

**ALINMA INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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***Independent auditor's report to the shareholder of Alinma Investment Company (A Saudi Closed Joint Stock Company)***

***Report on the audit of the financial statements***

***Our opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alinma Investment Company (the "Company") as at December 31, 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.

***What we have audited***

The Company's financial statements comprise:

- the balance sheet as at December 31, 2017;
- the statement of income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in shareholder's equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

***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 accounting standards generally accepted in the Kingdom of Saudi Arabia and the applicable requirements of the Regulations for Companies and the Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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*PricewaterhouseCoopers, License No. 25,  
Kingdom Tower, P.O. Box 8282, Riyadh 11482, Kingdom of Saudi Arabia  
T: +966 (11) 211-0400, F: +966 (11) 211-0401, www.pwc.com/middle-east*

### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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.

**PricewaterhouseCoopers**

Omar, M. AISagga  
License Number 369

March 31, 2018

**ALINMA INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**

**Balance sheet**

**As at December 31, 2017**

All amounts in Saudi Riyals thousands unless otherwise stated

	Note	2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	59,598	63,508
Receivables against portfolio financing	5	66,796	26,806
Current maturity of net investment in a finance lease	10	4,864	-
Prepayments and other assets	6	161,805	99,601
Held for trading investments	7	5,354	7,155
<b>Total current assets</b>		<b>298,417</b>	<b>197,070</b>
<b>Non-current assets</b>			
Available for sale investments	8	259,941	229,105
Investment properties	9	80,372	-
Net investment in a finance lease	10	67,599	-
Capital work in progress	11	6,628	1,165
Property and equipment	12	4,249	3,778
<b>Total non-current assets</b>		<b>418,789</b>	<b>234,048</b>
<b>TOTAL ASSETS</b>		<b>717,206</b>	<b>431,118</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payable to an affiliate	10	25,936	-
Accrued expenses and other liabilities	13	38,327	32,713
Provision for zakat	14	6,550	12,465
<b>Total current liabilities</b>		<b>70,813</b>	<b>45,178</b>
<b>Non-current liability</b>			
Employee termination benefits	15	8,093	6,071
<b>TOTAL LIABILITIES</b>		<b>78,906</b>	<b>51,249</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	16	250,000	250,000
Statutory reserve	17	43,365	17,892
Retained earnings		331,627	102,373
Fair value reserve for available for sale investments		13,308	9,604
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>638,300</b>	<b>379,869</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>717,206</b>	<b>431,118</b>
<b>Contingencies and commitments</b>	25		

The accompanying notes on pages from 7 to 20 form an integral part of these financial statements.

**ALINMA INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**Statement of income**  
**For the year ended December 31, 2017**  
All amounts in Saudi Riyals thousands unless otherwise stated

	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Income</b>			
Asset management fees, net	20	<b>250,772</b>	142,721
Investment banking fees		<b>37,685</b>	8,440
Brokerage commission, net	20	<b>18,270</b>	22,965
Realized gain from available for sale investments		<b>4,596</b>	2,132
Custody fees		<b>7,657</b>	5,825
Other income		<b>12,630</b>	3,656
		<hr/>	<hr/>
<b>Total income</b>		<b>331,610</b>	185,739
<b>General and administrative expenses</b>			
Personnel expenses	18	<b>(58,685)</b>	(49,945)
Rent and premises expenses		<b>(990)</b>	(820)
Other general and administrative expenses	19	<b>(18,164)</b>	(16,700)
		<hr/>	<hr/>
<b>Total expenses</b>		<b>(77,839)</b>	(67,465)
<b>Income before zakat</b>		<b>253,771</b>	118,274
Zakat	14	<b>956</b>	(7,665)
		<hr/>	<hr/>
<b>Net income for the year</b>		<b>254,727</b>	110,609
<b>Earnings per share:</b>	24		
<b>Attributable to:</b>			
Income from operations		<b>10.15</b>	4.73
Net income for the year		<b>10.19</b>	4.42

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**ALINMA INVESTMENT COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**Statement of cash flows**  
**For the year ended December 31, 2017**  
All amounts in Saudi Riyals thousands unless otherwise stated

	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Income before zakat		253,771	118,274
<b>Adjustments for:</b>			
Depreciation	12	707	479
Unrealized loss (gain) on held for trading investments		(600)	(356)
Employee termination benefits, net		2,022	1,615
<b>Changes in operating assets and liabilities:</b>			
Portfolio financing		(39,990)	2,396
Prepayments and other assets		(62,204)	(67,542)
Due to an affiliate		25,936	-
Accrued expenses and other liabilities		5,614	4,310
Net cash from operations		185,256	59,176
Zakat paid	14	(4,959)	-
<b>Net cash generated from operating activities</b>		<b>180,297</b>	<b>59,176</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investment properties, net	9	(80,372)	-
Investment in a Finance lease, net		(72,403)	-
Disposal of held for trading investments		2,401	922
Available for sale investments, net		(27,132)	(66,958)
Purchase of property and equipment, net		(6,641)	(1,657)
<b>Net cash used in investing activities</b>		<b>(184,207)</b>	<b>(67,693)</b>
<b>Net change in cash and cash equivalents</b>		<b>(3,910)</b>	<b>(8,517)</b>
Cash and cash equivalents at beginning of the year		63,508	72,025
<b>Cash and cash equivalents at end of the year</b>	4	<b>59,598</b>	<b>63,508</b>
<b>Supplemental non-cash information:</b>			
Net change in fair value of available for sale investments		3,704	(7,645)

The accompanying notes on pages from 7 to 20 form an integral part of these financial statements.

**ALINMA INVESTMENT COMPANY**  
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**Statement of changes in shareholder's equity**  
**For the year ended December 31, 2017**  
All amounts in Saudi Riyals thousands unless otherwise stated

	Share capital	Statutory reserve	Retained earnings	Fair value reserve for available for sale investments	Total
Balance as at January 1, 2017	250,000	17,892	102,373	9,604	379,869
Net income for the year	-	-	254,727	-	254,727
Transfer from retained earnings to statutory reserve	-	25,473	(25,473)	-	-
Net change during the year	-	-	-	3,704	3,704
<b>Balance as at December 31, 2017</b>	<b>250,000</b>	<b>43,365</b>	<b>331,627</b>	<b>13,308</b>	<b>638,300</b>
Balance as at January 1, 2016	250,000	6,831	2,825	17,249	276,905
Net income for the year	-	-	110,609	-	110,609
Transfer from retained earnings to statutory reserve	-	11,061	(11,061)	-	-
Net change during the year	-	-	-	(7,645)	(7,645)
<b>Balance as at December 31, 2016</b>	<b>250,000</b>	<b>17,892</b>	<b>102,373</b>	<b>9,604</b>	<b>379,869</b>

The accompanying notes on pages from 7 to 20 form an integral part of these financial statements.



**ALINMA INVESTMENT COMPANY**  
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**Notes to the financial statements**  
**For the year ended December 31, 2017 and 2016**  
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**1 General**

Alinma Investment Company (the "Company") is a Saudi Closed Joint Stock Company established pursuant to ministerial resolution number 183 dated 7 Jumad Thani 1430H (corresponding to May 31, 2009) and registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010269764 dated 23 Jumad Thani 1430H (corresponding to June 16, 2009). The Company is fully owned by Alinma Bank, a Saudi Listed Joint Stock Company ("the principal shareholder").

The principal activities of the Company are to deal as principal, agent, managing, arranging, advising and custody as licensed by the Capital Market Authority ("CMA") under license number 09134-37 dated 23 Rabi Thani 1430H (corresponding to April 19, 2009).

The Company's registered office is located at:

Al-Anoud Tower, Building No. 2  
King Fahd Road  
P.O. Box 66333  
Riyadh 11576  
Kingdom of Saudi Arabia

The Company commenced providing investment services pursuant to commencement letter issued by CMA on 2 Safar 1431H (corresponding to January 17, 2010).

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**2.1 Basis of preparation**

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, except for the measurement of held for trading investments and available for sale investments which are carried at fair value, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

**2.2 Use of estimates and judgment**

The preparation of financial statements in conformity with accounting standards promulgated by SOCPA requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future which may not equal the actual results.

**2.3 Foreign currencies**

**(a) Functional and presentation currency**

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

**(b) Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

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**2.4 Cash and cash equivalents**

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date, if any.

**2.5 Receivables against portfolio financing**

Portfolio financing represent Shariah compliant products in the form of Murabaha agreements which are stated at amortized cost less allowance for doubtful receivables.

Receivable against portfolio financing are initially recognized when underlying asset is transferred to customers. They are derecognized when customers repay their obligations. The Company in the ordinary course of business holds shares as collateral to mitigate credit risk on such receivables.

**2.6 Investments**

All investment securities are initially recognized at cost being the fair value of the consideration given include acquisition charges associated with the investment.

Premiums are amortized and discounts accreted using the effective yield method and are taken to dividends and profit from investments.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

The subsequent reporting values for each class of investment are determined as follows:

Held for trading investments

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in short-term.

After initial recognition, held for trading investments are measured at fair value and any unrealized gain or loss arising from a change in its fair value is recognized in the statement of income. Fair value is determined by reference to market value.

Where partial holdings are sold, the investments sold are accounted for on a weighted average basis.

Available for sale investments

Available for sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the balance sheet date. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- (i) Fair values of quoted securities are based on available market prices at the reporting date adjusted for any restriction on the transfer or sale of such investments; and
- (ii) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of other similar quoted investment securities or is based on the expected discounted cash flows. If no similar quoted investment securities are available then these are carried at cost.

Cumulative adjustments arising from revaluation of these investments are reported as separate component of equity until the investment is disposed of. Decline other than temporary is recognized in the statement of income when arises. On derecognition, any cumulative gain or loss previously recognized in shareholder's equity is included in the statement of income.

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**2.7 Investment property**

Investment property is potentially held to earn rentals or for capital appreciation rather than for use for the Company purposes. Investment property is carried at cost less accumulated depreciation, if any, except for land which is carried at cost.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in statement of income.

**2.8 Property and equipment**

Property and equipment are carried at cost less accumulated depreciation, Depreciation is charged to the statement of income, using the straight-line method, to allocate the costs of the related assets to their residual values as scrap over the estimated useful lives:

	<u>Years</u>
Furniture and fixtures	5
Computer hardware	3
Office equipment	5
Core banking and infrastructure	10

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of income as and when incurred, Major renewals and improvements, if any, are capitalised and the assets so replaced are retired.

**2.9 Intangible assets**

Intangible assets are recorded at cost net of accumulated amortization. These costs are amortized over a period of 5 – 10 years. Amortization is charged to the statement of income on a straight-line basis. The intangible assets mainly comprise of computer software.

**2.10 Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever cases or changes in circumstances indicate that the carrying amount may not be recoverable, An impairment losses are recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use, For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units), Non-current assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date, Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognised for the assets or cash-generating unit in prior periods/ years, A reversal of an impairment loss is recognised as income immediately in the statement of income, Impairment losses recognised on goodwill are not reversible.

**2.11 Accounts payable and accruals**

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

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**2.12 Provisions**

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

**2.13 Zakat and taxes**

In accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"), the Company is subject to zakat.

Zakat

Zakat is calculated on higher of estimated zakat base and adjusted net income and charged to statement of income. Any differences between the provision and the final assessment are recorded at the approval of the final assessment when the provision is settled.

Withholding taxes

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

**2.14 Employee termination benefits**

Employee termination benefits required by Saudi Labour Law are accrued by the Company and charged to the statement of income. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date, Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

**2.15 Revenue recognition**

Brokerage commission is recognized when the deal is executed. Brokerage commission on local shares is recognized net of Tadawul commission and rebates allowed to the customers.

Fee from managing assets (including mutual funds) is recognised when the services have been rendered.

Subscription fee is recognised upon subscription to the fund. These fees are recognised net of related expenses.

Fee from investment banking services is recognised when the related services have been rendered net of related expenses.

Underwriting fees are recognized when the Company has rendered all services to the issuer and is entitled to collect the fee from the issuer with no contingencies associated with the fees. Underwriting revenues are presented net of transaction-related expenses.

Income from margin financing facilities is recognized on a time proportionate basis taking account of the principal outstanding and the rate applicable.

Custody fee is received upfront and amortised over the period of the service (deferred income).

Dividend from investments is recognised when earned or publically declared by the investee.

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**2.16 General and administrative expenses**

All expenses, excluding direct costs are classified as general and administration expenses.

**2.17 Operating leases**

Lease expenses related to operating leases are charged to the statement of income over the lease term. Rental income is recognised on the accruals basis in accordance with the terms of the contracts.

**2.18 Assets held under fiduciary capacity**

Assets held under fiduciary capacity are not treated as assets of the Company and are accordingly treated as off-balance sheet items.

**2.19 Segment information**

a) Business segment

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

**3 Financial instruments and risk management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value risk, and commission rate risk and price 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.

Financial instruments carried on the balance sheet include cash and cash equivalents, investments, receivables against portfolio financing, payable to an affiliate accrued expenses and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and financial liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to off-set the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**3.1 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. For the Company, the financial assets which are potentially subject to credit risk consist principally of cash and cash equivalents. Cash is placed with the principal shareholder which is a bank having sound credit ratings.

**3.2 Commission rate risk**

Commission rate risk is the uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period.

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The Company's management monitors the fluctuations in commission rates on regular basis to minimize commission rate risk.

**3.3 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may also result from the 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 to meet any current and future financial commitments as and when they fall due. As at December 31, 2017 and 2016, all financial liabilities were current in nature.

**3.4 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Company's does not have any significant foreign currency exposure as transactions are principally carried out in Saudi Riyals. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

**3.5 Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company is exposed to market risk with respect to its investments. The Company limits market risks by diversification of its investments and monitoring continuously the developments in the stock and international funds markets. In addition, the key factors that affect the stock and bond market movements are monitored including analysis of the operational and financial performance of investees.

**3.6 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. As the Company's financial instruments are compiled under the historical cost convention, except for investments carried at fair value, differences can arise between the book values and the fair value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

**4 Cash and cash equivalents**

Cash and cash equivalents as at December 31, 2017, and 2016 represent cash deposited in a local bank (note 20).

**5 Receivables against portfolio financing**

The Company extends portfolio financing facilities to its customers to invest in the Saudi Stock Exchange, international stock exchanges and investment funds. These facilities represent shariah compliant murabaha financing which are collateralized by underlying equities and cash held in customer investment account amounting to Saudi Riyals 240 million as at December 31, 2017 (2016: Saudi Riyals 68 million). These facilities are extended up to a maximum period of one year and bear fixed commission rates.

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**6 Prepayments and other assets**

	2017	2016
Accrued management fees	118,088	70,372
Investment banking fees receivables	38,728	3,410
Prepayments	2,277	3,276
Employee advances	1,143	1,772
Receivable against disposal of investment	-	13,244
Other receivables	1,569	7,527
<b>Total</b>	<b>161,805</b>	<b>99,601</b>

**7 Held for trading investments**

	2017	2016
Mutual funds	3,205	4,400
Listed equities	2,149	2,755
	<b>5,354</b>	<b>7,155</b>

**8 Available for sale investments**

2017	Cost	Unrealized gain	Fair value
Mutual funds (a)	93,184	8,460	101,644
Private fund (b)	115,381	4,848	120,229
Sukuk (c)	38,066	-	38,066
Other	2	-	2
	<b>246,633</b>	<b>13,308</b>	<b>259,941</b>
<b>2016</b>			
Mutual funds (a)	91,428	8,398	99,826
Private fund (b)	88,900	1,206	90,106
Sukuk (c)	39,171	-	39,171
Other	2	-	2
	<b>219,501</b>	<b>9,604</b>	<b>229,105</b>

(a) This includes investment in two local funds managed by the Company.

(b) This includes investment in local private funds. Investment in these private funds are valued using the net assets value (NAV) of the respective funds as at the end of the reporting date. The NAV is calculated with reference to fair value of underlying assets and takes into consideration number of factors, including area and the type of the property and valuation techniques using significant unobservable inputs, including financial and fragmentation plot analysis, market comparison model, residual value method, among others.

(c) Sukuk is recorded at cost, being the best estimate of the fair value as reliable estimate of the fair value cannot be established by other means.

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**9 Investment properties**

During 2017 the company has acquired two school properties as follows:

1. During February 2017, the Company entered into a transaction with Alinma Education Fund, which is managed by the Company, to purchase land and building located in Qortuba district in Riyadh for a total consideration of Saudi Riyals 102 million. Subsequently, the Company entered into a leasing arrangement with Amjad Qurtuba Education Services for the school building (refer Note 10). The closing balance as at December 31, 2017 represents the value of land purchased.
2. During the year, the Company purchases land and building of Al-Manhaj school located in Al-Gahdeer district in Riyadh from Naba Educational Company for a total consideration of Saudi Riyals 50 million. This property was subsequently leased back to Naba Educational Company for a period of 15 years extendable for another 10 years. The rental payments are due on semi-annual basis amounting to Saudi Riyals 14 million. The Company has performed an assessment of the transaction based on the terms of the lease back arrangement and has concluded it to be an operating lease.

The book value of investment property as of December 31, 2017 amounts to Saudi Riyals 80.372 million (2016: Nil). The investment properties are currently recorded at cost as management believes the impact of depreciation on these properties from the date of acquisition till the balance sheet date is not material.

**10 Net investment in a finance lease**

During the year, the Company purchased a property, which consists of land and school building, from Alinma Education Fund (the "Seller") for an amount of Saudi Riyals 102 million. As per the terms of the sale agreement, Saudi Riyals 73 million was paid at the time of signing of the agreement and the remaining is payable over a period of 9 years in equal annual installments of Saudi Riyals 3.24 million. The Seller as per the sale agreement has the right, upon his request, to require the company to immediately pay the remaining amount of the sale consideration. Hence, this amount has been classified as a current liability.

Subsequent to the purchase, the Company entered into a leasing arrangement with Amjad Qurtuba Education Services for the lease of the school building for a period of 15 years with an option to extend the arrangement for further 10 years. The lease rentals are due in semi-annual installments starting from February 1, 2017. The amount of future lease rentals under the arrangement at December 31, was as follows:

	<b>2017</b>	<b>2016</b>
Lease receivable	<b>156,897</b>	-
Residual value	-	-
Gross investment in finance lease	<b>156,897</b>	-
Unearned finance lease income	<b>(84,434)</b>	-
Net investment in finance lease	<b>72,463</b>	-
Current maturity	<b>(4,864)</b>	-
	<b>67,599</b>	-



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The maturity of the gross investment in finance lease (i.e. minimum lease payments ("MLPs") and net investment in a finance lease (i.e. present value of MLPs) as of December 31, 2017 is as follows:

	MLPs	PV of MLPs
Not later than one year	5,322	4,864
Later than one year but not later than five years	17,735	17,735
Later than five years	133,840	49,864
	<u>156,897</u>	<u>72,463</u>

The Company's implicit rate of return on the finance lease is approximately 7.34% per annum.

**11 Capital work in progress**

	2017	2016
January 1	1,165	807
Additions during the year	5,932	1,464
Transfers to property and equipment during the year	(469)	(1,106)
	<u>6,628</u>	<u>1,165</u>

Capital work in progress pertains to progress payments made to a contractor in connection with the implementation of software.

**12 Property and equipment**

	Furniture and fixtures	Computer hardware	Office equipment	Core banking and infrastructure	Computer software	Total
<b>Cost</b>						
January 1, 2017	3,167	54	343	637	469	4,670
Additions	620	63	26	-	-	709
Transfers from capital work in progress	-	-	-	-	469	469
December 31, 2017	<u>3,787</u>	<u>117</u>	<u>369</u>	<u>637</u>	<u>938</u>	<u>5,848</u>
<b>Accumulated depreciation/amortization</b>						
January 1, 2017	682	8	65	-	137	892
Additions	356	12	39	56	244	707
December 31, 2017	<u>1,038</u>	<u>20</u>	<u>104</u>	<u>56</u>	<u>381</u>	<u>1,599</u>
<b>Net book value</b>						
December 31, 2017	<u>2,749</u>	<u>97</u>	<u>265</u>	<u>581</u>	<u>557</u>	<u>4,249</u>

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	<b>Furniture and fixtures</b>	<b>Computer hardware</b>	<b>Office equipment</b>	<b>Core banking and infrastructure</b>	<b>Computer software</b>	<b>Total</b>
<b>Cost</b>						
January 1, 2016	3,000	28	343	-	-	3,371
Additions	167	26	-	-	-	193
Transfers from capital work in progress	-	-	-	637	469	1,106
December 31, 2016	<u>3,167</u>	<u>54</u>	<u>343</u>	<u>637</u>	<u>469</u>	<u>4,670</u>
<b>Accumulated depreciation/amortization</b>						
January 1, 2016	380	2	31	-	-	413
Additions	302	6	34	-	137	479
December 31, 2016	<u>682</u>	<u>8</u>	<u>65</u>	<u>-</u>	<u>137</u>	<u>892</u>
<b>Net book value December 31, 2016</b>	<u>2,485</u>	<u>46</u>	<u>278</u>	<u>637</u>	<u>332</u>	<u>3,778</u>

**13 Accrued expenses and other liabilities**

	<b>2017</b>	<b>2016</b>
Accrued fees (a)	<b>24,016</b>	22,360
Employees related accruals	<b>12,943</b>	8,000
Others	<b>1,368</b>	2,353
	<u><b>38,327</b></u>	<u>32,713</u>

a) Accrued fee includes referral fee payable to the principal shareholder as detailed in note 20.

**14 Zakat**

**14.1 Movement in provision**

The movement in zakat provision for the year ended December 31 was as follows:

	<b>2017</b>	<b>2016</b>
At the beginning of the year	<b>12,465</b>	4,800
(Reversal) / provision	<b>(956)</b>	7,665
Payments	<b>(4,959)</b>	-
At the end of the year	<u><b>6,550</b></u>	<u>12,465</u>

**14.2 Status of assessments**

As the Company is a wholly owned subsidiary of Alinma Bank ("Bank"), and in accordance with Ministerial Resolution number 1005 dated 28 Rabi Al Thani 1428H (corresponding to 15 May 2007) a consolidated zakat declaration is being filed by the Bank from year ended December 31, 2011 with the General Authority for Zakat and Tax (the "GAZT"). The Bank has received zakat assessment for the years 2009 to 2015 with no additional zakat liability with respect to the Company. Prior to 2011, the Company was filing zakat declaration on an individual basis.

During the year, the Company reassessed the zakat calculation with the Bank and agreed to calculate the zakat based on net income basis. Accordingly the Company reversed the excess provision related to 2016 that was calculated based on the asset base.

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**15 Employee termination benefits**

	2017	2016
January 1	6,071	4,456
Charge during the year	2,237	2,673
Payments made during the year	(215)	(1,058)
December 31	<u>8,093</u>	<u>6,071</u>

**16 Share capital**

The Company's authorised share capital consists of 100 million shares (2016: 100 million shares) of Saudi Riyals 10 each. As at December 31, 2017, 25 million (December 31, 2016: 25 million) shares of Saudi Riyals each have been fully paid up. The Company's ownership structure is set out below:

Shareholders	Country of origin	2017		2016	
		Number of shares	Share capital	Number of shares	Share capital
Alinma Bank	Saudi Arabia	25,000	250,000	25,000	250,000

**17 Statutory reserve**

Under the Company's By-Laws and the previous Companies Regulations, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This reserve currently is not available for distribution to the shareholder of the Company, On May 6, 2016, according to the provision of the new Regulations of Companies, the percentage changed to 30%, The Company amended its By-Laws to the new percentage.

**18 Personnel expenses**

	2017	2016
Staff compensations	49,259	40,439
Social insurance	2,875	2,241
End of service indemnity	2,237	2,673
Staff medical expenses	1,901	1,708
Others	2,413	2,884
	<u>58,685</u>	<u>49,945</u>

**19 Other general and administrative expenses**

	2017	2016
Information technology maintenance and support expenses	7,953	6,640
Administrative charges (note 20)	4,013	4,226
Professional fees	1,641	887
Advertisement	1,631	1,025
Depreciation (note 12)	707	479
Professional indemnity insurance	317	-
Subscription and associations	217	467
Others	1,685	2,976
	<u>18,164</u>	<u>16,700</u>

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**20 Related party transactions and balances**

In the ordinary course of business, the Company enters into transactions with related parties, which are based on prices and contract terms approved by the Company's management. During the year, the Company undertook transactions only with the Principal Shareholder.

The following are the details of major related party transactions during the year and resulting balances at the end of the year:

Description	Balance of related party as at December 31,	
	2017	2016
Current accounts (note 4)	59,598	63,508
Referral fee payable (note 13)	23,766	22,360
Investment in funds managed by the Company	157,376	140,292
Due from related parties	1,753	-
<b>Nature of transactions</b>		
<u>Income</u>		
Management fee on Funds managed by the Company	283,726	186,801
Income received on Wakala Management	3,144	958
Brokerage commission	4,687	3,756
<u>Expense</u>		
Brokerage commission refund	(2,363)	(2,629)
Administrative charges (refer to note (a) below)	(4,013)	(4,226)
Share of management fee from real estate funds (refer to note (b) below)	(32,954)	(44,080)
Board allowance	(135)	(947)

- Some of the IT related assets are not owned by the Company. The principal shareholder has provided those facilities and charges the depreciation cost and financing cost on the equipment provided.
- The Company shares the management fees earned on certain real estate funds with the Corporate Banking Group of the Principal Shareholder as referral fees in accordance with the agreement between them.

**21 Assets held under fiduciary capacity**

The assets held under fiduciary capacity by the Company as at December 31, 2017 includes cash held, DPMs and investment in real estate funds which amounts to Saudi Riyals 33,998 million (2016: Saudi Riyals 25,728 million).

As at December 31, 2017, cash held under fiduciary capacity amounted to Saudi Riyals 1,182 million (2016: Saudi Riyals 1,093 million). These amounts were kept with the Company by its customers for the purpose of investment in the local, international equity markets and mutual funds.

**22 Capital adequacy**

The Company's objectives when managing capital are, to comply with the capital requirements set by the CMA to safeguard the Company's ability to continue as a going concern; and to maintain a strong capital base.

In accordance with Article 74(b) of the Prudential Rules issued by the CMA (the Rules), given below are the disclosures of the capital base, minimum capital requirement and total capital ratio as at December 31, 2017 and 2016:

Capital Base:	2017	2016
Tier 1 Capital	624,392	370,265
Tier 2 Capital	13,308	9,604
<b>Total Capital Base</b>	<b>637,700</b>	<b>379,869</b>

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**Minimum Capital Requirement:**

Market Risk	900	1,465
Credit Risk	268,364	160,398
Operational Risk	32,487	20,248
<b>Total Minimum Capital Required</b>	<b>301,751</b>	<b>182,111</b>

**Capital Adequacy Ratio:**

Total Capital Ratio (times)	2.11	2.09
Surplus in Capital	335,949	197,758

- The above information has been extracted from the Company's annual Capital Adequacy Model for December 31, 2017 to be submitted to CMA and for December 31, 2016 as submitted to the CMA.
- The Capital Base consists of Tier 1 Capital and Tier 2 Capital calculated as per Article 4 and 5 of the Rules respectively. The Minimum Capital Requirements for Market, Credit & Operational Risk are calculated as per the requirements specified in Part 3 of the Rules.
- The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.
- Certain information as required by Pillar III of the Prudential Rules will be made available to the public on the Company's website, however, this information is not subject to review or audit by the external auditors of the Company.

**23 Segment information**

The Company is organized into the following main operating segments:

- Brokerage activities include engagement in trading securities, whether as principal or agent.
- Asset management activities include managing funds and securities belonging to another person in circumstances involving the exercise of discretion.
- Investment banking activities include managing the subscription of securities.
- Proprietary capital activities include management of available for sale investments as well as murabaha deposits with local banks.
- Others represent assets, liabilities, operating income or expenses of the Company, which have not been allocated to the above segments.

	Brokerage activities	Asset management activities	Investment banking activities	Proprietary capital activities	Others	Total
<b>2017</b>						
Total assets	-	-	-	555,339	161,867	717,206
Total liabilities	2,918	3,129	1,778	6,973	64,108	78,906
Total operating income	18,270	250,772	37,686	24,882	-	331,610
Total expenses, including zakat	(19,175)	(10,685)	(6,495)	(604)	(39,924)	(76,883)
Net income / (loss)	(905)	240,087	31,191	24,278	(39,924)	254,727
<b>2016</b>						
Total assets	-	-	-	345,192	85,926	431,118
Total liabilities	892	962	543	13,094	35,758	51,249
Total operating income	22,965	142,103	8,440	12,231	-	185,739
Total expenses, including zakat	(16,966)	(9,198)	(5,611)	(9,027)	(34,328)	(75,130)
Net income / (loss)	5,999	132,905	2,829	3,204	(34,328)	110,609

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**24 Earnings per share**

Earnings per share attributable to income from main operations and net income for the year is calculated by dividing the income from main operations and net income for the year, respectively, by the weighted average number of shares outstanding at the year end of 25,000,000 shares (2016: 25,000,000 shares).

**25 Contingencies and commitments**

The Company did not have any contingencies or commitments as at December 31, 2017 and 2016.

**26 Comparative figures**

Certain reclassifications have been made in comparative figures to conform with the current year's presentation.

**27 Approval of financial statements**

These financial statements have been approved by the Board of Directors on March 29, 2018.