

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
AND INDEPENDENT AUDITORS' REPORT**

**J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited Liability Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Page
Independent auditors' report	1
Balance sheet	2
Income statement	3
Cash flow statement	4
Statement of changes in shareholders' equity	5
Notes to the financial statements	6 - 12



INDEPENDENT AUDITORS' REPORT

February 22, 2015

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, 2014 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, 2014 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

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)

	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents	4	100,841	71,554
Due from related parties	5.2	5,305	3,234
Prepayments and other receivables	6	119	412
		<u>106,265</u>	<u>75,200</u>
Non-current assets			
Property and equipment	7	55	85
		<u>55</u>	<u>85</u>
Total assets		<u>106,320</u>	<u>75,285</u>
Liabilities			
Current liabilities			
Accrued and other liabilities	8	4,035	4,979
Due to related parties	5.2	386	5,414
Provision for income tax	12	3,316	-
		<u>7,737</u>	<u>10,393</u>
Non-current liability			
Employee termination benefits	9	812	584
		<u>812</u>	<u>584</u>
Total liabilities		<u>8,549</u>	<u>10,977</u>
Shareholders' equity			
Share capital	10	78,750	78,750
Proposed increase in share capital	10	15,000	-
Retained earnings / accumulated losses		4,021	(14,442)
Total shareholders' equity		<u>97,771</u>	<u>64,308</u>
Total liabilities and shareholders' equity		<u>106,320</u>	<u>75,285</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)

	Note	2014	2013
Service fee income	5.1	40,805	18,044
Operating expenses			
Salaries and employee related benefits		(13,639)	(16,978)
Other general and administrative expenses	11	(4,680)	(10,113)
Rent and premises related expenses	5.1	(706)	(706)
Depreciation	7	(30)	(37)
Income (loss) from operations		<u>21,750</u>	<u>(9,790)</u>
Other income			
Commissions on time deposit		117	132
Exchange (loss) / gain		(88)	-
		<u>29</u>	<u>132</u>
Net income (loss) before income tax		21,779	(9,658)
Income tax	12	<u>(3,316)</u>	-
Net income (loss) for the year		<u>18,463</u>	<u>(9,658)</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)

	Note	2014	2013
Cash flow from operating activities			
Net income (loss) before income tax		21,779	(9,658)
Adjustments for non-cash items			
Depreciation	7	30	37
Provision for employee termination benefits	9	367	501
Changes in working capital:			
Due from related parties		(2,071)	(34)
Prepayments and other receivables		293	(403)
Accrued and other liabilities		(944)	1,318
Due to related parties		(5,028)	5,302
Employee termination benefits paid during the year	9	(139)	(256)
Income tax paid during the year	12	-	(309)
Net cash generated from (utilized in) operating activities		<u>14,287</u>	<u>(3,502)</u>
Cash flow from investing activity			
Purchase of property and equipment	7	-	(18)
Net cash utilized in investing activities		<u>-</u>	<u>(18)</u>
Cash flow from financing activity			
Contribution of proposed increase in share capital	10	15,000	-
Net cash generated from financing activities		<u>15,000</u>	<u>-</u>
Net change in cash and cash equivalents		29,287	(3,520)
Cash and cash equivalents at beginning of the year		<u>71,554</u>	<u>75,074</u>
Cash and cash equivalents at end of the year	4	<u>100,841</u>	<u>71,554</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)
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
January 1, 2014		78,750	-	(14,442)	64,308
Net income for the year		-	-	18,463	18,463
Contribution from shareholders	10	-	15,000	-	15,000
December 31, 2014		78,750	15,000	4,021	97,771
January 1, 2013		78,750	-	(4,784)	73,966
Net loss for the year		-	-	(9,658)	(9,658)
December 31, 2013		78,750	-	(14,442)	64,308

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, 2014
(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 February 22, 2015.

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.

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, 2014 and 2013 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, 2014
(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, 2014.

J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited Liability Company)
Notes to the financial statements for the year ended December 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

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

	2014	2013
Cash at banks	45,417	11,247
Term deposit with original maturity equal to or less than three months	55,424	60,307
	100,841	71,554

J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited Liability Company)
Notes to the financial statements for the year ended December 31, 2014
(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:

	2014	2013
<u>Service fee income attributions from:</u>		
J.P. Morgan Whitefriars Inc.- London Branch	15,572	159
JPMorgan Chase Bank, N.A.- London Branch	9,864	12,318
J.P. Morgan Securities plc	7,687	2,743
J.P. Morgan Limited	7,682	2,824
	<u>40,805</u>	<u>18,044</u>
Remuneration to key management personnel	<u>3,996</u>	<u>6,474</u>
<u>Expenses:</u>		
Rental expense charged by JPMorgan Chase Bank, N.A. - Riyadh Branch	706	706
Intercompany expenses charged by JPMorgan Chase Bank, N.A. - Riyadh Branch under global master services level agreement.	2,110	2,418
Intercompany expenses charged by J.P. Morgan (Suisse) SA under global master services level agreement.	-	4,977
Salary expense recovered from JPMorgan Chase Bank, N.A. - Dubai Branch	-	540

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 JPMorgan Chase Bank, N.A. - Riyadh Branch. Under the lease agreement, the rental charge for the year ended December 31, 2014 amounted to Saudi Riyals 0.71 million (2013: 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:		
	2014	2013
J.P. Morgan Securities plc	2,626	236
JPMorgan Chase Bank, N.A. - London Branch	2,071	1,678
J.P. Morgan Limited	301	621
JPMorgan Chase Bank, N.A. - Dubai Branch	286	540
J.P. Morgan Whitefriars Inc. - London Branch	21	159
	<u>5,305</u>	<u>3,234</u>
Due to related parties:		
	2014	2013
JPMorgan Chase Bank, N.A. - Riyadh Branch	386	437
J.P. Morgan (Suisse) SA	-	4,977
	<u>386</u>	<u>5,414</u>

J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited Liability Company)
Notes to the financial statements for the year ended December 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

6	Prepayments and other current receivables	2014	2013
	Advance to employees	65	359
	Accrued commission receivable	7	7
	Other receivables	47	46
		119	412
7	Property and equipment		
		January 1,	December 31,
		2014	2014
	Cost		
	Furniture, fixtures and office equipment	388	388
	Computer equipment	40	40
		428	428
	Accumulated depreciation		
	Furniture, fixtures and office equipment	322	343
	Computer equipment	21	30
		343	373
		85	55
		January 1,	December 31,
		2013	2013
	Cost		
	Furniture, fixtures and office equipment	388	388
	Computer equipment	22	40
		410	428
	Accumulated depreciation		
	Furniture, fixtures and office equipment	294	322
	Computer equipment	12	21
		306	343
		104	85
8	Accrued and other current liabilities	2014	2013
	Employees' benefits	3,631	4,537
	Accrued professional fee	175	175
	GOSI	92	77
	Others	137	190
		4,035	4,979
9	Employee termination benefits	2014	2013
	Balance, January 1	584	339
	Provision for the year	367	501
	Payments made during the year	(139)	(256)
		812	584

J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited Liability Company)
Notes to the financial statements for the year ended December 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

10 Share capital

The share capital of the Company as of December 31 comprised of 78,750 shares of Saudi Riyals 1,000 par value.

Shareholders	Country of origin	%	2014	2013
J.P. Morgan International Finance Limited	USA	95%	74,813	74,813
J.P. Morgan International Inc.	USA	5%	3,937	3,937
		<u>100%</u>	<u>78,750</u>	<u>78,750</u>

The proposed increase in share capital at December 31, 2014, 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, are under progress as of the date of approval of these financial statements.

11 Other general and administrative expenses

	2014	2013
Shared services	2,110	6,855
Professional services	945	762
Travel and entertainment	569	1,483
Outsourcing services	373	438
Technology and communication	382	227
Other	301	348
	<u>4,680</u>	<u>10,113</u>

12 Income Tax

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

	2014	2013
Net income (loss) before income tax	21,779	(9,658)
Adjustments:		
Depreciation differences	(4)	(1)
Employee termination benefits	228	245
Others	104	19
Net adjusted income (loss) for the year	<u>22,107</u>	<u>(9,395)</u>
Less: Adjusted loss brought forward, restricted to 25%	<u>(5,527)</u>	-
Tax base for the year	<u>16,580</u>	<u>(9,395)</u>
Income tax at 20%	<u>3,316</u>	-

The Company has filed its tax returns with DZIT up to the years to December 31, 2013; however, the final tax assessment has not yet been obtained as of the date of these financial statements.

Provision for income tax

	2014	2013
Opening balance	-	309
Payments made during the year	-	(309)
Charged during the year	<u>3,316</u>	-
	<u>3,316</u>	-

J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited Liability Company)
Notes to the financial statements for the year ended December 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

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 ratio as at December 31, 2014 and 2013:

	2014	2013
Capital Base:		
Tier 1 Capital	82,771	64,308
Tier 2 Capital	-	-
Total Capital Base	82,771	64,308
Minimum Capital Requirement:		
Market Risk	68	80
Credit Risk	5,151	3,385
Operational Risk	4,764	6,959
Total Minimum Capital Required	9,983	10,424
Capital Adequacy Ratio:		
Total Capital Ratio (time)	8.29	6.17
Tier 1 Capital Ratio (time)	8.29	6.17
Surplus / (Deficit) in Capital	72,788	53,884

- a) The above information has been extracted from the annual Capital Adequacy Model for December 31, 2014 to be submitted to CMA and December 31, 2013 as submitted to CMA.
- b) 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.
- c) The Company is required to maintain adequate capital as specified in the Rules. The capital adequacy ratio shall not be less than 1.
- d) 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.