

Audi Capital Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2016

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
AUDI CAPITAL COMPANY
(A 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 2016 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 requirements 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 2016 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


Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437



Riyadh: 10 Jumad Thani 1438H
(9 March 2017)

Audi Capital Company
(A Saudi Closed Joint Stock Company)

BALANCE SHEET

As of 31 December 2016

| | <i>Notes</i> | 2016 SR | 2015 SR |
|---|--------------|--------------------|--------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 3 | 29,382,812 | 37,715,556 |
| Accounts receivable, prepayments and other current assets | 4 | 20,691,893 | 27,915,941 |
| Loans | 5 | 673,998 | 10,462,227 |
| Held to maturity investments | 7 | 38,536,376 | - |
| TOTAL CURRENT ASSETS | | 89,285,079 | 76,093,724 |
| NON-CURRENT ASSETS | | | |
| Available for sale investments | 6 | 24,759,902 | 39,771,400 |
| Held to maturity investments | 7 | 37,507,000 | 38,875,784 |
| Property and equipment | 8 | 2,243,200 | 3,413,099 |
| Intangible assets | 9 | 1,502,514 | 2,077,059 |
| TOTAL NON-CURRENT ASSETS | | 66,012,616 | 84,137,342 |
| TOTAL ASSETS | | 155,297,695 | 160,231,066 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accruals | 10 | 3,925,544 | 12,549,178 |
| Zakat and income tax payable | 11 | 318,878 | 1,205,758 |
| TOTAL CURRENT LIABILITIES | | 4,244,422 | 13,754,936 |
| NON-CURRENT LIABILITY | | | |
| Employees' terminal benefits | | 5,210,812 | 5,371,056 |
| TOTAL LIABILITIES | | 9,455,234 | 19,125,992 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 13 | 100,000,000 | 100,000,000 |
| Statutory reserve | | 10,023,743 | 9,374,384 |
| Retained earnings | | 35,817,818 | 29,973,584 |
| Unrealized gain on available for sale investments | 6 | 900 | 1,757,106 |
| TOTAL SHAREHOLDERS' EQUITY | | 145,842,461 | 141,105,074 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 155,297,695 | 160,231,066 |

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2016

| | <i>Notes</i> | 2016 SR | 2015 SR |
|---|--------------|---------------------|---------------------|
| OPERATING INCOME | | | |
| Managing income | | 17,115,679 | 34,913,521 |
| Dealing income, net | 14 | 16,984,392 | 19,726,551 |
| Custody income | | 2,943,157 | 4,019,961 |
| Arranging income | | 1,075,001 | 2,882,177 |
| Advising income | | 7,351 | 2,355,193 |
| TOTAL OPERATING INCOME | | 38,125,580 | 63,897,403 |
| OPERATING EXPENSES | | | |
| General and administration | 15 | (31,639,403) | (43,831,782) |
| Impairment loss on available for sales investments | 6 | - | (762,089) |
| Finance charges | 12 | - | (19,263) |
| TOTAL OPERATING EXPENSES | | (31,639,403) | (44,613,134) |
| INCOME FROM MAIN OPERATIONS | | 6,486,177 | 19,284,269 |
| Exchange gain, net | | 7,769 | 201,329 |
| Gain on disposal/write-off of property, equipment, and intangible assets, net | | - | 3,567 |
| NET INCOME FOR THE YEAR | | 6,493,946 | 19,489,165 |
| Earnings per share | | | |
| <i>Attributable to:</i> | 19 | | |
| Income from main operations | | 0.65 | 1.93 |
| Net income | | 0.65 | 1.95 |

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

| | Notes | 2016 SR | 2015 SR |
|--|-------|---------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Net income for the year | | 6,493,946 | 19,489,165 |
| Adjustments for: | | | |
| Gain on disposal of available for sale investments, net | 14 | (5,202,082) | (5,090,070) |
| Depreciation and amortization | 15 | 2,100,736 | 1,971,189 |
| Provision for employees terminal benefits | | 1,046,834 | 1,462,099 |
| Net amortization of premium and discount | | 323,473 | 415,857 |
| Gain on disposal of held for trading investments | 14 | (21,416) | (9) |
| Exchange gain, net | | (7,769) | (201,329) |
| Impairment of available for sale investments | 6 | - | 762,089 |
| Gain on disposal of held to maturity investments, net | 14 | - | (45,672) |
| Gain on disposal / write-off of property, equipment and intangible assets, net | | - | (3,567) |
| | | <u>4,733,722</u> | <u>18,759,752</u> |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, prepayments and other current assets | | 7,224,048 | (3,724,061) |
| Accounts payable and accruals | | (8,623,634) | (4,272,523) |
| Loans | | 9,788,229 | (10,462,227) |
| Net cash from operations | | <u>13,122,365</u> | <u>300,941</u> |
| Employees terminal benefits paid | | (1,207,078) | (141,825) |
| Zakat and income tax paid | 11 | (887,233) | (2,591,985) |
| Net cash from (used in) operating activities | | <u>11,028,054</u> | <u>(2,432,869)</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 8 | (93,792) | (1,460,550) |
| Purchase of intangible assets | 9 | (262,500) | (1,938,820) |
| Proceeds from disposal of property and equipment | | - | 4,999 |
| Proceeds from disposal of held to maturity investments | | - | 63,078,941 |
| Proceeds from disposal of available for sale investments | | 53,893,174 | 34,233,562 |
| Proceeds from disposal of held for trading investments | | 296,360 | 819 |
| Purchase of held to maturity investments | | (37,507,000) | (39,079,799) |
| Purchase of available for sale investments | | (35,412,096) | (16,012,228) |
| Purchase of held for trading investments | | (274,944) | (810) |
| Net cash (used in) from investing activities | | <u>(19,360,798)</u> | <u>38,826,114</u> |
| FINANCING ACTIVITIES | | | |
| Dividend paid | | - | (13,969,364) |
| Cash used in financing activities | | - | (13,969,364) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | <u>(8,332,744)</u> | <u>22,423,881</u> |
| Cash and cash equivalents at the beginning of the year | | <u>37,715,556</u> | <u>15,291,675</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 3 | <u>29,382,812</u> | <u>37,715,556</u> |
| Non-cash transactions: | | | |
| Unrealized loss on available for sale investments, net | | <u>1,756,206</u> | <u>7,895,795</u> |

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

| | <i>Share capital SR</i> | <i>Statutory reserve SR</i> | <i>Retained earnings SR</i> | <i>Unrealized gain (loss) on available for sale investments SR</i> | <i>Total SR</i> |
|---|---------------------------------|-------------------------------------|-------------------------------------|--|---------------------|
| Balance at 31 December 2014 | 100,000,000 | 7,546,043 | 13,518,518 | 9,652,901 | 130,717,462 |
| Net income for the year | - | - | 19,489,165 | - | 19,489,165 |
| Zakat and income tax (note 11) | - | - | (1,205,758) | - | (1,205,758) |
| Transfer to statutory reserve | - | 1,828,341 | (1,828,341) | - | - |
| Unrealized loss on available for sale investments during the year, net | - | - | - | (8,657,884) | (8,657,884) |
| Impairment loss on available for sale investments transferred to statement of income (note 6) | - | - | - | 762,089 | 762,089 |
| Balance at 31 December 2015 | 100,000,000 | 9,374,384 | 29,973,584 | 1,757,106 | 141,105,074 |
| Net income for the year | - | - | 6,493,946 | - | 6,493,946 |
| Zakat and income tax (note 11) | - | - | (353) | - | (353) |
| Transfer to statutory reserve | - | 649,359 | (649,359) | - | - |
| Unrealized loss on available for sale investments during the year, net | - | - | - | (1,756,206) | (1,756,206) |
| Balance at 31 December 2016 | 100,000,000 | 10,023,743 | 35,817,818 | 900 | 145,842,461 |

The attached notes 1 to 23 form part of these financial statements.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

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 of available for sale investments at fair values.

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 period. 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) 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. These are initially recognized at fair value plus directly attributable transaction costs and after initial recognition these are re-measured at amortized cost, less provision for accumulated impairment in value. Amortized 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.

b) Held for trading investments

These represent investments acquired for the purpose of selling and/or repurchasing in the near term. These are initially recorded at fair value with all transaction costs being directly recognized in the statement of income. These are subsequently measured at fair value with the changes in the fair values recorded in the statement of income.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

c) 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 mutual funds.

These are initially recognized at fair value plus directly attributable transaction costs. After initial measurement, these are re-measured at fair value. Unrealized gains and losses on the valuation of these investments are recognized directly in shareholders' equity as "unrealized gains (losses) on available for sale investments".

Decline, other than temporary, in the value of investments 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.

Loans

Loans are carried at the gross amount due under the arrangement 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 accumulated 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 and 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 are stated at cost less accumulated amortization and any accumulated impairment in value. 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 recognized 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 recognized 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 amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals

Accounts payable and accruals are measured at fair value. Liabilities are recognized 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 reimbursed by the shareholders of such zakat and income tax are credited to retained earnings.

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 and the Company's by-laws, 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 income, custody and managing income are recognized on an accrual basis. Advising income is recognized on an accrual basis or as the services are provided based on the nature of arrangement with the counter party.

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 all its activities in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

Operating lease

Operating lease payments are recognized 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 balance sheet.

Expenses

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

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.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

3 CASH AND CASH EQUIVALENTS

| | 2016 SR | 2015 SR |
|-------------------------|-------------------|-------------------|
| Cash in hand | 45,145 | 41,397 |
| Cash at bank | 6,337,667 | 9,039,349 |
| Short term time deposit | 23,000,000 | 28,634,810 |
| | <u>29,382,812</u> | <u>37,715,556</u> |

Short term time deposits have original maturity of less than 90 days from the date of acquisition and carry an average interest rate of 1.2% per annum (2015: 2.3% per annum).

4 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER CURRENT ASSETS

| | 2016 SR | 2015 SR |
|-----------------------------------|-------------------|-------------------|
| Accrued revenue | 7,083,990 | 13,631,221 |
| Advance income tax (note 11) | 4,571,039 | 5,458,047 |
| Advances and prepayments | 2,831,263 | 2,088,412 |
| Advances to employees | 2,402,227 | 2,394,500 |
| Margin deposits (note 16) | 2,216,906 | 2,216,906 |
| Fees receivable | 725,056 | 262,600 |
| Accrued special commission income | 507,889 | 1,700,445 |
| Other receivables | 353,523 | 163,810 |
| | <u>20,691,893</u> | <u>27,915,941</u> |

5 LOANS

| | 2016 SR | 2015 SR |
|-------------------------------|----------------|-------------------|
| Loan to a related party (5.1) | - | 10,000,000 |
| Loans to customers (5.2) | 673,998 | 462,227 |
| | <u>673,998</u> | <u>10,462,227</u> |

5.1 This loan neither carries interest nor commission and is unsecured. The loan was granted exclusively for the purpose of financing the operations of the related party and was to mature in January 2016 with an option to extend the maturity for one month subject to prior written consent of both parties. The option to extend the loan was exercised with mutual consent, however, the extension expired in February 2016. The parties negotiated a further extension of three months to extend the maturity of the loan to May 2016. This loan has been fully settled during 2016.

5.2 Loans to customers represent securities lending transaction as allowed by the CMA. They are short term, interest bearing and secured loans.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

6 AVAILABLE FOR SALE INVESTMENTS

| | 2016 | | | Carrying value SR |
|-------------------------------|-------------------|--------------------------------|------------------|----------------------|
| | Cost SR | Changes in fair value SR | Impairment SR | |
| Sukuk – local / international | 14,759,002 | - | - | 14,759,002 |
| Mutual funds | 10,000,000 | 900 | - | 10,000,900 |
| | <u>24,759,002</u> | <u>900</u> | <u>-</u> | <u>24,759,902</u> |

| | 2015 | | | Carrying value SR |
|-------------------------------|-------------------|--------------------------------|------------------|----------------------|
| | Cost SR | Changes in fair value SR | Impairment SR | |
| Sukuk – local / international | 25,119,921 | (1,620,175) | - | 23,499,746 |
| Mutual funds | 11,539,284 | 3,377,281 | - | 14,916,565 |
| Local equities | 2,117,178 | - | (762,089) | 1,355,089 |
| | <u>38,776,383</u> | <u>1,757,106</u> | <u>(762,089)</u> | <u>39,771,400</u> |

7 HELD TO MATURITY INVESTMENTS

| | 2016 | | 2015 | |
|------------------------------|----------------------|--------------------|----------------------|--------------------|
| | Carrying value SR | Market value SR | Carrying value SR | Market value SR |
| Government notes -fixed rate | <u>76,043,376</u> | <u>75,086,641</u> | <u>38,875,784</u> | <u>38,887,976</u> |

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

| | 2016 SR | 2015 SR |
|-------------------------------|-------------------|-------------------|
| Due within one year – current | 38,536,376 | - |
| Due after one year | 37,507,000 | 38,875,784 |
| | <u>76,043,376</u> | <u>38,875,784</u> |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

8 PROPERTY AND EQUIPMENT

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

| Furniture, fixtures and improvements Office equipment and computers | 10 years 4 years | | 4 years | | Total 2015 SR |
|--|--|----------------------|--------------------------------------|----------------------|---------------------|
| | Furniture, fixtures and improvements SR | Motor vehicles SR | Office equipment and computers SR | Motor vehicles SR | |
| Cost: | | | | | |
| At the beginning of the year | 7,318,800 | 139,700 | 8,232,532 | 139,700 | 14,286,402 |
| Additions | - | - | 93,792 | - | 1,460,550 |
| Disposals | - | - | - | - | (55,920) |
| At the end of the year | <u>7,318,800</u> | <u>139,700</u> | <u>8,326,324</u> | <u>139,700</u> | <u>15,691,032</u> |
| Accumulated depreciation: | | | | | |
| At the beginning of the year | 5,338,631 | 105,334 | 6,833,968 | 105,334 | 10,888,383 |
| Depreciation charge for the year | 731,968 | 18,750 | 512,973 | 18,750 | 1,444,038 |
| Relating to disposals | - | - | - | - | (54,488) |
| At the end of the year | <u>6,070,599</u> | <u>124,084</u> | <u>7,346,941</u> | <u>124,084</u> | <u>12,277,933</u> |
| Net book amounts: | | | | | |
| At 31 December 2016 | <u>1,248,201</u> | <u>15,616</u> | <u>979,383</u> | <u>15,616</u> | <u>2,243,200</u> |
| At 31 December 2015 | <u>1,980,169</u> | <u>34,366</u> | <u>1,398,564</u> | <u>34,366</u> | <u>3,413,099</u> |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

9 INTANGIBLE ASSETS

| | 2016 SR | 2015 SR |
|----------------------------------|-------------------------|-------------------------|
| <i>Cost:</i> | | |
| At the beginning of the year | 7,475,224 | 5,536,404 |
| Additions | 262,500 | 1,938,820 |
| | <u>7,737,724</u> | <u>7,475,224</u> |
| <i>Accumulated amortization:</i> | | |
| At the beginning of the year | 5,398,165 | 4,871,014 |
| Amortization charge for the year | 837,045 | 527,151 |
| | <u>6,235,210</u> | <u>5,398,165</u> |
| Net book value | <u><u>1,502,514</u></u> | <u><u>2,077,059</u></u> |

10 ACCOUNTS PAYABLE AND ACCRUALS

| | 2016 SR | 2015 SR |
|-----------------------------|------------------|-------------------|
| Accrued expenses | 2,420,108 | 3,423,762 |
| Accounts payable and others | 1,386,881 | 2,506,861 |
| Accrued employees bonus | 118,555 | 6,618,555 |
| | <u>3,925,544</u> | <u>12,549,178</u> |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

11 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 353 (2015: SR 305) representing provision for the current year.

The current year provision is based on the following:

| | 2016 SR | 2015 SR |
|--|--------------------|--------------------|
| Share capital | 100,000,000 | 100,000,000 |
| Retained earnings | 29,973,584 | 13,518,518 |
| Statutory reserve | 9,374,384 | 7,546,043 |
| Provisions | 4,163,978 | 5,791,105 |
| | <u>143,511,946</u> | <u>126,855,666</u> |
| Book value of long term assets and cost of investments | (10,529,691) | (15,547,005) |
| | <u>132,982,255</u> | <u>111,308,661</u> |
| Adjusted profit for the year | 8,417,469 | 10,577,455 |
| | <u>141,399,724</u> | <u>121,886,116</u> |
| Zakat base | <u>141,399,724</u> | <u>121,886,116</u> |
| Saudi shareholders' share of the zakat base at 0.01% (2015: 0.01%) | <u>14,139</u> | <u>12,189</u> |

Movements in provision during the year

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

| | 2016 SR | 2015 SR |
|------------------------------|------------|------------|
| At the beginning of the year | 305 | 185 |
| Provided during the year | 353 | 305 |
| Paid during the year | (270) | (185) |
| | <u>388</u> | <u>305</u> |
| At the end of the year | <u>388</u> | <u>305</u> |

b) Income tax

Charge for the year

During the current year, the Company provided for income tax of Nil (2015: SR 1,205,453), relating to the non-Saudi shareholders' holding of 99.99% (2015: 99.99%) of the share capital.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

11 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:

| | 2016 SR | 2015 SR |
|------------------------------|----------------|------------------|
| At the beginning of the year | 1,205,453 | 2,591,800 |
| Provided during the year | - | 1,205,453 |
| Paid during the year | (886,963) | (2,591,800) |
| At the end of the year | <u>318,490</u> | <u>1,205,453</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 2016, the balance is SR 4,571,039 (2015: SR 5,458,047) (note 4).

c) *Status of assessments*

During 2011, the Company received assessments from the General Authority of Zakat and Tax (the "GAZT") 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 GAZT and then the case was 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 favor of the Company resulting in a due amount from GAZT amounting to SR 3,453,700. However, the Company filed an appeal to the High Appeal Committee ("HAC") against PAC resolution for the items adjudged against the Company. This appeal still under review by HAC.

12 RELATED PARTY TRANSACTIONS AND BALANCES

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

| Related parties | Nature of transactions | Amount of transactions | |
|-----------------------------|------------------------|------------------------|------------|
| | | 2016 SR | 2015 SR |
| Affiliates and shareholders | Managing income | 7,351,186 | 16,073,639 |
| | Dealing income | 5,894,185 | 8,556,668 |
| | Custody income | 707,917 | 1,189,532 |
| | Advising income | - | 950,491 |
| | Finance charges | - | (19,263) |

The remuneration to the members of Board of Directors and Audit Committee is disclosed in note 15 to the financial statements.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

12 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

| <i>Related parties</i> | <i>Nature of account</i> | <i>Balances</i> | |
|--------------------------------|--|--------------------------|--------------------------|
| | | <i>2016</i> <i>SR</i> | <i>2015</i> <i>SR</i> |
| Affiliates and shareholders | Cash and cash equivalents | 1,626,366 | 29,115,644 |
| | Available for sale investments (Managed funds) | 10,000,900 | 14,916,565 |
| | Available for sale investments (banks and financial institutions) | 14,759,002 | 14,764,120 |
| | Loan to a related party | - | 10,000,000 |
| | Accrued revenue | 4,565,393 | 7,353,977 |
| | Accounts payable and accruals | 1,051,227 | 1,100,065 |
| | Accrued special commission income | 254,225 | 278,994 |

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

| | <i>Cash</i> <i>SR</i> | <i>Funds</i> <i>SR</i> | <i>Bonds</i> <i>SR</i> | <i>Equities</i> <i>SR</i> | <i>Total</i> <i>SR</i> |
|------------------------|--------------------------|---------------------------|---------------------------|------------------------------|---------------------------|
| As of 31 December 2016 | 72,563,853 | 273,562,093 | 307,068 | 831,343,814 | 1,177,776,828 |
| As of 31 December 2015 | 134,780,750 | 336,862,968 | 369,593 | 929,443,670 | 1,401,456,981 |

13 SHARE CAPITAL

The Company's share capital as at 31 December 2016 amounts to SR 100 million (2015: SR 100 million) divided into 10 million shares of SR 10 each (2015: 10 million shares of SR 10 each).

14 DEALING INCOME, NET

| | <i>2016</i> <i>SR</i> | <i>2015</i> <i>SR</i> |
|---|--------------------------|--------------------------|
| Brokerage income | 6,257,560 | 10,677,152 |
| Gain on disposal of available for sale investments, net | 5,202,082 | 5,090,070 |
| Special commission income | 4,932,910 | 3,896,117 |
| Dividend income | 570,424 | 17,531 |
| Gain on disposal of held for trading investments, net | 21,416 | 9 |
| Gain on disposal of held to maturity investments, net | - | 45,672 |
| | <u>16,984,392</u> | <u>19,726,551</u> |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

15 GENERAL AND ADMINISTRATION EXPENSES

| | 2016 SR | 2015 SR |
|---|-------------------|-------------------|
| Employee costs | 21,548,603 | 30,538,996 |
| Depreciation and amortization (notes 8 and 9) | 2,100,736 | 1,971,189 |
| Information technology, telecommunication and related expense | 1,921,585 | 1,745,108 |
| Rent expense | 1,669,732 | 1,581,384 |
| Legal and professional fees | 1,178,022 | 1,540,912 |
| Repairs and maintenance expense | 1,138,563 | 1,016,114 |
| Travel and transportation expense | 805,051 | 1,637,102 |
| Insurance expense | 738,784 | 703,725 |
| Telephone, postage and electricity expense | 434,966 | 521,046 |
| Stationery and office supplies | 362,293 | 475,188 |
| Board of Directors meeting expenses | 200,000 | 400,000 |
| Audit Committee meeting expenses | 200,000 | 200,000 |
| Others | (658,932) | 1,501,018 |
| | <u>31,639,403</u> | <u>43,831,782</u> |

16 COMMITMENTS AND CONTINGENCIES

As of 31 December 2016, the Company in the capacity of a lessee, has ongoing rental agreements for its offices amounting to SR 784,449 (2015: SR 1,523,200) due in one year and SR 5,631,081 (2015: SR 6,415,529) due in the next 2 to 5 years.

The banker of the Company issued a guarantee of SR 2,216,906 to the GAZT against a margin deposit placed during 2014, which is still valid (note 4).

17 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 2016

| | <i>Cash</i> SR | <i>Funds</i> SR | <i>Bonds</i> SR | <i>Equities</i> SR | <i>Total</i> SR |
|-----------------------|--------------------|--------------------|--------------------|-----------------------|----------------------|
| Advisory Clients | 224,739,467 | 420,114,174 | 521,754,440 | 2,178,246,625 | 3,344,854,706 |
| Managed Mutual Funds | 66,490,853 | 204,255,071 | - | 231,483,803 | 502,229,727 |
| Discretionary Clients | 183,110,025 | 22,205,676 | - | 626,320,702 | 831,636,403 |
| | <u>474,340,345</u> | <u>646,574,921</u> | <u>521,754,440</u> | <u>3,036,051,130</u> | <u>4,678,720,836</u> |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

17 CUSTOMERS' INVESTMENTS (continued)

As at 31 December 2015

| | <i>Cash</i> SR | <i>Funds</i> SR | <i>Bonds</i> SR | <i>Equities</i> SR | <i>Total</i> SR |
|-----------------------|----------------------|--------------------|--------------------|-----------------------|----------------------|
| Advisory Clients | 520,913,984 | 634,609,452 | 418,817,903 | 1,054,441,192 | 2,628,782,531 |
| Managed Mutual Funds | 128,235,756 | 259,963,564 | - | 345,804,543 | 734,003,863 |
| Discretionary Clients | 603,553,476 | 250,000 | 25,678,923 | 1,193,643,038 | 1,823,125,437 |
| | <u>1,252,703,216</u> | <u>894,823,016</u> | <u>444,496,826</u> | <u>2,593,888,773</u> | <u>5,185,911,831</u> |

Certain customers have pledged their investments, amounting to SR 1,341,064,339 as at 31 December 2016 (2015: SR 709,288,760), against their borrowings from the Company and from third parties.

18 SEGMENT INFORMATION

The Company is organized into the following main business segments:

- Dealing activities include trading in a security, whether as principal or agent, and to sale, purchase and to manage the subscription for/of 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 including 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 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.

| | <i>Dealing activities</i> SR | <i>Managing activities</i> SR | <i>Custody activities</i> SR | <i>Arranging activities</i> SR | <i>Advising activities</i> SR | <i>Others</i> SR | <i>Total</i> SR |
|------------------------|---------------------------------|----------------------------------|---------------------------------|-----------------------------------|----------------------------------|---------------------|--------------------|
| 2016 | | | | | | | |
| Total assets | 131,324,096 | 7,876,615 | 648,118 | 725,056 | - | 14,723,810 | 155,297,695 |
| Total liabilities | - | 1,089,101 | 45,499 | 38,240 | - | 8,282,394 | 9,455,234 |
| Total operating income | 16,984,392 | 17,115,679 | 2,943,157 | 1,075,001 | 7,351 | - | 38,125,580 |
| Total expenses | (2,025,566) | (6,815,218) | (2,017,826) | (485,992) | (5,338,141) | (14,948,891) | (31,631,634) |
| Net income (loss) | 14,958,826 | 10,300,461 | 925,331 | 589,009 | (5,330,790) | (14,948,891) | 6,493,946 |
| 2015 | | | | | | | |
| Total assets | 128,484,014 | 12,950,187 | 709,837 | 262,600 | 77,353 | 17,747,075 | 160,231,066 |
| Total liabilities | 65,291 | 1,262,771 | 47,700 | - | - | 17,750,230 | 19,125,992 |
| Total operating income | 19,726,551 | 34,913,521 | 4,019,961 | 2,882,177 | 2,355,193 | - | 63,897,403 |
| Total expenses | (2,200,048) | (6,878,119) | (2,137,183) | (1,094,778) | (6,344,938) | (25,753,172) | (44,408,238) |
| Net income (loss) | 17,526,503 | 28,035,402 | 1,882,778 | 1,787,399 | (3,989,745) | (25,753,172) | 19,489,165 |

Total expenses include general and administration expenses, impairment loss, exchange gain and net gain on disposal/write-off of property, equipment and intangible assets.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

19 EARNINGS PER SHARE

Earnings per share attributable to income from main operations and net income is calculated by dividing the income from main operations and the net income for the year, respectively, by the weighted average number of shares outstanding during the year which for 2016 were 10,000,000 shares (2015: 10,000,000 shares).

20 RISK MANAGEMENT

Special commission rate risk

The Company is subject to special commission rate risk on its special commission bearing assets, including, mainly investments, loans 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 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.

| 2016 | <i>Non special commission bearing SR</i> | <i>Upto 1 year SR</i> | <i>1 to 5 Years SR</i> | <i>> 5 years SR</i> | <i>Total SR</i> |
|---|--|-------------------------------|--------------------------------|----------------------------|---------------------|
| Cash and cash equivalents | 6,382,812 | 23,000,000 | - | - | 29,382,812 |
| Accounts receivable, prepayments and other current assets | 20,691,893 | - | - | - | 20,691,893 |
| Loans | - | 673,998 | - | - | 673,998 |
| Investments | 10,000,900 | 38,536,376 | - | 52,266,002 | 100,803,278 |
| Property and equipment | 2,243,200 | - | - | - | 2,243,200 |
| Intangible assets | 1,502,514 | - | - | - | 1,502,514 |
| Total assets | 40,821,319 | 62,210,374 | - | 52,266,002 | 155,297,695 |
| Accounts payable and accruals | 3,925,544 | - | - | - | 3,925,544 |
| Zakat and income tax payable | 318,878 | - | - | - | 318,878 |
| Employees' terminal benefits | 5,210,812 | - | - | - | 5,210,812 |
| Total liabilities | 9,455,234 | - | - | - | 9,455,234 |
| Special commission rate sensitivity gap | 31,366,085 | 62,210,374 | - | 52,266,002 | |
| Cumulative special commission rate gap | 31,366,085 | 93,576,459 | 93,576,459 | 145,842,461 | |
| Represented by shareholders' equity | | | | | 145,842,461 |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 RISK MANAGEMENT (continued)

Special commission rate risk (continued)

| 2015 | Non special commission bearing SR | Up to 1 year SR | 1 to 5 Years SR | > 5 years SR | Total SR |
|--|--|--------------------|--------------------|-------------------|--------------------|
| Cash and cash equivalents | 9,080,746 | 28,634,810 | - | - | 37,715,556 |
| Accounts receivable, prepayments and other current assets | 27,915,941 | - | - | - | 27,915,941 |
| Loans | 10,000,000 | 462,227 | - | - | 10,462,227 |
| Investments | 16,271,654 | - | 38,875,784 | 23,499,746 | 78,647,184 |
| Property and equipment | 3,413,099 | - | - | - | 3,413,099 |
| Intangible assets | 2,077,059 | - | - | - | 2,077,059 |
| Total assets | 68,758,499 | 29,097,037 | 38,875,784 | 23,499,746 | 160,231,066 |
| Accounts payable and accruals | 12,549,178 | - | - | - | 12,549,178 |
| Zakat and income tax payable | 1,205,758 | - | - | - | 1,205,758 |
| Employees' terminal benefits | 5,371,056 | - | - | - | 5,371,056 |
| Total liabilities | 19,125,992 | - | - | - | 19,125,992 |
| Special commission rate sensitivity gap | 49,632,507 | 29,097,037 | 38,875,784 | 23,499,746 | |
| Cumulative special commission rate gap | 49,632,507 | 78,729,544 | 117,605,328 | 141,105,074 | |
| Represented by shareholders' equity | | | | | 141,105,074 |

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 bank balance, loans, investments and other assets.

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

| | 2016 SR | 2015 SR |
|--|--------------------|--------------------|
| Bank balances | 29,337,667 | 37,674,159 |
| Loans | 673,998 | 10,462,227 |
| Held to maturity investments | 76,043,376 | 38,875,784 |
| Accounts receivable and other current assets | 11,072,685 | 18,152,576 |
| Available for sale investments | 14,759,002 | 23,499,746 |
| | 131,886,728 | 128,664,492 |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 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.

| 2016 | Up to 1 year SR | 1 to 5 Years SR | > 5 years SR | No fixed maturity SR | Total SR |
|--|--------------------|--------------------|--------------------|----------------------------|--------------------|
| Cash and cash equivalents | 29,337,667 | - | - | 45,145 | 29,382,812 |
| Accounts receivable, prepayments and other current assets | 20,691,893 | - | - | - | 20,691,893 |
| Loans | 673,998 | - | - | - | 673,998 |
| Investments | 38,536,376 | - | 52,266,002 | 10,000,900 | 100,803,278 |
| Property and equipment | - | - | - | 2,243,200 | 2,243,200 |
| Intangible assets | - | - | - | 1,502,514 | 1,502,514 |
| Total assets | 89,239,934 | - | 52,266,002 | 13,791,759 | 155,297,695 |
| Accounts payable and accruals | 3,925,544 | - | - | - | 3,925,544 |
| Zakat and income tax payable | 318,878 | - | - | - | 318,878 |
| Employees' terminal benefits | - | - | - | 5,210,812 | 5,210,812 |
| Total liabilities | 4,244,422 | - | - | 5,210,812 | 9,455,234 |
| Liquidity gap | 84,995,512 | - | 52,266,002 | 8,580,947 | |
| Cumulative gap | 84,995,512 | 84,995,512 | 137,261,514 | 145,842,461 | |
| Represented by shareholders' equity | | | | | 145,842,461 |
| 2015 | Up to 1 year SR | 1 to 5 Years SR | > 5 years SR | No fixed maturity SR | Total SR |
| Cash and cash equivalents | 37,674,159 | - | - | 41,397 | 37,715,556 |
| Accounts receivable, prepayments and other current assets | 27,915,941 | - | - | - | 27,915,941 |
| Loans | 10,462,227 | - | - | - | 10,462,227 |
| Investments | - | 38,875,784 | 23,499,746 | 16,271,654 | 78,647,184 |
| Property and equipment | - | - | - | 3,413,099 | 3,413,099 |
| Intangible assets | - | - | - | 2,077,059 | 2,077,059 |
| Total assets | 76,052,327 | 38,875,784 | 23,499,746 | 21,803,209 | 160,231,066 |
| Accounts payable and accruals | 12,549,178 | - | - | - | 12,549,178 |
| Zakat and income tax payable | 1,205,758 | - | - | - | 1,205,758 |
| Employees' terminal benefits | - | - | - | 5,371,056 | 5,371,056 |
| Total liabilities | 13,754,936 | - | - | 5,371,056 | 19,125,992 |
| Liquidity gap | 62,297,391 | 38,875,784 | 23,499,746 | 16,432,153 | |
| Cumulative gap | 62,297,391 | 101,173,175 | 124,672,921 | 141,105,074 | |
| Represented by shareholders' equity | | | | | 141,105,074 |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 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 based on values in Saudi Riyals, based on exchange rates at 31 December:

| 2016 | Saudi Riyals SR | US Dollars SR | Lebanese Pounds SR | Other currencies SR | Total SR |
|--|-----------------------|---------------------|--------------------------|---------------------------|--------------------|
| Cash and cash equivalents | 25,665,193 | 3,220,422 | - | 497,197 | 29,382,812 |
| Accounts receivable, prepayments and other current assets | 17,446,213 | 3,178,457 | 22,841 | 44,382 | 20,691,893 |
| Loans | 673,998 | - | - | - | 673,998 |
| Investments | 10,000,900 | 52,266,002 | 38,536,376 | - | 100,803,278 |
| Total assets | 53,786,304 | 58,664,881 | 38,559,217 | 541,579 | 151,551,981 |
| Accounts payable and accruals | 3,011,942 | 913,602 | - | - | 3,925,544 |
| Zakat and income tax payable | 318,878 | - | - | - | 318,878 |
| Employees' terminal benefits | 5,210,812 | - | - | - | 5,210,812 |
| Total liabilities | 8,541,632 | 913,602 | - | - | 9,455,234 |
| Net gap | 45,244,672 | 57,751,279 | 38,559,217 | 541,579 | |
| Cumulative gap | 45,244,672 | 102,995,951 | 141,555,168 | 142,096,747 | |
| 2015 | Saudi Riyals SR | US Dollars SR | Lebanese Pounds SR | Other currencies SR | Total SR |
| Cash and cash equivalents | 2,731,900 | 34,178,160 | - | 805,496 | 37,715,556 |
| Accounts receivable, prepayments and other current assets | 24,791,102 | 1,790,355 | 1,302,405 | 32,079 | 27,915,941 |
| Loans | 10,462,227 | - | - | - | 10,462,227 |
| Investments | 1,355,089 | 38,416,311 | 38,875,784 | - | 78,647,184 |
| Total assets | 39,340,318 | 74,384,826 | 40,178,189 | 837,575 | 154,740,908 |
| Accounts payable and accruals | 11,520,263 | 963,795 | 65,120 | - | 12,549,178 |
| Zakat and income tax payable | 1,205,758 | - | - | - | 1,205,758 |
| Employees' terminal benefits | 5,371,056 | - | - | - | 5,371,056 |
| Total liabilities | 18,097,077 | 963,795 | 65,120 | - | 19,125,992 |
| Net gap | 21,243,241 | 73,421,031 | 40,113,069 | 837,575 | |
| Cumulative gap | 21,243,241 | 94,664,272 | 134,777,341 | 135,614,916 | |

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

20 RISK MANAGEMENT (continued)

Equity price risk

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

As at 31 December 2016, the Company has no equity instruments and therefore is not directly exposed to equity price risk. As at 31 December 2015, based on equity instruments held by the Company, a 1 basis point change in value of investment securities listed on GCC stock exchanges will effect the Company's equity by SR 14,770.

21 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:

| | 2016 SR '000 | 2015 SR '000 |
|---------------------------------------|-----------------|-----------------|
| <i>Capital Base:</i> | | |
| Tier 1 Capital | 144,339 | 137,271 |
| Tier 2 Capital | 1 | 1,757 |
| Total Capital Base | 144,340 | 139,028 |
| <i>Minimum Capital Requirement:</i> | | |
| Market risk | 6,590 | 7,149 |
| Credit risk | 67,315 | 54,725 |
| Operational risk | 7,910 | 10,958 |
| Total Minimum Capital Required | 81,815 | 72,832 |
| <i>Capital Adequacy Ratio:</i> | | |
| Total Capital Ratio (times) | 1.76 | 1.91 |
| Tier 1 Capital Ratio (times) | 1.76 | 1.88 |
| Surplus in the capital | 62,525 | 66,196 |

- a) The capital base consists of Tier 1 capital (which includes share capital, statutory reserve and audited retained earnings) and Tier 2 capital (include unrealized gain on 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.

Audi Capital Company
(A Saudi Closed Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

22 APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors, in its meeting held on 25 Jumad A wal 1438H (corresponding to 22 February 2017), approved the financial statements.

23 COMPARATIVE FIGURES

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