prepayments and other receivables	6	<b>4,679,276</b>	5,640,969
Due from related parties	9	<b>1,036,418</b>	674,969
<b>TOTAL CURRENT ASSETS</b>		<b>83,716,893</b>	52,509,734
<b>NON-CURRENT ASSETS</b>			
Property and equipment	7	<b>53,085</b>	115,118
Intangible assets	8	<b>68,017</b>	89,429
<b>TOTAL NON-CURRENT ASSETS</b>		<b>121,102</b>	204,547
<b>TOTAL ASSETS</b>		<b>83,837,995</b>	52,714,281
<b>LIABILITIES AND PARTNERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Due to related parties	9	<b>540,280</b>	558,116
Accruals and other payables	10	<b>2,248,737</b>	1,746,972
Zakat	11	<b>4,493,351</b>	4,321,856
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,282,368</b>	6,626,944
<b>NON-CURRENT LIABILITY</b>			
Employees' terminal benefits		<b>1,702,672</b>	1,366,190
<b>TOTAL LIABILITIES</b>		<b>8,985,040</b>	7,993,134
<b>PARTNERS' EQUITY</b>			
Capital	12	<b>115,000,000</b>	115,000,000
Proposed increase in capital	12	<b>30,000,000</b>	-
Accumulated losses		<b>(70,147,045)</b>	(70,278,853)
<b>TOTAL PARTNERS' EQUITY</b>		<b>74,852,955</b>	44,721,147
<b>TOTAL LIABILITIES AND PARTNERS' EQUITY</b>		<b>83,837,995</b>	52,714,281

The notes from 1 to 23 form part of these financial statements.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

STATEMENT OF INCOME

For the year ended 31 December 2017

	<i>Notes</i>	<b>2017</b> SR	2016 SR
<b>REVENUE</b>			
Revenue from dealing, net	14	<b>1,058,556</b>	1,064,682
Arranging fees	9	<b>218,441</b>	149,831
Asset management and related fees	9(b)	<b>3,219,924</b>	8,204,084
Custody fees		<b>6,224,812</b>	4,909,818
		<b>10,721,733</b>	14,328,415
General and administration expenses	15	<b>(11,579,029)</b>	(12,286,719)
<b>NET (LOSS) INCOME FROM MAIN OPERATIONS</b>		<b>(857,296)</b>	2,041,696
Other income, net	16	<b>1,379,154</b>	1,388,280
Finance income	9	<b>949,540</b>	1,256,994
Finance cost	9	-	(272,679)
Bank charges		-	(8,596)
<b>NET INCOME BEFORE ZAKAT</b>		<b>1,471,398</b>	4,405,695
Zakat	11	<b>(1,339,590)</b>	(1,102,684)
<b>NET INCOME FOR THE YEAR</b>		<b>131,808</b>	3,303,011

The notes from 1 to 23 form part of these financial statements.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	<i>Notes</i>	<b>2017</b> SR	2016 SR
<b>OPERATING ACTIVITIES</b>			
Net income before zakat		<b>1,471,398</b>	4,405,695
Adjustments for:			
Depreciation and amortisation	7 and 8	<b>106,245</b>	97,065
Provision for employees' terminal benefits		<b>336,482</b>	247,879
Provision against fees receivable	6.1	<b>112,500</b>	-
		<hr/>	<hr/>
<i>Operating cash flow before working capital changes</i>		<b>2,026,625</b>	4,750,639
Changes in operating assets and liabilities:			
Prepayments and other receivables		<b>849,193</b>	(4,533,477)
Due from related parties		<b>(361,449)</b>	1,506,195
Accruals and other payables		<b>501,765</b>	635,487
Due to related parties		<b>(17,836)</b>	39,797
		<hr/>	<hr/>
Net cash from operations		<b>2,998,298</b>	2,398,641
Employees' terminal benefits paid		-	(59,477)
Zakat paid	11	<b>(1,168,095)</b>	(173,021)
		<hr/>	<hr/>
Net cash from operating activities		<b>1,830,203</b>	2,166,143
<b>INVESTING ACTIVITIES</b>			
Term deposit		<b>(3,000,000)</b>	14,000,000
Purchase of property and equipment	7	<b>(14,800)</b>	(39,068)
Purchase of intangible assets	8	<b>(8,000)</b>	(41,291)
		<hr/>	<hr/>
Net cash (used in) from investing activities		<b>(3,022,800)</b>	13,919,641
<b>FINANCING ACTIVITY</b>			
Proposed increase in capital	12	<b>30,000,000</b>	-
Repayment of subordinated loan	9a(ii)	-	(15,000,000)
		<hr/>	<hr/>
Cash from/(used in) financing activity		<b>30,000,000</b>	(15,000,000)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>28,807,403</b>	1,085,784
Cash and cash equivalents at beginning of the year		<b>7,193,796</b>	6,108,012
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	4	<b>36,001,199</b>	7,193,796
		<hr/> <hr/>	<hr/> <hr/>

The notes from 1 to 23 form part of these financial statements.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

STATEMENT OF CHANGES IN PARTNERS' EQUITY

For the year ended 31 December 2017

	<i>Capital SR</i>	<i>Proposed increase in capital SR</i>	<i>Accumulated losses SR</i>	<i>Total SR</i>
Balance at 1 January 2016	115,000,000	-	(73,581,864)	41,418,136
Net income for the year	-	-	3,303,011	3,303,011
Balance at 31 December 2016	115,000,000	-	(70,278,853)	44,721,147
Proposed increase in capital (note 12)	-	30,000,000	-	30,000,000
Net income for the year	-	-	131,808	131,808
<b>Balance at 31 December 2017</b>	<b>115,000,000</b>	<b>30,000,000</b>	<b>(70,147,045)</b>	<b>74,852,955</b>

The notes from 1 to 23 form part of these financial statements.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

**1 ACTIVITIES**

Emirates NBD Capital KSA LLC (the “Company”) is a limited liability company, registered in Riyadh, Kingdom of Saudi Arabia. The Company is registered under commercial registration numbered 1010248476 dated 13 Rabi Thani 1429H (corresponding to 20 April 2008).

The Company is owned directly and indirectly by Emirates NBD (PJSC) which is referred to as the “Bank” in these financial statements. The Bank was incorporated in United Arab Emirates by the decree of the ruler of the United Arab Emirates on 27 March 1977.

The Company is licensed to engage as a principal or as an agent, in providing equity brokerage, lead arrangements, asset management, advisory and securities custody services.

**2 ACCUMULATED LOSSES**

The accumulated losses of the Company at the balance sheet date are in excess of one of half its capital. The Saudi Arabian Regulations for Companies require that in situations where accumulated losses are in excess of one half of its capital, the manager should call for a meeting at which the partners resolve whether to continue with the operations of the Company and provide support or dissolve it before the expiry of its term.

During 2017, the partners passed a resolution to continue the operations and support the Company; however, the Ministry of Commerce and Investment (the “MOCI”) requested active support by the partners by way of capital increase. Accordingly, the partners of the Company resolved to increase the Company’s share capital by SR 30,000,000. As at the balance sheet date, the legal formalities related to capital increase were in progress.

Subsequent to year-end, the Company’s legal form has changed from a limited liability company to a closed joint stock company and revised commercial registration was issued.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

*Accounting convention*

The financial statements are prepared under the historical cost convention.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the amounts of revenue and expenses during the reporting period. Although these estimates and judgements are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

*Functional currency*

These financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Company’s functional currency.

*Revenue recognition*

*Management fees*

Fees charged for managing mutual funds and private portfolios are recognised as revenue rateably as the services are provided. Subscription fees from funds are recognised upon subscription. Performance fees is recognised at the year end, if the results achieved trigger a performance fee.

*Special commission income*

Special commission income is recognised on an effective yield basis.

31 December 2017

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Revenue recognition (continued)***

***Brokerage/Initial Public Offering income***

Income from transaction-type services such as brokerage services for which customers are billed on completion of the deal are recognised when the deal has been executed.

***Advisory income***

Income from advisory services is recognised based on the respective service contract or on a time proportionate basis as appropriate based on terms of respective contracts.

***Custody fee income***

Custody fee income is recognised on an accrual basis.

***Property and equipment***

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Expenditure for repairs and maintenance is charged to the statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

***Intangible assets***

Intangible assets are stated at cost less accumulated amortization and any accumulated impairment in value. The cost is amortized on a straight-line basis over the estimated useful lives of the intangible asset.

***Zakat***

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income.

***Accounts receivable***

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when they are not considered collectible.

***Accounts payable and accruals***

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

***Foreign currency transactions***

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated in Saudi Riyals at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

***Provisions***

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

***Employees' terminal benefits***

Provision is made for amounts payable under the Saudi Arabian labor law applicable to employees' accumulated periods of service at the balance sheet date.

***Cash and cash equivalents***

For the purposes of the statement of cash flows, cash and cash equivalents consists of bank balances, cash in hand and term deposits which have a maturity of three months or less at origination.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Expenses*

All expenses are classified as general and administration expenses.

**4 CASH AND BANK BALANCES**

	2017 SR	2016 SR
Cash in hand	17	17
Bank balance	<u>36,001,182</u>	<u>7,193,779</u>
	<u><u>36,001,199</u></u>	<u><u>7,193,796</u></u>

**5 TERM DEPOSIT**

	2017 SR	2016 SR
Term deposit (note 5.1)	<u>42,000,000</u>	<u>39,000,000</u>
	<u><u>42,000,000</u></u>	<u><u>39,000,000</u></u>

5.1) Term deposit represents amount placed with Emirates NBD Bank – Riyadh Branch (the “Branch”) and has an original maturity of more than three months. It carries special commission at the rate of 2.12% per annum (2016: 3% per annum).

**6. PREPAYMENTS AND OTHER RECEIVABLES**

	2017 SR	2016 SR
Margin deposit (see note 11)	3,221,856	3,221,856
Prepayments	764,381	848,272
Fees receivable, net (note 6.1)	624,347	503,550
Accrued special commission	54,413	1,031,149
Other receivables	<u>14,279</u>	<u>36,142</u>
	<u><u>4,679,276</u></u>	<u><u>5,640,969</u></u>

6.1) Fees receivable as at 31 December 2017 is stated net of a provision amounting to SR 112,500 (2016: SR Nil).

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**7 PROPERTY AND EQUIPMENT**

The cost of property and equipment is depreciated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	5 years	Furniture and fixtures	4 years
Office equipment and computers	4 years		

	<i>Leasehold improvements SR</i>	<i>Furniture and fixtures SR</i>	<i>Office equipment and computers SR</i>	<b>2017 Total SR</b>	2016 Total SR
<i>Cost:</i>					
At beginning of the year	5,150,842	1,555,368	2,270,160	<b>8,976,370</b>	8,937,302
Additions during the year	-	-	14,800	<b>14,800</b>	39,068
At end of the year	<u>5,150,842</u>	<u>1,555,368</u>	<u>2,284,960</u>	<b><u>8,991,170</u></b>	<u>8,976,370</u>
<i>Accumulated depreciation:</i>					
At beginning of the year	5,150,842	1,555,368	2,155,042	<b>8,861,252</b>	8,786,384
Depreciation charge for the year	-	-	76,833	<b>76,833</b>	74,868
At end of the year	<u>5,150,842</u>	<u>1,555,368</u>	<u>2,231,875</u>	<b><u>8,938,085</u></b>	<u>8,861,252</u>
<i>Net book value:</i>					
<b>At 31 December 2017</b>	<u>-</u>	<u>-</u>	<b><u>53,085</u></b>	<b><u>53,085</u></b>	
At 31 December 2016	<u>-</u>	<u>-</u>	<u>115,118</u>		<u>115,118</u>

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2017

**8 INTANGIBLE ASSETS**

Intangible assets include software licenses, which are being amortized over a period of 4 years.

	<b>2017</b>	<b>2016</b>
	<b>SR</b>	<b>SR</b>
<i>Cost:</i>		
At the beginning of the year	<b>502,018</b>	460,727
Additions during the year	<b>8,000</b>	41,291
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At the end of the year	<b>510,018</b>	502,018
	<hr/>	<hr/>
<i>Accumulated amortization:</i>		
At the beginning of the year	<b>412,589</b>	390,392
Amortization charge for the year	<b>29,412</b>	22,197
	<hr/>	<hr/>
At the end of the year	<b>442,001</b>	412,589
	<hr/>	<hr/>
<b>Net book value</b>	<b>68,017</b>	89,429
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Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**9 RELATED PARTY TRANSACTIONS AND BALANCES**

The following are the details of major related party transactions during the year and the balances at the year-end:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Notes</i>	<i>Amount</i>	
			<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Emirates NBD Bank – Riyadh Branch	Finance income (non-regulatory)	5	<b>949,540</b>	984,315
	Finance income	9a(ii)	-	272,679
	Finance cost	9a(ii)	-	(272,679)
	Recharge of staff cost	9a(iii)	<b>1,381,559</b>	1,390,552
	Custody fees	9a(iv)	<b>5,886,125</b>	4,594,186
	Arranging fees	9a(v)	<b>218,441</b>	149,831
	Other costs	9a(vi)	<b>583,142</b>	604,439
Affiliates	Asset management fees	9(b)	<b>596,712</b>	5,227,295
Board members	Independent Board members' fee		<b>240,000</b>	240,000

i) Amounts due from related parties:

	<i>Balances</i>	
	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Emirates NBD Bank – Private Banking Dubai	<b>782,576</b>	335,490
Emirates NBD Bank – KSA Branch (the “Branch”)	<b>253,842</b>	270,661
Emirates NBD Asset Management Limited	-	68,818
	<b><u>1,036,418</u></b>	<b><u>674,969</u></b>

ii) Amounts due to related parties:

	<i>Balances</i>	
	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Emirates NBD – PJSC (the “Bank”)	<b>540,280</b>	539,507
ENBD Securities	-	18,609
	<b><u>540,280</u></b>	<b><u>558,116</u></b>

The Company’s related parties include its partners and their affiliated companies. The Company transacts with its related parties in the ordinary course of business. Transactions with related parties are undertaken at mutually agreed terms, which are approved by the management.

a) *Transactions with the Bank and the Branch:*

i) *Banking services*

The Bank through its Riyadh branch (the “Branch”) acts as the banker of the Company. An amount of SR 78 million (2016: SR 46.2 million) is held in current and deposit accounts with the Branch at the balance sheet date (see notes 4 and 5).

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**9 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

**a) Transactions with the Bank and the Branch (continued)**

*ii) Subordinated loan to meet regulatory requirement*

The Company had a subordinated loan from the Branch to meet regulatory requirements and it was settled in 2016. The funds received were placed in term deposits with the Branch. The placement and the loan were both contracted at the same special commission rates.

*iii) Staff cost*

As per the agreement with the Private Banking Group of the Bank, the Company recharged cost of Private banking staff amounting to SR 1.39 million during 2017 (2016: SR 1.39 million).

*iv) Custody fees*

As per the agreement with Emirates NBD Dubai, the Company charges custody fees on shares held on Branch's behalf. The income for 2017 amounted to SR 0.67 million (2016: SR 0.26 million).

As per the agreement with the Private Banking Group of the Bank, the Company charges custody fees on shares held on Branch's behalf. The income for 2017 amounted to SR 2.89 million (2016: SR 2.40 million).

Furthermore, as per the agreement with the Private Banking Group of the Bank, the Company receives a proportion of the commission income earned from customers as custody fees on shares held on their behalf. The Company's share of income for 2017 amounted to SR 2.32 million (2016: SR 1.93 million).

*v) Arranging fees*

The Company has entered into an agreement with Private Banking Group of the Bank in Dubai whereby the Company receives arranging fees on customers introduced to the Bank. The Company recorded an income of SR 0.218 million during 2017 in this respect (2016: SR 0.150 million).

*vi) Other cost sharing agreement*

In ordinary course of business, the Company and the Branch transact with each other. Consequently, costs such as premises and rental are shared. The Company has been charged SR 0.58 million by the Branch during 2017 (2016: SR 0.60 million).

**b) Transactions with affiliates:**

*Asset management and related fee*

The Company has entered into an agreement with Emirates NBD Asset Management Limited (the "affiliate") whereby the Company receives commission on money market placements managed by the affiliate. The Company has recorded income amounting to SR 0.60 million during 2017 (2016: SR 5.57 million).

The Company also acts as a Fund Manager for Al-Diyafaa Real Estate Fund. As per the agreement, the Company charges management fees to the Fund. During 2017 such management fee earned by the Company amounted to SR 2.62 million (2016 : SR 2.63 million).

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**10 ACCRUALS AND OTHER PAYABLES**

	2017 SR	2016 SR
Accrued expenses and other payables	1,345,391	822,326
Employee related accruals	832,079	851,324
Withholding tax payable	71,267	73,322
	<u>2,248,737</u>	<u>1,746,972</u>

**11 ZAKAT**

*Charge for the year*

Zakat charge for the year amounted to SR 1,339,590 (2016: SR 1,102,684).

The following is a summary of the items included in the zakat base for the year ended 31 December:

	2017 SR	2016 SR
Equity	44,721,147	41,418,136
Opening allowances and other adjustments	4,519,951	1,537,788
Book value of long term assets	(121,101)	(3,621,860)
	<u>44,119,997</u>	<u>39,334,064</u>
Adjusted profit for the year	1,739,785	4,665,936
Zakat base	<u>50,859,782</u>	<u>44,000,000</u>

The difference between the financial and zakatable results are mainly due to provisions, which are not allowed in the calculation of zakatable profit.

*Movement in provision during the year*

The movement in zakat provision for the year was as follows:

	2017 SR	2016 SR
At the beginning of the year	4,321,856	3,392,193
Charge for the year	1,271,495	1,100,000
Prior year adjustment	68,095	2,684
Payments made during the year	(1,168,095)	(173,021)
	<u>4,493,351</u>	<u>4,321,856</u>

*Status of assessments and contingencies*

Zakat declarations for all years upto 2016 were submitted to the General Authority for Zakat and Tax (the "GAZT"). However, no assessments have yet been raised for the years from 2012 to 2016.

In prior years, the GAZT raised its assessment for the years 2008 to 2011 assessing additional zakat on the Company amounting to SR 3,221,856. The Company filed appeal against the above assessment raised by the GAZT in Higher Appeal Committee (HAC) and also provided a guarantee (margin deposit) of SR 3,221,856 to the GAZT. The Company has not yet received any response from the GAZT. However, the Company's management has provided for the assessed amount based on their best estimate of the worst case outcome.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**12 CAPITAL**

Capital consists of 115,000 shares of SR 1,000 each (2016: 115,000 shares of SR 1,000 each). The capital is distributed as follows:

<i>Name</i>	<i>2017</i>		<i>2016</i>	
	<i>Number of shares</i>	<i>%</i>	<i>Number of shares</i>	<i>%</i>
Emirates NBD Bank	109,250	95%	109,250	95%
Emirates Financial Services - Dubai	5,750	5%	5,750	5%

During 2017, the partners of the Company met and resolved to increase the capital by SR 30,000,000. The related legal formalities are in process as of the balance sheet date.

**13 STATUTORY RESERVE**

As required by Saudi Arabian Regulations for Companies and the articles of association of the Company, 10% of the income for the year after zakat has to be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of its capital. The reserve is not available for distribution. Due to the accumulated losses, no such transfer has been made in the current and prior year.

**14 REVENUE FROM DEALING, NET**

	<i>2017</i>	<i>2016</i>
	<i>SR</i>	<i>SR</i>
Revenue from dealing - net	<b>1,301,781</b>	1,408,121
Expense on dealing	<b>(243,225)</b>	(343,439)
	<b><u>1,058,556</u></b>	<b><u>1,064,682</u></b>

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2017

**15 GENERAL AND ADMINISTRATION EXPENSES**

	2017 SR	2016 SR
Salaries and employee related expenses	7,025,791	7,706,802
Professional and consulting fees	1,054,565	983,578
Repair and maintenance expense	978,844	1,138,538
Communication expense	637,480	642,424
Rent expense	583,142	604,439
Utilities expense	251,208	159,215
Independent Board members' fees	240,000	240,000
Broker insurance expense	173,301	254,103
Security charges	162,000	162,000
Stationery and subscription fees	137,473	177,918
Depreciation and amortisation expense (see note 7 and 8)	106,245	97,065
Travel expense	40,021	62,048
Stock exchange charges	38,059	46,490
Others	150,900	10,399
Withholding tax expense	-	1,700
	<u>11,579,029</u>	<u>12,286,719</u>

**16 OTHER INCOME, NET**

	2017 SR	2016 SR
Recharge to related parties (see note 9a(iii))	1,381,559	1,390,552
Foreign exchange loss, net	(2,405)	(2,272)
	<u>1,379,154</u>	<u>1,388,280</u>

**17 RISK MANAGEMENT**

*Special commission rate risk*

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market special commission rates. The Company does not have any significant exposure to special commission rate risk as it does not have any significant floating special commission rate bearing financial assets or liabilities as at the balance sheet date and none of the fixed special commission rate bearing financial assets or liabilities are carried at fair values.

*Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to currency risk due to fluctuations in foreign exchange rates in the normal course of its business. The Company neither has significant monetary assets and liabilities nor did it undertake significant transactions in currencies other than Saudi Riyals, UAE Dirhams and US Dollars during the year and since Saudi Riyal and UAE Dirham are pegged to the US Dollar therefore management believes that the Company is not exposed to any significant currency risk.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**17 RISK MANAGEMENT (continued)**

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk on its bank balances, term deposits, due from related parties and other receivables. The Company's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a regular basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

**18 FAIR VALUES OF FINANCIAL INSTRUMENTS**

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.

Financial instruments comprise financial assets and financial liabilities. The Company's financial assets consist of bank balances and cash, term deposits, amounts due from related parties and other receivables. Its financial liabilities consist of amounts due to related parties and accounts payable and accruals.

The fair values of financial instruments of the Company at the balance sheet date are not materially different from their carrying values.

**19 KEY SOURCES OF ESTIMATION UNCERTAINTY**

*Impairment of receivables*

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

*Useful lives of property and equipment*

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**20 ASSETS HELD IN FIDUCIARY CAPACITY**

As at 31 December 2017, client money and investments held under fiduciary capacity (on dealing and managing license activities) amounted to SR 50.78 million (2016: SR 78.5 million) and SR 2,313 million (2016: SR 6,070 million) respectively. These amounts were maintained with the Company by its customers for the purpose of investment in the local equity market on their behalf. As the Company acts in a fiduciary capacity, these are not included in the financial statements of the Company.

The Company entered into custodial service agreement with a mutual fund operating in the Kingdom of Saudi Arabia to acquire 95% shares in a limited liability company on behalf of the fund. The Company has not recorded such investment in its financial statements as it is merely acting as custodian for the fund.

Emirates NBD Capital KSA LLC  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

**21 REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY RATIO**

The capital base, minimum capital requirement and capital adequacy ratio of the Company as per the CMA's Prudential Rules are as follows:

	2017 SR	2016 SR
<i>Capital Base:</i>		
Tier 1 Capital	44,784,938	44,631,178
Tier 2 Capital	-	-
	<hr/>	<hr/>
Total Capital Base	44,784,938	44,631,178
	<hr/>	<hr/>
<i>Minimum Capital Requirement:</i>		
Credit risk	3,076,000	2,251,000
Operational risk	3,230,000	3,418,000
	<hr/>	<hr/>
Total minimum capital required (see note (d) below)	6,306,000	5,669,000
	<hr/>	<hr/>
<i>Capital Adequacy Ratio:</i>		
<b>Total Capital Ratio (times)</b>	<b>7.10</b>	7.87
<b>Tier 1 Capital Ratio (times)</b>	<b>7.10</b>	7.87
<b>Surplus in the capital (see note (d) below)</b>	<b>38,478,938</b>	38,962,178

- a) The capital base comprise of
- Tier 1 capital consist of share capital and audited retained earnings.
  - Tier 2 capital consist of subordinated loan.

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

- b) The Company manages its capital base in light of Pillar I and Pillar II of the Prudential Rules - the capital base should not be less than the minimum capital requirement.
- c) The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.
- d) The minimum paid up capital required as per Article 6(g) of the Authorised Persons regulations issued by the Capital Market Authority in the Kingdom of Saudi Arabia in respect of the licensed activities of the Company is SR 50 million.

**22 COMPARATIVE FIGURES**

Certain prior period numbers have been reclassified to conform with the current year presentation.

**23 APPROVAL OF FINANCIAL STATEMENTS**

The Board of Directors of the Company approved the financial statements on 12 Rajab 1439H (corresponding to 29 March 2018).