

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
DECEMBER 31, 2016**

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Financial statements for the year ended December 31, 2016

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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 2016, 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 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 2016 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.

Emphasis of a matter:

Without qualifying our opinion, we draw attention to note 2 to the financial statements. As stated therein, Company's investment in its subsidiary is accounted for under the equity method as consolidated financial statements are prepared at the ultimate holding company level.

for Ernst & Young



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

Riyadh: 15 Jumad Thani 1438H
(14 March 2017)



ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Balance sheet
As at December 31, 2016
(Saudi Riyals)

	Notes	2016	2015
Assets			
Current assets			
Bank balances	5	30,293,529	8,391,717
Murabaha deposits with banks	6	219,000,000	423,000,000
Margin financing	7	179,300,985	-
Other assets	8	15,871,890	11,510,293
Total current assets		444,466,404	442,902,010
Non-current asset			
Available for sale investments	9	41,204,121	9,893,716
Investment in a subsidiary	10	135,579,345	-
Total non-current assets		176,783,466	9,893,716
Total assets		621,249,870	452,795,726
Liabilities and partners' equity			
Liabilities			
Current liabilities			
Short-term Murabaha financing	11	100,000,000	-
Accruals and other current liabilities	12	132,218,688	104,168,113
Zakat payable	13	999,000	745,000
Total current liabilities		233,217,688	104,913,113
Non-current liabilities			
Employees' termination benefits	14	4,944,894	4,330,540
Total liabilities		238,162,582	109,243,653
Partners' equity			
Capital	15	200,000,000	200,000,000
Statutory reserve	16	22,500,218	18,661,426
Retained earnings		159,501,966	124,952,839
Investment revaluation reserve	9	1,085,104	(62,192)
Total partners' equity		383,087,288	343,552,073
Total liabilities and partners' equity		621,249,870	452,795,726

The attached notes from 1 to 20 form part of these financial statements.

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Statement of income
For the year ended December 31, 2016
(Saudi Riyals)

	Notes	2016	2015
Operating income			
Fees from services, net:			
- Brokerage		30,956,429	40,333,052
- Asset management		35,482,345	27,672,644
- Investment banking		10,404,572	-
- Securities custody		7,494,600	4,691,201
		<u>84,337,946</u>	<u>72,696,897</u>
Share in net results of a subsidiary	10	5,991,650	-
Income from Murabaha deposits with banks	6	9,400,133	3,741,569
Dividend income from available for sale investments		940,878	-
Income from margin financing	7	821,433	-
Gain on sale of available for sale investments		-	1,101,221
Total operating income		<u>101,492,040</u>	<u>77,539,687</u>
Operating expenses			
Salaries and other employees related expenses		43,070,164	30,712,733
Other operating expenses	17	19,034,957	17,983,990
Impairment charge on available for sale investments	9	-	1,363,923
Total operating expenses		<u>62,105,121</u>	<u>50,060,646</u>
Income before Zakat		<u>39,386,919</u>	<u>27,479,041</u>
Zakat	13	<u>(999,000)</u>	<u>(745,000)</u>
Net income for the year		<u><u>38,387,919</u></u>	<u><u>26,734,041</u></u>

The attached notes from 1 to 20 form part of these financial statements.

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Statement of Cash flows
For the year ended December 31, 2016
(Saudi Riyals)

	Notes	2016	2015
Operating activities			
Income before Zakat		39,386,919	27,479,041
<u>Adjustments for:</u>			
Provision for employee termination benefits	14	2,030,228	1,204,880
Gain on sale of available for sale investments		-	(1,101,221)
Impairment charge on available for sale investments	9	-	1,363,923
Share in net results of a subsidiary	10	(5,991,650)	-
<u>Changes in operating assets and liabilities</u>			
Other assets		(4,361,597)	(3,047,821)
Accruals and other current liabilities		28,050,575	34,016,843
Net cash from operations		59,114,475	59,915,645
 Employees' termination benefits paid	14	(1,415,874)	(1,136,187)
Zakat paid	13	(745,000)	(2,510,420)
Net cash from operating activities		56,953,601	56,269,038
 Investing activities			
Investment in a subsidiary	10	(135,198,000)	-
Margin financing		(179,300,985)	-
Purchase of available for sale investments	9	(30,163,109)	(2,508,531)
Murabaha deposits with banks		204,000,000	(67,000,000)
Dividends received	10	5,610,305	-
Proceeds from sale of available for sale investments		-	3,289,921
Net cash used in investing activities		(135,051,789)	(66,218,610)
 Financing activity			
Short-term Murabah financing	11	100,000,000	-
Cash from financing activity		100,000,000	-
 Net increase (decrease) in bank balances		21,901,812	(9,949,572)
 Bank balances at beginning of the year		8,391,717	18,341,289
Bank balances at end of the year		30,293,529	8,391,717
 Non cash transactions:			
Change in fair value of available for sale investments	9	1,147,296	(957,697)

The attached notes from 1 to 20 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, 2016
(Saudi Riyals)

	Notes	Capital	Statutory reserve	Retained earnings	Investment revaluation reserve	Total
Balance at January 1, 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	16	-	3,838,792	(3,838,792)	-	-
Change in fair value	9	-	-	-	1,147,296	1,147,296
Balance at December 31, 2016		200,000,000	22,500,218	159,501,966	1,085,104	383,087,288
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	16	-	2,673,404	(2,673,404)	-	-
Change in fair value	9	-	-	-	(957,697)	(957,697)
Impairment charge on available for sale investments	9	-	-	-	1,363,923	1,363,923
Balance at December 31, 2015		200,000,000	18,661,426	124,952,839	(62,192)	343,552,073

The attached notes from 1 to 20 form part of these financial statements.

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Notes to the financial statements
For the year ended December 31, 2016
(Saudi Riyals)

1. Incorporation and operation

Albilad Investment Company (the "Company"), is a limited liability company incorporated in the Kingdom of Saudi Arabia under Commercial Registration number 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 15 Jumad Thani 1438H (Corresponding 14 March 2017).

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).

The consolidated financial statements for the Company and its subsidiaries have not been prepared as the Company itself is a wholly owned subsidiary of the Bank ("the ultimate holding company"), which prepares consolidated financial statements. Hence the Company's investment in its subsidiary have been accounted for under the equity method.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Notes to the financial statements (continued)
For the year ended December 31, 2016
(Saudi Riyals)

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 Margin financing

Margin financing are recognized when cash is advanced to the customers. 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.

Margin financing is carried at the amount advanced to the customers, including related transaction cost less any provision for credit losses, if any. 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 December 31, 2016 are maturing within a period of one year.

3.3 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.

ALBILAD INVESTMENT COMPANY
(A Limited Liability Company)

Notes to the financial statements (continued)
For the year ended December 31, 2016
(Saudi Riyals)

3 Significant accounting policies (continued)

3.4 Investment in subsidiaries company

Subsidiaries company are those 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. Investments in subsidiary companies are accounted for under the equity method, whereby the financial statements include an appropriate share of the subsidiary's post acquisition results, reserves and retained earnings based on their latest available financial statements.

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 investees (unless the Company has guaranteed the obligation of the subsidiary or has otherwise committed to provide further financial support to them). If a subsidiary company 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 at which the Company becomes a party to the contractual provision of the instrument.

3.6 Short term Murabaha financing

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

3.7 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.

3.8 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.

3.9 Zakat and taxes

Zakat is calculated and provided for by the Bank in accordance with Saudi Arabian fiscal Regulations and is reflected in its consolidated financial statements based on its consolidated financial statements (including the Company). The Company's share of such zakat provision is allocated by the Bank and is charged to the Company's 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.

ALBILAD INVESTMENT COMPANY
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Notes to the financial statements (continued)
For the year ended December 31, 2016
(Saudi Riyals)

3 Significant accounting policies (continued)

3.10 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.

3.11 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 is recognized ratably over the period when the service is being provided.

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 statement of income on effective yield basis.

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 statement of income on a straight -line basis over the lease term.

3.14 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.

ALBILAD INVESTMENT COMPANY
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Notes to the financial statements (continued)
For the year ended December 31, 2016
(Saudi Riyals)

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. Financial assets and liabilities of the Company are exposed to the aforementioned risks. Financial assets carried on the 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, certain 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 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 and margin financing profit rate risks

Murabaha and margin financing profit rate risk represents the Company's exposure to risks associated with the effect of fluctuations in the prevailing profit rates on the Company's financial positions and cash flows. Management 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 monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

ALBILAD INVESTMENT COMPANY
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Notes to the financial statements (continued)
For the year ended December 31, 2016
(Saudi Riyals)

5. 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, its 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 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, charges for which is determined on a basis similar to the outsourced services above.

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

(a) The Bank:

	2016	2015
Transactions:		
Short term Murabaha financing (note 11)	100,000,000	-
Letter of guarantee issued on behalf of the Company	100,000,000	-
Asset management income	10,029,383	2,903,953
Outsourced services at a fixed annual fee (note 17)	5,000,000	5,000,000
Rent and premises related expenses	1,730,031	1,499,190
Investment banking income	1,500,000	-
Letter of guarantee commission expense	135,000	-
Special commission expenses on short term Murabaha financing	114,633	-
Balances:		
<i>Assets</i>		
Bank balances	30,293,529	8,391,717
Performance fee receivable	5,093,149	-
Management fee receivable	377,569	515,025
<i>Liabilities</i>		
Short-term Murabaha financing (note 11)	100,000,000	-
Payable to the Bank (note 12)	121,515,745	98,827,096

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.

ALBILAD INVESTMENT COMPANY
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Notes to the financial statements (continued)
For the year ended December 31, 2016
(Saudi Riyals)

5. Related party transactions and balances (continued)

(c) Makkah Hospitality Fund (a subsidiary):

	2016	2015
Transactions:		
Asset management services income	1,643,026	-
Subscription fee	898,000	-
Balances:		
Amount due from a subsidiary (note 8)	3,197,391	-

Investment in subsidiary, share in net results and dividends received from the subsidiary are disclosed in note 10 to these financial statements.

(d) Investment funds:

	2016	2015
Transactions:		
Asset management services income	13,397,729	17,918,646
Subscriptions	1,595,133	233,934
Balances:		
<i>Assets</i>		
Available for sale investments	20,569,105	9,576,279
Management fee receivable	1,085,023	3,481,551

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

	2016	2015
Transactions:		
Margin financing	5,733,593	-
Rent and premises related expenses	2,945,417	2,376,000
Remuneration for Board of Directors	604,000	675,000
Margin financing income	20,157	-
Brokerage commission income	5,588	-
Balances:		
Margin financing outstanding	5,733,593	-
Margin financing income receivable	20,157	-

6. Murabaha deposits with banks

At December 31, 2016, all Murabaha deposits are placed with banks with maturities from 1 to 12 months (2015: 1 to 12 months) and carry profit rates ranging between 2.0% to 3.9% per annum (2015: from 0.7% to 2.8% per annum).

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Notes to the financial statements (continued)
For the year ended December 31, 2016
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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 rate based on the amount of margin financing.

8. Other assets

	2016	2015
Management and performance fee receivable from:		
- Funds and discretionary portfolios (note 5)	6,749,649	7,259,089
- Investment banking and custody	2,918,683	2,501,886
Amount due from a subsidiary (note 5)	3,197,391	-
Profit receivable on Murabaha deposits with banks and margin financing	1,854,512	1,536,360
Prepayments	1,019,732	79,205
Others	131,923	133,753
	<u>15,871,890</u>	<u>11,510,293</u>

9. Available for sale investments

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

	2016		
	Cost	Investment revaluation reserve	Carrying value
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
Second Commercial Complex	5,000,000	-	5,000,000
GCC Ithmar Fund	3,636,077	185,968	3,822,045
Equity securities – Quoted	2,184,670	30,176	2,214,846
	<u>40,119,017</u>	<u>1,085,104</u>	<u>41,204,121</u>
	2015		
	Cost	Investment revaluation reserve	Carrying value
Al Dahiyah Private Placement Fund	6,000,000	(59,798)	5,940,202
GCC Ithmar Fund	3,636,077	-	3,636,077
Equity securities – Quoted	319,831	(2,394)	317,437
	<u>9,955,908</u>	<u>(62,192)</u>	<u>9,893,716</u>

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Notes to the financial statements (continued)
For the year ended December 31, 2016
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9. Available for sale investments (continued)

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

	2016	2015
<u>Cost:</u>		
At the beginning of the year	9,955,908	11,000,000
Additions during the year	30,163,109	2,508,531
Disposals during the year	-	(2,188,700)
Impairment charge for the year	-	(1,363,923)
At the end of the year	40,119,017	9,955,908
<u>Investment revaluation reserve:</u>		
At the beginning of the year	(62,192)	(468,418)
Change in fair value	1,147,296	(957,697)
Impairment charge for the year	-	1,363,923
At the end of the year	1,085,104	(62,192)
Carrying value of investments at 31 December	41,204,121	9,893,716

10. Investment in a subsidiary

Name of the subsidiary	Type of activity	Shareholding	2016	2015
Makkah Hospitality Fund	Real estate fund	67%	135,198,000	-

Investment in a subsidiary movements during the year was as follows:

	2016	2015
Acquired during the year	135,198,000	-
Share in net results	5,991,650	-
Dividends received	(5,610,305)	-
At the end of the year	135,579,345	-

11. 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 in full during 2017.

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Notes to the financial statements (continued)
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12. Accruals and other current liabilities

	2016	2015
Payable to the Bank (note 5)	121,515,745	98,827,096
Accrued expenses	8,491,394	3,191,715
Payable to Tadawul	1,274,457	1,671,719
Others	937,092	477,583
	<u>132,218,688</u>	<u>104,168,113</u>

13. Zakat

(a) Zakat return

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 the such zakat liability for the year ended 31 December 2016 of SR 999,000 (2015: SR 745,000) has been determined based on the Company's adjusted net income before zakat and charged to its statement of income.

(b) Zakat assessment status

In prior years, the Company received zakat assessment from General Authority of Zakat and Tax (GAZT) in respect of 2008 claiming additional Zakat liability of SR 1.5 million. The additional Zakat liability was primarily due to disallowance of the deduction of certain investments from Company's zakat base. The Company filed an appeal with the Preliminary Committee against the GAZT's assessment for 2008. The Preliminary Committee upheld the GAZT's assessment for 2008. However, the Company filed an appeal with the Higher Appellate Committee against the Preliminary Committee's ruling. The final ruling was issued with additional Zakat liability of SR 1.5 million. During 2014, the Company made a provision for this which was settled during 2015.

(c) Provision for zakat

The movement in the provision for zakat for the year ended December 31, 2016 and 2015 is as follows:

	2016	2015
Balance at the beginning of year	745,000	2,510,420
Provision during the year	999,000	745,000
Payment during the year	(745,000)	(2,510,420)
Balance at the end of year	<u>999,000</u>	<u>745,000</u>

14. Employees' termination benefits

	2016	2015
Balance at the beginning of year	4,330,540	4,261,847
Provision during the year	2,030,228	1,204,880
Payment during the year	(1,415,874)	(1,136,187)
Balance at the end of year	<u>4,944,894</u>	<u>4,330,540</u>

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15. Capital

The Capital of the Company as of December 31, 2016 comprises of 200,000 shares (2015: 200,000 shares) at nominal value of SR 1,000 per share.

16. 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.

17. Other operating expenses

	2016	2015
Rent and premises related expenses (note 17.1)	5,524,908	4,496,637
Outsourced services (note 5)	5,000,000	5,000,000
Office administration expenses	3,147,509	2,537,788
Legal and professional fees	2,276,583	3,198,441
Communication and data transmission	1,375,437	1,397,630
Subscription	1,270,562	1,289,522
Others	439,958	63,972
	<u>19,034,957</u>	<u>17,983,990</u>

17.1 Included in rent and premises related expenses is an amount of SR 1,730,031 (2015: SR 1,499,190) related to rental charge for the utilization of fixed assets owned by the Bank and sublease of office spaces.

18. 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, 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,	
	2016	2015
Capital Base:		
Tier 1 Capital	382,002	343,614
Tier 2 Capital	1,085	(62)
Total Capital Base	<u>383,087</u>	<u>343,552</u>
Minimum Capital Requirement:		
Market Risk	109	-
Credit Risk	165,467	46,327
Operational Risk	15,776	12,701
Total Minimum Capital Required	<u>181,352</u>	<u>59,028</u>
Capital Adequacy Ratio:		
Surplus in Capital	<u>201,735</u>	<u>284,524</u>
Tier 1 and Total Capital Ratio (time)	<u>2.11</u>	<u>5.82</u>

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18. Regulatory capital requirements and capital adequacy ratio (continued)

- a) The capital base consists of Tier 1 capital (which includes share 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.
- b) 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.
- 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 in the Kingdom of Saudi Arabia in respect of the licensed activities of the Company is SR 50 million.

19. 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 financial statements.

The assets under management outstanding at the end of the year including mutual funds and discretionary portfolios amounted to SR 7.3 billion (2015: SR 11.75 billion). In addition to this SR 1.42 billion (2015: SR 960 million) has been maintained as customer deposits with the Bank.

The assets under custody services at the end of the year amounted to SR 10.2 billion (2015: SR 6.4 billion).

20. Contingencies and commitments

The Bank has issued, on the Company's behalf, letter of guarantee amounting to SR 100 million (2015: SR nil), in favor of the Saudi Stock Exchange Company, Tadawul.