

JADWA SAUDI EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
Financial Statements
For the year ended 31 December 2017
together with the
Independent Auditors' Report to the Unitholders



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Independent auditors' report

To the Unitholders of
Jadwa Saudi Equity Fund
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the financial statements of Jadwa Saudi Equity Fund (the "Fund") managed by Jadwa Investment Company (the "Fund Manager"), which comprise the balance sheet as at 31 December 2017, the statements of income, cash flows and changes in net assets attributable to the unitholders for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Fund Manager and Those Charged with Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards as issued by SOCPA, Investment Fund Regulations issued by the Capital Market Authority and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund'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 the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Jadwa Saudi Equity Fund ("the Fund").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No: 371

Date: 8 Rajab 1439H
Corresponding to: 25 March 2018



JADWA SAUDI EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
BALANCE SHEET
As at 31 December 2017
(Amounts in Saudi Arabian Riyals)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
<u>Assets</u>			
Cash and cash equivalents		1,249,899	13,275,769
Investments held for trading	4	498,479,952	450,394,031
Total assets		499,729,851	463,669,800
<u>Liabilities</u>			
Management fee payable	1(b), 5	1,310,039	628,552
Accrued expenses and other current liabilities		843,448	138,126
Total liabilities		2,153,487	766,678
Net assets attributable to the Unitholders		497,576,364	462,903,122
Units in issuance as at 31 December (numbers):			
- Class A		<u>2,177,667.23</u>	<u>1,792,794.20</u>
- Class B		<u>822,675.46</u>	<u>803,750.67</u>
- Class C		<u>12,092.16</u>	<u>4,276.30</u>
Net assets value attributable to each unit as at 31 December (SAR):			
- Class A		<u>115.0250</u>	<u>118.7355</u>
- Class B		<u>298.6531</u>	<u>310.4529</u>
- Class C		<u>115.4177</u>	<u>118.8195</u>

The accompanying notes 1 to 9 form an integral part of these financial statements.

JADWA SAUDI EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF INCOME
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
<u>Income</u>			
Realized loss on investments, net		(5,604,453)	(15,483,016)
Unrealized (loss) / gain on investments, net		(24,951,921)	51,345,251
Dividend income		17,949,485	10,020,796
Profit on Murabaha placements		--	2,245,079
		<u>(12,606,889)</u>	<u>48,128,110</u>
<u>Expenses</u>			
Management fee	<i>1(b), 5</i>	(8,334,989)	(7,932,027)
Other expenses	<i>1(b)</i>	(843,448)	(138,749)
		<u>(9,178,437)</u>	<u>(8,070,776)</u>
Net (loss) / income for the year		<u>(21,785,326)</u>	<u>40,057,334</u>

The accompanying notes 1 to 9 form an integral part of these financial statements.

JADWA SAUDI EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

	2017	2016
Cash flows from operating activities		
Net (loss) / income for the year	(21,785,326)	40,057,334
<i>Adjustments to reconcile net (loss) / income for the year to net cash used in operating activities:</i>		
Realized loss on investments, net	5,604,453	15,483,016
Unrealized loss / (gain) on investments, net	24,951,921	(51,345,251)
<i>Changes in operating assets and liabilities:</i>		
Purchase of investments held for trading	(278,603,638)	(469,738,776)
Proceeds from sale of investments held for trading	199,961,343	367,491,339
Murabaha placements made during the year	--	(159,450,061)
Murabaha placements matured during the year	--	159,450,061
Management fee payable	681,487	(41,475)
Accrued expenses and other current liabilities	705,322	(366,486)
Net cash used in operating activities	(68,484,438)	(98,460,299)
Cash flows from financing activities		
Proceeds from issuance of units	165,884,225	482,787,134
Payments against redemption of units	(109,425,657)	(467,341,050)
Net cash generated from financing activities	56,458,568	15,446,084
Net decrease in cash and cash equivalents	(12,025,870)	(83,014,215)
Cash and cash equivalents at beginning of the year	13,275,769	96,289,984
Cash and cash equivalents at end of the year	1,249,899	13,275,769

The accompanying notes 1 to 9 form an integral part of these financial statements.

JADWA SAUDI EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

	2017	2016
Net assets attributable to the Unitholders at beginning of the year	462,903,122	407,399,704
Net (loss) / income for the year	(21,785,326)	40,057,334
Changes from units transactions		
Proceeds from issuance of units:		
- Class A	100,000,000	179,279,420
- Class B	63,111,645	300,576,010
- Class C	2,772,580	2,931,705
	165,884,225	482,787,135
Payments against redemption of units:		
- Class A	(51,728,552)	--
- Class B	(55,906,790)	(464,666,228)
- Class C	(1,790,315)	(2,674,823)
	(109,425,657)	(467,341,051)
Net assets attributable to the Unitholders at end of the year	497,576,364	462,903,122

JADWA SAUDI EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS (CONTINUED)
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

	2017				2016			
	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Total</u>	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Total</u>
Units transactions								
Units in issuance at the beginning of the year	1,792,794.20	803,750.67	4,276.30	2,600,821.17	--	1,432,977.97	--	1,432,977.97
Units issuance during the year	835,623.48	204,574.10	23,254.91	1,063,452.49	1,792,794.20	1,144,334.61	29,247.68	2,966,376.49
Units redeemed during the year	(450,750.45)	(185,649.31)	(15,439.05)	(651,838.81)	--	(1,773,561.91)	(24,971.38)	(1,798,533.29)
Units in issuance at end of the year	<u>2,177,667.23</u>	<u>822,675.46</u>	<u>12,092.16</u>	<u>3,012,434.85</u>	<u>1,792,794.20</u>	<u>803,750.67</u>	<u>4,276.30</u>	<u>2,600,821.17</u>

The accompanying notes 1 to 9 form an integral part of these financial statements.

JADWA SAUDI EQUITY FUND
An open-ended mutual fund
(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

1. GENERAL INFORMATION

- (a) Jadwa Saudi Equity Fund (the "Fund") is an open-ended equity fund established and managed as per terms and conditions between Jadwa Investment Company (the "Fund Manager") and the Fund Investors (the "Unitholders"). The Capital Market Authority's ("CMA") approval for the establishment of the Fund was granted in its letter number 443 dated Jumad Awal 9, 1428 H (corresponding to 26 May 2007). The Fund commenced its operations on 30 June 2007. As approved by CMA vide their letter No. 16/5696/5/3 dated 02/06/2017 the existing units in the Fund were converted to three different unit classes, i.e. 'Unit Class A', Unit Class B' and Unit Class C' as explained below. The said conversion of units was effective from 26 September 2016.

The Fund aims to provide investors with long-term capital appreciation by investing in Saudi equities listed on the Saudi stock market which are compliant with the Shariah standards approved by the Jadwa's Shariah Committee.

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. The Fund Manager, administrator and custodian of the Fund is Jadwa Investment Company.

The Fund is governed by Investment Fund Regulations (the "Regulations") published by Capital Market Authority ("CMA") on 3 Dhul Hijja 1427 H (corresponding to 24 December 2006) thereafter amended (the "amended regulations") on 16 Sha'ban 1437 H (corresponding to 23 May 2016), detailing requirements for all funds within the Kingdom of Saudi Arabia. The amended regulations came into effect from 6 Safar 1438 H (corresponding to 6 November 2016).

- (b) The management of the Fund is the responsibility of the Fund Manager. However, in accordance with the Fund's terms and conditions, the Fund Manager can delegate or assign its duties to one or more of the financial institutions in the Kingdom of Saudi Arabia and overseas.

The Fund Manager may charge investor a subscription fee for a percentage not to exceed 3% of the subscribed amount. Subscription fee is not included in these financial statements. Furthermore, the Fund Manager charges the Fund a management fee of 1.25%, 1.95% and 0.98% of the net assets value of Class A, Class B and Class C units respectively at each valuation day. In addition, the Fund Manager has also the right to collectively charge the Fund all other expenses related to the management of the Fund, including but not limited to audit fee and legal charges subject to limits as set out in the Fund's terms and conditions.

2. BASIS OF PRESENTATION

a) *Statement of compliance*

These financial statements have been presented and prepared in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (SOCPA).

As required by SOCPA, all mutual funds are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective 1 January 2018 for preparation of their financial statements. In preparing the first set of IFRS, the Fund Manager will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments "to adopt certain accounting policies that may be different from current applicable accounting standards as issued by SOCPA" in the Fund's first set of IFRS financial statements.

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2. BASIS OF PREPARATION (continued)

b) Basis of measurement

These financial statements have been prepared under the historical cost convention, except for the measurement of investments held for trading at fair value, using accrual basis of accounting and the going concern concept.

c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the functional and presentation currency of the Fund. All financial information presented has been rounded to the nearest SAR.

d) Use of estimates and judgments

In the ordinary course of business, the preparation of the 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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Investments held for trading

Investment securities purchased for trading are initially recognized at cost on the trade date and are subsequently measured at their market values. The unrealized gains and losses from revaluation of investments held for trading and realized gains and losses from sale of investments held for trading are recognized in the statement of income.

b) Murabaha placements

Murabaha placements are stated at amortised cost as at the date of the balance sheet.

c) Special commission income

Special commission income is recognized on an effective yield basis.

d) Dividend Income

Dividend income is recognized when the Fund's right to receive dividend is established.

e) Trade date accounting

All purchases and sales of financial assets are recognized and derecognized on the trade date.

f) Cash and cash equivalents

Cash and cash equivalents represents cash maintained with the custodian held under omnibus account with a local bank having sound credit rating.

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NOTES TO THE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) *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 yield method.

h) *Net assets value attributable to unit holders*

The net assets value per unit disclosed in the balance sheet is calculated by dividing the net assets of the Fund by the number of units in issue at the balance sheet date.

i) *Zakat and income tax*

Zakat and income tax are the obligations of the Unitholders and are not provided for in these financial statements.

4. INVESTMENTS HELD FOR TRADING

These represent investments in listed Saudi equity securities. The investments portfolio is allocated among the various economic sectors as follows:

<u>Economic sectors</u>	<u>2017</u>		
	<u>Cost</u>	<u>Fair value</u>	<u>%</u>
Materials	159,708,871	172,393,025	34.58
Banks	107,595,911	115,473,830	23.17
Food and beverages	44,380,352	48,595,280	9.75
Health care equipment and services	23,895,068	22,676,277	4.55
Real estate management and development	21,082,255	21,225,451	4.26
Commercial and professional services	22,078,275	19,407,785	3.89
Insurance	17,230,025	16,350,043	3.28
Energy	20,959,221	14,597,184	2.93
Capital goods	12,400,997	14,246,636	2.86
Food and staples retailing	10,105,864	12,795,388	2.57
Utilities	11,891,239	12,175,382	2.44
Consumer services	16,161,264	11,824,484	2.37
Retailing	7,367,096	10,072,475	2.02
Transportation	5,809,474	6,646,712	1.33
Total	480,665,912	498,479,952	100

JADWA SAUDI EQUITY FUND
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(MANAGED BY JADWA INVESTMENT COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Amounts in Saudi Arabian Riyals)

4. INVESTMENT HELD FOR TRADING (Continued)

<u>Economic sectors</u>	2016		
	<u>Cost</u>	<u>Fair value</u>	<u>%</u>
Materials	97,332,275	109,477,458	24.31
Banks	61,577,596	60,479,880	13.43
Food and beverages	49,787,431	55,855,404	12.40
Health care equipment and services	20,233,266	23,972,234	5.32
Real estate management and development	32,550,101	42,680,644	9.48
Commercial and professional services	17,513,301	18,979,014	4.21
Insurance	12,574,317	13,696,471	3.04
Energy	19,903,446	14,912,565	3.31
Capital goods	20,520,997	22,874,975	5.08
Food and staples retailing	3,923,709	5,250,368	1.17
Utilities	12,012,676	14,175,268	3.15
Consumer services	22,574,945	28,029,947	6.22
Retailing	7,560,347	8,428,196	1.87
Transportation	12,548,852	13,661,135	3.03
Diversified financials	12,172,061	12,577,906	2.79
Pharma, biotech and life science	4,842,751	5,342,566	1.19
Total	407,628,071	450,394,031	100

5. RELATED PARTY TRANSACTIONS

Related parties of the Fund include the Fund Manager, the Fund Board and other funds being managed by the Fund Manager. In the ordinary course of its activities, the Fund transacts business with the Fund Manager (refer to Note 1b). In addition to the related party transactions disclosed elsewhere in these financial statements, the other significant transactions with related parties for the years ended 31 December are as follows:

<u>Related party</u>	<u>Nature of transactions</u>	<u>2017</u>	<u>2016</u>
The Fund Manager	Management fee	<u>8,334,989</u>	<u>7,932,027</u>
The Fund Board	The Fund Board Compensation (independent member)	<u>20,000</u>	<u>20,000</u>

The balances as at 31 December resulting from the above transactions included in these financial statements are as follows:

<u>Related party</u>	<u>Nature of transactions</u>	<u>2017</u>	<u>2016</u>
The Fund Manager	Management fee payable	<u>1,310,039</u>	<u>628,552</u>
The Fund Board	The Fund Board compensation payable to independent member of the Board	<u>20,000</u>	<u>20,000</u>

The Unitholders' accounts as at 31 December 2017 include 624,524.75 Class A units (31 December 2016: NIL units) held by the Fund Manager.

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NOTES TO THE FINANCIAL STATEMENTS
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(Amounts in Saudi Arabian Riyals)

6. RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed, and, to minimize potential adverse affects on the Fund's financial performance. The Fund manager uses different methods to measure and manage the various types of risk to which the Fund is exposed.

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Fund's financial asset exposed to credit risk includes cash with custodian held under omnibus account with a bank having sound credit rating.

Equity price risk

Equity price risk is the risk that the value of a financial instrument may fluctuate due to changes in market prices.

The Fund's underlying investments are exposed to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of sector and industry distribution.

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

The Fund's terms and conditions provide for the subscriptions and redemptions of units on every business day, therefore the Fund is, exposed to liquidity risk of meeting the Unitholders' redemption requests. The Fund's investment securities are considered to be readily realizable as these are in listed equities which can be easily sold at any time. The Fund Manager monitors the liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any cash commitments/redemption as they fall due.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to a change in foreign exchange rates. The Fund primarily transacts in SAR which is the functional currency of the Fund and accordingly does not have exposure to currency risk.

7. FAIR VALUES 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. For investments traded in an active market, fair value is determined by reference to closing market prices.

Investments held for trading are carried at their fair value. Fair value of other financial instruments is not significantly different from their carrying value.

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8. VALUATION DAYS

The Fund's units are valued on every business day, and unit price is announced on the following business day. The last valuation day for the purpose of preparation of these financial statements was 31 December 2017 (2016: 31 December 2016).

9. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund Manager on 4 Rajab 1439H Corresponding to 21 March 2018.