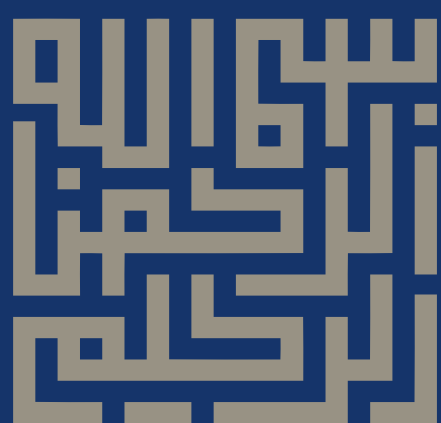


# 2016

Annual Report



جدوى للاستثمار  
Jadwa Investment





The Custodian of The Two Holy Mosques  
King Salman Bin Abdul Aziz Al-Saud



His Royal Highness  
Prince Mohammad Bin Nayef  
Crown Prince, First Deputy Prime Minister,  
and Minister of Interior



His Royal Highness  
Prince Mohammad Bin Salman  
Deputy Crown Prince, Second Deputy Prime Minister,  
and Minister of Defense

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Jadwa Investment

A Saudi Closed Joint Stock Company

Licensed by the Capital Market Authority

License no. 06034-37

Capital SAR 852,735,000 Fully Paid

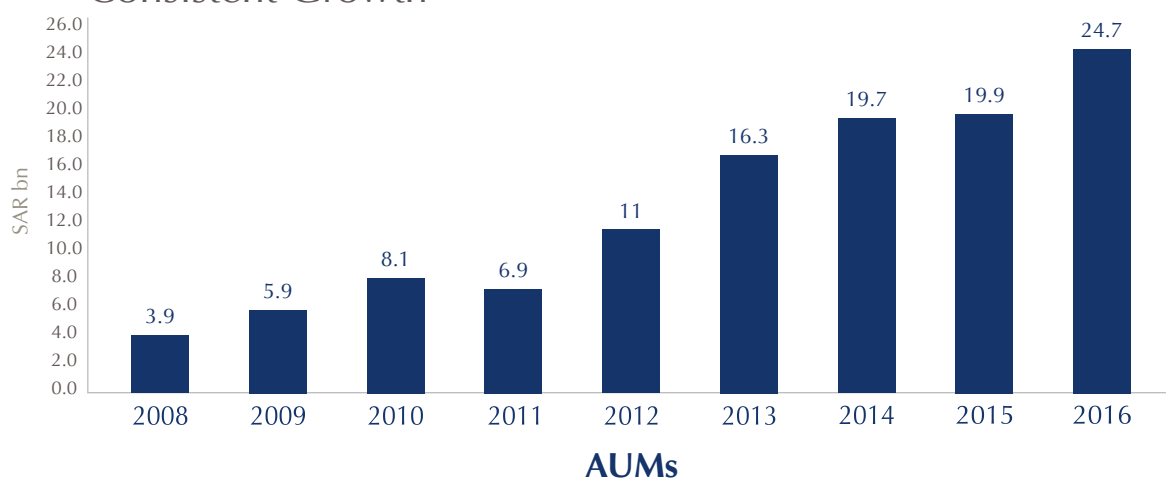
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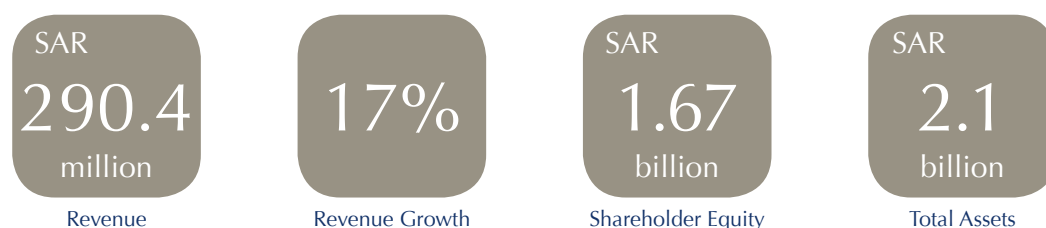
[www.jadwa.com](http://www.jadwa.com)

## Jadwa Investment by the Numbers

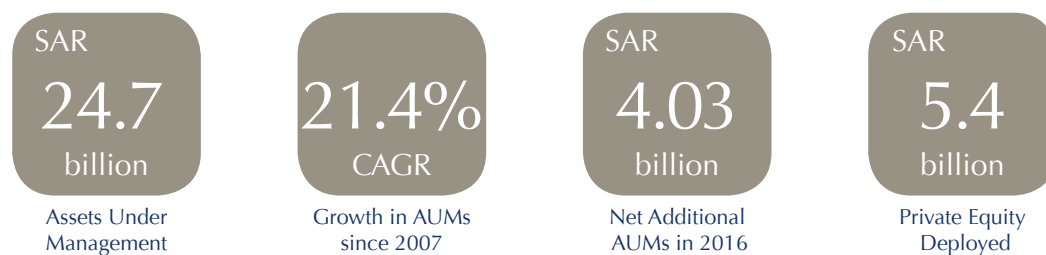
### Consistent Growth



### Strong Performance



### Assets Under Management



### Assets Scale



## Business Principles

### **We deliver**

A promise by one of us is a promise by all of us. We only make promises we are qualified and committed to fulfill. In our competitive world, this means we all work very hard.

### **We tell the truth**

We communicate with our clients so they are never surprised by our actions or their outcomes. We don't take credit for luck, nor do we apologize for events out of our control. We adopt the same principles of transparency with our own people.

### **We succeed when our clients do**

We align our interests with our clients'. Our fiduciary responsibility to each client is a sacred trust that can never be compromised.

### **We are discreet**

Our clients entrust us with sensitive information. We practice the highest standards of confidentiality.

### **We serve our clients fairly**

Similar clients are treated equally. Our professional arrangements should give our clients peace of mind.

### **We are prudent**

We are stewards of our Firm's reputation and our shareholders' capital. We avoid actions that we wouldn't want the public to know.

### **We are professional**

We hold ourselves to the highest standards of professional ethics and integrity. We speak our mind, and do the right thing for our clients, no matter what.

### **We are competent**

Our clients deserve the best expertise. We invest in our people and take great care to retain them, because our clients rely on us. We have a learning culture, and we capture and build on our knowledge.

### **We enable**

We hire the best, and foster a culture where they can perform at their peak.

### **We enjoy what we do**

We work every day to make a difference for our clients, our Firm, our colleagues, and ourselves. We celebrate each other's successes. We are proud to be Jadwa.

### **We are partners**

Personal bonds are an important part of our Firm's culture. We believe collaboration creates value. We care for each other, and we are inclusive.

### **We give back**

When we succeed, the communities in which we work and live should benefit.

## Board of Directors



Howard Marks  
Member



Adib Abdullah Al Zamil  
Chairman of the Board of Directors



Tan Sri Dato' Azman Mokhtar  
Member



Abdulrahman Bin Ibrahim  
Al Ruwaida  
Member



Iqbal Ahmad Khan  
Member



Abdulaziz Bin Mohammed  
Al Subeaei  
Member



Michael Powell  
Member



Christopher Masterson  
Member



Tariq Al Sudairy  
Managing Director & CEO



## Chairman's Statement

### Dear valued shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report of Jadwa Investment for the fiscal year 2016.

Overall, and in the context of a challenging and transitional year for our industry, Jadwa continued to deliver impressive business growth and strong financial performance. The firm generated revenues of SAR 290.37 million and net income of SAR 109.78 million in 2016, representing a 17% and 17% year-on-year growth, respectively. These results certainly reflect Jadwa's resilience and ability to execute on its long-term strategy, invest prudently, and deliver differentiated performance for its clients.

Our growth story in 2016 was the product of several important achievements and milestones. In fact, last year was our highest year of growth in client assets on record. The firm received over SAR 4 billion in net additional assets across our various asset classes to reach an all-time record of SAR 24.7 billion in assets under management. We are of course proud of this achievement as we believe it represents our clients' trust and confidence in Jadwa's ability to deliver performance, and a valued endorsement of our overall business approach.

Within this context, we decided in October of last year to close our Saudi public equity strategies to new capital inflows, becoming the first asset manager in Saudi Arabia to do so. In line with global best practices, the purpose of our decision is simply to protect the best interest of our clients by maintaining our agility to deliver the superior performance that they have come to expect. After all, we believe it is quality of performance, not scale, that sets the best investment management institutions apart.

2016 also saw the completion of several important transactions. In private equity, we acquired a significant minority stake in a leading healthcare provider in the United Arab Emirates, bringing our total invested capital in this asset class to more than SAR 5.4 billion. We also completed another significant private equity exit from our portfolio through the Saudi stock exchange. In real estate, we raised Jadwa Al-Basateen Real Estate Investment Fund to develop a major residential project in Riyadh. As for advisory, we continued to engage in a number of important mandates across our investment banking and investment management advisory practices, including a landmark mandate in relation to the privatization of a major government-owned entity.

In the context of this robust financial and business performance, the Board of Directors is pleased to propose a cash dividend of SAR 1 per share in 2016, equal to 10% of the nominal share value.

Looking ahead to 2017, we continue to be optimistic about Jadwa's prospects and trajectory. In particular, we believe the government's economic reform, diversification, and privatization plans will generate significant opportunities and drive growth across several important sectors of the economy. We also believe Jadwa has the strategic focus, disciplined approach, and organizational capabilities to tackle the emerging challenges and opportunities with continued resilience and resolve.

Jadwa's many achievements in 2016 would not have been possible without our clients' continued trust, our shareholders' unwavering support, and my fellow board directors' great insights. I am truly grateful for their invaluable contributions. I would also like to extend my sincere gratitude to our management team for their professionalism, ingenuity, and dedication to delivering positive results in a challenging economic environment, and to always doing the right thing for our clients. It is through their positivity and resolve that we look towards 2017 with optimism.



Adib Abdullah Al Zamil  
Chairman of the Board of Directors







# Resilience in Performance

## A Conversation with the CEO

Jadwa's growth in 2016 demonstrates the firm's resilience in a challenging market context

# Managing Director & Chief Executive Officer's Review

## Managing Director & Chief Executive Officer's Review

2016 was certainly marked by a volatile and challenging market environment. The key to navigating such environment is resilience, the quality that enables organizations to not only remain on course, but to find opportunity in the midst of challenge. Throughout 2016, we remained resilient in our performance and execution by continuing to put our clients first, deliver on our prudent strategy, adhere to a disciplined investment approach, and invest in our people. This has been our proven formula for maintaining the firm's growth momentum in times of economic transition, and delivering strong investment and financial results for our clients and shareholders.

### Resilience in Performance – Financial Results

Being conscious of our environment, strategic in our planning, and proactive in our execution, Jadwa continued to expand its scope of activities, and to offer a broader range of investment solutions and advisory services that meet the growing needs and aspirations of all our clients. By doing so, Jadwa continued to produce differentiated and consistent investment performance, and to deliver real value to its clients and partners.

As a result, fiscal year 2016 was a year of growth for Jadwa despite a challenging market environment. In a year where the industry's overall revenues, net income, and assets under management (AUMs) were all under pressure, Jadwa grew its total revenues by 17% to SAR 290.37 million, grew its net income by 17% to SAR 109.78 million, and continued to maintain a healthy and conservative balance sheet. These results reflect the robust and resilient nature of Jadwa's underlying business model in a transitioning economy.

### Resilience in Execution – Business Achievements

Our long-term strategy is at the heart of our business achievements this year. Simply put, we aim to continuously enhance and build on our core and to expand the scope of our offerings across products and geographies, while always acting in the best interest of our clients. Delivering on this strategy and doing things right takes time. This is why our robust growth and varied achievements in 2016 are simply the result of many years of diligent and relentless execution on a well-defined strategy. Our expanded scope of activities has resulted in a more diverse, dynamic, and responsive business model across economic cycles. Thoughtful long-term planning, careful review, and continual enhancements have proven to be the pre-requisites of sustained business achievements.

In 2016, we achieved an all-time record growth in our AUMs. Across our asset classes, we closed the year with record AUMs of SAR 24.7 billion, which represents a 24.7% increase relative to year-end 2015. In total, we received net inflows of more than SAR 4 billion into our public equity, private equity, real estate, and fixed income strategies, coming from both existing and new client relationships. We are of course proud of our AUM growth, as we believe it is a reflection of clients' trust in Jadwa's competence and capability to deliver industry-leading performance. More importantly, we take this as a great responsibility to always adhere to the highest standards of professionalism and prudence, and to consistently act in the best interest of our clients.

With this in mind – and in the context of a 5.3x growth in our Saudi public equity AUMs over the past five years and an average annual outperformance (over relevant benchmarks) of 4.4% to 12.8% across our various strategies since inception – we have recently decided to close our Saudi public equity strategies to any new capital inflows at this point in time. The rationale for our decision is to preserve our ability to deliver superior performance and to maintain our unwavering commitment to putting clients' interest first. With this decision, Jadwa is now the first asset manager in Saudi Arabia to voluntarily close its Saudi public equity strategies to new capital inflows. After all, our aspiration as an investment manager is not to become the largest. It is to deliver the best for our clients.

2016 was also a year of continued discipline and diligence in selecting the right investment opportunities within the field of alternative investments. In private equity, our Jadwa Healthcare Opportunities Fund 2 completed the acquisition of a significant minority stake in United Eastern Medical Services (UEMS), an integrated healthcare provider comprised of a specialty hospital and multiple specialized health centers in the UAE. The fund marks our second private equity investment in healthcare and brings our total invested capital in private equity to SAR 5.4 billion. In addition, 2016 saw the completion of another private equity exit from Jadwa's portfolio, and our first exit through public listing. The exit constituted an important milestone for the private equity industry in Saudi Arabia as the first divestment of a substantial private equity stake through the Saudi stock exchange.

In real estate, we raised our latest real estate development fund, Jadwa Al-Basateen Real Estate Investment Fund, during the first half of the year. The purpose of the fund is to develop a prominent residential project in north western Riyadh along multiple phases. The total cost of the first phase is SAR 740 million, and will be financed through a combination of debt and equity.



And on the advisory front, we secured a landmark investment banking advisory mandate in relation to the privatization of a major government-owned healthcare service provider. The mandate comes in context of the government's recently announced economic reform and privatization program. We also engaged in new investment management advisory mandates to provide comprehensive investment strategy development and execution support to multiple institutional clients.

Our business results and accomplishments in 2016 translated into a series of awards from international industry observers and leading publications, including EMEA Finance, Euromoney, Finance Monthly, Global Finance, MENA FM, Thomson Reuters, and Wealth & Finance International. These achievements and our resilience as an institution are the result of strategic forward planning, persistent execution, and an unshakeable commitment to deliver on our promises to clients.

### **Outlook for 2017**

We are looking ahead to 2017 with confidence and resolve. While acknowledging that the economic developments experienced in 2016 are likely to provoke further market volatility over the next 12 months, we believe that market conditions in 2017 will also present significant opportunities.

Staying true to our business strategy, we will continue to maintain a prudent and disciplined approach to investing, strive to deliver differentiated outperformance for our clients, and actively seek to expand the scope of our product and service offerings across the investment spectrum. Building on the depth of our capabilities, we will continue to explore, nurture, and pursue compelling opportunities within our investment landscape. In particular, we will focus on emerging opportunities from the government's comprehensive economic reform program, including investment attraction initiatives, privatization plans, and capital market expansion programs.

Within this context, our asset management, private equity, real estate, investment banking, and investment management advisory practices will continue to build on their track record of performance and tangible results for our clients. And by remaining true to our values, we will endeavor to build on our leading position across our growing business lines.

### **Appreciation**

Our resilience and success in 2016 could not have been achieved without our clients' continued partnership and trust. For this we owe them our deepest appreciation, and we reaffirm our commitment to always put their interest above all else.

We are also truly grateful for the valued encouragement and commitment of our shareholders, the counsel and insights of our Board of Directors, and the guidance and advice of the Capital Market Authority. For their invaluable support, we owe them our ongoing gratitude.

Finally, my sincere appreciation is extended to our professional team for their hard work, resilience, and commitment to building and growing a leading organization in the midst of a challenging market context. Their uncompromising resolve, tireless ingenuity, and genuine sense of ownership over Jadwa's destiny are truly inspirational. They will share with me the pride of seeing Jadwa continue its journey towards new heights.

As we enter our tenth year of operation, we remain optimistic about our prospects and growth momentum. Guided by our business principles and proven strategy, we have clarity on what we want to do next, the confidence to move forward, and the breadth of capabilities to navigate through a new set of challenges and opportunities. Our enthusiasm for the future is shaped by our resilience, and our progress stems from our ability to deliver. It is for these reasons that we firmly remain the well-placed "Partner of Choice" for our clients.



Tariq Al Sudairy  
Managing Director & CEO

# The Saudi Economy in 2017

Government reform programs, domestic business sentiment, oil prices, the global economy and geopolitical tensions frame the key trends to watch in 2017









## The Saudi Economy in 2017: Trends to Watch

Government reform programs, domestic business sentiment, oil prices, the global economy and geopolitical tensions frame the key trends to watch in 2017. We anticipate that the Saudi economy will grow by 0.2 percent in 2017, following 2016 growth of 1.6 percent and 2015 growth of 4.1 percent. Non-oil private sector GDP growth will reach 1 percent, up from 0.1 percent last year and lower than 3.4 percent in 2015.

The main downside risks to these numbers and to our broader forecast stem from any delays in implementing the most growth-enhancing parts of the government-led reform plans. Other main risks stem from the external environment: characterized by a significant slowdown in global growth and an uptick in geopolitical tensions.

The slower domestic economic expansion is largely the result of negative growth in the oil sector. The non-oil private sector will recover, aided in part by the government's expansionary fiscal policy and reform agenda. The non-oil sector will continue to benefit from government spending, but corporate lending and domestic consumption face risks. The Fiscal Balance Program 2020, announced along with the 2017 budget statement, contains an unprecedented level of details regarding the costs and benefits likely to be incurred by the private sector up to 2020. However, more communication is needed in order to fully anchor sentiment and improve confidence in the private sector.

Total government spending in 2017 will be equivalent to 34 percent of GDP, compared with an average of 33 percent over the last ten years. Budgeted investment spending was raised by 58 percent to SAR 260 billion for 2017. This is significant because capital spending by the government provides important psychological support to private sector performance, given the centrality of economic development planning.

### Record budget supports reform programs

The record-high SAR 890 billion budget underscores the government's resilience in not curtailing spending despite the persistence of subdued oil prices, with Brent averaging \$43pb in 2016, down from \$52pb in 2015. That said, this year's budget is set in a unique way that serves the overarching goals of the Kingdom's Vision 2030, with a strong focus on supporting economic diversification, shielding economically vulnerable households from necessary energy price reforms, and spending on key physical and social infrastructure. We believe the 2017 budget numbers are less conservative than previous years, based on the underlying assumption of the budget oil price. However, prudent spending by the government in 2016 is an indicator that a strong commitment will be made to keep within the budgeted total of SR890 billion.

At the end of 2016, net foreign assets at the Saudi Arabian Monetary Authority (SAMA) stood at \$528 billion (SAR 1,982 billion). This cushion gives Saudi Arabia an advantage over most other oil producing countries, alleviating the impact of lower oil prices and allowing the country to push ahead with the ambitious targets under the National Transformation Program 2020 and Vision 2030. Current transport, housing, oil, power and water projects remain on track and the government is planning to support growth in the private sector up to 2020 through a SAR 200 billion incentive package.

Higher oil export revenues will result in an improvement in the current account balance in 2017. The deficit is forecast to shrink to 1.7 percent of GDP, down from 8.0 percent of GDP in 2016. In dollar terms, the deficit is expected to decline to \$12 billion, almost a quarter of its level in 2016.

## Industry recognition of excellence





### **Robust growth in non-oil mining and ownership of dwellings**

While the oil sector, accounting for the largest share of the economy at 44 percent in real terms, is expected to contract marginally, by -0.3 percent, top performing non-oil sectors should see robust growth in 2017. This includes non-oil mining and ownership of dwellings, which are forecast to be the fastest growing sectors in the economy with annual growth of 7.5 percent. Non-oil mining will benefit from mega-projects coming online, while growth in ownership of dwellings will be driven by major progress on housing initiatives and the broader real estate market.

Non-oil manufacturing, construction, and wholesale and retail will all recover from recessions recorded in 2016, but will remain subdued. Non-oil manufacturing growth will reach 2.4 percent, and will mainly benefit from project additions in the petrochemical industry. Meanwhile, construction sector growth will reach 0.8 percent, and will be driven by both government capital spending and a rise in private sector real estate development activity. Growth in the wholesale and retail sector will be positive but subdued at 0.4 percent. An anticipated rise in consumer spending towards the end of the year and ahead of the implementation of value-added taxes (VAT) in Q1 2018 will offset any initial fallbacks stemming from the recent reductions to public sector workers' allowances, thereby contributing to positive annual growth in the sector.

### **Excess supply constrains oil prices**

The rise in oil prices following the OPEC agreement saw rises in key oil indicators from the US as well. Aside from a rebound in the oil rig count, US producers have also taken out a record number of contracts on short positions against the US crude oil benchmark WTI,

thereby protecting themselves against a drop in prices. Consequently, US oil production has seen sizable revisions in recent months.

According to the US Energy Information Administration's January 2017 Short-Term Energy Outlook report, US oil production is forecast to be 760 thousand barrels per day higher at the end of 2017 than the January 2016 forecast, which amounts to roughly 60 percent of the proposed OPEC cut of 1.2 million barrels per day. In addition, the new US administration, with a very pro-oil agenda, could dramatically change the oil market in the months ahead, not only by implementing changes to US crude oil-related regulations, but also through taking decisions on major international issues that could directly impact global oil markets. In this context, we do not see a sustained rise in Brent oil prices beyond current levels of \$55 per barrel in 2017 as a whole.



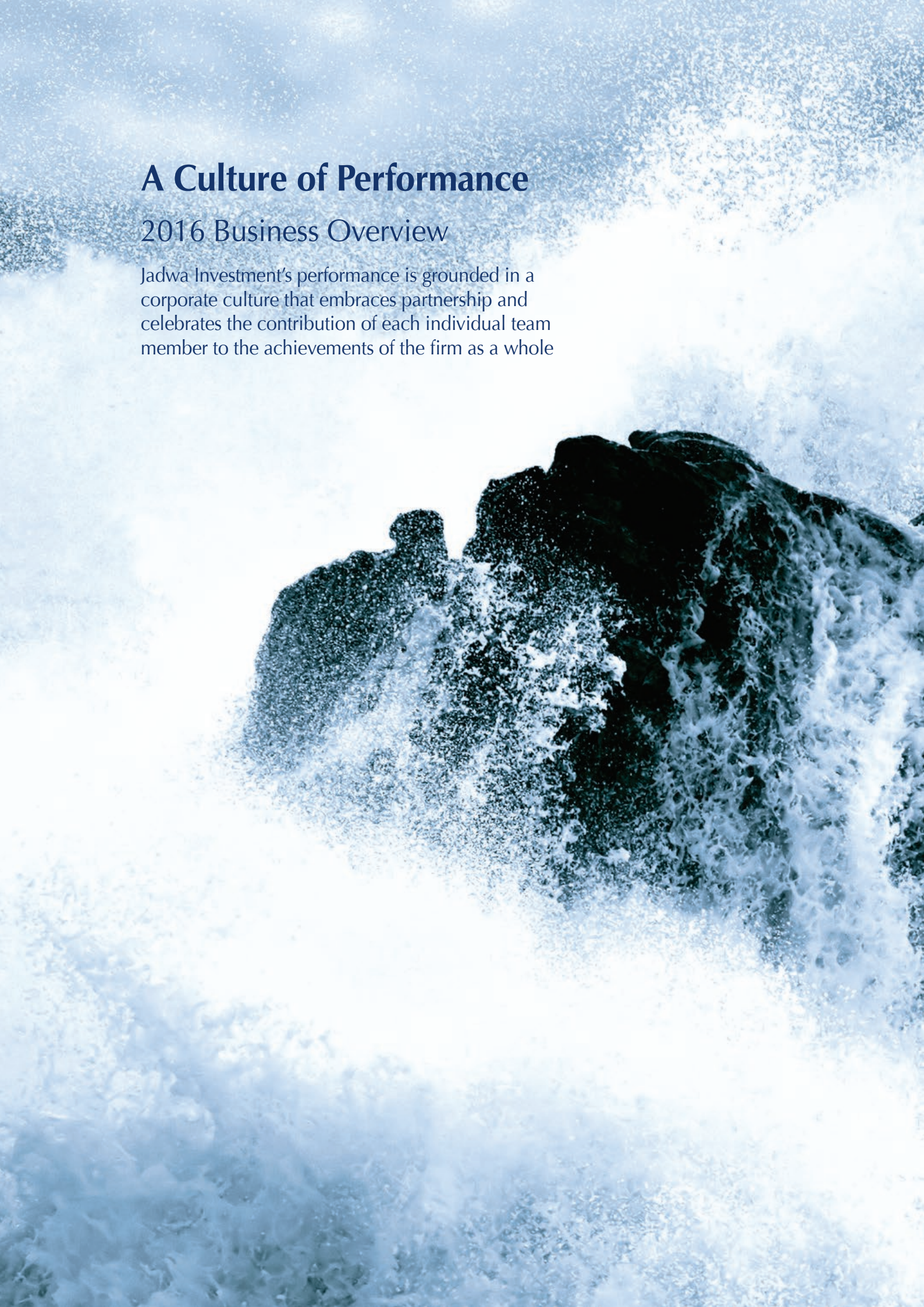
12 awards in 2016



# A Culture of Performance

## 2016 Business Overview

Jadwa Investment's performance is grounded in a corporate culture that embraces partnership and celebrates the contribution of each individual team member to the achievements of the firm as a whole









## Business Overview

### Jadwa Investment – The Firm

Jadwa Investment is the premier investment management and advisory firm in Saudi Arabia and the wider region. Headquartered in Riyadh, the firm has over SAR 24.7 billion in assets under management across public equity, private equity, real estate, and fixed income. Our clients include government entities, local and international institutional investors, leading family offices and high-net-worth individuals.

Since inception in 2007, we have built a strong track record in investment management and advisory services. Our specialized products and services include award-winning mutual funds, discretionary portfolio management mandates; private equity and real estate investments; M&A, capital market and investment management advisory services; and research.

Today, we are one of the Kingdom's largest public equity asset managers and the region's top mutual fund performer. We have developed a reputation as the partner best able to deliver differentiated performance to our clients, and best suited to take family businesses to the next phase of institutionalization and growth. We are also recognized for the quality and insights of our widely read research reports.

### Assets under Management

Despite a challenging economic context, 2016 saw Jadwa achieve its highest level of growth in AUMs since inception. Across our various asset classes, we closed the year with record AUMs of SAR 24.7 billion, representing a 24.7% year-on-year growth. In total, we received over SAR 6.5 billion in gross inflows and more than SAR 4.0 billion in net inflows into our public equity, private equity, real estate, and fixed income strategies, coming from both existing and new client relationships. We are of course proud of our AUM growth, as we believe it is a reflection of clients' trust in Jadwa's capability to deliver distinctive investment performance. We also take this as a reflection of the great responsibility we bear to always adhere to the highest standards of professionalism and prudence, and to consistently act in the best interest of our clients.

### Asset Management

In a year of marked by significant market volatility, our asset management practice continued to grow its client base and total AUMs, driven by its consistent track record of differentiated outperformance. In fact, Jadwa maintained its top-quartile public equity performance during 2016 and its first-place ranking on a cumulative basis, achieving an average annual outperformance (over relevant benchmarks) of 4.4% to 12.8% across its various Saudi public equity strategies since inception. As a result, Jadwa's Saudi public equity AUMs grew by more than five times over the past five years.

Within this context, and in line with global best practice, we have recently decided to close our Saudi public equity strategies to any new capital inflows at this point in time. The rationale behind our decision is simply to protect the best interest of our clients by maintaining our agility to deliver superior performance. Across markets, an asset manager's ability to outperform requires the flexibility to buy and sell positions in the market in a timely manner, which in turn can be impacted by the size of the asset manager relative to the overall size and liquidity of the market. With this in mind and given our growth in AUMs, we have decided to preemptively refrain from accepting additional capital inflows in order to preserve our ability to deliver differentiated performance, and to maintain our unwavering commitment to putting our clients' interest first. As a result, Jadwa is now the first asset manager in Saudi Arabia to voluntarily close its Saudi public equity strategies to new capital inflows. As an investment manager, our aspiration is not to become the largest. It is to deliver the best for our clients.

In recognition of the firm's track record of delivering real and distinctive value to clients, Moody's once again reaffirmed Jadwa's Investment Manager Quality assessment of MQ2 during 2016. This internationally recognized accreditation is the highest rating awarded to any asset management firm in the region, and is an endorsement of our investment process, the capabilities of our professional team, and the consistency of our strong investment performance.

Our asset management practice also received several awards during 2016 from regional and international institutions, including Euromoney's "Best Asset Management Firm in Saudi Arabia", MENA Fund Manager's "Best Shariah Compliant Equity Fund" and "Best Saudi Equity Fund", Thomson Reuters' Lipper Fund Awards for Jadwa's Arab Markets Equity and Global Sukuk funds' industry-leading performance over 5 years and 3 years respectively, and Wealth & Finance International's "Asset Manager of the Year - Saudi Arabia".

### Private Equity

Fiscal year 2016 was a year of relentless progress for our private equity practice. The overall theme was one of continued investment prudence through careful selection of sectors and companies amongst the many opportunities identified in light of the changing and challenging economic context. This has allowed us to maintain our investment resilience and performance track record, and to continue to deliver against our core values and clients' trust. In addition, our commitment to delivering tangible value-addition to our portfolio companies continued to reinforce Jadwa's positioning as the private equity firm best suited to take our partners and companies to the next level of institutionalization and growth.

Key achievements in 2016 included the successful completion of our second private equity investment in the healthcare sector. Our Jadwa Healthcare Opportunities Fund 2 acquired a significant minority stake in United Eastern Medical Services (UEMS), an integrated healthcare provider comprised of a specialty hospital and multiple specialized health centers in the UAE. This brings our total invested capital in private equity to SAR 5.4 billion, and reaffirms Jadwa's position as a leading private equity player in the region.

The last twelve months also saw Jadwa complete the exit of its Tourism & Hospitality Opportunity Fund. This marked an important milestone in the development of the private equity industry in Saudi, as it was the first private equity divestment of this scale through the Saudi stock exchange.

In recognition of our private equity practice's continued market leadership and ability to build upon its solid foundations, high-profile international awards were received during 2016, including recognitions from EMEA Finance as "Best Private Equity House in the Middle East", and from Finance Monthly Global Awards as "Private Equity Firm of the Year in Saudi Arabia".

### Real Estate

Maintaining our disciplined approach to investment selection and offering new opportunities in the alternative investments space were at the heart of our real estate proposition in 2016. In line with this, Jadwa successfully launched its latest real estate development fund, the Jadwa Al-Basateen Real Estate Investment Fund, during the first half of 2016. The fund will develop a prominent residential project in north western Riyadh along multiple phases. The total cost of the first phase is SAR 740 million, of which SAR 240 million will be financed through bank debt while the remaining SAR 500 million will be financed through equity.

### Investment Banking

2016 was a significant year for our investment banking practice, and further exemplified the level of trust that clients place in Jadwa. Of particular importance, we signed a landmark investment banking advisory mandate with Saudi Arabian Airlines (Saudia) in relation to the privatization of one of its major subsidiaries, Saudia Medical Services (SMS). Under this engagement, the investment banking team has been working closely with the client to assess, structure, and execute the privatization initiative. The mandate significantly positions the firm as the sole advisor for one of the first and important privatization transactions under the Saudi government's comprehensive economic reform and privatization program.

In addition, the investment banking team continues to be engaged in a number of advisory mandates with prominent clients across several sectors of the economy, and will be actively progressing these work streams during 2017.

## **Investment Management Advisory**

Our investment management advisory (IMA) practice was launched with the specific aim of offering clients customized and comprehensive support in developing and executing their long-term investment strategy across the full range of asset classes and geographies. As part of this remit, we signed two new advisory mandates during 2016. The first is a multi-year engagement with a major publicly listed company, where Jadwa's IMA team is working closely with the client to restructure, implement, and monitor its investment program on an ongoing basis. The second is an engagement with a government entity to develop the client's investment strategy across both local and international asset classes.

## **Brokerage**

Throughout 2016, Jadwa's brokerage team continued to provide a reliable platform for executing public equity transactions on behalf of its clients and our asset management practice, both within and outside Saudi Arabia. The quality, accuracy, and speed of execution were maintained throughout the year and in the context of a significant increase in trading volume. In addition, our core trading system was continuously enhanced to provide clients with access to all new market initiatives and improvements in a seamless manner.

## **Research**

As major economic transformation began to take place in the Kingdom, Jadwa's continued to reaffirm its position as a thought leader and a trusted source of insightful macroeconomic analysis. In total, our research team published 34 reports during 2016, covering a wide range of economic and market developments. This included macroeconomic reports, such as our latest on the Saudi budget, as well as thematic reports, including our comprehensive coverage of the Saudi Vision 2030 and National Transformation Program.

Our research continued to attract widespread market attention and coverage across television and print media. In fact, our Chief Economist was invited to give regular

live TV interviews with major local and international news channels and to speak at 37 high-profile events and conferences – including Euromoney, Moody's 11th Annual GCC Credit Risk Conference, the Oil & Money Conference, and Tadawul's roadshows in New York and London. The research team was also invited to present its work to major government institutions and corporations, including meetings with over 130 clients. In addition, our electronic mailing list has now grown to over 4,100 subscribers and our research reports were downloaded via our website more than 75,000 times during the year.

## **Shariah**

Throughout 2016, the Shariah team continued to support the various business activities of Jadwa and ensure the adherence of all operations to Shariah requirements. Of particular note, the team developed detailed guidelines for international real estate investments – covering both the scope of activities and financing structures – in order to facilitate our clients' access to this asset class in a Shariah-compliant manner. In addition, the Shariah Board issued several resolutions in relation to our various private equity and real estate transactions and agreements.

The Shariah Department also continued to invest in developing Shariah knowledge and awareness through its research and publishing activities. The team conducted a workshop on Waqf funds and their related Shariah rulings, and issued several jurisprudential papers on a wide range of topics, including lease rulings, sukuk, and governance in Islamic financial institutions.

## **Legal**

The Legal Department continued to provide invaluable support and expertise across the full breadth of Jadwa's business activities. The work involved interacting closely with regulatory bodies, and included reviewing and commenting on a wide range of legal documentation, frameworks, and regulations.

The Legal Department also developed a streamlined

exit process for our publicly listed private equity investments post-IPO, advised our portfolio companies on optimizing their ownership structures, and updated the legal documentation for our public and private funds to incorporate both business requirements and regulatory changes.

## **Compliance**

Our Compliance Department continued to ensure the full compliance of Jadwa's business activities and working environment with applicable laws and regulations. This included ensuring full adherence to compliance policies and procedures, updating the organization on regulatory developments, and conducting the annual anti-money laundry training program for all team members. The department also added new features to Jadwa's core trading platform and launched an automated system for approving team members' personal trading requests.

## **Risk Management**

Jadwa's risk management team continued to develop, test, and monitor leading key risk indicators across all departments and business activities. For enterprise risk management (ERM), strategy and governance risk profiles were established, and a new software was implemented to update these profiles through a CRSA model. The team also completed its regular risk reviews for Jadwa's latest investments and implemented the automation of risk monitoring through the Bloomberg system.

## **Investment Operations**

Investment Operations (IO) continued to support activities related to client account opening, asset management operations, fund administration and accounting, unit holder records maintenance, brokerage settlement, and compliance. The IO team's activities during 2016 also included the introduction of multi-class units for our Saudi Equity Fund, making Jadwa the first Saudi investment manager to do so. Additionally, IO implemented an imaging system for our record-keeping and completed all required financial statements for our public and private funds.

## **Information Technology**

Sustained investment in our technology infrastructure continued to be a key enabler of the firm's long-term resilience and commitment to being at the forefront of the investment industry in the Kingdom. In fact, we successfully completed several important projects during 2016, including developing a new system that allows for automated management of our fundraising campaigns, expanding the scope and functionality of our management dashboard, introducing a new platform to generate and send a daily MIS report to the Compliance Department, and launching a new engine to send research reports through bulk e-mails to thousands of recipients efficiently and without affecting Jadwa's messaging service. In addition, our IT team successfully passed the Tadawul Members' automatic network failover test, and is ready for Tadawul's go-live dates in relation to the exchange's new market initiatives.

As for information security, we completed the implementation and activation of managed security services with a leading international information security provider. This will ensure a 24x7, real-time security logs monitoring, analysis, reporting, and alerts across all workstations, and will add a new protection layer against malware attacks.

## **Administration**

The Administration Department continued to provide internal services and resource management to meet the growing needs of Jadwa's team across our offices in Riyadh, Jeddah, and Khobar. The department also enhanced our paperless working environment by adding more services to our automated workflow system in order to ensure efficient and effective service delivery for all team members.

## **Human Resources**

With the important strategic objective of attracting, retaining, and motivating the best talent, the Human Resources (HR) Department undertook a range of HR enhancement initiatives during 2016. Specifically, the team has been conducting a full review of Jadwa's HR and talent management strategy across the entire

HR life cycle, including recruiting, professional development, performance management, retention, and career/succession planning. As part of this effort, the department launched the Jadwa Career Portal, with the purpose of effectively handling the receipt and tracking of full-time and internship applications across the firm.

In addition, the department continued to invest in training and development opportunities for the purpose of enabling team members to develop and realize their full potential. This included organizing a two-day workshop with Professor Josh Lerner of Harvard Business School, an in-house training session on International Financial Reporting Standards in collaboration with KPMG, and an in-house training session on communication skills in collaboration with Leoron. In total, 58 team members enrolled in internal and external training and executive education programs for an aggregate of 1,256 training hours during 2016.

### **Corporate Communications**

Throughout a busy and eventful calendar year, the proactive and strategic approach of Jadwa's corporate communications function has manifested itself across media relations, sponsorships, and broad stakeholder engagement activities. The department's activities included issuing press releases and arranging TV and print interviews with top-tier media outlets throughout the year, covering both firm news and market developments. All of this contributed to high coverage of Jadwa's activities and opinions across a wide range of local and international media. We also sponsored and participated in a number of conferences and events, most notably the third Awqaf Forum, the 2016 Euromoney Conference, the Family-Owned Business Conference, Sanabil's Institutional Investor Forum, the Tadawul roadshows in New York and London, and the Young Global Leaders event.

### **Corporate Social Responsibility**

Corporate social responsibility continued to feature significantly within Jadwa's operating culture during 2016 through two key initiatives. The first was a "Food

Bank" initiative organized by Jadwa in conjunction with a number of relevant and leading Saudi charities, through which participating team members distributed food parcels to the underprivileged segments of the community during the holy month of Ramadan.

The second initiative was the important continuation and enhancement of Jadwa's highly sought-after internship and cooperative training program in partnership with leading universities in Saudi Arabia and beyond. Through this program, we offer trainees the opportunity to work alongside our professional team for a period of three to seven months, with the aim to provide them with the practical exposure, work-based learning, and skill enhancement necessary to develop and direct their future careers. A total of 19 interns - 5 men and 14 women – were selected to participate in the program across different departments during 2016, of which three were offered full-time positions at the conclusion of their internship enrollment on the basis of performance.





## Our Portfolio Companies



**Acquisition Year:** 2007  
**Acquisition Stake:** 30 percent  
**Sector:** Oil & Gas  
**Fund:** Jadwa Co-Investment Fund (Saudi Lube Oil)  
**Website:** [www.luberef.com](http://www.luberef.com)

Luberef is the only base oil producer in the Kingdom of Saudi Arabia and is a major supplier to lube oil blenders. Its operations started in 1978 with the start-up of its Jeddah refinery, and a second refinery was commissioned in 1998 in Yanbu. The majority of Luberef's base oil production is consumed in Saudi Arabia where it satisfies 100% of local demand for Group I base oil, exporting the remaining production around the world. The remaining 70% of Luberef is owned by Saudi Aramco.



**Acquisition Year:** 2009  
**Exit Year:** 2014  
**Acquisition Stake:** 30 percent  
**Sector:** Food & beverage  
**Fund:** Food and Beverage Opportunity Fund  
**Website:** [www.gulf-union.com](http://www.gulf-union.com)

Gulf Union Foods Company ("GUFC") was founded in 1999. It is one of the leading companies in the production and marketing of juices and beverages. The company is located in the third industrial city in Riyadh, Saudi Arabia, where it is equipped with the latest machinery, equipment and production lines with highly technical specifications, advanced technology and the highest standards of quality.

Jadwa's Food and Beverage Opportunity Fund fully exited its 30 percent stake in GUFC through a trade sale of 51% of GUFC to Olayan Financing Company in July 2014.



**Acquisition Year:** 2010  
**Acquisition Stake:** 49 percent  
**Sector:** Electronics & appliances  
**Fund:** Jadwa Technology Special Opportunity Fund  
**Website:** [www.umg.com.sa](http://www.umg.com.sa)

United Matbouli Group ("UMG") is a leading retailer and distributor of home appliances, air conditioners and consumer electronics. It's the sole distributor of Samsung electronics and appliances (white and brown goods) and is the leading, non-exclusive distributor of Samsung handheld devices in Saudi Arabia. The company operates 37 showrooms, 16 warehouses with a total area of approximately 110,000 m<sup>2</sup> and more than 200 distribution fleet of vehicles with a staff consisting of over 700 employees. In addition, UMG has a retail presence of 6 megastores across Saudi Arabia through Electro, a 100% owned subsidiary.



**Acquisition Year:** 2011  
**Acquisition Stake:** 49 percent  
**Sector:** Building materials  
**Fund:** Jadwa Building Materials Opportunity Fund  
**Website:** [www.zamilco.com](http://www.zamilco.com)

Al Zamil Co. for Industry, Trade, & Transport is a Riyadh-based limited liability company, founded in 1990. The Company is a leading building materials company, with primary focus on late-stage house requirements, including water tanks, manhole covers, automated doors, and insulation services. It is the uncontested leader in the water tank business, with approximately a 32% market share. The Company is building a new manufacturing facility in Jeddah which will utilize the blow molding technology to manufacture its tanks. The Jeddah factory is expected to commence operations in Q2 2017.



**Acquisition Year:** 2012  
**Exit Year:** 2016  
**Acquisition Stake:** 35 percent  
**Sector:** Hospitality & entertainment  
**Fund:** Jadwa Tourism & Hospitality Opportunity Fund  
**Website:** [www.alhokair.com](http://www.alhokair.com)

Al Hokair Group was established in 1978, commencing its operations by establishing the first theme park in Riyadh. In 1985, the Group ventured into the hospitality sector. With a history spanning over 40 years, the Group has now evolved into one of the earliest investors in hospitality and entertainment in the Kingdom. Today, the Company boasts over 2,900 employees and plays a leading role in entertainment, leisure and tourism. The Group's portfolio includes 29 hotels across 11 cities, with more than 3,305 rooms and 52 entertainment centers in KSA and UAE attracting 8.7 million visitors. Jadwa Tourism & Hospitality Opportunity Fund exited 30% of its stake in June 2014 during a secondary IPO of Al Hokair Group and subsequently fully exited its remaining stake through the Saudi Stock Exchange (Tadawul).



**Acquisition Year:** 2012  
**Acquisition Stake:** 30 percent  
**Sector:** Healthcare  
**Fund:** Jadwa Healthcare Opportunities Fund  
**Website:** [www.alhammadi.com](http://www.alhammadi.com)

With a history that dates back over thirty years, Al Hammadi is one of the pioneers in the Saudi private healthcare sector. Al Hammadi established its first hospital in the Olaya district of Riyadh in 1985 with a modest capacity of 50 beds and 12 outpatient clinics. The Company has now evolved into a leading private healthcare services provider in Riyadh with 728 beds and 138 outpatient clinics across two hospitals in Riyadh. The Company is progressing well on developing its third hospital in Riyadh, which will increase its capacity to 1,328 beds and over 200 outpatient clinics, and is expected to commence operations in 2017. Jadwa Healthcare Opportunities Fund diluted its stake in Al Hammadi by 30% following a primary IPO of the company on the Saudi Stock Exchange (Tadawul) in July 2014.

## Our Portfolio Companies



**Acquisition Year:** 2014  
**Acquisition Stake:** 100 percent  
**Sector:** Industrial waste management  
**Fund:** Jadwa Waste Management Opportunities Fund  
**Website:** [www.gems-ksa.com](http://www.gems-ksa.com)

GEMS is a leading industrial waste management company in Saudi Arabia. The company provides hazardous waste-management, industrial and engineering services to the oil, petrochemical and industrial sectors in Saudi Arabia, as well as the trading of recycled oil products. GEMS has a strong, experienced management team, complemented by access to an in-house science and engineering center in Spain, which boasts a highly qualified team of scientists, engineers and financial professionals.



**Acquisition Year:** 2015  
**Acquisition Stake:** 56 percent  
**Sector:** Industrial Manufacturing  
**Fund:** Jadwa Mechanical Opportunities Fund  
**Website:** [www.smi.com.sa](http://www.smi.com.sa)

Saudi Mechanical Industries (SMI) is a Riyadh-based company that was established in 1982 to manufacture fluid flow and control equipment. SMI has grown its operations to become a leading engineering components manufacturer producing a range of products including pumps, gear drives, and steel and bronze bars for use in a broad array of industries including oil & gas, infrastructure, automotive, agriculture and mining. Today, SMI employs over 800 professionals, working with more than 290 clients across Saudi Arabia, United States, Europe, and the MENA region.



**Acquisition Year:** 2015  
**Acquisition Stake:** 37 percent  
**Sector:** Petrochemical Re-refining  
**Fund:** Jadwa Refining Opportunities Fund  
**Website:** [www.trottersgroup.com](http://www.trottersgroup.com)

Trotters Holdings Limited, headquartered in the UAE, is an integrated petrochemical by-products and used lube oil processing, trading and logistics company. Through its advanced facilities, Trotters transforms petrochemical by-products and used lube oil into value added products that are used in numerous industries including construction, pharmaceuticals and textiles. The company employs a versatile team of professionals, including scientists and researchers, engineers and marketing professionals, working together to serve international clients worldwide.



**Acquisition Year:** 2016

**Acquisition Stake:** 42 percent

**Sector:** Healthcare

**Fund:** Jadwa Healthcare Opportunities Fund 2


**Website:** [www.uems.ae](http://www.uems.ae)

United Eastern Medical Services is a UAE-based integrated healthcare group that specializes in the women, fertility and children's healthcare segments in Abu Dhabi. The group is comprised of a network of premium, specialized health centers spread across Abu Dhabi that provide care in areas including diabetes, children's health, fertility and family health services, as well as Moorefield's Eye Hospital in Abu Dhabi, a joint venture with Moorefield's London, the oldest and largest ophthalmic center in the world. The group also includes Danat Al Emarat, a specialized women and children hospital with 150 beds.









## **Shariah Supervisory Board Annual Statement**

We aspire to be the Journey Partner of choice, and to build a successful and sustainable firm rooted in Islamic values. Our Business Principles provide the foundation for us to achieve our aspirations

## Shariah Board:

The Shariah Board is comprised of the following scholars:

### Sheikh Dr. Abdulla Al Mutlaq (Chairman of the Board)

Member of the Senior Ulama Board, Consultant for the Saudi Royal Diwan, former Chairman of the comparative Fiqh, Imam Mohammed Bin Saud Islamic University and a member of Shariah Board in a number of financial institutions in the Kingdom.

### Sheikh Dr. Muhammad Ali Elgari (Member of the Board)

Professor of Islamic Economics at King Abdulaziz University in Jeddah, expert of the Fiqh Academy of the Organization of Islamic Conference in Jeddah.

### Sheikh Bader Abdulaziz Al Omar (Member of the Board)

Head of the Shariah group at Jadwa Investment, and a Shariah board member.

### Sheikh Ahmad Abdulrahman Al Gaidy (Member of the Board)

Head of Shariah research, and secretary of the Shariah board.



# Shariah Supervisory Board Annual Statement for the Year 2016

This annual statement reflects the compliance of Jadwa Investment with the Shariah guidelines, as well as the cooperation and commitment of all departments in applying Shariah resolutions.

المجموعة الشرعية  
Shariah Group

جدوى للاستثمار  
Jadwa Investment



In the name of Allah the Most Gracious the Most Merciful

## SHARIAH SUPERVISORY BOARD

(Annual Shariah Statement for the Year 2016)

All praise is due to Allah, peace and blessings are due to Prophet Muhammad, his household and companions.

### To Jadwa Investment Shareholders:

Assalamualaikum warahmatullahi wabarakatuh

After we have reviewed the annual Shariah audit report, which confirms the company's commitment to Shariah resolutions, and the annual financial statement for the company for the year 2016, the Shariah board is of the opinion that:

1. All contracts and agreements that Jadwa has entered into during the year 2016, and brought to our attention, were Shariah compliant.
2. Profits and losses charged to the investment account are consistent with the rules that the Shariah board had approved, and therefore are shariah compliant.
3. Income received from prohibited sources was disposed of through distribution to charitable purposes.

The Shariah board expresses its gratitude to Jadwa management and staff for their commitment to applying Shariah guidelines and resolutions. We pray to Allah Almighty to grant them success.

Peace and blessings are due to prophet Muhammad, his household and companions.

### Board Members

Dr. Abdullah Al Mutlaq

Chairman

Dr. Mohammad Elgari

Member

Bader Abdulaziz Alomar

Member

Ahmad Abdulrahman Algaidy

Secretary & Member

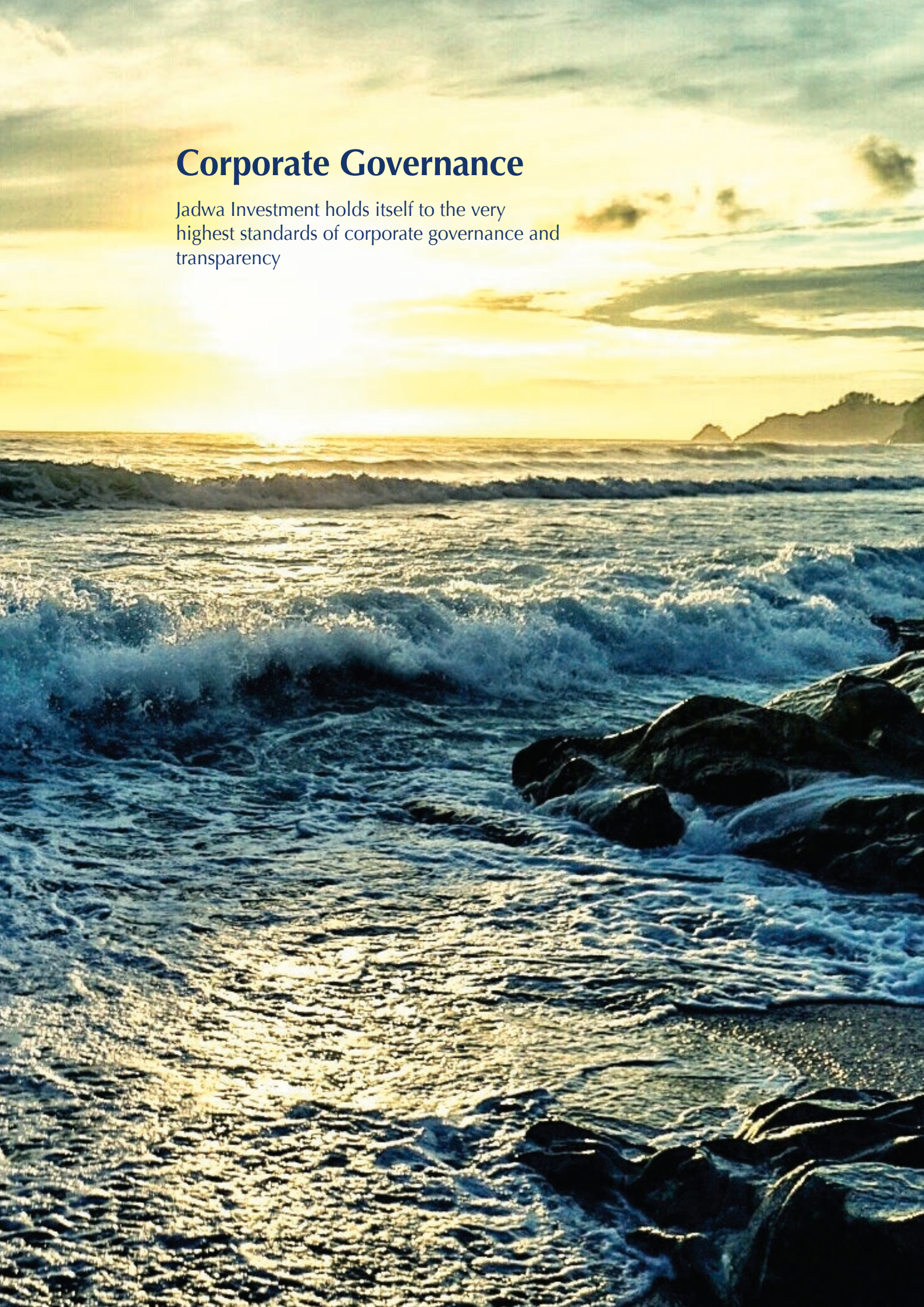






# Corporate Governance

Jadwa Investment holds itself to the very highest standards of corporate governance and transparency





## Corporate Governance

Jadwa Investment has adopted corporate governance principles that are in line with international standards and in harmony with the issued rules and regulations from the authorities in the Kingdom of Saudi Arabia. Jadwa has fulfilled and complied with the requirements in relation to the establishment of the Board's committees, independence of the Board of Directors, and implementation of the corporate governance infrastructure, as adopted by the Capital Market Authority.

The table below outlines Jadwa's compliance with the corporate governance requirements:

No.	The sequence of Articles according to the CMA Circular	Elaboration	Committed
1	<b>Formation of the Board of Directors to include independent members.</b>		✓
2	<b>The board issues an annual report that includes:</b>		✓
2.1	Description of key activities, planning and important decisions.		✓
2.2	Financial results and comments of the auditor, if any.		✓
2.3	Names of companies that have a Jadwa board member on their Board of Directors, the formation of the Board of Directors, and the classification of each board member.		✓
2.4	Description of the names and functions of the board committees, names of the Chairmen and members of each committee, and the number of conducted meetings of each committee.		✓
2.5	Details of the remuneration and compensation paid by the firm to the board members and five senior executives, as per the designated schedule.		✓
2.6	Any penalties, sanctions or reserve requirements imposed on the firm.		✓
2.7	The results of annual audit of the effectiveness of the internal controls of the firm.		✓
2.8	Description of any risks that can affect the firm, and the firm's risk management policy.		✓
2.9	Description of material differences between current operational results and the previous year's operational results, and any announced projections.		✓
2.10	Any benefits, contractual securities, and subscription rights of the board members or any related party in relation to the shares or debt instruments of the firm or any of its subsidiaries, and any changes in these benefits or rights during the last fiscal year.		✓
2.11	Information related to the firm's loans, whether they are payable upon request or otherwise, including a description of the original loan amount, the name of the lender, the duration of the loan, the remaining amount outstanding, the current indebtedness of the firm and its subsidiaries, and the amount of any loan repayments during the fiscal year. If there are no loans, the Board must declare this in the annual report.		✓

2.12	The number of board meetings held during the fiscal year and a record of attendance.		✓
2.13	Any deals between the firm and any related party.		✓
2.14	Description of any contracts or transactions related to the firm, any of the board members, the Chief Executive Officer, the Chief Financial Officer, or any related party, including the nature of these transactions and contracts, terms and conditions, duration, and amount. The board must declare if such contacts or transactions do not exist.		✓
3	<b>Establishment of Governance Structure</b>		✓
3.1	Definition of the policies and procedures relating to board membership, and the responsibilities and functions of the board.		✓
3.2	Definition of the authorities of the Board of Directors and the executive management.		✓
3.3	The development of a professional code of conduct.		✓
3.4	Formation of supervisory committees.		✓

## Board of Directors' membership in other companies

	Name	Classification	Membership in other companies
1	Mr. Adib Abdullah Al Zamil	<ul style="list-style-type: none"> <li>• Non-Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Fajr Capital Ltd. – Chairman</li> <li>• SANABIL Investment – Director</li> <li>• Saudi Guardian International float Glass (Gulfguard) Ltd – Director</li> <li>• United Carton Industries Company Ltd. – Chairman</li> <li>• Zamil Group Holding Company – Director</li> <li>• Zamil Industrial Investment - Directors</li> </ul>
2	Mr. Abdulaziz Mohammed Al Subeaei	<ul style="list-style-type: none"> <li>• Non-Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Fajr Capital Ltd. – Director</li> <li>• Farabi Petrochemical Company – Director</li> <li>• Jabal Omar Development Company. – Chairman</li> <li>• Mohammed Ibrahim Al-Subeaei &amp; Sons Investment Company – Director</li> <li>• National Aquaculture Group – Director</li> <li>• Saudi Mechanical Industries Company – Chairman</li> </ul>

	Name	Classification	Membership in other companies
3	Mr. Abdulrahman Ibrahim Al Rowaita	<ul style="list-style-type: none"> <li>• Non-Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Al Khozama Management Company – Director</li> <li>• AlEssa Industries Company –Director</li> <li>• Amlak International Company – Director</li> <li>• Aseer Trading, Tourism &amp; Manufacturing Company – Managing Director and General Manager</li> <li>• Halawani Bros Company – Chairman</li> <li>• King Abdullah Economic City –Director</li> <li>• Saudi Research and Marketing Group – Director</li> <li>• Welaya Investment Company – Vice Chairman</li> </ul>
4	Tan Sri Dato' Azman Mokhtar	<ul style="list-style-type: none"> <li>• Non-Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Agrifood Resources Holdings Sdn Bhd – Directors</li> <li>• Axiata Group Berhad – Chairman</li> <li>• Iskandar Investment Berhad – Chairman</li> <li>• Khazanah Nasional Berhad – Director</li> <li>• PEMANDU Corporation - Trustee</li> </ul>
5	Mr. Christopher Masterson	<ul style="list-style-type: none"> <li>• Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Fajr Capital Ltd. – Director</li> <li>• Havenvest Private Equity Middle East – Director</li> <li>• MLLP Holdings Ltd – Director</li> <li>• MML II Ltd. – Director</li> <li>• Montagu Private Equity LLP – Chairman</li> <li>• MPE Associateco Ltd. – Director</li> </ul>
6	Mr. Howard Marks	<ul style="list-style-type: none"> <li>• Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Oaktree Capital Management, L.P. – Chairman</li> <li>• Sies Marjan – Director</li> <li>• Topor &amp; Co. – Director</li> </ul>
7	Mr. Iqbal Ahmad Khan	<ul style="list-style-type: none"> <li>• Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Bank Islam Brunei Darussalam Berhad – Director</li> <li>• Cravia Inc. – Director</li> <li>• Fajr Capital Ltd. – Managing Director and Chief Executive Officer</li> <li>• GEMS Education Company– Director</li> <li>• MENA Infrastructure Ltd. – Director</li> <li>• National Petroleum Services – Director</li> </ul>
8	Mr. Michael Powell	<ul style="list-style-type: none"> <li>• Independent</li> <li>• Non-Executive</li> </ul>	<ul style="list-style-type: none"> <li>• E-Circuit Motors – Director</li> <li>• Exogenesis Corporation – Director</li> <li>• Fajr Capital Ltd. – Director</li> <li>• FinEx Capital Management LLP – Director</li> <li>• Passport Systems Inc. – Director</li> <li>• Thematic Capital Partners LLP – Chairman</li> </ul>
9	Mr. Tariq Ziad Al Sudairy	<ul style="list-style-type: none"> <li>• Non-Independent</li> <li>• Executive</li> </ul>	<ul style="list-style-type: none"> <li>• Abdulmohsen Al-Hokair Group for Tourism and Development – Director</li> <li>• Alrajhi Alpha Investment Holding Company – Director</li> <li>• Saudi Aramco Base Oil Company (Luberef) – Director</li> <li>• Saudi Stock Exchange (Tadawul) – Director</li> </ul>

During 2016 the Board conducted four meetings:

Meeting	Date	Attendees
1 Board Meeting No. 30	30/03/2016	Mr. Adib Al Zamil Mr. Abdulrahman Al Rowaita Mr. Christopher Masterson Mr. Iqbal Khan Mr. Michael Powell Mr. Tariq Al Sudairy
2 Board Meeting No. 31	31/05/2016	Mr. Adib Al Zamil Mr. Abdulaziz Al Subeaei Mr. Abdulrahman Al Rowaita Mr. Christopher Masterson Mr. Iqbal Khan Mr. Michael Powell Mr. Tariq Al Sudairy
3 Board Meeting No. 32	20/10/2016	Mr. Adib Al Zamil Mr. Abdulaziz Al Subeaei Mr. Abdulrahman Al Rowaita Mr. Howard Marks Mr. Iqbal Khan Mr. Michael Powell Mr. Tariq Al Sudairy
4 Board Meeting No. 33	13/12/2016	Mr. Adib Al Zamil Mr. Abdulrahman Al Rowaita Mr. Christopher Masterson Mr. Iqbal Khan Mr. Michael Powell Tan Sri Dato' Azman Mokhtar Mr. Tariq Al Sudairy

## Board of Directors' Committees

EXECUTIVE COMMITTEE			Members' Classifications
1	Mr. Iqbal Khan	Chairman	Independent board member, non-executive
2	Mr. Abdulaziz Al Subeaei	Member	Non-independent board member, non-executive
3	Mr. Tariq Al Sudairy	Member	Non-independent board member, executive
4	Mr. Ahmad Farouk	Member	Non-independent member, non-executive
5	5. Mr. Rashad Pablo	Secretary	Executive

The Executive Committee oversees the financial and operational performance of the firm, assists the Board of Directors in handling specific matters, and ensures that proper monitoring systems are in place. The committee held four meetings in 2016.

INVESTMENT COMMITTEE			Members' Classifications
1	Mr. Michael Powell	Chairman	Independent board member, non-executive
2	Mr. Mazen Al Jubair	Member	Independent external member, non-executive
3	Mr. Tariq Al Sudairy	Member	Non-independent board member, executive
4	Mr. Abdulaziz Al Arifi	Member	Executive
5	Mr. Amer Afiouni	Member	Executive
6	Mr. Saad Al Saif	Member	Executive
7	Mr. Zaheeruddin Khalid	Member	Executive
8	Mr. Rashad Pablo	Secretary	Executive

The Investment Committee ensures that the investment of Jadwa's capital is conducted in accordance with the Proprietary Investment Program, continuously monitors the overall investment performance of the firm's capital, and recommends changes as appropriate. The committee held two meetings in 2016.

AUDIT & RISK COMMITTEE			Members' Classifications
1	Mr. Abdulrahman Al Rowaita	Chairman	Non-independent board member, non-executive
2	Mr. Nasser Al Qahtani	Member	Independent external member, non-executive
3	Dr. Saud Al Nemer	Member	Independent external member, non-executive
4	Mr. Rami Al Shedi	Secretary	Executive

The Audit & Risk Committee reviews Jadwa's financial reporting processes to ensure accuracy and proper disclosure, and ensures that the firm has proper internal audit, risk management, and control systems. The committee held four meetings in 2016.

REMUNERATION AND NOMINATION COMMITTEE			Members' Classifications
1	Ms. Ann Almeida	Chairperson	Independent external member, non-executive
2	Mr. Abdulaziz Al Subeaei	Member	Non-independent board member, non-executive
3	Mr. Tariq Al Sudairy	Member	Non-independent board member, executive
4	4. Mr. Rashad Pablo	Secretary	Executive

The Remuneration & Nomination Committee oversees Jadwa's strategies and policies in relation to the recruitment, reward, retention, motivation, and career development of the firm's team members. The committee held four meetings in 2016.

COMPLIANCE COMMITTEE			Members' Classifications
1	Mr. Abdulaziz Al Subeaei	Chairman	Non-independent board member, non-executive
2	Mr. Tariq Al Sudairy	Member	Non-independent board member, executive
3	Mr. Ali Al Segayh	Member	Executive
4	Mr. Mohammed Al Obaid	Member	Executive
5	Mr. Rami Al Shedi	Member	Executive
6	Ms. Lamia Al Humaid	Secretary	Executive

The Compliance Committee oversees Jadwa's implementation of all applicable laws and regulations, with the aim to ensure full compliance, minimize legal and regulatory risk, and enforce the highest ethical standards. The committee held four meetings in 2016.



## Board & Executive Remuneration for the year 2016

Statement	Executive Members	Non-Executive/ Independent	Top five senior executives who received highest remuneration in addition to the CEO and CFO if they are not among them
Salaries and reimbursements	None	None	6,520,927
Per diem	12,000	283,000	3,299,091
Annual bonuses	None	1,600,000	10,020,000
Incentive plans	None	None	The firm provides long term incentive programs. The value of these programs is not determined upfront as it is linked to the future performance of the firm
Any other compensation or benefit paid on a monthly or annual basis	None	None	None

## Annual Audit Assessment of the Effectiveness of the Company's Internal Control Procedures

Internal controls at Jadwa Investment are ensured by three dedicated departments: Internal Audit, Compliance and Risk Management. The departments ensure that policies and procedures are in place and are regularly reviewed, updated and approved by the Policy and Procedures Committee, as per the firm's delegation authority matrix. The matrix sets the authorities and responsibilities of different stakeholders within the firm.

The Internal Audit Department ensures that controls are in place, and that they conform with the Capital Market Authority's guidelines as well as international best practices, by adopting a risk-based approach and by conducting the annual audit plan. All observations highlighted are presented to the Audit and Risk Committee, and corrective action plans are suggested and agreed to by the management. A proper governance structure is in place in the form of Board committees, including the Executive Committee, Remuneration and Compensation Committee, Investment Committee, Audit and Risk Committee and Compliance Committee.

## Risk Management

The primary objectives of the Risk Management function are to ensure that Jadwa's asset and liability profile, trading positions, and credit and operational activities do not expose it to losses that could threaten the viability of the firm. The Risk Management Department helps ensure that risk exposures do not become excessive relative to the firm's capital base and financial position. In all circumstances, all activities giving rise to risk are identified, measured, managed and monitored.

The Board of Directors and management are responsible for defining the firm's risk appetite, developing a risk management strategy, establishing an overall risk culture, and approving the exposure limit structure for different types of risks. The board is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and implemented, and that an effective risk management framework is in place.

### 1. CREDIT RISKS

To manage its credit risk, the firm assigns appropriate limits for counterparty exposure. The Risk Management Department also performs continuous portfolio risk reviews and highlights key observations and exceptions, if any, to senior management and the Audit and Risk Committee.

## 2. MARKET RISKS

Jadwa manages market risk through the establishment of risk limits. These risk limits are established using a variety of risk measurement tools, including sensitivity analysis, value-at-risk calculations and stress test methodologies.

## 3. LIQUIDITY RISK

Jadwa manages its balance sheet liquidity by collating the projected cash flows and liquidity profiles of its financial assets and liabilities, with the aim of addressing various liquidity needs, such as routine expenses, cyclical market fluctuations, future changes in market conditions, or a change in the appetite of liquidity providers.

The firm also monitors limits for current ratios, liquidity coverage, and the ratio of cumulative gap to total liabilities on a regular basis to ensure that Jadwa is self-funded during stressed scenarios. The liquidity coverage ratio (LCR) ensures that Jadwa has adequate stock of unencumbered, high-quality liquid assets that can be converted instantly into cash to meet the firm's liquidity needs for 30 calendar days.

### 3.1 CONTINGENCY FUNDING PLAN

Jadwa draws a contingency funding plan at the beginning of each year to address any liquidity crises. The contingency funding plan clearly assesses the sources of funding through diverse resources and is presented to the board for approval.

## 4. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems, or from external events. ERM has a dual focus of reducing risk and seeking business opportunity. Jadwa uses a Risk Control Self-Assessment (RCSA) approach to identify operational risks and appropriate controls. This operational risk framework enables the firm to comprehend inherent risks, and to highlight such risks to the team in order to proactively identify existing and emerging risks and effectively manage, transfer, avoid, or mitigate their impact.

Jadwa's operational risk framework consists of following modules:

- Risk control and self-assessment (RCSA)
- Operational loss incident and loss management
- Risk mitigation
- Risk monitoring, acceptance and reporting

### 4.1 INSURANCE RISK

To mitigate the impact of operational risk, Jadwa has an adequate set of policies, such as professional indemnity. Insurance policies are aligned to suit the level of inherent operational risk and must be cost-effective for the firm.

### 4.2 BUSINESS CONTINUITY MANAGEMENT (BCM)

Jadwa is committed to protecting its team members and ensuring its critical business functions and infrastructure capabilities are in place to protect its organization, safeguard clients, and sustain the firm's objectives. BCM components consist of the following:

- Crisis management
- Business continuity plan
- Disaster recovery plan

Jadwa annually performs disaster recovery testing for its critical functions at an offsite in Riyadh to ensure the ongoing

availability of key resources that are necessary during a crisis.

**(More details on financial risks are provided under note 26 of the financial statement)**

## The Board Acknowledgment

The Board of Directors acknowledges that there were no contracts or businesses related to the Company during the fiscal year 2016, in which any member of the Board, the CEO, the CFO or any Related Person had any interest.







# Financial Statements and Independent Auditor's Report





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**Certified Public Accountants**  
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## **INDEPENDENT AUDITORS' REPORT**

To: **The Shareholders of Jadwa Investment Company**  
**Riyadh, Kingdom of Saudi Arabia**

We have audited the accompanying financial statements of **Jadwa Investment Company** (the "Company") which comprise the balance sheet as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders equity for the year then ended and the attached notes (1) through (29) which form an integral part of the financial statements.

### ***Management's responsibility for the financial statements***

Management is responsible for the preparation and fair presentation of these 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 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 financial statements.

### ***Auditors' responsibilities***

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements taken as a whole:

- 1) present fairly, in all material respects, the financial position of **Jadwa Investment Company** ("the Company") 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 Company; 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 financial statements.

For **KPMG Al Fozan & Partners**  
**Certified Public Accountants**

  
Khalil Ibrahim Al Sedate  
License No: 371



Riyadh on 17 Jumada' II 1438H  
Corresponding to: 16 March 2017



## Balance Sheet as at December 31<sup>st</sup>, 2016

	Notes	2016	2015
ASSETS		SR	
Current assets			
Cash and cash equivalents	4	204,002,766	67,585,414
Accounts receivable, net	5	30,083,241	39,130,682
Held for trading investment	6	418,417,055	287,688,446
Due from related parties	7	157,206,993	121,158,442
Loan to equity-accounted investee	7	--	2,520,321
Prepaid expenses and other current assets, net	8	5,896,900	13,942,257
Total current assets		815,606,955	532,025,562
Non-current assets			
Available-for-sale investments	9	1,029,492,893	1,370,074,695
Property and equipment, net	10	5,307,388	6,966,362
Equity-accounted investee	11	213,885,918	234,863,043
Total non-current assets		1,248,686,199	1,611,904,100
TOTAL ASSETS		2,064,293,154	2,143,929,662
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank borrowings	12	242,317,091	240,820,112
Accounts payable		862,661	8,889,971
Accrued expenses and other current liabilities	13	47,004,090	59,021,067
Zakat and income tax provision	14	12,738,147	6,349,831
Total current liabilities		302,921,989	315,080,981
Non-current liabilities			
Bank borrowings	12	44,999,325	44,999,325
End-of-service benefits		14,344,358	10,837,108
Share based payments	15	31,561,448	14,478,989
Total non-current liabilities		90,905,131	70,315,422
TOTAL LIABILITIES		393,827,120	385,396,403
Shareholders' equity			
Share capital	1	852,735,000	852,735,000
Statutory reserve	16	325,462,754	314,484,700
Fair value reserve	9, 11	326,261,173	425,904,951
Retained earnings		166,007,107	165,408,608
Total shareholders' equity		1,670,466,034	1,758,533,259
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,064,293,154	2,143,929,662

The accompanying notes 1 to 29 form an integral part of these financial statements

## Statement of Income for the year ended December 31<sup>st</sup>, 2016

	Notes	2016	2015
<b>REVENUES</b>		<b>SR</b>	
Asset management		178,822,666	190,225,961
Investment banking		78,611,949	63,979,817
Brokerage		6,776,703	6,753,521
Income / (loss) from proprietary investments, net	17	17,124,128	(7,100,653)
Share in net income / (loss) of equity-accounted investee	11	9,034,352	(6,381,640)
<b>Total income</b>		<b>290,369,798</b>	<b>247,477,006</b>
<b>EXPENSES</b>			
Salaries and other employees related benefits		(118,892,798)	(105,683,185)
Depreciation	10	(2,128,675)	(1,888,538)
Rent expenses		(4,125,398)	(4,233,117)
Special commission expense on borrowings		(10,460,056)	(7,837,461)
Other general and administrative expenses	18	(36,726,949)	(34,267,933)
Impairment of available-for-sale investment	9	(8,255,380)	--
<b>Total expenses</b>		<b>(180,589,256)</b>	<b>(153,910,234)</b>
<b>NET INCOME</b>		<b>109,780,542</b>	<b>93,566,772</b>
<b>Earnings per share:</b>			
Net income	19	1.29	1.10

## Statement of Cash Flows for the year ended December 31<sup>st</sup>, 2016

	Notes	2016	2015
OPERATING ACTIVITIES		SR	
Net income		109,780,542	93,566,772
Adjustments for:			
Share in net (income) / loss of equity-accounted investee	11	(9,034,352)	6,381,640
Depreciation	10	2,128,675	1,888,538
End-of-service benefits		3,677,976	4,072,895
(Reversal) / provision for doubtful receivables	5	(233,876)	48,524
Share based payments		19,930,194	16,711,724
Realized loss on sale of available-for-sale investments, net	9	2,596,207	19,788,316
Unrealized gain on held for trading investment	17	(4,417,055)	(2,286,961)
Realized gain on sale of held for trading investment, net	17	(941,741)	--
Impairment of available-for-sale investment	9	8,255,380	--
<b>Changes in operating assets and liabilities</b>			
Accounts receivables		9,281,317	7,402,053
Due from related parties		(36,048,551)	(65,987,508)
Prepaid expenses and other current assets, net		6,567,264	555,314
Accrued expenses and other current liabilities		(12,016,977)	(24,090,573)
Accounts payable		(8,027,310)	274,721
<b>Cash generated from operating activities</b>		<b>91,497,693</b>	<b>58,325,455</b>
End-of-service benefits paid		(170,726)	(1,479,911)
Share based payments		(2,847,735)	--
Zakat and income tax paid	8.1 & 14	(5,064,080)	(6,798,454)
<b>Net cash from operating activities</b>		<b>83,415,152</b>	<b>50,047,090</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	10	(473,682)	(2,708,704)
Proceeds from sale of property and equipment		3,981	--
Additions to available-for-sale investments	9	(63,813,440)	(455,289,370)
Proceeds from sale of available-for-sale investments		323,911,354	484,552,127
Additions to held for trading investments	6	(414,000,000)	(485,000,000)
Proceeds from sale of held for trading investments		288,630,187	400,000,000
<b>Net cash from / (used) in investing activities</b>		<b>134,258,400</b>	<b>(58,445,947)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from bank borrowings		242,317,091	238,400,000
Repayment of bank borrowings		(240,820,112)	(179,997,300)
Loan to equity-accounted investee		2,520,321	(2,520,321)
Dividend paid	20	(85,273,500)	(85,273,500)
<b>Net cash used in financing activities</b>		<b>(81,256,200)</b>	<b>(29,391,121)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>136,417,352</b>	<b>(37,789,978)</b>
Cash and cash equivalents at beginning of the year		67,585,414	105,375,392
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>4</b>	<b>204,002,766</b>	<b>67,585,414</b>
<b>Non-cash items:</b>			
Change in fair value of available-for-sale investments		(110,495,365)	220,748,887
Fair value of available-for-sale investments transferred to statement of income, net of impairment		10,851,587	19,788,317



## Statement of changes in Shareholders' Equity for the year ended December 31<sup>st</sup>, 2016

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Fair value reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	<b>SR</b>				
Balance as at 1 January 2015	852,735,000	305,128,023	185,367,748	174,690,068	1,517,920,839
Change in fair value of available-for-sale investment	--	--	220,748,887	--	220,748,887
Fair value of available-for-sale investments transferred to statement of income (Note 17)	--	--	19,788,316	--	19,788,316
Net income	--	--	--	93,566,772	93,566,772
Transfer to statutory reserve	--	9,356,677	--	(9,356,677)	--
Dividend (Note 20)	--	--	--	(85,273,500)	(85,273,500)
Zakat and income tax provision-current year (Note 14)	--	--	--	(5,185,180)	(5,185,180)
Zakat and income tax provision - prior year (Note 14)	--	--	--	(3,032,875)	(3,032,875)
Balance as at 31 December 2015	<b>852,735,000</b>	<b>314,484,700</b>	<b>425,904,951</b>	<b>165,408,608</b>	<b>1,758,533,259</b>
<b>Balance as at 1 January 2016</b>	<b>852,735,000</b>	<b>314,484,700</b>	<b>425,904,951</b>	<b>165,408,608</b>	<b>1,758,533,259</b>
<b>Impairment of investment recognized in statement of income</b> (Note 9)	--	--	<b>8,255,380</b>	--	<b>8,255,380</b>
<b>Change in fair value of available-for-sale investment</b> (Note 9,11)	--	--	<b>(110,495,365)</b>	--	<b>(110,495,365)</b>
<b>Fair value of available-for-sale investments transferred to statement of income</b> (Note 17)	--	--	<b>2,596,207</b>	--	<b>2,596,207</b>
<b>Net income</b>	--	--	--	<b>109,780,542</b>	<b>109,780,542</b>
<b>Transfer to statutory reserve</b>	--	<b>10,978,054</b>	--	<b>(10,978,054)</b>	--
<b>Dividend</b> (Note 20)	--	--	--	<b>(85,273,500)</b>	<b>(85,273,500)</b>
<b>Zakat and income tax provision - current year</b> (Note 14)	--	--	--	<b>(12,738,147)</b>	<b>(12,738,147)</b>
<b>Zakat and income tax provision - prior year</b> (Note 14)	--	--	--	<b>(192,342)</b>	<b>(192,342)</b>
<b>Balance as at 31 December 2016</b>	<b>852,735,000</b>	<b>325,462,754</b>	<b>326,261,173</b>	<b>166,007,107</b>	<b>1,670,466,034</b>

# Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2016

## 1. GENERAL

Jadwa Investment Company ("the Company") is a Saudi closed joint stock company established pursuant to Royal Decree Number M/30 and registered in Riyadh, Kingdom of Saudi Arabia under Commercial Registration No. 1010228782 on 1 Safar 1428 H (corresponding to 19 February 2007).

The share capital of the Company, amounting to SR 852,735,000 (31 December 2015: 852,735,000), is divided into 85,273,500 shares (31 December 2015: 85,273,500 shares) of SR 10 each.

The principal activities of the Company are trading as principal and agent, underwriting, establishment and management of mutual funds and portfolio management, arranging, providing advisory and safekeeping services for administrative arrangements and procedures relating to investment funds, portfolio management and trading as per license of the Capital Market Authority ("CMA") number 37-6034, dated 3 Sha'baan 1427H (corresponding to 27 August 2006). The Company's registered office is located at the following address:

7th Floor, Sky Tower,  
King Fahad Road  
P.O. Box: 60677 Riyadh  
11555 Saudi Arabia.

## 2. BASIS OF PREPERATION

### Statement of compliance:

The financial statements have been prepared in accordance with generally accepted accounting standards in 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 to amend its By-laws for any changes to align the By-laws of The Law. Consequently, the Company shall present the amended By-laws to the stockholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than 24/07/1438H (corresponding to 21 April 2017).

### Basis of measurement:

The financial statements have been prepared under the historical cost convention except for the measurement at fair value of available-for-sale investments and held for trading investments, and the measurement of investment in an associate using equity method; using the accrual basis of accounting and the going concern concept.

### Functional and presentation currency:

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

### Use of estimates and judgements:

The preparation of financial statements requires management to make judgment, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Cash and cash equivalents:

Cash and cash equivalents include cash at bank current accounts and liquid investments with original maturities of three months or less from the acquisition date.

### Account Receivables:

These are stated at original invoice amount less provisions made for doubtful debts, if any. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to statement of income and any subsequent recovery of receivable amounts previously written off are credited to income.

### Held for trading investments:

Investments classified as held for trading, are acquired principally for the purpose of selling or repurchasing in the short term. Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period in which it arises and is disclosed as "proprietary income".

### Available-for-sale investments:

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.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized through the statement of changes in shareholders equity in "change in fair value of investments" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to statement of income for the period and are disclosed as gains / (losses) in proprietary income.

### Impairment of financial assets:

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. For available-for-sale investments carried at fair value, impairment loss, which is the difference between cost (net of any principal payment and amortisation) and current fair value, less any impairment loss previously recognised in the statement of income, is transferred

from the statement of changes in equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income.

**Impairment is determined as follows:**

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the profit and loss;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- c) For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Financial assets are written off only in circumstances where all possible means of recovery have been exhausted.

**Investments in associates:**

Associates are those entities in which the Company owns shares in their capital, and over which it exercises significant influence but not control. Associates are accounted for using the equity method (equity-accounted investee) and are initially recognized at cost. The financial statements include the Company's share of income and losses and equity movement of the equity-accounted investee. When the Company's share of loss exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is accounted for as liability to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate. The Company's share of profits or losses of the investee company is credited or charged to statement of income.

**Property and equipment:**

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for improvement is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. The estimated useful lives of the principal classes of assets are as follows:

	Years
Computer equipment	4
Furniture and fixtures	4
Office equipment	4
Motor vehicles	4
Leasehold improvements	Shorter of lease term or economic life

**Impairment of non-financial assets:**

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 carrying amount of the asset exceeds its

recoverable amount which is the higher of an asset's net selling price and value in use. For purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

**Provisions:**

A provision is made when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Cash settled share based payments:**

The cash settled share based payment expense and its related liability is initially recognized by reference to the book value of shares, at reporting date, multiplied by a predetermined factor. Until the liability is settled, the liability is re-measured at the end of each reporting period. Any changes in value of the liability is recognized in the statement of income. Further, the eligible employee are also entitled to receive all dividends in accordance with the Company's dividend policy in respect of the Company's ordinary shares.

**Foreign currency translation:**

Foreign currency transactions are translated into Saudi Arabian Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

**End-of-service benefits:**

End-of-service benefits are payable as a lump sum to all employees employed under the terms and conditions of the Saudi Labor Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Indemnity payments are based on employees' final salaries and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.

**Assets under management:**

The Company offers assets management services to its customers, which include management of certain mutual funds. Such assets are not treated as assets of the Company and accordingly are not included in the financial statements.

**Clients' cash accounts:**

The Company holds cash in clients' cash accounts with Banque Saudi Fransi to be used for investments on their behalf. Such balances are not included in the Company's financial statements.

**Revenue recognition:**

Revenue is recognized upon delivery of services to customers and is stated net of discounts.

Fee charged for managing assets (including mutual funds) is recognized as the services are provided. Subscription fee is recognized upon subscription of the investor to the fund. Performance income is recognized in accordance with the terms and conditions of the managed fund.



## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2016 (continued)

Advisory service fees is accrued on a time proportionate basis, as the services are rendered.

Dividends income is recognized when the right to receive dividend is established.

Commission income is recognized on an accrual basis.

### **Zakat and income tax:**

The Company's Saudi shareholders are subject to Zakat in accordance with the Regulations of the General Authority for Zakat and Taxation (the "GAZT") as applicable in the Kingdom of Saudi Arabia. The zakat charge is computed on the zakat base. An estimate of Zakat arising therefrom is provided by a charge to Saudi shareholders' equity.

The Company's foreign shareholders are subject to income tax in accordance with Regulations of Zakat and Income Tax as applicable in the Kingdom of Saudi Arabia. Income tax is computed on adjusted net income. An estimate of income tax arising there from is provided by a charge to foreign shareholders' equity.

### **4. CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents include cash at bank current accounts and Murabaha deposits with original maturities of less than three months.

	2016	2015
	SR	
Cash at bank - current accounts	21,953,423	22,562,031
Murabaha deposits	182,049,343	45,023,383
	<b>204,002,766</b>	<b>67,585,414</b>

Cash at bank - current accounts and Murabaha deposits are placed with counterparties who have good credit ratings.

Murabaha deposits are made for varying periods ranging from one day to three months depending on the liquidity requirements of the Company carrying an average yield of 2.3% per annum.

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

### **5. ACCOUNT RECEIVABLES, NET**

The accounts receivable as at 31 December consist of the following:

	2016	2015
	SR	
Account receivables	35,013,066	44,294,383
Provision for doubtful receivables	(4,929,825)	(5,163,701)
	<b>30,083,241</b>	<b>39,130,682</b>

The following is the movement in the provision for doubtful receivables for the years ended 31 December:

	2016	2015
	SR	
Balance as at 1 January	5,163,701	5,115,177
(Reversal) / provision made during the year	(233,876)	48,524
Balance as at 31 December	<b>4,929,825</b>	<b>5,163,701</b>

## 6. HELD FOR TRADING INVESTMENT

The cost and fair value of held for trading investment as at 31 December, are as follows:

2016		2015		
SR				
	Cost	Fair value	Cost	Fair value
Murabaha fund	414,000,000	418,417,055	285,000,000	287,688,446

This represents an investment made by the Company in one of its managed open-ended public Fund.

## 7. RELATED PARTY TRANSACTIONS

Related parties of the Company comprise of its shareholders, associated and affiliated companies, funds under management, directors and key management personnel of the Company. These transactions are carried out on mutually agreed terms and approved by the management of the Company.

During the year, the Company transacted with related parties in the normal course of business.

The significant transactions with related parties and the related amounts are as follows:

		2016	2015
Related Party	Nature of transaction	SR	
Funds under Management	Asset management	105,716,604	97,570,151
The Funds under Management	Investment banking	63,524,493	60,182,526
The Funds under Management	Purchase of held for trading investments	414,000,000	485,000,000
The Funds under Management	Disposal of held for trading investments	288,630,188	400,000,000
The Funds under Management	Purchase of available-for-sale investment	63,813,440	455,289,371
The Funds under Management	Disposal of available-for-sale investment	279,905,085	220,283,085
The Funds under Management	Expenses incurred on behalf of managed Funds	6,411,595	14,338,597
The Funds under Management	Dividend income	11,576,540	9,283,147
Board of Directors	Remuneration [c]	(3,000,000)	(3,000,000)
The Associate	Service fees	(1,500,000)	(1,500,000)

In addition to related party balances disclosed elsewhere in these financial statements, the balances resulting from transactions with related parties and included in the accompanying financial statements are as follows:

	2016	2015
	SR	
Held for trading investment in managed funds	418,417,055	--
Available-for-sale investments in managed funds	960,917,919	1,263,151,505
Loan to equity-accounted investee (a)	--	2,520,321
Due from related parties:		
Fees receivable from managed funds	135,299,405	99,453,857
Other receivables from managed funds	21,907,588	20,204,585
Service fee receivable from equity-accounted investee (b)	--	1,500,000
	157,206,993	121,158,442

## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2016 (continued)

- (a) This represents interest-free loan to an equity-accounted investee for payment of financial charges on its bank borrowing.
- (b) Fee charged from an equity-accounted investee for providing management services in accordance with service level agreement with the Associate.
- (c) This includes annual fee paid to the Board members amounting to SR 375,000 each (2015: SR 375,000).

### 8. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Note	2016	2015
SR		
Deferred expenses	--	6,518,452
Prepaid software maintenance	1,600,236	1,587,117
Advance income tax 8.1	1,392,322	2,870,415
Advances to employees	1,064,543	973,414
Prepaid rent	1,015,288	1,192,038
Prepaid insurance	824,511	800,821
	5,896,900	13,942,257

### 8.1. MOVEMENT OF ADVANCE INCOME TAX:

	2016	2015
SR		
Balance at beginning of the year	2,870,415	2,546,607
Payment made during the year	613,590	2,870,415
Adjustment for provision for tax and zakat	(2,091,683)	(2,546,607)
<b>Balance at end of the year</b>	<b>1,392,322</b>	<b>2,870,415</b>

### 9. AVAILABLE FOR SALE INVESTMENTS

The cost and fair value of available-for-sale investments as at 31 December are as follows:

	Initial cost	Change in fair value	Impairment recorded in current and previous years	Fair value 2016	Fair value 2015
SR					
Open-ended funds	135,963,440	(4,031,298)	--	131,932,142	307,887,078
Close-ended funds	795,762,053	203,086,382	(101,785,367)	897,063,068	1,021,665,463
Equity shares	592,345	(94,662)	--	497,683	40,522,154
	932,317,838	198,960,422	(101,785,367)	1,029,492,893	1,370,074,695

The change in fair value of available-for-sale investments amounting to SR 198,960,422 is included in fair value reserve under shareholders' equity as at 31 December 2016 (31 December 2015: SR 268,592,723).

During the year, the Company recorded an additional impairment provision on an offshore real estate unlisted investment in a close-ended fund located in the United Kingdom amounting to SR 8,255,380 (2015: SR Nil). The



initial cost at the time of investment amounted to SR 127,749,576. This increase in impairment provision was determined using valuation techniques for which significant inputs were not based on observable market data.

The following is the movement of cost and fair value of available-for-sale investments for the year ended 31 December:

	2016	2015
SR		
<b>Costs</b>		
Balance at beginning of the year	1,195,011,959	1,244,063,036
Additions	63,813,440	455,289,370
Disposals	(326,507,561)	(504,340,447)
Balance at end of the year	932,317,838	1,195,011,959
<b>Fair value adjustment</b>		
Balance at beginning of the year	268,592,723	28,055,519
Unrealized (loss) / gain during the year	(80,483,888)	220,748,887
Realized loss on disposal	2,596,207	19,788,317
Impairment recognized in statement of income	8,255,380	-
Balance at end of the year	198,960,422	268,592,723
Impairment	(101,785,367)	(93,529,987)
<b>Fair Value at end of the year</b>	<b>1,029,492,893</b>	<b>1,370,074,695</b>

## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2016 (continued)

### 10. PROPERTY AND EQUIPMENT, NET

	Computer equipment	Furniture and fixtures	Office equipment	Motor vehicles	Leasehold improvements	Capital work in progress	Total
<b>SR</b>							
<b>Cost</b>							
Balance as at 1 January 2016	33,500,274	5,393,192	4,728,318	395,970	10,544,846	178,691	54,741,291
Additions	370,472	56,212	3,998	--	--	43,000	473,682
Transfers from CWIP	178,691	--	--	--	--	(178,691)	--
Disposals	(11,589)	--	--	--	--	--	(11,589)
Balance as at 31 December 2016	34,037,848	5,449,404	4,732,316	395,970	10,544,846	43,000	55,203,384
<b>Accumulated depreciation</b>							
Balance as at 1 January 2016	29,877,055	4,838,687	4,563,178	224,803	8,271,206	-	47,774,929
Charges for the year	1,315,610	229,764	68,994	50,000	464,307	-	2,128,675
Disposals	(7,608)	--	--	--	--	-	(7,608)
Balance as at 31 December 2016	31,185,057	5,068,451	4,632,172	274,803	8,735,513	-	49,895,996
<b>Net book value at</b>							
31 December 2016	2,852,791	380,953	100,144	121,167	1,809,333	43,000	5,307,388
31 December 2015	3,623,219	554,505	165,140	171,167	2,273,640	178,691	6,966,362

### 11. EQUITY-ACCOUNTED INVESTEE

The Company participated in the setting up of Jadwa Industrial Investment Company ("the Associate"). The Company's share is 30% of the Associate's total share capital of SR 500,000. The Associated Company is accounted for under the equity method.

Following is the movement in the investment for the years ended 31 December:

	2016	2015
<b>SR</b>		
Balance at beginning of the year	77,550,814	83,932,454
Share in income / (loss) for the year	9,034,352	(6,381,640)
	86,585,166	77,550,814
Share in unrealized gain on revaluation of available-for-sale investment of the Associate	127,300,752	157,312,229
Balance at the end of the year	213,885,918	234,863,043

As at 31 December 2016, the Company's share in unrealized gain on revaluation of available-for-sale investment of

the Associate was SR 127,300,752 (31 December 2015: SR 157,312,229) and is included under the fair value reserve in shareholders' equity.

The table below shows the valuation technique including significant unobservable inputs used to determine fair value of available-for-sale investment of the Associate:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p><i>Discounted cash flows:</i> The valuation model considers the present value of net cash flows to be generated from the operations of the project, taking into account expected growth rate, sales prices, cash conversion cycle, terminal value growth rate etc. The expected net cash flows are discounted using risk-adjusted discount rates which is the weighted average cost of capital for the project.</p>	<ul style="list-style-type: none"> <li>• Expected compounded annual growth rate – currently estimated at 4% - 23%</li> <li>• Risk adjusted discount rates – currently estimated at 10.8% - 11.1%</li> <li>• Product sales prices – forecasted prices used over the period of 15 years.</li> <li>• Terminal value growth rate currently estimated at 2.5% - 3%</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Expected compounded annual growth rate were higher (lower)</li> <li>• Risk adjusted discount rates were lower (higher)</li> <li>• Product sales prices were higher (lower)</li> <li>• Terminal value growth rate was higher (lower)</li> </ul>



## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2016 (continued)

### 12. BANK BORROWINGS

	Notes	2016	2015
SR			
Short-term Murabaha loan	12.1	238,400,000	238,400,000
Accrued commission expense	12.2	3,917,091	2,420,112
		242,317,091	240,820,112
Long-term Murabaha loan	12.3	44,999,325	44,999,325

12.1 This represents short-term Murabaha loan from a local commercial bank carrying a commission rate at agreed commercial rate. This facility arrangement include certain covenants, which the Company was in compliance with during the year ended 31 December 2016.

12.2 This represents accrued commission expense on short-term Murabaha loan and long term murabaha loan.

12.3 This represents financing in the form of Islamic Murabaha from a local commercial bank carrying a commission rate at agreed commercial rate. As at 31 December 2016, an amount of SR 45 million was outstanding (31 December 2015: 45 million) which is due for repayment on 27 August 2018. This facility is secured by a promissory note.

### 13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2016	2015
SR		
Accrued employees' benefits	33,443,198	28,398,330
Accrued transaction expenses	7,436,565	24,000,491
Other accrued liabilities	5,562,567	5,586,215
Payable to suppliers	561,760	1,036,031
	47,004,090	59,021,067

### 14. ZAKAT AND INCOME TAX

The principal elements of the Company's Zakat base are as follows:

	2016	2015
SR		
Share capital	852,735,000	852,735,000
Statutory reserve	314,484,700	305,128,023
Retained earnings	79,390,339	89,416,568
Investments	(916,338,666)	(1,187,934,746)
Property and equipment	(23,226,440)	(24,802,471)
Provisions	16,000,809	14,969,301
Long term borrowing	44,999,325	44,999,325
Adjusted net income	108,515,148	99,372,542
Impairment of available-for-sale investment	(8,255,380)	--
Zakat base	468,304,835	193,883,542

**Zakat:**

	2016	2015
	SR	
Portion of the Saudi shareholders' adjusted net income/ zakat base, whichever is higher (2016: 89.69 %, 2015: 89.96%)	420,022,607	174,495,188
Zakat for the year (2.5%)	10,500,565	4,362,380

**Income tax:**

	2016	2015
	SR	
Portion of adjusted net income for non-Saudi shareholders (2016: 10.31 %, 2015: 10.31%)	21,703,030	9,937,254
Income tax for the year (20%)	2,237,582	1,987,451

The following is the movement of the provision for Zakat and income tax for the year ended 31 December:

	2016	2015
	SR	
Balance at beginning of the year	6,349,831	7,476,837
Zakat charge for the year	10,500,565	4,362,380
Income tax charge for the year	2,237,582	1,987,451
Adjustment for prior year	192,342	(1,164,651)
Adjustment against advance payments	(2,091,683)	(2,546,607)
Payment made during the year	(4,450,490)	(3,765,579)
Balance at end of the year	12,738,147	6,349,831

The Company has filed its Zakat and tax returns for the years up to and including the financial year 2015 with the General Authority for Zakat and Taxation (the "GAZT"). The Company has received zakat assessment for the year 2007 raising an additional zakat liability of SR 3,032,875, which was recorded in previous period and paid during the year ended 31 December 2016. The Zakat and tax return for years 2008 to 2015 are still under review by the GAZT.

**15. SHARE BASED PAYMENTS**

The Company adopted a Virtual-Share Linked Incentive Scheme. The scheme aims at rewarding the performance and retention of its employees by giving them the incentive linked to certain Virtual Shares (the "Award Shares") and, in particular, to the Company's financial performance. One third of the Award Shares shall vest on each of the third, fourth and fifth anniversaries of the effective date and, upon vesting, shall constitute "Vested Shares".

The total expense recognized for employees' services received during the year ended 31 December 2016, under the scheme, amounted to SR 19.9 million (31 December 2015: SR16.7 million) and is included in salaries and other employee related benefits.

**16. STATUTORY RESERVE**

As required by Saudi Arabian Regulations for Companies and the Company's By-laws 10% of the income for the year should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve equals 50% of the share capital. During the year, the Company has transferred SR 10.9 million (2015: SR 9.3 million) to statutory reserve.

## Notes to the Financial Statements for the year ended December 31<sup>st</sup>, 2016 (continued)

### 17. INCOME / (LOSS) FROM PROPRIETARY INVESTMENTS, NET

	2016	2015
	SR	
Realized loss on sale of available-for-sale investments, net	(2,596,207)	(19,788,317)
Dividends income	12,321,309	9,985,377
Unrealized gain on held for trading investment	4,417,055	2,286,961
Realized gain on held for trading investments, net	941,741	--
Murabaha income	1,798,897	31,158
Others	241,333	384,168
	<b>17,124,128</b>	<b>(7,100,653)</b>

### 18. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	2016	2015
		SR	
Professional and consulting fees		10,927,085	7,521,199
Subscription fees		4,988,712	4,388,754
Traveling expenses		3,629,992	3,973,586
Maintenance		3,626,303	2,973,248
Board of Directors' related expenses	7	3,000,000	3,000,000
Contractual labor		2,175,217	2,226,652
Telecommunication		1,226,767	1,357,526
Advertisement		595,704	596,149
Conference expenses		581,437	713,908
Meeting expenses		563,992	1,393,310
Withholding taxes		561,941	777,142
Printing		351,797	455,571
Utilities		306,022	419,488
Insurance		125,122	272,359
Security expenses		9,000	72,000
(Reversal) / provision for doubtful receivables	5	(233,876)	48,524
Others		4,291,734	4,078,517
		<b>36,726,949</b>	<b>34,267,933</b>



## 19. EARNINGS PER SHARE

Earnings per share from net income for the year are calculated by dividing the net income for the year by the weighted average number of shares for the year ended 31 December 2016 equivalent to 85.2735 million shares (31 December 2015: 85.2735 million shares).

## 20. DIVIDEND

During the year 2015, the shareholders in their Annual General Assembly meeting held on Jumada Al Oula 16, 1436 (corresponding to 17 March 2015) approved the distribution of dividends amounting to SR 85.273 million from the retained earnings at SR 1 per share.

During the year 2016, the shareholders in their Annual General Assembly meeting held on Jumada Al-Thani 20, 1437 (corresponding to 30 March 2016) approved the distribution of dividends amounting to SR 85.273 million from the retained earnings at SR 1 per share.

## 21. SEGMENT INFORMATION

The Company operates solely in the Kingdom of Saudi Arabia. For management purposes, the Company is organized into business units based on services provided and has the following reportable segments:

### *Investment banking services*

Investment banking provides corporate finance advisory, private placements, public offerings of equity and debt securities, trade sales, mergers, acquisition, divestitures, spin-offs, syndications and structured products.

### *Brokerage*

Brokerage operates under the brand of Jadwa Investment Company and acts as principal and agent, providing custody and clearing services to clients, providing access to regional exchanges.

### *Asset management services*

Jadwa Investment Company asset management offers investors gateways into the GCC and Arab stock markets, and conventional equity and Shariah compliant investment funds using both active and passive management styles. In addition, offers Saudi Total Return Swaps (TRS), which provide international investors with access to the Saudi stock market.

### *Corporate*

Corporate manages future corporate development and controls all treasury related functions. All proprietary investments, including investments in an associate within this business segment, which also comprise strategy and business development, legal and compliance, finance, operations, human resources and client relation management.

Management monitors the operating results of the operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and loss.

## Notes to the Financial Statements

### for the year ended December 31<sup>st</sup>, 2016 (continued)

	Investment banking services	Brokerage	Asset management services	Corporate	Total
SR					
<b>Year ended December 31, 2016</b>					
Revenue	78,611,949	6,776,703	178,822,666	26,158,480	290,369,798
Expenses	(29,121,887)	(5,253,474)	(54,473,996)	(91,739,899)	(180,589,256)
Income / (loss) from operations	49,490,062	1,523,229	124,348,670	(65,581,419)	109,780,542
Total assets	9,661,495	588,946	177,980,502	1,876,062,211	2,064,293,154
Total liabilities	16,770,060	793,556	31,474,379	344,789,125	393,827,120
<b>Year ended December 31, 2015</b>					
Revenue	63,979,817	6,753,521	190,225,961	(13,482,293)	247,477,006
Expenses	(25,614,955)	(4,957,888)	(50,264,732)	(73,072,659)	(153,910,234)
Income / (loss) from operations	38,364,862	1,795,633	139,961,229	(86,554,952)	93,566,772
Total assets	4,000,274	626,615	155,673,941	1,983,628,832	2,143,929,662
Total liabilities	20,750,099	593,006	41,790,684	322,262,613	385,396,402

#### 22. COMMITMENTS AND CONTINGENCIES

At 31 December 2016, the Company had an outstanding commitment in the form of a letter of guarantee on loan obtained by the Associate. The Company's share of commitment with respect to its share of investment in the Associate amounts to SR 204 million (2015: SR 204 million).

#### 23. CLIENTS' CASH ACCOUNTS

At 31 December 2016, the Company was holding clients' cash accounts amounting to SR 721.34 million (31 December 2015: SR 1,226.64 million), to be used for investments on the clients' behalf. Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

#### 24. ASSETS UNDER MANAGEMENT

These represent the mutual funds', private equity funds' and discretionary portfolios' assets related to the funds unitholders managed by the Company, which amount to SR 24.75 billion as at 31 December 2016 (31 December 2015: SR 19.81 billion). Consistent with its accounting policy, such balances are not included in the Company's financial statements as these are held by the Company in fiduciary capacity.

#### 25. FAIR VALUES OF FINANCIAL INSTRUMENTS

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 Company's financial assets consist of cash and cash equivalents, accounts receivable, held for trading investments, available-for-sale investments, investment in an associated company and other assets and its financial liabilities consist of short-term bank loan, accounts payable, zakat and income tax provision and other liabilities. Except as described in note 2 to the financial statements, Management believes the fair values of financial instruments are not materially different from their carrying values.

## 26. RISK MANAGEMENT

The Company manages its business risks in the creation, optimization and protection of enterprise value as well as creation of value for its investors. Therefore, Risk management is an integral part of corporate strategy to ensure its effectiveness and value additive. Risk management goal is to understand and manage the risks rather than to avoid it.

The Company has designed its risk management framework to identify measure, monitor, mitigate, insure and reassess its key risks based upon changes in internal and external environment. The framework supports to achieve its strategic objective to optimize the risk return trade-off by either maximizing return for a given level of risk or reduce the risk for a given level of return. The Risk Management division, which is a vital link between business lines and management, develops and communicates risk appetite to risk owners and continuously monitors it to ensure risk exposures are within management's acceptable level.

In accordance with the regulatory requirements introduced under Pillar2 of the Prudential Rules prescribed by the CMA, the Company has implemented Internal Capital Adequacy Assessment Process (ICAAP) through which all the material risks prevalent within the business operations are identified and the capital requirements are estimated over and above the minimum capital as per Pillar1. The ICAAP Report is submitted to CMA every year after getting approved internally.

### 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. Financial assets, which are potentially subject to concentration of credit risk, consist principally of cash and cash equivalents, accounts receivables, due from related parties, loans to employees and advances to employees.

With respect to credit risk arising from other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The table below shows the maximum exposure to credit risk for the components of the balance sheet:

	Gross maximum exposure 2016	Gross maximum exposure 2015
	SR	
Cash and cash equivalents	204,002,766	67,573,709
Accounts receivables	30,083,241	39,142,387
Due from related parties	157,206,993	121,584,442
Loan to equity-accounted investee	--	2,520,321
Advances to employees	1,064,543	973,414
	392,357,543	231,794,273

The Company's cash equivalents and investments are placed with banks of sound credit rating and hence the credit risk is limited. The credit risk with respect to other receivables is limited as the total amount receivable is spread over a number of accounts.

Investment team focuses on the Sharia compliant products and markets where it can comprehend the inherent risks. The Company monitors and manages credit risk of its investments with tools i.e. policy & procedures and risk appetite that include limits for concentration, country, industry and acceptable rating levels for counterparties etc. The stringent approval framework of investment and exhaustive evaluation process alerts the management timely on risks. While investment team is responsible to maintain exposure within limits, it is independently monitored by risk management on a continuous basis.



#### Market Risk:

Market risk is made up of key risks – commission rate risk, foreign exchange risk and equity price risk. Market risk is measured, monitored and managed with a blend of quantitative and qualitative approach along with experienced talent and quantitative tools include sensitivity analysis and Value at Risk approach. In addition, exposure limits for individual transactions, concentration, maturities and other risk parameters captures the risk timely.

#### Foreign exchange risk:

Currency risk is the risk that the value of a financial investment may fluctuate due to change in foreign exchange rates. Management closely monitors the exchange rate fluctuations and believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals with Saudi Arabian Riyals.

#### Commission rate risk:

The Company is subject to commission rate risk on its commission bearing bank time-deposits and borrowings.

The following table demonstrates the sensitivity of the income to reasonably possible changes in special commission rates, with all other variables held constant. The sensitivity of the income is the effect of the assumed changes in special commission rates on the Company's income for one year, based on the floating rate financial assets held as at the year end. There is no impact on the Company's equity.

	2016	2015
	SR	
Increase/decrease in basis points +/- 10 bps	200,419	301,818

#### Equity price risk:

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Company's investments are susceptible to market price risk arising from uncertainties about future prices. The Company manages this risk through diversification of its investment portfolio in terms of geographical distribution and industry concentration.

#### Liquidity risk:

The Company collates the projected cash flow and liquidity profiles of its financial assets and liability. It maintains a portfolio of short-term liquid assets to cover requirements, largely consisting of certain liquid placement with financial institutions.

All liabilities other than end-of-service benefits and due to a bank are contractually payable on a current basis. The table below shows an analysis of liabilities according to when they are expected to be recovered or settled.

	2016			2015		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
SR						
Cash and cash equivalents	204,002,766	--	204,002,766	67,585,414	--	67,585,414
Accounts receivable, net	30,083,241	--	30,083,241	39,130,682	--	39,130,682
Held-for-trading investments	418,417,055	--	418,417,055	287,688,446	--	287,688,446
Due from related parties	157,206,993	--	157,206,993	121,158,442	--	121,158,442
Loan to equity-accounted investee	--	--	-	2,520,321	--	2,520,321
Other current assets	1,099,143	--	1,099,143	1,008,014	--	1,008,014
Available-for-sale investments	--	1,029,492,893	1,029,492,893	--	1,370,074,695	1,370,074,695
<b>Total financial assets</b>	<b>810,809,198</b>	<b>1,029,492,893</b>	<b>1,840,302,091</b>	<b>519,091,319</b>	<b>1,370,074,695</b>	<b>1,889,166,014</b>
Short-term borrowing	242,317,091	--	242,317,091	240,820,112	--	240,820,112
Accounts payable	862,661	--	862,661	8,889,971	--	8,889,971
Accrued expenses and other liabilities	47,004,090	--	47,004,090	59,021,067	--	59,021,067
Zakat and income tax provision	12,738,147	--	12,738,147	6,349,831	--	6,349,831
Long-term borrowing	--	44,999,325	44,999,325	--	44,999,325	44,999,325
<b>Total financial liabilities</b>	<b>302,921,989</b>	<b>44,999,325</b>	<b>347,921,314</b>	<b>315,080,981</b>	<b>44,999,325</b>	<b>360,080,306</b>
<b>Net financial assets</b>	<b>507,887,209</b>	<b>984,493,568</b>	<b>1,492,380,777</b>	<b>204,010,338</b>	<b>1,325,075,370</b>	<b>1,529,085,708</b>

The Company manages its liquidity from balance sheet point of view where it collates projected cash flows and liquidity profiles of its financial assets and liabilities, which address the various liquidity needs such as routine expenses, cyclical fluctuations in economic conditions, future change in market conditions or surviving during loss of confidence among liquidity providers.

It also monitor limits for current ratios, liquidity coverage ratio and Cumulative gap as % of total liabilities on a regular basis to ensure that Company is self-funded during stressed scenarios. Liquidity coverage ratio (LCR) ensures that firm has adequate stock of unencumbered high quality liquid assets that can be liquidated instantly in cash to meet its liquid needs for 30 calendar days.

The Company draws contingency funding plan at the beginning of year to address any liquidity crises in future. The contingency funding plan clearly assess the sources of funding through diverse resources and place aforesaid plan before the board for their ratification and approval.

## 27. CAPITAL REGULATORY REQUIREMENT AND CAPITAL ADEQUACY

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

The Company monitors the capital adequacy and related ratios using the framework established by CMA effective starting 1 January 2014. Accordingly, the Company's Pillar 1 requirement related to Tier capital base, minimum capital requirement and capital adequacy ratio are as follows.

	2016	2015
	SR '000	
<b>Capital Base:</b>		
Tier-1 Capital	1,344,205	1,332,629
Tier-2 Capital	326,261	425,905
<b>Total Capital Base</b>	<b>1,670,466</b>	<b>1,758,534</b>
<b>Minimum Capital:</b>		
Credit Risk	812,120	885,758
Market Risk	12,381	11,301
Operational Risk	45,147	46,332
<b>Total Minimum Capital</b>	<b>869,648</b>	<b>943,391</b>
<b>Surplus Capital</b>	<b>800,818</b>	<b>815,143</b>
<b>Capital Adequacy Ratio %</b>	<b>1.92</b>	<b>1.86</b>

### Tier-1 Capital:

Tier 1 capital of the Company consists of paid up share capital, capital contribution in the form of reserves and audited retained earnings.

### Tier-2 Capital:

Tier 2 capital of the Company consist of revaluation reserves related to available-for-sale investments.

### Credit Risk:

Credit exposures from non-trading activities of the Company is from bank current accounts, Murabaha deposits, short-term investments, available-for-sale investments, other current receivables, fixed assets and off balance sheet commitments.

### Market Risk:

Market risk represents the Company's exposure in foreign exchange and trading activities.

### Operational Risk:

Operational risk arises from inadequate internal processes, people and systems or from external events. The management has computed the operational risk based on the Basic Indicator approach.

### Capital Adequacy Ratio:

As per the CMA guidelines, the Company is required to maintain a capital base not less than the total minimum capital of the Company. However, the Company is adequately capitalized with surplus capital over and above the minimum capital requirement of the Company.



**28. COMPARATIVE FIGURES**

Certain figures for 2015 have been reclassified to conform with the presentation in the current year.

**29. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved on 17 Jumada'II 1438H, corresponding to 16 March 2017.