

Itqan Capital
(A Closed Saudi Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2016

AUDITORS' REPORT TO THE SHAREHOLDERS OF ITQAN CAPITAL (A SAUDI CLOSED JOINT STOCK COMPANY)

Scope of audit

We have audited the accompanying balance sheet of Itqan Capital (A Saudi Closed Joint Stock Company) ("the Company") as at 31 December 2016, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

15 Jumada I 1438H
12 Ferbruary 2017

Jeddah

16/204/00



Itqan Capital (A Closed Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2016

	<i>Note</i>	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
ASSETS			
CURRENT ASSETS			
Bank Balances	3	1,462,987	3,905,761
Investments in units of investment funds	4	25,745,551	22,848,689
Prepaid expenses and other assets	5	9,562,086	9,477,365
TOTAL CURRENT ASSETS		36,770,622	36,231,815
NON-CURRENT ASSETS			
Investments in real estate funds units	6	67,101,963	67,065,112
Investments in real estate	7	5,696,072	5,520,276
Investments in available for sale securities	8	-	8,472,470
Investments in sukuku available for sale	9	3,090,157	3,086,737
Investment in unconsolidated subsidiaries	10	297,000	297,000
Fixed assets, net	11	8,153,357	7,987,987
TOTAL NON-CURRENT ASSETS		84,338,549	92,429,582
TOTAL ASSETS		121,109,173	128,661,397
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accrued expenses and other payables	12	4,369,205	4,284,103
Zakat	13	799,522	810,271
TOTAL CURRENT LIABILITIES		5,168,727	5,094,374
NON-CURRENT LIABILITIES			
Provision of employees end of service benefits		1,822,518	1,852,133
TOTAL NON-CURRENT LIABILITIES		1,822,518	1,852,133
TOTAL LIABILITIES		6,991,245	6,946,507
SHAREHOLDERS' EQUITY			
Share capital	14	173,417,900	173,417,900
Unrealized loss from revaluation of investments		(149,150)	(890,334)
Accumulated losses		(59,150,822)	(50,812,676)
TOTAL SHAREHOLDERS' EQUITY		114,117,928	121,714,890
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		121,109,173	128,661,397

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

Itqan Capital (A Closed Saudi Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2016

	<i>Note</i>	2016 SR	2015 SR
REVENUE			
Operating revenue	16	5,783,578	4,795,321
Total revenue		<u>5,783,578</u>	<u>4,795,321</u>
EXPENSES			
Salaries and wages		(9,945,276)	(13,186,310)
Rents		(947,710)	(1,032,277)
Depreciation		(278,774)	(670,716)
General and administrative	17	(2,152,076)	(3,141,213)
Total Expenses		<u>(13,323,836)</u>	<u>(18,030,516)</u>
NET LOSS FOR THE YEAR		<u>(7,540,258)</u>	<u>(13,235,195)</u>
Loss per share:			
From net loss for the year	18	<u>(0.43)</u>	<u>(0.76)</u>
Weighted average number of shares outstanding during the year (shares)		<u>17,341,790</u>	<u>17,341,790</u>

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

Itqan Capital (A Closed Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	<i>Note</i>	2016 <i>SR</i>	2015 <i>SR</i>
OPERATING ACTIVITIES			
Net loss for the year		(7,540,258)	(13,235,195)
Adjustments for:			
Depreciation	11, 7	278,774	670,716
Loss on write off of fixed assets		-	471,429
Provision of employees end of service benefits		518,401	181,144
Accrued income from murabaha investment		-	(519,810)
Gain from investment in units of investment funds		(474,452)	(403,900)
Unrealized (gain) / loss from investment in real estate funds	7	(189,421)	2,554,150
		(7,406,956)	(10,281,466)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		(84,721)	(2,662,637)
Accrued expenses and other payables		85,102	(188,734)
Employees end of service benefits paid		(548,016)	(331,968)
Zakat paid		(808,637)	(745,974)
Net cash used in operating activities		(8,763,228)	(14,210,779)
INVESTING ACTIVITIES			
Purchase of fixed assets	11	(385,965)	(7,609,443)
Investments in units of investment funds		(2,422,410)	(13,332,062)
Investment in unconsolidated subsidiaries		-	(198,000)
Investments in real estate funds units		-	29,271,519
Investment in real estate		(233,975)	(5,567,465)
Proceeds from sale of investments in available for sale securities		9,958,150	2,284,282
Investments in available for sale securities		(595,346)	(7,139,579)
Investments in murabaha		-	15,750,469
Net cash from investing activities		6,320,454	13,459,721
DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year		(2,442,774)	(751,058)
		3,905,761	4,656,819
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,462,987	3,905,761
Additional None Cash transactions			
Reversal of unrealised loss on disposals of investments		890,334	-
Net change in fair value for available for sale investments		(149,150)	(743,357)

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

Itqan Capital (A Closed Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	<i>Share capital SR</i>	<i>Unrealized gain (/loss) from revaluation of investments SR</i>	<i>Accumulated losses SR</i>	<i>Total SR</i>
Balance at 31 December 2014	173,417,900	(146,977)	(36,846,660)	136,424,263
Net change in fair value	-	(743,357)	-	(743,357)
Loss for the year	-	-	(13,235,195)	(13,235,195)
Zakat (note 13)	-	-	(730,821)	(730,821)
Balance at 31 December 2015	173,417,900	(890,334)	(50,812,676)	121,714,890
Reversal of unrealised loss on disposals of investments	-	890,334	-	890,334
Loss for the year	-	-	(7,540,258)	(7,540,258)
Net change in fair value	-	(149,150)	-	(149,150)
Zakat (note 13)	-	-	(797,888)	(797,888)
Balance at 31 December 2016	173,417,900	(149,150)	(59,150,822)	114,117,928

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

Itqan Capital (A Closed Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

1 ACTIVITIES

Itqan Capital ("the Company") is a Closed Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration No. 4030167335 dated 16 Safar 1428H (corresponding to 6 March 2007) and the Capital Market Authority (CMA) license number 37-07058 according to the decision of the authority number 9-17-2007 dated 21 Rabi Awal 1428H (corresponding to 9 April 2007). The Company was permitted to commence operation on 23 Rabi Thani 1429H (corresponding to 29 April 2008). The Company is located in Jeddah, Nahda District, King Abdulaziz Road, P. O. Box 8021 Postal code 21482.

The objectives of the Company are as follows:

- Establishing/managing of investment funds/portfolios.
- Arranging.
- Custody services for the administrative arrangements and procedures related to the investment funds and portfolio management.
- Acting as principal and underwriter.
- Providing consultancy on securities.

All investment products provided by the Company are in accordance with the Islamic Shari'a and certified by the Company's Shari'a consultant.

The financial statements have been approved by the Board of Directors on 5 Jumada Al-Awal 1438H, (corresponding to 2 February 2017).

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia. The financial statements was prepared in Saudi Riyals, which is the functional currency of the Company.

The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments in units of investment funds, Investments in real estate funds units , investments in available for sale securities and investments in sukuks available for sale.

Use of estimate

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimations and provisions are based on the best information available with the management in regard of operations and current events, the actual results may differ from such estimations.

Investment entity

In determining the Company's status as an investment entity, the Company considered the following:

- a) The Company provide investment management services to a number of investors with respect to investment in funds managed by the Company;
- b) The Company generate capital and income from its investments which will, in turn, be distributed to the current and potential investors; and
- c) The Company evaluates its investments' performance on a fair value basis, in accordance with the policies set out in these financial statements.

Cash and cash equivalents

Cash and cash equivalent consists of bank balances and investments in short term murabaha that are readily convertible into known amounts of cash and with original maturity of three months or less from date of purchase.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Murabaha investments

Investments in Murabaha with a maturity of more than three months from the purchase date are stated at cost plus the profit. Profit is recognised on an accrual basis.

Investments in real estate funds units

Investments in real estate funds are stated at fair value using unit prices prevailing at the end of the year. Changes in unit price are included in the statement of income. Valuation of units in real estate funds are made by the fund managers.

Investments in sukuk available for sale

The securities represented in the sukuk are measured at the balance sheet on fair value basis. Changes in the fair value are reflected in the shareholders equity statement and the accrued income from earned profits is recorded as accrued revenue due until its realized.

Investments in available for sale securities

These represent investments which are neither bought with the intention of being held to maturity nor for trading purposes. Such investments are stated at fair value. Changes in fair value are credited or charged to the statement of changes in shareholders' equity. Where there is objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognised in the statement of income.

Investments in subsidiaries

The subsidiary is a Company in which Itqan Capital has a significant interest, directly or indirectly, and over which it exerts control. These investments are recorded at cost since the subsidiaries do not have any commercial activity. Therefore it was not been consolidated (note 10).

Fixed assets

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

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

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

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Accounts payable and accruals

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and Income Tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. The liability will be charged to retained earnings. Additional amount, if any, that may become due on finalisation of an assessment are recorded in the year in which the assessment is finalised.

Employees' end of service 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.

Revenue recognition

- Income from investment banking services is recognized when the services are rendered and related invoices are issued to customers in accordance with contract terms.
- Income from asset management is recognized periodically according to predetermined due dates.
- Income from Murabaha investment is recognized on an accrual basis from disbursement date to due date.
- Dividends from investment in available for sale securities and real estate funds are recognized when declared.

Expenses

Due to the nature of the Company's activities expenses are classified to operating costs and general and administrative expenses.

Foreign currencies

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

Segmental reporting

A segment is a basic component of the Company that is engaged either in selling products or providing services (a business segment) or in selling products or providing services within a particular economic environment (a geographic segment) which is subject to risks and rewards that are different from those of other segments. Due to the nature of its business, the Company issuing business segment reporting.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

Offsetting

Financial assets and financial liabilities are offset and reported net in the balance sheet when there is a legally 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. Income and expenses are presented on a net basis only when permitted under accounting standards generally accepted in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions.

3 BANK BALANCES

	2016 SR	2015 SR
Current accounts	1,462,987	3,905,761
	<u>1,462,987</u>	<u>3,905,761</u>

Itqan Capital (A Closed Saudi Joint Stock Company)
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2016

4 INVESTMENTS IN UNITS OF INVESTMENT FUNDS

	2016 SR	2015 SR
Carrying Value:		
Balance at the beginning of the year	22,848,689	9,112,727
Additions during the year	12,451,372	37,149,770
Redemptions during the year	(10,028,962)	(23,817,708)
Balance at 31 December	<u>25,271,099</u>	<u>22,444,789</u>
Change in fair value:		
Unrealised gain during the year	595,490	479,275
Realised gain during the year	(121,038)	(75,375)
Balance at 31 December	<u>474,452</u>	<u>403,900</u>
Balance at 31 December	<u>25,745,551</u>	<u>22,848,689</u>

The investment has been evaluated by the fund managers as on 31 December.

5 PREPAID EXPENSES AND OTHER ASSETS

	2016 SR	2015 SR
Prepaid expenses	334,734	623,508
Employees receivables	40,884	59,530
Amounts due from related parties (note 20)	6,657,587	6,644,598
Letter of guarantee deposit	1,820,168	1,820,168
Fixed asset held for sale	-	14,187
Accrued income	28,905	28,905
Debtors	473,334	-
Other assets	206,474	286,469
	<u>9,562,084</u>	<u>9,477,365</u>

6 INVESTMENTS IN REAL ESTATE FUNDS UNITS

	2016 SR	2015 SR
Balance at the beginning of the year	67,065,112	98,890,781
Additions during the year	-	-
Disposals during the year	-	(29,271,519)
Unrealised gain / (loss) during the year	36,851	(2,554,150)
Balance at 31 December	<u>67,101,963</u>	<u>67,065,112</u>

Itqan Capital (A Closed Saudi Joint Stock Company)
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2016

7 INVESTMENTS IN REAL ESTATE

	2016 SR	2015 SR
Cost:		
Balance at the beginning of the year	5,567,465	-
Additions during the year	233,975	5,567,465
Disposals	-	-
Balance at 31 December	<u>5,801,440</u>	<u>5,567,465</u>
Depreciation:		
Balance at the beginning of the year	(47,189)	
Depreciation during the year	(58,179)	(47,189)
Balance at 31 December	<u>(105,368)</u>	<u>(47,189)</u>
Balance at 31 December	<u><u>5,696,072</u></u>	<u><u>5,520,276</u></u>

8 INVESTMENTS IN AVAILABLE FOR SALE SECURITIES

	2016 SR	2015 SR
Cost:		
Balance at beginning of the year	9,362,804	4,507,507
Additions	595,346	7,139,579
Disposals	(9,958,150)	(2,284,282)
Balance at 31 December	<u>-</u>	<u>9,362,804</u>
Change in fair value:		
Balance at beginning of the year	(890,334)	(146,977)
Unrealized loss from revaluation of investments	-	(743,357)
Reversal of unrealised loss on disposals of investments	890,334	-
Balance at 31 December	<u>-</u>	<u>(890,334)</u>
Carrying value at 31 December	<u><u>-</u></u>	<u><u>8,472,470</u></u>

9 INVESTMENTS IN SUKUKS AVAILABLE FOR SALE

	2016 SR	2015 SR
Cost:		
Balance at the beginning of the year	3,086,737	3,086,737
Change in fair value	3,420	-
Balance at 31 December	<u><u>3,090,157</u></u>	<u><u>3,086,737</u></u>

The Company has investments in sukuk issued by a Saudi Company and Sharjah Government and were recorded at fair value.

Itqan Capital (A Closed Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2016

10 INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

The investment in unconsolidated subsidiaries are as follows:

- An investment of 99% in Reif Al Nakhil Limited Company's capital. The unconsolidated subsidiary was registered on 16 Shawal 1433H (corresponding to 3 September 2013)
- An investment of 99% in Reif Al Jadida Limited Company's capital. The unconsolidated subsidiary was registered on 16 Muharam 1437H (corresponding to 29 October 2015)
- An investment of 99% in Reif Al Nomow Limited Company's capital. The unconsolidated subsidiary was registered on 1 Rabia Al Awal 1437H (corresponding to 11 January 2016)

The unconsolidated subsidiaries were registered as special purpose entities, for the purpose of registering the ownership of the properties owned by the funds, managed by Itqan Capital in their name.

The movement in the investment in unconsolidated subsidiaries is as follows:

	<i>2016</i> <i>SR</i>	<i>2015</i> <i>SR</i>
Cost:		
Balance at the beginning of the year	297,000	99,000
Additions	-	198,000
Balance at 31 December	297,000	297,000

11 FIXED ASSETS

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Equipment	5 years
Computers and software	3 - 6 years
Furniture and fixtures	10 years
Motor vehicles	4 years

Itqan Capital (A Closed Saudi Joint Stock Company)
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2016

11 FIXED ASSETS (continued)

	Equipment SR	Computers and software SR	Furniture and fixtures SR	Motor vehicles SR	Capital work in progress SR	Total 2016 SR	Total 2015 SR
Cost:							
At the beginning of the year	-	1,892,780	185,310	197,700	7,500,760	9,776,550	6,056,520
Additions	16,699	163,277	-	-	205,989	385,965	7,609,443
Disposals	-	-	-	-	-	-	(3,889,413)
At the end of the year	16,699	2,056,057	185,310	197,700	7,706,749	10,162,515	9,776,550
Depreciation:							
At the beginning of the year	-	1,520,854	82,843	184,866	-	1,788,563	4,583,020
Charge for the year	-	189,218	18,543	12,834	-	220,595	623,527
Disposals	-	-	-	-	-	-	(3,417,984)
At the end of the year	-	1,710,072	101,386	197,700	-	2,009,158	1,788,563
Net book value							
At 31 December 2015	16,699	345,985	83,924	-	7,706,749	8,153,357	
At 31 December 2014	-	371,926	102,467	12,834	7,500,760		7,987,987

Itqan Capital (A Closed Saudi Joint Stock Company)
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2016

11 FIXED ASSETS (continued)

a) Depreciation charge for the year is allocated as follows:

	2016 SR	2015 SR
Operating cost	11,106	51,389
General and administrative expenses (note 17)	209,489	572,138
	<u>220,595</u>	<u>623,527</u>

12 ACCRUED EXPENSES AND OTHER PAYABLES

	2016 SR	2015 SR
Employees' bonus and salaries	28,908	127,404
Accrued vacation	339,680	467,050
Other claims and other payables	4,000,617	3,689,649
	<u>4,369,205</u>	<u>4,284,103</u>

13 ZAKAT

Charge for the year

	2016 SR	2015 SR
Current year provision	799,522	810,271
Prior year adjustment	(1,634)	(79,450)
	<u>797,888</u>	<u>730,821</u>

The zakat provision for the year ended 31 December is based on the following:

	2016 SR	2015 SR
Shareholders' equity at 1 January	122,605,224	136,571,240
Capital increase	-	-
Opening allowances and other adjustments	4,755,348	4,983,988
Book value of long term assets	(81,211,541)	(91,376,981)
	<u>46,149,031</u>	<u>50,178,247</u>
Adjusted loss for the year	(8,214,631)	(11,733,843)
Zakat base	<u>37,934,400</u>	<u>38,444,404</u>

The differences between the financial and the zakatable results for the year ended on 31 December are mainly due to relevant adjustments in accordance with the rules and regulations of the Department of Zakat and Income Tax.

13 ZAKAT (continued)

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

	2016	2015
	SR	SR
At the beginning of the year	810,271	825,424
Provided during the year	799,522	810,271
Prior year adjustment	(1,634)	(79,450)
Paid during the year	(808,637)	(745,974)
At the end of the year	799,522	810,271

Status of assessments

The Company has submitted its zakat declaration from incorporation till the year ended 31 December 2015 and has received a zakat certificate valid until 30 April 2017.

The Company has received an assessment of its first fiscal period ended 31 December 2008, revealing additional zakat. The Company appealed the mentioned assessment to the preliminary committee which approved certain assessment items resulting in reduction of the payable zakat to the amount of SR 1,820,168. The Company has raised an appeal to the High Appeal Committee (HAC) and submitted a bank guarantee letter with the mentioned amount. The HAC issued its resolution rejecting the appeal raised by the Company, therefore, the Company has raised a complaint against the HAC's resolution to the Board of Grievances ("BOG") which has not issued a decision till now.

General Authority of Zakat and Income Tax ("GAZIT") issued a discussion letter for the years from 2009 to 2014 requesting certain information about these years, the Company has prepared the requested information and submitted it to GAZIT. No zakat assessments has been raised from GAZIT for the years from 2009 to 2014. GAZIT has issued a primary assessment for the year ended 2014 amounting to SR 2,203,403, as GAZIT did not allow the company to deduct its Investments in real estate funds units from the Zakat base, The Company has raised an appeal on the assessment and no update from GAZIT till date.

Income Tax

Tax was not charged to the foreign shareholders for the year ended 31 December 2016, since the Company has incurred net loss for this year.

14 SHARE CAPITAL

On 27 October 2014 (corresponding to 3 Muharam 1436H), the shareholders of the Company resolved in the Extraordinary General Assembly meeting to increase the Company's capital by capitalizing the subordinated loan amount totalling SR 100,000,000 through the entry of Albaraka Banking Group (A Bahraini Joint Stock Company) as a new shareholder in the Company's capital by the full amount of the subordinated loan. This has resulted in a change of the shareholders and their percentage of ownership after obtaining CMA's approval. All original shareholders waived their priority subscription rights in the new shares issued at the time of capitalizing the subordinated loan for the capital. The issued and paid up capital after the increase is SR 173,417,900.

Itqan Capital (A Closed Saudi Joint Stock Company)
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2016

14 SHARE CAPITAL (continued)

The issued and paid Capital as on 31 December 2016 & 31 December 2015 are as the following:

Shareholder name	Nationality	Ownership percentage %	2016	Ownership percentage %	2015
			Value SR		Value SR
Al Baraka Banking Group B.S.C.	Kingdom of Bahrain	57.6526	99,980,000	57.6642	100,000,000
Al Baraka Islamic Bank – Bahrain	Kingdom of Bahrain	25.4015	44,050,740	25.4015	44,050,740
Aseer For Trading, Tourism, Industrial, Agricultural, Real Estate & Contracting Company	Kingdom of Saudi Arabia	8.4672	14,683,580	8.4672	14,683,580
Sheikh Saleh Abdullah Kamel	Kingdom of Saudi Arabia	6.7508	11,706,860	6.7334	11,676,860
Al Baraka Investment & Development Co.	Kingdom of Saudi Arabia	0.4234	734,180	0.4234	734,180
Dallah Albaraka Holding Co. (Saudi Arabia)	Kingdom of Saudi Arabia	0.4234	734,180	0.4234	734,180
Mr. Mohey Aldeen Saleh Abdullah Kamel	Kingdom of Saudi Arabia	0.4234	734,180	0.4234	734,180
Mr. Abdullah Mohammed Abdo Yamani	Kingdom of Saudi Arabia	0.4234	734,180	0.4234	734,180
Mr. Abdul Aziz M. Yamani – Chairman	Kingdom of Saudi Arabia	0.0058	10,000	0.0058	10,000
Mr. Abdulelah A. Sabbahi – Director	Kingdom of Saudi Arabia	-	-	0.0058	10,000
Mr. Adil S. Dahlawi – Managing Director and Chief Executive Officer	Kingdom of Saudi Arabia	0.0058	10,000	0.0058	10,000
Mr. Adnan A. Yousif – Director	Kingdom of Bahrain	0.0058	10,000	0.0058	10,000
Mr. Waleed Abdul Aziz Kiyal – Director	Kingdom of Saudi Arabia	0.0058	10,000	0.0058	10,000
Mr. Mohammed Abdullah Nour AlDeen – Director	Kingdom of Bahrain	0.0058	10,000	0.0058	10,000
Dr. Khaled Abdullah Atieq – Director	Kingdom of Bahrain	0.0058	10,000	0.0058	10,000
			<u>173,417,900</u>		<u>173,417,900</u>

15 STATUTORY RESERVE

In accordance with the Company's memorandum of association, the Company must set aside 10% of its net income in each year to a statutory reserve. The general assembly may discontinue such transfer when it has built up a reserve equal half of the capital. As the Company has incurred a loss for the year, no transfer was made to the statutory reserve. The reserve is not available for distribution.

Itqan Capital (A Closed Saudi Joint Stock Company)
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 At 31 December 2016

16 SEGMENT INFORMATION

The Company is using the business segment for its internal reporting. The table below reflects analysis of activities expense/ income and gross loss for individual activities for the year ended 31 December.

Description	2016				Total SR
	Principal investment SR	Investment banking SR	Business development SR	Investment funds/portfolios management SR	
Activities income, net	4,297,567	-	118,619	1,367,392	5,783,578
Operating costs, net	(583,380)	-	(1,943,519)	(3,392,393)	(5,919,292)
Gross income/(loss)	3,714,187	-	(1,824,900)	(2,025,001)	(135,714)

Description	2015				Total SR
	Principal investment SR	Investment banking SR	Business development SR	Investment funds/portfolios management SR	
Activities income, net	1,379,750	430,000	347,816	2,637,755	4,795,321
Operating costs, net	(577,254)	(419,130)	(1,495,420)	(4,339,165)	(6,830,969)
Gross income/(loss)	802,496	10,870	(1,147,604)	(1,701,410)	(2,035,648)

Due to the nature of the Company's business, no assets or liabilities are allocated for individual business activities.

17 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 SR	2015 SR
Subscription fees	93,281	69,659
Maintenance	388,799	305,626
Consultancy and professional fees	559,016	659,030
Publicity, advertising and public relations	53,122	320,206
Fixed assets written off	-	471,428
Others	1,057,858	1,315,264
	2,152,076	3,141,213

18 LOSS PER SHARE

The basic loss per share from net loss for the year ended 31 December 2016, has been calculated by dividing the net loss for the year by the average number of outstanding shares of 17,341,790 (2015: number of outstanding shares 17,341,790).

The basic loss per share from the net loss is the same as the basic loss per share from main operations as there were no revenue or expenses from operations other than the main operation.

19 ASSETS MANAGEMENT

The Company establishes and manages investment funds and portfolios and receives a certain percentage that represents the management fees for such management and capital investment services. As at 31 December 2016, the assets under management in favour of others amounting to SR 192,062,846 (2014: SR 223,388,778).

20 RELATED PARTY TRANSACTIONS AND BALANCES

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

<i>Amounts due from related parties</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>		<i>Balance</i>	
		<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Al Baraka Investment & Development Co.	Rent - Expense	58,603	46,800	-	-
Dallah for Real Estate Development and Tourism	Rent - Expense	14,875	18,407	-	-
Investment funds	Various	685,912	2,129,996	4,731,498	4,316,189
	Management fees	1,186,187	2,533,162	1,642,949	2,042,182
	Custodian fees	299,824	336,909	280,140	283,227
	Subscription fees	-	115,500	-	-
Board of Directors expenses	Expenses	119,475	141,267	-	-
Others	Various	-	2,000	3,000	3,000
				6,657,587	6,644,598

The company's rent agreement with Al Baraka Investment & Development Co expires at 31 March 2017 and will not be renewed.

The company's rent agreement with Dallah for Real Estate Development and Tourism. has expired on 30 April 2016 and will not be renewed.

Prices and terms of payment with related parties are approved by the management. Amounts due from related parties are shown in note 5.

21 RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing existence and each individual within the Company is accountable for the risk exposure relating to their responsibilities. The Company is exposed to special commission rate risk, credit risk, liquidity risk currency risk and market risk.

Special commission rate risk

The Company is not subject to special commission rate risk as its special commission bearing assets carry fixed rates.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to limit its credit risk by monitoring the outstanding receivables and setting credit limits for transactions with other parties and continuously evaluate their credit worthiness, in addition to monitoring the credit limits.

The assets subject to credit risks are cash with banks, investments, other receivables. The Company keeps the cash funds and investments with banks and parties with good credit rating.

Liquidity risk

The Company manages its liquidity risk by maintaining enough balances of cash and cash equivalent and financial securities available for sale.

The table below summarizes the maturities of the Company's financial liabilities at 31 December, based on contractual payment dates.

	<i>Less than 3 months SR</i>	<i>3 to 12 months SR</i>	<i>Total SR</i>
<i>Year ended 31 December 2016</i>			
Accounts payables and accruals	-	4,369,205	4,369,205
Total	-	4,369,205	4,369,205
<i>Year ended 31 December 2015</i>			
Accounts payables and accruals	-	4,284,103	4,284,103
Total	-	4,284,103	4,284,103

Currency risk

The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyal and US Dollar during the year. As the exchange rate of Saudi Riyal is pegged to the US Dollar, the balances and transactions in US Dollar does not represent significant currency risk on the financial statements.

Market risk

A proper framework has been set for the management of the market risk of all assets including the assets that have no current market prices and / or exposed to fluctuations in prices.

22 REGULATORY CAPITAL REQUIREMENT AND CAPITAL ADEQUACY RATIO

The Company's objectives when managing capital is to comply with the capital requirements set by the Capital Market Authority (CMA) to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

	2016 SR	2015 SR	Change percentage %
Capital base			
Tier-I capital	114,117,928	121,714,890	(6)
Tier-II capital	-	-	
Total	114,117,928	121,714,890	(6)
Minimum capital requirement			
Credit risk	57,065,989	54,276,000	4
Market risk	62,619	63,000	0
Operation risk	3,530,840	4,592,000	(27)
Total	60,659,448	58,931,000	2
Capital adequacy ratio	1.88	2.07	(9)
Surplus	53,458,480	62,783,890	(14)

Capital base comprise of:

Tier-I capital:

Comprise of paid up capital, accumulated losses, share premium and reserves.

Tier-II capital:

Comprise of perpetual subordinated loan and fixed term subordinated loans with not less than 5 years of original maturity.

The minimum capital requirement related to credit risk, market risk and operation risk is calculated based on specific conditions stated in pillar III of the regulations issued by the CMA.

The Company's goal of capital management is to comply with the capital requirements approved by the CMA, maintaining the Company's ability to continue its operations on a going concern basis and maintain a sound capital base.

The Company's management monitors the capital adequacy and its deployment of capital on a periodical basis. As per the regulations of the CMA, the Company shall maintain a minimum limit of regulatory capital. Whereas the ratio of the total regulatory capital over risk weighted asset is at or above the minimum required ratio.

The Company monitors the capital adequacy by using the ratios specified by the CMA. Based on such ratios, the Company measures the extent of its capital adequacy for the assets and commitments appearing in its financial statements using weighted balances to reveal its relative risk.

23 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 Company's financial assets consist of bank balances, investments in units of investment funds, Investments in real estate funds units, investments in available for sale securities and investments in sukuku available for sale, investments in unconsolidated subsidiaries and receivables and financial liabilities consist of payables. investments in units of investment funds, Investments in real estate funds units, investments in available for sale securities and investments in sukuku available for sale are carried at their fair values. The fair values of other financial instruments are not materially different from their carrying values.