ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
together with the
INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholder of AlJazira Capital Company

Opinion

We have audited the consolidated financial statements of AlJazira Capital Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, other comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes to the consolidated financial statements, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements 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.

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Independent Auditors' Report

To the Shareholder of AlJazira Capital Company (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 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 ("the Group").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

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Certified Public Accountants
KPMG Al Fozan & Partners

Al Riyadh: 18 Rajab 1440H
Corresponding to: 25 March 2019

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at
(Saudi Arabian Riyals in thousands)

	Notes	***31 December 2018***	*31 December 2017*	*1 January 2017*
ASSETS				
Current assets				
Cash and cash equivalents	*6*	**537**	27,240	223,188
Investments	*7*	**32,342**	80,121	114,494
Murabaha deposits	*8*	**--**	--	308,787
Margin finance receivables	*9*	**1,307,629**	1,325,681	--
Investment in real estate properties	*10*	**18,935**	23,094	28,404
Prepayments and other current assets	*11*	**45,215**	32,718	30,338
Total current assets		**1,404,658**	1,488,854	705,211
Non-current assets				
Murabaha deposits	*8*	**--**	--	102,766
Investments	*7*	**30,660**	47,950	52,588
Property and equipment, net	*12*	**31,194**	37,326	40,832
Intangible assets, net	*13*	**9,113**	10,503	11,289
Deferred tax asset, net		**458**	597	719
Total non-current assets		**71,425**	96,376	208,194
TOTAL ASSETS		**1,476,083**	1,585,230	913,405
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings	*14*	**505,824**	656,110	--
Due to related parties	*30*	**90,783**	23,034	23,493
Accrued expenses and other current liabilities	*15*	**15,108**	22,883	28,037
Accrued zakat and income tax	*16*	**31,994**	29,408	35,506
Subsidiary's equity obligations	*3(b)*	**9,798**	45,682	53,936
Total current liabilities		**653,507**	777,117	140,972
Non-current liabilities				
Employees' end of service benefits	*17*	**43,168**	44,296	43,539
Total non-current liabilities		**43,168**	44,296	43,539
TOTAL LIABILITIES		**696,675**	821,413	184,511
Equity attributable to the Company's shareholder				
Share capital	*18*	**500,000**	500,000	500,000
Statutory reserve		**92,442**	89,232	85,964
Retained earnings		**173,806**	144,135	107,842
Fair value reserve	*7*	**13,160**	30,450	35,088
Total equity attributable to the Company's shareholder		**779,408**	763,817	728,894
TOTAL LIABILITIES AND EQUITY		**1,476,083**	1,585,230	913,405

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
For the year ended
(Saudi Arabian Riyals in thousands)

	Notes	***31 December 2018***	*31 December 2017*
REVENUES			
Brokerage fees, net	*20*	**68,038**	74,199
Asset management fees, net	*21*	**42,895**	38,092
Margin finance income		**72,091**	57,977
Investment banking services fees		**4,890**	1,474
Custody services fees		**1,704**	332
Trading (loss) / income, net	*22*	**(10,739)**	12,731
Dividend income		**2,958**	4,501
Gain / (loss) on disposal of real estate properties		**2**	(260)
Other operating income		**2,204**	1,395
Total revenues		**184,043**	190,441
EXPENSES			
Salaries and employee related expenses		**82,746**	84,391
Rent and premises related expenses	*23*	**8,825**	9,355
Depreciation	*12*	**6,439**	6,581
Amortisation	*13*	**3,223**	1,530
General and administrative expenses	*24*	**38,511**	46,167
Impairment on real estate properties	*10*	**1,654**	60
Special commission expense		**13,114**	7,142
Total operating expenses		**154,512**	155,226
Operating income for the year		**29,531**	35,215
Special commission income		**228**	1,137
Other expense		**(2)**	(38)
Net income for the year before zakat and income tax		**29,757**	36,314
Zakat and income tax	*16*	**(3,883)**	4,912
Net income for the year after zakat and income tax		**25,874**	41,226
Decrease / (Increase) in net assets attributable to subsidiary's equity obligations	*3(b)*	**6,230**	(4,676)
Net income for the year		**32,104**	36,550
Basic and diluted earnings per share (expressed in SAR per share)	*25*	**0.64**	0.73

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended
(Saudi Arabian Riyals in thousands)

	Notes	***31 December 2018***	*31 December 2017*
Net income for the year		**32,104**	36,550
Other comprehensive income			
Items that may be reclassified to consolidated statement of income			
Net losses on available-for- sale investments	*7*	**--**	(4,638)
Items that will not be reclassified to consolidated statement of income			
Net losses on investment in equity instruments designated at fair value through other comprehensive income	*7*	**(17,290)**	--
Re-measurements of provision for employees' end of service benefits	*17*	**777**	3,011
Other comprehensive income for the year		**(16,513)**	(1,627)
Total comprehensive income for the year		**15,591**	34,923

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the year ended
(Saudi Arabian Riyals in thousands)

	Equity attributable to Company's shareholder				
	Share capital	**Statutory reserve**	**Retained Earnings**	**Fair value reserve**	**Total**
Balance as at 1 January 2017	500,000	85,964	107,842	35,088	728,894
Net income for the year	--	--	36,550	--	36,550
Other comprehensive income	--	--	3,011	(4,638)	(1,627)
Total comprehensive income	**--**	**--**	**39,561**	**(4,638)**	**34,923**
Transfer to statutory reserve	--	3,268	(3,268)	--	--
Balance at 31 December 2017	**500,000**	**89,232**	**144,135**	**30,450**	**763,817**
Balance at 1 January 2018	**500,000**	**89,232**	**144,135**	**30,450**	**763,817**
Net income for the year	--	--	32,104	--	**32,104**
Other comprehensive income	--	--	777	(17,290)	**(16,513)**
Total comprehensive income	**--**	**--**	**32,881**	**(17,290)**	**15,591**
Transfer to statutory reserve	--	3,210	(3,210)	--	--
Balance at 31 December 2018	**500,000**	**92,442**	**173,806**	**13,160**	**779,408**

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

ALJAZIRA CAPITAL COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended
(Saudi Arabian Riyals in thousands)

	Notes	***31 December 2018***	*31 December 2017*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year after zakat and income tax		**25,874**	41,226
Adjustments to reconcile net income for the year to net cash generated from / (used in) operating activities:			
Depreciation	*12*	**6,439**	6,581
Amortisation	*13*	**3,223**	1,530
Unrealised (gain) / loss on investments	*22*	**(2,468)**	1,967
(Gain) / loss on disposal of property and equipment, net		**(2)**	38
Provision for employees' end of service benefits	*17*	**5,448**	5,713
Intangible asset written off	*13*	**--**	24
Zakat and income tax charge		**3,883**	(4,912)
		42,397	52,167
Changes in operating assets and liabilities:			
Investments		**50,247**	32,406
Margin finance receivables		**18,052**	(1,325,681)
Investment in real estate properties		**4,159**	5,310
Prepayments and other current assets		**(12,497)**	(2,380)
Due to related parties		**67,365**	(555)
Accrued expenses and other current liabilities		**(7,775)**	(5,154)
		161,948	(1,243,887)
Employees' end of service benefits paid	*17*	**(5,799)**	(1,945)
Zakat paid	*16*	**(774)**	(968)
Net cash generated from / (used in) operating activities		**155,375**	(1,246,800)
CASH FLOW FROM INVESTING ACTIVITIES			
Murabaha deposits matured		**--**	411,553
Purchase of property and equipment, net	*12*	**(471)**	(3,123)
Intangible assets	*13*	**(1,833)**	(768)
Proceeds from disposal of property and equipment		**166**	10
Net cash (used in) / generated from investing activities		**(2,138)**	407,672
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term borrowings		**(150,286)**	656,110
Subsidiary equity obligations		**(29,654)**	(12,930)
Net cash (used in) / generated from financing activities		**(179,940)**	643,180
Net decrease in cash and cash equivalents		**(26,703)**	(195,948)
Cash and cash equivalents at beginning of the year		**27,240**	223,188
Cash and cash equivalents at end of the year	*6*	**537**	27,240
Non – cash items			
Net change in fair value of available-for-sale investments	*7*	**--**	(4,638)
Net change in fair value of investments measured at fair value through other comprehensive income	*7*	**(17,290)**	--

The accompanying notes (1) through (33) form an integral part of these consolidated financial statements.

1. ORGANISATION AND ITS 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

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). The Company's subsidiaries are as follows:

Name of subsidiary	Principal activity	Ownership percentage		
		31 December 2018	*31 December 2017*	*1 January 2017*
AlJazira Residential Projects Fund	Development and sale of land	43.64%	43.64%	43.34%
AlJazira Global Emerging Markets Fund	Investments in equities	--	48.13%	70.44%
AlJazira GCC Income Fund	Investments in equities	--	--	45.51%
AlJazira Diversified Conservative Fund	Investments in mutual funds	--	--	78.43%

All the subsidiaries are incorporated in Kingdom of Saudi Arabia.

Although the Company's ownership in AlJazira Residential Projects Fund is less than 50%, it considered as subsidiary since the Company, being the fund manager, has the power to direct the financial and operational policies of this Fund, is exposed to and has rights to variable returns from the Fund and also has the ability to affect those returns through its power over these Funds.

During 2018, the Company fully redeemed its investments in units of AlJazira Global Emerging Markets Fund. Subsequent investment in units of AlJazira Global Emerging Markets Funds is classified as investment at fair value through statement of income in these consolidated financial statements.

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 Company in the capacity as the Fund Manager ("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).

(Saudi Arabian Riyals in thousands)

1. ORGANISATION AND ITS ACTIVITIES (CONTINUED)

1.2 *Closure of AlJazira Residential Projects Fund (continued)*

In the rejection letter, the CMA required the Fund Manager to:

- notify the unit holders of the Fund's situation and the reasons for delay in liquidation; and
- 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.

During 2018, the unit holders of the Fund as well as the Fund Board passed resolutions to sell all remaining real estate properties and to liquidate the Fund by 31 July 2019.

Based on the above, and subject to successful sale of all real estate properties, it is expected that the Fund will be wound up within a year from the reporting date and therefore the financial statements of Fund have not been prepared on a going concern basis. Assets of the Fund have been stated at the lower of cost and net realisable values while its 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.

Assets and liabilities of the Fund, based on the Fund's audited financial statements, included in these consolidated financial statements are summarised below:

	31 December 2018	*31 December 2017*	*1 January 2017*
Total assets	**18,938**	28,799	29,384
Total liabilities	**1,555**	9,462	9,537

Income and expenses for the year ended 31 December related to the Fund included in these consolidated financial statements are summarised below:

	2018	*2017*
Total income, net	**3**	(243)
Total expenses	**1,957**	114

2. BASIS OF PREPARATION

2.1 *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organisation for Certified Public Accountants ("SOCPA") (hereinafter referred to as "IFRS as endorsed in KSA").

For all periods up to and including the year ended 31 December 2017, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA (hereinafter referred to as "SOCPA GAAP"). The consolidated financial statements for the year ended 31 December 2018 are the first consolidated financial statements of the Group prepared in accordance with IFRS as endorsed in KSA and IFRS 1 '*First-time Adoption of International Financial Reporting Standards*' has been applied. The date of transition to IFRS as endorsed in KSA is 1 January 2017. For accounting policies on financial instruments, IFRS 9 has been applied from 1 January 2018 as detailed in the paragraph entitled 'Exemptions Applied' in note 3(a). Before 1 January 2018 SOCPA GAAP accounting policies were applied in respect of financial instruments.

An explanation of how the transition to IFRS as endorsed in KSA has affected the reported financial position, financial performance and cash flows of the Group is provided in note 5.

2. BASIS OF PREPARATION (CONTINUED)

2.2 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for measurement of investments at fair value through income statement ("FVTIS") and at fair value through other comprehensive income ("FVOCI"), using the accrual basis of accounting and the going concern concept. Further, employees' end of service benefits are measured at present value of future obligations using the Projected Unit Method. In addition, assets of AlJazira Residential Projects Fund have been stated at the lower of cost and net realisable values, while liabilities are stated at the amounts at which they are expected to be discharged.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the functional and presentation currency of the Group. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.4 Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the 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 recognised in the year in which the estimates are revised and in any future years affected.

Significant areas where management has used estimates, assumption and exercised judgments are as follows:

- Measurement of the expected credit loss allowance – notes 3(a) and 27.2
- Fair value of financial instruments – note 28
- Employees' end of service benefits – note 17
- Depreciation and amortisation – notes 3(e), 3(f), 12 and 13
- Consolidation of funds under management – note 1

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented except for the adoption of IFRS 9 as mentioned in note 3(a). Where policies are applicable only from or before 1 January 2018, those policies are particularly specified.

(a) Financial instruments

Effective 1 January 2018, the Group has adopted the following accounting standard and the impact of the adoption of this standard is explained below.

IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 *'Financial Instruments'* as issued by International Accounting Standards Board (IASB) with a date of transition of 1 January 2018. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Group's accounting policy resulting from its adoption of IFRS 9 are summarised below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) *Financial instruments (continued)*

Policy applicable from 1 January 2018

Recognition and initial measurement

The Group initially recognises financial assets and financial liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTIS, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTIS are expensed in the consolidated statement of income.

Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through income statement ("FVTIS").

Financial Asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTIS:

- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Asset at FVOCI

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTIS.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

Financial Asset at FVTIS

All other financial assets are classified as measured at FVTIS.

Associates are those entities in which the Group has significant influence, but no control or joint control, over the financial and operating policies. The Company, as the Fund Manager of its associates, qualifies for the application of the exemption of equity accounting because the business objective is similar to that of a venture capital organisation in respect of an investment entity. These investments in the funds are designated on initial recognition at FVTIS, and measured through income statement in accordance with IFRS 9 as the investments are part of a business model that is managed on a fair value basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual commission revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated, on a fair value basis are measured at FVTIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission / profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTIS	These assets are subsequently measured at fair value. Net gains and losses, including any special commission or dividend income, are recognised in consolidated statement of income.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective commission rate method. The amortised cost is reduced by impairment losses. Special commission income, foreign exchange gains and losses and impairment are recognised in consolidated statement of income. Any gain or loss on derecognition is recognised in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to consolidated statement of income.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Details of measuring the expected credit loss allowance are provided in note 27.2 to these consolidated financial statements.

Financial liabilities

The Group classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTIS.

De-recognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in consolidated statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Policy applicable before 1 January 2018

Recognition and initial measurement

Investments are recognised initially at cost on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the investment. For investments held for trading, upon initial recognition, attributable transaction costs are recognised in the consolidated statement of income when incurred.

Investments which are classified as Available-for-sale ("AFS") are initially recognised at fair value including direct and incremental transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

All non-derivative financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Classification and measurement of financial assets

Held for trading ("HFT")

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 Group 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 ("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 recognised and subsequently re-measured at fair value. Any changes in fair value are recognised in equity as fair value reserve until the investment is disposed. Any significant and prolonged decline in value of the AFS investments, if any, is charged to the consolidated statement of income. The fair value of these investments is determined by reference to quoted market bid prices at the close of business on the consolidated statement of financial position date.

Held to maturity ("HTM")

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 recognised in the consolidated statement of income when the investment is derecognised or impaired.

Impairment of financial assets

Impairment of AFS investments

Management exercises judgment to calculate the impairment loss of AFS investments as well as their underlying assets. This includes the assessments of objective evidence which causes any 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 recognised 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 recognised in the consolidated statement of income as impairment charge on investments. Any previously recognised impairment losses in respect of equity investments cannot be reversed through the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) *Financial instruments (continued)*

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 recognised impairment loss is reversed through consolidated statement of income.

Financial liabilities

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

De-recognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated statement of income.

Exemptions applied

IFRS 1 *'First-time Adoption of International Financial Reporting Standards'* allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemption:

- The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in adjustments to the amounts previously recognised in the financial statements as disclosed below.

  As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition to IFRS 9 were recognised in the opening retained earnings (1 January 2018) and other reserves of current period. Accordingly, the information presented in comparative periods reflects the requirements of SOCPA GAAP and therefore is not comparable to the information presented under the requirements of IFRS 9 for the year ended 31 December 2018. The assessment of business model has been made on the basis of facts and circumstances that existed at the date of transition.

  Therefore, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period only.

(Saudi Arabian Riyals in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) *Financial instruments (continued)*

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with previous accounting policies under SOCPA GAAP and IFRS 9 as at 1 January 2018 are as follows:

Financial assets	Classification under SOCPA GAAP	Classification under IFRS 9	Carrying amount under SOCPA GAAP	Carrying amount under IFRS 9
Cash and cash equivalents	Held to Maturity	Amortised cost	27,240	27,240
Investments	HFT	FVTIS	80,121	80,121
	AFS	FVOCI	47,950	47,950
Margin finance receivables	Held to Maturity	Amortised cost	1,325,681	1,325,681
Other receivables	Held to Maturity	Amortised cost	23,455	23,455
			1,504,447	**1,504,447**

There were no changes to the classification and measurement of financial liabilities.

Reconciliation of carrying amounts under SOCPA GAAP to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under SOCPA GAAP to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	SOCPA GAAP carrying amount as at 31 December 2017	Reclassifi-cations	Remeasure-ments	IFRS 9 carrying amount as at 1 January 2018
Amortised cost				
Cash and cash equivalents	27,240	--	--	27,240
Margin finance receivables	1,325,681	--	--	1,325,681
Other receivables	23,455	--	--	23,455
Investments at FVTIS				
HFT investments	80,121	(80,121)	--	--
Investments at FVTIS	--	80,121	--	80,121
Investment at FVOCI				
AFS investments	47,950	(47,950)	--	--
Investment at FVOCI	--	47,950	--	47,950

Investments at amortised cost are subject to impairment assessment based on expected credit loss model per IFRS 9. The Company has assessed ECL as at 1 January 2018 and concluded that no ECL provision was required. Detailed information on ECL is in note 27.2 to these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries referred to in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

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

Subsidiary's equity obligations

Subsidiary's equity obligations represent the interest of other unit holders in subsidiary funds, and are classified as current liabilities. Changes in subsidiary's equity obligations are recorded in consolidated statement of income and presented after "net income for the year after zakat and income tax".

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary.

When the Group ceases to consolidate an investment because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the consolidated statement of income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or a financial asset. In addition, any amounts previously recognised in consolidated statement of other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in consolidated statement of other comprehensive income are reclassified to consolidated statement of income. In case of loss of control over subsidiary, the Group also derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of income.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment in real estate properties

Investment in real estate properties represents real estate properties held by a subsidiary for development and sale purposes. Investment in real estate properties are initially recognised at cost. Cost is assigned by specific identification and includes the cost which are directly attributable to acquisition, and development of real estate properties, such as development expenses, developer's fees, and the project consultant engineer's fees.

Real estate properties held for development and sale are subsequently measured at lower of cost and net realisable value ("NRV"). NRV is the estimated selling price in the ordinary course of business, less cost of completion and selling expenses.

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the items.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

Subsequent expenditure are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Normal expenditures for repair and maintenance are charged to the consolidated statement of income.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets 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

Capital work in progress is stated at cost incurred until the asset is ready for its intended use, thereafter, this cost is capitalised on the related assets. Capital work in progress is not depreciated.

(f) Intangible assets

The Group's intangible assets include acquired computer software licenses and are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation on intangible assets is calculated on a straight-line basis over the estimated useful life of 4 to 6 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Accrued expenses and other payables

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

(h) Employees' end of service benefits

The liability for employees' end of service benefits, being a defined benefit plan, is determined using the projected unit credit method with actuarial valuation being conducted at end of annual reporting periods. The related liability recognised in the consolidated statement of financial position is the present value of the end of service benefits obligation at the end of the reporting period.

The discount rate used is the market yield on government bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations.

Current service cost and the interest expense arising on the end of service benefit liability are recorded in consolidated statement of income. Re-measurement of defined benefit liability, which comprise of actuarial gains and losses are recognised immediately in consolidated statement of other comprehensive income.

(i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of income over the period of borrowings using the effective commission rate method.

(j) Zakat and income tax

Zakat and income tax

Zakat and income tax is computed in accordance with the regulations of the General Authority for Zakat and Tax ("GAZT") as applicable in the Kingdom of Saudi Arabia.

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

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of asset and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made of the amount of obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Statutory reserve

In accordance with Companies 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 shareholder.

(m) Impairment on non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses in respect of non-financial assets recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Revenue from contracts with customers

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. The revenue is recognised when the Group transfers the services to customers at an amount that the Group expects to be entitled to in exchange for those services. The Group applies the following five-step approach to revenue recognition:

- Step 1: Identify the contract with the customer
- Step 2: Identify the separate performance obligations under the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to separate performance obligations
- Step 5: Recognise revenue when (or as) each performance obligation is satisfied

Identify the contract with the customer
The Group carefully evaluates the terms and conditions of the contracts with its customers because revenue is recognised only when performance obligations in contracts with customers are satisfied. A change in the scope or price (or both) of a contract is considered as a contract modification and the Group determines whether this creates a new contract or whether it will be accounted for as part of the existing contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revenue from contracts with customers (continued)

Identify the separate performance obligations under the contract
Once the Group has identified the contract with a customer, it evaluates the contractual terms and its customary business practices to identify all the promised services within the contract and determine which of those promised services (or bundles of promised services) will be treated as separate performance obligations.

The Group assess the services promised in a contract with a customer and identifies as a performance obligation either a:

a) service that is distinct; or
b) series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (i.e. each distinct service is satisfied over the time and the same method is used to measure progress).

A service (or bundle of services) is distinct if the customer can benefit from the service on its own or together with other readily available resources (i.e., the service is capable of being distinct) and the service is separately identifiable from other promises in the contract (i.e., the service is distinct within the context of the contract).

The Group provides management services to its customers which are generally provided continuously over the contract period. Accordingly, the services in these contracts generally represent a single performance obligation. Fees charged for managing mutual funds are recognised as revenue rateably as the services are provided.

Determine the transaction price
The Group determines transaction price as the amount which it expects to be entitled. It includes an estimate of any variable consideration, the effect of a significant financing component (i.e., the time value of money), the fair value of any non-cash consideration and the effect of any consideration paid or payable to a customer (if any). Variable considerations are limited to the amount for which it is highly probable that a significant reversal will not occur when the uncertainties related to the variability are resolved.

Allocate the transaction price to separate performance obligations
Once the performance obligations have been identified and the transaction price has been determined, transaction price is allocated to the performance obligations, generally in proportion to their stand-alone selling prices (i.e., on a relative stand-alone selling price basis). When determining stand-alone selling prices, the Group is required to use observable information, if available. If stand-alone selling prices are not directly observable, the Group makes estimates based on information that is reasonably available.

Satisfaction of performance obligations
Revenue is recognised only when the Group satisfies a performance obligation by transferring control of a promised service to the customer. Control may be transferred over time or at a point in time. Where a performance obligation is satisfied over time, the Group identifies the progress under the contract based on either of an input or output method which best measures the performance completed to date. The method selected is applied consistently to similar performance obligations and in similar circumstances.

The Group fulfills its performance obligations in its contracts with customers at a point in time, and hence it recognises revenue as and when it fulfills its obligations under contracts with customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revenue from contracts with customers (continued)

Based on the above five steps, the revenue recognition policy for each revenue stream is as follows:

i) Brokerage income
Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Group is satisfied when the Group carries out the transaction, which triggers immediate recognition of the revenue, as the Group will have no further commitments.

ii) Asset management fees
Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. The Group attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Group's efforts to transfer the services for that period. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised.

iii) Margin finance fees
Margin finance fees are recognised based on customer utilisation of the margin finance facility at the applicable rates agreed in the contract with the customer. The fee is recognised over the life of the facility at the effective commission rate method.

iv) Advisory and investment banking services revenue
Advisory and investment banking services revenue is recognised based on services rendered under the applicable service contracts using the five-step approach to revenue recognition above.

v) Special commission income on term deposits
Special commission income for all special commission bearing financial instruments (Murabaha deposits) are recognised in the consolidated statement of income using the effective commission rate basis.

vi) Dividend income
Dividend income is recognised when the right to receive dividend is established.

vii) Trading income/(loss)
Results arising from trading activities include all gains and losses from changes in fair values and disposal of investments.

(o) Expenses

Expenses are measured and recognised 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.

(p) Foreign currency

Transactions in foreign currencies are translated into SAR at the exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into SAR at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are also translated into SAR at the exchange rate at the reporting date.

Foreign currency differences arising on translation are recognised in the consolidated statement of income as net foreign exchange gains or losses, except for those arising on financial instruments at FVTIS, which are recognised as a component of net gain from financial instruments at FVTIS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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.

(r) Offsetting

Financial assets and financial liabilities are offset and the net cash amount presented in the consolidated statement of financial position when the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of amendments and standards are effective for the period beginning on or after 1 January 2019 and earlier application is permitted; however, the Group has not early applied these new amendments and standards in preparing these consolidated financial statements.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2019:

a) IFRS 16 – *'Leases'*, applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. In the modified retrospective approach, the comparable figures for the previous year are not adjusted. Upon initial application, Group has also decided to recognise right-of-use asset corresponding to the lease liabilities with adjustment of prepaid and accrued rent. This will, therefore, not have any impact on equity as of the effective date. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group plans to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, or lease contracts for which the underlying asset is of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary, the impact of IFRS 16 adoption is expected to be as follows:

Impact on the consolidated statement of financial position as at 31 December 2018:

Assets	
Property and equipment, net (right of use assets)	36,942
Other assets	(3,087)
Liabilities	
Long term lease rentals (lease liability)	33,855

Impact on the consolidated statement of income for the year ended 31 December 2018:

Nil

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

Due to the adoption of IFRS 16, the Group's operating profit will deteriorate in initial years due to front loading of special commission expense however profit will improve in later years as the special commission expense reduces due to reduction in lease liability. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

b) Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, Company now uses updated actuarial assumptions to determine its current service cost and net special commission expense for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

The impact is not considered to be material to the Group.

c) The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments
- Prepayment features with Negative Compensation (Amendment to IFRS 9)
- Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual improvements to IFRS Standards 2015-2017 Cycle – various standards
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 *'Insurance contracts'*

5. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As stated in note 2, these are the Group's first consolidated financial statements prepared in accordance with IFRS as endorsed in KSA.

The basis of preparation and summary of significant accounting policies set out in note 2 and note 3 respectively, have been applied consistently in preparing the consolidated financial statements for the year ended 31 December 2018, the comparative information presented in these consolidated financial statements for the year ended 31 December 2017 and in the preparation of an opening consolidated statement of financial position at 1 January 2017 (the Group's date of transition).

In preparing its opening IFRS consolidated statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with SOCPA GAAP. An explanation of how the transition from SOCPA GAAP to IFRS as endorsed in KSA has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables:

Reconciliations of the primary statements

The reconciliations of the consolidated statements of financial position and equity as at 31 December 2017 and 1 January 2017 and reconciliation of consolidated statement of income and consolidated statement of other comprehensive income for the year ended 31 December 2017, along with the description of the changes are detailed in note 5.1 to 5.4.

(Saudi Arabian Riyals in thousands)

5. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

5.1 Reconciliation of Group's equity

		31 December 2017			
	Notes	**SOCPA GAAP**	**Reclassifi-cation**	**Re-measure ment**	**IFRS**
ASSETS					
Current assets					
Cash and cash equivalents		27,240	--	--	27,240
Investments		80,121	--	--	80,121
Margin finance receivables		1,325,681	--	--	1,325,681
Investment in real estate properties		23,094	--	--	23,094
Prepayments and other current assets		32,718	--	--	32,718
Total current assets		**1,488,854**	--	--	**1,488,854**
Non-current assets					
Investments		47,950	--	--	47,950
Property and equipment, net	*5.1(a)*	47,829	(10,503)	--	37,326
Intangible assets, net	*5.1(a)*	--	10,503	--	10,503
Deferred tax asset, net	*5.1(d)*	--	--	597	597
Total non-current assets		**95,779**	--	597	**96,376**
TOTAL ASSETS		**1,584,633**	--	597	**1,585,230**
LIABILITIES AND EQUITY					
Current liabilities					
Short-term borrowings		656,110	--	--	656,110
Due to related parties		23,034	--	--	23,034
Accrued expenses and other current liabilities		22,883	--	--	22,883
Accrued zakat and income tax		29,408	--	--	29,408
Subsidiary's equity obligations		45,682	--	--	45,682
Total current liabilities		**777,117**	--	--	**777,117**
Non-current liabilities					
Employees' end of service benefits	*5.1(c)*	44,567	--	(271)	44,296
Total non-current liabilities		**44,567**	--	(271)	**44,296**
TOTAL LIABILITIES		**821,684**	--	(271)	**821,413**
Equity attributable to the Company's shareholder					
Share capital		500,000	--	--	500,000
Statutory reserve		89,232	--	--	89,232
Retained earnings	*5.1(c)(d)*	143,267	--	868	144,135
Fair value reserve		30,450	--	--	30,450
Total equity attributable to the Company's shareholder		**762,949**	--	868	**763,817**
TOTAL LIABILITIES AND EQUITY		**1,584,633**	--	597	**1,585,230**

(Saudi Arabian Riyals in thousands)

5. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

5.1 *Reconciliation of Group's equity (continued)*

		1 January 2017			
	Notes	**SOCPA GAAP**	**Reclassifi-cation**	**Re-measure ment**	**IFRS**
ASSETS					
Current assets					
Cash and cash equivalents		223,188	--	--	223,188
Investments		114,494	--	--	114,494
Murabaha deposits	*5.1(b)*	300,000	8,787	--	308,787
Accrued special commission income	*5.1(b)*	8,787	(8,787)	--	--
Investment in real estate properties		28,404	--	--	28,404
Prepayments and other current assets		30,338	--	--	30,338
Total current assets		**705,211**	--	--	**705,211**
Non-current assets					
Murabaha deposits	*5.1(b)*	100,000	2,766	--	102,766
Accrued special commission income	*5.1(b)*	2,766	(2,766)	--	--
Investments		52,588	--	--	52,588
Property and equipment, net	*5.1(a)*	52,121	(11,289)	--	40,832
Intangible assets, net	*5.1(a)*	--	11,289	--	11,289
Deferred tax asset, net	*5.1(d)*	--	--	719	719
Total non-current assets		**207,475**	--	719	**208,194**
TOTAL ASSETS		**912,686**	--	719	**913,405**
LIABILITIES AND EQUITY					
Current liabilities					
Due to related parties		23,493	--	--	23,493
Accrued expenses and other current liabilities		28,037	--	--	28,037
Accrued zakat and income tax		35,506	--	--	35,506
Subsidiary's equity obligations		53,936	--	--	53,936
Total current liabilities		**140,972**	--	--	**140,972**
Non-current liabilities					
Employees' end of service benefits	*5.1(c)*	41,841	--	1,698	43,539
Total non-current liabilities		**41,841**	--	1,698	**43,539**
TOTAL LIABILITIES		**182,813**	--	1,698	**184,511**
Equity attributable to the Company's shareholder					
Share capital		500,000	--	--	500,000
Statutory reserve		85,964	--	--	85,964
Retained earnings	*5.1(c)(d)*	108,821	--	(979)	107,842
Fair value reserve		35,088	--	--	35,088
Total equity attributable to the Company's shareholder		**729,873**	--	(979)	**728,894**
TOTAL LIABILITIES AND EQUITY		**912,686**	--	719	**913,405**

5. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

5.1 Reconciliation of Group's equity (continued)

(a) In accordance with IAS 1 *'Presentation of financial statements'*, the Group has included a separate line for intangible assets.

(b) In accordance with IFRS as endorsed in KSA, the Group has presented Murabaha deposits at amortised cost, by reclassifying previously presented accrued special commission income receivable together with the principal amount of the Murabaha deposits.

(c) In accordance with IAS 19 *'Employee benefits'*, Employees' end of service benefits are classified as a defined benefit plan and liability is determined using the projected unit method based on actuarial valuation performed at the end of the reporting period. Under SOCPA GAAP, the Group liability was calculated as current value of the vested benefits to which the employee is entitled, should the employee leave at the reporting date. As a result of applying the IFRS requirement described above, an additional liability was recognised against retained earnings as at 1 January 2017 (31 December 2017: reversal of liability).

(d) In accordance with IAS 12 *'Income Taxes',* the deferred tax assets and related income and expenses have been recognised in respect of temporary differences between accounting and tax base of certain financial statement line items which mainly include investments, property and equipment and employees' end of service benefits.

(Saudi Arabian Riyals in thousands)

5. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

5.2 Reconciliation of consolidated statement of income

		For the year ended 31 December 2017		
	Notes	**SOCPA GAAP**	**Effect of transition to IFRS**	**IFRS**
REVENUES				
Brokerage fees, net	*5.2(c)*	74,199	--	74,199
Asset management fees, net		38,092	--	38,092
Margin finance income		57,977	--	57,977
Investment banking services fees		1,474	--	1,474
Custody service fees	*5.2(c)*	332	--	332
Trading income, net		12,731	--	12,731
Dividend income		4,501	--	4,501
Loss on disposal of real estate properties		(260)	--	(260)
Other operating income		1,395	--	1,395
Total revenues		**190,441**	--	**190,441**
Expenses				
Salaries and employee related expenses	*5.1(c)*	83,349	1,042	84,391
Rent and premises related expenses		9,355	--	9,355
Depreciation	*5.2(a)*	8,111	(1,530)	6,581
Amortisation	*5.2(a)*	--	1,530	1,530
General and administrative expenses		46,167	--	46,167
Impairment on real estate properties		60	--	60
Special commission expense		7,142	--	7,142
Total operating expenses		**154,184**	1,042	**155,226**
Operating income for the year		**36,257**	(1,042)	**35,215**
Special commission income		1,137	--	1,137
Other income		(38)	--	(38)
Net income for the year before zakat and income tax		**37,356**	(1,042)	**36,314**
Zakat and income tax	*5.2(b)*	--	4,912	4,912
Net income for the year after zakat and income tax		**37,356**	3,870	**41,226**
Increase in net assets attributable to subsidiary's equity obligations		(4,676)	--	(4,676)
Net income for the year		**32,680**	3,870	**36,550**

(a) In accordance with IAS 1 '*Presentation of financial statements*', the Group has included a separate line for amortisation of intangible assets.

(b) In accordance with IAS 12 '*Income Taxes*' and other standards and pronouncements issued by SOCPA, the Group has reported zakat and income tax provision in the consolidated statement of income. Previously, zakat and income tax provision was reported in consolidated statement of changes in shareholder's equity.

(c) Custody service fees have been reclassified to conform to current year's presentation.

(Saudi Arabian Riyals in thousands)

5. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

5.3 Reconciliation of consolidated statement of other comprehensive income

	Notes	For the year ended 31 December 2017 SOCPA GAAP	Effect of transition to IFRS	IFRS
Items that may be reclassified to statement of income				
Net loss on available-for-sale investments		(4,638)	--	(4,638)
Items that will not be reclassified to statement of income				
Re-measurements of provision for employees' end of service benefits	*5.3(a)*	--	3,011	3,011
Other comprehensive income for the year		**(4,638)**	**(3,011)**	**(1,627)**

(a) In accordance with IAS 19, '*Employee benefits*', the Group has recognised the actuarial gains on re-measurement of provision for employees' end of service benefits in the consolidated statement of other comprehensive income.

5.4 Reconciliation of consolidated statement of cash flows

The Group's operating, investing and financing cash flows reported under SOCPA GAAP did not significantly differ from IFRS as endorsed in KSA.

6. CASH AND CASH EQUIVALENTS

	Note	***31 December 2018***	*31 December 2017*	*1 January 2017*
Short term deposits	*6.1*	**--**	18,029	206,000
Cash at bank – current accounts		**486**	9,191	17,168
Cash in trading account		**21**	--	--
Cash in hand		**30**	20	20
		537	27,240	223,188

6.1 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 Offer Rate (SIBOR).

7. INVESTMENTS

	Notes	***31 December 2018***	*31 December 2017*	*1 January 2017*
Current				
Investments HFT	*7.1*	**--**	80,121	114,494
Investments at FVTIS	*7.1*	**32,342**	--	--
		32,342	80,121	114,494
Non-current				
AFS investments	*7.2*	**--**	47,950	52,588
Investment at FVOCI	*7.2*	**30,660**	--	--
		30,660	47,950	52,588

(Saudi Arabian Riyals in thousands)

7. INVESTMENTS (CONTINUED)

7.1 Investments at FVTIS / HFT

The investments at FVTIS / HFT comprise of the following:

	31 December 2018	*31 December 2017*	*1 January 2017*
Mutual fund units	**24,526**	16,538	29,653
Quoted equities	**7,816**	63,583	84,841
	32,342	80,121	114,494

7.2 Investment at FVOCI / AFS investments

Investment measured at FVOCI (1 January 2017 and 31 December 2017: AFS investments) represents the Group's 1.75 million investment (being 5% of invested share capital in AlJazira Takaful Taawuni Company – the "Investee Company") with a total cost of SAR 17.5 million. The market value of investment is SAR 30.7 million as at 31 December 2018 (1 January 2017: SAR 52.6 million and 31 December 2017: SAR 48.0 million).

Movement of fair value reserve during the year is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
Balance at beginning of the year	**30,450**	35,088	41,283
Net change in fair value of investments	**(17,290)**	(4,638)	(6,195)
Balance at end of the year	**13,160**	30,450	35,088

At initial recognition, the Group has made an irrevocable election to classify this equity investment as FVOCI as it is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *'Business Combination'* applies.

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 1 January 2017 was received during 2017.

9. 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 rates based on SIBOR plus a margin.

The facilities are collateralised by underlying equities and cash held in the customers' investment accounts.

The Company has assessed ECL on margin finance receivables and after considering the nature of these receivables, collateral available and history of defaults, the Company has concluded that no material ECL loss allowance is required against these receivables as at 31 December 2018. Detailed information on ECL is in note 27.2 to these consolidated financial statements.

(Saudi Arabian Riyals in thousands)

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 NRV. The NRV approximate the fair value of investments in real estate properties which is based on an average of market values obtained from the two independent valuers' licensed by Taqeem. These values are impacted by the independent valuers' estimation uncertainties.

The best evidence of NRV is current prices in an active market for similar properties. Where such information is not available the Fund Manager considers information from a variety of sources including current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences. The key inputs in the valuation models are the price per square metre from current year sales of comparable properties.

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

	Cost including development expenses			**NRV**			**Lower of cost and NRV**		
	31 December 2018	*31 December 2017*	*1 January 2017*	**31 December 2018**	*31 December 2017*	*1 January 2017*	**31 December 2018**	*31 December 2017*	*1 January 2017*
Project locations									
North Riyadh	**--**	1,050	6,433	**--**	990	6,300	**--**	990	6,300
North Khobar	**20,589**	22,104	22,104	**18,935**	23,650	23,700	**18,935**	22,104	22,104
	20,589	23,154	28,537	**18,935**	24,640	30,000	**18,935**	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 is as follows:

	31 December 2018	*31 December 2017*
Balance as at beginning of the year	**23,094**	28,404
Disposals during the year	**(2,505)**	(5,250)
Write down of investment to NRV	**(1,654)**	(60)
Balance as at end of the year	**18,935**	23,094

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2018	*31 December 2017*	*1 January 2017*
Asset management fees receivable	**32,710**	22,261	18,442
Prepayments	**7,821**	8,939	11,553
Others	**4,684**	1,518	343
	45,215	32,718	30,338

(Saudi Arabian Riyals in thousands)

12. PROPERTY AND EQUIPMENT, NET

	Leasehold improvement	Furniture, fixture and office equipment	Motor Vehicle	Capital work in progress	Total
Cost					
At 1 January 2017	79,680	105,668	25	3,890	189,263
Additions during the year	1,430	519	--	1,174	3,123
Transfers during the year	--	5,055	--	(5,055)	--
Disposals during the year	--	(1,723)	--	--	(1,723)
At 31 December 2017	81,110	109,519	25	9	190,663
Additions during the year	--	471	--	--	471
Transfers during the year	9	--	--	(9)	--
Disposals during the year	(162)	(81)	--	--	(243)
At 31 December 2018	**80,957**	**109,909**	**25**	**--**	**190,891**
Accumulated depreciation					
At 1 January 2017	60,246	88,160	25	--	148,431
Charge for the year	1,496	5,085	--	--	6,581
Disposals during the year	--	(1,675)	--	--	(1,675)
At 31 December 2017	61,742	91,570	25	--	153,337
Charge for the year	1,517	4,922	--	--	6,439
Disposals during the year	--	(79)	--	--	(79)
At 31 December 2018	**63,259**	**96,413**	**25**	**--**	**159,697**
Net book value as at					
31 December 2018	**17,698**	**13,496**	**--**	**--**	**31,194**
31 December 2017	19,368	17,949	--	9	37,326
1 January 2017	19,434	17,508	--	3,890	40,832

13. INTANGIBLE ASSETS, NET

	31 December 2018	*31 December 2017*
Cost		
At the beginning of the year	**14,690**	13,946
Additions during the year	**1,833**	768
Written off during the year	**--**	(24)
At the end of the year	**16,523**	14,690
Amortisation		
At the beginning of the year	**4,187**	2,657
Charge for the year	**3,223**	1,530
At the end of the year	**7,410**	4,187
Net book value	**9,113**	10,503

As at December 31, 2018 intangible assets include work in progress amounting to SAR 1.7 million (31 December 2017: SAR 0.5 million and 1 January 2017: SAR 9.2 million).

(Saudi Arabian Riyals in thousands)

14. SHORT-TERM BORROWINGS

Short-term borrowing represents Murabaha loan facility of SAR 850 million from Bank AlJazira to finance margin finance loans and working capital requirements. As at 31 December 2018, the amount of this facility utilised by the Company is SAR 505.8 million (31 December 2017: SAR 656.1 million). The financing carries commission at a rate of SIBOR plus an agreed spread payable at maturity. Accrued special commission on the facility as at 31 December 2018 amount to SAR 3.8 million (31 December 2017: SAR 1.1 million)

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Note	***31 December 2018***	*31 December 2017*	*1 January 2017*
Employees related liabilities		**7,478**	10,901	15,471
Accrued expenses		**5,218**	8,742	9,451
Directors' remuneration	*30*	**15**	1,800	1,844
Other liabilities		**2,397**	1,440	1,271
		15,108	22,883	28,037

16. ACCRUED ZAKAT AND INCOME TAX

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 income tax returns are filed by the Bank which includes the Company's zakat and income tax liability.

16.1 Zakat

	31 December 2018	*31 December 2017*	*1 January 2017*
Adjusted net income for the year	**35,987**	32,880	41,124
Saudi share of adjusted net income for the year – zakat base	**34,428**	30,963	38,726
Zakat charge based on zakatable income for the year	**3,443**	774	968

Saudi shareholders' ownership percentage was 94.17 % from 1 January 2018 to 19 April 2018 and 96.301% from 20 April 2018 to 31 December 2018 (31 December 2017: 94.17% and 1 January 2017: 94.17%)

The basis of zakat computation have changed in the current year pursuant to the Settlement Agreement (the "Agreement") reached between the Bank and GAZT to comply with the directives provided by Royal Decree No. (26/M) dated 20 Rabi Al-Awaal 1440 H (corresponding to 28 November 2018) and the Ministerial Resolution No. 1260 dated 5 Rabi Al-Thani 1440 H (corresponding to 12 December 2018).

(Saudi Arabian Riyals in thousands)

16. ACCRUED ZAKAT AND INCOME TAX (CONTINUED)

16.2 Income tax

	31 December 2018	*31 December 2017*	*1 January 2017*
Current tax expense			
Adjusted net income for the year	**35,987**	32,880	41,124
Taxable income attributable to foreign shareholder	**1,507**	1,918	2,399
	301	384	480
Deferred tax expense			
Origination and reversal of temporary differences	**139**	122	--
Income tax charge for the year	**440**	506	480

Foreign shareholders' ownership percentage was 5.833% from 1 January 2018 to 19 April 2018 and 3.699% from 20 April 2018 to 31 December 2018 (31 December 2017: 5.833% and 1 January 2017: 5.833%).

16.3 Movement in zakat and income tax accrual

The movement during the year is as follows:

	Note	***Zakat***	***Income tax***	***Total***
31 December 2018				
At beginning of the year		29,024	384	29,408
Zakat provision for current year	*16.1*	3,443	--	3,443
Income tax provision for the year	*16.2*	--	301	301
Payments made to the Bank		(774)	(384)	(1,158)
At the end of the year		**31,693**	**301**	**31,994**

	Note	***Zakat***	***Income tax***	***Total***
31 December 2017				
At beginning of the year		33,251	2,255	35,506
Zakat provision for current year	*16.1*	774	--	774
Zakat provision for previous year		(4,033)	--	(4,033)
Income tax liability for the year	*16.2*	--	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**

	Note	***Zakat***	***Income tax***	***Total***
1 January 2017				
At beginning of the year		2,643	3,085	5,728
Zakat provision for current year	*16.1*	5,001	--	5,001
Zakat provision for prior years	*16.4*	28,250	--	28,250
Income tax liability for the year	*16.2*	--	480	480
Payments made to the Bank		(2,643)	(1,310)	(3,953)
At the end of year		**33,251**	**2,255**	**35,506**

(Saudi Arabian Riyals in thousands)

16. ACCRUED ZAKAT AND INCOME TAX (CONTINUED)

16.4 *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 finalised by the GAZT with an additional demand of SAR 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 SAR 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 HAC 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 SAR 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 SAR 11.9 million to SAR 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 2017 in accordance with Ministerial Resolution 1005, consolidated zakat and income tax returns have been filed for Bank AlJazira and the Company. As a result of the Agreement mentioned in note 16.1, all zakat related disputes between the Bank and the GAZT pertaining to the previous years stand resolved. The Company's zakat liability for the years 2013 through 2017 has already been paid to the Bank for these years in full and final settlement from the Company.

17. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The movement in provision for employees' benefits are as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
Balance at beginning of the year	**44,296**	43,539	41,223
Current service cost	**3,834**	4,011	3,403
Special commission cost	**1,614**	1,702	1,337
Amount recognised in consolidated statement of income	**5,448**	5,713	4,740
Re-measurement (gain) loss recognised in other comprehensive income	**(777)**	(3,011)	1,698
Benefits paid during the year	**(5,799)**	(1,945)	(4,122)
Balance at the end of the year	**43,168**	44,296	43,539

17.1 Re-measurement (gain) / loss recognised in other comprehensive income for the year is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
Effect of change in financial assumptions	**120**	(1,645)	1,937
Effect of experience adjustments	**(897)**	(1,366)	(239)
Re-measurement (gain) / loss recognised in other comprehensive income	**(777)**	(3,011)	1,698

(Saudi Arabian Riyals in thousands)

17. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

17.2 Principal actuarial assumptions

The following were the principal actuarial assumptions:

	31 December 2018	*31 December 2017*	*1 January 2017*
Key actuarial assumptions			
Discount rate use	**4.4%**	3.9%	4%
Expected annual salary increment	**3.35%**	2.85%	3.9%
Expected employee turnover	**8.5%**	8.5%	10%
Demographic assumptions			
Retirement age	**60 years**	60 years	60 years

17.3 Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions on the defined benefit obligation are shown below:

	31 December 2018		*31 December 2017*		*1 January 2017*	
	Increase	***Decrease***	*Increase*	*Decrease*	*Increase*	*Decrease*
Discount rate *(1% movement)*	**(2,934)**	**3,336**	(3,009)	3,436	(2,295)	2,573
Future salary growth *(1% movement)*	**3,562**	**(3,183)**	3,660	(3,248)	2,773	(2,517)
Withdrawal rate *(10% movement)*	**(14)**	**19**	(12)	15	(70)	70

18. SHARE CAPITAL

The share capital is divided into 50 million shares (31 December 2017: 50 million shares) of SAR 10 each.

19. COMMITMENTS

During the current year, the Company entered into an agreement to underwrite Saudi Enaya Cooperative Insurance Company's rights issue amounting to SAR 200 million. After the completion of public offering, the remaining outstanding underwriting commitment as at 31 December 2018 amounted to SAR 44.4 million. The transaction was fully subscribed on completion of the rump offering subsequent to the year end.

The un-utilised margin finance loan limits as at 31 December 2018 amount to SAR 68.8 million (31 December 2017: SAR 96 million and 1 January 2017: Nil)

20. BROKERAGE FEES, NET

The brokerage fees is reported net of brokerage related expenses amounting to SAR 102.8 million for the year ended 31 December 2018 (31 December 2017: SAR 108.3 million).

21. ASSET MANAGEMENT FEES, NET

The asset management fees is reported net of asset management related expenses amounting to SAR 12.2 million for the year ended 31 December 2018 (31 December 2017: SAR 10.8 million).

(Saudi Arabian Riyals in thousands)

22. TRADING (LOSS) / INCOME, NET

	31 December 2018	*31 December 2017*
Unrealised gain / (loss) on investments at FVTIS / HFT, net	**2,468**	(1,967)
Realised (loss) / gain on investments at FVTIS / HFT, net	**(13,207)**	14,698
	(10,739)	12,731

23. RENT AND PREMISES RELATED EXPENSES

The Bank has various operating lease arrangements for Bank AlJazira Group offices including the Head Office and investment centers 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 utilisation and, for the year ended 31 December 2018, amounted to SAR 8.8 million (31 December 2017: SAR 9.4 million).

24. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	***31 December 2018***	*31 December 2017*
Technology expenses		**16,835**	20,102
Share depository		**3,060**	4,116
Support service charges, net	*30.1*	**3,390**	3,678
Professional fees		**3,229**	3,664
Repairs and maintenance		**2,062**	2,096
Utilities		**529**	2,089
Training and conferences		**832**	1,001
Travelling		**909**	792
Others		**7,665**	8,629
		38,511	46,167

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended 31 December 2018 and 31 December 2017 is calculated by dividing net income for the year by the weighted average outstanding number of shares for the year, totaling 50 million shares (31 December 2017: 50 million shares).

26. 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:

	31 December 2018	*31 December 2017*	*1 January 2017*
Clients' funds under management	**11.5 billion**	13.9 billion	7.8 billion
Clients' funds under administration / brokerage	**47.0 billion**	43.8 billion	34.7 billion

27. FINANCIAL RISK MANAGEMENT

The Group's objective in managing risk is the creation and protection of shareholder value. Risk management is an ongoing process which requires continuous identification, analysis, mitigation, monitoring of risks and controls.

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. These risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company has dedicated Risk and Compliance functions. Day-to-day risk management activities are managed within each respective business unit. The Board of Directors meets on a quarterly basis and is updated on all relevant aspects of the business, including risk management matters.

The Group has exposure to the following risks arising from financial instruments:
- Market risk
- Credit risk
- Liquidity risk
- Operational risk

27.1 Market risk

a) Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group's transactions are principally in Saudi Arabian Riyals (SAR) and US Dollar (USD). As SAR is pegged to the USD, the Group is not exposed to any significant foreign exchange risk.

b) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments.

The Group's only commission bearing financial instruments are margin finance receivables, Murabaha deposits maintained with the Bank and short-term borrowings. The commission is fixed for the period for which these commission bearing financial instruments are issued or obtained. Therefore, no significant commission rate risk exists for the existing financial instruments.

c) Price risk

Price risk is the risk that the value of the Group's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The Group's price risk exposure relates to its investment in quoted equities and mutual funds units whose value will fluctuate as a result of changes in market prices.

The Group closely monitors the price movement of its listed financial instruments. The Investment Committee ensures that the proprietary investments are diverse and balanced, and seeks investment opportunities consistent with the investment strategy. The Investment Committee has approved limits for proprietary investments consistent with the risk appetite of the Group.

(Saudi Arabian Riyals in thousands)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.1 Market risk (continued)

The Group manages this risk through diversification of its investment portfolio in terms of industry concentration and geographical distribution.

The Group's investment in mutual funds is disclosed below:

	31 December 2018		*31 December 2017*		*1 January 2017*	
	%	***Amount***	*%*	*Amount*	*%*	*Amount*
Real estate funds	**45.1**	**11,061**	70.6	11,671	52.2	15,486
Equity funds	**54.9**	**13,465**	29.4	4,867	47.8	14,167
	100	**24,526**	100	16,538	100	29,653

All the above mutual funds are incorporated in the Kingdom of Saudi Arabia.

The Group's investment in quoted equities by industry is disclosed below:

	31 December 2018		*31 December 2017*		*1 January 2017*	
Industry Sector	***%***	***Amount***	*%*	*Amount*	*%*	*Amount*
Petrochemical	**86.0**	**6,724**	5.4	3,427	9.6	8,120
Industrial investment	**7.0**	**549**	0.9	545	2.3	1,986
Telecommunication and technology	**7.0**	**543**	37.9	24,089	24.8	21,071
Banks and financial institutions	**--**	**--**	--	--	15.3	12,955
Construction and engineering	**--**	**--**	13.6	8,655	2.5	2,117
Consumer and food products	**--**	**--**	10.0	6,333	5.1	4,313
Pharmaceuticals	**--**	**--**	7.4	4,727	1.5	1,306
Automobile and parts	**--**	**--**	4.0	2,531	5.8	4,897
Real estate	**--**	**--**	2.4	1,539	1.4	1,168
Electric and electronics	**--**	**--**	1.7	1,098	2.8	2,379
Chemicals	**--**	**--**	0.7	417	1.6	1,369
Agriculture and food industries	**--**	**--**	--	--	5.7	4,878
Transport	**--**	**--**	--	--	6.8	5,775
Cement	**--**	**--**	--	--	3.1	2,641
Others	**--**	**--**	16.0	10,222	11.7	9,866
	100	**7,816**	100	63,583	100	84,841

(Saudi Arabian Riyals in thousands)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.1 Market risk (continued)

The Group's investment in quoted equities by geography is disclosed below:

	31 December 2018		*31 December 2017*		*1 January 2017*	
	%	***Amount***	*%*	*Amount*	*%*	*Amount*
Kingdom of Saudi Arabia	**100**	**7,816**	0.9	545	37.4	31,747
China	**--**	**--**	25.1	15,929	8.6	7,274
Cyman Islands	**--**	**--**	17.9	11,374	5.2	4,406
Taiwan	**--**	**--**	17.1	10,852	6.2	5,226
Malaysia	**--**	**--**	5.4	3,418	1.7	1,418
India	**--**	**--**	4.7	3,008	3.3	2,763
South Africa	**--**	**--**	4.4	2,791	5.8	4,943
Brazil	**--**	**--**	3.3	2,103	2.2	1,845
Thailand	**--**	**--**	3.2	2,061	2.3	1,981
United Arab Emirates	**--**	**--**	--	--	5.4	4,621
Kuwait	**--**	**--**	--	--	0.9	794
Sultanate of Oman	**--**	**--**	--	--	2.0	1,666
Qatar	**--**	**--**	--	--	4.2	3,564
Other	**--**	**--**	18.0	11,502	14.8	12,593
	100	**7,816**	100	63,583	100	84,841

The effect on the consolidated statement of income (as a result of the change in the fair value of investments as at 31 December) due to a reasonably possible change in equity indices and / or the mutual funds' net assets value, with all other variables held constant, is as follows:

		Effect on consolidated statement of income		
	Potential reasonable change %	***31 December 2018***	*31 December 2017*	*1 January 2017*
Mutual fund units	+/- 5%	**1,226**	827	1,483
Quoted equities	+/- 5%	**391**	3,179	4,242

The effect on the consolidated statement of other comprehensive income (as a result of the change in the fair value of investments as at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

		Effect on consolidated statement of other comprehensive income		
	Potential reasonable change %	***31 December 2018***	*31 December 2017*	*1 January 2017*
Quoted equity *(AlJazira Takaful Taawuni Company)*	+/- 5%	**1,533**	2,398	2,629

(Saudi Arabian Riyals in thousands)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 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. The Group is exposed to credit risk mainly arising from cash and cash equivalents, Murabaha deposits, margin finance receivables and other receivables.

The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate limits and controls, and to monitor the risks and adherence to limits by means of timely and reliable management information data.

The Group's maximum exposure to credit risk without taking effect of collateral amounts is as follows:

	31 December 2018	*31 December 2017*	*1 January 2017*
Cash at bank	**507**	27,220	223,168
Murabaha deposits	**--**	--	411,553
Margin finance receivables	**1,307,629**	1,325,681	--
Other receivables	**37,394**	23,455	18,364
	1,345,530	1,376,356	653,085

Cash at bank, Murabaha deposits and other receivables
Bank balances and Murabaha deposits are maintained with banks having sound credit ratings. Other receivables represent asset management fees receivable mainly from mutual funds and portfolios management by the Company and investment banking fees receivables from corporate clients, which are considered as low credit risk by the Group.

Margin finance receivables
Lending for margin finance is done with 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 collateralised at all times. Customer portfolios are liquidated to cover the loan amounts if the collateral coverage ratio drops below the liquidation level. Even though there might be a small probability of default, the ECL results in zero impairment provision as the pledged collateral (in the form of cash or liquid securities) adequately covers the exposure. The over-collateralised nature of the exposure, coupled with the Group's monitoring process, results in a loss given default (LGD) of zero.

Given the nature and extent of the collateral pledged against the Group's margin finance receivables, the management considers the credit risk of the exposures to be minimal.

The fair value of the collateral held against margin finance receivables amounted to SAR 3,736.9 million as at 31 December 2018 (31 December 2017: SAR 3,628.5 million and 1 January 2017: Nil).

27.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The Group maintains a Murabaha loan facility from Parent Company, Bank AlJazira to satisfy its liquidity requirements.

(Saudi Arabian Riyals in thousands)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Liquidity risk (continued)

The Group's approach to managing liquidity is to ensure it always has sufficient liquidity (or access to sufficient liquidity) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable costs or risking damage to the Group's reputation.

The contractual maturity profile of the financial assets and financial liabilities of the Group as at 31 December 2018 was as follows:

	Within 3 months	*3 to 12 months*	*More than 1 year*	*No fixed maturity*	*Total*
Cash and cash equivalents	537	--	--	--	537
Margin finance receivables	544,755	762,874	--	--	1,307,629
Investments at FVTIS	--	11,061	--	21,281	32,342
Investments at FVOCI	--	--	--	30,660	30,660
Other receivables	16,324	21,070	--	--	37,394
Total financial assets	**561,616**	**795,005**	**--**	**51,941**	**1,408,562**
Short-term borrowings	395,621	110,203	--	--	505,824
Due to related parties	--	90,783	--	--	90,783
Other current liabilities	7,493	2,397	--	--	9,890
Total financial liabilities	**403,114**	**203,383**	**--**	**--**	**606,497**
Net position	**158,502**	**591,622**	**--**	**51,941**	**802,065**

The contractual maturity profile of the financial assets and financial liabilities of the Group as at 31 December 2017 was as follows:

	Within 3 months	*3 to 12 months*	*More than 1 year*	*No fixed maturity*	*Total*
Cash and cash equivalents	27,240	--	--	--	27,240
Margin finance receivables	387,316	938,365	--	--	1,325,681
HFT investments	--	--	11,671	68,450	80,121
AFS investments	--	--	--	47,950	47,950
Other receivables	11,174	12,281	--	--	23,455
Total financial assets	**425,730**	**950,646**	**11,671**	**116,400**	**1,504,447**
Short-term borrowings	656,110	--	--	--	656,110
Due to related parties	--	23,034	--	--	23,034
Other current liabilities	12,701	1,440	--	--	14,141
Total financial liabilities	**668,811**	**24,474**	**--**	**--**	**693,285**
Net position	**(243,081)**	**926,172**	**11,671**	**116,400**	**811,162**

(Saudi Arabian Riyals in thousands)

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3 Liquidity risk (continued)

The contractual maturity profile of the financial assets and financial liabilities of the Group as at 1 January 2017 was as follows:

	Within 3 months	*3 to 12 months*	*More than 1 year*	*No fixed maturity*	*Total*
Cash and cash equivalents	223,188	--	--	--	223,188
Murabaha deposits	308,787	--	102,766	--	411,553
HFT investments	--	--	15,486	99,008	114,494
AFS investments	--	--	--	52,588	52,588
Other receivables	9,352	9,012	--	--	18,364
Total financial assets	**541,327**	**9,012**	**118,252**	**151,596**	**820,187**
Due to related parties	--	23,493	--	--	23,493
Other current liabilities	17,315	1,271	--	--	18,586
Total financial liabilities	**17,315**	**24,764**	--	--	**42,079**
Net position	**524,012**	**(15,752)**	**118,252**	**151,596**	**778,108**

The table below summarises the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date.

31 December 2018	*Within 3 months*	*3 to 12 months*	*More than 1 year*	*No fixed maturity*	*Total*
Short-term borrowings	396,798	112,712	--	--	509,510
Due to related parties	--	90,783	--	--	90,783
Other current liabilities	7,493	2,397	--	--	9,890
Total	**404,291**	**205,892**	--	--	**610,183**

31 December 2017	*Within 3 months*	*3 to 12 months*	*More than 1 year*	*No fixed maturity*	*Total*
Short-term borrowings	657,244	--	--	--	657,244
Due to related parties	--	23,034	--	--	23,034
Other current liabilities	12,701	1,440	--	--	14,141
Total	**669,945**	**24,474**	--	--	**694,419**

1 January 2017	*Within 3 months*	*3 to 12 months*	*More than 1 year*	*No fixed maturity*	*Total*
Due to related parties	--	23,493	--	--	23,493
Other current liabilities	17,315	1,271	--	--	18,586
Total	**17,315**	**24,764**	--	--	**42,079**

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, people, technology and infrastructure supporting the Group's activities either internally or externally at the Group's service provider level and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Operational risk is a distinct risk category which the Group manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective of managing operational risk is to ensure control of the Group's resources by protecting the assets of the Group and minimising the potential for financial loss.

The Group's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. Qualitative and quantitative methodologies and tools are used to identify and assess operational risks and to provide management with information for determining appropriate mitigating factors. These tools include a loss database of operational risks events categorised according to CMA Prudential Rules, business lines, operational risk event types and a risk and control assessment process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. High impact risks and issues of critical importance are reported to the Board of Directors which then set resolution priorities.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Group is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value for financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales was reported on the valuation day are valued at the most recent bid price. Investments in mutual funds are valued at the unit price prevailing on the last valuation day of the year.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When measuring the fair value the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Saudi Arabian Riyals in thousands)

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The values of investments measured at FVTIS and FVOCI are based on quoted market prices in active markets, and are therefore classified within Level 1 in the fair value hierarchy. The Group does not adjust the quoted prices for these instruments.

Carrying value of other financial assets such as cash and cash equivalents, margin finance receivables, other receivables and financial liabilities approximate their fair value and are classified as level 3.

There were no transfers between levels of fair value hierarchy during the year ended 31 December 2018 (31 December 2017: nil).

29. FINANCIAL INSTRUMENTS BY CATEGORY

The classification of financial assets by category are included in the below table.

31 December 2018	**Amortised cost**	**FVTIS**	**FVOCI**
Cash and cash equivalents	537	--	--
Margin finance receivables	1,307,629	--	--
Investments at FVTIS	--	32,342	--
Investments at FVOCI	--	--	30,660
Other receivables	37,394	--	--
Total	**1,345,560**	**32,342**	**30,660**

31 December 2017	**Amortised cost**	**FVTIS**	**FVOCI**
Cash and cash equivalents	27,240	--	--
Margin finance receivables	1,325,681	--	--
HFT investments	--	80,121	--
AFS investments	--	--	47,950
Other receivables	23,455	--	--
Total	**1,376,376**	**80,121**	**47,950**

1 January 2017	**Amortised cost**	**FVTIS**	**FVOCI**
Cash and cash equivalents	223,188	--	--
Murabaha deposits	411,553	--	--
HFT investments	--	114,494	--
AFS investments	--	--	52,588
Other receivables	18,364	--	--
Total	**653,105**	**114,494**	**52,588**

As at the consolidated statement of financial position date, all financial liabilities were measured at amortised cost.

(Saudi Arabian Riyals in thousands)

30. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Company comprise of the Board of Directors and key management personnel of the Company, mutual funds under management, Bank AlJazira and its subsidiaries and affiliated companies.

30.1 Related party transactions

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

Related party	***Notes***	***31 December 2018***	*31 December 2017*
Bank AlJazira			
Special commission income	*(a)*	**228**	1,137
Special commission expense		**13,114**	7,142
Support service charges	*(b)*	**3,390**	3,988
Rent and premises related expenses	*(c)*	**8,825**	9,355
Margin Finance management fees	*(d)*	**--**	3,109
Custody fees		**811**	--
Mutual funds			
Asset management fees		**30,060**	26,221
Support services charges recovered from mutual funds		**--**	310
Board of Directors			
Directors remuneration	*(e)*	**1,944**	1,881
Key management personnel			
Salaries and compensation		**10,471**	10,664
End of service benefit		**673**	673

a) Special commission is earned on deposits maintained with the Bank.

b) Support service charges represent financial, administrative, logistics, legal, IT related and internal audit services as per the service agreement with the Bank.

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 23 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) Board of Directors remunerations amounting to SAR 1.9 million (2017: SAR 1.9 million) have been calculated and approved in accordance with the Company's By-Laws. Attendance fees paid to the directors, amounting to SAR 0.13 million (2017: SAR 0.11 million), are recorded under general and administrative expenses.

f) Cash at bank as disclosed in note 6 of these consolidated financial statements includes an amount of SAR 0.49 million (2017: SAR 0.88 million) maintained with Bank AlJazira which acts as the Group's banker.

(Saudi Arabian Riyals in thousands)

30. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

30.2 Balances with related parties

	31 December 2018	*31 December 2017*	*1 January 2017*
Bank AlJazira			
Custody fee receivable	**267**	--	--
Due to related party	**90,141**	22,376	22,896
Short-term borrowings	**505,824**	656,110	--
AlJazira Takaful			
Due to related party	**642**	658	597
Mutual funds			
Investments	**24,526**	16,538	23,776
Asset management fees receivable	**29,499**	20,414	17,728
Board of directors			
Directors remuneration	**15**	1,800	1,844
Key management personnel			
Employee benefit obligations	**9,919**	9,246	8,573

31. CAPITAL ADEQUACY

The CMA has issued Prudential Rules (the "Rules") dated 17 Safar 1434H (corresponding to 30 December 2012). 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:

	31 December 2018	*31 December 2017*	*1 January 2017*
Capital Base:			
Tier 1 Capital	**756,677**	730,532	694,785
Tier 2 Capital	**13,160**	30,450	35,088
Total Capital Base	**769,837**	760,982	729,873
Minimum Capital Requirement:			
Market Risk	**11,747**	19,345	22,383
Credit Risk	**340,477**	359,034	89,038
Operational Risk	**38,628**	38,546	41,421
Total Minimum Capital Required	**390,852**	416,925	152,842
Capital Adequacy Ratio:			
Total Capital Ratio (time)	**1.97**	1.83	4.78
Surplus in Capital	**378,985**	344,057	577,031

31. CAPITAL ADEQUACY (CONTINUED)

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.

d) Capital adequacy disclosure for the year ended 31 December 2017 and 1 January 2017 are reported based on consolidated financial statements prepared in accordance with SOCPA GAAP; the impact of IFRS on these prior year comparative disclosures is immaterial.

32. EVENTS AFTER THE END OF REPORTING PERIOD

There are no events subsequent to the consolidated statement of financial position date which require adjustments of or disclosure in the consolidated financial statements or notes thereto.

33. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements and its accompanying notes were approved by the Board of Directors' on 13 Rajab 1440H (corresponding to 20 March 2019).