ALJAZIRA CAPITAL COMPANY

(A Saudi Closed Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

together with the

INDEPENDENT AUDITORS' REPORT

KPMG Al Fozan & Partners
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INDEPENDENT AUDITORS' REPORT

To: **The Shareholders of Aljazira Capital Company**
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of **Aljazira Capital Company** (the "Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated balance sheet as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (25) which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company's By-laws, and for such internal controls 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. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements taken as a whole:

1) present fairly, in all material respects, the financial position of **Aljazira Capital Company** (the "Company") and its subsidiaries as at 31 December 2016, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the consolidated financial statements.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Riyadh on: 27 Jumada Al-Thani 1438H
Corresponding to: 26 March 2017

(Saudi Riyal in thousands)

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	4	**223,188**	38,736
Held for trading investments	5	**114,494**	228,764
Due from a related party	6	**--**	4,402
Murabaha deposits	7	**300,000**	--
Accrued special commission income	7	**8,787**	15
Investment in real estate properties	9	**28,404**	33,626
Prepayments and other current assets	10	**30,338**	27,974
Total current assets		**705,211**	333,517
Non-current assets			
Murabaha deposits	7	**100,000**	400,000
Available for sale investments	8	**52,588**	58,783
Accrued special commission income	7	**2,766**	491
Property and equipment, net	11	**52,121**	48,493
Total non-current assets		**207,475**	507,767
TOTAL ASSETS		**912,686**	841,284
LIABILITIES AND EQUITY			
Current liabilities			
Due to related parties	6	**23,493**	833
Accrued expenses and other current liabilities	12	**28,037**	32,281
Accrued Zakat and income tax	13c	**35,506**	5,728
Subsidiary's equity obligations	2e	**53,936**	35,825
Total current liabilities		**140,972**	74,667
Non-current liabilities			
Provision for employees' end of service benefits		**41,841**	41,223
Total non-current liabilities		**41,841**	41,223
TOTAL LIABILITIES		**182,813**	115,890
Equity attributable to the Company's shareholder			
Share capital	14	**500,000**	500,000
Statutory reserve		**85,964**	81,571
Retained earnings		**108,821**	102,540
Fair value reserve	8	**35,088**	41,283
Total equity attributable to the Company's shareholder		**729,873**	725,394
TOTAL LIABILITIES AND EQUITY		**912,686**	841,284

The accompanying notes (1) through (25) form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016
(Saudi Riyal in thousands)

	Note	2016	2015
REVENUES			
Brokerage fees - net		**109,560**	168,157
Asset management fees	*6*	**23,287**	32,679
Margin finance management fees	*6*	**41,347**	51,520
Trading income / (loss) – net	*16*	**6,398**	(5,072)
Gain on disposal of real estate properties		**1,246**	7,176
Dividend income		**3,911**	4,237
Investment banking services fees		**2,930**	8,548
Total revenues		**188,679**	267,245
OPERATING EXPENSES			
Salaries and employee related expenses		**90,201**	103,483
Repairs and maintenance		**4,380**	9,565
Rent and premises related expenses	*6,19*	**9,355**	9,198
Depreciation	*11*	**7,076**	7,194
Other general and administrative expenses	*18*	**42,427**	33,873
Total operating expenses		**153,439**	163,313
OPERATING INCOME		**35,240**	103,932
Special commission income	6	**11,809**	8,072
Other (expense) / income	*17*	**(64)**	1,205
Income attributable to subsidiary's equity obligations – net		**(3,060)**	(4,220)
NET INCOME FOR THE YEAR		**43,925**	108,989
Weighted average number of shares		**50,000**	50,000
Earnings per share from:	*15*		
Operating income		***0.70***	*2.08*
Net income		***0.88***	*2.18*

The accompanying notes (1) through (25) form an integral part of these consolidated financial statements.

(Saudi Riyal in thousands)

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income for the year		**43,925**	108,989
Adjustments to reconcile net income for the year to net cash from operating activities:			
Depreciation	11	**7,076**	7,194
Unrealized (gain) / loss on investments held for trading	*16*	**(9,225)**	7,373
Gain on disposal of property and equipment, net	17	**(17)**	(93)
Provision for employees' end of service benefits		**4,740**	6,664
		46,499	130,127
Changes in operating assets and liabilities:			
Held for trading investments		**123,495**	26,371
Due from related parties		**4,402**	6,834
Investment in real estate properties		**5,222**	18,043
Accrued special commission income		**(11,047)**	15,614
Prepayments and other current assets		**(2,364)**	(13,898)
Due to related parties		**21,830**	227
Accrued expenses and other current liabilities		**(4,244)**	4,671
		183,793	187,989
Employees' end of service benefits paid		**(4,122)**	(767)
Zakat and income tax paid		**(2,643)**	(3,428)
Net cash from operating activities		**177,028**	183,794
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in Murabaha deposits		**--**	(400,000)
Murabaha deposits matured		**--**	400,000
Purchase of property and equipment	11	**(10,729)**	(11,473)
Proceeds from disposal of property and equipment		**42**	199
Net cash used in investing activities		**(10,687)**	(11,274)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**--**	(166,500)
Subsidiary equity obligations		**18,111**	(4,345)
Net cash from / (used in) financing activities		**18,111**	(170,845)
Net increase in cash and cash equivalents		**184,452**	1,675
Cash and cash equivalents at beginning of the year		**38,736**	37,061
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*4*	**223,188**	38,736
Non – cash items			
Zakat and income tax charged to shareholder's equity		**33,251**	1,354
Net change in fair value of available for sale investments		**(6,195)**	(54,967)
Transfer of charity payable to Bank AlJazira		**100**	224

The accompanying notes (1) through (25) form an integral part of these consolidated financial statements.

(Saudi Riyal in thousands)

	Notes	Equity attributable to shareholder				
		Share capital	Statutory reserve	Retained earnings	Fair value reserves	Total
Balance at 1 January 2015		500,000	70,672	166,552	96,250	833,474
Net income for the year		--	--	108,989	--	108,989
Dividends paid during the year		--	--	(166,500)	--	(166,500)
Transfer to statutory reserve		--	10,899	(10,899)	--	--
Zakat and income tax provision	*13*	--	--	1,354	--	1,354
Net movement due to change in ownership		--	--	3,044	--	3,044
Net change in fair value		--	--	--	(54,967)	(54,967)
Balance at 31 December 2015		**500,000**	**81,571**	**102,540**	**41,283**	**725,394**
Net income for the year		**--**	**--**	**43,925**	**--**	**43,925**
Transfer to statutory reserve		**--**	**4,393**	**(4,393)**	**--**	**--**
Zakat and income tax provision	*13*	**--**	**--**	**(33,251)**	**--**	**(33,251)**
Net change in fair value		**--**	**--**	**--**	**(6,195)**	**(6,195)**
Balance at 31 December 2016		**500,000**	**85,964**	**108,821**	**35,088**	**729,873**

The accompanying notes (1) through (25) form an integral part of these consolidated financial statements.

(Saudi Riyal in thousands)

1. ORGANIZATION AND ACTIVITIES

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

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

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

The registered address of the Company is:

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

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

Name of subsidiary	Country of incorporation	Ownership percentage	
		2016	**2015**
AlJazira Residential Projects Fund	Kingdom of Saudi Arabia	**43.34%**	43.64%
AlJazira Global Emerging Markets Fund	Kingdom of Saudi Arabia	**70.44%**	76.21%
AlJazira GCC Income Fund	Kingdom of Saudi Arabia	**45.51%**	67.83%
AlJazira Diversified Conservative Fund	Kingdom of Saudi Arabia	**78.43%**	93.34%

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

1.2 Closure of AlJazira Residential Projects Fund

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

(Saudi Riyal in thousands)

1. ORGANIZATION AND ACTIVITIES (CONTINUED)

1.2 Closure of AlJazira Residential Projects Fund (Continued)

Assets and liabilities of the Fund, based on the Fund's audited financial statements as of 31 December 2016, included in these consolidated financial statements are summarized below:

	Note	2016	2015
Investment in real estate properties	*9*	**28,404**	33,626
Total assets		**29,384**	38,836
Total liabilities		**9,537**	10,512

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

	2016	2015
Gain on disposal of real estate properties	**1,246**	7,176
Total income	**1,321**	7,176
Total expenses	**252**	577

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "the Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has amended its By-laws for any changes to align the By-laws to the provisions of the Law.

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Basis of consolidation

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

e. Subsidiary equity obligations

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

f. Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Significant areas where management has used estimates, assumptions or exercised judgement are disclosed in note 3 (h) of these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Cash and cash equivalents

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

b. Investments

Investment held for trading

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

Available for sale investments (AFS)

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

Held to maturity investments

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

Investment in real estate properties

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Property and equipment

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

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

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

The estimated useful lives of the assets are as follows:

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

d. Provisions

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

e. Financial Liabilities

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

f. Employees' end of service benefits

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

g. Foreign currencies

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

h. Impairment and un-collectability of financial assets

Impairment of available for sale investments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Impairment and un-collectability of financial assets (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 recognized impairment loss is reversed through consolidated statement of income.

Impairment of non-financial assets

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

i. 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.

j. Revenue

Revenue on transactions is recognized as follows:

- Brokerage income is recognized when the related transactions are executed and stated net of discounts and rebates.
- Asset management fees are recognized based on the applicable service contracts.
- Margin finance management fees are recognized based on customer utilization of the facility from the Bank at the applicable rates.
- Advisory fee income is recognized based on services rendered under the applicable service contracts.
- Special commission income on term deposits are recognized on an accrual basis.
- Dividend income is recognized when the right to receive dividend is established.

k. Zakat and income tax

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

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

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

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

l. Expenses

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

m. Statutory Reserve

The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to 2 May 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. Previously the Company, as per its By-laws, set aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The Company has amended its By-laws as described in note 2a in line with the new regulations during 2016.

(Saudi Riyal in thousands)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Segment reporting

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

o. Offsetting

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

4. CASH AND CASH EQUIVALENTS

	Note	2016	2015
Short term Murabaha deposit	*7*	**206,000**	25,000
Cash at bank – current account		**17,168**	13,716
Cash in hand		**20**	20
		223,188	38,736

5. HELD FOR TRADING INVESTMENTS

	2016	2015
Mutual fund units	**29,653**	127,802
Quoted Saudi equities	**84,841**	100,962
	114,494	228,764

6. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Name of related parties	Note	2016	2015
Bank AlJazira			
Special commission income (a)		**11,809**	8,072
Support service charges (b)	*18*	**3,988**	3,988
Rent expense (c)		**9,355**	9,198
Margin finance management fees (d)		**31,838**	51,520
Advisory fee (e)		**1,600**	--
Board of Directors			
Directors remuneration (f)		**1,820**	1,320
Mutual funds			
Asset management fees		**17,403**	23,152

The above transactions resulted in the following balance as at 31 December 2016:

	Note	2016	2015
Due from related parties			
Bank AlJazira (the Bank)		**--**	4,402
Mutual funds		**17,728**	14,228
Due to a related parties			
Bank AlJazira		**22,896**	--
Al Jazira Takaful		**597**	833
		23,493	833
Directors remuneration	*12*	**1,844**	1,513
Investments in Mutual funds managed by the Company		**23,776**	123,663

(Saudi Riyal in thousands)

6. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

a. Special commission is earned on Murabaha deposits maintained in the Bank's Naqa Murabaha Scheme (Note 7).

b. Support service charges represent financial, administrative, logistics, legal, IT related and internal audit services as per the service agreement with the Bank (Note 18).

c. Rent expenses are paid to the Bank in relation to the offices and investment centres of the Company as disclosed in note 19 of these consolidated financial statements.

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

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

f. Board of Directors remunerations amounting to SR 1.8 million (2015: SR 1.3 million) have been calculated and approved in accordance with the Company's By-Laws. Attendance fees paid to the directors, amounting to SR 0.14 million (2015: SR 0.15 million), are recorded under general and administrative expenses.

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

7. MURABAHA DEPOSITS

Murabaha deposits represent amounts invested in Bank AlJazira Naqa Murabaha Scheme at fixed rates by the Company. Murabaha deposits amounting to SR 206 million (2015: SR 25 million), classified as cash and cash equivalent, have been invested for a period up to three months. Murabaha deposit amounting to SR 400 million (2015: 400 million) was initially invested for three years. During 2016 the maturity dates of Murabaha deposits amounting to SR 100 million and SR 200 million were amended to 15 January 2017 and 25 January 2017 respectively in order to ensure liquidity for the funding of margin finance assets by the Company in 2017, in compliance with the CMA directive regarding the provision of margin finance facilities by Authorised Persons.

Accrued special commission income that will be received at the maturity of these deposits amounted to SR 11.6 million as at 31 December 2016 (31 December 2015: SR 0.5 million).

8. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments represent the Company's 1.75 million share investment (being 5% of invested share capital) with a total cost of SR 17.5 million and a market value of SR 52.6 million as at 31 December 2016 (31 December 2015: SR 58.8 million) in AlJazira Takaful Taawuni Company (the "Investee Company"). As per the prospectus of the Investee Company, the founding shareholders were prohibited to dispose of the acquired shares until 31 December 2016. The net change in fair value of this investment during the year was a reduction of SR 6.2 million (2015: SR 55 million) which is measured based on the quoted market price prevailing at the valuation date and is recorded as a separate component of shareholders' equity.

9. INVESTMENT IN REAL ESTATE PROPERTIES

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

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

	Cost including development expenses		Fair value including development expenses		Lower of cost and net realizable value	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Project locations						
North Riyadh	**6,433**	11,558	**6,300**	12,930	**6,300**	**11,558**
North Khobar	**22,104**	22,068	**23,700**	24,150	**22,104**	**22,068**
	28,537	33,626	**30,000**	37,080	**28,404**	**33,626**

(Saudi Riyal in thousands)

9. INVESTMENT IN REAL ESTATE PROPERTIES (CONTINUED)

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 :

	2016	2015
At beginning of the year	**33,626**	51,669
Development during the year	**56**	11,136
Disposals during the year	**(5,145)**	(29,179)
Write down of investment to NRV	**(133)**	--
At end of the year	**28,404**	33,626

The realised gain on sale of real estate properties amounted to SR 1.2 million (2015: SR 7.2 million).

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	2016	2015
Asset management fees receivable	*6*	**18,442**	14,702
Prepayments		**11,553**	10,043
Others		**343**	3,229
		30,338	27,974

(Saudi Riyal in thousands)

11. PROPERTY AND EQUIPMENT, NET

	2016					2015
	Leasehold improvement	Furniture, fixture and office equipment	Motor Vehicle	Capital work in progress	Total	Total
Cost						
At beginning of the year	**77,504**	**109,725**	**25**	**6,113**	**193,367**	183,547
Additions during the year	**2,176**	**1,017**	**--**	**7,536**	**10,729**	11,473
Transfers during the year	**--**	**577**	**--**	**(577)**	**--**	--
Disposals during the year	**--**	**(887)**	**--**	**--**	**(887)**	(1,653)
At end of the year	**79,680**	**110,432**	**25**	**13,072**	**203,209**	193,367
Accumulated depreciation						
At beginning of the year	**58,855**	**85,994**	**25**	**--**	**144,874**	139,227
Charge for the year	**1,391**	**5,685**	**--**	**--**	**7,076**	7,194
Disposals during the year	**--**	**(862)**	**--**	**--**	**(862)**	(1,547)
At end of the year	**60,246**	**90,817**	**25**	**--**	**151,088**	144,874
Net book value at						
- 31 December 2016	**19,434**	**19,615**	**--**	**13,072**	**52,121**	
- 31 December 2015	18,650	23,730	--	6,113		48,493

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Note	2016	2015
Employee related liabilities		**15,471**	19,882
Accrued expenses		**9,451**	9,913
Directors' remuneration	*6*	**1,844**	1,513
Other liabilities		**1,271**	973
		28,037	32,281

(Saudi Riyal in thousands)

13. ZAKAT AND INCOME TAX

The Bank is 94.17% owned by Saudi shareholders and 5.83% owned by foreign shareholders. In accordance with the Regulations of the General Authority for Zakat and Taxation (the "GAZT") as applicable in the Kingdom of Saudi Arabia , the Company is subject to Zakat attributable to the Saudi shareholders of the Bank and to income taxes attributable to the foreign shareholders of the Bank.

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

a. Zakat

	2016	2015
Adjusted net income for the year	**41,124**	112,263
Saudi shareholders' ownership percentage	**94.17%**	94.17%
Saudi share of adjusted net income for the year – Zakat base	**38,726**	105,718
Zakat charge based on Zakatable income for the year	**968**	2,643

During the current year, in addition to the allocated zakat charge of SR 0.9 million determined based on adjusted income, the Company made an additional provision of SR 4.03 million in respect of additional zakat liability that may arise when the zakat assessment is finalized.

b. Income tax

	2016	2015
Adjusted net income for the year	**41,124**	112,263
Foreign shareholders' ownership percentage	**5.833%**	5.833%
Taxable income attributable to foreign shareholder	**2,399**	6,548
Income tax charge for the year	**480**	1,310

c. Movement in Zakat and income tax accrual

The movement during the year is as follows:

31 December 2016	Zakat	Income tax	Total
At beginning of the year	**2,643**	**3,085**	**5,728**
Zakat provided during the year (Note 13a)	**5,001**	**--**	**5,001**
Zakat provided for prior years	**28,250**	**--**	**28,250**
Income tax liability for the year recoverable from foreign shareholder (Note 13b)	**--**	**480**	**480**
Transferred to the Bank	**(2,643)**	**(1,310)**	**(3,953)**
At the end of the year	**33,251**	**2,255**	**35,506**

31 December 2015			
At beginning of the year	4,718	5,792	10,510
Zakat provided during the year (Note 13a)	2,643	--	2,643
Income tax liability for the year recoverable from foreign shareholder (Note 13b)	--	1,310	1,310
Income tax liability no longer payable as recovered from foreign shareholder	--	(3,997)	(3,997)
Payment GAZT		(20)	(20)
Transferred to the Bank	(4,718)	--	(4,718)
At the end of the year	2,643	3,085	5,728

(Saudi Riyal in thousands)

13. ZAKAT AND INCOME TAX (CONTINUED)

d. Status of assessments

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

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

For the years ended 31 December 2013, 2014 and 2015 in accordance with Ministerial Resolution 1005, consolidated Zakat and tax returns have been filed for Bank AlJazira and the Company. No separate Zakat and tax return is required to be filed by the Company with the GAZT.

14. SHARE CAPITAL

The share capital is divided into 50,000,000 shares (2015: 50,000,000 shares) of SR 10 each.

15. EARNINGS PER SHARE

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

16. TRADING INCOME / (LOSS), NET

	2016	2015
Unrealised gain /(loss) on investments held for trading, net	**9,225**	(7,373)
Realised (loss) / gain on investments held for trading, net	**(2,827)**	2,301
	6,398	(5,072)

17. OTHER INCOME

	2016	2015
Fee income and exchange (loss) / gain - net	**(81)**	1,112
Gain on disposal of property and equipment, net	**17**	93
	(64)	1,205

18. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2016	2015
Communication		**15,878**	9,400
Share depository		**5,250**	3,360
Professional fees		**4,347**	5,182
Support service charges	*6b*	**3,988**	3,988
Utilities		**1,846**	1,147
Travelling		**1,090**	1,547
Training and conferences		**531**	563
Others		**9,497**	8,686
		42,427	33,873

(Saudi Riyal in thousands)

19. OPERATING LEASES

The Bank has various operating lease arrangements for Bank AlJazira Group offices including the Head Office and investment centres of the Company. These leases have a term of five to twenty five years. All rental agreements are contracted between the Bank and lessors. Rental expenses are charged to the Company by the Bank based on actual space utilization and, for the year ended 31 December 2016, amounted to SR 9.4 million (2015: SR 9.2 million).

20. LOAN FACILITY

During the year ended 31 December 2016, the Company had a revolving Islamic facility from Bank AlJazira, for a total amount of SR 124.4 million (2015: SR 124.4 million). The loan facility carries commission at a rate of 6 month SIBOR plus a market rate margin payable every month.

21. 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:

	2016	2015
Clients' funds under management	**7.8 billion**	4.1 billion
Clients' fund under administration / brokerage	**34.7 billion**	37.4 billion

22. SEGMENT REPORTING

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

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

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

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

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

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

	Brokerage	Asset management	Investment banking	Other corporate	Total
31 December 2016					
Revenue	**150,906**	**23,287**	**2,930**	**11,556**	**188,679**
Expenses	**(121,169)**	**(26,205)**	**(5,382)**	**(683)**	**(153,439)**
Income / (loss) from operations	**29,737**	**(2,918)**	**(2,452)**	**10,873**	**35,240**
Total assets	**50,118**	**18,480**	**21**	**844,067**	**912,686**
Total liabilities	**31,483**	**6,861**	**1,767**	**88,766**	**128,877**
31 December 2015					
Revenue	219,677	32,679	8,548	6,341	267,245
Expenses	(131,317)	(21,905)	(8,215)	(1,876)	(163,313)
Income from operations	88,360	10,774	333	4,465	103,932
Total assets	43,409	28,272	129	769,474	841,284
Total liabilities	21,865	4,438	1,649	52,113	80,065

(Saudi Riyal in thousands)

23. REGULATORY REQUIREMENTS FOR CAPITAL AND CAPITAL ADEQUACY

The CMA has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	As at 31 December	
	2016	**2015**
Capital Base:		
Tier 1 Capital	**694,785**	676,738
Tier 2 Capital	**35,088**	41,283
Total Capital Base	**729,873**	718,021
Minimum Capital Requirement:		
Market Risk	**22,383**	42,794
Credit Risk	**89,038**	74,844
Operational Risk	**41,421**	45,180
Total Minimum Capital Required	**152,842**	162,818
Capital Adequacy Ratio:		
Total Capital Ratio (time)	**4.78**	4.41
Surplus in Capital	**577,031**	555,203

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.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets of the Group comprise of cash and cash equivalents, Murabaha deposits, asset management fees receivable, due from related parties and investments. Financial liabilities of the Group comprise of accrued expenses.

Equity price risk

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

Special commission rate risk

Special commission rate risk is the exposure to various risk associated with the effect of fluctuations in the prevailing commission rate on the Group's financial position and cash flows. The Group's only commission bearing assets are Naqa Murabaha deposit maintained with the Bank which are based on the fixed rates and are not exposed to special commission rate fluctuations.

In relation to the financing arrangement with the Bank, the Group has limited commission rate risk as the facility is utilized occasionally for a very short period.

Credit risk

Credit risk is the risk that one party fails to discharge an obligation and may cause the other party to incur a financial loss. Financial assets which are subject to credit risk consist principally of bank balance, due from a related party and Murabaha deposits. Both the balances relate to the Bank, which has sound financial standing hence the risk is limited.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by ensuring that sufficient funds are available to meet any commitments as they arise. Further, as mentioned in note 20 of these consolidated financial statements, the Group has financing arrangements with the Bank in order to meet its liquidity requirements, as and when required.

Currency risk

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

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents, due from a related party and investments. Its financial liabilities consist of accrued expenses. The fair values of financial assets and liabilities are not materially different from their carrying values.

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements and its accompanying notes were approved for issue by the management on behalf of Board of Directors' on 27 Jumada al-Thani 1438H (corresponding to 26 March 2017).