

Audi Capital Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2014



Building a better
working world

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
AUDI CAPITAL COMPANY
(Saudi Closed Joint Stock Company)**

Scope of Audit:


We have audited the accompanying balance sheet of Audi Capital Company - a Saudi Closed Joint Stock Company (the "Company") as of 31 December 2014 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. 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 the Kingdom of 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

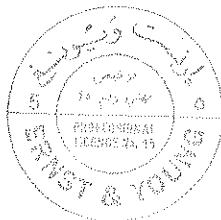
Unqualified opinion:

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

- i) present fairly, in all material respects, the financial position of the Company as of 31 December 2014 and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young


Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



Riyadh: 3 Jumada Al- Awal 1436H
(22 February 2015)

Audi Capital Company
(A Saudi Closed Joint Stock Company)

BALANCE SHEET

As of 31 December 2014

	<i>Note</i>	2014 SR	2013 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	15,291,675	12,682,395
Accounts receivable, prepayments and other current assets	4	24,191,880	17,855,555
Loan to a customer	5	-	3,516,542
Held to maturity investments – current	7	63,043,782	240,172,014
TOTAL CURRENT ASSETS		<u>102,527,337</u>	<u>274,226,506</u>
NON-CURRENT ASSETS			
Available for sale investments	6	61,560,548	50,749,521
Held to maturity investments	7	-	11,142,022
Property and equipment	8	3,398,019	4,758,610
Intangible assets	9	665,390	1,256,936
TOTAL NON-CURRENT ASSETS		<u>65,623,957</u>	<u>67,907,089</u>
TOTAL ASSETS		<u>168,151,294</u>	<u>342,133,595</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals	10	16,821,701	7,298,064
Short term loan	11	-	5,000,401
Dividend payable	23	13,969,364	-
Zakat and income tax payable	12	2,591,985	491
TOTAL CURRENT LIABILITIES		<u>33,383,050</u>	<u>12,298,956</u>
NON-CURRENT LIABILITY			
Employees' terminal benefits		4,050,782	3,168,139
TOTAL LIABILITIES		<u>37,433,832</u>	<u>15,467,095</u>
SHAREHOLDERS' EQUITY			
Share capital	14	100,000,000	300,000,000
Statutory reserve		7,546,043	6,043,986
Retained earnings		13,518,518	13,969,364
Unrealised gain on available for sale investments	6	9,652,901	6,653,150
TOTAL SHAREHOLDERS' EQUITY		<u>130,717,462</u>	<u>326,666,500</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>168,151,294</u>	<u>342,133,595</u>

The attached notes 1 to 25 form part of these financial statements.

Audi Capital Company
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STATEMENT OF INCOME

For the year ended 31 December 2014

	<i>Note</i>	2014 SR	2013 SR
OPERATING INCOME			
Dealing income, net	15	25,887,513	19,399,532
Managing income		23,768,684	11,071,992
Custody income		2,890,072	2,000,497
Arranging income		870,929	1,098,711
Advising income		13,298,628	-
TOTAL OPERATING INCOME		<u>66,715,826</u>	<u>33,570,732</u>
OPERATING EXPENSES			
General and administration	16	(44,486,935)	(33,944,867)
Impairment loss on available for sales investments	6	(4,425,689)	-
Receivables written off		-	(150,000)
Finance charges	11	(2,441)	(1,488)
TOTAL OPERATING EXPENSES		<u>(48,915,065)</u>	<u>(34,096,355)</u>
INCOME (LOSS) FROM MAIN OPERATIONS		<u>17,800,761</u>	<u>(525,623)</u>
Exchange gain, net		26,787	546,853
(Loss) gain on disposal of property, equipment and intangible assets, net		(214,988)	59,664
NET INCOME FOR THE YEAR		<u><u>17,612,560</u></u>	<u><u>80,894</u></u>
Earnings (loss) per share	20		
<i>Attributable to:</i>			
Income (loss) from main operations		0.85	(0.02)
Net income		0.84	0.003

The attached notes 1 to 25 form part of these financial statements.

Audi Capital Company
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STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014 SR	2013 SR
OPERATING ACTIVITIES			
Net income for the year		17,612,560	80,894
Adjustments for:			
Depreciation and amortization	16	1,984,743	1,875,495
Provision for employees terminal benefits		1,267,873	1,030,048
Net amortization of premium and discount	15	(5,285,224)	(6,679,624)
Exchange gain, net		(26,787)	(546,853)
Impairment of available for sale investments	6	4,425,689	-
(Gain) loss on disposal of held to maturity investments	15	(206,727)	287,855
(Gain) on disposal of available for sale investments, net	15	(6,337,673)	(3,125,595)
Loss (gain) on disposal of property, equipment and intangible assets		214,988	(59,664)
		<u>13,649,442</u>	<u>(7,137,444)</u>
Changes in operating assets and liabilities:			
Accounts receivables, prepayments and other current assets		(6,336,325)	393,720
Accounts payable and accruals		9,523,637	3,787,256
Loans to customers		3,516,542	7,878,816
		<u>20,353,296</u>	<u>4,922,348</u>
Cash from operations		(385,230)	(867,968)
Employees terminal benefits paid		(491)	(764,168)
Zakat paid on behalf of shareholders			
		<u>19,967,575</u>	<u>3,290,212</u>
Net cash from operating activities			
INVESTING ACTIVITIES			
Purchase of property and equipment	8	(126,845)	(670,305)
Purchase of intangible assets	9	(45,750)	(872,570)
Proceeds from disposal of property and equipments		-	103,000
Proceeds from disposal of held to maturity investments		743,766,470	675,379,767
Proceeds from disposal of available for sale investments		20,083,688	5,214,109
Purchase of held to maturity investments		(550,262,453)	(698,982,468)
Purchase of available for sale investments		(25,773,004)	(2,624,017)
		<u>187,642,106</u>	<u>(22,452,484)</u>
Net cash from (used in) investing activities			
FINANCING ACTIVITIES			
Short term loan	11	(5,000,401)	5,000,401
Payment to shareholders against reduction in capital	14	(200,000,000)	-
		<u>(205,000,401)</u>	<u>5,000,401</u>
Net cash (used in) from financing activities			
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>2,609,280</u>	<u>(14,161,871)</u>
Cash and cash equivalents at the beginning of the year		12,682,395	26,844,266
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	<u>15,291,675</u>	<u>12,682,395</u>
Non-cash transactions:			
Unrealized gain on available for sale investments, net	6	2,999,751	11,122,251
Receivables written off		-	150,000

The attached notes 1 to 25 form part of these financial statements.

Audi Capital Company
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	<i>Share Capital SR</i>	<i>Statutory reserve SR</i>	<i>Retained earnings SR</i>	<i>Unrealised gain (loss) on available for sale investments SR</i>	<i>Total SR</i>
Balance at 31 December 2012	300,000,000	6,039,723	13,930,994	(4,469,101)	315,501,616
Net income for the year	-	-	80,894	-	80,894
Zakat and income tax (note 12)	-	-	(38,261)	-	(38,261)
Transfer to statutory reserve	-	4,263	(4,263)	-	-
Unrealized gain on available for sale investments during the year	-	-	-	11,122,251	11,122,251
Balance at 31 December 2013	300,000,000	6,043,986	13,969,364	6,653,150	326,666,500
Reduction in share capital (note 14)	(200,000,000)	-	-	-	(200,000,000)
Net income for the year	-	-	17,612,560	-	17,612,560
Zakat and income tax (note 12)	-	-	(2,591,985)	-	(2,591,985)
Transfer to statutory reserve	-	1,502,057	(1,502,057)	-	-
Dividends during the year (note 23)	-	-	(13,969,364)	-	(13,969,364)
Unrealized gain on available for sale investments during the year	-	-	-	2,999,751	2,999,751
Balance at 31 December 2014	100,000,000	7,546,043	13,518,518	9,652,901	130,717,462

The attached notes 1 to 25 form part of these financial statements.

Audi Capital Company (A Saudi Closed Joint Stock Company)

Notes to the financial statements

At 31 December 2014

1 ACTIVITIES

Audi Capital Company (the "Company") is a Saudi Closed Joint Stock Company, registered in Riyadh, Kingdom of Saudi Arabia. The Company has obtained a license number 692 dated 2 Jumad Al Awal 1427 H (corresponding to 30 May 2006) from the Saudi Arabian General Investment Authority ("SAGIA"). The Company is registered under commercial registration number 1010226747 dated 18 Dhul Hajjah 1427H (corresponding to 8 January 2007). The Company has also obtained a license number 06017-37 dated 22 Rabi Al Thani 1427H (corresponding to 20 May 2006) from the Capital Market Authority (the "CMA").

The Company is licensed to act as principal and agent and to provide underwriting and managing mutual funds and portfolios, arranging, advising, custodial and international brokerage services.

2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention modified to indicate the measurement at fair value of available for sale investments.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents consists of cash on hand, current accounts and time deposits that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

Investments

a) Available for sale investments

Investments that are bought neither with the intention of being held to maturity nor for trading purposes, are classified as available for sale investments and are carried at fair value and included under non-current assets. They include investment in equity instruments, bonds and funds.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealized gains and losses on the valuation of these investments are recognized directly in equity as "unrealized gain on available for sale investments".

Decline other than temporary in the value of investments, if any, is charged to the statement of income.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where partial holdings are sold, the cost of investments sold, is accounted for on a weighted average basis.

Fair value is determined by reference to the market value if an open market exists. In the absence of active market, the fair value is determined through other indicators, otherwise, cost is considered to be the fair value.

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Notes to the financial statements (continued)

At 31 December 2014

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

b) Held to maturity investments

These represent investments having fixed or determinable payments and fixed maturity that the Company has the intention and ability to hold to maturity. After initial recognition, held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. The losses arising from the impairment of such investments, if any, are recognized in the statement of income.

c) Loans to customers

Loans to customers are carried at the gross amount due from customers less any provision required for impairment based on a review of all outstanding amounts at year end.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease.

Expenditure for repair and maintenance is charged as expense. Other subsequent expenditure is capitalized only when it increases the value or materially extends the life of the related assets.

Intangible assets

Intangible assets represent computer software licenses and are amortized over their estimated useful life of 4 years.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

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

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for services received, whether billed by the supplier or not.

Zakat and income tax

Zakat and income tax are provided for in accordance with the Saudi Arabian fiscal regulations. The provision is charged to retained earnings. Accordingly, amounts reimbursable by the shareholders of such zakat and income tax are credited to retained earnings.

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Notes to the financial statements (continued)

At 31 December 2014

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian Labor Law applicable to employees' accumulated periods of service at the balance sheet date.

Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Company must set aside 10% of its income after zakat and income tax and after deducting losses brought forward in each year until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

Income recognition

Income from dealing and arranging services is recognized when the service has been provided. Special commission, custody and managing income are recognized on an accrual basis. Advising income is recognized in both cases.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

Operating lease

Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

Customers' investments

The Company offers investment services to its customers, which include management of certain investments on behalf of its customers. Investments held through such arrangements are not treated as assets of the Company and accordingly, are not included in the financial statements.

Expenses

Given the nature of the Company's business, all expenses are classified as general and administration.

Fair values

For investments traded in organised markets, fair value is determined by reference to quoted market bid prices.

The fair value of special commission bearing items is estimated based on discounted cash flows using special commission rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

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Notes to the financial statements (continued)

At 31 December 2014

3 CASH AND CASH EQUIVALENTS

	2014 SR	2013 SR
Cash in hand	54,723	40,771
Cash at bank	7,509,015	5,141,024
Short term time deposit	7,727,937	7,500,600
	<u>15,291,675</u>	<u>12,682,395</u>

Short term time deposit is having maturity of less than 90 days from the date of acquisition and carried an average interest rate of 2.76% p.a. (2013: 3.35% p.a.).

4 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER CURRENT ASSETS

	2014 SR	2013 SR
Accrued revenue	12,131,169	7,744,607
Advance income tax (note 12)	3,514,233	3,514,233
Margin deposits (note 17)	2,216,906	-
Accrued special commission income	2,085,762	2,917,637
Advances to employees	1,939,467	2,114,817
Advances and prepayments	1,244,363	1,097,094
Fees receivable (note 4.1)	187,566	187,512
Other receivables	872,414	279,655
	<u>24,191,880</u>	<u>17,855,555</u>

4.1. As at 31 December 2014, unimpaired fees receivables amounted to SR 187,566 (2013: SR 187,512).

5 LOAN TO A CUSTOMER

As at December 2013, loan to a customer represented securities lending transaction as allowed by the CMA. It was a short term, interest bearing and secured loan. This loan has been settled by the customer in February 2014.

6 AVAILABLE FOR SALE INVESTMENTS

	2014			Carrying value SR
	Cost SR	Changes in fair value SR	Impairment SR	
Funds	26,265,397	11,519,603	-	37,785,000
Local equities	12,080,961	(1,570,372)	(1,882,147)	8,628,442
Sukuk	10,356,353	(296,330)	-	10,060,023
Foreign equities	7,630,625	-	(2,543,542)	5,087,083
	<u>56,333,336</u>	<u>9,652,901</u>	<u>(4,425,689)</u>	<u>61,560,548</u>

Audi Capital Company
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Notes to the financial statements (continued)

At 31 December 2014

6 AVAILABLE FOR SALE INVESTMENTS (continued)

	2013			Carrying value SR
	Cost SR	Changes in fair value SR	Impairment SR	
Funds	27,894,687	6,903,846	-	34,798,533
Local equities	7,771,262	1,272,861	-	9,044,123
Foreign equities	8,430,422	(1,523,557)	-	6,906,865
	<u>44,096,371</u>	<u>6,653,150</u>	<u>-</u>	<u>50,749,521</u>

7 HELD TO MATURITY INVESTMENTS

	2014		2013	
	Carrying value SR	Market value SR	Carrying value SR	Market value SR
Government notes -fixed rate	63,043,782	63,041,992	240,172,014	240,078,143
Corporate and banks - debts instruments	-	-	11,142,022	11,582,460
	<u>63,043,782</u>	<u>63,041,992</u>	<u>251,314,036</u>	<u>251,660,603</u>

As at 31 December, the contractual maturity of the above investments is as follows:

	2014 SR	2013 SR
Due within one year – current	63,043,782	240,172,014
Due after one year	-	11,142,022
	<u>63,043,782</u>	<u>251,314,036</u>

Audi Capital Company
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Notes to the financial statements (continued)
At 31 December 2014

8 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	10 years	4 years	4 years		Total 2014 SR	Total 2013 SR
Furniture, fixtures and improvements	Motor vehicles	Motor vehicles	Motor vehicles			
Office equipment and computers	SR	SR	SR			
	Furniture, fixtures and improvements SR	Office equipment and computers SR	Motor vehicles SR			
<i>Cost:</i>						
At the beginning of the year	7,214,952	6,804,905	139,700		14,159,557	13,818,952
Additions	40,674	86,171	-		126,845	670,305
Disposals	-	-	-		-	(329,700)
At the end of the year	<u>7,255,626</u>	<u>6,891,076</u>	<u>139,700</u>		<u>14,286,402</u>	<u>14,159,557</u>
<i>Depreciation:</i>						
At the beginning of the year	3,884,756	5,480,663	35,528		9,400,947	8,219,709
Charge for the year	724,459	728,052	34,925		1,487,436	1,467,602
Disposals	-	-	-		-	(286,364)
At the end of the year	<u>4,609,215</u>	<u>6,208,715</u>	<u>70,453</u>		<u>10,888,383</u>	<u>9,400,947</u>
<i>Net book amounts:</i>						
At 31 December 2014	<u>2,646,411</u>	<u>682,361</u>	<u>69,247</u>		<u>3,398,019</u>	
At 31 December 2013	<u>3,330,196</u>	<u>1,324,242</u>	<u>104,172</u>			<u>4,758,610</u>

Audi Capital Company
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Notes to the financial statements (continued)

At 31 December 2014

9 INTANGIBLE ASSETS

	2014 SR	2013 SR
<i>Cost:</i>		
At the beginning of the year	5,865,664	4,993,094
Additions	45,750	872,570
Disposal	(139,989)	-
At the end of the year	<u>5,771,425</u>	<u>5,865,664</u>
<i>Amortization:</i>		
At the beginning of the year	4,608,728	4,200,835
Charge for the year	497,307	407,893
At the end of the year	<u>5,106,035</u>	<u>4,608,728</u>
Net book amounts:	<u><u>665,390</u></u>	<u><u>1,256,936</u></u>

10 ACCOUNTS PAYABLE AND ACCRUALS

	2014 SR	2013 SR
Accrued employees bonus	11,676,206	3,919,062
Accrued expenses	3,671,661	2,291,277
Accounts payable and others	1,473,834	1,087,725
	<u><u>16,821,701</u></u>	<u><u>7,298,064</u></u>

11 SHORT TERM LOAN

Short term loan represented as at December 2013 amounts borrowed from Bank Audi SAL, an affiliate. The loan carried interest rate of 0.17% p.a. This loan has been settled by the company in January 2014.

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Notes to the financial statements (continued)

At 31 December 2014

12 ZAKAT AND INCOME TAX

a) Zakat

Charge for the year

The zakat charge provided for in the statement of changes in shareholders' equity amounting to SR 185 (2013: SR 491) consists of the current year provision.

The current year provision is based on the following:

	2014 SR	2013 SR
Share capital	100,000,000	300,000,000
Retained earnings	13,969,364	13,930,994
Statutory reserve	6,043,986	6,039,723
Provision for employees' terminal benefits	2,782,909	2,138,093
	<u>122,796,259</u>	<u>322,108,810</u>
Book value of long term assets and cost of investments	(21,583,362)	(22,268,348)
	<u>101,212,897</u>	<u>299,840,462</u>
(Adjusted loss)/zakatable profit for the year	17,793,372	(1,989,920)
Zakat base	<u>119,006,269</u>	<u>297,850,542</u>
Saudi shareholders' share of the zakat base at 0.01% (2013: 0.0066%)	<u>7,399</u>	<u>19,658</u>

Movements in provision during the year

The movement in the zakat provision for the year was as follows:

	2014 SR	2013 SR
At the beginning of the year	491	499
Provided during the year	185	491
Additional zakat liability for prior years (c)	-	37,770
Paid during the year	(491)	(38,269)
At the end of the year	<u>185</u>	<u>491</u>

b) Income tax

Charge for the year

During the current year, the Company provided for income tax of SR 2,591,800 (2013: SR nil), relating to the non-Saudi shareholders' holding of 99.99% (2013: 99.9934%) of the share capital.

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Notes to the financial statements (continued)

At 31 December 2014

12 ZAKAT AND INCOME TAX (continued)

b) *Income tax (continued)*

Movements in provision during the year

The movement in the income tax provision for the year was as follows:

	2014 SR	2013 SR
At the beginning of the year	-	725,899
Provided during the year	2,591,800	-
Paid during the year	-	(725,899)
	<u>2,591,800</u>	<u>-</u>
At the end of the year	<u>2,591,800</u>	<u>-</u>

During 2008, the Company paid advance income tax of SR 5,461,598 against zakat and income tax of subsequent years. As at 31 December 2014, the balance is SR 3,514,233 (2013: SR 3,514,233) (note 4).

c) *Status of assessments*

During 2011, the Company received assessments from the Department of Zakat and Income Tax (the "DZIT") for the years 2007 and 2008 resulting in additional zakat and tax liabilities. Accordingly, the Company filed an appeal providing its detailed arguments against such assessments, which was not accepted by the DZIT and then the case transferred to the Preliminary Appeal Committee ("PAC").

On 2 January 2014, PAC issued its resolution in connection with the above mentioned appeal. The resolution was partially in favour of the Company resulting in a due amount for the Company amounting to SR 3,453,700. However, the Company filed an appeal against PAC resolution for the items adjudged against the Company to the High Appeal Committee ("HAC"), which is still under review by HAC. Accordingly, the Company believes that no provision is required for any additional zakat and tax liabilities in this respect.

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Notes to the financial statements (continued)

At 31 December 2014

13 RELATED PARTY TRANSACTIONS AND BALANCES

The following are details of major related party transactions during the year and its balances at the end of the year:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	
		<i>2014</i>	<i>2013</i>
		<i>SR</i>	<i>SR</i>
Affiliates & Shareholders	Managing income	11,079,458	6,314,342
	Dealing income	3,651,504	1,427,766
	Custody income	756,103	634,461
	Finance charges	(2,441)	(1,488)
	Advising income	11,682,446	-
<i>Related party</i>	<i>Nature of account</i>	<i>Balance</i>	
		<i>2014</i>	<i>2013</i>
		<i>SR</i>	<i>SR</i>
Affiliates & Shareholders	Available for sale investments (managed funds)	37,785,002	34,798,533
	Bank balances	8,515,482	8,502,227
	Other receivables	328,182	169,001
	Accounts payable and accruals	862,598	602,514
	Fees receivable	6,295,000	5,518,971
	Short term loan	-	5,000,401
	Unrealised gain on revaluation available for sale investments	11,519,602	6,151,535

In addition, the Company maintains the following fiduciary accounts for customers of related parties and for related parties:

	<i>Cash</i>	<i>Funds</i>	<i>Bonds</i>	<i>Equities</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
As of 31 December 2014	207,333,861	362,634,720	534,383	1,112,878,512	1,683,381,476
As of 31 December 2013	54,248,658	343,711,817	-	701,002,510	1,098,962,985

14 SHARE CAPITAL

The Company's share capital as at 31 December 2014 of SR 100 million (31 December 2013: SR 300 million) is divided into 10 million shares of SR 10 each (2013 : 30 million shares).

During 2014, the Company received approval from the CMA and SAGIA on the Company's request for reduction in share capital, submitted during the year ended 31 December 2012. Consequently, during the year ended 31 December 2014, the Company's capital has been reduced from SR 300 million to SR 100 million after completion of necessary regulatory and legal formalities. Accordingly, the payments were made to the shareholders in proportion to their shareholding in the Company.

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15 DEALING INCOME, NET

	2014 SR	2013 SR
Brokerage income	9,947,050	4,604,293
Gain on disposal of available for sale investments, net	6,337,673	3,125,595
Net amortization of premium and discounts	5,285,224	6,679,624
Special commission income	3,954,445	5,003,003
Dividend income	156,394	274,872
Gain (loss) on disposal of held to maturity investments, net	206,727	(287,855)
	<u>25,887,513</u>	<u>19,399,532</u>

16 GENERAL AND ADMINISTRATION EXPENSES

	2014 SR	2013 SR
Employee costs	32,848,192	23,809,317
Depreciation and amortization (notes 8 and 9)	1,984,743	1,875,495
Travel and transportation	1,796,802	1,399,341
Rent	1,585,277	1,551,590
Technical telecommunication services	1,536,145	1,535,064
Legal and professional fees	1,350,078	945,065
Repairs and maintenance	773,916	685,682
Insurance	647,629	612,760
Board of Directors remuneration	400,000	399,999
Telephone, postage & electricity	519,890	507,306
Stationery and office supplies	394,739	311,137
Audit Committee remuneration	200,000	-
Newspaper and subscription	30,504	61,319
Other	419,020	250,792
	<u>44,486,935</u>	<u>33,944,867</u>

17 COMMITMENT AND CONTINGENCY

As of 31 December 2014, the Company has ongoing rental agreements for its offices amounting to SR 2,197,216 (2013: SR 1,455,616) due in one year, SR 6,323,185 (2013: SR 6,187,049) due in the next 2 to 5 years and SR 1,615,544 (2013: SR 3,231,088) due in more than 5 years.

During the year ended 31 December 2014, the banker of the Company issued a guarantee of SR 2,216,906 (31 December 2013: SR nil) to DZIT against a margin deposit (note 4).

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At 31 December 2014

18 CUSTOMERS' INVESTMENTS

These represent funds invested by the Company on behalf of its customers under a fiduciary arrangement. The investments are made in different financial instruments such as time placements, equity shares, funds and bonds. These amounts are summarized below:

As at 31 December 2014

	Cash SR	Funds SR	Bonds SR	Equities SR	Total SR
Advisory Clients	293,357,784	671,915,304	178,934,985	1,432,657,701	2,576,865,774
Managed Mutual Funds	178,540,999	263,989,885	-	417,127,214	859,658,098
Discretionary Clients	566,419,340	250,000	40,517,050	972,158,683	1,579,345,073
	<u>1,038,318,123</u>	<u>936,155,189</u>	<u>219,452,035</u>	<u>2,821,943,598</u>	<u>5,015,868,945</u>

As at 31 December 2013

	Cash SR	Funds SR	Bonds SR	Equities SR	Total SR
Advisory Clients	469,956,800	270,592,061	271,076,015	1,193,816,154	2,205,441,030
Managed Mutual Funds	43,298,441	222,378,533	-	91,490,833	357,167,807
Discretionary Clients	49,862,536	-	-	467,760,387	517,622,923
	<u>563,117,777</u>	<u>492,970,594</u>	<u>271,076,015</u>	<u>1,753,067,374</u>	<u>3,080,231,760</u>

Certain customers have pledged their investments, amounting to SR 846,165,053 as at 31 December 2014 (2013: SR 275,339,757), against their borrowings from the Company and from the third parties.

19 SEGMENT INFORMATION

The Company is organized into the following main operating segments:

- Dealing activities include engagement in trading in a security, whether as principal or agent, and dealing include the sale, purchase, manage the subscription for or underwriting securities.
- Managing activities include managing securities belonging to another person in circumstances involving the exercise of discretion.
- Custody activities include safeguarding assets belonging to another person which include securities, or arranging for another person to do so, and custody includes taking the necessary administrative measures.
- Arranging activities include introducing parties in relation to securities business, advising on corporate finance business or acting in any way to bring about a deal in a security.
- Advising activities include in advising a person on the merits of dealing in a security or exercising any right to deal conferred by a security.
- Others represent certain assets, liabilities, operating income or expenses of the Company, which have not been allocated to the above segments.

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At 31 December 2014

19 SEGMENT INFORMATION (continued)

	<i>Dealing Activities</i> SR	<i>Managing Activities</i> SR	<i>Custody Activity</i> SR	<i>Arranging Activities</i> SR	<i>Advising Activities</i> SR	<i>Others</i> SR	<i>Total</i> SR
2014							
Total assets	142,248,386	10,743,066	831,876	187,566	612,766	13,527,634	168,151,294
Total liabilities	116,423	1,121,793	97,060	-	-	36,098,556	37,433,832
Total operating income	25,887,513	23,768,684	2,890,072	870,929	13,298,628	-	66,715,826
Total expenses	(5,715,638)	(5,209,082)	(1,753,771)	(1,963,687)	(7,165,635)	(27,295,453)	(49,103,266)
Net (loss) income	20,171,875	18,559,602	1,136,301	(1,092,758)	6,132,993	(27,295,453)	17,612,560
2013							
Total assets	321,256,147	7,252,303	546,309	187,512	-	12,891,324	342,133,595
Total liabilities	5,229,688	601,830	113,070	-	-	9,522,507	15,467,095
Total operating income	19,399,532	11,071,992	2,000,497	1,098,711	-	-	33,570,732
Total expenses	(1,307,679)	(4,770,497)	(1,411,235)	(1,953,721)	(3,784,318)	(20,262,388)	(33,489,838)
Net (loss) income	18,091,853	6,301,495	589,262	(855,010)	(3,784,318)	(20,262,388)	80,894

Total expenses include general and administration expenses, impairment loss, exchange gain and net (loss) gain on disposal of property, equipment and intangible assets .

20 EARNINGS / LOSS PER SHARE

Earnings / loss per share attributable to income / loss from main operations and net income is calculated by dividing the income / loss from main operations and the net income for the year, respectively, by the weighted average number of shares outstanding at the year end of 20,849,315 shares (2013: 30,000,000 shares).

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At 31 December 2014

21 RISK MANAGEMENT

Special commission rate risk

The Company is subject to special commission rate risk on its commission bearing assets, including, mainly investments, loans to customers and bank deposits. The Company is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities instruments that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Company's exposure to special commission rate risks. Included in the tables are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

2014	Non Interest Bearing Items SR	Up to 1 year SR	1 to 5 Years SR	> 5 years SR	Total SR
Cash and cash equivalents	7,563,738	7,727,937	-	-	15,291,675
Accounts receivable, prepayments and other current assets	24,191,880	-	-	-	24,191,880
Investments	51,500,522	63,043,784	-	10,060,024	124,604,330
Property and equipment	3,398,019	-	-	-	3,398,019
Intangible assets	665,390	-	-	-	665,390
Total assets	87,319,549	70,771,721	-	10,060,024	168,151,294
Accounts payable and accruals	16,821,701	-	-	-	16,821,701
Dividend Payable	13,969,364	-	-	-	13,969,364
Zakat and income tax payable	2,591,985	-	-	-	2,591,985
Employees' terminal benefits	4,050,782	-	-	-	4,050,782
Shareholders' equity	130,717,462	-	-	-	130,717,462
Total liabilities and shareholders' equity	168,151,294	-	-	-	168,151,294
Interest rate sensitivity gap	(80,831,745)	70,771,721	-	10,060,024	-
Cumulative gap	(80,831,745)	(10,060,024)	(10,060,024)	-	-

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Notes to the financial statements (continued)

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21 RISK MANAGEMENT (continued)

Special commission rate risk (continued)

2013	Non Interest Bearing Items SR	Up to 1 year SR	1 to 5 Years SR	> 5 years SR	Total SR
Cash and cash equivalents	40,771	12,641,624	-	-	12,682,395
Accounts receivable, prepayments and other current assets	17,375,753	11,014	468,788	-	17,855,555
Investments	50,749,521	240,172,014	11,142,022	-	302,063,557
Loans to customers	-	3,516,542	-	-	3,516,542
Property and equipment	4,758,610	-	-	-	4,758,610
Intangible assets	1,256,936	-	-	-	1,256,936
Total assets	74,181,591	256,341,194	11,610,810	-	342,133,595
Accounts payable and accruals	7,291,238	6,826	-	-	7,298,064
Short term loan	-	5,000,401	-	-	5,000,401
Zakat and income tax payable	491	-	-	-	491
Employees' terminal benefits	3,168,139	-	-	-	3,168,139
Shareholders' equity	326,666,500	-	-	-	326,666,500
Total liabilities and shareholders' equity	337,126,368	5,007,227	-	-	342,133,595
Interest rate sensitivity gap	(262,944,777)	251,333,967	11,610,810	-	-
Cumulative gap	(262,944,777)	(11,610,810)	-	-	-

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which are potentially subject to concentration of credit risk, consist principally of cash at bank, investments and other assets.

The table below shows the maximum exposure to credit risk for components of the balance sheet:

	2014 SR	2013 SR
Bank balances	15,236,952	12,641,624
Held to maturity investment	63,043,784	251,314,036
Accounts receivable and other current assets	20,730,611	16,758,461
Available for sale investments	10,060,023	-
	109,071,370	280,714,121

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21 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in releasing funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available through its principal shareholder. The table below summarises the maturities of the Company's assets and liabilities at 31 December, based on contractual payment dates.

2014	Up to 1 year SR	1 to 5 Years SR	> 5 years SR	No fixed maturity SR	Total SR
Cash and cash equivalents	15,236,953	-	-	54,722	15,291,675
Accounts receivable, prepayments and other current assets	24,191,880	-	-	-	24,191,880
Investments	63,043,784	-	10,060,024	51,500,522	124,604,330
Property and equipment	-	-	-	3,398,019	3,398,019
Intangible assets	-	-	-	665,390	665,390
Total assets	102,472,617	-	10,060,024	55,618,653	168,151,294
Accounts payable and accruals	16,821,701	-	-	-	16,821,701
Dividend Payable	-	-	-	13,969,364	13,969,364
Zakat and income tax payable	2,591,985	-	-	-	2,591,985
Employees' terminal benefits	-	-	-	4,050,782	4,050,782
Shareholders' equity	-	-	-	130,717,462	130,717,462
Total liabilities and shareholders' equity	19,413,686	-	-	148,737,608	168,151,294
Liquidity gap	83,058,931	-	10,060,024	(93,118,955)	
Cumulative gap	83,058,931	83,058,931	93,118,955	-	
2013	Up to 1 year SR	1 to 5 Years SR	> 5 years SR	No fixed maturity SR	Total SR
Cash and cash equivalents	12,641,624	-	-	40,771	12,682,395
Accounts receivable, prepayments and other current assets	17,770,381	85,174	-	-	17,855,555
Investments	240,172,014	11,142,022	-	50,749,521	302,063,557
Loans to customers	3,516,542	-	-	-	3,516,542
Property and equipment	-	-	-	4,758,610	4,758,610
Intangible assets	-	-	-	1,256,936	1,256,936
Total assets	274,100,561	11,227,196	-	56,805,838	342,133,595
Accounts payable and accruals	7,298,064	-	-	-	7,298,064
Short term loan	5,000,401	-	-	-	5,000,401
Zakat and income tax payable	491	-	-	-	491
Employees' terminal benefits	-	-	-	3,168,139	3,168,139
Shareholders' equity	-	-	-	326,666,500	326,666,500
Total liabilities and shareholders' equity	12,298,956	-	-	329,834,639	342,133,595
Liquidity gap	261,801,605	11,227,196	-	(273,028,801)	
Cumulative gap	261,801,605	273,028,801	273,028,801	-	

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21 RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of assets and liabilities denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The table below summarises the Company's exposure in different currencies in Saudi riyals based on exchange rates at 31 December:

	SAR SR	USD SR	LBP SR	Others SR	Total SR
2014					
Cash and cash equivalents	4,737,097	9,749,733	-	804,845	15,291,675
Accounts receivable, prepayments and other current assets	20,052,321	2,146,722	1,958,852	33,985	24,191,880
Investments	8,628,439	52,932,109	63,043,782	-	124,604,330
Property and equipment	3,398,019	-	-	-	3,398,019
Intangible assets	665,390	-	-	-	665,390
Total assets	37,481,266	64,828,564	65,002,634	838,830	168,151,294
Accounts payable and accruals	15,866,500	857,258	97,943	-	16,821,701
Dividend Payable	13,969,364	-	-	-	13,969,364
Zakat and income tax payable	2,591,985	-	-	-	2,591,985
Employees' terminal benefits	4,050,782	-	-	-	4,050,782
Shareholders' equity	119,494,190	11,223,272	-	-	130,717,462
Total liabilities and shareholders' equity	155,972,821	12,080,530	97,943	-	168,151,294
Net gap	(118,491,555)	52,748,034	64,904,691	838,830	
	SAR SR	USD SR	LBP SR	Others SR	Total SR
2013					
Cash and cash equivalents	2,902,375	9,250,445	-	529,575	12,682,395
Accounts receivable, prepayments and other current assets	12,126,995	2,790,804	2,860,650	77,106	17,855,555
Investments	11,439,021	49,759,769	240,172,014	692,753	302,063,557
Loans to customers	3,516,542	-	-	-	3,516,542
Property and equipment	4,758,610	-	-	-	4,758,610
Intangible assets	1,256,936	-	-	-	1,256,936
Total assets	36,000,479	61,801,018	243,032,664	1,299,434	342,133,595
Accounts payable and accruals	6,488,156	612,108	197,800	-	7,298,064
Short term loan	-	5,000,401	-	-	5,000,401
Zakat and income tax payable	491	-	-	-	491
Employees' terminal benefits	3,168,139	-	-	-	3,168,139
Shareholders' equity	322,038,525	4,738,887	-	(110,912)	326,666,500
Total liabilities and shareholders' equity	331,695,311	10,351,396	197,800	(110,912)	342,133,595
Net gap	(295,694,832)	51,449,622	242,834,864	1,410,346	

Equity prices risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the levels of equity indices and the value of individual stocks.

Effect on equity for investment securities listed on GCC stock exchanges for 1 basis point is SR 598,714 (2013: SR 443,701). The effect of any decreases in equity prices is expected to be equal and opposite to the effect of the increase shown.

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22 CAPITAL REGULATORY REQUIREMENTS AND CAPITAL ADEQUACY RATIO

The capital base, minimum capital requirement and capital adequacy ratio of the Company as per the CMA's Prudential Rules are as follows:

	2014 SR '000	2013 SR '000
<i>Capital Base:</i>		
Tier 1 Capital	120,399	318,756
Tier 2 Capital	9,653	6,653
Total Capital Base	130,052	325,409
<i>Minimum Capital Requirement:</i>		
Market Risk	10,198	35,086
Credit Risk	72,304	205,313
Operational Risk	11,122	8,486
Total Minimum Capital Required	93,624	248,885
<i>Capital Adequacy Ratio:</i>		
Total Capital Ratio (time)	1.39	1.31
Tier 1 Capital Ratio (time)	1.29	1.28
Surplus / (Deficit) in the capital	36,428	76,524

- a) The capital base consists of Tier 1 capital (which includes share capital, statutory reserve and audited retained earnings) and Tier 2 capital (include surplus on revaluation of available for sale investments) as per article 4 and 5 of the Prudential Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules.
- b) The Company manages its capital base in light of Pillar I and Pillar II of the Prudential Rules - the capital base should not be less than the minimum capital requirement.
- c) The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.
- d) The Company discloses on annual basis certain information as per Pillar III of the Prudential Rules for public on the Company's website (www.audicapital.com). However these are not subject to review or audit by the external auditors of the Company.

23 DIVIDENDS

During the year ended 31 December 2014, the Board of Directors of the Company approved an interim dividend of SR 13,969,364 (2013: SR nil). Subsequent to the year end, the Company has distributed the dividend to its shareholders in proportion to their ownership.

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24 APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors, in its meeting held on 3 Jumada Al- Awal 1436H (corresponding to 22 February 2015), approved the financial statements.

25 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.