

**SHUAA CAPITAL SAUDI ARABIA**  
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
AND INDEPENDENT AUDITOR'S REPORT

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Financial statements**  
**For the year ended December 31, 2018**

<b>Index</b>	<b>Page</b>
Independent auditor's report	1 - 2
Statement of financial position	3
Statement of income	4
Statement of comprehensive income	5
Statement of changes in shareholders' equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 40



## *Independent auditor's report to the shareholders of SHUAA Capital Saudi Arabia (A Saudi Closed Joint Stock Company)*

### *Report on the audit of the financial statement*

#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of SHUAA Capital Saudi Arabia (the "Company") as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

#### **What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Basis for opinion*

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

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

#### **Independence**

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

#### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



## *Independent auditor's report to the shareholders of SHUAA Capital Saudi Arabia (A Saudi Closed Joint Stock Company) (continued)*

### *Auditor's responsibilities for the audit of the financial statements*

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

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

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

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

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**PricewaterhouseCoopers**

Ai H. Al Basri  
License Number 409

March 28, 2019

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2018	As at December 31, 2017	As at January 01, 2017
<b>Assets</b>				
<b>Current assets</b>				
Cash and bank balances	4	36,900,179	20,356,084	6,303,226
Short term deposits		-	-	65,297,347
Prepayments and other receivables – net	5	16,330,754	37,603,630	7,412,440
<b>Total current assets</b>		<b>53,230,933</b>	<b>57,959,714</b>	<b>79,013,013</b>
<b>Non-current assets</b>				
Investment held at fair value through statement of income (FVSI)	6	16,995,870	-	-
Available for sale (AFS) investments	6	-	16,782,596	15,362,277
Property and equipment	7	1,619,477	81,916	102,520
<b>Total non-current assets</b>		<b>18,615,347</b>	<b>16,864,512</b>	<b>15,464,797</b>
<b>Total assets</b>		<b>71,846,280</b>	<b>74,824,226</b>	<b>94,477,810</b>
<b>Liabilities and shareholders' equity</b>				
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accrued expenses and other current liabilities	8	5,088,606	4,012,808	3,615,516
Provision for zakat and income tax	9	1,563,708	1,718,885	2,217,062
<b>Total current liabilities</b>		<b>6,652,314</b>	<b>5,731,693</b>	<b>5,832,578</b>
<b>Non-current liability</b>				
Employees' end of service benefits (EOSB)	10	1,983,470	1,835,057	1,536,768
<b>Total liabilities</b>		<b>8,635,784</b>	<b>7,566,750</b>	<b>7,369,346</b>
<b>Shareholders' equity</b>				
Share capital	11	50,000,000	50,000,000	75,000,000
Statutory reserve	12	5,544,349	4,749,394	3,204,433
Fair value reserve – AFS investments		-	282,596	(1,137,723)
Re-measurement reserve on employees' EOSB	10	(16,504)	(19,972)	-
Retained earnings		7,682,651	12,245,458	10,041,754
<b>Total shareholders' equity</b>		<b>63,210,496</b>	<b>67,257,476</b>	<b>87,108,464</b>
<b>Total liability and shareholders' equity</b>		<b>71,846,280</b>	<b>74,824,226</b>	<b>94,477,810</b>
<b>Contingencies and commitments</b>	13			

The accompanying notes from 8 to 38 form an integral part of these financial statements.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended December 31, 2018	For the year ended December 31, 2017
<b>Operating income</b>			
Asset management fee	15.2	15,770,361	20,037,774
Fund's administrative fee	15.2	7,987,719	-
Debt arrangement fee	15.2	1,492,257	5,482,500
Unrealised fair value gain on remeasurement of Investment held at FVSI	6	213,274	-
Custody fees		180,000	180,000
Placement fee	15.2	-	1,268,750
Special commission income		-	336,375
Other income		80,625	-
<b>Total operating income</b>		<b>25,724,236</b>	<b>27,305,399</b>
<b>Operating expenses</b>			
Salaries and employee related expenses		(12,736,839)	(8,266,102)
Other general and administrative expenses	14	(3,474,137)	(3,572,037)
<b>Net income before zakat and income tax</b>		<b>9,513,260</b>	<b>15,467,260</b>
Zakat	9.1	(1,513,641)	(1,635,940)
Income tax	9.2	(50,067)	(82,655)
<b>Net income for the year</b>		<b>7,949,552</b>	<b>13,748,665</b>

The accompanying notes from 8 to 38 form an integral part of these financial statements.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
 (All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended	
		December 31, 2018	December 31, 2017
<b>Net income for the year</b>		<b>7,949,552</b>	13,748,665
Other comprehensive income:			
Items that will be reclassified subsequently to the statement of income			
- FV changes on AFS investments	6	-	1,420,319
Items that will not be reclassified subsequently to the statement of income			
- Re-measurement of employees' EOSB	10	3,468	(19,972)
<b>Other comprehensive income for the year</b>		<b>3,468</b>	<b>1,400,347</b>
<b>Total comprehensive income for the year</b>		<b>7,953,020</b>	<b>15,149,012</b>

The accompanying notes from 8 to 38 form an integral part of these financial statements.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Fair value reserve AFS investment	Re-measurement reserve on employees' EOSB	Total
<b>Note</b>						
<b>Balance at December 31, 2017</b>	50,000,000	4,749,394	12,245,458	282,596	(19,972)	67,257,476
Impact of adopting IFRS 9 at January 1, 2018	2.3.2	-	-	282,596	(282,596)	-
<b>Restated balance at January 1, 2018</b>	50,000,000	4,749,394	12,528,054	-	(19,972)	67,257,476
Net income for the year	-	-	7,949,552	-	-	7,949,552
Other comprehensive income for the year	-	-	-	-	3,468	3,468
<b>Total comprehensive income for the year</b>	-	-	7,949,552	-	3,468	7,953,020
Transfer to statutory reserve	-	794,955	(794,955)	-	-	-
Dividend distribution	22	-	(12,000,000)	-	-	(12,000,000)
<b>Balance at December 31, 2018</b>	50,000,000	5,544,349	7,682,661	-	(16,504)	63,210,496
<b>Balance at December 31, 2016</b>	75,000,000	3,204,433	10,048,998	(1,137,723)	-	87,115,708
Impact of adopting IFRS at January 1, 2017	3.1	-	-	(7,244)	-	(7,244)
<b>Restated balance at January 1, 2017</b>	75,000,000	3,204,433	10,041,754	(1,137,723)	-	87,108,464
Net income for the year	-	-	13,748,665	-	-	13,748,665
Other comprehensive income for the year	-	-	-	1,420,319	(19,972)	1,400,347
<b>Total comprehensive income for the year</b>	-	-	13,748,665	1,420,319	(19,972)	15,149,012
Capital reduction	3.2	(25,000,000)	-	-	-	(25,000,000)
Transfer to statutory reserve	-	1,544,961	(1,544,961)	-	-	-
Dividend distribution	22	-	(10,000,000)	-	-	(10,000,000)
<b>Balance at December 31, 2017</b>	50,000,000	4,749,394	12,245,458	282,596	(19,972)	67,257,476

The accompanying notes from 8 to 38 form an integral part of these financial statements.



**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended December 31, 2018	For the year ended December 31, 2017
<b>Cash flows from operating activities</b>			
Net income for the year before zakat and income tax		9,513,260	15,467,260
<u>Adjustments for non-cash charges and other items</u>			
Depreciation	7	165,954	77,574
Unrealised fair value gain on remeasurement of investment held at FVSI	6	(213,274)	-
Provision for employees' EOSB	10.2	315,221	278,317
<u>Changes in working capital:</u>			
Prepayments and other receivables - net		21,272,876	(30,191,190)
Accrued expenses and other current liabilities		1,075,798	397,292
Zakat and income tax paid	9.3	(1,718,885)	(2,216,772)
Employees' EOSB paid	10.2	(163,340)	-
Net cash generated from / (used in) operating activities		<u>30,247,610</u>	<u>(16,187,519)</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	7	(1,703,515)	(56,970)
Net cash used in investing activities		<u>(1,703,515)</u>	<u>(56,970)</u>
<b>Cash flow from financing activities</b>			
Dividend paid	22	(12,000,000)	(10,000,000)
Capital reduction		-	(25,000,000)
Net cash used in financing activities		<u>(12,000,000)</u>	<u>(35,000,000)</u>
Net change in cash and cash equivalents		16,544,095	(51,244,489)
Cash and cash equivalents at the beginning of the year		<u>20,356,084</u>	<u>71,600,573</u>
<b>Cash and cash equivalents at the end of the year</b>	4	<u><b>36,900,179</b></u>	<u><b>20,356,084</b></u>
<b>Supplemental schedule for non-cash information</b>			
- FV changes on AFS investments	6	-	1,420,319
- Re-measurement of EOSB	10	3,468	(19,972)

The accompanying notes from 8 to 38 form an integral part of these financial statements.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**1. General**

SHUAA Capital Saudi Arabia (the "Company") is a Saudi closed joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010243538 dated Muharram 21, 1429H (corresponding to January 30, 2008). The Company is licensed by the Capital Market Authority ("CMA") to conduct financial investment business services including underwriting of securities and other corporate finance activities, investment advisory services, asset and portfolio management and brokerage as per license number 37-56070, dated Safar 27, 1429H (corresponding to March 5, 2008).

The Company's registered office is located at 27<sup>th</sup> floor, Hamad Tower, King Fahad Road, P.O. Box 8181, Riyadh 11482, Kingdom of Saudi Arabia.

The Company's ownership structure is set out below:

Shareholders	Country of origin	Number of shares	December 31, 2018	December 31, 2017
SHUAA Capital PSC	UAE	4,980,000	49,800,000	49,800,000
SHUAA 1 Commercial Broker LLC	UAE	5,000	50,000	50,000
SHUAA 2 Commercial Broker LLC	UAE	5,000	50,000	50,000
SHUAA 3 Commercial Broker LLC	UAE	5,000	50,000	50,000
SHUAA 4 Commercial Broker LLC	UAE	5,000	50,000	50,000
			<b>50,000,000</b>	<b>50,000,000</b>

These financial statements were authorised for issue by the Board of Directors of the Company on March 28, 2019.

**2. Summary of significant accounting policies**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where policies are applicable only after or before January 1, 2018, those policies have been particularly specified.

**2.1 Basis of preparation**

**(i) Compliance with IFRS**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

For all years up to and including the year ended December 31, 2017, the Company prepared its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia promulgated by SOCPA. SOCPA Board of Directors in their meeting held on Thursday, July 18, 2013, (corresponding to 10 Ramadan 1434H), agreed to apply the International Financial Reporting Standards (IFRSs), after being endorsed by SOCPA, all at once. The required date for application for all entities (other than listed entities) is the financial periods starting from January 1, 2018.

These are the Company's first financial statements prepared in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards. In preparing these financial statements, the Company's opening statement of financial position was prepared as at January 1, 2017, which is the Company's date of transition to IFRS, in compliance with IFRS 1 "First time adoption of International Financial Reporting Standards" ("IFRS 1") that are endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. Refer note 3 for information on first time adoption of IFRS as endorsed in Kingdom of Saudi Arabia, by the Company.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**(ii) Historic cost convention**

These financial statements have been prepared:

- under the historical cost convention except for:
  - fair valuation of investments held at fair value through statement of income (FVSI)
  - employees' end of service benefits (EOSB) carried at present value using actuarial valuation.
- using the accrual basis of accounting.

**(iii) Functional and presentation currency**

These financial statements are presented in Saudi Arabian Riyals (SAR), which is also the functional currency of the Company.

**(iv) Critical accounting estimates and judgments**

The preparation of financial statements in conformity with IFRSs as endorsed in Kingdom of Saudi Arabia, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

*(a) Measurement of the expected credit loss allowance*

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the input, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.3.4 impairment of financial assets, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- (i) Determining criteria for significant increase in credit risk (SICR);
- (ii) Choosing appropriate models and assumptions for the measurement of ECL;
- (iii) Establishing the number and relative weights of forward-looking scenarios for each type of product/market and the associated ECL; and
- (iv) Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgments and estimates by the Company in the above is set out in note 2.3.4 impairment of financial assets.

*(b) Employees' EOSB*

The Company operates a defined benefit plan under the Saudi Arabian Law based on employees' accumulated periods of service at the date of the statement of financial position. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method as per IAS 19 using actuarial assumptions based on market expectations at the date of statement of financial position.

*(c) Determination of control over investment funds*

The Company acts as a Fund Manager to a number of mutual funds. Determining whether the Company controls such a mutual fund usually focuses on the assessment of its aggregate economic interests of the Company in the Fund (comprising any carried profits and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Company has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these mutual funds.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

*(d) Going concern*

These financial statements have been prepared on a going concern basis. The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as going concern.

**(v) New standard not yet effective and not early adopted by the Company**

The following standard is not yet effective and has not been early adopted by the Company:

IFRS 16 'Leases'

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify lease as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company has not early adopted IFRS 16 since there are no significant operating lease arrangements at reporting date.

## **2.2 Cash and bank balances**

Cash and bank balances are carried at amortised cost in the statement of financial position.

For the purpose of statement of cash flows, cash and cash equivalents include cash in hand and balances with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date.

## **2.3 Financial instruments**

### **2.3.1 Change in accounting policy**

The Company has adopted IFRS 9 'Financial Instruments' as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized in note 2.3.3 to 2.3.8

As permitted by the transitional provisions of IFRS 9 and IFRS 1 (note 3), the Company elected not to restate comparative figures.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous SOCPA compliant accounting policies applied in the comparative periods) are described in more detail in notes below.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

The measurement category and the carrying amount of financial assets and liabilities in accordance with previous accounting policies under SOCPA and IFRS 9 as at January 1, 2018 are compared as follows:

	SOCPA		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>				
Cash and bank balances	Loans and receivables	20,356,084	Amortised cost	20,356,084
Investments held at fair value	AFS	16,782,596	Investments held at FVSI	16,782,596
Other assets	Loans and receivables	37,382,192	Amortised cost	37,382,192
<b>Total financial assets</b>		<b><u>74,520,872</u></b>		<b><u>74,520,872</u></b>
<b>Financial liabilities</b>				
Accrued expenses and other current liabilities	Amortised cost	4,012,808	Amortised cost	4,012,808
<b>Total financial liabilities</b>		<b><u>4,012,808</u></b>		<b><u>4,012,808</u></b>

There were no significant changes to the measurement of financial assets and liabilities.

### 2.3.2 Reconciliation of statement of financial position balances from SOCPA to IFRS 9

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 2.3.3 for more detailed information regarding the new classification requirements of IFRS 9.

The reconciliation between carrying amounts of financial assets as per previous measurement in accordance with SOCPA and new measurement categories upon transition to IFRS 9 as of January 1, 2018 is as presented below:

	SOCPA carrying amounts December 31, 2017		Reclassification	Re-measurement	IFRS 9 carrying amounts
					January 1, 2018
Cash and bank balances	20,356,084	-	-	-	20,356,084
Investments in mutual fund (AFS investment)	16,782,596	(16,782,596)	-	-	-
Investment held at FVSI	-	16,782,596	-	-	16,782,596
Other assets	37,382,192	-	-	-	37,382,192
Accrued expenses and other current liabilities	4,012,808	-	-	-	4,012,808

There was no significant change to the measurement of financial assets.

Investment in mutual fund, previously classified as AFS investments were reclassified as investments held at FVSI under IFRS 9, with no changes to their measurement basis. Fair value reserve on AFS investments amounting to Saudi Riyals 282,596 was reclassified to retained earnings on adoption of IFRS 9 on January 1, 2018.

### 2.3.3 Classification and measurement of financial assets

#### 2.3.3.1 Initial recognition and measurement

*Policy applicable from January 1, 2018*

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The Company records investments on a 'settlement date' basis.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through statement of income, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an impairment charge being recognised in the statement of income when an asset is newly originated.

*Policy applicable before January 1, 2018*

Available for sale (AFS) investments are initially recognized at cost including transaction costs.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs.

Investments held for trading are recognised initially at cost on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the investment. Upon initial recognition, attributable transaction costs are recognised in the statement of profit or loss when incurred.

All regular-way purchases and sales of financial assets are recognised and derecognised on the trade date, i.e. the date that the Company commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and liabilities are initially recognised on the trade date at which the Company becomes a party to the contractual provision of the instrument.

**2.3.3.2 Classification and subsequent measurement of financial assets**

*Policy applicable from January 1, 2018*

On initial recognition, the Company classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through statement of income (FVSI)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Company's business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

Factors considered by the Company in determining the business model for a group of assets include:

- past experience on how the cash flows for these assets were collected;
- how the asset's performance is internally evaluated and reported to key management personnel;
- how risks are assessed and managed; and
- and how managers are compensated.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

Debt securities held for trading, if any, are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVSI.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPP), and that are not designated at FVSI, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 2.3.4. Profit earned from these financial assets is recognised in the statement of income using the effective commission rate method.

Fair value through statement of income (FVSI): If debt instrument's cash flows do not represent solely SPPP or if it not held within the held to collect or the held to collect and sell business model, or if it is designated at FVSI, then it is measured at FVSI. A gain or loss on a debt investment measured at FVSI is recognised in the statement of income, within "Net gain / (loss) in investments mandatorily measured at FVSI", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through statement of income, within "Net gain / (loss) in investments designated at FVSI".

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVSI, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognized in statement of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to statement of income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Currently bank balances, and other receivables are classified as held at amortised cost. There are no debt securities classified as FVSI or FVOCI.

#### Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Company subsequently measures all equity investments at FVSI, except where the Company has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to the statement of profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of income when the Company's right to receive payments is established.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

The Company classifies all investment in mutual funds at FVSI as these investments fail SPPP criterion. A gain or loss on a mutual funds measured at FVSI is recognised in the statement of income, within "Unrealised gain or loss on investments held at FVSI", in the period in which it arises. Currently investment in a mutual fund is classified as FVSI.

*Policy applicable before January 1, 2018*

Held for trading investments

Investments in readily marketable securities which are bought for trading purposes are stated at market value and included under current assets. Realized and unrealized gains or losses on these investments are recognized in the statement of income. Fair value is determined by reference to market value. Where partial holdings are sold, the investments sold are accounted for on a weighted average basis.

Available for sale (AFS) investments

AFS investments principally consist of investments in units of a mutual fund and in an un-quoted equity. These are the investments that are either designated as AFS or are not classified in any of the other categories. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the date of statement of financial position.

These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- (i) Fair values of quoted securities / mutual fund units are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- (ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. If no similar quoted investment securities are available then these are carried at cost.

Cumulative adjustments arising from revaluation of these investments are reported as separate component of equity as fair value reserve until the investment is disposed of.

Held-to-maturity investments

These are investments in securities that the Company has positive intent and ability to hold till maturity. These investments are carried in the balance sheet at cost, as adjusted by premium or discount.

**2.3.4 Impairment of financial assets**

*Policy applicable from January 1, 2018*

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument carried at amortised cost. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- (i) A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored.
- (ii) If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- (iii) If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.



**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

- (iv) Financial instrument in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from the default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- (v) A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should be consider forward-looking information.
- (vi) Purchase or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Stage 1: (Initial recognition) 12-month expected credit losses

Stage 2: (Significant increase in credit risk since initial recognition) Lifetime expected credit losses

Stage 3: (Credit impaired assets) Lifetime expected credit losses

The financial assets of the Company that are subjected to ECL review include bank balances and other receivables.

The impact of ECL on the financial assets of the Company is immaterial A significant exposure of the Company is held as placement with a bank which has a sound credit rating as at the reporting date and therefore the Company considers that it has low credit risk. The rating of the Bank as at December 31, 2018 was "A-2" as per Standard and Poor's (S&P) and no decline is seen in the credit rating till the reporting date.

#### **2.3.4.1 Stages of impairment under IFRS 9**

The impairment approach of IFRS 9 provides a framework for Expected Credit Losses (ECL) where in, the assets have to be segmented into three stages. The three stages reflect the general pattern of credit deterioration of a financial asset. The three stages differ in terms of recognition of expected credit losses and the presentation of interest revenue.

##### *Stage 1 - Performing financial assets*

Stage 1 assets are assessed based on Company's existing credit risk management standards for acceptable credit quality. Overall the financial assets falling under this category have the following characteristics at minimum:

- Adequate capacity to meet its contractual cash flow obligations in the near term; and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability to fulfil its obligations.

##### *Stage 2 - Financial Assets with significant increase in credit risk*

These are financial assets whose credit quality has deteriorated significantly since origination but do not have objective evidence of impairment.

##### *Stage 3 - Credit impaired financial assets*

Financial assets classified under this category have exceeded either the objective thresholds set by the Company or have been subjectively considered as obligors which lack a capacity to repay their contractual obligations, on a timely basis.

The nature of customers identified in this category is similar to the previous obligors that were classified as "defaulted" based on objective evidence of impairment. The Company considers "Default" event when the obligor is unlikely to pay for its credit obligations in full, without recourse by the Company to the actions such as realizing security (if held).

#### **2.3.4.2 Transfer criterions**

##### *Other receivables*

##### *Stage 1 to Stage 2*

- If the amount is more than 30 days past due.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

*Stage 2 to Stage 3*

- If the amount is more than 90 days past due.

**2.3.4.3 Expected credit loss measurement**

*Other receivables*

*Staging criteria:*

Staging is done in accordance with criteria mention in note 2.3.4.1 and 2.3.4.2

*Significant increase in credit risk:*

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

*Quantitative criteria:*

The increase in the days past due of the counter-party by 30 days or more at the reporting date.

*Qualitative criteria:*

If the counter-party meets one or more of the following criteria:

- Extension to the terms granted
- Previous arrears within the last [12] months
- Significant adverse changes in business, financial and/or economic conditions in which the counter-party operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the counter-part

*Definition of default:*

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full; or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

*Measurement of ECL:*

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. PDs are estimated considering binomial distribution of total borrowers and total defaults. The choice of confidence level is subjective and a confidence level of below 90% is used for calculation of PD.

LGD is the magnitude of the likely loss if there is a default. As the Company has no loss history, an expert judgment based model has been developed, based on the available information with the Company.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

*Policy applicable before January 1, 2018*

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 income statement. Impairment is determined as follows:

- (i) For assets carried at fair value, impairment is the difference between the carrying amount and fair value, less any impairment loss previously recognized in the income statement;
- (ii) 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; and
- (iii) For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective special commission rate.

### **2.3.5 Financial liabilities**

All financial liabilities are initially recognized at fair value less transaction costs except for financial liabilities measured at FVTPL where transactions cost, if any, are not deducted from the fair value measurement at initial recognition, and are included in the statement of income.

Subsequently, all financial liabilities other than those held at FVTPL are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement.

### **2.3.6 Fair valuation of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis using level 1 or level 2 indicators, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The Company applies the fair value of a financial instrument on initial recognition as normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in statement of income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

### **2.3.7 Derecognition of financial instruments**

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Company is assessed to have transferred a financial asset, the asset is derecognized if the Company has transferred substantially all the risks and rewards of ownership. Where the Company has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Company has not retained control of the financial asset. The Company recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

### **2.3.8 Offsetting of financial instruments**

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is an enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

## **2.4 Property and equipment**

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the expenditure that is directly attributable to the acquisition of the items and borrowing cost (where applicable). All other repair and maintenance costs are recognized in the statement of income as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will follow to the entity and the cost of that item can be measured reliably.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

	<b>Years</b>
Leasehold improvements	1-5
Furniture and office equipment	3
Motor vehicles	4

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

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognized.

## **2.5 Impairment of non-financial assets**

### *Property and equipment and other non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

## **2.6 Accrued and other liabilities**

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

## **2.7 Provisions**

Provisions are recognised when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount can be reliably estimated.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

## **2.8 Employees' EOSB**

The employees' EOSB provision is made based on an actuarial valuation of the Company's liability under the Saudi Arabian Labor Law.

In accordance with the provisions of IAS 19 "Employee benefits", management carries out an exercise to assess the present value of its obligations, using the projected unit credit method. Under this method an assessment is made of the employees' expected service life with the Company and expected salary at the date of leaving the service.

The cost of providing benefits under the Company's defined benefit plans is determined using the projected unit credit method by professionally qualified actuaries and arrived at using actuarial assumptions based on market expectations at the date of statement of financial position. These valuations attribute entitlement benefits to the current period (to determine current service cost), and to the current and prior periods (to determine the present value of defined benefit obligations). Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through statement of other comprehensive income in the period in which these occur. Re-measurements are not reclassified to statement of income in subsequent periods.

Past service costs are recognized in statement of income on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability. The defined benefit liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate).

## **2.9 Statutory reserve**

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year is transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution to the Company's shareholders.

## **2.10 Zakat and income taxes**

Policy applicable from January 1, 2018

The Company is subject to Zakat and income tax in accordance with the regulation of the General Authority of Zakat and Tax (GAZT). Zakat and income taxes are charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Deferred tax is provided in full, if material, using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax relating to items recognised outside statement of income is recognised either in statement of comprehensive income or directly in equity.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
 (All amounts in Saudi Riyals unless otherwise stated)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company also withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Policy applicable before January 1, 2018

Zakat and income tax, computed in accordance with Saudi Arabian zakat and income tax regulations, are accrued and charged to the retained earnings. The shareholders reimburse zakat and income tax from the proceeds of the future dividends, accordingly; no adjustments are made in the financial statements to account for the effects of deferred income taxes.

Under Saudi Arabian Zakat and Income tax regulations, zakat and income taxes are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations (net adjusted income). Income taxes are computed on the foreign shareholders' share of taxable income for the year.

**2.11 Assets held in trust or in a fiduciary capacity**

The Company offers assets management services to its customers, which include management of certain mutual funds and investments. Such assets are not treated as assets of the Company and accordingly are not included in these financial statements.

**2.12 Revenue**

The Company recognises revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue	The Company recognises revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

Based on the above five steps the revenue recognition policies for the various revenue stream are as follow:

*Asset management fees*

Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), subject to applicable terms and conditions and service contracts with funds. The Company attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Company's efforts to transfer the services for that period. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised.

This fee compensates and contributes to single performance obligation, the Company's obligation will generally be satisfied upon the provision of such services and therefore recognized as revenue over time as the overall services are performed.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

*Fund's administrative fee*

Fund's administrative fee is recognised based on services rendered under the applicable service contracts. This fee compensates and contributes to single performance obligation, the Company's obligation will generally be satisfied upon the provision of such services and therefore recognized as revenue over time as the administrative services are performed

*Debt arrangement fee*

Debt arrangement fee is recognised on a fixed percentage of debt facility approved by financial institution to the funds. This fee compensates and contributes to single performance obligation, the Company's obligation will generally be satisfied upon the approval of debt facility to the fund.

*Custody fees*

Custody fees are recognised based on a fixed percentage of net assets under management ("asset-based"), subject to applicable terms and conditions and service contracts with funds. The Company provides a non-restrictive legal custodial structure in line with CMA requirements and conducive for efficient operations of the mutual funds under management, while tailored for specific requirements of fund managers on a case by case basis. As custody fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised.

This fee compensates and contributes to single performance obligation, the Company's obligation will generally be satisfied upon the provision of non-restrictive legal custodial structure and therefore recognised as revenue over time as the overall services are performed.

*Placement Fee*

The Company recognise the revenue against professional fee on each closing date when aggregate capital commitment of fund is raised by the Company. This fee compensates and contributes to single performance obligation, the Company's obligation will generally be satisfied when the aggregate capital commitment of the fund is raised.

### **2.13 Special commission income**

Special commission income is recognized on effective commission rate basis.

The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective commission rate, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as impairment losses.

### **2.14 Expenses**

All expenses are classified as general and administrative expenses.

### **2.15 Finance cost**

Expenses from short-term borrowings are recognized on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit rate agreed with banks.

### **2.16 Foreign currencies transactions and balances**

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at the dates of the transaction. Assets and liabilities denominated in foreign currencies at the period-end are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Realized and unrealized gains or losses on exchange are credited or charged to the statement of income.



**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**2.17 Contingent assets and liabilities**

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of obligations cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

**3. First time adoption of International Financial Reporting Standard**

The financial statements for the year ended December 31, 2018 are the first financial statements of the Company prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia. For years up to and including the year ended December 31, 2017, the Company prepared its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia promulgated by SOCPA.

Accordingly, the Company has prepared the financial statements that comply with IFRS as endorsed in the Kingdom of Saudi Arabia applicable as at December 31, 2018, together with the comparative periods as at January 1, 2017 and as at December 31, 2017. This note explains the principal adjustments made by the Company in restating its previous statements of financial positions as at January 1, 2018 and December 31, 2017 which were prepared in accordance with the requirements of SOCPA.

**(i) Exemptions applied**

IFRS 1 'First-time Adoption of International Financial Reporting Standards' allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemption:

The Company has adopted IFRS 9 as issued by International Accounting Standards Board in July 2014 with a transition date of January 1, 2018, which resulted in adjustments to the amounts previously recognised in the financial statements as disclosed in notes 2.3.1 and 2.3.2 to these financial statements.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition to IFRS 9 were recognised in the opening retained earnings (January 1, 2018) of current year. Accordingly, the information presented in comparative periods reflects the requirements of SOCPA and therefore is not comparable to the information presented under the requirements of IFRS 9 for the year ended December 31, 2018.

Therefore, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current year.

The following assessment have been made on the basis of the facts and circumstances that existed at the date of transition:

- Determination of the business model within which a financial asset is held;
- Designation and revocation of previous designations of certain financial assets as 'measured at FVSI'.

**(ii) Estimates**

The estimates at January 1, 2017 and at December 31, 2017 are consistent with those made for the same dates in accordance with SOCPA.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**3.1 Reconciliation of financial position at January 1, 2017:**

	Note	Previous GAAP	Effect of transition to IFRS	Re- classifications	IFRS
<b>Assets</b>					
<b>Current assets</b>					
Cash and bank balances		6,303,226	-	-	6,303,226
Short-term deposits	3.3(A)	65,000,000	-	297,347	65,297,347
Due from related parties	3.1(B)	6,884,062	-	(6,884,062)	-
Accounts receivable	3.1(A)	297,347	-	(297,347)	-
Prepayments and other receivables - net	3.1(B)	528,378	-	6,884,062	7,412,440
		<u>79,013,013</u>	-	-	<u>79,013,013</u>
<b>Non-current assets</b>					
Investment in mutual fund (AFS investments*)		15,362,277	-	-	15,362,277
Property and equipment		102,520	-	-	102,520
		<u>15,464,797</u>	-	-	<u>15,464,797</u>
<b>Total assets</b>		<u>94,477,810</u>	-	-	<u>94,477,810</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accrued expenses and other current liabilities		3,615,516	-	-	3,615,516
Provision for zakat and income tax		2,217,062	-	-	2,217,062
		<u>5,832,578</u>	-	-	<u>5,832,578</u>
<b>Non-current liability</b>					
Employees' EOSB		1,529,524	7,244	-	1,536,768
<b>Total liabilities</b>	3.3(C)	<u>7,362,102</u>	<u>7,244</u>	-	<u>7,369,346</u>
<b>Shareholders' equity</b>					
Share capital		75,000,000	-	-	75,000,000
Statutory reserve		3,204,433	-	-	3,204,433
Fair value reserve - AFS investment	3.3(C)	(1,137,723)	-	-	(1,137,723)
Retained earnings		10,048,998	(7,244)	-	10,041,754
<b>Total shareholders' equity</b>		<u>87,115,708</u>	<u>(7,244)</u>	-	<u>87,108,464</u>
<b>Total liabilities and shareholders' equity</b>		<u>94,477,810</u>	-	-	<u>94,477,810</u>

\* On adoption of IFRS 9 as at January 1, 2018, these have been classified as FVSI.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**3.2 Reconciliation of financial position at December 31, 2017:**

	Notes	Previous GAAP	Effect of transition to IFRS	Re- classifications	IFRS
<b>Assets</b>					
<b>Current assets</b>					
Cash and bank balances		20,356,084	-	-	20,356,084
Due from related parties	3.3 (B)	37,189,946	-	(37,189,946)	-
Prepayments and other receivables - net	3.3 (B)	413,684	-	37,189,946	37,603,630
		<u>57,959,714</u>	-	-	<u>57,959,714</u>
<b>Non-current assets</b>					
Investment in mutual fund (AFS Investments*)		16,782,596	-	-	16,782,596
Property and equipment		81,916	-	-	81,916
		<u>16,864,512</u>	-	-	<u>16,864,512</u>
<b>Total assets</b>		<u>74,824,226</u>	-	-	<u>74,824,226</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accrued expenses and other payables		4,012,808	-	-	4,012,808
Provision for zakat and income tax		1,718,885	-	-	1,718,885
		<u>5,731,693</u>	-	-	<u>5,731,693</u>
<b>Non-current liability</b>					
Employees' EOSB	3.3(C)	1,825,492	9,565	-	1,835,057
<b>Total liabilities</b>		<u>7,557,185</u>	<u>9,565</u>	-	<u>7,566,750</u>
<b>Shareholders' equity</b>					
Share capital		50,000,000	-	-	50,000,000
Statutory reserve		4,749,394	-	-	4,749,394
Fair value reserve - AFS investment		282,596	-	-	282,596
Re-measurement reserve on employees' EOSB	3.3(C)	-	(19,972)	-	(19,972)
Retained earnings	3.3(C)	12,235,051	10,407	-	12,245,458
<b>Total shareholders' equity</b>		<u>67,267,041</u>	<u>(9,565)</u>	-	<u>67,257,476</u>
<b>Total liabilities and shareholders' equity</b>		<u>74,824,226</u>	-	-	<u>74,824,226</u>

\* On adoption of IFRS 9 as at January 1, 2018, these have been classified as FVSI.

**3.3 Notes to the reconciliation of financial position:**

**(A) Accrued interest on short term deposits:** Accrued special commission income on short term deposits should become a part of carrying value of financial assets held till maturity and accordingly, have been reclassified from accounts receivable and presented as short term deposits as at January 1, 2017.

**(B) Due from related parties:** Upon the adoption of IFRS, due from related parties have been classified under other receivables as they relates to receivable from parent company and company's managed funds.

**(C) Restatement of employees' EOSB:** Upon adoption of IFRS, the Company has assessed the present value of employee benefit obligation, using projected unit credit method and took the effect in retained earnings and employees' EOSB liability. Under this method an assessment is made of the employees' expected service life with the Company and expected salary at the date of leaving the service.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**3.4 Reconciliation of equity**

	December 31, 2017	January 1, 2017
<b>Total shareholders' equity under SOCPA GAAP</b>	<b>67,267,041</b>	87,115,708
Transfer to retained earnings	-	-
Additional provision for employees' EOSB under IFRS using actuarial valuation	<b>(9,565)</b>	<b>(7,244)</b>
<b>Total shareholders' equity under IFRS</b>	<b>67,257,476</b>	<b>87,108,464</b>

**3.5 Reconciliation of statement of income for the year ended December 31, 2017:**

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Operating income</b>				
Asset management fee		20,037,774	-	20,037,774
Debt arrangement fee		5,482,500	-	5,482,500
Custody fees		180,000	-	180,000
Placement Fee		1,268,750	-	1,268,750
Special commission income		336,375	-	336,375
<b>Income from operations</b>		<b>27,305,399</b>	<b>-</b>	<b>27,305,399</b>
<b>Expenses</b>				
Salaries and employee related expenses	3.6 (A)	(8,283,753)	17,651	(8,266,102)
Other general and administrative expenses		<b>(3,572,037)</b>	<b>-</b>	<b>(3,572,037)</b>
<b>Net income before zakat and income tax</b>		<b>15,449,609</b>	<b>17,651</b>	<b>15,467,260</b>
Zakat	3.6 (B)	-	(1,635,940)	(1,635,940)
Income tax	3.6 (B)	-	(82,655)	(82,655)
<b>Net income for the year</b>		<b>15,449,609</b>	<b>(1,700,944)</b>	<b>13,748,665</b>

**3.6 Notes to the reconciliation of statement of income:**

**(A) Restatement of employees' EOSB:** On conversion of IFRS, using actuarial valuation, the Company was required to make provision of Saudi Riyals 278,317 (note 10.2). However, under SOCPA, an amount of Saudi Riyals 295,968 was recognised in the statement of income for the year ended December 31, 2017. Accordingly, an amount of Saudi Riyals 17,651 has been reversed on conversion to IFRS.

**(B) Zakat and income tax:** Under previous financial reporting framework, Zakat and income tax were presented in the statement of changes in shareholders' equity. Due to transition from SOCPA to IFRS, Zakat and income tax have been presented in statement of income. The impact of deferred tax on adoption of IFRS is immaterial on the statement of income and statement of financial position and has therefore not been accounted for in these financial statements.

**3.7 Reconciliation of statement of comprehensive income for the year ended December 31, 2017:**

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
Net income for the year	3.6	-	13,748,665	13,748,665
<b>Other comprehensive income:</b>				
Fair value changes on AFS investments		-	1,420,319	1,420,319
Re-measurement of employees' EOSB	3.2 (A)	-	(19,972)	(19,972)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>15,149,012</b>	<b>15,149,012</b>

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

Under SOCPA there was no such requirement to present statement of comprehensive income.

**3.8 Summary of impact of material adjustments to the statement of cash flows for the year ended December 31, 2017:**

The material changes in the cash flows statement resulted principally from the above mentioned adjustments with details as follows:

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
Net cash used in from operating activities	3.9(A)	(15,890,172)	(297,347)	(16,187,519)
Net cash used in investing activities		(56,970)	-	(56,970)
Net cash used in financing activities		(35,000,000)	-	(35,000,000)
<b>Net change in cash and cash equivalents</b>		<b>(50,947,142)</b>	<b>(297,347)</b>	<b>(51,244,489)</b>
Cash and cash equivalents at beginning of the year	3.9(A)	71,303,226	297,347	71,600,573
<b>Cash and cash equivalents at end of year</b>		<b>20,356,084</b>	<b>-</b>	<b>20,356,084</b>

**3.9 Notes to the reconciliation of statement of cash flows for the year ended December 31, 2017:**

**(A) Accrued interest on short term deposits:** Upon adoption of IFRSs, accrued special commission income was classified to short term deposits from accounts receivable as at January 1, 2017, see note 3.3 (A). This reclassification, has effected cash flow from operating activities and cash and cash equivalents.

**4. Cash and bank balances**

	December 31, 2018	December 31, 2017
Cash at banks	36,900,179	20,356,084
	<b>36,900,179</b>	<b>20,356,084</b>

**5. Prepayments and other receivables - net**

	Note	December 31, 2018	December 31, 2017
Receivable from parent company	15.1	11,600,000	13,000,000
Receivable from Company managed mutual funds	15.1	1,847,417	24,189,946
Receivables from funds under establishment	15.1	2,135,320	
Account receivable		412,500	412,500
Prepaid expenses		444,278	221,438
Receivable from employees		236,906	192,246
VAT recoverable		19,943	-
Other receivables		46,890	-
Prepayments and other receivables - gross		16,743,254	38,016,130
Provision for doubtful receivables:			
- Account receivable		(412,500)	(412,500)
		<b>16,330,754</b>	<b>37,603,630</b>

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**5.1 Provision for doubtful receivables**

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	(412,500)	(412,500)
Charge for the year	-	-
Write-offs	-	-
Closing balance at the end of the year	<u>(412,500)</u>	<u>(412,500)</u>

**6. Investments held at fair value**

During 2016, the company invested Saudi Riyals 16.5 million in SHUAA Wadi Al Hada Fund, a real estate fund. Details of investment are as follows:

	Note	December 31, 2018	December 31, 2017
<b>Investments held at FVSI</b>			
<i>Investment in SHUAA Wadi Al-Hada Fund</i>			
Opening	15	16,782,596	-
Unrealised fair value gain on remeasurement		213,274	-
Closing		<u>16,995,870</u>	-
<b>Investments held at AFS</b>			
<i>Investment in SHUAA Wadi Al-Hada Fund</i>			
Investment at cost	15	-	16,500,000
Fair value reserve - AFS investments	6.1	-	282,596
Closing		<u>-</u>	<u>16,782,596</u>

**6.1 Movement of fair value reserve – AFS investments:**

	December 31, 2018	December 31, 2017
Opening reserve	-	(1,137,723)
Gain / (loss) on revaluation during the year	-	1,420,319
Closing reserve	<u>-</u>	<u>282,596</u>

**7. Property and equipment, net**

	Leasehold improvements	Motor vehicles	Furniture and office equipment	Total 2018
<b>Cost</b>				
As at January 1, 2018	553,787	211,049	4,701,178	5,466,014
Additions during the year	1,435,277	231,270	36,968	1,703,515
<b>As at December 31, 2018</b>	<u>1,989,064</u>	<u>442,319</u>	<u>4,738,146</u>	<u>7,169,529</u>
<b>Accumulated depreciation</b>				
As at January 1, 2018	536,679	211,047	4,636,372	5,384,098
Charge for the year	84,168	43,363	38,423	165,954
<b>As at December 31, 2018</b>	<u>620,847</u>	<u>254,410</u>	<u>4,674,795</u>	<u>5,550,052</u>
<b>Net book value</b>				
<b>As at December 31, 2018</b>	<u>1,368,217</u>	<u>187,909</u>	<u>63,351</u>	<u>1,619,477</u>

SHUAA CAPITAL SAUDI ARABIA  
(A Saudi Closed Joint Stock Company)  
Notes to the financial statements  
For the year ended December 31, 2018  
(All amounts in Saudi Riyals unless otherwise stated)

	Leasehold improvements	Motor vehicles	Furniture and office equipment	Total 2017
<b>Cost</b>				
As at January 1, 2017	553,787	211,049	4,644,208	5,409,044
Additions during the year	-	-	56,970	56,970
<b>As at December 31, 2017</b>	<u>553,787</u>	<u>211,049</u>	<u>4,701,178</u>	<u>5,466,014</u>
<b>Accumulated depreciation</b>				
As at January 1, 2017	494,498	211,047	4,600,979	5,306,524
Charge for the year	42,181	-	35,393	77,574
<b>As at December 31, 2017</b>	<u>536,679</u>	<u>211,047</u>	<u>4,636,372</u>	<u>5,384,098</u>
<b>Net book value</b>				
<b>As at December 31, 2017</b>	<u>17,108</u>	<u>2</u>	<u>64,806</u>	<u>81,916</u>

**8. Accrued expenses and other current liabilities**

	Note	December 31, 2018	December 31, 2017
Accrued expenses	8.1	5,083,599	3,997,803
Payable to suppliers		5,007	15,005
Payable to parent company	15(a)	-	-
		<u>5,088,606</u>	<u>4,012,808</u>

**8.1 Accrued expenses**

	December 31, 2018	December 31, 2017
Accrued employee bonus	4,210,830	3,234,791
Independent Directors' fees	250,000	374,000
Professional fees	290,000	361,000
VAT liability	191,159	-
Other	141,610	28,012
	<u>5,083,599</u>	<u>3,997,803</u>

**9. Provision for Zakat and income tax**

	Note	December 31, 2018	December 31, 2017
Zakat	9.1	1,513,641	1,635,940
Income tax	9.2	50,067	82,655
		<u>1,563,708</u>	<u>1,718,595</u>

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**9.1 Zakat**

The significant components of the Company's approximate zakat base for the year ended December 31, which are subject to adjustments under income tax and zakat regulations, principally comprised the following:

	December 31, 2018	December 31, 2017
Shareholders' equity at beginning of the year	55,277,448	53,253,431
Adjusted net income for the year	9,413,671	15,540,964
Provisions at beginning of the year	2,247,557	1,942,024
Property and equipment, as adjusted	(4,167,370)	(2,893,306)
Estimated zakat base	62,771,306	67,843,113
GCC shareholders' share of estimated zakat base at 96.4543%	60,545,624	65,437,600
Estimated zakat liability - attributable to GCC shareholders	<u>1,513,641</u>	<u>1,635,940</u>

Zakat is calculated at 2.5 percent of higher of the estimated zakat base attributable to GCC shareholders or adjusted net income.

**9.2 Income tax**

	December 31, 2018	December 31, 2017
Net income for the year	9,513,260	15,449,609
Temporary differences:		
Depreciation, net	(251,472)	(274,965)
Employee termination benefits, net	151,883	295,968
Provision for doubtful debt	-	-
Others, net	-	70,352
Adjusted net income	9,413,671	15,540,964
Share of non-GCC shareholders in adjusted net income at 3.5457%	333,781	551,036
Less: Non-GCC share of provisions utilised during the year	(83,445)	(137,759)
Share of non-GCC shareholders in adjusted net income	<u>250,336</u>	<u>413,277</u>
Estimated income tax liability - attributable to non-GCC shareholders at 20%	<u>50,067</u>	<u>82,655</u>

Income tax is calculated at 20% of the adjusted net income attributable to the non-GCC shareholders.

**9.3 Movement in provision for zakat and income tax**

	December 31, 2018	December 31, 2017
January 1	1,718,885	2,217,062
Provision for the year	1,563,708	1,718,595
Payments	(1,718,885)	(2,216,772)
December 31	<u>1,563,708</u>	<u>1,718,885</u>

**9.4 Status of assessments**

The Company has filed its zakat and income tax returns up to the year ended December 31, 2017 which are still under review by the GAZT. The Company is in the process of filing its return for the year ended December 31, 2018. The Company has not applied for a final assessment yet.

The Company submitted the zakat and income tax declarations for the years from December 31, 2008 to December 31, 2016. During 2017, the Company received an assessment from the GAZT disallowing deduction of certain expenses, which exposed the Company to additional zakat and taxes amounting to Saudi Riyals 16,976,457 for the years from December 31, 2008 to 2013 along with 1% delay penalty on zakat and unpaid taxes for each 30 days of delay calculated from due date until the date of payment. However, the Company appealed against GAZT's



**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

assessment. The Company's management and tax advisor believed that the outcome of the appeal will most likely be in favor of the Company. Accordingly, the Company has not recorded any liability related to the aforementioned assessment.

**10. Employees' EOSB**

The Company contributes one month basic salary for every completed twelve months of service. Employees are not permitted to receive any payments from the scheme during the tenor of employment.

The Company operates an EOSB plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

**10.1** The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	Note	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	10.2	1,983,470	1,835,057
Fair value of plan assets		-	-
		<u>1,983,470</u>	<u>1,835,057</u>

**10.2** Movement of defined benefit obligation

	Note	December 31, 2018	December 31, 2017
Opening balance	3.1	1,835,057	*1,536,768
Charge to statement of income – current service and interest Cost	3.5	315,221	**278,317
Charge to statement of comprehensive income – experience adjustments and changes in financial assumptions		(3,468)	19,972
Payment of benefits during the year		(163,340)	-
Closing balance		<u>1,983,470</u>	<u>1,835,057</u>

\* Amount reported under SOCPA Saudi Riyals 1,529,524. Further provision required Saudi Riyals 7,244 recorded in opening retained earnings at January 1, 2017.

\*\* Amount reported under SOCPA Saudi Riyals 295,968 under Salaries and employee related expenses, see note 3.5.

**10.3** Reconciliation of present value of defined benefit obligation

	Note	December 31, 2018	December 31, 2017
Present value of defined benefit obligation as at January 1	3.1	1,835,057	1,536,768
Current service costs		241,053	212,543
Finance costs		74,168	65,774
Remeasurement (gain) / loss from experience adjustments		(1,979)	22,075
Remeasurement gain from changes in financial assumptions		(1,489)	(2,103)
Benefits paid during the year		(163,340)	-
Present value of defined benefit obligation as at December 31		<u>1,983,470</u>	<u>1,835,057</u>

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**10.4 Principal actuarial assumptions**

The following range of significant actuarial assumptions was used by the Company for the valuation of post-employment benefit liability:

	December 31, 2018	December 31, 2017
Valuation discount rate	4.15%	4.23%
Expected rate of increase in salary level across different age bands	4.15%	4.23%

**10.5** A quantitative sensitivity analysis for significant assumptions on the defined benefit obligation are shown below:

	December 31, 2018	December 31, 2017
<b>Discount rate</b>		
1% increase	1,912,124	1,763,661
1% decrease	2,063,006	1,910,984
<b>Future salary increases</b>		
1% increase	2,043,004	1,893,462
1% decrease	1,929,582	1,778,662

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of reporting period.

**11. Share capital**

As at December 31, 2018, the issued and fully paid-up share capital of the Company was Saudi Riyals 50 million divided into 5 million shares (December 31, 2017: 5 million shares) with a nominal value of Saudi Riyals 10 each.

The shareholding of the Company's paid-up share capital as follows:

<b>Shareholders</b>	<b>Holding</b>	<b>No. of shares</b>	<b>Amount</b>
SHUAA Capital PSC	99.6%	4,980,000	49,800,000
SHUAA 1 Commercial Broker LLC.	0.1%	5,000	50,000
SHUAA 2 Commercial Broker LLC.	0.1%	5,000	50,000
SHUAA 3 Commercial Broker LLC.	0.1%	5,000	50,000
SHUAA 4 Commercial Broker LLC.	0.1%	5,000	50,000
	<b>100%</b>	<b>5,000,000</b>	<b>50,000,000</b>

**12. Statutory reserve**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 30% of its share capital. During the year, the Company transferred Saudi Riyals 795,721 (2017: Saudi Riyals 1,544,961) to the statutory reserve. This reserve is not available for distribution.

This reserve is currently not available for distribution to the shareholders of the Company.

**13. Contingencies and commitments**

As of December 31, 2018, the Company is subject to litigations in the normal course of its business. The Company believes that the outcome of the pending legal cases will not have a material impact on the Company's financial statements

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**14. Other general and administrative expenses**

	Note	For the year ended December 31,	
		2018	2017
Professional fees		1,640,404	1,693,365
Independent directors' fees	15	250,000	374,000
Travel		190,022	354,220
Rental		457,499	327,529
Regulatory fee		439,461	425,311
Maintenance and support		191,588	88,400
Communication		111,746	85,620
Depreciation		165,954	77,574
Others		27,463	146,018
		<b>3,474,137</b>	<b>3,572,037</b>

**15. Related party Matters**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

**15.1 Balances with related parties**

	Note	December 31, 2018	December 31, 2017
Investment in SHUAA Wadi Al Hada Fund		16,995,870	16,782,596
<b>Receivable from related parties</b>			
SHUAA Capital PSC (Parent)	(a)	11,600,000	13,000,000
SHUAA Saudi Hospitality Fund I (Affiliate)		-	18,557,778
Jeddah Centro Fund I (Affiliate)	(b)	1,847,417	4,341,064
SHUAA Wadi Al Hada Fund (Affiliate)		-	1,291,104
Receivable from funds under establishment	(c)	2,135,320	-

(a) The amount represents receivable from SHUAA Capital PSC in relation to the payment made on behalf of the Parent Company against additional land collateral for SHUAA Wadi Al Hada Fund, Jeddah Centro Fund I management fee and other expenses paid on behalf of the fund.

(b) These represent receivable for expenses incurred on behalf of the fund.

(c) This represent payments made on behalf of funds which are under approval with CMA. These payments will be reimbursed to the Company once the funds are approved.

**15.2 Transactions with related parties**

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

	For the year ended December 31,	
	2018	2017
<b>Transactions with Shuaa Funds</b>		
Asset management fee	15,770,361	20,037,774
Fund's administrative fee	7,987,719	-
Placement fee	-	1,100,000
Debt arrangement fees	1,492,257	5,482,500
<b>Transactions with Key Management Personnel</b>		
Independent directors' fee	250,000	374,000
Key management compensation	9,148,335	4,527,567

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**16. Financial risk management**

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

Financial instruments carried on the balance sheet include cash and bank balances, other receivables, accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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

**16.1 Market risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

**a) Currency risk**

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars. Management monitors the exposures and fluctuations in foreign exchange rates and believes that the foreign exchange risk is not significant.

**b) Cash flow and fair value Commission rate risk**

Cash flow and fair value commission rate risks is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial positions and cash flows. The Company is not exposed to any long term or short term credit facilities, borrowings or deposits and the management believes that the commission rate risk is not significant.

**c) Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

*Exposure*

The Company is exposed to market risk with respect to its investment in mutual fund.

*Sensitivity*

Management's best estimate of the effect on statement of income for a year due to a reasonably possible change in NAV, with all other variables held constant is indicated in the table below. There is no effect on OCI as the Company has no assets classified as FVOCI. An equivalent decrease shown below would have resulted in an equivalent, but opposite, impact.

Variable	Change in NAV%	Effect on income statements for the years ended	
		December 31, 2018	December 31, 2017
Net Asset Value (NAV)	+5	±849,794	±839,130
	±10	±1,699,587	±1,678,260

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**16.2 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

*Exposure*

For the Company, the financial assets which are potentially subject to credit risk consist principally of balances with bank and other receivables. Cash is placed with a local bank having sound credit ratings. Major portion of other receivables are from the parent company and company's managed mutual funds, which are secured against dividend distributions, hence the credit risk is minimized.

	December 31, 2018	December 31, 2017
Cash and bank balances	36,900,179	20,356,084
Other receivables	15,866,533	37,382,192
	<u>52,766,712</u>	<u>57,738,276</u>

**16.2.1 Credit risk measurement**

The assessment of credit risk of a financial assets carried at amortised cost (cash and bank balances and other receivables) does not entails further estimations of credit risk using Expected Credit Loss (ECL) which is derived by Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The Company believes that it has a low credit risk on these financial assets and the loss allowance would not be material for the Company. The Bank balances are held with a bank which has been assigned investment grade rating by "A-2" as per Standard and Poor's (S&P). Major portion of other receivables are from the parent company and company's managed mutual funds, which are secured against dividend distributions. Hence, currently the Company is not exposed to any significant credit risk.

**Loss allowance on other receivables**

	December 31, 2018			Total
	12 month ECL	Life time ECL		
		not credit impaired	Life time ECL credit impaired	
Carrying amount	15,866,533	-	412,500	16,279,033
Expected credit loss	-	-	(412,500)	(412,500)
	<u>15,866,533</u>	-	-	<u>15,866,533</u>

**16.2.2 Credit quality analysis**

The following table sets out the credit analysis for financial assets as at December 31, 2018.

	Investment grade	Non- investment grade	Unrated	Total
<b>Financial assets</b>				
Cash and bank balances	36,900,179	-	-	36,900,179
Other receivables	-	-	15,866,533	15,866,533
Investment held at FVSI	16,995,870	-	-	16,995,870
<b>Total</b>	<u>53,896,049</u>	-	<u>15,866,533</u>	<u>69,762,582</u>

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

The following table sets out the credit analysis for financial assets as at December 31, 2017.

	Investment grade	Non- investment grade	Unrated	Total
<b>Financial assets</b>				
Cash and bank balances	20,356,084	-	-	20,356,084
Other receivables	-	-	37,382,192	37,382,192
AFS Investments	16,782,596	-	-	16,782,596
<b>Total</b>	<b>37,138,680</b>	<b>-</b>	<b>37,382,192</b>	<b>74,520,872</b>

### 16.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

The Company's liquidity management process is as follows:

- a. Day-to-day funding, managed by Finance department to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested:
- b. Monitoring balance sheet liquidity ratios against internal and regulatory requirements
- c. Managing the concentration and profile of debt maturities
- d. Liquidity management and asset and liability mismatching

The following analyses the Company's financial liabilities based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual cash flows. Balances are equal to their carrying balances as all are due for repayments within 1 year hence the impact of discounting is not significant.

	Due within 1 year	Due after 1 year
<b>December 31, 2018</b>		
Accrued expenses and other current liabilities	5,088,607	-
<b>Total</b>	<b>5,088,607</b>	<b>-</b>
<b>December 31, 2017</b>		
Accrued expenses and other current liabilities	4,012,808	-
<b>Total</b>	<b>4,012,808</b>	<b>-</b>

### 16.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Operational risk is a distinct risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective in managing operational risk is to ensure control of the Group's resources by protecting the assets of the Company and minimising the potential for financial loss.

The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**17. Capital risk management**

The objective of managing capital is to safeguard the Company's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholder by pricing products and services commensuration with the level of risk. It is the policy of the Company to maintain adequate capital base so as to maintain investor, creditor and market confidence and to support future development of the business. The Company's capital base sufficiently covers all material risks meeting the minimum capital requirement and the Company intends to maintain a healthy capital ratio to cater future business growth. For capital adequacy working, refer to note 19.1..

**17.1 Capital risk management**

The Company's objectives when managing capital are, to comply with the capital requirements set by the CMA to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

In accordance with Article 74(b) of the Prudential Rules issued by the CMA (the Rules), given below are the disclosures of the capital base, minimum capital requirement and total capital ratio as of December 31 2018:

	As at December 31, 2018	As at December 31, 2017
<b>Capital base:</b>		
Tier 1 capital	63,210,496	67,257,476
Tier 2 capital	-	-
Total capital base	<u>63,210,496</u>	<u>67,257,476</u>
<b>Minimum capital requirement:</b>		
Market risk	-	-
Credit risk	24,539,213	32,833,204
Operational risk	4,052,744	3,289,520
Total minimum capital required	<u>28,591,957</u>	<u>36,122,724</u>
<b>Capital Adequacy Ratio:</b>		
Surplus in capital	34,618,539	31,134,752
Total Capital Ratio (times)	<u>2.21</u>	<u>1.86</u>

- a) The above information has been extracted from the Company's annual Capital Adequacy Model for the year ended December 31, 2018 to be submitted to CMA.
- b) The Capital Base consists of Tier 1 Capital and Tier 2 Capital calculated as per Article 4 and 5 of the Rules respectively. The Minimum Capital Requirements for Market, Credit & Operational Risk are calculated as per the requirements specified in Part 3 of the Rules.
- c) The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.
- d) Certain information as required by Pillar III of the Prudential Rules will be made available to the public on the Company's website, however, this information is not subject to review or audit by the external auditor's of the Company.

**18. Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

When measuring the fair value the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices / Net Asset Value or dealer quotes for similar instruments;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Accounting classifications and fair values	Carrying value	Fair values			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2018</b>					
<b>Financial assets</b>					
<b>Financial assets measured at fair value</b>					
Investments held at FVSI	16,995,870	-	16,995,870	-	16,995,870
<b>Financial assets not measured at fair value</b>					
<i>Financial assets held at amortised cost</i>					
Cash and bank balances	36,900,179	-	-	36,900,179	36,900,179
Other receivables	15,866,533	-	-	15,866,533	15,866,533
	<b>69,762,582</b>	<b>-</b>	<b>16,995,870</b>	<b>52,766,712</b>	<b>69,762,582</b>
<b>Financial liabilities</b>					
<b>Financial liabilities not measured at fair value</b>					
<i>Financial liabilities held at amortised cost</i>					
Accrued expenses and other current liabilities	5,088,607	-	-	5,088,607	5,088,607
	<b>5,088,607</b>			<b>5,088,607</b>	<b>5,088,607</b>



**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

Accounting classifications and fair values	Carrying value	Fair values			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2017</b>					
<b>Financial assets</b>					
<b>Financial assets measured at fair value</b>					
AFS investments	16,782,596	-	16,782,596	-	16,782,596
<b>Financial assets not measured at fair value</b>					
<i>Financial assets held at amortised cost</i>					
Cash and bank balances	20,356,084	-	-	20,356,084	20,356,084
Other receivables	37,382,192	-	-	37,382,192	37,382,192
	<u>74,520,872</u>	<u>-</u>	<u>16,782,596</u>	<u>57,738,276</u>	<u>74,520,872</u>
<b>Financial liabilities</b>					
<b>Financial liabilities not measured at fair value</b>					
<i>Financial liabilities held at amortised cost</i>					
Accrued expenses and other liabilities	4,012,808	-	-	4,012,808	4,012,808
	<u>4,012,808</u>	<u>-</u>	<u>-</u>	<u>4,012,808</u>	<u>4,012,808</u>

The assets and liabilities included in the above table that are carried at amortised cost; their carrying values are a reasonable approximation of fair value. Accrued expenses and other liabilities represent contract amounts and obligations due by the Company.

#### 18.1 Fair valuation techniques

The following tables show the valuation techniques used in measuring Level 3 fair values.

Type	Valuation techniques
Financial assets held at FVSI	Valuation is based on the NAV received from funds adjusted for fair valuation of underlying assets.
Inter-relationship between significant observable inputs and fair value measurement.	The estimated fair value would increase (decrease) if there is a change in the inputs used for valuation as discussed above.

#### 18.2 Transfers between level 1 & 2

There have been no transfers between Level 1 and Level 2 during the reporting periods.

**SHUAA CAPITAL SAUDI ARABIA**  
**(A Saudi Closed Joint Stock Company)**  
**Notes to the financial statements**  
**For the year ended December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**19. Financial instruments by category**

All financial assets and financial liabilities for the years ended December 31, 2018 and 2017, are classified under amortised cost category except for investments held at AFS or FVSI, which are classified and measured at fair value.

	Measurement category	As at December 31, 2018	As at December 31, 2017
<b>Financial assets</b>			
Cash and bank balances	Amortised cost	36,900,179	20,356,084
Shor term deposits	Amortised cost	-	-
Other receivables	Amortised cost	15,866,533	37,382,192
Investments at fair value	AFS investments	-	16,782,596
Investments at fair value	FVSI	16,995,870	-
<b>Total financial assets</b>		<b>69,762,583</b>	<b>74,520,872</b>
<b>Financial liabilities</b>			
Accrued expenses and other current liabilities	Amortised cost	5,088,607	4,012,808
<b>Total financial liabilities</b>		<b>5,088,607</b>	<b>4,012,808</b>

**20. Assets held under fiduciary capacity**

These represent net assets of funds under management amounting to Saudi Riyals 1,018 million (2017: Saudi Riyals 965 million). Consistent with the Company's accounting policy, such balances are not included in the Company's financial statements.

**21. Subsequent events**

There have been no significant subsequent events after the date of statement of financial position.

**22. Dividend distribution**

During the current year, on March 26, Board of Directors of the Company approved distribution of dividend amounting to Saudi Riyals 12 million.