

PILLAR III DISCLOSURES

2014

Audi Capital

Figures as at December 31st, 2014

March 24, 2015

Private & Confidential



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1. OVERVIEW

1.1 Background

The purpose of the Pillar 3 is to complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II). The CMA, as per Article 68 of the Prudential Rules, supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of capital, risk exposure, risk assessment process and hence the capital adequacy of the institution. The Pillar III disclosures are an effective means of informing the market about the risks faced by a company, and provide a consistent disclosure framework that enhances transparency and comparability.

In implementation of Pillar III, Audi Capital has conducted the market disclosures based on the audited financial statements as at December 31st, 2014.

1.2 Verification of disclosures

The disclosures have been based on audited financial statements of the company. The mandated external auditors have reviewed and approved the financial statements of end of year 2014.

1.3 Frequency of disclosures

In accordance to the CMA circular number 06367/6 sent on 10/01/1435H that states that in regards to the Pillar III of the prudential rules, the frequency of disclosure should be yearly within 90 calendar days after the financial year end.

1.4 Location of disclosure

As per the article 69 of the Prudential Rules, the company will publish the Pillar III disclosures on its website by the end of Q1 2015.

2. COMPANY STRUCTURE

Audi Capital Company is a Saudi Joint Stock Company, registered in Riyadh, Kingdom of Saudi Arabia. Audi Capital 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. The Company is registered under commercial registration number 1010226747 dated 18 Dhul Hajjah 1427H (corresponding to 8 January 2007). It 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”).

Audi Capital is 99.99% owned by Group Audi sal Lebanon and is headquartered in Riyadh. It offers Saudi corporate and individual clients premium Investment Banking, Private Banking, Asset Management, Brokerage and Private Equity services, matching best international practices with a regional perspective. Audi Capital 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.

3. MANAGEMENT OF THE ICAAP

3.1 Audi Capital ICAAP work

Audi Capital is required from the regulator to prepare an internal assessment of its capital adequacy (ICAAP). The first assessment was performed in 2014 and submitted to the CMA. The ICAAP exercise is to assess if Audi Capital is adequately capitalized in relation to its risk exposure, and it includes most notably:

- Summary of current and projected financial and capital positions. These are financial forecasts in line with Audi Capital's strategic objectives.
- A series of stress tests and scenario analysis. These are financial scenarios to assess whether Audi Capital is adequately capitalized to face a range of adverse circumstances.

3.2 Oversight responsibilities

The Board of Directors of Audi Capital performs the final review and approval of the ICAAP, including assessing and approving the capital adequacy. The board provides his input and approval after the review by the Management Committee.

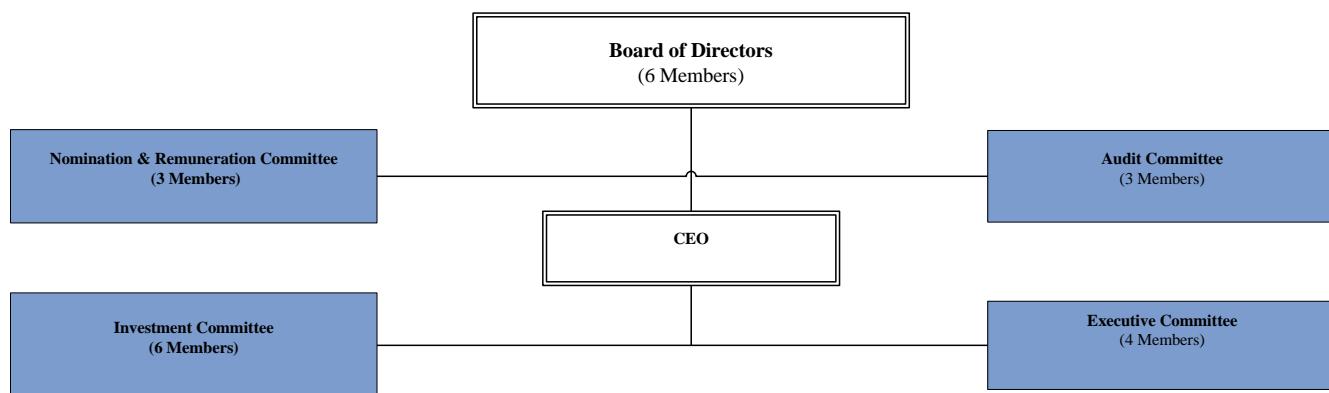
4. SUPERVISORY STRUCTURE

Audi Capital is governed by a Board of Directors consisting of 6 members elected by the General Assembly of shareholders for a term of 3 years. The main role of the Board is to set strategic plans and objectives, define roles and responsibilities, set adequate internal controls and monitoring, set policies and procedures to ensure compliance with the regulation in place, with the ultimate goal of increasing the long term value of the Company.

Audi Capital Governance framework encompasses a number of policies, charters, and terms of reference that shape the company's Governance framework over a wide range of issues including risk supervision, compliance, audit, remuneration, evaluation, succession planning, ethics and conduct, budgeting, and capital management. Clear lines of responsibility and accountability are in place including effective channels of communication of the Company's Board of Directors and core strategy. Strategic objectives setting corporate values and promoting high standards of conduct have been established and widely communicated throughout the company, providing appropriate incentives to ensure professional behavior.

Audi Capital has 4 committees:

- The "Audit" committee and the "Nomination & Remuneration" Committees that report to the Board.
- The "Investment" and "Management" committees appointed by the Board that are chaired by the CEO.



4.1 Risk Appetite

Risk appetite is the risk capacity of the company and details the maximum amount that the board approves the company to take in achievement of its strategy.

Risk appetite details the amount and types of risk that the company is willing to accept in its business to attain its objectives and strategic goals. The company's shareholder's equity forms the basis of the risk appetite and limits.

This risk framework is approved by the Board of Directors and defines the appetite of the company, with a buffer zone (tolerance) before reaching the limit. This framework monitors the Treasury and Capital Markets (including credit quality and concentration) as well as other risk indicators most notably the FX, interest rate, operational and liquidity risk.

4.2 Internal Control oversight

The Board has overall responsibility for the company's internal controls and for reviewing their effectiveness. The internal control is designed to address the risks that might impact Audi Capital's business including all systems and departments. The internal controls are designed to mitigate, rather than eliminate, material misstatements and losses.

5. CAPITAL ADEQUACY & CAPITAL STRUCTURE

5.1 Core Capital positions

The Company's regulatory capital is comprised of the following:

- **Tier 1 Capital** which is considered as the core measure of the company's financial strength and includes share capital, reserves, and retained earnings.
- **Tier 2 Capital** which consists of qualified subordinated instruments, certain loan loss provisions and revaluation reserves.

Audi Capital's resources as at 31 December 2014 are summarized in the table below:

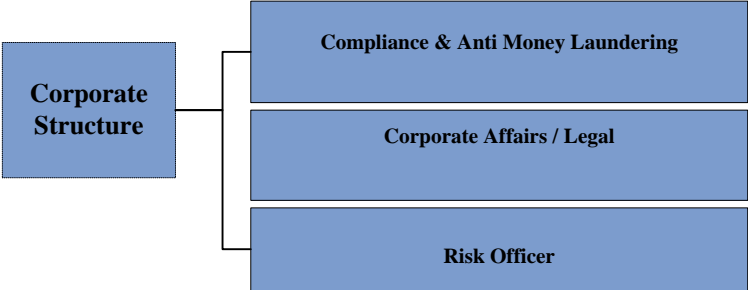
Disclosure on Capital Base	
	2014
Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	100,000
Audited retained earnings	13,519
Share premium	
Reserves (other than revaluation reserves)	7,546
Tier-1 capital contribution	
Deductions from Tier-1 capital	-665
Total Tier-1 capital	120,400
<u>Tier-2 capital</u>	
Subordinated loans	
Cumulative preference shares	
Revaluation reserves	9,653
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	
Total Tier-2 capital	9,653
TOTAL CAPITAL BASE	130,052

Disclosure on Capital Adequacy Ratio		
Description	2014 SAR '000	2013 SAR '000
<u>Capital Base</u>		
Total Tier-1 capital	120,400	318,756
Total Tier-2 capital	9,653	6,653
Total Capital Base	130,052	325,409
<u>Minimum Capital Requirements</u>		
Credit Risk	72,304	205,313
Market Risk	10,198	35,086
Operational Risk	11,122	8,486
Total Minimum Capital Requirements	93,624	248,885
Total Capital Ratio (time)	1.39	1.31
Surplus / (Deficit) in the capital	36,428	76,524

6. RISK MANAGEMENT

6.1 Department overview

Audi Capital started a re-organization of its corporate governance framework in 2014 that entailed a new organizational chart and new recruitments. A new internal department called “Corporate Structure” was created and it includes the Compliance/AML Function, the Risk function and corporate affairs.



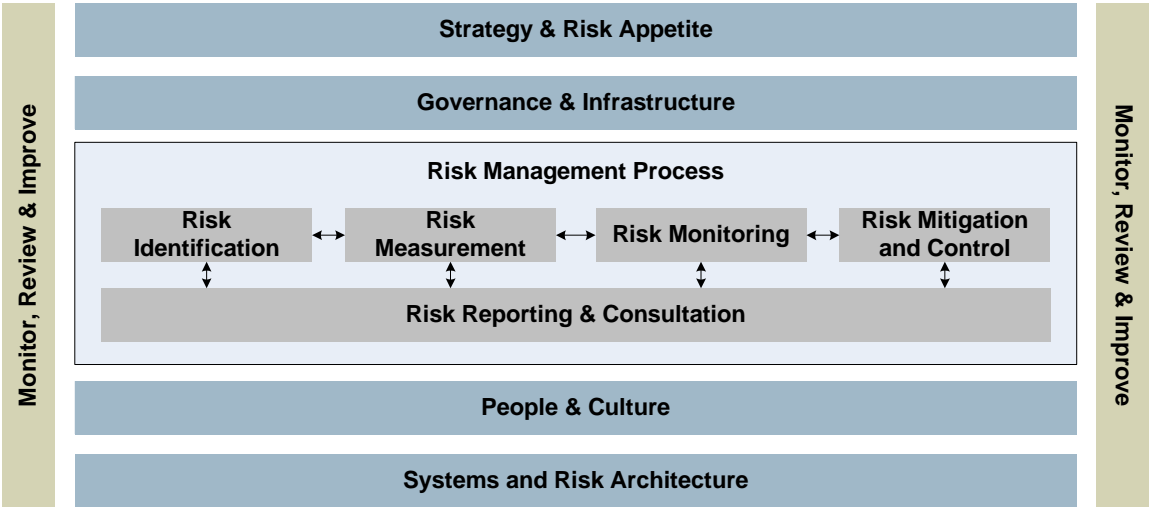
“Corporate Structure” reports directly to the CEO with a dotted line to the Board of Directors and its committees.

Audi Capital Risk Management function is independent from Business lines and has the responsibility of ensuring that risks across the Company are properly identified, measured, monitored, mitigated and reported to various stakeholders including the heads of business lines, senior management, Management Committee, Investment Committee and the Board of Directors.

Audi Capital has a risk framework whose purpose is to assist in managing risk effectively through the application and the embedment of the Risk Management Process (i.e. Risk identification, Risk Measurement, Risk Monitoring, Risk Mitigation & Control and Risk Reporting & Consultation) at all levels of the Company, including strategy, governance, people, culture, systems and risk architecture.

6.2 Risk Management Framework

The following depicts the key components of Audi Capital’s Risk Management Framework:



Component	Criteria for appropriate implementation
Strategy & Risk Appetite	<ul style="list-style-type: none"> ➤ The Board of Directors approves the strategic objectives and the risk appetite of the company. ➤ The Risk Management Process is designed and implemented in alignment with the strategic objectives and the risk appetite approved by the Board of Directors. ➤ Risk is embedded within the overall strategic planning process. ➤ The Risk function provides a risk assessment on new products, significant changes to new products, new lines of business and entry into new markets. ➤ Risks that are material and relevant to the company are identified and covered.
Governance & Infrastructure	<ul style="list-style-type: none"> ➤ The Risk function is independent from the business lines and decision makers, however it is imbedded in the various decision making processes. ➤ There is a clear accountability in the oversight and ownership of risks across the company. ➤ The governance structure that is put in place facilitates the free flow of information across the company and allows the escalation of relevant information to the appropriate authority on a timely basis. ➤ Policies and procedures are properly disseminated to adequately mitigate risks.

Risk Management Process	Criteria for appropriate implementation
Risk Identification	<ul style="list-style-type: none"> ➤ Risk identification represents the first step into risk assessment. ➤ The process involves the identification of risk sources, events, causes and their potential consequences. ➤ Risk identification encompasses internal and external factors and events that could affect the intended strategy and the risk profile.
Risk Measurement	<ul style="list-style-type: none"> ➤ Risk Measurement includes assessing the magnitude of risk by producing metrics and other quantitative / qualitative measures. Magnitude is expressed in terms of the combination of consequences and their likelihood. ➤ Models that support risk measurements are used in combination with expert judgments. ➤ Stress testing is performed to identify areas of major concerns and to measure their severities and impacts.
Risk Monitoring	<ul style="list-style-type: none"> ➤ Risk monitoring encompasses continual checking, supervising and critically observing in order to ensure adherence with limits and policies, and ensuring that the risk profile stays within the risk appetite approved by the Board of Directors. ➤ Monitoring role is assigned to people with appropriate authorities and capabilities. ➤ Processes to escalate risk issues are well communicated throughout the company.

- | | |
|--|---|
| Risk Control & Mitigation | <ul style="list-style-type: none"> ➤ Mitigating actions are designed and recommended actions / opinions are proposed to transfer, control and balance risk & rewards. ➤ Risk mitigation includes avoiding the risk, removing the risk source, changing the likelihood, changing the consequences, sharing the risk with another party. |
| Risk Reporting & Consultation | <ul style="list-style-type: none"> ➤ Risk provides an objective check on risk-taking activities. ➤ The identified, measured, monitored, mitigated risks are reported to the appropriate authority including senior management and Board of Directors when needed for timely action and follow-up. ➤ A two-way process of communication is established between the Risk function and the different stakeholders to provide, share, obtain information and engage in a dialogue regarding risk issues. The Risk function provides an input to the decision making process and is not by its own a decision maker on any transaction involving risk taking. ➤ Standard definitions and requirements of reporting are set to enable a central risk aggregation. |

6.3 Risk Reporting

In addition to the constant reporting to Audi Capital’s management, the Risk function publishes on a quarterly basis a Risk Management Report to the Board of Directors. This report describes any changes in the regulations or in the function, it also emphasizes on the proprietary portfolio, in addition to detailing the different types of risks (operational, market, liquidity....)

7. RISK EXPOSURE OVERVIEW

Audi Capital is exposed to a diversified set of risks, in common with its peers, with the exception that the Company does not provide any loans to clients or companies. Some of the risks are an inherent part of the business model and day to day activities and Audi Capital’s risk management capabilities are focused on managing and addressing these types of risks.

Disclosure on Capital Adequacy				
Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<i>Credit Risk</i>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks			63,044	8,826
Authorised Persons and Banks			6,084	852
Corporates			8,483	1,188
Retail			14,457	2,024
Investments			77,026	12,596
Securitisation				
Margin Financing				
Other Assets			79,621	9,335
Total On-Balance sheet Exposures			248,715	34,820
<i>Off-balance Sheet Exposures</i>				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments			80,285	11,240
Other off-balance sheet exposures				
Total Off-Balance sheet Exposures			80,285	11,240
Total On and Off-Balance sheet Exposures			329,000	46,060
Prohibited Exposure Risk Requirement			30,531	26,244
Total Credit Risk Exposures			359,531	72,304
<i>Market Risk</i>				
	Long Position	Short Position		
Interest rate risks				
Equity price risks				
Risks related to investment funds				
Securitisation/resecuritisation positions				
Excess exposure risks				
Settlement risks and counterparty risks				
Foreign exchange rate risks	10,198			10,198
Commodities risks.				
Total Market Risk Exposures				10,198
<i>Operational Risk</i>				
				11,122
	11,122			
Minimum Capital Requirements				93,624
	93,624			
Surplus/(Deficit) in capital				36,428
	36,428			
Ratio				1.39

Disclosure on Credit Risk's Risk Weight as at 31/12/2014

Risk Weights	Exposures after netting and credit risk mitigation												Total Exposure after netting and	Total Risk Weighted Assets
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments			
0%											55			-
20%			6,721											1,344
50%			8,515		10,060									9,287
100%	63,044													63,044
150%			321					37,785		8,628				70,101
200%														-
300%						4,819				21,778				79,790
400%								5,087						20,348
500%														-
714% (include prohibited exposure)					484		188			1	11,244			85,085
Average Risk Weight	63,044	-	6,084	-	8,483	14,457	1,339	77,026	-	78,282	80,285			329,000
Deduction from Capital														

Disclosure on Credit Risk's Rated Exposure as at 31/12/2014

Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated	
On and Off-balance-sheet Exposures								
Governments and Central Banks								63,044
Authorised Persons and Banks		6,631	91			30	8,485	321
Corporates								10,544
Retail								4,819
Investments								42,872
Securitisation								
Margin Financing								
Other Assets								30,462
Past Due								188
Off-Balance Sheet								11,244
Total		6,631	91	-		30	8,485	163,494

7.1 Market Risk

Audi Capital's revenues are mainly earned from fees which are calculated as a percentage of the value of portfolios or transactions which are mainly performed in Saudi Arabian Riyals.

Audi Capital does not hold any positions for trading. Therefore, market risk exposure is mostly limited to the balance sheet currency mismatch within tolerated levels.

7.1.1 Foreign Exchange Rate Risk

The Company has a conservative policy towards foreign exchange risk and has set limits on positions. These set policies are dictated by the Board of Directors and are monitored by the Company.

At 31 December 2014, Audi Capital held Long positions on different currencies inducing a required capital of 10.1M SAR as per the table below:

Foreign Exchange Risk as at 31/12/2014	Position		Risk Capital Charge (%)	Capital Requirement
	Net Long	Net Short		
Total Position in Foreign Currencies				
USD and GCC currencies	53,254	0	2%	1,065
All other currencies	65,238	0	14%	9,133
SUM				10,198

Audi Capital does not have any position in Gold or currencies covered by legally binding exchange rate agreements at end of 2014.

7.1.2 Commodities Risk

Audi Capital does not have any exposure to Commodities risk, as result, its capital requirement for this business activity is nil.

7.2 Operational Risk

The Company defines Operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The company uses software called SAS to report, address and follow-up on operational risk incidents.

Audi Capital used the expenditure based approach to assess the operational risk. This is performed by multiplying the risk charge (25%) with the yearly overhead expenses to obtain the amount of SR 11.1 million as per Article 39 of the Prudential Rules. This amount will be computed to derive the capital adequacy ratio of the company.

7.3 Liquidity Risk

The Company seeks to ensure, as far as possible, that it will always have sufficient available cash resources to meet its financial liabilities. In addition, Audi Capital has access to funding from Group Audi.

Audi Capital holds its liquidity mainly in the form of liquid fixed income investment in Republic of Lebanon treasury bills. Given that Audi capital is fully funded via shareholders' equity, there is no exposure to funding liquidity risk.

The Company also monitors its liquidity by producing a Liquidity Gap Analysis that provides the necessary indicators to manage the Treasury. The goal is to always maintain a positive short-term Liquidity Gap (assets minus liabilities) to cover operations and un-expected events.

in SR'000	Up to 1 year	1 to 5 Years	> 5 years	No fixed maturity	Total
Cash and cash equivalents	15,237			55	15,292
Accounts receivable, prepayments and other current assets	24,192				24,192
Investments	63,044		10,060	51,500	124,604
Property and equipment				3,398	3,398
Intangible assets				665	665
Total Assets	102,473	-	10,060	55,618	168,151
Accounts payable and accruals	16,822				16,822
Dividend payable				13,969	13,969
Zakat and income tax payable	2,592				2,592
Employees' terminal benefits				4,051	4,051
shareholder's equity				130,717	130,717
Total liabilities and shareholder's equity	19,414	-	-	148,737	168,151
Liquidity Gap	83,059	-	10,060	(93,119)	
Cumulative Gap	83,059	83,059	93,119	-	

In addition to Monitoring the Liquidity Gap and Cumulative Gap, Audi Capital also monitors the ratio "Available Liquidity / Monthly Operating Expenses" and this figure is communicated to the Board of Directors. The Company has set a Risk Appetite of 3 and a set risk limit of 2. As at 31 December 2014, this ratio at Audi Capital is equal to 6.6.