

**DEUTSCHE SECURITIES SAUDI ARABIA**  
(Limited Liability Company)  
**Financial statements**  
**For the year ended 31 December 2016**  
**Together with the**  
**Independent Auditors' Report**



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**  
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## INDEPENDENT AUDITORS' REPORT

**To: The Board of Directors**  
**Deutsche Securities Saudi Arabia**  
**(Limited Liability Company)**  
**Riyadh, Kingdom of 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 2016 and the related statements of income, cash flows and changes in shareholders' 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 the Regulations for Companies and Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of the 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 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 2016, 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 the financial statements.

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

Abdullah Hamad Al Fozan  
License No. 348

Date: 23 Jumada II 1438H  
Corresponding to: 22 March 2017





**Deutsche Securities Saudi Arabia**  
(Limited Liability Company)  
**BALANCE SHEET**  
As at 31 December 2016  
(Saudi Arabian Riyals in '000)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	521,526	554,887
Due from related parties	13	14,515	5,311
Prepayments and other current assets		2,315	3,779
<b>Total current assets</b>		<u>538,356</u>	<u>563,977</u>
<b>Non - current assets</b>			
Property and equipment, net	5	5,500	1,801
Deferred tax asset	10	4,319	4,468
<b>Total non – current assets</b>		<u>9,819</u>	<u>6,269</u>
<b>Total assets</b>		<u>548,175</u>	<u>570,246</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Due to related parties	13	20,490	9,513
Accrued expenses and other current liabilities	6	32,809	13,485
<b>Total current liabilities</b>		<u>53,299</u>	<u>22,998</u>
<b>Non - current liabilities</b>			
Employees' end of service benefits		6,349	4,147
<b>Total non - current liabilities</b>		<u>6,349</u>	<u>4,147</u>
<b>Total liabilities</b>		<u>59,648</u>	<u>27,145</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	532,235	532,235
Statutory reserve	8	6,264	6,264
(Accumulated losses) / retained earnings		(49,972)	4,602
<b>Total shareholders' equity</b>		<u>488,527</u>	<u>543,101</u>
<b>Total liabilities and shareholders' equity</b>		<u>548,175</u>	<u>570,246</u>

The accompanying notes 1 to 19 form an integral part of these financial statements

The financial statements set out on pages 1 to 15 have been approved by the Board of Directors on 13 March 2017 and have been signed on its behalf by:

  
\_\_\_\_\_  
**Jamal Al Kishi**  
Chief Executive Officer

  
\_\_\_\_\_  
**Rasheed Al Rasheed**  
Chief Financial Officer

**Deutsche Securities Saudi Arabia**  
(Limited Liability Company)  
**STATEMENT OF INCOME**  
For the year ended 31 December 2016  
(Saudi Arabian Riyals in '000)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Fee income	13	14,678	36,757
Brokerage income		3,035	4,788
Trading income, net		309	1,164
Service fee		2,828	-
Exchange (loss)		(301)	(2,168)
<b>Operating income</b>		<u>20,549</u>	<u>40,541</u>
Operating expenses	9	(65,825)	(39,410)
<b>Net operating (loss) / income</b>		<u>(45,276)</u>	<u>1,131</u>
Special commission income	13	5,800	1,947
<b>Net (loss) / income before tax</b>		<b>(39,476)</b>	<b>3,078</b>
Income tax			
- Deferred	10	(149)	(325)
- Current	10	(13,085)	(778)
<b>Net (loss) / income for the year</b>		<u>(52,710)</u>	<u>1,975</u>

The accompanying notes 1 to 19 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 2016  
(Saudi Arabian Riyals in '000)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>Operating activities</b>			
Net (loss) / income before tax		(39,476)	3,078
<i>Adjustments to reconcile net income before tax to net cash from operating activities</i>			
Gain on disposal of trading investment		-	(1,164)
Depreciation	5	1,142	1,070
Employees' end of service benefits		2,545	1,203
		<u>(35,789)</u>	<u>4,187</u>
<b>Net decrease / (increase) in operating assets</b>			
Due from related parties		(9,204)	32,058
Prepayments and other current assets		1,613	(1,157)
<b>Net increase / (decrease) in operating liabilities</b>			
Due to related parties		10,977	(12,080)
Accrued expenses and other current liabilities		6,090	(7,726)
		<u>(26,313)</u>	<u>15,282</u>
Income tax paid	10	-	-
Employees' end of service benefits paid		(343)	(2,406)
<b>Net cash (used in) / generated by operating activities</b>		<u>(26,656)</u>	<u>12,876</u>
<b>Investing activities</b>			
Purchase of property and equipment	5	(4,841)	(307)
Purchase of trading investments		-	(7,838)
Sale of trading investments		-	9,002
<b>Net cash (used in) / generated by investing activities</b>		<u>(4,841)</u>	<u>857</u>
<b>Financing activities</b>			
Dividend paid	14	(1,864)	-
<b>Net cash used in financing activities</b>		<u>(1,864)</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents		(33,361)	13,733
Cash and cash equivalents at the beginning of the year		554,887	541,154
<b>Cash and cash equivalents at the end of year</b>	4	<u>521,526</u>	<u>554,887</u>

The accompanying notes 1 to 19 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 2016  
*(Saudi Arabian Riyals in '000)*

	<i>Notes</i>	Share capital	Statutory reserve	(Accumulated losses) / retained earnings	Total
<b>Balance as at 31 December 2014</b>		532,235	6,067	2,824	541,126
Net income for the year		-	-	1,975	1,975
Transfer to statutory reserve	8	-	197	(197)	-
Dividends paid during the year	14	-	-	-	-
<b>Balance as at 31 December 2015</b>		532,235	6,264	4,602	543,101
Net income for the year		-	-	(52,710)	(52,710)
Transfer to statutory reserve	8	-	-	-	-
Dividends paid during the year	14	-	-	(1,864)	(1,864)
<b>Balance as at 31 December 2016</b>		532,235	6,264	(49,972)	488,527

The accompanying notes 1 to 19 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 2016  
(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 new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as “The Law”) came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its Articles of Association for any changes to align the Articles to the provisions of The Law. Consequently, the Company shall present the amended Articles of Association to the shareholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than 24/07/1438H (corresponding to 21 April 2017).

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.



**Deutsche Securities Saudi Arabia**  
(Limited Liability Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. BASIS OF PREPARATION (continued)**

**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.

**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.

**Deutsche Securities Saudi Arabia**  
(Limited Liability Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Income tax (continued)**

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.

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 lease.

**Deutsche Securities Saudi Arabia**  
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**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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**4. CASH AND CASH EQUIVALENTS**

	<u>2016</u>	<u>2015</u>
Cash at bank		
- Time deposits	450,000	450,000
- Cash at bank - current account	71,526	104,887
	521,526	554,887

Time deposits represent funds placed with Deutsche Bank AG - Riyadh Branch carrying commission rate of 1.85% (2015: 0.50%) maturing on 28 February 2017.

**5. PROPERTY AND EQUIPMENT, NET**

	<i>Leasehold improvement</i>	<i>Furniture &amp; Fixture</i>	<i>Computer &amp; Office equipment</i>	<i>Total 2016</i>	<i>Total 2015</i>
<i>Cost</i>					
Balance at beginning of the year	6,510	3,742	5,391	15,643	15,336
Additions during the year	4,020	492	329	4,841	307
	10,530	4,234	5,720	20,484	15,643
<i>Accumulated depreciation</i>					
Balance at beginning of the year	6,261	2,942	4,639	13,842	12,772
Charge for the year	351	250	541	1,142	1,070
	6,612	3,192	5,180	14,984	13,842
<i>Net book value</i>					
<b>As at 31 December 2016</b>	<b>3,918</b>	<b>1,042</b>	<b>540</b>	<b>5,500</b>	<b>-</b>
As at 31 December 2015	249	800	752	-	1,801

**Deutsche Securities Saudi Arabia**  
(Limited Liability Company)  
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**6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>2016</u>	<u>2015</u>
Taxes payable	15,755	1,082
Other accrued expenses	8,816	331
Accrual for bonus	3,074	7,908
Employee share option plan	1,399	237
Others	3,765	3,927
	<u>32,809</u>	<u>13,485</u>

**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>2016</u>	<u>2015</u>
Salaries and employee-related expenses	31,540	27,353
Charges from Deutsche Group for support services (Note 13)		
- Regional Office / Other Branches	13,140	4,289
- Deutsche Bank – Riyadh Branch		-
Travel	2,116	1,942
IT expenses	2,115	(1,656)
Legal and consulting expenses	1,551	657
Communication	1,154	1,522
Depreciation (Note 5)	1,142	1,070
Others	13,067	4,233
<b>Total</b>	<u>65,825</u>	<u>39,410</u>

**Deutsche Securities Saudi Arabia**  
(Limited Liability Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**10. TAXATION**

**a) Movement in Income tax**

	<i>Provision for tax/ (advance tax)</i>	
	<u>2016</u>	<u>2015</u>
Balance at 1 January	(912)	(1,690)
Tax charge/(reversal)		
- Current year	13,085	778
- Prior year	-	-
Payments made during the year	-	-
<b>Balance at 31 December</b>	<u>12,173</u>	<u>(912)</u>

**b) Recognized deferred tax asset**

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

	<u>2016</u>	<u>2015</u>
Property and equipment	475	942
Employees' end of service benefits	1,270	830
Carry forward losses	2,574	2,696
<b>Deferred tax asset</b>	<u>4,319</u>	<u>4,468</u>

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

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	4,468	4,793
Charge for the year	(149)	(325)
<b>Balance at end of the year</b>	<u>4,319</u>	<u>4,468</u>

**c) Status of income tax assessments**

The Company has filed its income tax returns up to the year ended 31 December 2015 with the General Authority for Zakat and Taxes ("GAZT"). No final assessments have been raised to date although further information has been requested for years 2007 to 2013 from the GAZT which has been provided.

During the year 2015, The Company received initial assessment of income tax assessment from GAZT for the years 2007 to 2013 that resulted in additional tax liability SAR 50.7m mainly due to the disallowance of certain expenses from the tax base of the Company.

Management is of the view that the claim by GAZT is not justified and have appealed, and the case is under review by GAZT. The Company on a prudent basis has provided for an additional liability for tax with respect to the years 2007 to 2013 amounting to SAR 20.7m covering SAR 7.6m of late penalty).

**Deutsche Securities Saudi Arabia**  
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**11. ASSETS HELD IN FIDUCIARY CAPACITY**

As at 31 December 2016 assets held under fiduciary capacity amounted to SAR 278 million (2015: SAR 908 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 2016, the Company held equity securities with a market value of SAR 781 million (2015: SAR 1,531 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.

**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>2016</u>	<u>2015</u>
Within one year	156	155
Between two and ten year	869	13
Total	<u>1,025</u>	<u>168</u>

**Deutsche Securities Saudi Arabia**  
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**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>2016</u>	<u>2015</u>
<b>Income</b>		
Fee income – Deutsche group regional offices and other branches	<u>10,526</u>	<u>24,109</u>
Service fee – Deutsche Bank AG - Riyadh Branch	<u>2,828</u>	<u>-</u>
Special Commission income – Deutsche Bank AG - Riyadh Branch	<u>2,400</u>	<u>1,947</u>
<b>Expenses</b>		
Charges for support services		
Deutsche group regional offices and other branches	<u>13,140</u>	<u>4,289</u>
Compensation to key management personnel	<u>10,059</u>	<u>14,471</u>

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

	<u>2016</u>	<u>2015</u>
Due from Deutsche group regional offices and other branches	<u>14,515</u>	<u>5,311</u>
Due to Deutsche group regional offices and other branches	<u>20,490</u>	<u>9,513</u>

In addition to above balances, the Company held balance in bank account with Deutsche Bank AG, Riyadh Branch of SAR 521,526 (2015: SAR 554,887) who acts as banker for the Company. Further, an amount of SAR 1,399 (2015: SAR 237) 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 1.864 million (2015: Nil).

**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.



**Deutsche Securities Saudi Arabia**  
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(Saudi Arabian Riyals in '000)

**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.

***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 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.

**Deutsche Securities Saudi Arabia**  
(Limited Liability Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2016  
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**17. CAPITAL ADEQUACY DISCLOSURES**

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

	<u>2016</u>	<u>2015</u>
Capital Base		
- Tier 1 Capital	484,208	538,633
- Tier 2 Capita	-	-
<b>Total Capital Base</b>	<u>484,208</u>	<u>538,633</u>
<b>Minimum Capital Requirement</b>		
Credit Risk	19,505	19,848
Market Risk	3,480	1,330
Operation Risk	16,456	9,853
<b>Total Minimum Capital Required</b>	<u>39,441</u>	<u>31,031</u>
<b>Capital Adequacy Ratio:</b>		
Surplus in Capital	444,767	507,602
Capital Ratio (Times)	12.28	17.36

- a) Capital Base of the Company comprise of Tier-1 capital only which consists of paid-up deferred tax, 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.
- 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.

**18. COMPARITIVE FIGURES**

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

**19. BOARD OF DIRECTORS' APPROVAL**

These financial statements were approved by the Board of Directors on 13 March 2017 and signed on their behalf by the Chief Executive Officer and Chief Financial Officer.