UBS Saudi Arabia
(A Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2018

UBS Saudi Arabia
(A Closed Joint Stock Company)
Index to the financial statements
For the year ended 31 December 2018

Building a better working world

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS' OF UBS SAUDI ARABIA
(A CLOSED JOINT STOCK COMPANY)

Opinion

We have audited the financial statements of UBS Saudi Arabia - A Closed Joint Stock Company (the "Company"), which comprise of the statement of financial position as at 31 December 2018 and the related statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and the 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 31 December 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 that are endorsed by the Saudi Organization for Certified Public Accountants.

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 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 that are endorsed by the Saudi Organization for Certified Public Accountants 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS' OF UBS SAUDI ARABIA
(A 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.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS' OF UBS SAUDI ARABIA
(A CLOSED JOINT STOCK COMPANY) (continued)

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

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.

for Ernst & Young

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

Riyadh: 19 Rajab 1440H
(26 March 2019)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

UBS Saudi Arabia
(A Closed Joint Stock Company)
Statement of financial position
As at 31 December 2018

	Notes	*31 December 2018 SR*	*31 December 2017 SR (Restated-note 21)*	*1 January 2017 SR (Restated-note 21)*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	5	**101,187,127**	96,839,319	95,958,454
Prepayments and other assets	6	**1,163,247**	1,618,743	1,445,367
Due from related parties	16	**4,019,178**	3,647,624	3,096,868
TOTAL CURRENT ASSETS		**106,369,552**	102,105,686	100,500,689
NON-CURRENT ASSETS				
Property and equipment	7	**777,207**	1,869,813	3,235,662
Deferred tax asset	9	**1,878,737**	1,870,736	1,787,242
TOTAL NON-CURRENT ASSETS		**2,655,944**	3,740,549	5,022,904
TOTAL ASSETS		**109,025,496**	105,846,235	105,523,593
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
CURRENT LIABILITIES				
Accrued expenses and other liabilities	8	**1,320,353**	1,643,863	2,862,810
Income tax payable	9	**785,807**	536,458	1,034,864
Due to related parties	16	**194,645**	46,049	39,353
TOTAL CURRENT LIABILITIES		**2,300,805**	2,226,370	3,937,027
NON-CURRENT LIABILITY				
Employees' terminal benefits	10	**2,714,509**	2,349,095	2,007,773
TOTAL LIABILITIES		**5,015,314**	4,575,465	5,944,800
SHAREHOLDERS' EQUITY				
Share capital	11	**110,000,000**	110,000,000	110,000,000
Accumulated losses		**(5,989,818)**	(8,729,230)	(10,421,207)
TOTAL SHAREHOLDERS' EQUITY		**104,010,182**	101,270,770	99,578,793
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**109,025,496**	105,846,235	105,523,593

The accompanying notes from 1 to 24 form an integral part of these financial statements.

UBS Saudi Arabia
(A Closed Joint Stock Company)
Statement of comprehensive income
For the year ended 31 December 2018

	Notes	*31 December 2018* SR	*31 December 2017* SR (Restated-note 21)
Service and other fees	13	**15,350,445**	13,484,742
Special commission income	13	**1,967,121**	992,763
TOTAL REVENUE		**17,317,566**	14,477,505
General and administrative expenses	14	**(14,503,712)**	(13,193,129)
OPERATING PROFIT		**2,813,854**	1,284,376
Rental income	15	**703,364**	860,565
PROFIT BEFORE TAX		**3,517,218**	2,144,941
Income tax charge for the year	9	**(777,806)**	(452,964)
PROFIT FOR THE YEAR		**2,739,412**	1,691,977
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,739,412**	1,691,977
EARNINGS PER SHARE:			
Basic and diluted, income for the year per share	22	**0.25**	0.15

UBS Saudi Arabia
(A Closed Joint Stock Company)
Statement of changes in shareholders' equity
For the year ended 31 December 2018

	Share capital	*Accumulated losses*	*Total*
	SR	*SR*	*SR*
As at 1 January 2017 (restated-note 21)	110,000,000	(10,421,207)	99,578,793
Profit for the year	-	1,691,977	1,691,977
Other comprehensive income	-	-	-
Total comprehensive income	-	1,691,977	1,691,977
As at 31 December 2017 (restated-note 21)	110,000,000	(8,729,230)	101,270,770
Profit for the year	-	**2,739,412**	**2,739,412**
Other comprehensive income	-	-	-
Total comprehensive income	-	**2,739,412**	**2,739,412**
As at 31 December 2018	**110,000,000**	**(5,989,818)**	**104,010,182**

The accompanying notes from 1 to 24 form an integral part of these financial statements.

UBS Saudi Arabia
(A Closed Joint Stock Company)
Statement of cash flows
For the year ended 31 December 2018

	Notes	31 December 2018 SR	31 December 2017 SR (Restated – note 21)
OPERATING ACTIVITIES			
Profit before tax		**3,517,218**	2,144,941
Adjustment to reconcile profit before tax to net cash flow:			
Depreciation	7	**1,365,849**	1,365,849
Provision for employee defined benefit liabilities	10	**365,414**	341,322
		5,248,481	3,852,112
Working capital adjustments			
Due from related parties		**(371,554)**	(550,756)
Prepayments and other assets		**455,496**	(173,376)
Accrued expenses and other liabilities		**(596,753)**	(1,218,947)
Due to related parties		**148,596**	6,696
		4,884,266	1,915,729
Income tax paid	9	**(536,458)**	(1,034,864)
Net cash flows from operating activities		**4,347,808**	880,865
Net increase in cash and cash equivalents		**4,347,808**	880,865
Cash and cash equivalents at the beginning of the year		**96,839,319**	95,958,454
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	**101,187,127**	96,839,319

The accompanying notes from 1 to 24 form an integral part of these financial statements.

1 CORPORATE INFORMATION

UBS Saudi Arabia, (the "Company") is a Closed Joint Stock company registered with the Capital Market Authority ("CMA") under license number 08113-37 dated 4 Rajab 1429H (corresponding to 7 July 2008). It operates in the Kingdom of Saudi Arabia under commercial registration number 1010257812 dated 6 Dhul Qada 1429H (corresponding to 4 November 2008). The Company is licensed to act as principal, agent and to provide brokerage, underwriting, management, advisory and custodial services. The registered address of the Company is Tatweer Towers, Tower 4, King Fahad road, P.O Box 75724, Riyadh 11588, Kingdom of Saudi Arabia

The Company is owned 99.96% by UBS Saudi Arabia Holding Limited, 0.01% by S.G. Securities U.K. Limited, 0.01% by S.G. Warburg and Company Limited, 0.01% by UBS AG Switzerland and 0.01% by UBS UK Holding Limited. The Company is ultimately owned by UBS AG Switzerland.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA"). For all periods up to and including the year ended 31 December 2017, the Company prepared its financial statements in accordance with accounting standards generally accepted in KSA. These financial statements for the year ended 31 December 2018 are the first annual financial statements of the Company, prepared in accordance with IFRSs as endorsed in KSA.

Accordingly, IFRS 1, "First-time Adoption of International Financial Reporting Standards", as endorsed in KSA has been applied. Refer to note 21 for information on the first-time adoption of IFRSs as endorsed in KSA by the Company.

The financial statements have been prepared on a historical cost basis except otherwise stated. These financial statements are presented in Saudi Riyals ("SR"), which is the functional and presentation currency of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements unless otherwise stated.

Current versus non-current classification
The Company presents assets and liabilities in the statement of financial position based on a current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies all other assets as non-current.

A liability is classified as current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents consist of term deposits with original maturities of three months or less from the purchase date, and bank balances and cash in hand which are available to the Company without any restriction.

Receivables
Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective commission method, less provision for impairment. Such provisions are charged to profit or loss in the statement of comprehensive income and reported under "General and administrative expenses". When receivables are uncollectible, they are written-off against the provision for expected credit losses. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the statement of comprehensive income.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment losses if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the statement of comprehensive income when incurred as repairs and maintenance.

The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the individual item of property and equipment. Depreciation is charged to the statement of comprehensive income. The estimated useful lives of the assets are as follows:

	Years
Leasehold improvements	10 years or lease term whichever is lower
Furniture and fixtures	10
Office equipment	1-4

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. Leasehold improvements are amortized on a straight line basis over the shorter of the useful life of the improvement or the term of the lease.

Depreciation on addition and disposal of items of property and equipment is computed on a pro-rata basis.

Any additions below the threshold set by the Company and expenditure for repairs and maintenance are charged to profit or loss in the statement of comprehensive income.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are calculated as the difference between the net disposal proceeds and carrying amount of the asset and are included in profit or loss in the the statement of comprehensive income. 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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions and accruals

Accounts payable and accruals are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Company.

Provisions are recognized when the Company has a legal or constructive obligation as a result of a past event and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. However, the provisions are reviewed at the reporting date and adjusted to reflect current best estimates. When the company expects some or all a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employees' benefits

Employee benefits are all forms of consideration given by the Company in exchange for services rendered by employees. Employee benefits include: short-term employee benefits, post-employment benefits and other long-term employee benefits.

Short term employee benefits

When an employee has rendered service to the Company during an accounting period, the Company recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid as an expense. Accumulated leave, which is expected to be utilized within the next twelve months, is treated as a short-term employee benefit. The Company measures the expected cost of such absences as the additional amount that it expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

Post-employment obligation

The Company operates a post-employment benefit scheme driven by the labour laws of the Kingdom of Saudi Arabia. The post-employment benefits scheme is not funded. Valuation of the obligation under such a scheme is carried out by an independent actuary based on the projected unit credit method. The costs relating to such a scheme primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognised immediately in the statement of comprehensive income as “employee costs” while unwinding of the liability at discount rates used are recorded as a finance cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as a re-measurement in other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. Remeasurements are not reclassified to profit or loss in subsequent periods.

Changes in the present value of the defined benefit obligation resulting from scheme amendments or curtailments are recognised immediately in other comprehensive income as past service costs.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax
Income tax is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of comprehensive income.

Deferred tax liabilities and assets are recognized for all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. The carrying amount of any deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available in the near future to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are re-assessed 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. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The deferred tax is charged to the statement of comprehensive income.

Revenue recognition
IFRS 15 Revenue from Contracts with Customers establishes a single and comprehensive framework which sets out how much revenue is to be recognized, and when. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is measured based on the consideration specified in a contract with a customer usually at the invoiced value of the goods and services supplied by the Company net of trade and quantity discounts.

The Company recognizes revenue when it transfers control over goods or a service to a customer and / or provision of services on behalf of affiliates.

The application of the core principles in IFRS 15 is carried out in five steps:
- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The above five-step model is applied to individual contracts. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies all the performance obligations over a service to a customer and / or provision of services on behalf of other parties.

Nature of services
The Company is engaged to act as principal, agent and to provide brokerage, underwriting, management, advisory and custodial services.

The Company accounts for services separately on the basis of agreements entered into with clients i.e. if these services and their performance obligations are separately identifiable and a transaction price can be separately allocated and distinct from each other.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The following is a description of principal activities from which the Company generates its revenue.

Arrangement fees

Arrangement fees are recognized when the performance obligations agreed in the contract or service level agreement are satisfied i.e. services are provided.

Commission income

Commission income is recognized on an effective yield basis on the principal amount of term deposits over their maturity period on an accruals basis.

Brokerage income

Income from transaction-type services such as brokerage services for which customers are billed on completion of the deal are recognized when the deal has been executed.

Asset management fees

Fees charged for managing assets are recognized as revenue on the services provided. Subscription fees are recognized upon subscription of the investor to the Fund. Fund performance income is recognized at the year-end, if the fund results meet the annual pre-set target.

Advisory and other income

Advisory service fees are accrued on a time proportionate basis, as the services are rendered.

Rental income

Rental income is accrued proportionately when the right to receive rental income is established.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 - Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The standard also introduced a new model based on Expected Credit Losses (ECL) for recognizing loan loss provisions. The Company has adopted IFRS 9 effective from 1 January 2018 using the full retrospective method. The adoption of IFRS 9 had no material impact on the company's statement of financial position or statement of comprehensive income.

i) Financial assets

Classification

On initial recognition, a financial asset is classified as measured at amortized cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVTPL). Financial assets held by the Company, classified under 'Amortised Cost' are receivables, cash equivalents and amounts due from related parties.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)
i) Financial assets (continued)

Financial assets held at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI'), on the principal amount outstanding.

Financial assets held at FVOCI
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Special commission and foreign exchange gains or losses are recognised in the statement of comprehensive income.

Equity Instruments
On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets held at FVTPL
All other financial assets are classified as measured at FVTPL. This may include equity held for trading and debt securities not classified either as AC or FVOCI.

In addition, on initial recognition, the Company may also irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at amortized cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. As part of the convergence, the Company has classified all its investments in funds under FVTPL category.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
i) Financial assets (continued)

Impairment of Financial Assets
The Company recognises a loss allowance for expected credit losses on a financial asset that is measured at amortized cost at each reporting date, at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. When making the assessment, the Company uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if it is determined to have low credit risk at the reporting date.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12- month expected credit losses. For receivables, the Company always measures the loss allowance at an amount equal to lifetime expected credit losses.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The Company measures expected credit losses of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and the 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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the gross carrying amount using the effective rate of interest unless the financial instrument is credit-impaired in which case the Special commission income is recognised on reduced carrying amount. The Special commission income is recorded as part of finance revenue in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

ii) Financial liabilities
Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

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

Foreign currency translations
Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., the translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

Statutory reserve
As required by the Saudi Arabian Regulations for Companies and Company`s by-Laws, 10% of the net income for the year (after deducting losses brought forward) is required to be transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. Statutory reserves are not available for distribution. Since the Company has accumulated brought forward losses, no transfers were made in the current and prior year.

Fiduciary assets
Assets under management:
The Company offers asset management services to its customers, which include management of wealth and investments. Such assets are not treated as assets of the Company and accordingly are not included in these financial statements.

Clients' cash accounts:
Clients' cash accounts are not treated as assets of the Company and accordingly are not included in these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below, and it is the view of the Company that they will not have a significant impact. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases
The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC 27 – 'Evaluating the substance of transactions involving the legal form of a lease'

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16
The Company plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

During the year, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

Assets	**SR**
Property, plant and equipment (right-of-use assets)	**5,021,265**
Liabilities	
Lease liabilities	**5,021,265**
Net impact on equity	**-**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)

Impact on the statement of comprehensive income (increase/(decrease)) for the year ending 31 December 2019:

Depreciation expense	**1,195,932**
Operating lease expense (included in administrative expenses	**(1,118,000)**
Interest expense	**191,679**
Operating profit	**269,611**

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (continued)
The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

4. SIGNIFICANT ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The areas involving critical accounting estimates and significant assumptions concerning the future are discussed below:

i. Estimation of income taxes
The Company takes into account relevant provisions of the current income tax laws while providing for current and deferred taxes as explained in the relevant note to these financial statements.

ii. Estimation of useful lives & residual value of property and equipment
Management has made estimates of residual values, useful lives and recoverable amounts of certain items of property and equipment. Any change in these estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge and impairment loss.

iii. Provision for expected credit losses on receivables
Management has estimated the realizable amount of unsecured debts as fully recoverable. Accordingly, no provision is made in these financial statements. Any future change in the estimated realizable amounts might affect the carrying amount of trade receivables with a corresponding effect on the amounts recognized in the statement of comprehensive income as a provision / reversal.

iv. *Measurement of present value of defined benefit obligation*
Certain assumptions have been adopted as disclosed in note 10 of these financial statements for the valuation of the defined benefit obligations. Any changes in these assumptions in future years might affect the provision made at year end.

5. CASH AND CASH EQUIVALENTS

	Note	*31 December 2018 SR*	*31 December 2017 SR*	*1 January 2017 SR*
Cash at bank				
– time deposit – local currency	5.1	**93,000,000**	93,000,000	92,000,000
– local currency		**4,208,253**	2,696,124	3,338,407
– foreign currency		**3,966,197**	1,131,793	609,152
		101,174,450	96,827,917	95,947,559
Cash in hand		**12,677**	11,402	10,895
		101,187,127	96,839,319	95,958,454

5.1 Time deposit and bank balances are with a counterparty that has high investment grade credit rating. Investment grade refers to the quality of the counterparty's credit. In order to be considered investment grade, the counterparty must be rated at 'BBB' or higher by Standard and Poor's or Moody's. These balances carry commission at the rate of 1.8% to 2.9% per annum (31 December 2017: 0.9% to 1.8%, 1 January 2017: 1.8% to 2.8% per annum).

6. PREPAYMENTS AND OTHER ASSETS

	31 December 2018 SR	*31 December 2017 SR*	*1 January 2017 SR*
Prepaid expenses	**742,372**	1,468,199	1,331,645
Commission income receivable	**159,073**	150,544	113,722
Other assets	**261,802**	-	-
	1,163,247	1,618,743	1,445,367

7. PROPERTY AND EQUIPMENT

	Leasehold improvements SR	*Furniture and fixtures SR*	*Office equipment SR*	*Total SR*
Cost:				
At 1 January 2018	12,539,733	1,902,201	1,033,773	15,475,707
Additions	-	-	273,243	273,243
At 31 December 2018	12,539,733	1,902,201	1,307,016	15,748,950
Depreciation:				
At 1 January 2018	10,916,323	1,655,798	1,033,773	13,605,894
Charge for the year	1,191,917	173,932	-	1,365,849
At 31 December 2018	12,108,240	1,829,730	1,033,773	14,971,743
Net book value:				
As at 31 December 2018	**431,493**	**72,471**	**273,243**	**777,207**
As at 31 December 2017	1,623,410	246,403	-	1,869,813
As at 1 January 2017	2,815,327	420,335	-	3,235,662

As at 31 December 2018, the cost of items of property and equipment which are fully depreciated amounts to SR 1,793,953 (31 December 2017: 1,793,953, 1 January 2017: 1,793,953). The outstanding liability as at 31 December 2018 in relation to additions of property and equipment amounted to SR 273,243 (31 December 2017: SR Nil and 1 January 2017: SR Nil).

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2018 SR	*31 December 2017 SR*	*1 January 2017 SR*
Accrued expenses	**1,139,410**	1,302,796	1,303,171
Value added tax	**152,784**	-	-
Withholding taxes payable	**28,159**	6,757	781,314
Unearned rent income	**-**	334,310	778,325
	1,320,353	1,643,863	2,862,810

9. INCOME TAX PAYABLE

a) The tax charge for the current year is as follows:

	31 December 2018 SR	*31 December 2017 SR*
Current tax	**785,807**	536,458
Deferred tax	**(8,001)**	(83,494)
	777,806	452,964

b) The liability for income tax recognized in the statement of financial position is as follows:

	31 December 2018 SR	*31 December 2017 SR*	*1 January 2017 SR*
Income tax payable	**785,807**	536,458	1,034,864

Movements in tax provision during the year are as follows:

As at 1 January	**536,458**	1,034,864	450,187
Provision for the year	**785,807**	536,458	1,034,864
Payments made during the year	**(536,458)**	(1,034,864)	(450,187)
As at 31 December	**785,807**	536,458	1,034,864

c) The current year provision is based on 20% of the adjusted taxable profit. Differences between the financial and taxable profit are mainly due to provisions and certain expenses, which are disallowed for tax purposes.

d) ***Status of assessment***

The Company has filed its income tax returns with the General Authority of Zakat and Tax ("GAZT") for all the years ended up to 31 December 2017. Assessments have been agreed with the GAZT for all years up to 31 December 2014. Tax assessments have not been finalized by GAZT for the years ended 31 December 2015 to 31 December 2017.

9. INCOME TAX PAYABLE (continued)

e) ***Deferred Tax***

The Company has recognized a deferred tax asset amounting to SR 1,878,737 (31 December 2017: SR 1,870,736, 1 January 2017: SR 1,787,242) as at the reporting date, in respect of timing differences due to disallowance of employee defined benefit liabilities, the difference in basis of depreciation, and the tax losses carried forward calculated at an effective income tax rate of 20%. The deferred tax asset and its movement for the year is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Deferred tax asset	**1,878,737**	1,870,736	1,787,242

The net balance of deferred taxation is in respect of the following temporary differences,

Accelerated tax depreciation allowance	**466,049**	269,196	75,146
Provision of employees` benefits	**542,902**	469,819	401,555
Tax losses carried forward	**869,786**	1,131,721	1,310,541
	1,878,737	1,870,736	1,787,242

10. EMPLOYEES' BENEFITS

The following tables summarise the components of the end of service benefits recognised in the statement of comprehensive income and statement of financial position:

Amount recognised in the statement of financial position

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Employees' terminal benefits	**2,714,509**	2,349,095	2,007,773

Movement of liability recognized in the statement of financial position

As at 1 January	**2,349,095**	2,007,773	1,689,232
Provision during the year	**365,414**	341,322	318,541
As at 31 December	**2,714,509**	2,349,095	2,007,773

Principal actuarial assumptions

	31 December 2018	*31 December 2017*	*1 January 2017*
	%	%	%
Discount rate	**4.00**	4.00	4.00
Expected rate of increase in salary	**1.00**	1.00	1.00

10. EMPLOYEES' BENEFITS (continued)

Movement in present value of defined benefit obligation

	31 December 2018 SR	*31 December 2017 SR*	*1 January 2017 SR*
As at 1 January	**2,349,095**	2,007,773	1,689,232
Current service cost for the year	**271,450**	261,011	250,972
Interest cost for the year	**93,964**	80,311	67,569
Benefits paid during the year	**-**	-	-
As at 31 December	**2,714,509**	2,349,095	2,007,773

11. SHARE CAPITAL

As at 31 December 2018, the authorized, issued and fully paid-up share capital of the Company was SR 110 million divided into 11 million shares (31 December 2017 and 1 January 2017: 11 million shares) with a nominal value of SR 10 each.

The shareholding of the Company's issued and fully paid-up share capital is as follows:

	Ownership percentage	*Number of shares*	*Share capital SR*
UBS Saudi Arabia Holding Limited (a BVI Company)	**99.96%**	**10,995,600**	**109,956,000**
S.G. Securities U.K. Limited	**0.01%**	**1,100**	**11,000**
S.G. Warburg & Company Limited	**0.01%**	**1,100**	**11,000**
UBS AG Switzerland	**0.01%**	**1,100**	**11,000**
UBS UK Holding Limited	**0.01%**	**1,100**	**11,000**
	100%	**11,000,000**	**110,000,000**

12. CONTINGENCIES AND COMMITMENTS

The rental commitments in respect of office premises as at 31 December 2018 amounted to SR 6,150,386 (31 December 2017: SR 981,459, 1 January 2017: SR 1,962,918).

There were no contingencies as at the current reporting date or in the prior year reporting dates reported in these financial statements.

13. REVENUE

	Notes	*31 December 2018* *SR*	*31 December 2017* *SR*
Service and other fees	13.1	**15,350,445**	13,484,742
Special commission income	13.2	**1,967,121**	992,763
		17,317,566	14,477,505

13.1 All income is generated from following related parties:

UBS AG Switzerland	**10,104,575**	10,280,684
UBS AG London	**5,245,870**	3,204,058
	15,350,445	13,484,742

13.2 This income is earned on term deposits placed in banks as disclosed in note 5.1 of the financial statements.

14. GENERAL AND ADMINISTRATION EXPENSES

	Notes	*31 December 2018* *SR*	*31 December 2017* *SR*
Employee related cost		**6,561,824**	6,381,984
Maintenance expenses		**2,295,029**	889,377
Rent expenses		**1,806,083**	2,001,518
Depreciation	7	**1,365,849**	1,365,849
Professional and consulting fee		**993,875**	1,315,644
Withholding taxes		**343,957**	97,461
License fees		**253,250**	255,074
Contract staff cost		**240,134**	235,424
Phone and carrier		**208,168**	164,344
Travelling and conveyance		**169,517**	229,464
Others		**266,026**	256,990
		14,503,712	13,193,129

15. RENTAL INCOME

	31 December 2018 *SR*	*31 December 2017* *SR*
Rental income	703,364	860,565

This income is earned on the sub-lease of office space. Since the Company does not own the property nor has a finance lease over the office premises, the property does not fulfill the criteria of an investment property and hence is not accounted for as such. The sub-lease agreement ended during 2018.

16. RELATED PARTY DISCLOSURES

In the ordinary course of its activities, the Company transacts business with its related parties which include its shareholders and their affiliated companies, the Board of Directors, and key management personnel. Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The transactions with related parties are carried out on mutually agreed terms approved by the management of the Company.

The significant transactions with related parties during the year and the related amounts are as follows:

Name of related party	Nature of transactions	31 December 2018	31 December 2017
Affiliate			
UBS Switzerland AG	Service fee income (a) (b)	**10,104,575**	10,280,684
	Reimbursement of expenses	**(2,234)**	(12,822)
UBS AG London	Service fee income (a)	**5,245,870**	3,204,058
	Reimbursement of expenses	**-**	(12,233)
UBS AG Stamford	Maintenance expenses (IT)	**2,117,615**	484,326
	Reimbursement of expenses	**(159,872)**	49,341
Board remuneration	Board fees to independent board member	**60,000**	54,000
Remuneration of key management personnel	Salaries	**1,179,875**	1,179,875
	Other benefits	**712,841**	614,518

a) The Company has signed service agreements to reflect any support services provided to the booking centres UBS Switzerland AG and UBS AG London. The service fee is charged on the basis of a mark-up on expenses (excluding income tax) incurred by the Company.

Service and arranging fee income are recognized when the related services are performed and are accounted for on an accruals basis.

b) UBS AG Switzerland is the custodian of the Company's client assets and money amounting to SR 292.7 million (31 December 2017: SR 206.97 million, 1 January 2017: SR 235.98 million) as at the reporting date. Control functions including reconciliation controls are performed by the custodian (see note 20)

16. RELATED PARTY DISCLOSURES (continued)

In addition to related party balances disclosed elsewhere in the financial statements the following are the balances with related parties at the reporting date:

Related party	*31 December 2018*	*31 December 2017*	*1 January 2017*
a) Due from related parties			
UBS Switzerland AG (Affiliate)	**2,532,784**	2,749,884	3,096,868
UBS AG London (Affiliate)	**1,486,394**	897,740	-
	4,019,178	3,647,624	3,096,868
b) Due to related parties			
UBS AG Stamford (Affiliate)	**194,095**	45,048	38,993
UBS Switzerland AG (Affiliate)	**550**	1,001	360
	194,645	46,049	39,353

As at 31 December 2018, 31 December 2017 and 1 January 2017, all of the receivables from related parties were neither past due nor impaired and have no default history. The ageing analysis of these receivables are not relevant as such.

17. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a number of financial risks namely credit risk, liquidity risk and market risk (including commission rate risk, currency risk and equity price risk). The Company's overall risk management policies focuses on the unpredictability of financial markets and seeks to minimize their potential adverse effects on the financial performance. Overall, risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous periods in the manner describe in the notes below.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company is exposed to credit risk on its bank balances, accrued commission receivable and receivables due from related parties. It is management's assessment that the Company is not subject to significant credit risk since balances with banks are kept with reputable banks with high credit ratings and receivables are solely from related parties.

The carrying amounts of financial assets exposed to credit risk at the reporting date are as follows:

	31 December 2018 SR	*31 December 2017 SR*	*1 January 2017 SR*
Bank balances	**101,174,450**	96,827,917	95,947,559
Due from related parties	**4,019,178**	3,647,624	3,096,868
Commission income receivable	**159,073**	150,544	113,722
	105,352,701	100,626,085	99,158,149

The balances with banks and commission income receivable are held with a reputable bank with high credit ratings while receivables are from related parties have no history of default. Consequently, the Company is not exposed to significant credit risk.

17. FINANCIAL RISK MANAGEMENT (continued)

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company`s total credit exposure. The Company`s total credit risk with respect of financial assets is mostly concentrated in balance with reputable banks and receivables from its related parties.

Liquidity risk

Liquidity risk is the risk that the Company 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. The Company manages its liquidity risk by ensuring that sufficient cash and cash equivalents are available to meet liabilities as they arise. As at the reporting date there is no maturity mismatch between financial assets and liabilities that exposes the Company to liquidity risk.

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 subject to fluctuations on its foreign currency on receivables and bank balances denominated in Swiss Francs which is not considered to be significant. Apart from that, the Company did not undertake significant transactions in currencies other than Saudi Riyals or US Dollars during the year and is therefore not exposed to significant currency risk.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments or its future cash flows will fluctuate due to changes in the market commission rates. The time deposit placed by the Company is a short term fixed interest rate deposit. Apart from that the Company is not subject to any commission rate risk as all other financial assets and liabilities are non-commission bearing.

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. As at the reporting date, the Company has no investments traded in the market which expose them to price risk.

Financial instruments by category

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	31 December 2018	*31 December 2017*	*1 January 2017*
	SR	*SR*	*SR*
Financial assets			
Financial assets at amortized cost:			
Bank balances	**101,174,450**	96,827,917	95,947,559
Due from related parties	**4,019,178**	3,647,624	3,096,868
Commission income receivable	**159,073**	150,544	113,722
Total financial assets at amortized cost	**105,352,701**	100,626,085	99,158,149
Financial liabilities			
Financial liabilities at amortized cost:			
Accrued expenses	**1,139,410**	1,302,796	1,303,171
Due to related parties	**194,645**	46,049	39,353
Total liabilities at amortized cost	**1,334,055**	1,348,845	1,342,524

18. FAIR VALUES 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 economic best interest.

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

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

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, 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 recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

External valuers are involved for valuation of significant assets. The involvement of external valuers is decided by the Company after discussion and approval by the Company’s management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the Company’s external valuers, which valuation techniques and inputs to use for each case.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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.

Currently, there are no financial assets at fair value. The Company's financial assets consist of bank balances, accrued commission and receivables from related parties. Its financial liabilities consist of accrued expenses and payable to related parties. There was no other material Level 1, 2 or 3 assets or liabilities during the current or prior years reported in these financial statements.

The carrying values of all financial assets and liabilities reflected in these financial statements approximate their fair values.

19. CAPITAL REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO

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

	31 December 2018	*31 December 2017*
Capital Base:		
Tier 1 Capital	102,131,445	100,196,354
Total Capital Base	102,131,445	100,196,354
Minimum Capital Requirement:		
Market Risk	304,556	143,583
Credit Risk	10,060,080	5,346,830
Operational Risk	3,820,380	3,387,686
Total minimum capital required (see note (d) below)	14,185,016	8,878,099
Capital Adequacy Ratio:		
Total Capital Ratio (times)	7.20	11.29
Tier 1 Capital Ratio (times)	7.20	11.29
Surplus / (deficit) in the capital (see note (d) below)	87,946,429	91,318,255

a) 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 defined in 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.

b) The Company manages its capital base in light of Pillar I and Pillar Il of the Prudential Rules - the capital base should not be less than the minimum capital requirement.

19. CAPITAL REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO (continued)

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

d) The minimum capital required as per Article 6(g) of the Authorized Persons regulations issued by the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia in respect of the licensed activities of the Company is SR 50 million.

e) The Company discloses on an annual basis certain information as per Pillar Ill of the Prudential Rules for public on the Company's website (http://www.ubssaudiarabia.com). However these are not subject to review or audit by the external auditors of the Company.

f) Interest rate risk is not calculated on time deposits, as it is not considered part of the trading book.

20. FIDUCIARY ACCOUNT

As at 31 December 2018 the Company has assets under management amounting to SR 292,743,731 (31 December 2017: SR 206,969,839 and 1 January 2017: 235,985,273), in a fiduciary capacity. These are not treated as assets of the Company and accordingly are not included in these financial statements. UBS AG Switzerland is the custodian of the Company's client assets.

21. FIRST TIME ADOPTION OF IFRS

This note explains the principal adjustments made by the Company in restating its statement of financial position as at 31 December 2017 and as at 1 January 2017 and statement of comprehensive income for the year ended 31 December 2017.

First-time adoption exemptions applied
Upon transition, IFRS 1 permits certain exemptions from full retrospective application of IFRSs. The Company has applied mandatory exceptions as set out below.

Mandatory exemptions adopted by the Company
The Company has used estimates under IFRS that are consistent with those applied under previous SOCPA standards (with adjustment for accounting policy differences) unless there is objective evidence that those estimates were in error.

Optional exemptions adopted by the Company
The Company has elected to apply IFRS retrospectively to all balances of statement of financial position and has not availed itself any optional exemptions in this matter.

21. FIRST TIME ADOPTION OF IFRS (continued)

21.1 Reconciliation of statement of financial position (termed as "balance sheet" as per SOCPA accounting standards) as at 1 January 2017 (date of transition to IFRS as endorsed in KSA)

	Notes	*As per SOCPA accounting standards SR*	*Transition adjustment SR*	*As per IFRS as endorsed in KSA SR*
ASSETS				
CURRENT ASSETS				
Cash and bank balances		95,958,454	-	95,958,454
Prepayments and other assets		1,445,367	-	1,445,367
Due from related parties		3,096,868	-	3,096,868
TOTAL CURRENT ASSETS		100,500,689	-	100,500,689
NON-CURRENT ASSETS				
Property and equipment		3,235,662	-	3,235,662
Deferred tax asset	*21.4.2*	1,190,861	596,381	1,787,242
TOTAL NON-CURRENT ASSETS		4,426,523	596,381	5,022,904
TOTAL ASSETS		104,927,212	596,381	105,523,593
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accrued expenses and other liabilities		2,862,810	-	2,862,810
Income tax payable		1,034,864	-	1,034,864
Due to related parties		39,353	-	39,353
TOTAL CURRENT LIABILITIES		3,937,027	-	3,937,027
NON-CURRENT LIABILITIES				
Employees' terminal benefits	*21.4.1*	1,296,511	711,262	2,007,773
TOTAL LIABILITIES		5,233,538	711,262	5,944,800
EQUITY				
Share capital		110,000,000	-	110,000,000
Accumulated losses	*21.4.1 and 21.4.2*	(10,306,326)	(114,881)	(10,421,207)
TOTAL EQUITY		99,693,674	(114,881)	99,578,793
TOTAL LIABILITIES AND EQUITY		104,927,212	596,381	105,523,593

21. FIRST TIME ADOPTION OF IFRS (continued)

21.2 Reconciliation of statement of financial position (termed as "balance sheet" as per SOCPA accounting standards) as at 31 December 2017

	Notes	*As per SOCPA accounting standards SR*	*Transition adjustment SR*	*As per IFRS as endorsed in KSA SR*
ASSETS				
CURRENT ASSETS				
Cash and bank balances		96,839,319	-	96,839,319
Prepayments and other assets		1,618,743	-	1,618,743
Due from related parties		3,647,624	-	3,647,624
TOTAL CURRENT ASSETS		102,105,686	-	102,105,686
NON-CURRENT ASSETS				
Property and equipment		1,869,813	-	1,869,813
Deferred tax asset	*21.4.2*	1,284,647	586,089	1,870,736
TOTAL NON-CURRENT ASSETS		3,154,460	586,089	3,740,549
TOTAL ASSETS		105,260,146	586,089	105,846,235
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accrued expenses and other liabilities		1,643,863	-	1,643,863
Income tax payable		536,458	-	536,458
Due to related parties		46,049	-	46,049
TOTAL CURRENT LIABILITIES		2,226,370	-	2,226,370
NON-CURRENT LIABILITIES				
Employees' terminal benefits	*21.4.1*	1,552,775	796,320	2,349,095
TOTAL LIABILITIES		3,779,145	796,320	4,575,465
EQUITY				
Share capital		110,000,000	-	110,000,000
Accumulated losses	*21.4.1 and 21.4.2*	(8,518,999)	(210,231)	(8,729,230)
TOTAL EQUITY		101,481,001	(210,231)	101,270,770
TOTAL LIABILITIES AND EQUITY		105,260,146	586,089	105,846,235

21. FIRST TIME ADOPTION OF IFRS (Continued)

21.3 Reconciliation of statement of comprehensive income (termed as "statement of income" as per SOCPA accounting standards) for the year ended 31 December 2017

		As per SOCPA accounting standards SR	*Transition adjustment SR*	*As per IFRS as endorsed in KSA SR*
		SR	**SR**	**SR**
REVENUE				
Service and other fees		13,484,742	-	13,484,742
Special commission income		992,763	-	992,763
		14,477,505	-	14,477,505
OPERATING EXPENSES				
General and administrative expenses	*21.4.1*	(13,108,071)	(85,058)	(13,193,129)
OPERATING INCOME		1,369,434	(85,058)	1,284,376
Other income		860,565	-	860,565
INCOME BEFORE TAX		2,229,999	(85,058)	2,144,941
Income tax charge for the year	*21.4.2*	(442,672)	(10,292)	(452,964)
NET INCOME FOR THE YEAR		1,787,327	(95,350)	1,691,977
OTHER COMPREHENSIVE INCOME		-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,787,327	(95,350)	1,691,977

21.4 Transition and other adjustments

21.4.1 Employee benefits

Under SOCPA the Company's obligation in respect of employees' post-employment benefits was calculated based on the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date. Under IFRSs, the obligation is determined using the projected unit credit method and actuarial valuations have been obtained as at 1 January 2017 and 31 December 2017 which resulted in a change in the liabilities. The full impact is summarized as follows:

Reference	*Adjustments – as at 1 January 2017*	*Amounts in SR*
21.4.1.1	Accumulated losses (debit)	711,262
21.4.1.2	Employees' terminal benefits (credit)	(711,262)
	Adjustments – for the year ended 31 December 2017	
21.4.1.3	General and administrative expense (debit)	85,058
21.4.1.4	Accumulated losses (debit)	711,262
21.4.1.5	Employees' terminal benefits (credit)	(796,320)

21. FIRST TIME ADOPTION OF IFRS (continued)

21.4.2 Deferred tax
Due to the application of IAS 19 in the current period, the Company adjusted the deferred tax asset due to the increase in employees' post-employment benefits. The full impact is summarized as follows:

Reference	*Adjustments – as at 1 January 2017*	*Amounts in SR*
21.4.2.1	Deferred tax asset (debit)	596,381
21.4.2.2	Accumulated losses (credit)	(596,381)
	Adjustments – for the year ended 31 December 2017	
21.4.2.3	Deferred tax asset (debit)	586,089
21.4.2.4	Income tax charge for the year (debit)	10,292
21.4.2.5	Accumulated losses (credit)	(596,381)

21.4.3 Statement of cash flows
The transition from SOCPA accounting standards to IFRSs as endorsed in KSA has no significant impact on the statement of cash flows except the transition adjustments due to application of IAS 19.

22. EARNINGS PER SHARE

Earnings per share ("EPS") is calculated by dividing the profit or loss for the year by the weighted average number of equity shares outstanding during the year.

	2018 SR	*2017 SR*
Profit for the year	**2,739,412**	1,691,977
Weighted number of shares	**11,000,000**	11,000,000
Basic and diluted earnings per share	**0.249**	0.154

23. EVENTS AFTER THE REPORTING PERIOD

No events have occurred subsequent to the reporting date and before the issuance of these financial statements, which require adjustments to or disclosure in these financial statements.

24. APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors has approved the financial statements on 19 Rajab 1440H (corresponding to 26 March 2019).