

J.P. MORGAN SAUDI ARABIA COMPANY

Board Report 2017

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1. Overview

J.P. Morgan Saudi Arabia Company (“JPMSA” or the “Company”) was established as a limited liability company on 27th November 2007 and licensed by the Capital Market Authority with effect from 14th January 2008 to engage in dealing as agent in international markets, arranging, advising and custody activities. On 6th October 2015 JPMSA was awarded a CMA license to amend its activities to include dealing as principle, dealing as agent in the local market and underwriting.

In 2017, the company converted from a Limited Liability Company to a Single Shareholder Closed Joint Stock Company as directed by the CMA. The Company is a direct subsidiary of J.P. Morgan International Finance Limited (“JPMIF”) which owns 100% of the Company. The Company currently has paid up share capital of SAR 93,750,000 which was approved as a capital increase by the CMA on 26th April 2015.

The Company is located in Riyadh on the 8th floor of the Al Faisaliah Tower. The Company does not have any subsidiaries. The Company’s clients include banks, government institutions, large corporate clients and large family groups.

2. Licenses

Arranging

The Investment Banking team at JPMSA participates in arranging transactions on equity, debt or hybrid offerings. The Investment Banking team at JPMSA focuses on origination activities and mandated transactions are executed jointly between JPMSA and the relevant J.P. Morgan entities outside Saudi Arabia

Advisory

The Investment Banking team at JPMSA is licensed to advise clients on M&A, disposals, joint ventures, corporate restructurings, privatization and provides research and financial services.

Custody

JPMSA provides securities custody services for international assets supported by our affiliates agents and sub custodians. To provide a greater level of local support for JPMorgan’s Global Custody clients, the Company has established local client service capabilities in the Kingdom. This group supports Saudi and GCC clients including government entities, investment firms, and banks. Additionally, the Company is also working to roll out Direct Custody & Clearing product in 2018.

Dealing as Agent

JPMSA provides brokerage services on Tadawul for local and overseas based institutional clients. JPMSA acts as an agent on behalf of other J.P. Morgan entities in marketing

securities and other financial instruments including OTC derivatives transactions, foreign currency, rates and credit trading.

3. Financials

JPMSA's operating income in 2017 was SAR 36.9 mm, which has decreased compared to prior years (2016: SAR42.1 mm) driven by decreased revenues in the Markets space following strong results in 2016. Operating expenses (2017: SAR24.1mm) were also down on prior year (2016: SAR 29.8mm) on the back of relatively lower compensation and provisions. Net profit after tax for 2017 was SAR 10.1 mm up on 2016 SAR 9.1 mm driven by decreased operating expenses mainly in 2017.

4. Company's Risks

Credit risk arises as a result of JPMSA operational balances being held with local banks rated no less than BBB+ (or equivalent) by major rating agencies or with JPMorgan Chase Bank, N.A. Settlement lines are also granted to certain cash equities trading clients.

Market risk arises as a result of the translation of non-SAR denominated balances into SAR for reporting purposes.

The company currently has no debt. JPMSA has been provided a guarantee facility by SABB to support the equities business settlement activity with the exchange (Tadawul). SABB guarantees JPMSA's settlement liabilities to the exchange. JPMSA provides an order note on the back of the facility to SABB. As at yearend, the facility size was SAR56.25mm and it can be increased to SAR300mm upon request to SABB.

Operational risk is inherent in JPMSA's activities. To monitor and control operational risk, JPMorgan maintains an overall Operational Risk Management Framework ("ORMF") designed to maintain a sound and well-controlled operational environment. The four main components of the ORMF include: governance, risk identification and assessment, monitoring and reporting, and measurement

5. Board Member Interests

Details of Board members' appointments as a board member in other companies are listed in Appendix 2. No securities, contractual interests or subscription rights belong to the directors or any associate to them in the company's shares or debt.

6. Board Members and Meetings

As at the end of 2017, the Board of Directors is composed of six members, including independent members. The Board met during 2017 two times in the presence of a majority of its members. Attached Appendix 3 the number of meetings attended by each director.

Board Members:

Name	Position
HRH Prince Mohammed Khalid Al Faisal Al Saud	Chairman and Independent Member
Ziyad Al Saleh	Independent Member
Sjoerd Leenart	Non-Executive Director
Bader Alamoudi	Non-Executive Director
Mohamed Agwah	Non-Executive Director
Fahad Aldeweesh	CEO and Executive Director

Remunerations and Compensations:

The company's independent board members receive a disbursement of SAR 100,000 each. Other Board members do not receive any remuneration from the Company in their capacity as Board members.

Attached as Appendix 4 the details of remuneration and compensation paid to Board of Directors and five senior executives including the CEO and CFO.

7. Main Committees of the Board of Directors

Internal Audit committee, Compliance committee, and Nomination & Remuneration Committee were established and approved by the Board.

Internal Audit Committee

Members of the Committee:

Name	Position
Bader Alamoudi	Chairman
Mohamed Agwah	Member
Fuad Khawaja	Member and Secretary

The responsibilities of the Committee shall be to:

- Review the annual Audit and Compliance plans for each business line, including areas of priority and focus and the process of determining what those are;
- Review overall financial and staffing resources available to both functions to meet the objectives of the plan, and management's responses to addressing resourcing issues which may arise;

- Monitor progress toward completion of the plans, including a summary of significant changes made to such plans;
- Receive from Internal Audit and Compliance, periodically, and from management, as appropriate, communications and presentations on significant operating and control issues in internal audit reports, compliance reviews, management letters, and regulatory authorities' examination reports, and management's response to them;
- Recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; upon any such recommendation, regard must be made to their independence;
- Supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties and
- Initiate such other inquiries as it deems necessary or appropriate

Compliance Committee

Members of the Committee:

Name	Position
Fahad Aldeweesh	Chairman
Sufiyan Khot	Member
Adnan Alzahrani	Member and Secretary

The responsibilities of the Committee shall be to:

- Oversee the scope, structure and activities of compliance function to ensure compliance function carrying out its mandate;
- Regularly assess the compliance function independency;
- Ensure the firm compliance with regulatory requirements and regulations;
- Assessing the compliance function controls regularly;
- Review and monitor the progress of correction actions and compliance plan implementation;
- Review the adequacy of internal policy and procedure to address the compliance need with the authority rules and regulation; and
- Communicating the deficiencies and recommending improvement to the Board of directors.

Nomination and Remuneration Committee

Members of the Committee:

Name	Position
Bader Alamoudi	Chairman
Fahad Aldeweesh	Member
Nasreen Al Dossary	Member and Secretary

The responsibilities of the Committee shall be to:

- Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honour or honesty is nominated for such membership.
- Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, inter alia, the time that a Board member should reserve for the activities of the Board.
- Review the structure of the Board of Directors and recommend changes;
- Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.
- Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.
- Draw clear policies regarding the indemnities and remunerations of the Board of Directors and top executives; in laying down such policies, the standards related to performance shall be followed.

8. Violations

No fines have been imposed by the CMA during 2017.

9. Internal Audit Reviews

Article 62 of the CMA's Authorized Persons Regulations states that an authorized person's internal and external auditors must review books, accounts and other records related to securities business at least annually. Internal Audit performed an audit to meet the annual audit requirement of JP Morgan Saudi Arabia Cash Equity business. In addition, Saudi Arabia subsidiary AML / KYC audit was also performed in 2017. All issues identified by Audit were subsequently addressed by the business and independently validated by Audit



HRH Prince Mohammed Al Faisal Al Saud
Chairman of J.P. Morgan Saudi Arabia Company



Fahad Aldeweesh
CEO of J.P. Morgan Saudi Arabia Company



Adil Nooruddin
CFO of J.P. Morgan Saudi Arabia Company

Appendix 1: Audited Financial Statement

J.P. MORGAN SAUDI ARABIA COMPANY

(Formerly known as J.P. Morgan Saudi Arabia Limited)

(A Single Shareholder Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
AND INDEPENDENT AUDITOR'S REPORT

.P. MORGAN SAUDI ARABIA COMPANY
(Formerly known as J.P. Morgan Saudi Arabia Limited)
(A Single Shareholder Closed Joint Stock Company)
Financial statements
For the year ended December 31, 2017

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Independent auditor's report to the shareholder of JP Morgan Saudi Arabia Company (A Single Shareholder Closed Joint Stock Company)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JP Morgan Saudi Arabia Company (formerly known as J.P. Morgan Saudi Arabia Limited) (the "Company") as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at December 31, 2017;
- the statement of income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in shareholder's equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation and restriction on distribution and use

We draw attention to Note 1 to the accompanying financial statements, which explains that the Company was converted from a limited liability company to a single shareholder closed joint stock company on 27 Shaban 1438H (corresponding to May 23, 2017). In accordance with the by-laws of the Company, the first statutory fiscal year of the Company as a single shareholder closed joint stock company is from May 23, 2017 to December 31, 2017. However, the accompanying financial statements for the year ended December 31, 2017, presenting the operations conducted by the Company for the year ended December 31, 2017 are only prepared so as to file the income tax return of the Company with the General Authority for Zakat and Tax ("GAZT"). As a result, the financial statements may not be suitable for another purpose.

Our report is intended solely for the Company and GAZT and should not be distributed to or used by other parties. Our opinion is not modified in respect of this matter.

Responsibilities of directors and those charged with governance for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the applicable requirements of the Regulations for Companies and the Company's by-laws, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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Independent auditor's report to the shareholders of JP Morgan Saudi Arabia Company (A Single Shareholder Closed Joint Stock Company) (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Other matter

The Company has also prepared separate sets of financial statements for the period from January 1, 2017 to May 22, 2017 when it operated as a limited liability company representing the last financial statements of the Company as limited liability company and for the period from May 23, 2017 to December 31, 2017 being the Company's first statutory fiscal period as a single shareholder closed joint stock company. We have issued separate auditor's reports on such financial statements dated March 27, 2018

PricewaterhouseCoopers



Ali H. Al Basri
License Number 409

March 27, 2018

J.P. MORGAN SAUDI ARABIA COMPANY
 (Formerly known as J.P. Morgan Saudi Arabia Limited)
 (A Single Shareholder Closed Joint Stock Company)
Balance sheet
 As at December 31,
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	4	145,389	145,044
Due from related parties	5.2	13,001	2,507
Prepayments and other receivables	6	389	1,943
		<u>158,779</u>	<u>149,494</u>
Non-current assets			
Property and equipment, net	7	53	56
Total assets		<u>158,832</u>	<u>149,550</u>
Liabilities and shareholder's equity			
Liabilities			
Current liabilities			
Accrued expenses and other liabilities	8	7,075	8,214
Due to related parties	5.2	188	250
Provision for income tax	12	192	-
		<u>7,455</u>	<u>8,464</u>
Non-current liability			
Employee termination benefits	9	1,458	1,328
Total liabilities		<u>8,913</u>	<u>9,792</u>
Shareholder's equity			
Share capital	10	93,750	93,750
Statutory reserve		7,061	6,045
Retained earnings		49,108	39,963
Total shareholder's equity		<u>149,919</u>	<u>139,758</u>
Total liabilities and shareholder's equity		<u>158,832</u>	<u>149,550</u>

The notes on pages 7 to 15 form an integral part of these financial statements.

J.P. MORGAN SAUDI ARABIA COMPANY
(Formerly known as J.P. Morgan Saudi Arabia Limited)
(A Single Shareholder Closed Joint Stock Company)
Income statement
For the years ended December 31,
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2017	2016
Service fee income	5.1	35,616	42,120
Brokerage fee, net		1,317	53
		<u>36,933</u>	<u>42,173</u>
Operating expenses			
Salaries and employee related benefits		(16,316)	(18,878)
Other general and administrative expenses	11	(7,079)	(10,253)
Rent and premises related expenses		(764)	(706)
Depreciation	7	(25)	(18)
		<u>(24,185)</u>	<u>(29,855)</u>
Income from operations		<u>12,748</u>	<u>12,318</u>
Other income			
Exchange gain		15	70
		<u>15</u>	<u>70</u>
Net income before income tax		12,763	12,388
Income tax	12	(2,602)	(3,213)
Net income for the year		<u>10,161</u>	<u>9,175</u>

The notes on pages 7 to 15 form an integral part of these financial statements.



J.P. MORGAN SAUDI ARABIA COMPANY
 (Formerly known as J.P. Morgan Saudi Arabia Limited)
 (A Single Shareholder Closed Joint Stock Company)
Cash flow statement
 For the years ended December 31,
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2017	2016
Cash flow from operating activities			
Net income before income tax		12,763	12,388
<u>Adjustments for non-cash items</u>			
Depreciation	7	26	18
Provision for employee termination benefits	9	571	599
<u>Changes in working capital:</u>			
Due from related parties	5.2	(10,494)	11,045
Prepayments and other receivables		585	(618)
Accrued expenses and other liabilities		(1,139)	3,248
Due to related parties		(62)	(4,298)
Employee termination benefits paid during the year	9	(441)	(368)
Income tax paid during the year	12	(1,441)	(10,047)
Net cash generated from operating activities		<u>368</u>	<u>11,967</u>
Cash flow from investing activity			
Purchase of property and equipment, net		<u>(23)</u>	<u>(37)</u>
Net change in cash and cash equivalents		345	11,930
Cash and cash equivalents at beginning of the year		<u>145,044</u>	<u>133,114</u>
Cash and cash equivalents at end of the year		<u>145,389</u>	<u>145,044</u>

The notes on pages 7 to 15 form an integral part of these financial statements

J.P. MORGAN SAUDI ARABIA COMPANY
(Formerly known as J.P. Morgan Saudi Arabia Limited)
(A Single Shareholder Closed Joint Stock Company)
Statement of changes in shareholders' equity
For the years ended December 31,
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total
January 1, 2017	93,750	6,045	39,963	139,758
Net income for the year	-	-	10,161	10,161
Transfer to statutory reserve	-	1,016	(1,016)	-
December 31, 2017	93,750	7,061	49,108	149,919
January 1, 2016	93,750	5,127	31,706	130,583
Net income for the year	-	-	9,175	9,175
Transfer to statutory reserve	-	918	(918)	-
December 31, 2016	93,750	6,045	39,963	139,758

The notes on pages 7 to 15 form an integral part of these financial statements.

J.P. MORGAN SAUDI ARABIA COMPANY
(Formerly known as J.P. Morgan Saudi Arabia Limited)
(A Single Shareholder Closed Joint Stock Company)
Notes to the financial statements
For the year ended December 31, 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

J.P. Morgan Saudi Arabia Company (*formerly known as J.P. Morgan Saudi Arabia Limited*) (the "Company") is a single shareholder closed joint stock 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 Company was converted from a limited liability company to a single shareholder closed joint stock company on Shaban 27, 1438H (corresponding to May 23, 2017) which is the date of the new commercial registration. As per the new By-laws of the Company, the Company's first fiscal period under legal status of a single shareholder closed joint stock company will be from the date of commercial registration as a single shareholder closed joint stock company i.e. May 23, 2017 and shall end on December 31, 2017. The Company's financial statements for the subsequent years will be prepared from January 1 to December 31 of each Gregorian year.

These financial statements are prepared by the management, and are based on the assumption that the Company continued its operational activity as a normal through the period ended December 31, 2017, as only the legal status changed from a limited liability company to a single shareholder closed joint stock company.

The accompanying financial statements were approved by the management on March 26, 2018.

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 some of 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 and 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 these 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.

J.P. MORGAN SAUDI ARABIA COMPANY
(Formerly known as J.P. Morgan Saudi Arabia Limited)
(A Single Shareholder Closed Joint Stock Company)
Notes to the financial statements
For the year ended December 31, 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

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 Arabian 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, 2017 and 2016, respectively.

2.4 Cash and cash equivalents

Cash and cash equivalents are comprised of cash at bank and highly liquid investments that are readily convertible into cash with original maturities of three months or less from the date of original acquisition.

2.5 Property and equipment, net

Property and equipment are carried at cost less accumulated depreciation. Depreciation is charged to income statement, 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 Accrued expenses and other liabilities

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 General Authority of Zakat and Tax ("GAZT"), the Company is subject to income taxes attributable to its foreign shareholder. 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.

J.P. MORGAN SAUDI ARABIA COMPANY
(Formerly known as J.P. Morgan Saudi Arabia Limited)
(A Single Shareholder Closed Joint Stock Company)
Notes to the financial statements
For the year ended December 31, 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

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 recognition

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 advisory services provided locally by the Company are recorded net-off attributions (payments) to other affiliated JPMorgan Chase & Co. entities.

Brokerage fees are recognized on accrual basis at the time of execution of orders and are stated net of Tadawul fees and discounts, if any.

Brokerage fees arising on execution of orders are recognized on the trade date (i.e. the date on which the Company becomes a party to the contractual provision of the order).

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.

2.12 Expenses

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

2.13 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of association, the Company is required to allocate 10% of its net income each year to a statutory reserve until such reserve equal to thirty percent of its share capital. Such reserve is not available for dividend distribution.

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 expenses and other current 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 and therefore not exposed to significant foreign exchange risk.

J.P. MORGAN SAUDI ARABIA COMPANY
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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 could be 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

The Company has an arrangement with a local bank to settle the brokerage transactions with Tadawul. The bank has given a guarantee to Tadawul to settle all the transactions entered into by the Company. On the request of bank, the Company submitted an order note and counter guarantee to the bank agreeing not to perform any transactions exceeding the available limit agreed with the bank. As at December 31, 2017, the Company has maintained sufficient cash balances with the bank.

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5 Related party matters

5.1 Related party transactions

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

	2017	2016
<u>Service fee income attributions from:</u>		
J.P. Morgan Securities plc	18,706	12,319
J.P. Morgan Limited	4,745	12,205
J.P. Morgan Chase Bank, N.A.- London Branch	4,546	5,943
J.P. Morgan Securities plc - Paris Branch	3,325	-
J.P. Morgan Chase Bank, N.A.- Dubai Branch	1,669	4,453
J.P. Morgan Whitefriars Inc. - London Branch	1,395	2,418
J.P. Morgan Ventures Energy Company	1,018	2,724
J.P. Morgan Securities Ilc	181	-
J.P. Morgan Chase Bank, N.A.	31	-
	<u>35,616</u>	<u>40,062</u>
Remuneration to key management personnel	<u>4,041</u>	<u>7,132</u>

Expenses:

Rent and premises related expense charged by J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch	-	706
Intercompany expenses charged by J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch under global master services level agreement	-	1,313
Intercompany expenses charged to J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch under global master services level agreement	-	513

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

During 2016, the Company leased its office space from J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch. Under the lease agreement, the rental charge for the year ended December 31, 2016 amounted to Saudi Riyals 0.71 million. During 2017, this arrangement has not been in place and the office space has been leased directly by the Company with the lessor.

5.2 Related party balances

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

Due from related parties:	2017	2016
J.P. Morgan Securities plc	10,489	426
J.P. Morgan Ventures Energy Company	970	49
J.P. Morgan Chase Bank, N.A. - London Branch	857	480
J.P. Morgan Chase Bank, N.A. - Dubai Branch	685	1,172
J.P. Morgan Limited	-	131
J.P. Morgan Whitefriars Inc. - London Branch	-	107
J.P. Morgan Chase Bank, N.A. - New York Branch	-	81
J.P. Morgan Securities Ilc	-	61
	<u>13,001</u>	<u>2,507</u>

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Due to related parties:	2017	2016
J.P. Morgan Limited	188	-
J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch	-	250
	188	250

6 Prepayments and other receivables

	2017	2016
Prepaid rentals	375	412
Advances to employees	14	454
Prepaid tax	-	969
Other receivables	-	108
	389	1,943

7 Property and equipment

	January 1, 2017	Additions	Disposals	December 31, 2017
Cost				
Furniture, fixtures and office equipment	425	23	-	448
Computer equipment	40	-	-	40
	465	23	-	488
Accumulated depreciation				
Furniture, fixtures and office equipment	369	26	-	395
Computer equipment	40	-	-	40
	409	26	-	435
	56			53
	January 1, 2016	Additions	Disposals	December 31, 2016
Cost				
Furniture, fixtures and office equipment	388	37	-	425
Computer equipment	40	-	-	40
	428	37	-	465
Accumulated depreciation				
Furniture, fixtures and office equipment	355	14	-	369
Computer equipment	36	4	-	40
	391	18	-	409
	37			56

8 Accrued expenses and other current liabilities

	2017	2016
Employees' benefits	2,633	4,149
Accrued professional fee	449	268
GOSI	129	136
Other	3,864	3,661
	7,075	8,214

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9 Employee termination benefits		
	2017	2016
Balance as at January 1	1,328	1,097
Provided during the year	571	599
Payments made during the year	(441)	(368)
	<hr/>	<hr/>
Balance as at December 31	1,458	1,328

10 Share capital

The share capital of the Company as of December 31, 2017 consists of 9,375,000 shares (2016: 93,750 shares) with a par value of Saudi Riyals 10 per share (2016: Saudi Riyals 1,000 per share) distributed as follows:

Shareholders	Country of origin	Percentage	2017	2016
J.P. Morgan International Finance Limited	USA	100%	93,750	89,063
J.P. Morgan International Inc.	USA	-	-	4,687
		<hr/>	<hr/>	<hr/>
		100%	93,750	93,750

During 2017, the J.P. Morgan International Inc. transferred its entire shareholding to J.P. Morgan International Finance Limited. The legal formalities relating to change in shareholding have been completed by the Company.

11 Other general and administrative expenses		
	2017	2016
Professional services	1,893	1,092
Outsourcing services	1,798	2,196
Travel and entertainment	1,795	1,626
Technology and communication	829	806
Shared services	-	800
Other	764	3,733
	<hr/>	<hr/>
	7,079	10,253

12 Income Tax

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

	2017	2016
Net income before income tax	12,763	12,388
Adjustments:		
Depreciation differences	5	(3)
Employee termination benefits	130	231
Others	110	3,413
Net adjusted income for the year	<hr/>	<hr/>
	13,008	16,029
Less: Adjusted loss brought forward, restricted to 25%	-	-
Tax base for the year	<hr/>	<hr/>
	13,008	16,029
Income tax at 20%	<hr/>	<hr/>
	2,602	3,206

During 2016, the Company received tax assessments for the years 2008 to 2013 from the General Authority of Zakat and Tax (GAZT). Others include additional taxes raised by GAZT relating to years 2008 to 2013 due to the disallowance of certain items from the tax base of the Company amounting to Saudi Riyals 3.4 million approximately.

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The Company, in consultation with its professional tax advisors, has filed appeals for the above assessments with the GAZT, and is awaiting a response.

Further assessments for the year 2014 and 2015 are yet to be raised by the GAZT. Therefore, currently, 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 GAZT for the years up to December 31, 2016; however, the final tax assessment has not yet been obtained as of the date of these financial statements.

Provision / (refundable) for income tax

	2017	2016
Opening balance	(969)	5,865
Charged during the year		
- Current year	2,602	3,206
- Prior year	-	7
	2,602	3,213
Payments made during the year	(1,441)	(10,047)
	192	(969)

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:

	2017	2016
Capital Base:		
Tier 1 Capital	149,919	139,758
Minimum Capital Requirement:		
Market Risk	1,036	1,578
Credit Risk	9,717	5,954
Operational Risk	7,098	8,267
Total Minimum Capital Required	17,851	15,799
Capital Adequacy Ratio:		
Total Capital Ratio (time)	8.40	8.85
Surplus in Capital	132,068	123,959

- a) The above information has been extracted from the annual Capital Adequacy Model for December 31, 2017 to be submitted to CMA and December 31, 2016 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.jporgansaudiarabia.com>), however these are not subject to review or audit by the external auditors of the Company.

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14 Fiduciary assets

Clients' money accounts

As at December 31, 2017, the Company is holding clients' money accounts, with the bank, amounting to Saudi Riyals 1,148.60 (2016: Saudi Riyals 1,148.60), to be used for investments upon client discretion. Consistent with the Company's accounting policy, such balances are not included in the Company's financial statements.

15 Commitments

As at December 31, 2017, the Company has operating lease for its office premises for which rent is paid in advance. Rental expenses for the year ended December 31, 2017 amounted to Saudi Riyals 0.68 million (2016: Saudi Riyals 0.71 million).

Appendix 2:

a- Board Members Membership in Other Companies

Prince Mohammed Bin Khalid Abdullah Al Faisal Al Saud Chairman & Independent Board Member

Entity	Position Held	Shareholding / Other Interests
Saudi Telecom Co.	Chairman of the Board of Directors	-
Al Faisaliah Group	President	Shareholder
AlKhozama Management Co.	Board Member	Chairman of the Remuneration & Compensation Committee
King Faisal Foundation	Member of the General Assembly	Member of the Audit Committee
King Khalid Foundation	Member of the Board of Trustees	Member of the Investment Committee
King Salman Center for Disability Research	Member of the Board of Trustees	Head of the Executive Committee
Harvard Alumni Saudi Arabia	Board Member	-
Harvard Business School	Member of the MENA & Central Asia Advisory Board	Member of the Global Leadership Circle
Al Faisal University	Chairman of the Advisory Board of the College of Business	-

Ziyad Al-Saleh Independent Board Member

Entity	Position Held	Shareholding / Other Interests
Riyadh Cables Group of Companies	Board Member	-
Gulf Union Insurance Co. JSC	Board Member	-
United Sugar Company, CJSC KSA	Board Member	-
Al-Romansia	Board Member	-
Dr. Sulaiman AL-Habib Medical Services Group Holding Co.	Board member	-
Amwal International Kuwait	Board Member	-
Mashaer Holding JSC – Kuwait	Board Member	-
Pioneers Holdings JSC, Egypt	Board Member	-
Zahrawi Medical - UAE	Board Member	-

Fahad Aldeweesh
CEO and Executive Board Member

Entity	Position Held	Shareholding / Other Interests
King Faisal School	Board Member	-

Sjoerd Leenart
Non-Executive Board Member

Entity	Position Held	Shareholding / Other Interests
Injaz Al-Arab	Board Member	-

Mohamed Agwah
Non-Executive Board Member

Entity	Position Held	Shareholding / Other Interests
-	-	-

Bader Alamoudi
Non-Executive Board Member

Entity	Position Held	Shareholding / Other Interests
-	-	-

Appendix 2:

b- Board Members Interests

Prince Mohammed Bin Khalid Abdullah Al Faisal Al Saud Chairman & Independent Board Member

Interests	Contract name	Amount	Period
Board Member of AlKhozama Management Company	Office lease in Al Faisaliah Tower (346 sqm) with services charge	643,560 SR/year	5 years from August 1, 2017

Appendix 3: 2017 Board Meetings Attendance Record

Attendance Record of 2017 Board Meetings

Name	Position	Number of Meetings attended
HRH Prince Mohammed Khalid Al Faisal Al Saud	Chairman and Independent Member	2
Ziyad Al Saleh	Independent Member	2
Sjoerd Leenart	Non-Executive Director	1
Mohamed Agwah	Non-Executive Director	1
Bader Alamoudi	Non-Executive Director	2
Fahad Aldeweesh	CEO and Executive Director	2
Sukhwinder Nijjar	Previous Non-Executive Director	1

Attendance Record of 2017 Audit Committee Meetings

Name	Position	Number of Meetings attended
Bader Alamoudi	Chairman	1
Mohamed Agwah	Member	1
Fuad Khawaja	Member and Secretary	4
Sukhwinder Nijjar	Previous Chairman	3
David Mitchell	Previous Member	1

Attendance Record of 2017 Compliance Committee Meetings

Name	Position	Number of Meetings attended
Fahad Aldeweesh	Chairman	4
Sufiyan Khot	Member	1
Adnan Alzahrani	Member & Secretary	2

Attendance Record of 2017 Nomination and Remuneration Committee

Name	Position	Number of Meetings attended
Bader Alamoudi	Chairman	1
Fahad Aldeweesh	Member	1
Nasreen Al Dossary	Member and Secretary	1

Appendix 4: Remuneration and Compensations

Remuneration and Compensations Disclosure in SAR

	Executive Directors	Non-Executive and Independent Directors	Top Five Senior executives including the CEO and CFO
Salaries and Compensations	-	200,000	4,727,921
Allowances	-	-	126,387
Annual and periodic bonuses	-	-	2,460,025
Incentive plans	-	-	727,913
Any other Annual or periodic compensation and benefits	-	-	-