ALJAZIRA CAPITAL COMPANY

(A Saudi Closed Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

together with the

INDEPENDENT AUDITORS' REPORT

KPMG Al Fozan & Partners
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Licence No. 46/11/323 issued 11/3/1992

Independent auditors' report

To the Shareholders of
AlJazira Capital Company
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of **AlJazira Capital Company** ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated 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 consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated 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 Consolidated Financial Statements.

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 **AlJazira Capital Company** ("the Company") and its subsidiaries (collectively referred to as "the Group").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

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

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46 س.ت.م رقم ٤٦
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

(Saudi Riyal in thousands)

	Notes	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	4	**27,240**	223,188
Held for trading investments	5	**80,121**	114,494
Margin finance receivables	6	**1,325,681**	--
Murabaha deposits	8	**--**	300,000
Accrued special commission income	8	**--**	8,787
Investment in real estate properties	10	**23,094**	28,404
Prepayments and other current assets	11	**32,718**	30,338
Total current assets		**1,488,854**	705,211
Non-current assets			
Murabaha deposits	8	**--**	100,000
Available-for-sale investments	9	**47,950**	52,588
Accrued special commission income	8	**--**	2,766
Property and equipment, net	12	**47,829**	52,121
Total non-current assets		**95,779**	207,475
TOTAL ASSETS		**1,584,633**	912,686
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	13	**656,110**	--
Due to related parties	7	**23,034**	23,493
Accrued expenses and other current liabilities	14	**22,883**	28,037
Accrued Zakat and income tax	15c	**29,408**	35,506
Subsidiary's equity obligations	2e	**45,682**	53,936
Total current liabilities		**777,117**	140,972
Non-current liabilities			
Provision for employees' end of service benefits		**44,567**	41,841
Total non-current liabilities		**44,567**	41,841
TOTAL LIABILITIES		**821,684**	182,813
Equity attributable to the Company's shareholder			
Share capital	16	**500,000**	500,000
Statutory reserve		**89,232**	85,964
Retained earnings		**143,267**	108,821
Fair value reserve	9	**30,450**	35,088
Total equity attributable to the Company's shareholder		**762,949**	729,873
TOTAL LIABILITIES AND EQUITY		**1,584,633**	912,686

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

(Saudi Riyal in thousands)

	Notes	**2017**	2016
REVENUES			
Brokerage fees - net		**74,531**	109,560
Asset management fees		**38,092**	23,287
Margin finance income	*18*	**57,977**	41,347
Trading income, net	*19*	**12,731**	6,398
(Loss) / gain on disposal of real estate properties		**(260)**	1,246
Dividend income		**4,501**	3,911
Investment banking services fees		**1,474**	2,930
Total revenues		**189,046**	188,679
OPERATING EXPENSES			
Salaries and employee related expenses		**83,349**	90,201
Rent and premises related expenses	*7,22*	**9,355**	9,355
Depreciation	*12*	**8,111**	7,076
Other general and administrative expenses	*21*	**46,227**	46,807
Total operating expenses		**147,042**	153,439
OPERATING INCOME		**42,004**	35,240
Special commission income	7	**1,137**	11,809
Other income / (expense)	*20*	**1,357**	(64)
Special commission expense	7	**(7,142)**	--
Income attributable to subsidiary's equity obligations – net		**(4,676)**	(3,060)
NET INCOME FOR THE YEAR		**32,680**	43,925
Weighted average number of shares	16	**50,000**	50,000
Earnings per share from:	*17*		
Operating income		***0.84***	*0.70*
Net income		***0.65***	*0.88*

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

(Saudi Riyal in thousands)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		**32,680**	43,925
Adjustments to reconcile net income for the year to net cash from operating activities:			
Depreciation	*12*	**8,111**	7,076
Unrealized loss / (gain) on investments held for trading	*19*	**1,967**	(9,225)
Loss / (gain) on disposal of property and equipment, net	*20*	**38**	(17)
Provision for employees' end of service benefits		**4,671**	4,740
Property and equipment written off		**24**	--
		47,491	46,499
Changes in operating assets and liabilities:			
Held for trading investments		**32,406**	123,495
Margin finance receivables		**(1,325,681)**	--
Due from related parties		**--**	4,402
Investment in real estate properties		**5,310**	5,222
Accrued special commission income		**11,553**	(11,047)
Prepayments and other current assets		**(2,380)**	(2,364)
Due to related parties		**(555)**	21,830
Accrued expenses and other current liabilities		**(5,154)**	(4,244)
		(1,237,010)	183,793
Employees' end of service benefits paid		**(1,945)**	(4,122)
Zakat paid		**(968)**	(2,643)
Net cash (used in) / generated from operating activities		**(1,239,923)**	177,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Murabaha deposits matured		**400,000**	--
Purchase of property and equipment, net	*12*	**(3,891)**	(10,729)
Proceeds from disposal of property and equipment		**10**	42
Net cash generated from / (used in) investing activities		**396,119**	(10,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term borrowings		**656,110**	--
Subsidiary equity obligations		**(8,254)**	18,111
Net cash generated from financing activities		**647,856**	18,111
Net (decrease) / increase in cash and cash equivalents		**(195,948)**	184,452
Cash and cash equivalents at beginning of the year		**223,188**	38,736
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*4*	**27,240**	223,188
Non – cash items			
Zakat and income tax charged to shareholder's equity		**(5,034)**	33,251
Net change in fair value of available-for-sale investments		**(4,638)**	(6,195)
Transfer of charity payable to Bank AlJazira		**266**	100

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

(Saudi Riyal in thousands)

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

	Notes	Equity attributable to Company's shareholder				
		Share capital	**Statutory reserve**	**Retained earnings**	**Fair value reserves**	**Total**
Balance as at 1 January 2016		500,000	81,571	102,540	41,283	725,394
Net income for the year		--	--	43,925	--	43,925
Transfer to statutory reserve		--	4,393	(4,393)	--	--
Zakat and income tax provision	*15*	--	--	(33,251)	--	(33,251)
Net change in fair value		--	--	--	(6,195)	(6,195)
Balance as at 31 December 2016		**500,000**	**85,964**	**108,821**	**35,088**	**729,873**
Net income for the year		**--**	**--**	**32,680**	**--**	**32,680**
Transfer to statutory reserve		**--**	**3,268**	**(3,268)**	**--**	**--**
Zakat and income tax provision	*15*	**--**	**--**	**5,034**	**--**	**5,034**
Net change in fair value		**--**	**--**	**--**	**(4,638)**	**(4,638)**
Balance as at 31 December 2017		**500,000**	**89,232**	**143,267**	**30,450**	**762,949**

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

1. ORGANIZATION AND ACTIVITIES

1.1 AlJazira Capital Company ("the Company") is a Saudi Closed Joint Stock Company incorporated under Ministerial Resolution No. S/57 dated 20 Safar 1429H (corresponding to 27 February 2008) and was operating under commercial registration number 4030177603 dated 17 Rabi Awal 1429H (corresponding to 25 March 2008). During the year 2011, the commercial registration number of the Company was changed due to the relocation of the Head Office from Jeddah to Riyadh and it is now registered under commercial registration number 1010351313 dated 13 Dhul-Qadah 1433H (corresponding to 29 September 2012) with a Branch in Jeddah.

The Company is licensed as a financial services company regulated by the Capital Market Authority ("the CMA"). The Company is engaged in dealing, arranging, managing, advising and carrying out custody activities in accordance with the CMA Resolution no. 2-38-2007 dated 8 Rajab 1428H, corresponding to 22 July 2007 and license number 07076-37.

The Company commenced operations on 5 April 2008, by taking over the brokerage division of Bank AlJazira ("the Bank").

The registered address of the Company is:

AlJazira Capital
King Fahad Road
P.O. Box 20438
Riyadh 11455
Kingdom of Saudi Arabia

The subsidiaries included in these consolidated financial statements are as follows:

Name of subsidiary	Country of incorporation	Ownership percentage	
		2017	2016
AlJazira Residential Projects Fund	Kingdom of Saudi Arabia	**43.64%**	43.34%
AlJazira Global Emerging Markets Fund	Kingdom of Saudi Arabia	**48.13%**	70.44%
AlJazira GCC Income Fund	Kingdom of Saudi Arabia	**--**	45.51%
AlJazira Diversified Conservative Fund	Kingdom of Saudi Arabia	**--**	78.43%

Although the Company's ownership in AlJazira Residential Projects Fund and AlJazira Global Emerging Markets Fund is less than 50%, they are considered as subsidiaries since the Company, being the fund manager, has the power to direct the financial and operational policies of these Funds and to obtain benefits from their activities, as included in the Funds' terms and conditions.

During 2017, the Company fully redeemed its investment in the units of AlJazira GCC Income Fund and AlJazira Diversified Conservative Fund. The investment in AlJazira Global Emerging Markets Fund was reduced from 70.44% as at 31 December 2016 to 48.13% as at 31 December 2017.

1.2 Closure of AlJazira Residential Projects Fund

AlJazira Residential Projects Fund (the "Fund") had an original closure date of 23 January 2015, which was extendable up to 23 January 2016 by the Fund Manager. The Fund Manager initially exercised such extension option and applied for a further extension of the Fund's term up to 24 July 2016, which was rejected by the CMA through its letter dated 14 Sha'aban 1437H (corresponding to 21 May 2016). In the rejection letter, the CMA required the Fund Manager 1) to notify the unit holders of the Fund's situation and the reasons for delay in liquidation and 2) to submit monthly status reports to the concerned department of the CMA. The Fund Manager notified the unit holders through its letter dated 31 May 2016 and explained that the Fund Manager was unable to liquidate its real estate properties due to difficult market conditions and, therefore requires continuation of operations until the sale/disposal of the Fund's real estate properties. Accordingly, there is a material uncertainty regarding the validity of the going concern assumption of the Fund. Assets of the Fund have been stated at the lower of cost and net realizable values while liabilities are stated at the amounts at which they are expected to be discharged; this accounting treatment does not have a significant impact on these consolidated financial statements.

1. ORGANIZATION AND ACTIVITIES (CONTINUED)

1.2 Closure of AlJazira Residential Projects Fund (Continued)

Assets and liabilities of the Fund, based on the Fund's audited financial statements as of 31 December 2017, included in these consolidated financial statements are summarized below:

	Note	**2017**	2016
Investment in real estate properties	*10*	**23,094**	28,404
Total assets		**28,799**	29,384
Total liabilities		**9,462**	9,537

Income and expenses related to the Fund included in these consolidated financial statements are summarized below:

	2017	2016
(Loss) / gain on disposal of real estate properties	**(260)**	1,246
Total income, net	**(243)**	1,321
Total expenses	**114**	252

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

b. Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for investments held for trading and available-for-sale investments, which are measured at fair value, using the accrual basis of accounting and the going concern concept.

c. Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional and reporting currency of the Company.

d. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries referred to in note 1.1 (together referred as 'the Group'). The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

A subsidiary is an entity over which the Company has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than half of the voting rights. A subsidiary is consolidated from the date on which control is transferred to the Company and ceases to be consolidated from the date on which the control is transferred from the Company.

All significant intra group transactions and balances have been eliminated upon consolidation.

2. BASIS OF PREPARATION (CONTINUED)

e. Subsidiary equity obligations

Subsidiary equity obligations represent the interest of other unit holders in subsidiary funds, and are classified as current liabilities, and recorded at fair value in these consolidated financial statements.

f. Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgments, 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. Significant areas where management has used estimates, assumptions or exercised judgement are disclosed in note 3 (i) of these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

a. Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank, cash in hand and short term highly liquid investments with an original maturity of three months or less, which are available to the Group without any restrictions.

b. Investments

Investment held for trading

An investment is classified as held for trading if it is purchased for the purpose of resale in the short term. Investments held for trading are initially recorded at cost on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the investment. Upon initial recognition, attributable transaction costs are recognised in the consolidated statement of income when incurred. Subsequent to initial recognition, these investments are measured at fair value and changes therein are recognised in the consolidated statement of income.

Available for sale investments (AFS)

Available-for-sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These investments 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 value of the available for sales investments, if any, is charged to the consolidated statement of income as impairment losses. The fair value of these investments is determined by reference to quoted market bid prices at the close of business on the consolidated balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held to maturity investments

Investments having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investment in real estate properties

Investment in real estate properties represents real estate properties held by a subsidiary for development purposes. Investment in real estate properties are stated at the lower of cost and net realizable values. Development expenses, developer fees, and the project consultant engineer fees incurred to date are capitalised and included in the carrying value of the real estate properties.

c. Margin finance receivables

Margin finance receivables are initially recognized when the 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.

Margin finance receivables are carried at amortized cost less provision for credit losses, if any.

d. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Capital work in progress is not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Subsequent expenditures that increase the value or materially extend the life of the related assets are capitalized and amortized on a straight-line basis over the shorter of the useful life of the improvement or the remaining term of the lease. Expenditures for repair and maintenance are charged to the consolidated statement of income.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

The estimated useful lives of the assets are as follows:

Leasehold improvements	Over the lease period or 20 years, whichever is shorter
Furniture, fixtures and office equipment	4-10 years
Motor vehicles	4 years

e. Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

f. Financial liabilities

All non-derivative financial liabilities comprising of borrowings, trade and other payables are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the consolidated 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.

h. Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

i. Impairment and un-collectability of financial assets

Impairment of available for sale investments

The management exercises judgment to calculate the impairment loss of available-for-sale investments as well as their underlying assets. This includes the assessments of objective evidence which causes an other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investments below its cost is considered objective evidence of impairment. The determination of what is "significant and prolonged" requires judgment. The management also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Management considers 20% or more as a reasonable measure for significant decline below its cost. Any such decline is recognized in the consolidated statement of income as impairment charge on investments. A prolonged decline represents a decline below cost that persists for nine months or longer; any such decline is recognized in the consolidated statement of income as impairment charge on investments. Any previously recognized impairment losses in respect of equity investments cannot be reversed through the consolidated statement of income.

Impairment of held to maturity investments

Impairment losses on held to maturity investments are measured as the difference between the carrying cost and the present value of estimated future cash flows. Impairment losses are recognised in the consolidated statement of income as impairment loss on held to maturity investments. If the amount of impairment loss is subsequently decreased and the decrease can be related objectively to an event resulting in recognition of impairment loss, then the previously recognized impairment loss is reversed through consolidated statement of income.

Impairment of non-financial assets

Other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

j. Assets held in trust or in a fiduciary capacity

Assets held in trust or in a fiduciary capacity by the Group are not treated as assets of the Group and accordingly are treated as off-balance sheet items in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Revenue

Revenue on transactions are recognized as follows:

- Brokerage income is recognized when the related transactions are executed and stated net of discounts and rebates.
- Asset management fees are recognized based on the applicable service contracts.
- Margin finance income is recognized on a time proportionate basis taking into account the principal outstanding and the effective financing rate.
- Advisory fee income is recognized based on services rendered under the applicable service contracts.
- Special commission income on term deposits are recognized on an accrual basis.
- Dividend income is recognized when the right to receive dividend is established.
- Realized gains and losses on held for trading investments at disposal are determined on average cost basis. Trading gains or losses also includes gains and losses from changes in fair value of held for trading investments.

l. Zakat and income tax

Zakat and income tax are provided for in the financial statements in accordance with the regulations of the General Authority for Zakat and Taxation (the "GAZT") as applicable in the Kingdom of Saudi Arabia.

Zakat is charged to retained earnings and is payable to Bank AlJazira (the "Bank") who settles the Zakat liability of the Company as part of its consolidated Zakat and income tax return.

The Company's foreign shareholders are subject to income tax in accordance with GAZT Regulations and is charged to shareholders' equity.

Additional zakat and income tax liabilities, if any, related to prior years' assessments arising from the GAZT are accounted for in the period in which the assessments are finalized.

m. 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.

n. Statutory Reserve

In accordance with its By-laws and the Regulations for Companies in the 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.

o. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

p. Offsetting

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

4. CASH AND CASH EQUIVALENTS

	Note	**2017**	2016
Short term deposit	*4(a)*	**18,029**	206,000
Cash at bank – current account		**9,191**	17,168
Cash in hand		**20**	20
		27,240	223,188

a. Short term deposits represent amounts invested with Bank AlJazira for a period up to three months. These deposits earn special commission income which is linked to the Saudi Interbank Offered Rate (SIBOR).

5. HELD FOR TRADING INVESTMENTS

	2017	2016
Mutual fund units	**16,538**	29,653
Quoted equities	**63,583**	84,841
	80,121	114,494

6. MARGIN FINANCE RECEIVABLES

The Company extends margin finance 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 SIBOR plus a margin.

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

7. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Company comprise of the Board of Directors, mutual funds under management, Bank AlJazira and its subsidiaries and affiliated companies. The transactions are carried out on mutually agreed terms approved by the management of the Company.

The significant transactions with related parties during the year and the related amounts were as follows:

Name of related parties	*Notes*	2017	2016
Bank AlJazira			
Special commission income	*7(a)*	**1,137**	11,809
Special commission expense	13	**7,142**	--
Support service charges	*7(b)*	**3,988**	3,988
Rent and premises related expenses	7(c)	**9,355**	9,355
Margin finance management fees	*7(d),18*	**3,109**	31,838
Advisory fee	*7(e)*	**--**	1,600
Board of Directors			
Directors remuneration	*7(f)*	**1,881**	1,820
Mutual funds			
Asset management fees		**26,221**	17,403
Support services charges recovered from mutual funds	*7(b)*	**310**	--

The above transactions resulted in the following balance as at 31 December:

Due from related parties			
Mutual funds	*11*	**20,414**	17,728
Due to related parties			
Bank AlJazira		**22,376**	22,896
Al Jazira Takaful		**658**	597
		23,034	23,493
Short-term borrowings – Bank AlJazira	*13*	**656,110**	--
Directors remuneration	*14*	**1,800**	1,844
Investments in mutual funds managed by the Company	*5*	**16,538**	23,776

7. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

a. Special commission is earned on deposits maintained with the Bank (Note 8 and 4a).

b. Support service charges represent financial, administrative, logistics, legal, IT related and internal audit services as per the service agreement with the Bank. Certain support service charges were recovered from the mutual funds managed by the Company during the year (Note 21).

c. Rent and premises related expenses are paid to the Bank in relation to the offices and investment centres of the Company as disclosed in note 22 of these consolidated financial statements.

d. Margin finance management fees represents fee charged to the Bank for services provided by the Company in respect of operating and managing finance facilities extended by the Bank to customers.

e. Advisory fee charged by the Company to the Bank for acting as joint lead manager in respect of private placement Sukuk issued by the Bank during 2016.

f. Board of Directors remunerations amounting to SR 1.9 million (2016: SR 1.8 million) have been calculated and approved in accordance with the Company's By-Laws. Attendance fees paid to the directors, amounting to SR 0.11 million (2016: SR 0.14 million), are recorded under general and administrative expenses.

g. Cash at bank as disclosed in note 4 of these consolidated financial statements includes an amount of SR 0.88 million (2016: SR 14.9 million) maintained with Bank AlJazira which acts as the Company's Bank.

8. MURABAHA DEPOSITS

Murabaha deposits represent amounts invested in Bank AlJazira Naqa Murabaha Scheme at fixed rates by the Company. Murabaha deposits amounting to SR 400 million matured during 2017 and the proceeds were used to fund margin finance loans taken over by the Company from Bank AlJazira.

Accrued special commission income on Murabaha deposits amounting to SR 11.6 million as at 31 December 2016 was received during the year.

9. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represents the Company's 1.75 million share investment (being 5% of invested share capital) with a total cost of SR 17.5 million and a market value of SR 48.0 million as at 31 December 2017 (31 December 2016: 52.6 million) in AlJazira Takaful Taawuni Company (the "Investee Company"). As per the prospectus of the Investee Company, the founding shareholders were prohibited to dispose of the acquired shares until 31 December 2016. The net change in fair value of this investment during the year was a reduction of SR 4.6 million (2016: SR 6.2 million) which is measured based on the quoted market price prevailing at the valuation date and is recorded as a separate component of shareholders' equity.

10. INVESTMENT IN REAL ESTATE PROPERTIES

AlJazira Residential Projects Fund acquired parcels of land located in the Eastern and Central regions of the Kingdom of Saudi Arabia for the purpose of constructing and developing residential projects.

The investment in real estate properties is carried at the lower of cost and net realizable value (NRV). The fair value of investments in real estate properties is based on the average of two market values obtained from the independent valuers.

The details of investments in real estate properties are summarised below:

	Cost including development expenses		Net Realizable Value (NRV)		Lower of cost and net realizable value	
	2017	2016	**2017**	2016	**2017**	2016
Project locations						
North Riyadh	**1,050**	6,433	**990**	6,300	**990**	6,300
North Khobar	**22,104**	22,104	**23,650**	23,700	**22,104**	22,104
	23,154	28,537	**24,640**	30,000	**23,094**	28,404

The title deeds of the real estate properties are registered in the name Aman for Real Estate Development and Investment Company (a subsidiary of Bank AlJazira), which acts as a custodian of the title deeds.

Movement in investment in real estate properties during the year:

	2017	2016
Balance as at beginning of the year	**28,404**	33,626
Development during the year	**--**	56
Disposals during the year	**(5,250)**	(5,145)
Write down of investment to NRV	**(60)**	(133)
Balance as at end of the year	**23,094**	28,404

The realised loss on sale of real estate properties amounted to SR 0.26 million (2016: gain on sale of real estate properties amounted to SR 1.2 million).

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	**2017**	2016
Asset management fees receivable	*7*	**22,261**	18,442
Prepayments		**8,939**	11,553
Others		**1,518**	343
		32,718	30,338

12. PROPERTY AND EQUIPMENT, NET

	2017					2016
	Leasehold improvement	Furniture, fixture and office equipment	Motor vehicle	Capital work in progress	Total	Total
Cost						
At beginning of the year	**79,680**	**110,432**	**25**	**13,072**	**203,209**	193,367
Additions during the year	**1,430**	**711**	**--**	**1,750**	**3,891**	10,729
Transfers during the year	**--**	**14,341**	**--**	**(14,341)**	**--**	--
Disposals during the year	**--**	**(1,723)**	**--**	**--**	**(1,723)**	(887)
Written off during the year	--	--	**--**	**(24)**	**(24)**	--
At end of the year	**81,110**	**123,761**	**25**	**457**	**205,353**	203,209
Accumulated depreciation						
At beginning of the year	**60,246**	**90,817**	**25**	**--**	**151,088**	144,874
Charge for the year	**1,496**	**6,615**	**--**	**--**	**8,111**	7,076
Eliminated on disposals	**--**	**(1,675)**	**--**	**--**	**(1,675)**	(862)
At end of the year	**61,742**	**95,757**	**25**	**--**	**157,524**	151,088
Net book value at						
- 31 December 2017	**19,368**	**28,004**	**--**	**457**	**47,829**	
- 31 December 2016	19,434	19,615	--	13,072		52,121

13. SHORT-TERM BORROWINGS

The Company obtained a Murabaha loan facility of SR 850 million during 2017 from Bank AlJazira to finance margin finance loans and working capital requirements. As at 31 December 2017, the amount of this facility utilized by the Company is SR 656.1 million. The financing carries commission at a rate of SIBOR plus a spread payable at maturity.

14. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Note	**2017**	2016
Accrued employee salaries and benefit		**10,901**	15,471
Accrued expenses		**8,742**	9,451
Directors' remuneration	*7*	**1,800**	1,844
Other liabilities		**1,440**	1,271
		22,883	28,037

15. ZAKAT AND INCOME TAX

The Bank is 94.17% owned by Saudi shareholders and 5.83% owned by foreign shareholders. In accordance with the Regulations of the GAZT as applicable in the Kingdom of Saudi Arabia, the Company is subject to Zakat with respect to income / net assets attributable to the Saudi shareholders of the Bank and to income taxes with respect to income attributable to the foreign shareholders of the Bank.

In accordance with Ministerial Resolution 1005, consolidated Zakat and tax returns are filed by the Bank which includes the Company's Zakat and tax liability. The Zakat charge allocated to the Company by the Bank for the year is based on adjusted net income for the year.

a. Zakat

	2017	2016
Adjusted net income for the year	**32,880**	41,124
Saudi shareholders' ownership percentage	**94.17%**	94.17%
Saudi share of adjusted net income for the year – Zakat base	**30,963**	38,726
Zakat charge based on Zakatable income for the year	**774**	968

b. Income tax

	2017	2016
Adjusted net income for the year	**32,880**	41,124
Foreign shareholders' ownership percentage	**5.833%**	5.833%
Taxable income attributable to foreign shareholder	**1,918**	2,399
Income tax charge for the year	**384**	480

15. ZAKAT AND INCOME TAX (CONTINUED)

c. Movement in Zakat and income tax accrual

The movement during the year is as follows:

31 December 2017	Notes	Zakat	Income tax	Total
At beginning of the year		**33,251**	**2,255**	**35,506**
Zakat provision for current year	15(a)	**774**	**--**	**774**
Zakat provision for previous years		**(4,033)**	**--**	**(4,033)**
Income tax liability for the year recoverable from foreign shareholder	15(b)	**--**	**384**	**384**
Income tax liability no longer payable		**--**	**(1,775)**	**(1,775)**
Payments made to the Bank		**(968)**	**(480)**	**(1,448)**
At the end of the year		**29,024**	**384**	**29,408**

31 December 2016	Notes	Zakat	Income tax	Total
At beginning of the year		2,643	3,085	5,728
Zakat provision for current year	15(a)	5,001	--	5,001
Zakat provision for prior years	15(d)	28,250	--	28,250
Income tax liability for the year recoverable from foreign shareholder	15(b)	--	480	480
Payments made to the Bank		(2,643)	(1,310)	(3,953)
At the end of the year		33,251	2,255	35,506

d. Status of assessments

Zakat and income tax assessments for the period ended 31 December 2008 and the years ended 31 December 2009, 2010 and 2011, for which the Company filed separate Zakat and income tax returns, have been finalized by the GAZT with an additional demand of SR 29.9 million. The Company filed an appeal with the Higher Appeal Committee (HAC) against the Preliminary Appeal Committee (PAC) decision, and as required by the GAZT submitted a bank guarantee for the liability under dispute. During the year ended 31 December 2016, a decision was issued by the HAC ruling in GAZT favor. The Company filed an appeal with the Board of Grievances (BOG) against the HAC decision in December 2016 and made a provision of SR 28.2 million, as assessed by the HAC, to cover this potential liability. During January 2018, a decision was issued by BOG which annulled the HAC decision. Management awaits BOG guidance regarding this matter.

With respect to the year 31 December 2012, the GAZT issued an initial Zakat and income tax assessment with an additional demand of SR 11.9 million. Following the Company's appeal against the GAZT's initial assessment for 2012, a decision was issued by PAC in January 2016 resulting in a decrease in the initially assessed amount of SR 11.9 million to SR 0.4 million. The Company had filed an appeal with the HAC in respect of some matters not ruled in its favor by the PAC.

For the years ended 31 December 2013 through 2016 in accordance with Ministerial Resolution 1005, consolidated Zakat and tax returns have been filed for Bank AlJazira and the Company. No separate Zakat and tax return is required to be filed by the Company with the GAZT. As the consolidated Zakat and tax return was accepted by the GAZT for the year ended 31 December 2016, management determined that the additional Zakat provision amounting to SR 4.03 million is no longer required and was, therefore, reversed during 2017.

16. SHARE CAPITAL

The share capital is divided into 50,000,000 shares (2016: 50,000,000 shares) of SR 10 each.

17. EARNINGS PER SHARE

Earnings per share on operating income is calculated by dividing income from main operations by the weighted average number of shares in issue during the year. Earnings per share on net income is calculated by dividing net income by the weighted average number of shares in issue during the year.

18. MARGIN FINANCE INCOME

Margin finance income mainly comprises special commission income on margin finance loans provided to customers. It also includes management fees amounting to SR 3.1 million (2016: SR 31.8 million) charged to the Bank for services provided by the Company in respect of operating and managing finance facilities extended by the Bank.

19. TRADING INCOME / (LOSS), NET

	2017	2016
Unrealised (loss) / gain on investments held for trading, net	**(1,967)**	9,225
Realised gain / (loss) on investments held for trading, net	**14,698**	(2,827)
	12,731	6,398

20. OTHER INCOME

	2017	2016
Fee income and exchange gain / (loss) - net	**1,395**	(81)
(Loss) / gain on disposal of property and equipment	**(38)**	17
	1,357	(64)

21. OTHER GENERAL AND ADMINISTRATION EXPENSES

	Note	**2017**	2016
Technology expenses		**20,102**	17,716
Share depository		**4,116**	5,250
Support service charges, net	*7(b)*	**3,678**	3,988
Professional fees		**3,664**	4,347
Repairs and maintenance		**2,096**	2,542
Utilities		**2,089**	1,846
Training and conferences		**1,001**	531
Travelling		**792**	1,090
Others		**8,689**	9,497
		46,227	46,807

22. OPERATING LEASES

The Bank has various operating lease arrangements for Bank AlJazira Group offices including the Head Office and investment centres of the Company. These leases have a term of five to twenty five years. All rental agreements are contracted between the Bank and lessors. Rental expenses are charged to the Company by the Bank based on actual space utilization and, for the year ended 31 December 2017, amounted to SR 9.4 million (2016: SR 9.4 million).

23. ASSETS HELD UNDER FIDUCIARY CAPACITY

Client funds are managed in a fiduciary capacity without risk or recourse to the Company. These assets are considered as off balance sheet items and do not constitute part of the Company's assets. The following table summarises the fiduciary assets, as at 31 December:

	2017	2016
Clients' funds under management	**13.9 billion**	7.8 billion
Clients' fund under administration / brokerage	**43.8 billion**	34.7 billion

24. SEGMENT REPORTING

Consistent with the internally approved reporting process, the Company is organised into business units based on services provided as follows:

Brokerage & Margin Finance Services
Brokerage services include acting as agent in local, regional and international equity markets, providing custody and clearing services to clients and extending margin lending facilities.

Asset Management Services
Asset management services include the management of investment funds in international, GCC and local equity markets and discretionary portfolio management.

Investment Banking Services
Investment banking provides finance advisory, private placements, public offerings of equity and debt securities, mergers, acquisitions and syndications.

Other Corporate Services
Other corporate services include income and expenses relating to the proprietary investments of the Company.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on individual segment's profit or loss.

	Brokerage & Margin Finance	Asset Management	Investment Banking	Other Corporate	Total
31 December 2017					
Revenue	**117,961**	**38,092**	**1,474**	**31,519**	**189,046**
Expenses	**(113,781)**	**(26,372)**	**(5,028)**	**(1,861)**	**(147,042)**
Income / (loss) from operations	**4,180**	**11,720**	**(3,554)**	**29,658**	**42,004**
Total assets	**1,354,896**	**22,418**	**14**	**207,305**	**1,584,633**
Total liabilities	**685,210**	**9,309**	**2,082**	**125,083**	**821,684**

24. SEGMENT REPORTING (CONTINUED)

	Brokerage & Margin Finance	Asset Management	Investment Banking	Other Corporate	Total
31 December 2016					
Revenue	150,906	23,287	2,930	11,556	188,679
Expenses	(121,169)	(26,205)	(5,382)	(683)	(153,439)
Income / (loss) from operations	29,737	(2,918)	(2,452)	10,873	35,240
Total assets	50,118	18,480	21	844,067	912,686
Total liabilities	31,483	6,861	1,767	142,702	182,813

During the year, the Company in accordance with CMA regulations took over the offering of margin finance facilities from Bank AlJazira. Revenue, expenses, assets and liabilities related to the margin finance business are included in the "Brokerage & margin finance" segment. The assets, liabilities and revenue related to margin finance are disclosed in note 6, note 13 and note 18 respectively.

25. REGULATORY REQUIREMENTS FOR CAPITAL AND CAPITAL ADEQUACY

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:

	As at 31 December	
	2017	2016
Capital Base:		
Tier 1 Capital	**730,532**	694,785
Tier 2 Capital	**30,450**	35,088
Total Capital Base	**760,982**	729,873
Minimum Capital Requirement:		
Market Risk	**19,345**	22,383
Credit Risk	**359,034**	89,038
Operational Risk	**38,546**	41,421
Total Minimum Capital Required	**416,925**	152,842
Capital Adequacy Ratio:		
Total Capital Ratio (time)	**1.83**	4.78
Surplus in Capital	**344,057**	577,031

a. Capital Base of the Company comprise of:

- **Tier-1 capital** consists of paid-up share capital, retained earnings, reserves excluding revaluation reserves.
- **Tier-2 capital** consists of revaluation reserves.

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 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.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets of the Group comprise of cash and cash equivalents, margin finance receivables, Murabaha deposits, asset management fees receivable, due from related parties and investments. Financial liabilities of the Group comprise of short-term borrowings, due to related parties and accrued expenses.

Equity price risk

Equity price risk is the risk that the fair value of equities may change as a result of changes in the market prices. The Group's investments are exposed to market price risk arising from uncertainties in respect of future prices. The Group manages this risk through diversification of its investment portfolio in terms of industry and sector based concentration.

Special commission rate risk

Special commission rate risk is the exposure to various risk associated with the effect of fluctuations in the prevailing commission rate on the Company's financial position and cash flows.

The Group's commission rate risk arise mainly from margin finance receivables, short-term borrowings and Murabaha deposits with the Bank. The Company has limited commission rate risk due to the short term maturity of these financial instruments.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and may cause the other party to incur a financial loss. Financial assets which are subject to credit risk consist principally of bank balance, Murabaha deposits and margin finance receivables. Bank balance and Murabaha deposits are maintained with banks having sound credit ratings.

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, thereby minimizing the potential exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Group 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 Group manages its liquidity risk by ensuring that sufficient funds are available to meet any commitments as they arise. As mentioned in note 13 of these consolidated financial statements, the Group has a Murabaha loan facility with Bank AlJazira to satisfy its liquidity requirements.

Currency risk

Currency risk is the risk that the value of financial instruments may fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals (SR) and US Dollar (USD). As SR is pegged to the USD, the Group is not exposed to any significant foreign exchange risk.

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. The Group's financial assets consist of cash and cash equivalents, due from a related party and investments. Its financial liabilities consist of accrued expenses. The fair values of financial assets and liabilities are not materially different from their carrying values.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and its accompanying notes were approved for issue by the management on behalf of Board of Directors' on 8 Rajab 1439 H (corresponding to 25 March 2018).