

DEUTSCHE SECURITIES SAUDI ARABIA
(Limited Liability Company)
Financial statements
For the year ended 31 December 2015



KPMG Al Fozan & Partners
Certified Public Accountants
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11/3/1992

INDEPENDENT AUDITORS' REPORT

The Shareholders
Deutsche Securities Saudi Arabia
Riyadh, Saudi Arabia

We have audited the accompanying financial statements of Deutsche Securities Saudi Arabia ("the Company") which comprise the balance sheet as at 31 December, 2015 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 19 which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 175 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. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

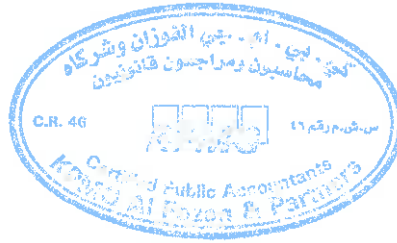
In our opinion, the financial statements taken as a whole:

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

**For KPMG Al Fozan & Partners
Certified Public Accountants:**

Abdullah Hamad Al Fozan
License no. 348

Date: 22 Jumada II 1437H
Corresponding to: 31 March 2016



Deutsche Securities Saudi Arabia
(Limited Liability Company)
BALANCE SHEET
As at 31 December 2015
(Saudi Arabian Riyals in '000)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current assets			
Cash and cash equivalents	4	554,887	541,154
Due from related parties	13	5,311	37,369
Prepayments and other current assets		3,779	3,386
Total current assets		<u>563,977</u>	<u>581,909</u>
Non - current assets			
Property and equipment, net	5	1,801	2,564
Deferred tax asset	10	4,468	4,793
Total non – current assets		<u>6,269</u>	<u>7,357</u>
Total assets		<u>570,246</u>	<u>589,266</u>
LIABILITIES			
Current liabilities			
Due to related parties	13	9,513	21,593
Accrued expenses and other current liabilities	6	13,485	21,197
Total current liabilities		<u>22,998</u>	<u>42,790</u>
Non - current liabilities			
Employees' end of service benefits		4,147	5,350
Total non - current liabilities		<u>4,147</u>	<u>5,350</u>
Total liabilities		<u>27,145</u>	<u>48,140</u>
SHAREHOLDERS' EQUITY			
Share capital	7	532,235	532,235
Statutory reserve	8	6,264	6,067
Retained earnings		4,602	2,824
Total shareholders' equity		<u>543,101</u>	<u>541,126</u>
Total liabilities and shareholders' equity		<u>570,246</u>	<u>589,266</u>

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



Jamal Al Kishi
Chief Executive Officer



Rasheed Alrasheed
Chief Financial Officer

Deutsche Securities Saudi Arabia
(Limited Liability Company)
STATEMENT OF INCOME
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Fee income	13	36,757	36,171
Brokerage income		4,788	3,618
Trading income, net		1,164	4,314
Service fee		-	5,238
Exchange (loss)/ gain		(2,168)	475
Operating income		40,541	49,816
Operating expenses	9	(39,410)	(51,547)
Net operating income / (loss)		1,131	(1,731)
Special commission income	13	1,947	1,871
Net income before tax		3,078	140
Income tax			
- Deferred	10	(325)	767
- Current	10	(778)	1,445
Net income for the year		1,975	2,352

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

Deutsche Securities Saudi Arabia
(Limited Liability Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Operating activities			
Net income before tax		3,078	140
<i>Adjustments to reconcile net income before tax to net cash from operating activities</i>			
Gain on disposal of trading investment		(1,164)	(4,314)
Depreciation	5	1,070	849
Employees' end of service benefits		1,203	1,706
		4,187	(1,619)
Net decrease / (increase) in operating assets			
Due from related parties		32,058	(12,626)
Prepayments and other current assets		(1,157)	3,525
Net increase / (decrease) in operating liabilities			
Due to related parties		(12,080)	18,104
Accrued expenses and other current liabilities		(7,726)	(4,372)
		15,282	3,012
Income tax paid	10	-	(1,538)
Employees' end of service benefits paid		(2,406)	-
Net cash generated from operating activities		12,876	1,474
Investing activities			
Purchase of property and equipment	5	(307)	(1,171)
Purchase of trading investments		(7,838)	(14,470)
Sale of trading investments		9,002	30,896
Net cash generated from investing activities		857	15,255
Financing activities			
Dividend paid	14	-	(20,757)
Net cash used in financing activities		-	(20,757)
Net increase/(decrease) in cash and cash equivalents		13,733	(4,028)
Cash and cash equivalents at the beginning of the year		541,154	545,182
Cash and cash equivalents at the end of year	4	554,887	541,154

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

Deutsche Securities Saudi Arabia
(Limited Liability Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 31 December 2013		532,235	5,832	21,464	559,531
Net income for the year		-	-	2,352	2,352
Transfer to statutory reserve	8	-	235	(235)	-
Dividends paid during the year	14	-	-	(20,757)	(20,757)
Balance as at 31 December 2014		532,235	6,067	2,824	541,126
Net income for the year		-	-	1,975	1,975
Transfer to statutory reserve	8	-	197	(197)	-
Balance as at 31 December 2015		532,235	6,264	4,602	543,101

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

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

1. ORGANIZATION AND ACTIVITIES

Deutsche Securities Saudi Arabia (“the Company”) is a Limited Liability Company incorporated in Kingdom of Saudi Arabia under Commercial Registration No. 1010239773 dated 24/10/1428 (corresponding to 05/11/2008G). The Company has received commencement of business license from Capital Market Authority (the “CMA”) on 12 January 2008.

The address of the Company is as follows:

Deutsche Securities Saudi Arabia
Floor 17, Al Faisaliah Tower
Olaya District
P.O. Box 301809, Riyadh 11372
Kingdom of Saudi Arabia

The objective of the Company is to provide a full range of investment banking services including arranging and providing advice, dealing in principal and agent capacity, to manage investment funds in local and international stock markets.

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

These financial statements have been prepared on historical cost basis, except for held for trading investments, derivatives and liabilities for cash settled share based payments, all of which have been measured at fair values, using the accrual basis of accounting and the going concern concept.

c) Functional and presentation currency

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

d) 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 period in which the estimates are revised and in future periods affected.

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) *Cash and cash equivalents*

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

b) *Held for trading investments*

Investments in this category are classified as held for trading on initial recognition. Investments classified as trading are acquired principally for selling or repurchasing in short term and are recorded in the balance sheet at fair value. Changes in fair value are recognized in the Statement of Income.

c) *Accounts receivables*

Accounts receivable are stated at original invoice amount less provisions made for amounts, which in the opinion of the management may not be received. Bad debts are written off when identified.

d) *Property and equipment*

Property and equipment are stated at cost and presented net of accumulated depreciation.

The cost of property and equipment is depreciated on straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvement	5 years or lease period whichever is lower
Furniture & fixture	5-10 years
Computer & office equipment	3-5 years

Gains and losses on disposals are determined by comparing sale proceeds with carrying amounts. These are included in the statement of income and are disclosed as other non-operating income or expense.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the statement of income when incurred.

e) *Income tax*

Current tax:

Income tax expense comprises current and deferred tax, which is recognized in Statement of Income and is computed in accordance with income tax regulations as applicable in the Kingdom of Saudi Arabia.

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

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

e) Income tax (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax:

Deferred taxation is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) Payables and accruals

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

g) 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.

h) Revenue recognition

Revenue is recognized as follows:

- Fee and brokerage income are recognised on an accrual basis when the services have been provided.
- Dividend income is recognized when the right to receive payment is established.
- Service fees are recognised on an accrual basis based on applicable service contracts.
- Gains/(losses) from trading activities resulted from the changes in fair value and disposals are recognized in the Statement of Income.

i) 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.

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

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

j) Impairment of financial assets

Financial assets (except those measured at fair value), property and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may be impaired. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

k) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when the entity has a legal currently enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

l) Foreign currency transactions

Transactions denominated in foreign currencies are translated to Saudi Arabian Riyals at the rates of exchange 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 Riyals at exchange rates prevailing on that date and resulting exchange differences are recognized in the statement of income.

m) Provisions

Provisions are recognized when the Company for a present legal or constructive obligation as a result of past events can make a reliable estimate and it is more likely than not that, an outflow of resources will be required to settle the obligation.

n) Assets held in trust or in a fiduciary capacity

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

o) Employee share option plan

Certain employees of the Company are eligible for the share based incentive plans offered by the ultimate parent Company (Deutsche Bank AG) which will be settled in the shares of Deutsche Bank AG. The Company as the receiving entity has an obligation to settle in cash or other assets since the equity instruments are not its equity instruments and accordingly has classified the share based payment arrangement as cash settled in these financial statements.

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Arabian Riyals in '000)

4. CASH AND CASH EQUIVALENTS

	<u>2015</u>	<u>2014</u>
Cash at bank	450,000	450,000
- Time deposits		
- Cash at bank - current account	<u>104,887</u>	<u>91,154</u>
	<u>554,887</u>	<u>541,154</u>

Time deposits represent funds placed with Deutsche Bank AG - Riyadh Branch carrying commission rate of 0.42% (2014 – 0.39%) and maturing in February 2016.

5. PROPERTY AND EQUIPMENT, NET

	<u>Leasehold improvement</u>	<u>Furniture & Fixture</u>	<u>Computer & Office equipment</u>	<u>Total 2015</u>	<u>Total 2014</u>
<i>Cost</i>					
Balance at beginning of the year	6,510	3,742	5,084	15,336	14,165
Additions during the year	-	-	307	307	1,171
	<u>6,510</u>	<u>3,742</u>	<u>5,391</u>	<u>15,643</u>	<u>15,336</u>
<i>Accumulated depreciation</i>					
Balance at beginning of the year	6,101	2,709	3,962	12,772	11,923
Charge for the year	160	233	677	1,070	849
	<u>6,261</u>	<u>2,942</u>	<u>4,639</u>	<u>13,842</u>	<u>12,772</u>
<i>Net book value</i>					
As at 31 December 2015	<u>249</u>	<u>800</u>	<u>752</u>	<u>1,801</u>	<u>-</u>
As at 31 December 2014	<u>409</u>	<u>1,033</u>	<u>1,122</u>	<u></u>	<u>2,564</u>

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Arabian Riyals in '000)

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2015</u>	<u>2014</u>
Accrual for bonus	7,908	11,431
Other accrued expenses	331	674
Taxes payable	1,082	1,860
Employee share option plan	237	265
Others	3,927	6,967
	<u>13,485</u>	<u>21,197</u>

Others include assets wealth management accruals for new IT platform.

7. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company consists of 53.2 million shares of SAR 10 each.

	<u>Number of shares</u>	<u>% of contribution</u>	<u>Amount SAR</u>
Deutsche Bank (AG)	50,563	95%	505,623
DB Capital Markets (Deutschland) Gmbh	2,661	5%	26,612
	<u>53,224</u>	<u>100%</u>	<u>532,235</u>

8. STATUTORY RESERVE

In accordance with Article 125 of the Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to a statutory reserve until such reserve equals 50% of the paid up capital. This reserve is not available for distribution.

9. OPERATING EXPENSES

	<u>2015</u>	<u>2014</u>
Salaries and employee-related expenses	27,353	39,200
Charges from Deutsche Group for support services (Note 13)		
- Regional Office / Other Branches	4,289	4,188
- Deutsche Bank – Riyadh Branch	-	1,500
Travel	1,942	1,851
IT expenses	(1,656)	1,153
Communication	1,522	889
Depreciation (Note 5)	1,070	849
Legal and consulting expenses	657	308
Others	4,233	1,609
Total	<u>39,410</u>	<u>51,547</u>

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

10. TAXATION

a) Movement in Income tax

	<i>Provision for tax/ (advance tax)</i>	
	<u>2015</u>	<u>2014</u>
Balance at 1 January	(1,690)	1,293
Tax charge/(reversal)		
- Current year	778	265
- Prior year	-	(1,710)
Payments made during the year	-	(1,538)
Balance at 31 December	<u>(912)</u>	<u>(1,690)</u>

b) Recognized deferred tax asset

Recognized Deferred expense tax assets at 31 December are attributable to the following:

	<u>2015</u>	<u>2014</u>
Property and equipment	942	862
Employees' end of service benefits	830	1,070
Carry forward losses	2,696	2,861
Deferred tax asset	<u>4,468</u>	<u>4,793</u>

The movement in deferred tax assets during the year is summarized as under:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	4,793	4,026
Charge for the year	(325)	767
Balance at end of the year	<u>4,468</u>	<u>4,793</u>

c) Status of income tax assessments

The Company has filed its income tax returns up to the year ended 31 December 2014 with the Department of Zakat and Income Tax (DZIT). No assessments have been raised to date although further information has been requested for years 2007 to 2013 from the DZIT which has been provided.

11. ASSETS HELD IN FIDUCIARY CAPACITY

As at 31 December 2015 assets held under fiduciary capacity amounted to SAR 908 million (2014: SAR 246 million) kept with a local commercial bank. These amounts were kept with the Company by its customers for the purpose of investment in the local equity market.

As at 31 December 2015, the Company held equity securities with a market value of SAR 1,531 million (2014: SAR 2,661 million) in its name under Swap Agreement. These securities were held pursuant to Capital Market Authority (CMA) circular dated 21 August 2009. Through this circular, CMA allowed the Authorized Persons (AP) to enter into Swap Agreements with non-resident foreign investors to transfer the economic benefits of the listed securities on Tadawul while the AP retains the legal ownership of shares.

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
(Saudi Arabian Riyals in '000)

12. COMMITMENTS AND CONTINGENCIES

a) Commitments

Lease commitments

The future minimum lease payments as of December 31 for the future years are analyzed as follows:

	<u>2015</u>	<u>2014</u>
Within one year	155	155
Between two and five year	13	168
Total	<u>168</u>	<u>324</u>

b) Contingencies

At December 31, 2015, the Company had contingent liabilities SAR 1, 4 billion (2014: Nil).

13. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Company transacts business with related parties. The Company's related parties include Deutsche Group head office, its regional offices and other branches including Deutsche Bank AG – Riyadh Branch.

The Company has entered into agreements with Deutsche Bank AG (principal shareholder), which provide for an agreed bases for sharing of revenues on jointly executed projects and recovery of expenses incurred on such projects as approved by the Company's management.

Fee income comprise of revenue received by the Company from Deutsche Bank AG and its affiliates under revenue sharing arrangements for products offered to Company's customers.

Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	<u>2015</u>	<u>2014</u>
Income		
Fee income – Deutsche group regional offices and other branches	<u>24,109</u>	<u>23,508</u>
Service fee – Deutsche Bank AG - Riyadh Branch	<u>-</u>	<u>5,238</u>
Special Commission income – Deutsche Bank AG - Riyadh Branch	<u>1,947</u>	<u>1,871</u>
Expenses		
Charges for support services		
Deutsche Bank – Riyadh Branch for support services	<u>-</u>	<u>1,500</u>
Deutsche group regional offices and other branches	<u>4,289</u>	<u>4,188</u>
Compensation to key management personnel	<u>14,471</u>	<u>24,432</u>

Deutsche Securities Saudi Arabia
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
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13. RELATED PARTY TRANSACTIONS (continued)

In addition to the transactions mentioned above the DB Group is also assisting the Company in development of an IT platform for wealth management activities. The project has not progressed as initially planned and the expense of SAR (1,656) (2014: SAR 1,153) incurred for the project which has been charged to the income statement with a corresponding accrual awaiting invoices from DB Group (Note 6).

The balances at 31 December resulting from such transactions included in the financial statements are as follows:

	<u>2015</u>	<u>2014</u>
Due from Deutsche group regional offices and other branches	<u>5,311</u>	<u>37,369</u>
Due to Deutsche group regional offices and other branches	<u>9,513</u>	<u>21,593</u>

In addition to above balances, the Company held balance in bank account with Deutsche Bank AG, Riyadh Branch of SAR 554,887 (2014: SAR 541,154) who acts as banker for the Company. Further, an amount of SAR 237 (2014- SAR 265) is payable to the parent Company related to the employee share option plan (note 6).

14. DIVIDEND

The Company distributed net cash dividend of SAR Nil (2014: SAR 20,757 thousands).

15. FAIR VALUE 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.

The fair value of the Company's financial assets and liabilities are not materially different from their carrying amounts.

16. FINANCIAL INSTRUMENTS & RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Company's business. The major risks faced by the Company are those related to liquidity, movements in special commission rates and foreign exchange rates. These risks are managed in the following manner:

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. The Company has no significant concentration of credit risks with unrelated counterparties. Bank balances are placed with Deutsche Bank Riyadh Branch, which is a related party with sound credit rating. Receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Deutsche Securities Saudi Arabia
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014
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16. FINANCIAL INSTRUMENTS & RISK MANAGEMENT POLICIES (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's foreign currency transactions are primarily denominated in US Dollars and Euros. The rate of exchange for conversion of the Saudi Riyal to the US Dollar is pegged and therefore the Company is not exposed to currency risk on US dollar based transactions. The net position of Euro as at 31 December 2015 was SAR 9.38 million at year-end (31 December 2014: SAR 11.05 million). The Company manages currency risk by monitoring positions on a regular basis.

Special commission rate risk

Special commission rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As the Company does not have interest bearing assets and liabilities, except for the time deposit which carries a fixed interest rate, it is not exposed to any special commission rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions which may cause certain sources of funding to dry up immediately. To guard against this risk, management performs regular review of available funds and present and future commitments.

17. CAPITAL ADEQUACY DISCLOSURES

In line with Pillar III disclosures under the new prudential rules.

	<u>2015</u>	<u>2014</u>
Capital Base		
- Tier 1 Capital	538,633	533,235
- Tier 2 Capita	-	-
Total Capital Base	<u>538,633</u>	<u>533,235</u>
Minimum Capital Requirement		
Credit Risk	19,848	21,275
Market Risk	1,330	1,562
Operation Risk	9,853	13,742
Total Minimum Capital Required	<u>31,031</u>	<u>36,579</u>
Capital Adequacy Ratio:		
Surplus in Capital	507,602	496,656
Capital Ratio (Times)	17.36	14.57

- a) Capital Base of the Company comprise of Tier-1 capital only which consists of paid-up share capital, retained earnings, and statutory reserve.
- b) The minimum capital requirements for market, credit & operational risk are calculated as per the requirements specified in the part 3 of the Prudential Rules issued by the CMA.

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17. CAPITAL ADEQUACY DISCLOSURES (continued)

- 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.

The Company is well capitalized with SAR 539 million of tier 1 capital. The risks are minimized and appropriately mitigated.

There has been minimal movement in the capital requirements. The main item has been in relation to Market risk. This is mainly constituted of FX and Equity risk. There were no equity exposures as at December 2015.

18. COMPARITIVE FIGURES

The comparatives figures for the previous year have been reclassified, where necessary, in order to confirm to the current year presentation.