

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT**

**J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited Liability Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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INDEPENDENT AUDITORS' REPORT

March 23, 2017

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, 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (14) which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with 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, 2016 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)

	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents		145,044	133,114
Due from related parties	4.2	2,507	13,552
Prepayments and other receivables	5	1,943	356
		<u>149,494</u>	<u>147,022</u>
Non-current assets			
Property and equipment, net	6	56	37
		<u>149,550</u>	<u>147,059</u>
Liabilities			
Current liabilities			
Accrued expenses and other liabilities	7	8,214	4,966
Due to related parties	4.2	250	4,548
Provision for income tax	11	-	5,865
		<u>8,464</u>	<u>15,379</u>
Non-current liability			
Employee termination benefits	8	1,328	1,097
		<u>9,792</u>	<u>16,476</u>
Shareholders' equity			
Share capital	9	93,750	93,750
Statutory reserve		6,045	5,127
Retained earnings		39,963	31,706
Total shareholders' equity		<u>139,758</u>	<u>130,583</u>
Total liabilities and shareholders' equity		<u>149,550</u>	<u>147,059</u>

The notes on pages 6 to 13 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)

	Notes	2016	2015
Service fee income	4.1	42,120	62,715
Brokerage fee, net		53	-
Operating expenses			
Salaries and employee related benefits		(18,878)	(16,193)
Other general and administrative expenses	10	(10,253)	(4,693)
Rent and premises related expenses	4.1	(706)	(706)
Depreciation	6	(18)	(18)
Income from operations		12,318	41,105
Other income			
Exchange gain (loss)		70	(27)
Commissions on time deposit		-	85
		70	58
Net income before income tax		12,388	41,163
Income tax	11	(3,213)	(8,351)
Net income for the year		9,175	32,812

The notes on pages 6 to 13 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	2016	2015
Cash flow from operating activities			
Net income before income tax		12,388	41,163
<u>Adjustments for non-cash items</u>			
Depreciation	6	18	18
Provision for employee termination benefits	8	599	564
<u>Changes in working capital:</u>			
Due from related parties	4.2	11,045	(8,247)
Prepayments and other receivables		(618)	(237)
Accrued expenses and other liabilities		3,248	931
Due to related parties		(4,298)	4,162
Employee termination benefits paid during the year	8	(368)	(279)
Income tax paid during the year	11	(10,047)	(5,802)
Net cash generated from operating activities		<u>11,967</u>	<u>32,273</u>
Cash flow from investing activity			
Purchase of property and equipment, net		<u>(37)</u>	-
Net cash used in investing activity		<u>(37)</u>	-
Net change in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		<u>133,114</u>	<u>100,841</u>
Cash and cash equivalents at end of the year		<u>145,044</u>	<u>133,114</u>

The notes on pages 6 to 13 form an integral part of these financial statements.

J.P. MORGAN SAUDI ARABIA LIMITED
(A Limited liability Company)
Statement of changes in shareholders' equity
For the year ended December 31,
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Proposed increase in share capital	Statutory reserve	Retained earnings	Total
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
January 1, 2015		78,750	15,000	1,846	2,175	97,771
Net income for the year		-	-	-	32,812	32,812
Transfer to statutory reserve		-	-	3,281	(3,281)	-
Contribution from shareholders	9	15,000	(15,000)	-	-	-
December 31, 2015		93,750	-	5,127	31,706	130,583

The notes on pages 6 to 13 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, 2016
(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 24 Jumada Al Thani, 1438H (corresponding to March 23, 2017).

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.

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, 2016 and 2015, 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.

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2.5 Property and equipment, net

Property and equipment are carried at cost less accumulated depreciation. Depreciation is charged to the 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 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 General Authority of Zakat and Tax ("GAZT"), 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 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.

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, 2016.

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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.

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.

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4 Related party matters

4.1 Related party transactions

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

	2016	2015
<u>Service fee income attributions from:</u>		
J.P. Morgan Securities plc	12,319	17,706
J.P. Morgan Limited	12,205	9,276
J.P. Morgan Chase Bank, N.A.- London Branch	5,943	19,333
J.P. Morgan Chase Bank, N.A.- Dubai Branch	4,453	2,776
J.P. Morgan Ventures	2,724	1,259
J.P. Morgan Whitefriars Inc. - London Branch	2,418	2,387
	40,062	52,737
Remuneration to key management personnel	7,132	5,066
<u>Expenses:</u>		
Rent and premises related expense charged by J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch	706	706
Intercompany expenses charged by J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch under global master services level agreement	1,313	1,299
Intercompany expenses charged to J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch under global master services level agreement	513	969

The Company has service 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 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.

The Company leases 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 (2015: Saudi Riyals 0.71 million).

4.2 Related party balances

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

Due from related parties:	2016	2015
J.P. Morgan Chase Bank, N.A. - Dubai Branch	1,172	2,776
J.P. Morgan Chase Bank, N.A. - London Branch	480	5,106
J.P. Morgan Securities plc	426	4,170
J.P. Morgan Limited	131	-
J.P. Morgan Whitefriars Inc. - London Branch	107	322
J.P. Morgan Chase Bank, N.A. – New York Branch	81	-
J.P. Morgan Securities llc	61	-
J.P. Morgan Ventures	49	70
J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch	-	969
J.P. Morgan Securities Asia Pacific Ltd	-	139
	2,507	13,552

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4.2 Related party balances (continued)

Due to related parties:

	2016	2015
J.P. Morgan Chase Bank, N.A. - Saudi Arabian Branch	250	1,427
J.P. Morgan Securities plc	-	3,121
	<u>250</u>	<u>4,548</u>

5 Prepayments and other receivables

	2016	2015
Prepaid tax	969	-
Advance to employees	454	3
Prepaid rental	412	353
Other receivables	108	-
	<u>1,943</u>	<u>356</u>

6 Property and equipment

	January 1, 2016	Additions	Disposals	December 31 , 2016
Cost				
Furniture, fixtures and office equipment	388	37	-	425
Computer equipment	40	-	-	40
	<u>428</u>	<u>37</u>	<u>-</u>	<u>465</u>
Accumulated depreciation				
Furniture, fixtures and office equipment	355	14	-	369
Computer equipment	36	4	-	40
	<u>391</u>	<u>18</u>	<u>-</u>	<u>409</u>
	<u>37</u>			<u>56</u>
	January 1, 2015	Additions	Disposals	December 31 , 2015
Cost				
Furniture, fixtures and office equipment	388	-	-	388
Computer equipment	40	-	-	40
	<u>428</u>	<u>-</u>	<u>-</u>	<u>428</u>
Accumulated depreciation				
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>

7 Accrued expenses and other current liabilities

	2016	2015
Employees' benefits	4,149	3,836
Accrued professional fee	268	211
GOSI	136	96
Others	3,661	823
	<u>8,214</u>	<u>4,966</u>

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8 Employee termination benefits		
	2016	2015
Balance as at January 1	1,097	812
Provided during the year	599	564
Payments made during the year	(368)	(279)
	<hr/>	<hr/>
Balance as at December 31	1,328	1,097

9 Share capital

The share capital of the Company as of December 31, 2016 and 2015 consists of 93,750 shares with a par value of SR 1,000 per share distributed as follows:

Shareholders	Country of origin	%	2016	2015
J.P. Morgan International Finance Limited	USA	95%	89,063	89,063
J.P. Morgan International Inc.	USA	5%	4,687	4,687
		<hr/>	<hr/>	<hr/>
		100%	93,750	93,750

10 Other general and administrative expenses

	2016	2015
Outsourcing services	2,196	496
Travel and entertainment	1,626	1,216
Professional services	1,092	1,298
Technology and communication	806	512
Shared services	800	330
Other	3,733	841
	<hr/>	<hr/>
	10,253	4,693

11 Income Tax

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

	2016	2015
Net income before income tax	12,388	41,163
Adjustments:		
Depreciation differences	(3)	(7)
Employee termination benefits	231	285
Others	3,413	557
Net adjusted income for the year	<hr/>	<hr/>
	16,029	41,998
Less: Adjusted loss brought forward, restricted to 25%	<hr/>	<hr/>
	-	(243)
Tax base for the year	<hr/>	<hr/>
	16,029	41,755
Income tax at 20%	<hr/>	<hr/>
	3,206	8,351

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 SR 3.4 million approximately.

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

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Notes to the financial statements for the year ended December 31, 2016
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11 Income Tax (continued)

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, 2015; however, the final tax assessment has not yet been obtained as of the date of these financial statements.

(Refundable) / Provision for income tax

	2016	2015
Opening balance	5,865	3,316
Charged during the year		
- Current year	3,206	8,351
- Prior year	7	-
	3,213	8,351
Payments made during the year	(10,047)	(5,802)
	(969)	5,865

12 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:

	2016	2015
Capital Base:		
Tier 1 Capital	139,758	130,583
Minimum Capital Requirement:		
Market Risk	1,578	127
Credit Risk	5,954	9,584
Operational Risk	8,267	7,490
Total Minimum Capital Required	15,799	17,201
Capital Adequacy Ratio:		
Total Capital Ratio (time)	8.85	7.59
Surplus in Capital	123,959	113,382

- a) The above information has been extracted from the annual Capital Adequacy Model for December 31, 2016 to be submitted to CMA and December 31, 2015 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/saudiarabia>), however these are not subject to review or audit by the external auditors of the Company.

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13 Fiduciary assets

Clients' money accounts

As at December 31, 2016, the Company is holding clients' money accounts, with the bank, amounting to SR 1,148.60 (December 31, 2015: Nil), 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

14 Comparative figures

Certain reclassifications have been made to the prior year numbers to conform with the current year presentation.