

**J.P. Morgan Saudi Arabia Limited**  
**(A Limited Liability Company)**

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
AND INDEPENDENT AUDITORS' REPORT

J.P. MORGAN SAUDI ARABIA LIMITED  
(A Limited Liability Company)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015

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## **INDEPENDENT AUDITORS' REPORT**

February 29, 2016

To the shareholders of J.P. Morgan Saudi Arabia Limited:

### **Scope of audit**

We have audited the accompanying balance sheet of J.P. Morgan Saudi Arabia Limited (the "Company") as of December 31, 2015 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (13) which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with Article 175 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Unqualified opinion**

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

**PricewaterhouseCoopers**

A handwritten signature in blue ink, appearing to read 'Mohammed A. Al Obaidi', is written over a horizontal line.

By: \_\_\_\_\_  
Mohammed A. Al Obaidi  
License Number 367

**J.P. MORGAN SAUDI ARABIA LIMITED**  
**(A Limited Liability Company)**  
**Balance sheet**  
**As at December 31,**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2015	2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	133,114	100,841
Due from related parties	5.2	13,552	5,305
Prepayments and other receivables	6	356	119
		<u>147,022</u>	<u>106,265</u>
<b>Non-current assets</b>			
Property and equipment	7	37	55
		<u>37</u>	<u>55</u>
<b>Total assets</b>		<u>147,059</u>	<u>106,320</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accrued and other liabilities	8	4,966	4,035
Due to related parties	5.2	4,548	386
Provision for income tax	12	5,865	3,316
		<u>15,379</u>	<u>7,737</u>
<b>Non-current liability</b>			
Employee termination benefits	9	1,097	812
		<u>1,097</u>	<u>812</u>
<b>Total liabilities</b>		<u>16,476</u>	<u>8,549</u>
<b>Shareholders' equity</b>			
Share capital	10	93,750	78,750
Proposed increase in share capital	10	-	15,000
Retained earnings		36,833	4,021
<b>Total shareholders' equity</b>		<u>130,583</u>	<u>97,771</u>
<b>Total liabilities and shareholders' equity</b>		<u>147,059</u>	<u>106,320</u>

The notes on pages 6 to 12 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA LIMITED**  
**(A Limited Liability Company)**  
**Income statement**  
**For the year ended December 31,**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
Service fee income	5.1	62,715	40,805
<b>Operating expenses</b>			
Salaries and employee related benefits		(16,193)	(13,639)
Other general and administrative expenses	11	(4,693)	(4,680)
Rent and premises related expenses	5.1	(706)	(706)
Depreciation	7	(18)	(30)
Income from operations		<u>41,105</u>	<u>21,750</u>
<b>Other income</b>			
Commissions on time deposit		85	117
Exchange loss		(27)	(88)
		<u>58</u>	<u>29</u>
<b>Net income before income tax</b>		<b>41,163</b>	<b>21,779</b>
<b>Income tax</b>	12	<u>(8,351)</u>	<u>(3,316)</u>
<b>Net income for the year</b>		<u><b>32,812</b></u>	<u><b>18,463</b></u>

The notes on pages 6 to 12 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA LIMITED**  
**(A Limited Liability Company)**  
**Cash flow statement**  
**For the year ended December 31,**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2015	2014
<b>Cash flow from operating activities</b>			
Net income before income tax		41,163	21,779
<b><u>Adjustments for non-cash items</u></b>			
Depreciation	7	18	30
Provision for employee termination benefits	9	564	367
<b><u>Changes in working capital:</u></b>			
Due from related parties	5.2	(8,247)	(2,071)
Prepayments and other receivables		(237)	293
Accrued and other liabilities		931	(944)
Due to related parties		4,162	(5,028)
Employee termination benefits paid during the year	9	(279)	(139)
Income tax paid during the year	12	(5,802)	-
Net cash generated from operating activities		<b>32,273</b>	14,287
<b>Cash flow from financing activity</b>			
Contribution of proposed increase in share capital	10	-	15,000
Net cash generated from financing activities		-	15,000
<b>Net change in cash and cash equivalents</b>		<b>32,273</b>	29,287
Cash and cash equivalents at beginning of the year		<b>100,841</b>	71,554
<b>Cash and cash equivalents at end of the year</b>	4	<b>133,114</b>	100,841

The notes on pages 6 to 12 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA LIMITED**  
**(A Limited liability Company)**  
**Statement of changes in shareholders' equity**  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Proposed increase in share capital	Retained earnings (accumulated losses)	Total
<b>January 1, 2015</b>		<b>78,750</b>	<b>15,000</b>	<b>4,021</b>	<b>97,771</b>
Net income for the year		-	-	32,812	32,812
Contribution from shareholders	10	<u>15,000</u>	<u>(15,000)</u>	-	-
<b>December 31, 2015</b>		<b><u>93,750</u></b>	<b>-</b>	<b>36,833</b>	<b>130,583</b>
<b>January 1, 2014</b>		<b>78,750</b>	<b>-</b>	<b>(14,442)</b>	<b>64,308</b>
Net income for the year		-	-	18,463	18,463
Contribution from shareholders	10	<u>-</u>	<u>15,000</u>	-	15,000
<b>December 31, 2014</b>		<b><u>78,750</u></b>	<b>15,000</b>	<b>4,021</b>	<b>97,771</b>

The notes on pages 6 to 12 form an integral part of these financial statements.

**J.P. MORGAN SAUDI ARABIA LIMITED**  
**(A Limited Liability Company)**  
**Notes to the financial statements for the year ended December 31, 2015**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**1 General information**

J.P. Morgan Saudi Arabia Limited (the "Company") is a limited liability company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010240801 issued in Riyadh on 17 Dhul Qadah 1428H (corresponding to November 26, 2007), Saudi Arabian General Investment Authority ("SAGIA") license No. 2031026532-01 dated 22 Shaban 1428H (corresponding to September 4, 2007) and the Capital Market Authority ("CMA") license No. 12164-37 dated 26 Dhul-Hijaa 1433H (corresponding to November 11, 2012).

The accompanying financial statements were approved by the management on 20 Jumada Al-Awwal, 1437 H (corresponding to February 29, 2016).

Initially the Company was established to conduct investment banking activities in the field of arranging, advising, custody and dealing as an agent in respect of securities business, not including margin trading transactions. During 2012, the Company obtained provisional CMA licenses dated 26 Dhul-Hijaa 1433H (corresponding to November 11, 2012) to amend the business activities to conduct dealing as principle and agent, underwriting, mutual fund management, discretionary portfolio management, arranging, advising and custody. However, there were no business activities executed by the Company with reference to these provisional licenses. During 2016, the Company was recognized by the Saudi Stock Exchange (Tadawul) as an Exchange member to perform Brokerage activities the membership was granted following fulfillment of technical and legal requirements laid down by the Tadawul.

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

**2.1 Basis of preparation**

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

**2.2 Critical accounting estimates and judgments**

The preparation of financial statements is in conformity with generally accepted accounting principles. This requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the reporting date, and the revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition vary from the related actual results.

**2.3 Foreign currency translations**

(a) Reporting currency

These financial statements are presented in Saudi Riyals ("SR") which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Such exchange adjustments were not significant for the years ended December 31, 2015 and 2014 respectively.

**2.4 Cash and cash equivalents**

Cash and cash equivalents are comprised of cash in bank and term deposit with maturity of three months or less at acquisition.



**J.P. MORGAN SAUDI ARABIA LIMITED**

(A Limited Liability Company)

**Notes to the financial statements for the year ended December 31, 2015**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**2.5 Property and equipment**

Property and equipment are carried at cost less accumulated depreciation. Depreciation is charged to the statement of income, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
Furniture, fixtures and office equipment	5-10
Computer equipment	3

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**2.6 Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

**2.7 Provisions**

Provisions, if any, are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**2.8 Income taxes**

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to income taxes attributable to its foreign shareholders. Provision for income taxes is charged to the income statement. Additional amounts payable, if any, at the finalization of final assessment are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

**2.9 Employee termination benefits**

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Kingdom of Saudi Arabia.

**2.10 Income**

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Fees and commission arising from negotiating, or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities businesses are recognized on completion of the underlying transaction. Investment banking activities' service fees are recognized based on the applicable client service contracts and agreements with other affiliated JPMorgan Chase & Co. entities. Income from time deposits is recognized on an accrual basis and on a time proportion basis. Income from advisory services provided locally by the Company are recorded net-off attributions (payments) to other affiliated JPMorgan Chase & Co. entities.

**2.11 Operating leases**

Rental expenses under operating leases are charged to income statement on a straight-line basis over the period of the related leases. There were no significant rental commitments as at December 31, 2015.

**3 Financial instruments and risk management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, commission rate risks and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Financial instruments carried on the balance sheet include cash and cash equivalents, due to / from related parties and accrued and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

**3.1 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is not significant since the Company's transactions are principally in Saudi Riyals and US dollars.

**3.2 Commission rate risk**

Commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial position and cash flows. The Company's commission rate risks arise mainly from its term deposit and short term borrowing, which are at floating rate of commission and are subject to re-pricing on a regular basis. Management monitors the changes in commission rates and believes that the commission rate risk to the Company is not significant.

**3.3 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is placed with banks having sound credit rating.

**3.4 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

**3.5 Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**4 Cash and cash equivalents**

	2015	2014
Cash at banks	133,114	45,417
Term deposit with original maturity equal to or less than three months	-	55,424
	133,114	100,841

**J.P. MORGAN SAUDI ARABIA LIMITED**  
**(A Limited Liability Company)**  
**Notes to the financial statements for the year ended December 31, 2015**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**5 Related party matters**

**5.1 Related party transactions**

Significant transactions with related parties in the ordinary course of business are summarized below:

	2015	2014
<b><u>Service fee income attributions from:</u></b>		
J.P. Morgan Chase Bank, N.A.- London Branch	19,333	9,864
J.P. Morgan Securities plc	17,706	7,687
J.P. Morgan Limited	9,276	7,682
J.P. Morgan Chase Bank, N.A.- Dubai Branch	2,776	-
J.P. Morgan Whitefriars Inc. – London Branch	2,387	15,572
J.P. Morgan Ventures	1,259	-
	<b>52,737</b>	<b>40,805</b>
Remuneration to key management personnel	<b>5,066</b>	<b>3,996</b>
<b><u>Expenses:</u></b>		
Rental expense charged by J.P. Morgan Chase Bank, N.A. - Riyadh Branch	706	706
Intercompany expenses charged by J.P. Morgan Chase Bank, N.A. - Riyadh Branch under global master services level agreement	1,299	2,110
Intercompany expenses charged to J.P. Morgan Chase Bank, N.A. - Riyadh Branch under global master services level agreement	969	-

The Company has services agreements with its affiliated entities to provide marketing, client management and advisory services, in return the Company is entitled to compensation in accordance with the terms of the agreement and as agreed between the parties.

Additionally, the Company also has global master services level agreement with its affiliated entities for provision of shared services, and compensate the affiliated entities in accordance with the terms of the agreement.

The Company leases its office space from J.P. Morgan Chase Bank, N.A. - Riyadh Branch. Under the lease agreement, the rental charge for the year ended December 31, 2015 amounted to Saudi Riyals 0.71 million (2014: Saudi Riyals 0.71 million).

**5.2 Related party balances**

Significant balances arising from the above transactions with related parties are as follows:

**Due from related parties:**

	2015	2014
J.P. Morgan Chase Bank, N.A. - London Branch	5,106	2,071
J.P. Morgan Securities plc	4,170	2,626
J.P. Morgan Chase Bank, N.A. - Dubai Branch	2,776	286
J.P. Morgan Chase Bank, N.A. - Riyadh Branch	969	-
J.P. Morgan Whitefriars Inc. – London Branch	322	21
J.P. Morgan Securities Asia Pacific Ltd	139	-
J.P. Morgan Ventures	70	-
J.P. Morgan Limited	-	301
	<b>13,552</b>	<b>5,305</b>

**J.P. MORGAN SAUDI ARABIA LIMITED**  
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**Notes to the financial statements for the year ended December 31, 2015**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**Due to related parties:**

	2015	2014
J.P. Morgan Securities plc	3,121	-
J.P. Morgan Chase Bank, N.A. - Riyadh Branch	1,427	386
	<u>4,548</u>	<u>386</u>

**6 Prepayments and other receivables**

	2015	2014
Prepaid rent	353	-
Advance to employees	3	65
Accrued commission receivable	-	7
Other receivables	-	47
	<u>356</u>	<u>119</u>

**7 Property and equipment**

	January 1, 2015	Additions	Disposals	December 31, 2015
<b>Cost</b>				
Furniture, fixtures and office equipment	388	-	-	388
Computer equipment	40	-	-	40
	<u>428</u>	<u>-</u>	<u>-</u>	<u>428</u>
<b>Accumulated depreciation</b>				
Furniture, fixtures and office equipment	343	12	-	355
Computer equipment	30	6	-	36
	<u>373</u>	<u>18</u>	<u>-</u>	<u>391</u>
	<u>55</u>			<u>37</u>
	January 1, 2014	Additions	Disposals	December 31, 2014
<b>Cost</b>				
Furniture, fixtures and office equipment	388	-	-	388
Computer equipment	40	-	-	40
	<u>428</u>	<u>-</u>	<u>-</u>	<u>428</u>
<b>Accumulated depreciation</b>				
Furniture, fixtures and office equipment	322	21	-	343
Computer equipment	21	9	-	30
	<u>343</u>	<u>30</u>	<u>-</u>	<u>373</u>
	<u>85</u>			<u>55</u>

**8 Accrued and other liabilities**

	2015	2014
Employees' benefits	3,836	3,631
Accrued professional fee	211	175
GOSI	96	92
Others	823	137
	<u>4,966</u>	<u>4,035</u>

**9 Employee termination benefits**

	2015	2014
Balance, January 1	812	584
Provision for the year	564	367
Payments made during the year	(279)	(139)
	<u>1,097</u>	<u>812</u>

**J.P. MORGAN SAUDI ARABIA LIMITED**  
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**Notes to the financial statements for the year ended December 31, 2015**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**10 Share capital**

The share capital of the Company as of December 31 with a par value of SR 1,000 per share is as follows:

Shareholders	Country of origin	%	2015	2014
J.P. Morgan International Finance Limited	USA	95%	89,063	74,813
J.P. Morgan International Inc.	USA	5%	4,687	3,937
		100%	93,750	78,750

The increase in share capital during 2015, of Saudi Riyals 15 million represents the amount contributed by the above shareholders in the same percentage of their ownership interest in the Company. The legal formalities, including obtaining approval from the CMA have been obtained during the year and the share capital duly increased.

**11 Other general and administrative expenses**

	2015	2014
Professional services	1,298	945
Travel and entertainment	1,216	569
Technology and communication	512	382
Outsourcing services	496	373
Other regulatory matters	490	-
Shared services	330	2,110
Other	351	301
	4,693	4,680

**12 Income Tax**

Following are the significant components of income tax base of the Company for the years ended December 31:

	2015	2014
Net income before income tax	41,163	21,779
Adjustments:		
Depreciation differences	(7)	(4)
Employee termination benefits	285	228
Others	557	104
Net adjusted income for the year	41,998	22,107
Less: Adjusted loss brought forward, restricted to 25%	(243)	(5,527)
Tax base for the year	41,755	16,580
Income tax at 20%	8,351	3,316

During December 2015, the Company received initial tax assessments for the years 2008 to 2013 from the Department of Zakat and Income Tax (DZIT). As per the initial assessments, the DZIT is demanding additional tax relating to its 2008 to 2013 Tax filings due to the disallowance of certain items from the Tax base of the Company.

The Company, in consultation with its professional tax advisors, has filed appeals for the above initial assessments with the DZIT, and is awaiting a response. At the current time, a reasonable estimation of the ultimate additional Income tax and withholding tax liabilities, if any, cannot be reliably determined.

The Company has filed its tax returns with DZIT up to the years to December 31, 2014; however, the final tax assessment has not yet been obtained as of the date of these financial statements.

**J.P. MORGAN SAUDI ARABIA LIMITED**  
**(A Limited Liability Company)**  
**Notes to the financial statements for the year ended December 31, 2015**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

<b>Provision for income tax</b>	<b>2015</b>	<b>2014</b>
Opening balance	3,316	-
Payments made during the year	(5,802)	-
Charged during the year	8,351	3,316
	<u>5,865</u>	<u>3,316</u>

**13 Regulatory capital requirements and capital adequacy ratio:**

In accordance with Article 74(b) of the Prudential Rules issued by the CMA (the Rules), given below are the disclosures of the capital base, minimum capital requirement and total capital adequacy ratio as at December 31:

	<b>2015</b>	<b>2014</b>
<b>Capital Base:</b>		
Tier 1 Capital	130,583	82,771
Tier 2 Capital	-	-
Total Capital Base	<u>130,583</u>	<u>82,771</u>
<b>Minimum Capital Requirement:</b>		
Market Risk	127	68
Credit Risk	9,584	5,151
Operational Risk	7,490	4,764
Total Minimum Capital Required	<u>17,201</u>	<u>9,983</u>
<b>Capital Adequacy Ratio:</b>		
Total Capital Ratio (time)	7.59	8.29
Tier 1 Capital Ratio (time)	7.59	8.29
Surplus in Capital	113,382	72,788

- The above information has been extracted from the annual Capital Adequacy Model for December 31, 2015 to be submitted to CMA and December 31, 2014 as submitted to CMA.
- The capital base consists of Tier 1 capital as per Article 4 of the Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Rules.
- The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.
- The Company is required to disclose the prescribed information as required under Pillar III of the Rules on the Company website (<http://www.jpmorgan.com/saudi-arabia>), however these are not subject to review or audit by the external auditors of the Company.