

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2017
together with the
INDEPENDENT AUDITOR'S REPORT



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Independent auditors' report

To the Shareholders of
Alawwal Invest Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Alawwal Invest Company** ("the Company"), which comprise the balance sheet as at 31 December 2017, the statements of income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying 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 generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (SOCPA).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards as issued by SOCPA, the Regulations for Companies, Company's By-Laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Alawwal Invest Company**.

**For KPMG Al Fozan & Partners
Certified Public Accountants**

Abdullah Hamad Al Fozan
License No: 348

Riyadh on: 8 Rajab 1439H
Corresponding to: 25 March 2018



ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
BALANCE SHEET
As at 31 December 2017
(Saudi Riyals in '000')

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>			
<u>Current assets:</u>			
Cash and cash equivalents	4	7,147	1
Time deposits	5	416,699	412,652
Due from a related party	6	4,049	18,455
Prepayment and other current assets		1,801	277
Margin lending receivables	7	193,968	--
Total current assets		<u>623,664</u>	<u>431,385</u>
<u>Non-current assets:</u>			
Investments	8	124,720	122,945
Total non-current assets		<u>124,720</u>	<u>122,945</u>
Total assets		<u>748,384</u>	<u>554,330</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>Current liabilities:</u>			
Accrued expenses and other current liabilities		4,810	5,372
Provision for zakat and income tax	9	7,840	8,444
Short term borrowings	10	193,800	--
Total current liabilities		<u>206,450</u>	<u>13,816</u>
<u>Non-current liabilities:</u>			
Employees' end of service benefits		9,694	9,895
Total non-current liabilities		<u>9,694</u>	<u>9,895</u>
Total liabilities		<u>216,144</u>	<u>23,711</u>
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	11	400,000	400,000
Statutory reserve	12	21,645	20,978
Fair value reserve for available for sale investment		3,885	2,110
Retained earnings		106,710	107,531
Total shareholders' equity		<u>532,240</u>	<u>530,619</u>
Total liabilities and shareholders' equity		<u>748,384</u>	<u>554,330</u>

The accompanying notes 1 to 18 form an integral part of these financial statements.

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF INCOME
For the year ended 31 December 2017
(Saudi Riyals in '000')

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<u>REVENUE</u>			
Brokerage fees income, net		11,164	18,182
Asset management fee		17,457	20,891
Advisory and arranging fee		3,289	7,555
Special commission income		9,254	11,063
Fee for custody and other services		1,067	1,823
Trading gains		--	107
Income from margin lending	7	6,290	--
Total revenue		<u>48,521</u>	<u>59,621</u>
<u>OPERATING EXPENSES</u>			
Salaries and employee related expenses	13	24,969	30,014
Rent and premises related expenses		2,165	2,576
General and administrative expenses	14	10,513	11,306
Special commission expense	10	4,200	--
Total operating expenses		<u>41,847</u>	<u>43,896</u>
Net income for the year		<u>6,674</u>	<u>15,725</u>

The accompanying notes 1 to 18 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(Saudi Riyals in '000')

	<u>Note</u>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		6,674	15,725
<i>Adjustments for:</i>			
Employees' end of service benefits		<u>1,487</u>	<u>2,869</u>
		8,161	18,594
Changes in operating assets and liabilities:			
Due from a related party		14,406	459
Prepayment and other current assets		(1,524)	315
Accrued expenses and other current liabilities		(562)	2,026
Margin lending receivables		<u>(193,968)</u>	<u>--</u>
		<u>(173,487)</u>	<u>21,394</u>
Zakat and income tax paid	9	(7,432)	(6,328)
Employees' end of service benefits paid		(1,688)	(4,862)
Net cash (used in) / generated from operating activities		<u>(182,607)</u>	<u>10,204</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Placements of time deposit, net		(4,047)	(62,652)
Advance for investments		--	483
Purchase of investments		--	(910)
Net cash used in investing activities		<u>(4,047)</u>	<u>(63,079)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term borrowings		193,800	--
Net cash generated from financing activities		<u>193,800</u>	<u>--</u>
Net increase / (decrease) in cash and cash equivalents		7,146	(52,875)
Cash and cash equivalents at the beginning of the year		1	52,876
Cash and cash equivalents at the end of the year	4	<u>7,147</u>	<u>1</u>
<u>Supplemental non-cash information:</u>			
Net changes in fair value of available-for-sale investments		<u>1,775</u>	<u>2,210</u>

The accompanying notes 1 to 18 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2017
(Saudi Riyals in '000')

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Fair value reserve for available for sale investment</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2016	400,000	19,405	(100)	100,820	520,125
Net income for the year	--	--	--	15,725	15,725
Transfer to statutory reserves	--	1,573	--	(1,573)	--
Net change in fair value	--	--	2,210	--	2,210
Zakat and income tax (note 9)	--	--	--	(7,441)	(7,441)
Balance as at 31 December 2016	<u>400,000</u>	<u>20,978</u>	<u>2,110</u>	<u>107,531</u>	<u>530,619</u>
Net income for the year	--	--	--	6,674	6,674
Transfer to statutory reserves	--	667	--	(667)	--
Net change in fair value	--	--	1,775	--	1,775
Zakat and income tax (note 9)	--	--	--	(6,828)	(6,828)
Balance as at 31 December 2017	<u>400,000</u>	<u>21,645</u>	<u>3,885</u>	<u>106,710</u>	<u>532,240</u>

The accompanying notes 1 to 18 form an integral part of these financial statements

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Saudi Riyals in '000')

1. ORGANIZATION AND ACTIVITIES

Alawwal Invest Company ('the Company') is a Saudi Closed Joint Stock Company and operating in the Kingdom of Saudi Arabia under Commercial Registration No. 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to 9 January 2008). The Company has 5 branches (2016: 5 branches) operating in the Kingdom of Saudi Arabia as at 31 December 2017.

The principal activities of the Company are to provide a full range of financial services, which include brokerage services, asset management services and margin lending. The Company also provides equity lead arrangements, advisory and custodial services to its clients pursuant to the Capital Market Authority ("CMA") resolution number 1-39-2007 dated 8 Rajab1428 corresponding to 22 July 2007.

The address of the Company's head office is as follows:

Al Awwal Invest Company
Head Office
P.O. Box 1467
Riyadh 11431,
Kingdom of Saudi Arabia

On 23 June 2016, the Company's owners and Board of Directors approved to convert the legal status of the Company from "a Limited Liability Company" to "a Closed Joint Stock Company" as per new Company's Law issued by Ministry of Commerce and Investment in 2016. The legal formalities related to change in legal status were completed on 29 March 2017.

2. BASIS OF PREPARATION

a) *Statement of compliance*

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

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its By-laws for any changes to align with the Law. Consequently, the Company presented the amended By-laws to the shareholders' in their Extraordinary General Assembly meeting held on 26 March 2017.

b) *Basis of measurement*

These financial statements have been prepared under the historical cost convention, except for available for sale investments which are stated at fair value, using the accrual basis of accounting and the going concern concept.

c) *Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals (SAR) which is the functional currency of the Company. All financial information presented in SAR has been rounded to the nearest thousand except where otherwise disclosed.

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals in '000')

2. BASIS OF PREPARATION (CONTINUED)

d) *Estimates and judgments*

The preparation of these financial statements require management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company exercises judgment in considering impairment of available-for-sale investments. This includes determination of a significant and prolonged decline in the fair value below its cost. In making this judgment, the Company evaluates among other factors, the volatility in prices.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) *Cash and cash equivalents*

For the purpose of reporting cash flows, cash and cash equivalents comprise cash with banks and other short-term liquid investments, if any, with original maturities of three months or less, which are available to the Company without any restrictions.

b) *Available for sale investments*

Available for sale investments principally consist of less than 20% share in quoted equity investments, which are not held for trading purposes and where the Company does not have any significant influence or control. These are initially recognized and subsequently re-measured at fair value. Any changes in fair value are recognized in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in fair value of the available for sale investments, if any, is charged to the statement of income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

c) *Held for trading investment*

Investments in trade securities which are purchased for trading purposes are initially recorded at cost and then re-measured and stated in the balance sheet at fair value and included under current assets. Realized gain or loss on sale of trade securities and changes in fair value recognized in the statement of income.

d) *Impairment of financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income. For asset carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income;

For equity investments held as available-for-sale, a significant and prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On de-recognition, any cumulative gain or loss previously recognized in equity is transferred to the statement of income.

ALAWWAL INVEST COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) *Margin lending receivables*

Margin lending receivables are initially recognized when the underlying funds are disbursed to customers. They are derecognized when either customers repay their obligations, or the balance is written off, or substantially all the risks and rewards of ownership are transferred to another party.

f) *Provisions*

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

g) *Zakat and income tax*

Zakat and income tax are provided for in the financial statements in accordance with Saudi General Authority of Zakat and Income Tax ("GAZT") regulations. Zakat and income tax are charged to the statements of changes in shareholders' equity.

h) *Employees' end of service benefits*

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

i) *Expenses*

Expenses are measured and recognized as a period cost at the time when they are incurred. Expenses related to more than one financial period are allocated over such periods proportionately.

j) *Revenue recognition*

The revenue for the various services rendered are recognised as follows:

- Revenue from equity brokerage is recognized at the time when the deal is executed on behalf of customer and is presented net of discounts.
- Fee received on asset management and other similar services that are provided over an extended period of time are recognized over the period when the service is being provided.
- Management advisory service fees are recognized based on the applicable service contracts on a time-proportionate basis.
- Special commission on current account and placements are recognized on accrual basis that takes into account effective yield.
- Margin lending income is recognized on a time proportionate basis taking into account the principal outstanding and the effective financing rate.
- Fee for custody and other services is recognized over the period when the services are being provided.

k) *Assets held in trust or in a fiduciary capacity*

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in the financial statements; these are treated as off-balance sheet items. Similarly, client money held by the Company is not treated as asset of the Company and accordingly is not included in the financial statements; these are treated as off-balance sheet items.

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals in '000')

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) *Offsetting*

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
Cash in hand	1	1
Cash at bank	25	--
Short term deposits*	<u>7,121</u>	<u>--</u>
Cash and cash equivalents	<u>7,147</u>	<u>1</u>

*This comprise of deposit with Alawwal Bank "related party" carrying special commission rate of 1.85% per annum with maturity date of 14 March 2018.

5. TIME DEPOSITS

Time deposits are placed with Alawwal Bank "related party" and carry commission rate ranging between 1.95% to 2.05% per annum (31 December 2016: 3.05% to 3.75% per annum). The maturity date is up to May 2018 (31 December 2016: up to May 2017).

6. RELATED PARTY TRANSACTIONS AND BALANCES

Related party of the Company includes Alawwal Bank ("the Bank") and its affiliated companies. In the ordinary course of business, the Company transacts with related parties on mutually agreed terms approved by the Company's Board of Directors.

In addition to note 4 and 5, the Company entered into following transactions with the related party during the year.

	<u>2017</u>	<u>2016</u>
Advisory and arranging fee	<u>255</u>	<u>455</u>
Fee for custody and other services	<u>1,067</u>	<u>1,823</u>
Special commission income	<u>9,254</u>	<u>11,063</u>
Special commission expense	<u>4,200</u>	<u>--</u>
Operating expenses charged by the Bank under Service Level Agreement (Note 6.1, 14)	<u>6,916</u>	<u>6,913</u>

In addition to note 4 and 5, the following balance results from the above mentioned transactions:

	<u>2017</u>	<u>2016</u>
Due from a related party	<u>4,049</u>	<u>18,455</u>

- 6.1** The Bank provides certain services to the Company as per Service Level Agreement (the "Agreement") signed between the Company and the Bank. These services include support for IT, finance, human resource, legal and other administrative functions. The Bank collects and makes payments for and on behalf of the Company and maintains bank accounts of Company's brokerage customers.

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
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7. MARGIN LENDING RECEIVABLES

The company extends margin lending facilities on a selective basis to its customers for the purpose of investing in the Saudi equity market. These facilities are extended up to a maximum period of one year and bear special commission rate based on a base rate (12%) less a specific percentage as per policy according to the amount of limit obtained.

The facilities are collateralized by underlying equities and cash held in the customers' investment accounts. As at 31 December 2017, the outstanding amount of margin lending receivables is neither past due nor impaired.

8. INVESTMENTS

Investments as at December 31 classified as available for sale are as under:

	<u>Market value</u>		<u>Cost</u>	
	<u>2017</u>	2016	<u>2017</u>	<u>2016</u>
Available for sale investments				
<u>Mutual Funds</u>				
Al-Yusr Saudi Riyal Morabaha Fund	40,389	39,724	38,395	38,395
Saudi Riyal Money Market Fund	28,398	27,890	26,936	26,936
Al Yusr Morabaha & Sukuk Fund	47,266	46,329	44,693	44,693
Al Yusr Saudi Hollandi Fund for Initial IPO	8,667	9,002	10,811	10,811
	<u>124,720</u>	<u>122,945</u>	<u>120,835</u>	<u>120,835</u>

9. PROVISION FOR ZAKAT AND INCOME TAX

Zakat and income tax charge for the year ended 31 December comprises the following:

	<u>2017</u>	<u>2016</u>
Zakat (9.1)	6,304	6,342
Income tax (9.2)	524	1,099
Total	<u>6,828</u>	<u>7,441</u>

9.1 The main elements of the Zakat base as at 31 December are as follows:

	<u>2017</u>	<u>2016</u>
Shareholders' equity	240,000	240,000
Adjusted net income	3,931	8,239
Provisions and reserves	8,210	5,441
Zakat Base	<u>252,141</u>	<u>253,680</u>
Zakat charge for the year at 2.5%	<u>6,304</u>	<u>6,342</u>

9.2 Income tax charge for the year is as follows:

	<u>2017</u>	<u>2016</u>
Non-Saudi shareholders share of adjusted net income @ 40% (2016:40%)	2,620	5,493
Income tax for the year at 20%	<u>524</u>	<u>1,099</u>

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9. PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

9.3 Movement in zakat and income tax provision

	<u>2017</u>		<u>2016</u>	
	<u>Zakat</u>	<u>Income Tax</u>	<u>Total</u>	<u>Total</u>
Balance as at 1 January	8,075	369	8,444	7,331
Provision during the year (Note 9.1)	<u>6,304</u>	<u>524</u>	<u>6,828</u>	<u>7,441</u>
	6,304	524	6,828	7,441
Payments during the year	<u>(6,342)</u>	<u>(1090)</u>	<u>(7,432)</u>	<u>(6,328)</u>
Balance as at 31 December	<u>8,037</u>	<u>(197)</u>	<u>7,840</u>	<u>8,444</u>

9.4 Status of assessment

The tax/zakat position of the Company is finalized up to including 2011.

For the years 2012 to 2013, the GAZT raised the final assessment resulting in additional zakat and tax liability of approximately SAR 0.349 million. The Company filed an appeal with the Higher Appeal Committee (HAC) and the hearing will be held on 21 March 2018.

For the year 2014, the Company also received initial assessment for additional zakat of approximately SAR 2.596 million. The Company has filed an appeal against the initial assessment, which is currently under review by the respective appeal committees.

For the years ended December 2015 and 2016, the assessments has not yet been received by the Company.

The Company's zakat and tax return for the year ended 31 December 2017 is due to be filed on or before 30 April 2018.

10. SHORT TERM BORROWINGS

The Company obtained an overdraft credit facility of SAR 600 million during 2017 from Alawwal Bank to finance margin lending facilities. As at 31 December 2017, the amount of this facility utilized by the Company amounted to SAR 193.8 million. The financing carries special commission rate of one month SIBOR plus 1.25%.

11. SHARE CAPITAL

At 31 December 2017, the share capital of the Company was SAR 400 million divided into 400,000 shares of SAR 1,000 each, which is fully paid and owned by the Bank.

12. STATUTORY RESERVE

In accordance with its By-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 30% of its share capital. This Statutory Reserve is not available for distribution to shareholders.

13. SALARIES AND EMPLOYEE RELATED EXPENSES

	<u>2017</u>	<u>2016</u>
Salaries	17,674	20,463
Employees' bonus	1,800	1,650
Terminal benefits GOSI	1,173	1,414
End of service benefits	1,487	2,869
Other staff costs	<u>2,835</u>	<u>3,618</u>
	<u>24,969</u>	<u>30,014</u>

ALAWWAL INVEST COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals in '000')

14. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Expenses under service level agreement (Note 14.1)	6,916	6,913
Communication expenses	1,824	3,056
Professional expenses	555	355
Stationery and printing	134	432
Traveling	69	160
Penalties and fines	290	--
Other expenses	725	390
	<u>10,513</u>	<u>11,306</u>

14.1 This represents charge under the Service Level Agreement with the Bank and as disclosed in note 6.1.

15. ASSETS HELD IN FIDUCIARY CAPACITY

These represent:

- a) Mutual funds' assets managed by the Company amounting to SAR 2.05 billion as at 31 December 2017 (31 December 2016: SAR 2.08 billion); and
- b) Clients' cash accounts with the Bank amounted to SAR 1.53 billion as at 31 December 2017 (31 December 2016: SAR 1.54 billion).

Consistent with the Company's accounting policies, as these assets are held by the Company in fiduciary capacity, such balances are not included in the Company's financial statements.

16. REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO

The Capital Market Authority (the "CMA") has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). 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 these Rules. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	<u>2017</u>	<u>2016</u>
<i>Capital Base:</i>		
Tier I Capital	528,355	528,509
Tier II Capital	3,885	2,110
Total Capital Base	<u>532,240</u>	<u>530,619</u>
<i>Minimum Capital Requirement:</i>		
Credit Risk	80,876	38,941
Operational Risk	10,462	10,974
Total Minimum Capital Required	<u>91,338</u>	<u>49,915</u>
<i>Capital Adequacy Ratio:</i>		
Surplus in Capital	<u>440,902</u>	<u>480,704</u>
Total Capital Ratio (times)	<u>5.83</u>	<u>10.63</u>

ALAWWAL INVEST COMPANY
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16. REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO (CONTINUED)

- a) Capital Base of the Company comprise of
- **Tier-1 capital** consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves, with certain deductions as per the Rules.
 - **Tier-2 capital** consists of revaluation reserves with certain deductions as per the Rules.
- b) The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in the Rules.
- c) The Company's business objectives when managing capital adequacy are 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.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet include balances with bank, available for sale investments and certain other assets and other liabilities.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that sufficient funds are available to meet any commitment as they arise. As mentioned in note 10 of these financial statements, the Company has an over-draft credit facility with Alawwal Bank to satisfy its liquidity requirements.

Credit risk

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. Financial assets, which potentially are subject to concentration of credit risk, principally consist of bank balances, time deposits, margin lending receivables and balances due from a related party. The Company's bank balances and time deposits are held with the Bank, which has sound financial standing. Lending for margin trading is done with an initial coverage of at least 200%. This coverage is actively monitored and margin calls and liquidation calls are performed at specific predefined thresholds to ensure that the margin lending is sufficiently collateralized at all times.

Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Company's commission rate risk arise mainly from margin lending receivables, short-term borrowings and time deposits with the Bank. The Company has limited commission rate risk due to the short term maturity of these financial instruments.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the accompanying financial statements are prepared under the historical cost method, except for the revaluation of the available for sale investments at fair value through equity, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

18. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 27 Jumada'II 1439H. (correspondence to 15 March 2018).