

**Investcorp Saudi Arabia Financial
Investments Company
(A Saudi Joint Stock Company)**

FINANCIAL STATEMENTS

30 JUNE 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Investcorp Saudi Arabia Financial Investments 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Investcorp Saudi Arabia Financial Investments Company

Opinion

We have audited the financial statements of Investcorp Saudi Arabia Financial Investments Company (the "Company"), which comprise the statement of financial position as at 30 June 2018, and the statement of income, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the provisions of Companies' Law and the Company's 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 Board of Directors are responsible for overseeing the Company's financial reporting process.

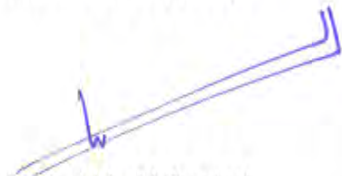
INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Investcorp Saudi Arabia Financial Investments Company (continued)

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

We communicate with the Board of Directors 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.

For Ernst & Young



Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354




Riyadh: 17 Muharram 1440H
(27 September 2018)

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)


BALANCE SHEET

As at 30 June 2018

	Notes	2018 SR	2017 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	63,246,372	61,616,027
Due from related parties	14	547,871	74,068
Prepayments and other receivables	5	689,461	869,962
TOTAL CURRENT ASSETS		64,483,704	62,560,057
NON-CURRENT ASSET			
Property and equipment	6	52,929	353,507
TOTAL ASSETS		64,536,633	62,913,564
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accruals	7	4,295,182	3,094,649
Zakat and income tax	8	1,174,770	1,370,439
TOTAL CURRENT LIABILITIES		5,469,952	4,465,088
NON-CURRENT LIABILITY			
Employees' terminal benefits		854,582	807,422
TOTAL LIABILITIES		6,324,534	5,272,510
SHAREHOLDERS' EQUITY			
Share capital	9	55,876,000	55,876,000
Statutory reserve	10	606,517	496,846
Retained earnings		1,729,582	1,268,208
TOTAL SHAREHOLDERS' EQUITY		58,212,099	57,641,054
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		64,536,633	62,913,564


Chairman of the Board


Chief Executive Officer


Finance Manager

The attached notes 1 to 19 form part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

STATEMENT OF INCOME

For the year ended 30 June 2018

	Notes	2018 SR	2017 SR
INCOME			
Placement fees	14	10,561,942	12,086,616
Client relationship maintenance fees	14	8,522,293	8,010,498
Management fees	14	360,384	-
		<u>19,444,619</u>	<u>20,097,114</u>
EXPENSES			
Employees cost		(14,287,102)	(13,620,124)
Rent and premises		(1,214,028)	(1,272,017)
Other expenses	12	(3,695,299)	(5,026,751)
		<u>(19,196,429)</u>	<u>(19,918,892)</u>
INCOME FROM MAIN OPERATIONS		248,190	178,222
Special commission income	14	721,600	453,816
Other income	11	126,923	434,116
		<u>1,096,713</u>	<u>1,066,154</u>
NET INCOME FOR THE YEAR		1,096,713	1,066,154
EARNINGS PER SHARE			
From main operations	18	<u>0.04</u>	<u>0.03</u>
From net income	18	<u>0.20</u>	<u>0.19</u>

The attached notes 1 to 19 form part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	2018 SR	2017 SR
OPERATING ACTIVITIES			
Net income for the year		1,096,713	1,066,154
Adjustments for:			
Depreciation	6	356,592	530,943
Provision for employees' terminal benefits, net		399,719	243,628
		<u>1,853,024</u>	<u>1,840,725</u>
Changes in operating assets and liabilities:			
Due from related parties		(473,803)	69,404
Prepayment and other receivables		180,501	(238,767)
Accounts payable and accruals		1,200,533	541,560
		<u>2,760,255</u>	<u>2,212,922</u>
Cash from operations			
Zakat and income tax paid		(721,337)	(504,448)
Employees' terminal benefits paid		(352,559)	(97,898)
		<u>1,686,359</u>	<u>1,610,576</u>
Net cash from operating activities			
INVESTING ACTIVITY			
Purchase of property and equipment	6	(56,014)	-
		<u>(56,014)</u>	<u>-</u>
Cash used in investing activity			
INCREASE IN CASH AND CASH EQUIVALENTS		1,630,345	1,610,576
Cash and cash equivalents at the beginning of the year		61,616,027	60,005,451
		<u>61,616,027</u>	<u>60,005,451</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	63,246,372	61,616,027
		<u><u>63,246,372</u></u>	<u><u>61,616,027</u></u>

The attached notes 1 to 19 form part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 30 June 2018

	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Total SR</i>
Balance at 30 June 2016	55,876,000	390,231	1,730,224	57,996,455
Net income for the year	-	-	1,066,154	1,066,154
Provision for zakat and income tax (note 8)	-	-	(1,421,555)	(1,421,555)
Transfer to statutory reserve (note 10)	-	106,615	(106,615)	-
Balance at 30 June 2017	55,876,000	496,846	1,268,208	57,641,054
Net income for the year	-	-	1,096,713	1,096,713
Provision for zakat and income tax (note 8)	-	-	(525,668)	(525,668)
Transfer to statutory reserve (note 10)	-	109,671	(109,671)	-
Balance at 30 June 2018	55,876,000	606,517	1,729,582	58,212,099

The attached notes 1 to 19 form part of these financial statements.

Investcorp Saudi Arabia Financial Investments Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2018

1 ACTIVITIES

Investcorp Saudi Arabia Financial Investments Company (the "Company") is a Saudi joint stock company registered in Riyadh, Saudi Arabia under commercial registration number 1010254275 dated 1 Sha'aban 1429H (corresponding to 3 August 2008) and licensed by the Capital Market Authority ("CMA") under license number 07088-36 dated 4 Dhul-Qadah 1428H (corresponding to 9 November 2007). The Company was authorised to commence business via letter no 1227/6 dated 12 Rabi Al Awal 1430H (corresponding to 9 March 2009). The objectives of the Company are to engage in investment management, investment advisory, investment placement arranging and custodial services.

2 BASIS OF PREPARATION

According to the transition plan to International Accounting Standards approved by the board of the Saudi Organization for Certified Public Accountants (SOCPA), effective 1 January 2018, the Company's financial statements for the year ending 30 June 2019 will be prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by SOCPA. Upon IFRS adoption, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards which require the Company to analyze the impact of adopting IFRS and incorporate certain adjustments on the comparative figures and its opening balances.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Use of estimates

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

Revenue recognition

Revenue is recognised in the statement of income as set out below:

Placement fees and client relationship maintenance fees

Placement fees are recognised upon subscription of the investor to the investments.

Fees charged for managing client relationships are recognised as revenue rateably as the services are provided.

Special commission income

Special commission income is accrued on an effective yield basis.

Management fee

Fees are charged for managing the Fund are recognised as revenue rateably as the services are provided.

Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents consist of bank balances, cash on hand, and deposits that are readily convertible into known amounts of cash and have an original maturity of three months or less when placed.

Property and equipment

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

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

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals

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

Provisions

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

Impairment of non-current assets

The Company reviews the carrying amounts of their non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which that asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior periods. A reversal of an impairment loss is recognised as income immediately.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. The related provision is charged to the statement of changes in shareholders' equity. Accordingly, amounts reimbursable by the shareholders of such zakat and income tax are credited to retained earnings. Additional amounts, if any, that may become due on finalization of an assessment are recorded in the year in which the assessment is finalized.

Employees' terminal benefits

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

Foreign currencies transactions

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

4 CASH AND CASH EQUIVALENTS

	2018 SR	2017 SR
Cash in hand	308	2,783
Bank balances	16,665,859	15,641,220
Time deposits with an original maturity of three months or less	46,580,205	45,972,024
	<u>63,246,372</u>	<u>61,616,027</u>

Special commission income recognized in the statement of income relates to the above time deposits. The effective special commission rate on time deposits as at 30 June 2018 was 2.3% (2017: 1%) per annum.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

5 PREPAYMENTS AND OTHER RECEIVABLES

	2018 SR	2017 SR
Prepaid expenses	523,448	771,142
Rent deposit	98,820	98,820
Other receivables	67,193	-
	<u>689,461</u>	<u>869,962</u>

6 PROPERTY AND EQUIPMENT

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

Office equipment	3 - 6 years
Office furniture & fixtures	5 - 6 years
Computer hardware & software	6 years
Leasehold improvements	Period of lease or 6 years whichever is shorter

	Office equipment SR	Office furniture & fixtures SR	Computer hardware & software SR	Leasehold improvements SR	Total 2018 SR	Total 2017 SR
<i>Cost:</i>						
At the beginning of the year	28,999	288,990	111,116	2,286,350	2,715,455	2,715,455
Additions	-	-	56,014	-	56,014	-
At the end of the year	<u>28,999</u>	<u>288,990</u>	<u>167,130</u>	<u>2,286,350</u>	<u>2,771,469</u>	<u>2,715,455</u>
<i>Depreciation:</i>						
At the beginning of the year	28,999	222,771	52,471	2,057,707	2,361,948	1,831,005
Charge for the year (note 12)	-	66,219	61,730	228,643	356,592	530,943
At the end of the year	<u>28,999</u>	<u>288,990</u>	<u>114,201</u>	<u>2,286,350</u>	<u>2,718,540</u>	<u>2,361,948</u>
<i>Net book amounts:</i>						
At 30 June 2018	<u>-</u>	<u>-</u>	<u>52,929</u>	<u>-</u>	<u>52,929</u>	
At 30 June 2017	<u>-</u>	<u>66,219</u>	<u>58,645</u>	<u>228,643</u>		<u>353,507</u>

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

7 ACCOUNTS PAYABLE AND ACCRUALS

	2018 SR	2017 SR
Payable to a shareholder (note 14)	3,835,461	2,489,099
Accrued expenses	459,721	605,550
	<u>4,295,182</u>	<u>3,094,649</u>

8 ZAKAT AND INCOME TAX

i) Zakat

Zakat charge for the year

Zakat charge for the year consists of the current year provision amounting to SR 251,472 (2017: SR 423,406).

The current year's provision is based on the following:

	2018 SR	2017 SR
Charge for the year	251,472	252,207
Charge for prior years	-	171,199
	<u>251,472</u>	<u>423,406</u>

The Charge for the year is based on the following:

	2018 SR	2017 SR
Equity	57,641,054	57,996,455
Provisions	807,422	661,692
Book value of long term assets	(1,663,204)	(1,804,507)
	<u>56,785,272</u>	<u>56,853,640</u>
Zakatable income for the year	1,354,949	1,742,647
	<u>58,425,362</u>	<u>58,596,287</u>
Share of Saudi and other GCC national shareholder in the Zakat base @ 17.2166% (2017: 17.2166%)	<u>10,058,861</u>	<u>10,088,288</u>
Zakat charge for the year @ 2.5%	<u>251,472</u>	<u>252,207</u>

The differences between the financial and zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

8 ZAKAT AND INCOME TAX (continued)

i) Zakat (continued)

Movements in provision during the year

	2018 SR	2017 SR
At the beginning of the year	423,554	247,943
Provided during the year	251,472	423,406
Payments during the year	(417,691)	(247,795)
At the end of the year	257,335	423,554

ii) Income tax

Income tax charge for the year

Income tax charge for the non-Saudi shareholder amounting to SR 274,197 (2017: SR 998,149) has been provided for based on the estimated taxable profit at the rate of 20% and consists of the following:

	2018 SR	2017 SR
Charge for the year	274,196	237,630
Charge for prior years	-	760,519
	274,196	998,149

Movement in provision during the year

	2018 SR	2017 SR
At the beginning of the year	946,885	205,389
Provided during the year	274,196	998,149
Payments during the year	(303,646)	(256,653)
At the end of the year	917,435	946,885

iii) Status of assessment

The Company had submitted the tax/zakat declarations for the years 2009 through 2014 with the General Authority of Zakat & Tax ("GAZT"). The GAZT had initially assessed an additional tax/zakat of SR 2.6 million for the years from 2009 to 2014. This is principally due to disallowance of certain salaries and benefits by the GAZT. The Company provided required documentation to GAZT and subsequently GAZT revised the initial assessment resulting in a reduction of the additional tax/zakat liability from SR 2.6 million to SR 830 thousand.

The Company appealed against the revised assessment to the Preliminary Appeal Committee ("PAC") and an appeal hearing was conducted in May 2016. A ruling was issued 31 August 2016 by PAC on the appeal filed by the Company. The Company has decided to pay the additional income tax (including delay fines) and zakat liability and accordingly has made appropriate provision in the financial statements during the year ended 30 June 2017.

The Company had filed its zakat and income tax returns for the years ended 30 June 2015 through 2017. The assessment has not yet been raised by GAZT.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

9 SHARE CAPITAL

The Company's share capital amounts to SR 55,876,000 divided into 5,587,600 shares (2017: 5,587,600 shares) of SR 10 each. Share capital of the Company is distributed as follows:

	<i>Percentage of shareholding</i>	2018 SR	2017 SR
Investcorp Bank B.S.C	96%	53,640,960	53,640,960
Investcorp Funding Limited	1%	558,760	558,760
Investcorp Management Services Limited	1%	558,760	558,760
Investcorp Investment Holding Limited	1%	558,760	558,760
Investcorp Equities Limited	1%	558,760	558,760
	<u>100%</u>	<u>55,876,000</u>	<u>55,876,000</u>

10 STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its income before zakat and income taxes after deducting losses brought forward in each year until it has built up a reserve equal to 30% of the share capital. This reserve is not available for distribution.

11 OTHER INCOME

Other income represents income from a sublease arrangement of the office premises of the Company.

12 OTHER EXPENSES

	2018 SR	2017 SR
Travel & business development	1,534,144	2,487,095
Professional fees	607,857	669,382
Depreciation (note 6)	356,592	530,943
Management fee (note 14)	282,603	-
Communication expenses	268,869	406,842
Directors' remuneration (note 14)	225,015	225,015
Government fees	156,941	174,390
Withholding tax	87,807	73,401
Others	175,471	459,683
	<u>3,695,299</u>	<u>5,026,751</u>

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents and receivables. Its financial liabilities consist of payables and accrued expenses.

The fair values of financial instruments are not materially different from their carrying values.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

14 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influences by such parties. List of the related parties of the Company is as follows:

<i>Name of related party</i>	<i>Nature of relationship</i>
Investcorp Bank B.S.C	Shareholder
Investcorp Management Services Limited	Shareholder
Investcorp Investment Holding Limited	Shareholder
Investcorp Funding Limited	Shareholder
Investcorp Equities Limited	Shareholder
Saudi Care Sector fund	Fund managed by the Company

The transactions with related parties are as follows:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	
		2018 SR	2017 SR
Investcorp Bank B.S.C.	Expenses paid by shareholders (note 14a)	150,000	150,000
	Special commission income received (note 14c)	721,600	453,816
	Expense recharges (note 14f)	3,854,163	2,489,099
	Management fee expense (note 14e)	282,603	-
Investcorp Management Services Limited	Placement fee income (note 14b)	10,561,942	12,086,616
	Client relationship maintenance fee income (note 14b)	8,522,293	8,010,498
	Director's remuneration (note 12)	225,012	225,012
Saudi Care Sector Fund	Management fee income (note 14d)	360,384	-

- Expenses comprising salaries of seconded employees are incurred by Investcorp Bank B.S.C, the shareholder, and recharged to the Company. The Company has entered into an agreement with the shareholder, where the shareholder may finance the Company's working capital requirements.
- As per the agreement between the Company and Investcorp Management Services Limited ("IMSL"), the latter will pay a fee for any investments arranged and maintained by the Company. The Company has sourced investments in Saudi Arabia with a total value of SR 1,197,672,788 (2017: SR 1,342,957,286) with IMSL during the year.
- The Company placed a time deposit of SR 46,580,205 (2017: SR 45,972,024) and a current account of SR 16,424,577 (2017: SR 15,147,719) with the shareholder. The time deposit yields special commission at market rates.
- The Company provides management services to Saudi Care Sector Fund. The Fund will pay the fund manager an annual management fee of 0.5% per annum of aggregate subscription amounts of the Fund.
- Investcorp Bank B.S.C. shall charge the Company for finance support inclusive of certain services for corporate governance, accounting, office administrative services including HR support and IT support services.
- Investcorp Bank B.S.C. pays on behalf of the Company for employee bonuses, relationship manager's travel expenses, and withholding taxes. On a quarterly basis, these payables are settled.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

14 RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

The breakdown of amounts due from related parties are as follows:

	30 June 2018 SR	30 June 2017 SR
Investcorp Bank B.S.C	187,487	74,068
Investcorp Management Services Limited	360,384	-
	<u>547,871</u>	<u>74,068</u>

The breakdown of amounts due to shareholder is as follows:

	30 June 2018 SR	30 June 2017 SR
Investcorp Bank B.S.C	3,854,163	2,489,099
	<u>3,854,163</u>	<u>2,489,099</u>

15 RISK MANAGEMENT

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to special commission rate risk on its interest bearing assets, which primarily comprise bank deposits. The Company manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

Credit risk

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

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company seeks to manage its credit risk with respect to financial institutions by only dealing with reputable financial institutions. Majority of the cash equivalents amounting to SR 46,580,205 are placed in Investcorp Bank B.S.C. with a credit rating of Ba2 from Moody's as of 23 October 2017.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company is not exposed to significant liquidity risk. Deposits are generally placed for a period of one to three months to manage the Company's liquidity requirements. All liabilities on the Company's balance sheet, other than end of service benefits, are contractually payable on a current basis.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals during the year.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

16 CAPITAL REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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

	2018 SR	2017 SR
Capital base:		
Tier 1 Capital	58,212,099	57,641,054
Total Capital base	58,212,099	57,641,054
Minimum capital requirement:		
Credit risk	4,806,200	4,811,320
Operational risk	4,799,107	4,979,723
Total minimum capital required	9,605,307	9,791,043
Capital adequacy ratio:		
Total Capital ratio (times)	6.06	5.89
Tier 1 Capital ratio (times)	6.06	5.89
Surplus in the Capital	48,606,792	47,881,929

- The capital base consists of Tier 1 capital (which includes share capital and audited retained earnings). The Company does not have Tier 2 capital as per article 4 and 5 of the Prudential Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules.
- The Company manages its capital base in light of Pillar I and Pillar II of the Prudential Rules - the capital base should not be less than the minimum capital requirement.
- The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.
- The minimum capital base required as per Article 6(g) of the Authorised Persons regulations issued by the Capital Market Authority in the Kingdom of Saudi Arabia in respect of the licensed activities of the Company is SR 50 million.
- The Company is required to disclose on an annual basis certain information as per Pillar III of the Prudential Rules for public on the Company's website. However these are not subject to review or audit by the external auditors of the Company.

17 SEGMENT INFORMATION

The Company operates in only one business segment (i.e., investment management) in the Kingdom of Saudi Arabia.

Investcorp Saudi Arabia Financial Investments Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 30 June 2018

18 EARNINGS PER SHARE

The earnings per share amount is calculated by dividing income from main operations / net income for the year by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares for 2018 is 5,587,600 shares (2017: 5,587,600 shares).

19 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 14 Muharram 1440H corresponding to 24 September 2018.