

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
DECEMBER 31, 2015**

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Financial statements for the year ended December 31, 2015

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**AUDITORS' REPORT TO THE PARTNERS OF
ALBILAD INVESTMENT COMPANY
(A LIMITED LIABILITY COMPANY)**

Scope of Audit:

We have audited the accompanying balance sheet of AlBilad Investment Company - A Limited Liability Company ("the Company") as at 31 December 2015 and the related statements of income, cash flows and changes in partners' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 175 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's articles of association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277



Riyadh: 29 Rabi Thani 1437H
(8 February 2016)

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Balance sheet
As at December 31, 2015
(Saudi Riyals)

	Notes	2015	2014
Assets			
Current assets			
Bank balances	13	8,391,717	18,341,289
Murabaha deposits with banks	5	423,000,000	356,000,000
Other assets	6	11,510,293	8,462,472
Total current assets		442,902,010	382,803,761
Non-current asset			
Available for sale Investments	7	9,893,716	10,531,582
Total assets		452,795,726	393,335,343
Liabilities and partners' equity			
Liabilities			
Current liabilities			
Accrued and other current liabilities	8	104,168,113	70,151,270
Zakat payable	9	745,000	2,510,420
Total current liabilities		104,913,113	72,661,690
Non-current liabilities			
Employees' termination benefits	10	4,330,540	4,261,847
Total liabilities		109,243,653	76,923,537
Partners' equity			
Capital	11	200,000,000	200,000,000
Statutory reserve	12	18,661,426	15,988,022
Retained earnings		124,952,839	100,892,202
Investment revaluation reserve	7	(62,192)	(468,418)
Total partners' equity		343,552,073	316,411,806
Total liabilities and partners' equity		452,795,726	393,335,343

The attached notes from 1 to 17 form part of these financial statements.

ALBILAD INVESTMENT COMPANY
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Statement of income
For the year ended December 31, 2015
(Saudi Riyals)

	Notes	2015	2014
Operating income			
Fees from services, net:			
- Brokerage		40,333,052	46,593,195
- Asset management		27,672,644	30,270,194
- Investment banking		4,691,201	3,530,373
		72,696,897	80,393,762
Income from Murabaha deposits with banks		3,741,569	2,846,298
Gain from sale of available for sale investments		1,101,221	1,809,214
Total operating income		77,539,687	85,049,274
Operating expenses			
Salaries and employees related expenses		30,712,733	27,330,349
Other operating expenses	14	17,983,990	15,390,311
Impairment charge for available for sale investments	7	1,363,923	-
Total operating expenses		50,060,646	42,720,660
Income before Zakat		27,479,041	42,328,614
Zakat expense for the year	9	(745,000)	(2,510,420)
Net income for the year		26,734,041	39,818,194

The attached notes from 1 to 17 form part of these financial statements.

ALBILAD INVESTMENT COMPANY
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Statement of Cash flow
For the year ended December 31, 2015
(Saudi Riyals)

	Notes	2015	2014
Cash flow from operating activities			
Income before Zakat		27,479,041	42,328,614
<u>Adjustments to reconcile income before zakat to net cash from operating activities</u>			
Provision for employee termination benefits	10	1,204,880	1,136,415
Gain from sale of available for sale investments	7	(1,101,221)	(1,809,214)
Impairment charge for available for sale investments		1,363,923	-
<u>Changes in operating assets and liabilities</u>			
Increase in other assets		(3,047,821)	(1,630,816)
Increase in Murabaha deposits with banks		(67,000,000)	(68,500,000)
Increase in accrued and other current liabilities		34,016,843	43,247,361
Employees' termination benefits paid	10	(1,136,187)	(273,763)
Zakat paid	9	(2,510,420)	(875,000)
Net cash (used in) generated from operating activities		(10,730,962)	13,623,597
Cash flow from investing activities			
Purchase of available for sale investment	7	(2,508,531)	(13,193,900)
Proceeds from sale of available for sale investments		3,289,921	4,003,114
Net cash from (used in) investing activities		781,390	(9,190,786)
Net (decrease) increase in bank balances		(9,949,572)	4,432,811
Bank balances at beginning of the year		18,341,289	13,908,478
Bank balances at end of the year		8,391,717	18,341,289
Non cash transactions:			
Change in fair value of available for sale investments		(957,697)	(468,418)

The attached notes from 1 to 17 form part of these financial statements

ALBILAD INVESTMENT COMPANY
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Statement of changes in partners' equity
For the year ended December 31, 2015
(Saudi Riyals)

<u>2015</u>	Notes	Capital	Statutory reserve	Retained earnings	Investment revaluation reserve	Total
Balance at January 1, 2015		200,000,000	15,988,022	100,892,202	(468,418)	316,411,806
Net income for the year		-	-	26,734,041	-	26,734,041
Transferred to statutory reserve	12	-	2,673,404	(2,673,404)	-	-
Impairment charge for available for sale investments	7	-	-	-	1,363,923	1,363,923
Change in fair value	7	-	-	-	(957,697)	(957,697)
Balance at December 31, 2015		200,000,000	18,661,426	124,952,839	(62,192)	343,552,073
<u>2014</u>		Capital	Statutory reserve	Retained earnings	Investment revaluation reserve	Total
Balance at January 1, 2014		200,000,000	12,006,203	65,055,827	-	277,062,030
Net income for the year		-	-	39,818,194	-	39,818,194
Transferred to statutory reserve	12	-	3,981,819	(3,981,819)	-	-
Change in fair value	7	-	-	-	(468,418)	(468,418)
Balance at December 31, 2014		200,000,000	15,988,022	100,892,202	(468,418)	316,411,806

The attached notes from 1 to 17 form part of these financial statements.

ALBILAD INVESTMENT COMPANY
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Notes to the financial statements (continued)
For the year ended December 31, 2015
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1. Incorporation and operation

AlBilad Investment Company (the "Company"), is a limited liability company incorporated in the Kingdom of Saudi Arabia under Commercial Registration No. 1010240489 dated 11 Dhul Qa'adah 1428H (corresponding to November 20, 2007) issued in Riyadh.

The Company was formed in accordance with Capital Market Authority's ("CMA") Resolution No. 2-38-2007 dated 8 Rajab 1428H (corresponding to July 22, 2007).

The Company took over the management of Bank AlBilad (the "Bank") investment services and asset management activities from July 1, 2008. Those activities are relating to dealing, managing, arranging, advising and custody of securities regulated by the CMA.

In their meeting dated January 3, 2016 the Board of Directors of the Bank resolved to convert the Company from a limited liability Company to a closed joint stock company. Legal formalities to effect this conversion are still in progress.

The Bank has a 100% direct ownership interest in the Company.

The Company's Head Office is located at the following address:

AlBilad Investment Company
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

The accompanying financial statements were authorized for issue by the management of the Company on 29 Rabi Thani 1437H (corresponding to 8 February 2016).

2. Basis of preparation

2.1 Statement of compliance

The accompanying financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

2.2 Basis of measurement

The financial statements have been prepared on historical cost basis except for measurement at fair value of available for sale investments.

2.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals (SR) which is the Company's functional currency.

ALBILAD INVESTMENT COMPANY
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Notes to the financial statements (continued)
For the year ended December 31, 2015
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2. Basis of preparation (continued)

2.4 Critical accounting estimates and judgments

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

3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied for all periods presented unless otherwise stated.

3.1 Murabaha deposits with banks

Murabaha deposits with banks are initially measured at fair value, including acquisition charges and subsequently measured at amortized cost less any amount written off and allowance for impairment charge, if any.

3.2 Available for sale investments

Investments, that are bought neither with the intention of being held to maturity nor for trading purposes, are stated at fair value and are included under non-current assets unless they will be sold in the next fiscal year. These investments are initially recognized at fair value including transaction costs. After initial measurement, changes in fair value are recognized in the statement of changes in partners' equity until the investment is derecognized, at which time the cumulative change in fair value is recognized in the statement of income. Any decline in value considered to be other than temporary is charged to the statement of income. Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available. Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques. Otherwise, cost is considered to be the fair value.

3.3 Trade date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Company commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial asset and liabilities are initially recognized on trade date at which the Company becomes a party to the contractual provision of the instrument.

3.4 Accrued and other liabilities

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

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Notes to the financial statements (continued)
For the year ended December 31, 2015
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3 Significant accounting policies (continued)

3.5 Provisions

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

3.6 Zakat and taxes

The Company is a wholly owned subsidiary of the Bank and Zakat is submitted by the Bank on a consolidated basis. The Company's share of such zakat provision is charged to statement of income.

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the Department of Zakat and Income Tax on a monthly basis.

3.7 Employee termination benefits

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

3.8 Revenue recognition

Fees from services are recognized as follows:

- Brokerage income is recognized on an accrual basis when the service has been provided.
- Asset management income is recognized based on the applicable service contracts, usually on a time-proportionate basis.
- Investment banking is recognized ratably over the period when the service is being provided.

Income from Murabaha deposits with banks is recognized in the statement of income on effective yield basis.

3.9 Short term employee benefits

Short term employee benefits are recognized as an expense on an accrual basis as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.10 Operating leases

Operating lease payments are recognized as an expense in the statement of income on a straight -line basis over the lease term.

ALBILAD INVESTMENT COMPANY
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Notes to the financial statements (continued)
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3 Significant accounting policies (continued)

3.11 Foreign currency

Transactions in foreign currencies are recorded in Saudi Riyals at the rates 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.

3.12 Reclassification

Certain amounts previously reported in the 2014 financial statements have been reclassified to conform with 2015 presentation.

4. Financial instruments and risk management

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

Risk management is carried out by senior management under policies approved by the board of directors. The most important types of risk are credit risk, currency risk and fair value and Murabaha profit rate risk. Financial instruments carried on the balance sheet include bank balances, Murabaha deposits with banks, available for sale investments, management fee receivable and certain other assets and certain accrued and other liabilities.

4.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals accordingly the Company is not exposed to foreign exchange risk.

4.2 Fair value

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. Management monitors the changes in fair value of available for sale investments and believes that the fair value risks to the Company are not significant.

4.3 Murabaha profit rate risks

Murabaha profit rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing Murabaha profit rates on the Company's financial positions and cash flows. Management monitors the changes in Murabaha profit rates and believes that the Murabaha profit rate risks to the Company are not significant.

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4. Financial instruments and risk management (continued)

4.5 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Bank balances and Murabaha deposits are placed with Banks which have sound credit ratings.

4.6 Liquidity risk

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

5. Murabaha deposits with banks

At December 31, 2015, all Murabaha deposits were held with banks with remaining maturities from 1 to 12 months (2014: 2 to 12 months) and carry profit rates ranging between 0.7 % to 2.8 % per annum (2014: from 0.85% to 1.25% per annum).

6. Other assets

	2015	2014
Fee receivable from:		
- Funds management (note 13)	6,239,936	5,326,189
- Discretionary portfolios management	2,501,886	1,677,174
- Investment banking	1,019,153	-
Other	1,749,318	1,459,109
	11,510,293	8,462,472

7. Available for sale investments

Available for sale investments as at 31 December 2015, represent investment in the following local mutual funds and equity securities:

	2015		
	Cost	Investment revaluation reserve	Carrying value
GCC Ithmar Fund	3,636,077	-	3,636,077
Al Dahiyah Private Placement Fund	6,000,000	(59,798)	5,940,202
Equity securities – Quoted	319,831	(2,394)	317,437
	9,955,908	(62,192)	9,893,716

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Notes to the financial statements (continued)
For the year ended December 31, 2015
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7. Available for sale investments (continued)

	2014		
	Cost	Investment revaluation reserve	Carrying value
GCC Ithmar Fund	5,000,000	(408,620)	4,591,380
Al Dahiyah Private Placement Fund	6,000,000	(59,798)	5,940,202
	<u>11,000,000</u>	<u>(468,418)</u>	<u>10,531,582</u>

Movements in available for sale investments during the year were as follows:

	2015	2014
<u>Cost:</u>		
At the beginning of the year	11,000,000	-
Additions during the year	2,508,531	13,193,900
Disposals during the year	(2,188,700)	(2,193,900)
Cost at the end of the year	11,319,831	
Impairment charge for the year	(1,363,923)	-
Adjusted cost at the end of the year	9,955,908	11,000,000
<u>Valuation adjustment:</u>		
At the beginning of the year	(468,418)	-
Change in fair value	(957,697)	(468,418)
Impairment charge for the year	1,363,923	-
At the end of the year	(62,192)	(468,418)
Carrying value of investments at the end of the year	9,893,716	10,531,582

8. Accrued and other current liabilities

	2015	2014
Payable to the Bank (note 13)	98,827,096	65,151,671
Accrued expenses	3,191,715	2,880,585
Payable to Tadawul	1,671,719	940,246
Others	477,583	1,178,768
	104,168,113	70,151,270

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Notes to the financial statements (continued)
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9. Zakat

(a) Zakat returns

Effective January 1, 2009, the Bank has started to submit zakat return based on its consolidated financial statements (including the Company) and settles zakat liability accordingly. The Company's share of such zakat liability for the year amounting to SR 745,000 (2014: SR 1,000,000) has been determined based on the Company's adjusted net income before zakat and charged to its statement of income.

(b) Zakat assessment status

The Company received zakat assessment from Department of Zakat and Income Tax (DZIT) in respect of 2008 claiming additional Zakat liability of SR 1.5 million. The additional Zakat liability is primarily due to disallowance of deducting certain investments from Company's zakat base. The Company has filed an appeal with the Preliminary Committee against the DZIT's assessments' for 2008. The Preliminary Committee upheld the DZIT's assessment for 2008. However, the Company filed an appeal with the higher Appellate Committee against the Preliminary Committee's ruling. The final ruling has been issued with additional Zakat liability of SR 1.5 million. Provision for same amount was made in the Company's financial statements in 2014 and was settled during 2015.

(c) The zakat charge for the year consists of the following:

	2015	2014
Current year provision	745,000	1,000,000
Prior years adjustments	-	1,510,420
	<u>745,000</u>	<u>2,510,420</u>

(d) Provision for zakat

The movement in the provision for zakat for the year ended December 31, 2015 and 2014 is as follows:

	2015	2014
Balance at the beginning of year	2,510,420	875,000
Provision for the year	745,000	2,510,420
Payment during the year	(2,510,420)	(875,000)
Balance at the end of year	<u>745,000</u>	<u>2,510,420</u>

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Notes to the financial statements (continued)
For the year ended December 31, 2015
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10 Employees' termination benefits

	2015	2014
Balance at the beginning of year	4,261,847	3,399,195
Provision for the year	1,204,880	1,136,415
Payment for the year	(1,136,187)	(273,763)
Balance at the end of year	4,330,540	4,261,847

11 Capital

The Capital of the Company as of December 31, 2015 comprises of 200,000 shares (2014: 200,000 shares) at nominal value of SR 1,000 per share.

12 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Company, a minimum of 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 50% of capital. This reserve is not available for distribution.

13 Related party transactions and balances

In the ordinary course of business, the Company transacts business with related parties. The principal related parties are the Bank, the investment funds managed by the Company and companies owned by members of the Board of Directors.

The Company has also outsourced certain services to the Bank as per the Service Level Agreement dated May 14, 2008 amended on February 5, 2013. The outsourced services include finance, accounting, legal and Shariah, information technology, risk management, human resources, internal audit, administration and other support services. The costs are agreed and allocated on the basis of the terms of the said agreement and payable annually in arrears. The cost agreed for these outsourced services amount to SR 5 million as per the addendum to the agreement mentioned above. Additionally the Bank sub-leases office space to the Company which is determined on a basis similar to the outsourced services above.

The details of transactions and the year-end balances resulting from such transactions which are included in the Company's financial statements are as follows:

(a) The Bank:

	2015	2014
Transactions:		
Outsourced services at a fixed annual fee (note 14)	5,000,000	5,000,000
Rent and premises related expenses (note 14.1)	1,499,190	502,485
Balances:		
<i>Assets</i>		
Bank balances	8,391,717	18,341,289
<i>Liabilities</i>		
Payable to the Bank	98,827,096	65,151,671

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Notes to the financial statements (continued)
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13 Related party transactions and balances (continued)

Payable to the Bank is in respect of expenses paid by the Bank on behalf of the Company. This balance carries no commission and has no fixed maturity date.

(b) Investment funds and discretionary portfolios:

	2015	2014
Transactions:		
Income from asset management services	17,184,534	18,099,256
Balances:		
Assets		
Management fee receivable from:		
- Funds (note 6)	3,481,551	5,326,189
- Discretionary portfolios	515,025	235,033

(c) Companies owned by members of the Board of Directors:

	2015	2014
Transactions:		
Payment of premises rent	2,376,000	2,376,000

14 Other operating expenses

	2015	2014
Outsourced services (note 13)	5,000,000	5,000,000
Rent and premises related expenses (note 14.1)	4,496,637	3,784,226
Office administration expenses	3,493,836	2,434,976
Legal and professional fees	2,618,014	1,340,904
Subscription	1,221,614	1,124,415
Communication and data transmission	1,092,099	1,599,712
Others	61,790	106,078
	17,983,990	15,390,311

14.1 Included in rent and premises related expenses is an amount of SR 1,499,190 (2014: SR 502,485) related to rental charge for the utilization of fixed assets owned by the Bank and sublease of office spaces.

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Notes to the financial statements (continued)
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15 Regulatory capital requirements and capital adequacy ratio

Capital Market Authority has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H) pursuant to Royal Decree No. M/30 dated 2/6/1424H. According to the Rules the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under Pillar I. In accordance with this methodology, the Company has calculated its minimum capital requirement and capital adequacy ratios as follows:

	As at December 31,	
	2015	2014
	(SR'000)	(SR'000)
Capital Base:		
Tier 1 Capital	343,614	316,880
Tier 2 Capital	(62)	(468)
Total Capital Base	343,552	316,412
Minimum Capital Requirement:		
Market Risk	-	-
Credit Risk	46,327	61,490
Operational Risk	12,701	11,069
Total Minimum Capital Required	59,028	72,559
Capital Adequacy Ratio:		
Surplus in Capital	284,524	243,853
Total Capital Ratio (time)	5.82	4.36

- The capital base consists of Tier 1 capital (which includes share capital, statutory reserve and audited retained earnings) and Tier 2 capital (include revaluation reserve of available for sale investments) as per article 4 and 5 of the Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Rules.
- The Company manages the capital base in the light of Pillar 1 of the Rules. The capital base of the Company should not be less than minimum capital requirement and Company's internal capital adequacy assessment process.
- 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 required as per Article 6(g) of the Authorized 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 discloses, for public, on an annual basis certain information as per Pillar III of the Rules for public on the Company's website (www.albilad-capital.com), however these are not subject to review or audit by the external auditors of the Company.

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Notes to the financial statements (continued)
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16 Assets under management

Assets held under management capacity are not treated as assets of the Company and accordingly are not included in the Company's financial statements.

The outstanding assets under management at the end of the year including mutual funds and discretionary portfolios amounted to SR 11.75 billion (2014: SR 9.39 billion). In addition to this SR 960 million (2014: SR 1,042 million) has been maintained as customer deposits with the Bank.

17 Contingencies and commitments

The Company has no outstanding underwriting commitment or contingencies as at December 31, 2015 and 2014.