

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)

**SPECIAL-PURPOSE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT FOR
THE YEAR ENDED 31 DECEMBER 2017**

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)

Special-purpose financial statements for the year ended 31 December 2017

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Albilad Investment Company
(A Saudi Closed Joint Stock Company)

Opinion

We have audited the special-purpose financial statements of Albilad Investment Company (the "Company") a Saudi Closed Joint Stock Company, which comprise the special-purpose balance sheet as at 31 December 2017, and the special-purpose statement of income, special-purpose statement of cash flows and special-purpose statement of changes in shareholders' equity for the year then ended, and notes to the special-purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special-purpose financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special-Purpose Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the special-purpose 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.

Emphasis of Matter

We draw attention to note 1 to the special-purpose financial statements which state that during 2017 the legal form of the Company was changed from a limited liability company to a closed joint stock company. As per the by-laws of the closed joint stock Company, the first financial period starts from 16 Shawwal 1438H (corresponding to 10 July 2017) and ends on 13 Rabi Thani 1439H (corresponding to 31 December 2017). Accordingly, the last financial period for the limited liability company ends on 9 July 2017. However, the accompanying special-purpose financial statements have been prepared for management's internal use and for the purpose of submission to the Capital Market Authority ("CMA") to present the financial performance and cashflows of the underlying business for the year ended 31 December 2017 considering that the change in the legal form of the Company did not have any effect on the continuance of the same legal entity. Accordingly, these special-purpose financial statements might not be suitable for any other purposes. Our opinion is not modified in respect of this matter.

Other Matter

In order to comply with the requirements of Ministry of Commerce and Investment, a separate sets of financial statements for the limited liability company (covering the periods from 1 January 2017 to 9 July 2017) and for the closed joint stock company (covering the periods from 10 July 2017 to 31 December 2017) have also been prepared.

Responsibilities of Management and the Audit Committee for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Albilad Investment Company
(A Saudi Closed Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Special-Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special-purpose 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 special-purpose financial statements.

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

- Identify and assess the risks of material misstatement of the special-purpose 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 special-purpose 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 special-purpose financial statements, including the disclosures, and whether the special-purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee 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



Yousef A. AlMubarak
Certified Public Accountant
Registration No. 427

Riyadh: 11 Rajab 1439H
(28 March 2018)



ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)

Special-purpose balance sheet
As at 31 December 2017
(Saudi Riyals)

	Notes	2017	2016
Assets			
Current assets			
Bank balances	5	150,139,187	30,293,529
Murabaha deposits with banks	6	60,000,000	219,000,000
Margin financing	7	370,747,336	179,300,985
Other assets	8	32,464,115	15,951,569
Total current assets		613,350,638	444,546,083
Non-current assets			
Available for sale investments	9	47,787,275	41,204,121
Investment in a subsidiary	10	-	135,499,666
Investment in an associate	11	174,569,456	-
Total non-current assets		222,356,731	176,703,787
Total assets		835,707,369	621,249,870
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Short-term Murabaha financing	12	250,000,000	100,000,000
Accruals and other liabilities	13	130,127,438	132,218,688
Zakat payable	14	1,584,721	999,000
Total current liabilities		381,712,159	233,217,688
Non-current liability			
Employees' end of service benefits	15	7,648,069	4,944,894
Total liabilities		389,360,228	238,162,582
Shareholders' equity			
Share capital	16	200,000,000	200,000,000
Statutory reserve	17	29,785,675	22,500,218
Retained earnings		214,100,187	159,501,966
Investment revaluation reserve	9	2,461,279	1,085,104
Total shareholders' equity		446,347,141	383,087,288
Total liabilities and shareholders' equity		835,707,369	621,249,870

The attached notes from 1 to 24 form part of these special-purpose financial statements.

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)

Special-purpose statement of income
For the year ended 31 December 2017
(Saudi Riyals)

	Notes	2017	2016
Operating income			
Fees from services, net:			
- Brokerage		23,619,843	30,956,429
- Asset management		46,100,985	37,116,389
- Investment banking		3,310,000	10,404,572
- Securities' custody		9,486,751	7,494,600
		<u>82,517,579</u>	<u>85,971,990</u>
Gain on deemed disposal of investment in a subsidiary	11	59,791,997	-
Share in results of a subsidiary	10	(19,534,263)	4,357,606
Share in results of an associate	11	(1,187,944)	-
Income from Murabaha deposits with banks		2,400,615	9,400,133
Dividend income		2,017,729	940,877
Income from margin financing		12,215,189	821,433
Total operating income		<u>138,220,902</u>	<u>101,492,039</u>
Operating expenses			
Salaries and other employees related expenses		48,886,489	43,070,162
Other operating expenses	18	<u>25,866,014</u>	<u>19,034,958</u>
Total operating expenses		<u>74,752,503</u>	<u>62,105,120</u>
Income before Zakat		<u>63,468,399</u>	<u>39,386,919</u>
Zakat	14	<u>(1,584,721)</u>	<u>(999,000)</u>
Net Income for the year		<u>61,883,678</u>	<u>38,387,919</u>
Earnings per share:			
Attributable to income from operations and net income for the year	19	309.42	191.93

The attached notes from 1 to 24 form part of these special-purpose financial statements.

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)

Special-purpose statement of cash flows
For the year ended 31 December 2017
(Saudi Riyals)

	Notes	2017	2016
Operating activities			
Income before Zakat		63,468,399	39,386,919
<u>Adjustments for:</u>			
Provision for employees' end of service benefits	15	3,564,846	2,030,228
Share in results of a subsidiary	10	19,534,263	(4,357,606)
Share in results of an associate	11	1,187,944	-
Gain on deemed disposal of investment in a subsidiary	11	(59,791,997)	-
<u>Changes in operating assets and liabilities</u>			
Other assets		(16,512,546)	(4,441,276)
Accruals and other liabilities		(2,091,250)	28,050,575
Net cash from operations		9,359,659	60,668,840
Employees' end of service benefits paid	15	(861,671)	(1,415,874)
Zakat paid	14	(999,000)	(745,000)
Net cash from operating activities		7,498,988	58,507,966
Investing activities			
Investment in a subsidiary	10	-	(135,198,000)
Margin financing		(191,446,351)	(179,300,985)
Purchase of available for sale investments	9	(5,206,979)	(30,163,109)
Murabaha deposits with banks		159,000,000	204,000,000
Dividends received from a subsidiary	10	-	4,055,940
Net cash used in investing activities		(37,653,330)	(136,606,154)
Financing activity			
Proceeds from short-term Murabah financing		250,000,000	100,000,000
Repayment of short-term Murabah financing		(100,000,000)	-
Net cash from financing activity		150,000,000	100,000,000
Net increase in bank balances during the year		119,845,658	21,901,812
Bank balances at beginning of the year		30,293,529	8,391,717
Bank balances at end of the year		150,139,187	30,293,529
Non cash transactions:			
Change in fair value of available for sale investments	9	1,376,175	1,147,296

The attached notes from 1 to 24 form part of these special-purpose financial statements.

ALBILAD INVESTMENT COMPANY
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Special-purpose statement of changes in shareholders' equity
For the year ended 31 December 2017
(Saudi Riyals)

	Notes	Share capital	Statutory reserve	Retained earnings	Investment revaluation reserve	Total
Balance at 1 January 2017		200,000,000	22,500,218	159,501,966	1,085,104	383,087,288
Net income for the year		-	-	61,883,678	-	61,883,678
Transfer to statutory reserve	17	-	7,285,457	(7,285,457)	-	-
Change in fair value	9	-	-	-	1,376,175	1,376,175
Balance at 31 December 2017		200,000,000	29,785,675	214,100,187	2,461,279	446,347,141
Balance at 1 January 2016		200,000,000	18,661,426	124,952,839	(62,192)	343,552,073
Net income for the year		-	-	38,387,919	-	38,387,919
Transfer to statutory reserve	17	-	3,838,792	(3,838,792)	-	-
Change in fair value	9	-	-	-	1,147,296	1,147,296
Balance at 31 December 2016		200,000,000	22,500,218	159,501,966	1,085,104	383,087,288

The attached notes from 1 to 24 form part of these special-purpose financial statements.

ALBILAD INVESTMENT COMPANY
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Notes to the special-purpose financial statements (continued)
31 December 2017
(Saudi Riyals)

1. Incorporation and operation

Albilad Investment Company (the "Company"), is a Saudi Closed joint stock company incorporated in the Kingdom of Saudi Arabia under Commercial Registration number 1010240489 dated 11 Dhul Qa'adah 1428H (corresponding to 20 November 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 22 July 2007).

The Company took over the management of Bank Albilad (the "Bank") investment services and asset management activities from 1 July 2008.

Those activities was found to act as a principal or agent, underwriting, managing, arranging, advising and custodian of securities regulated by the CMA.

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

In their meeting dated 3 January 2016, the Board of Directors of the Bank resolved to convert the Company from a Limited Liability Company to a Saudi Closed Joint Stock Company. According to the Company's bylaws, the first financial statements after conversion should cover the period from the 10 July 2017 (date of commercial registration of the Saudi Closed Joint Stock Company) to 31 December 2017. However, these special-purpose financial statements have been prepared for the year ended 31 December 2017 for management's internal use and for submission to the CMA to present the financial performance and cashflows of the underlying business for the year ended 31 December 2017 considering that the change in the legal form of the Company did not have any effect on the continuance of the same legal entity. Accordingly, these special-purpose financial statements might not be suitable for any other purposes.

The accompanying special-purpose financial statements were authorized for issue by the Board of Directors of the Company on 25 Jumad Thani 1439H (corresponding 13 March 2018).

2. Basis of preparation

2.1 New accounting framework

Effective 1 January 2018, the Company's financial statements will be prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (referred to as "IFRS as endorsed in KSA"). Upon adoption of IFRS as endorsed in KSA, the Company will be required to comply with the requirements of IFRS 1, First-time Adoption of International Financial Reporting Standards for the reporting periods starting 1 January 2018. In preparing the opening IFRS financial statements, the Company will analyze impacts and incorporate certain adjustments due to the first time adoption of IFRS as endorsed in KSA.

ALBILAD INVESTMENT COMPANY
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Notes to the special-purpose financial statements (continued)
31 December 2017
(Saudi Riyals)

2. Basis of preparation (continued)

2.2 Statement of compliance

The accompanying special-purpose 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).

2.3 Basis of measurement

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

2.4 Functional and presentation currency

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

2.5 Critical accounting estimates and judgments

The preparation of special-purpose 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 special-purpose financial statements are set out below.

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 Margin financing

Margin financing are recognized when cash is advanced to the customers including related transaction cost less any provision for credit losses, if any. They are derecognized when either borrower repays their obligations, or the balance is sold or written off, or substantially all the risks and rewards of ownership are transferred to other party.

A provision against credit losses is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. All margin financing at 31 December 2017 are maturing within a period of one year.

3 Significant accounting policies (continued)

3.3 Available for sale investments

Available for sale investments are those investments, that are bought neither with the intention of being held to maturity nor for trading purposes, and are stated at their fair values. These 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 shareholders' 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.

3.4 Investment in subsidiary/ associate

A subsidiary is an entity in which the Company has a long term investment comprising an interest of more than 50% of the voting capital and over which it exercises control.

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Investments in subsidiary and associate companies are accounted for using the equity method of accounting, whereby the special-purpose financial statements include investor's share of the subsidiary's / associates' post acquisition results, reserves and retained earnings based on their latest available special-purpose financial statements.

If the Company loses control of a subsidiary, any investment retained in the entity will be recognized at its fair value on the date on which control is lost. Subsequently, any retained investment will be accounted for in accordance with relevant accounting standards.

The application of the equity method will be discontinued if an investment value is reduced to nil as a result of the continuous losses of the investee (unless the Company has guaranteed the obligation of the subsidiary / associate or has otherwise committed to provide further financial support to them). If a subsidiary / associate subsequently achieve net income equal to the net losses made during the period, in which the equity method was suspended, the application of the equity method will resume.

3.5 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 i.e. the date at which the Company becomes a party to the contractual provision of the instrument.

ALBILAD INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)

Notes to the special-purpose financial statements (continued)
31 December 2017
(Saudi Riyals)

3 Significant accounting policies (continued)

3.6 Accrued expenses and other liabilities

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

3.7 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.

3.8 Short term Murabaha financing

Murabaha financing are recognised at the value of proceeds received by the Company.

3.9 Zakat and taxes

Zakat is calculated and provided for by the Bank (the parent company of the Company) in accordance with Saudi Arabian fiscal Regulations and is reflected in its consolidated financial statements derived on consolidated zakat base (including the Company's financial statements). The Company's share of such zakat provision is allocated by the Bank and is charged to the Company's special-purpose 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 General Authority of Zakat and Tax on a monthly basis.

3.10 Employees' end of service 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.

3.11 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 and custody fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis.
- Investment banking income is recognized when the service is provided and accepted by the client.

Dividend from investments is recognized when the Company's right to receive such dividend is established.

Income from Murabaha deposits with banks and margin financing are recognized in the special-purpose statement of income on an effective yield basis.

3 Significant accounting policies (continued)

3.12 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.

3.13 Operating leases

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

3.14 Foreign currencies

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 special-purpose statement of income.

4. Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and profit 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 of the Company. Financial assets and liabilities of the Company are exposed to the aforementioned risks. Financial assets carried on the special-purpose balance sheet include bank balances, Murabaha deposits with banks, margin financing, available for sale investments, management fee receivable and certain other assets. Financial liabilities of the Company include Murabaha financing, accrued expenses 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 denominated in Saudi Riyals and accordingly the Company is not exposed to any significant foreign exchange risk. Currency risk in relation to foreign currency balances and transactions is mitigated by regular monitoring of such foreign currency rates by management.

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

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Notes to the special-purpose financial statements (continued)
31 December 2017
(Saudi Riyals)

4. Financial instruments and risk management (continued)

4.3 Murabaha and margin financing profit rate risks

Murabaha (deposits and financing) and margin financing exposes the Company to profit rate risk, which represents the Company's exposure to risks associated with the effect of fluctuations in the prevailing profit rates on the Company's financial position and cash flows. Management regularly monitors the changes in profit rates and believes that the Murabaha and margin financing profit rate risks to the Company are not significant.

4.4 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. The Company in the ordinary course of its activities extend margin financing to its customers and holds collateral as security against such financing to mitigate credit risk.

4.5 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. Liquidity risk is managed by regular monitoring to ensure that sufficient funds are available through committed credit facilities to meet any future commitments.

5. Related party transactions and balances

In the ordinary course of business, the Company transacts with related parties. The principal related parties of the Company are the Bank, the investment funds managed by the Company, its associate/ subsidiary, 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 14 May 2008 amended on 5 February 2013 and 21 May 2017. 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. Additionally the Bank sub-leases office space to the Company, charges for which is determined on a basis similar to the outsourced services above.

The details of transactions during the year and balances at the reporting date resulting from such transactions are as follows:

(a) The Bank:

	2017	2016
Transactions:		
Short term Murabaha financing	250,000,000	100,000,000
Repayment of short term Murabaha financing	(100,000,000)	-
Special commission expense on short term Murabaha financing (note 18)	4,389,513	114,633
Outsourced services expense (note 18)	2,500,000	5,000,000
Rent and premises related expenses (note 18.1)	1,962,770	1,730,031
Asset management income	1,591,576	10,029,383
Income from Murabaha deposits with banks	420,706	-
Investment banking income	245,316	1,500,000
Letter of guarantee commission expense	127,368	135,000
Custody revenue from Sukuk	120,000	-

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Notes to the special-purpose financial statements (continued)
31 December 2017
(Saudi Riyals)

5. Related party transactions and balances (continued)

(a) The Bank (continued):

Balances:		
<i>Assets</i>	2017	2016
Bank balances	150,139,187	30,293,529
Management fee receivable	346,953	5,470,718
<i>Liabilities</i>		
Short-term Murabaha financing (note 12)	250,000,000	100,000,000
Payable to the Bank (note 13)	116,634,457	121,515,745
Accrued special commission on short term Murabaha financing	948,076	114,633
Outstanding letter of guarantee issued on behalf of the Company (note 23)	100,000,000	100,000,000

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) Makkah Hospitality Fund (an associate) (formerly: a subsidiary):

	2017	2016
Transactions:		
Asset management income	8,815,406	2,329,391
Subscription fee	8,700,000	898,000
Balances:		
Amount due from Makkah Hospitality Fund (note 8)	5,318,481	3,277,071

Details of Company's investment in Makkah Hospitality Fund and the movement in such investment during the year ended 31 December 2017 are disclosed in notes 10 and 11 to these special-purpose financial statements.

(c) Investment funds:

	2017	2016
Transactions:		
Asset management income	18,547,014	13,447,407
Subscription fee	1,179,011	1,595,432
Dividend income	126,267	-
Balances:		
<i>Assets</i>		
Available for sale investments	26,579,975	20,569,105
Management fee receivable	13,585,924	2,880,916

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Notes to the special-purpose financial statements (continued)
31 December 2017
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5. Related party transactions and balances (continued)

(d) Board of Directors members and Companies owned by them:

	2017	2016
Transactions:		
Margin financing	21,229,675	5,733,593
Remuneration of Board of Directors	1,185,000	604,000
Margin financing income	248,878	20,157
Brokerage commission income	28,810	5,588
Rent and premises related expenses	-	2,945,417
Balances:	2017	2016
Margin financing outstanding	10,777,800	5,731,625
Margin financing income receivable	182,405	20,157

6. Murabaha deposits with banks

At 31 December 2017, all Murabaha deposits are placed with banks with maturities from 1 to 12 months (2016: 1 to 12 months) and carry profit rates ranging between 0.8% to 2.0% per annum (2016: 2.0% to 3.9% per annum).

7. Margin financing

The Company extends margin financing facilities to its customers to invest in the Saudi Stock Exchange (Tadawul). These facilities are backed by collaterals and extended up to a maximum period of one year and bear current prevailing profit rates based on the amount of margin financing.

8. Other assets

	2017	2016
Management and performance fee receivable from:		
- Discretionary portfolios	553,873	5,470,718
- Funds	13,585,924	1,394,931
Investment banking and securities' custody income receivable	5,837,218	2,298,724
Amount due from an associate (formerly: a subsidiary) (note 5)	5,318,481	3,277,071
Profit receivable on Murabaha deposits with banks and margin financing	4,335,066	1,854,512
Prepayments	2,545,313	1,019,732
Others	288,240	635,881
	<u>32,464,115</u>	<u>15,951,569</u>

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9. Available for sale investments

Available for sale investments as at the reporting date, represent investment in the following mutual funds and equity securities:

	2017		
	<i>Cost</i>	<i>Investment revaluation reserve</i>	<i>Carrying value</i>
Canary alkozama Fund	10,000,000	1,457,700	11,457,700
Ashmor Fund	10,000,000	553,400	10,553,400
UK Social Fund	8,298,270	535,729	8,833,999
Al Dahiyah Private Placement Fund	6,000,000	437,100	6,437,100
Al Wasat Real Estate Fund	5,000,000	(231,800)	4,768,200
GCC Ithmar Fund	3,636,077	280,898	3,916,975
Equity securities – Quoted	2,391,649	(571,748)	1,819,901
	45,325,996	2,461,279	47,787,275

	2016		
	<i>Cost</i>	<i>Investment revaluation reserve</i>	<i>Carrying value</i>
Ashmor Fund	10,000,000	121,900	10,121,900
UK Social Fund	8,298,270	-	8,298,270
Al Dahiyah Private Placement Fund	6,000,000	747,060	6,747,060
Canary alkozama Fund	5,000,000	-	5,000,000
Al Wasat Real Estate Fund	5,000,000	-	5,000,000
GCC Ithmar Fund	3,636,077	186,968	3,822,045
Equity securities – Quoted	2,184,670	30,176	2,214,846
	40,119,017	1,085,104	41,204,121

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

	2017	2016
<i>Cost:</i>		
At the beginning of the year	40,119,017	9,955,908
Additions during the year	5,206,979	30,163,109
At the end of the year	45,325,996	40,119,017
<i>Investment revaluation reserve:</i>		
At the beginning of the year	1,085,104	(62,192)
Change in fair value during the year	1,376,175	1,147,296
At the end of the year	2,461,279	1,085,104
Carrying value of investments at the end of year	47,787,275	41,204,121

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10. Investment in a subsidiary

<i>Name of the subsidiary</i>	<i>Type of activity</i>	<i>Shareholding</i>
Makkah Hospitality Fund	Real estate fund	67%

Movement in investment in a subsidiary movements during the year was as follows:

	2017	2016
Balance at the beginning of the year	135,499,666	-
Acquired during the year	-	135,198,000
Share in net results during the year	(19,534,263)	4,357,606
Dividends received during the year	-	(4,055,940)
Deemed disposal upon dilution of shareholding (note 11)	(115,965,403)	-
At the end of the year	-	135,499,666

11. Investment in an associate

<i>Name of the subsidiary</i>	<i>Type of activity</i>	<i>Shareholding</i>
Makkah Hospitality Fund	Real estate fund	25.1%

Movement in investment in an associate movements during the year was as follows:

	2017	2016
Fair value of investment in an associate (upon de-conversion from a subsidiary – see note 10)	175,757,400	-
Share in net results during the year	(1,187,944)	-
At the end of the year	174,569,456	-

During 2017, the Company's investment in Makkah Hospitality Fund (the "Fund") got significantly diluted from 67% to 25.1% as a result of new investors investing in the Fund. As a result of such dilution and other factors including the changes to the Fund's Terms and Conditions relating to the removal of the Fund Manager, management reassessed the classification of the Company's investment and concluded that the Fund is no longer a subsidiary of the Company and is in fact an associate of the Company from the date of dilution in Company's shareholding in the Fund. As a result, the Company derecognized its investment in the subsidiary and recognized the investment in the associate at its fair value at the date of dilution resulting in a gain of SR 59,791,997, which has been recorded in the special-purpose statement of income of the Company for the current year.

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12. Short term Murabaha financing

This represents Murabaha financing obtained from the Bank to finance the Company's working capital requirements. This financing carries profit at the rate of 3.439% per annum and matures within 12 months from the balance sheet date.

13. Accruals and other liabilities

	2017	2016
Payable to the Bank (note 5)	116,634,457	121,515,746
Accrued expenses	9,334,297	8,491,394
Payable to Tadawul	2,603,197	1,274,457
Other payables	1,555,487	937,092
	<u>130,127,438</u>	<u>132,218,688</u>

14. Zakat

(a) Zakat return

Effective 1 January 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 ended 31 December 2017 was SR 1,584,721 (2016: SR 999,000) and has been determined based on the Company's adjusted net income before zakat and charged to its special-purpose statement of income.

(b) Zakat assessment status

In prior years, the Company received all final zakat assessment from General Authority of Zakat and Tax (GAZT) in respect of all year up to 2008.

(c) Provision for zakat

The movement in the provision for zakat during the year is as follows:

	2017	2016
Balance at the beginning of the year	999,000	745,000
Provision during the year	1,584,721	999,000
Payment during the year	(999,000)	(745,000)
Balance at the end of the year	<u>1,584,721</u>	<u>999,000</u>

15. Employees' end of service benefits

	2017	2016
Balance at the beginning of year	4,944,894	4,330,540
Provision during the year	3,564,846	2,030,228
Payment during the year	(861,671)	(1,415,874)
Balance at the end of year	<u>7,648,069</u>	<u>4,944,894</u>

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16. Share capital

The authorized and paid-up share capital of the Company as of 31 December 2017 comprises of 200,000 shares of SR 1,000 each (2016: 200,000 shares of SR 1,000 each).

17. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Bylaws, a minimum of 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 30% of the share capital. This reserve is not available for distribution.

18. Other operating expenses

	2017	2016
Rent and premises related expenses (note 18.1)	6,716,603	5,524,908
Office administration expenses	4,056,974	3,147,509
Legal and professional fees	4,298,986	2,276,583
Finance costs (note 5)	4,389,518	114,633
Outsourced services (note 5)	2,500,000	5,000,000
Subscription	2,288,982	1,270,562
Communication and data transmission	985,823	1,375,437
Others	629,128	325,326
	<u>25,866,014</u>	<u>19,034,958</u>

18.1 Included in rent and premises related expenses is an amount of SR 1,962,770 (2016: SR 1,730,031) related to rental charge for the utilization of fixed assets owned by the Bank and sublease of office spaces.

19. Earnings per share

Earnings per share attributable to income from main operations and net income for the years ended 31 December 2017 and 2016 is calculated by dividing net income for the years, by the weighted average number of outstanding shares (200,000) during the years ended 31 December 2017 and 31 December 2016.

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20. Segmental information

The Company is organized into the following main operating segments:

- Dealing activities include trading in a security, whether as principal or agent, and to sale, purchase, manage the subscription for or of underwriting securities.
- Managing activities include managing securities belonging to another person in circumstances involving the exercise of discretion.
- Custody activities include safeguarding assets belonging to another person including securities, or arranging for another person to do so, and custody includes taking the necessary administrative measures.
- Arranging activities include introducing parties in relation to securities business, advising on corporate finance business or acting in any way to bring about a deal in a security.
- Advising activities include in advising a person on the merits of dealing in a security or exercising any right to deal conferred by a security.
- Others represent certain assets, liabilities, operating income or expenses of the Company, which have not been allocated to the above segments.

	<i>Dealing Activities SR</i>	<i>Managing Activities SR</i>	<i>Custody Activities SR</i>	<i>Arranging/ Advising Activities SR</i>	<i>Others SR</i>	<i>Total SR</i>
2017						
Total assets	3,004,255	19,391,843	3,027,000	253,183,701	557,100,570	835,707,369
Total liabilities	40,052	1,014,706	2,196	252,014,886	136,288,388	389,360,228
Total operating income	31,919,802	44,100,985	9,486,751	5,310,000	47,403,364	138,220,902
Total expenses	28,543,356	30,684,957	7,040,400	9,031,094	1,037,417	76,337,224
Net (loss) income	3,376,446	13,416,028	2,446,351	(3,721,094)	46,365,947	61,883,678
2016						
Total assets	1,905,630	10,125,174	570,000	100,238,608	508,410,458	621,249,870
Total liabilities	-	1,016,408	413	103,654,854	133,490,907	238,162,582
Total operating income	30,956,429	37,116,389	7,494,600	10,404,572	15,520,049	101,492,039
Total expenses	19,032,259	29,044,508	5,625,624	8,572,584	829,145	63,104,120
Net income	11,924,170	8,071,881	1,868,976	1,831,988	14,690,904	38,387,919

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21. Regulatory capital requirements and capital adequacy ratio

The 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, 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:

	<i>As at 31 December</i>	
	<i>SR' 000</i>	
	<i>2017</i>	<i>2016</i>
Capital Base:		
Tier 1 Capital	443,886	382,002
Tier 2 Capital	2,461	1,085
Total Capital Base	446,347	383,087
Minimum Capital Requirement:		
Market Risk	1,237	109
Credit Risk	245,594	165,467
Operational Risk	19,084	15,776
Total Minimum Capital Required	265,915	181,352
Capital Adequacy Ratio:		
Surplus in Capital	180,432	201,735
Total Capital Ratio (time)	1.68	2.11
Tier 1 Capital Ratio (time)	1.67	2.11

- The capital base consists of Tier 1 capital (which includes capital, statutory reserve and audited retained earnings) and Tier 2 capital (include surplus on revaluation 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.

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22. Assets under management and custody

Assets held in trust in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in the Company's special-purpose financial statements.

The outstanding assets under management at the end of the year including mutual funds and discretionary portfolios amounted to SR 6.6 billion (2016: 7.3 billion). In addition to this an amount of SR 1.1 billion (2016: 1.4 billion) has been maintained as customer deposits with the Bank.

The assets under custody services at the end of the year amounted to SR 16.31 billion (2016: 10.2 billion).

23. Contingencies

As at 31 December 2017, the Bank has issued, on the Company's behalf, letter of guarantee amounting to SR 100 million (2016: SR 100 million), in favor of the Saudi Stock Exchange Company (Tadawul).

24. Comparative figures

Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.