

GIB CAPITAL COMPANY
(A Limited Liability Company)
FINANCIAL STATEMENTS
For the year ended 31st December 2015
together with the
Independent Auditors' Report



KPMG Al Fozan & Partners

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“INDEPENDENT AUDITORS’ REPORT”

The Shareholders

**GIB Capital Company
(Limited Liability Company)
Riyadh, Saudi Arabia**

We have audited the accompanying financial statements of GIB Capital Company (the “Company”) which comprise the balance sheet as of December 31, 2015 and the related statements of income, cash flows and changes in shareholders’ equity for the year then ended and the attached notes (1) through (19) which form an integral part of the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Article (175) of the Regulations for Companies and the Company’s Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

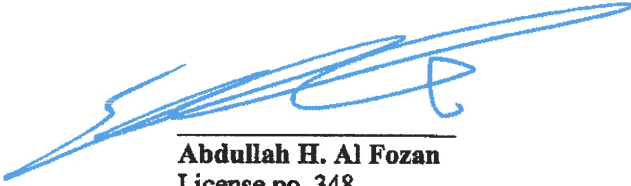


Opinion

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

- 1) Present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) Comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Partners



Abdullah H. Al Fozan
License no. 348



Al Khobar
Date: 28 February 2016
Corresponding to: 19 Jumada Al-Awwal 1437H

GIB CAPITAL COMPANY
(A Limited Liability Company)
BALANCE SHEET
As at 31st December 2015
(Saudi Arabian Riyals in '000')

	<i>Notes</i>	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>			
Current assets			
Cash balance at bank		6,292	27,879
Short term deposits	4	310,000	345,000
Accounts receivable (net)	5	10,464	1,440
Advances, prepayments and other current assets	7	5,936	3,688
Total current assets		<u>332,692</u>	<u>378,007</u>
Non-current assets			
Furniture and equipment (net)	8	1,849	476
Total non-current assets		<u>1,849</u>	<u>476</u>
Total assets		<u>334,541</u>	<u>378,483</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
LIABILITIES			
Current liabilities			
Provision for Zakat	13	8,304	2,614
Accrued expenses and other current liabilities	9	4,687	9,930
Total current liabilities		<u>12,991</u>	<u>12,544</u>
Non-current liabilities			
Subordinated loan	14	100,000	150,000
Provision for employees' end of service benefits		3,225	2,131
Total non-current liabilities		<u>103,225</u>	<u>152,131</u>
Total liabilities		<u>116,216</u>	<u>164,675</u>
SHAREHOLDERS' EQUITY			
Share capital	10	200,000	200,000
Statutory reserve	11	3,768	3,316
Retained earnings		14,557	10,492
Total shareholders' equity		<u>218,325</u>	<u>213,808</u>
Total liabilities and shareholders' equity		<u>334,541</u>	<u>378,483</u>

The financial statements appearing on pages 1 to 14 were approved for issuance by the Board of Directors on 19 Jumada Al-Awwal 1437H (corresponding to 28th February 2016) and signed on its behalf by:



Abdulla Mohammed Al Zamil
Chairman of the Board



Khalid S. Al-Ghamdi
Acting Chief Executive Officer

The accompanying notes on pages 5 to 14 form an integral part of these financial statements.

GIB CAPITAL COMPANY
(A Limited Liability Company)
STATEMENT OF INCOME
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

	<i>Notes</i>	<u>2015</u>	<u>2014</u>
Revenue			
Advisory fee income		38,444	21,537
Realised gain on disposal of held for trading investments	6	567	1,283
Total revenue		<u>39,011</u>	<u>22,820</u>
Operating expenses			
Salaries and other employee related expenses		21,126	17,398
Rent and premises related expenses		2,061	2,233
Provision for doubtful accounts and bad debts written off	5	649	1,650
Depreciation	8	344	187
Other general and administrative expenses	12	5,389	4,786
Total operating expenses		<u>29,569</u>	<u>26,254</u>
Net operating income / (loss)		9,442	(3,434)
Finance expense (net)		(663)	(1,992)
Finance income		3,341	1,668
Net income / (loss) before Zakat		<u>12,120</u>	<u>(3,758)</u>
Zakat charge for the year	13	(7,603)	(2,252)
Net income / (loss) for the year		<u>4,517</u>	<u>(6,010)</u>

The accompanying notes on pages 5 to 14 form an integral part of these financial statements.

GIB CAPITAL COMPANY
(A Limited Liability Company)
STATEMENT OF CASH FLOWS
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

	<i>Notes</i>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities			
Net income / (loss) for the year		4,517	(6,010)
<i>Adjustments to reconcile net income/(loss) after zakat to net cash (outflow) / inflow from operating activities:</i>			
Depreciation		344	187
Provision for doubtful accounts and bad debts written off	5	649	1,650
Realised gain on disposal of held for trading investments		(567)	(1,283)
Provision for employees' end of service benefits		1,094	326
Finance expense (net)		663	1,992
Zakat expense		7,603	2,252
		<u>14,303</u>	<u>(886)</u>
<i>Changes in operating assets and liabilities</i>			
Accounts receivable		(9,673)	10,758
Advances, prepayments and other current assets		(2,248)	(1,404)
Accrued expenses and other current liabilities		(4,263)	5,503
		<u>(1,881)</u>	<u>13,971</u>
Purchase of held for trading investments		(1,143)	(1,588)
Sale proceeds on disposal of investments held for trading		1,710	3,939
Employees' end of service benefits paid		-	(306)
Zakat paid	13	(1,913)	(2,050)
Finance expense paid		(1,544)	(1,036)
Net cash (outflow) / inflow from operating activities		<u>(4,771)</u>	<u>12,930</u>
Cash flows from investing activities			
Purchase of furniture and equipment	8	(1,927)	(409)
Disposal of furniture and equipment		111	-
Net cash outflow from investing activities		<u>(1,816)</u>	<u>(409)</u>
Cash flows from financing activities			
Proceeds from issuance of share capital		-	140,000
Repayment of subordinated loan		(150,000)	-
Proceeds from subordinated loan		100,000	150,000
Short term deposits with maturity of more than three months		(115,000)	(195,000)
Net cash (outflow) / inflow from financing activities		<u>(165,000)</u>	<u>95,000</u>
Net (decrease) / increase in cash and cash equivalents		(171,587)	107,521
Cash and cash equivalents at 1 st January	15	177,879	70,358
Cash and cash equivalents at 31st December	15	<u>6,292</u>	<u>177,879</u>

The accompanying notes on pages 5 to 14 form an integral part of these financial statements.

GIB CAPITAL COMPANY
(A Limited Liability Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
At 1st January 2014	60,000	3,316	16,502	79,818
Issue of share capital (<i>Note 10</i>)	140,000	-	-	140,000
Net loss for the year	-	-	(6,010)	(6,010)
At 31st December 2014	200,000	3,316	10,492	213,808
Net income for the year	-	-	4,517	4,517
Transfer to statutory reserve	-	452	(452)	-
At 31st December 2015	200,000	3,768	14,557	218,325

The accompanying notes on pages 5 to 14 form an integral part of these financial statements.

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015

1 ORGANISATION AND ITS ACTIVITIES

GIB Capital Company (“the Company”) is a Limited Liability Company operating in the Kingdom of Saudi Arabia under Commercial Registration No. 1010244294 dated 06 Safar 1429 (corresponding to 14th February 2008). The Company also has a branch under Commercial Registration No. 2051046496 in Dhahran, Eastern Province, Kingdom of Saudi Arabia.

The principal activities of the Company are to provide a full range of financial services including dealing as a principal and agent (except margin trading), underwriting, managing, arranging, advising and acting as custodian of financial securities pursuant to the Capital Market Authority (CMA) License No. 07078-37 dated 08 Rajab1428 (corresponding to 22nd July 2007).

The registered office of the Company is located at the following address:

4th Floor, Low Rise Building 1, Granada Business and Residential Park
Eastern Ring Road
P.O. Box 89589
Riyadh 11692
Kingdom of Saudi Arabia

2 BASIS OF PREPARATION

2.1 *Statement of compliance*

The financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organisation for Certified Public Accountants (SOCPA).

2.2 *Basis of measurement*

The financial statements have been prepared on a historical cost basis, except for held for trading investments which are measured at fair value, using the accrual basis of accounting and the going concern concept.

2.3 *Functional and presentation currency*

The financial statements are presented in Saudi Arabian Riyals (SAR) which is the functional currency of the Company. Except where indicated, the financial information presented in SAR is rounded to the nearest thousand.

2.4 *Use of estimates and assumptions*

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in future periods affected.

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

3.1 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash balances at banks and other short-term highly liquid investments with original maturities of three months or less, which are available to the Company without any restrictions.

3.2 Accounts receivable

Accounts receivable are stated at the original invoice amount. Provisions are made for amounts which, in the opinion of management, may not be received. Accounts receivable are written off after all collection activities have taken place and the possibility of further recovery is considered to be remote.

3.3 Short term deposits

Short term deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months and less than one year from the placement date.

3.4 Impairment

Financial assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is determined and recognised based on the difference between the net carrying amount and the recoverable amount of the asset. The recoverable amount is the higher of an asset's fair value less the cost to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the statement of income or through the impairment provision account. Financial assets are written off only when all possible means of recovery have been exhausted, and the amount of the loss has been determined.

3.5 Furniture and equipment

Furniture and equipment are stated at cost and presented net of accumulated depreciation and accumulated impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of furniture and equipment. All other expenditure is recognised in the statement of income when incurred.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of individual items of furniture and equipment which are as follows:

Furniture and fixtures	5 years
Equipment	4 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6 *Held for trading investments*

An investment is classified as held for trading if it is purchased for the purpose of resale in the short term. Held for trading investments are recognised initially on the trade date, which is the date on which the Company becomes party to the contractual provisions of the investment. Upon initial recognition, attributable transaction costs are recognised in the statement of income when incurred. Subsequent to initial recognition, these investments are measured at fair value and changes therein are recognised in the statement of income.

3.7 *Provisions*

A provision is recognised if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

3.8 *Zakat*

Zakat, computed in accordance with Saudi Arabian Tax and Zakat regulations, is accrued and charged to the statement of income.

3.9 *Employees' end of service benefits*

Employees' end of service benefits, calculated in accordance with Saudi Arabian labor regulations, are accrued and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should their services be terminated at the balance sheet date.

3.10 *Revenue recognition*

Revenue on transactions are recognised as follows:

- Advisory fee income is recognised based on services rendered under the applicable service contracts.
- Finance income on short term deposits is recognised on an accrual basis.
- Dividend income is recognised when the right to receive the dividend is established.
- Realised gain on sale of held for trading investments are recognised on disposal.

3.11 *Expenses*

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

3.12 *Offsetting*

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognised amounts, and when the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 Foreign currency transactions

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at the transaction date. Monetary assets and liabilities at the yearend, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the prevailing exchange rates. Foreign exchange gains or losses on the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

4 SHORT TERM DEPOSITS

Short term deposits represent deposits placed with Gulf International Bank B.S.C, Saudi Arabian Operations. These deposits have original maturities ranging from three to six months and carry mark up at rates ranging from 0.90% to 1.70% (2014: 0.80% to 0.95%). These deposits are due to mature between January 2016 and May 2016.

5 ACCOUNTS RECEIVABLE (NET)

	<i>Note</i>	<u>2015</u>	<u>2014</u>
Accounts receivable - gross		12,013	2,340
Less: Provision for doubtful accounts	5.1	(1,549)	(900)
At 31 st December		<u>10,464</u>	<u>1,440</u>

5.1 Provision for doubtful accounts

	<u>2015</u>	<u>2014</u>
At 1 st January	900	1,000
Charge for the year	649	1,650
Amounts written off during the year	-	(1,750)
At 31 st December	<u>1,549</u>	<u>900</u>

6 HELD FOR TRADING INVESTMENTS

	<u>2015</u>	<u>2014</u>
At 1 st January	-	1,068
Purchases	1,143	1,588
Disposals	(1,143)	(2,656)
At 31 st December	<u>-</u>	<u>-</u>

The purchases during the year comprised investments acquired during the Initial Public Offering process. All the investments were sold during the year for a net gain of SAR 567 thousand (2014: SAR 1,283 thousand).

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

7 ADVANCES, PREPAYMENTS AND OTHER CURRENT ASSETS

	2015	2014
Prepayments	3,343	1,568
Accrued interest on short term deposits	1,209	946
Loans to employees	1,147	957
Other	237	217
	5,936	3,688

8 FURNITURE AND EQUIPMENT (NET)

	2015			2014
	<u>Furniture and fixtures</u>	<u>Equipment</u>	<u>Total</u>	Total
<u>Cost</u>				
At 1 st January	4,984	3,806	8,790	8,381
Additions during the year	1,862	65	1,927	409
Disposals	(117)	-	(117)	-
At 31st December	6,729	3,871	10,600	8,790
<u>Accumulated depreciation</u>				
At 1 st January	4,580	3,734	8,314	8,226
Charge for the year	380	63	443	88
On disposals	(6)	-	(6)	-
At 31st December	4,954	3,797	8,751	8,314
<u>Net book value</u>				
At 31st December 2015	1,775	74	1,849	
At 31 st December 2014	404	72		476

8.1 During the year, GIB KSA Branch reversed depreciation of SAR 99 thousand charged last year for assets used by the Company. The depreciation charge in the statement of income comprised the following:

	<i>Note</i>	2015	2014
Depreciation of furniture and equipment		443	88
Depreciation (reversed) / charged by GIB KSA Branch	14	(99)	99
		344	187

9 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<i>Note</i>	2015	2014
Accrued bonus		2,219	2,438
Due to Parent Bank	14	315	4,946
Accrued expenses		1,580	1,051
Accrued interest on subordinated loan		75	956
Other current liabilities		498	539
		4,687	9,930

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015
(Saudi Arabian Riyals in ‘000’)

10 SHARE CAPITAL

The authorised and issued share capital of the Company comprised 20 million shares of SAR 10 each (2014: 20 million shares of SAR 10 each). In 2014, the Company issued 14 million shares of SAR 10 each. All issued shares are fully paid.

The ownership of the issued share capital is as follows:

<u>Name of shareholders</u>	<u>Number of shares in thousands</u>	<u>Amount SAR</u>	<u>Percentage holding</u>
Gulf International Bank B.S.C., Bahrain	19,800	198,000	99.0%
GIB Investment S.P.C., Bahrain	200	2,000	1.0%
	<u>20,000</u>	<u>200,000</u>	<u>100%</u>

11 STATUTORY RESERVE

In accordance with Article 176 of the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income to a statutory reserve until such reserve equals 50% of the paid up capital at a minimum. An amount of SAR 452 thousand (2014: Nil), representing 10% of net income for the year ended 31st December 2015, was transferred to the statutory reserve. The reserve is not available for distribution.

12 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2015</u>	<u>2014</u>
Travel	982	1,206
Directors remuneration	979	967
Repairs and maintenance	434	418
Professional fees	423	562
Withholding taxes	418	29
Advertising	253	-
Other administrative expenses	1,900	1,604
	<u>5,389</u>	<u>4,786</u>

Other administration expenses for the year ended 31st December 2015 included costs recharged by the Parent Bank for shared services amounting to SAR 1,322 thousand (2014: SAR 1,012 thousand).

13 PROVISION FOR ZAKAT

The Company has made a provision for Zakat for the year ended 31st December 2015 of SAR 7,603 thousand (2014: SAR 2,252 thousand) in accordance with the regulations of the Department of Zakat and Income Tax (DZIT).

13.1 Zakat base

The Zakat charge for the year is based on the Zakat base, which has the following significant components:

	<u>2015</u>	<u>2014</u>
Shareholders' equity at 1 st January	213,808	79,818
Subordinated loan	100,000	-
Employees' end of service benefits at 1 st January	2,131	2,111
Net book value of furniture and equipment	1,849	476

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

13 PROVISION FOR ZAKAT (continued)

13.2 *The movement in the provision for Zakat is as follows:*

	2015	2014
At 1 st January	2,614	2,412
Charge for the year	7,603	2,252
Payment during the year	(1,913)	(2,050)
At 31 st December	8,304	2,614

13.3 *Status of assessment*

The Zakat declarations for the period ended 31st December 2008 and for the years up to, and including, 2014 have been submitted to the DZIT. However, assessments have not yet been finalised by the DZIT for these years.

14 RELATED PARTY TRANSACTIONS AND BALANCES

Gulf International Bank B.S.C., Bahrain is the ultimate parent of the Company (the "Parent Bank"). Related parties of the Company include the Parent Bank and its affiliated companies and branches. In the ordinary course of its activities, the transactions with related parties are carried out on mutually agreed terms.

Gulf International Bank B.S.C., Saudi Arabian Operations (the "KSA Branch") acts as banker of the Company. At 31st December 2015, the cash balance at bank was held in the current account maintained with the KSA Branch.

Transactions with related parties were as follows:

<u>Related Parties</u>	<u>Nature of transactions</u>	2015	2014
Gulf International Bank B.S.C., Saudi Arabian Operations	- Income from short term deposits	3,341	1,668
	- Subordinated loan received during the year	100,000	150,000
	- Subordinated loan repaid during the year	150,000	-
	- Interest expense (net)	663	1,992
	- Placement of short term deposits	210,000	280,000
	- (Reversal) / Allocation of depreciation	(99)	99
Gulf International Bank B.S.C.	- Advisory fee income	-	1,000
	- Allocation of shared service cost	2,759	3,671
	- Payment of bonus made on behalf of the Company	-	1,275
	- Fixed assets transferred at net book value	111	-
Board of Directors	- Directors' remuneration	979	967

During the year ended 31st December 2015, the Parent Bank recharged the Company an amount of SAR 2,759 thousand (2014: SAR 3,671 thousand) for identified allocated costs which mainly represented salaries and employee related expenses, travel expenses and information and data service expenses.

The subordinated loan represents a loan from the Parent Bank maturing in 2020 and carries a floating interest rate.

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015
(Saudi Arabian Riyals in ‘000’)

14 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Transactions with related parties resulted in the following balances due to / from the KSA Branch:

	<u>2015</u>	<u>2014</u>
Cash balance at bank	6,292	27,879
Short term deposits	310,000	345,000
Subordinated loan	100,000	150,000
Accrued interest on short term deposits (note 7)	1,209	946
Accrued interest on subordinated loan (note 9)	75	956
Due to Parent Bank (note 9)	315	4,946

15 CASH AND CASH EQUIVALENTS

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Cash balance at bank		6,292	27,879
Short term deposits with original maturity of three months or less	4	-	150,000
		6,292	177,879

16 REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

The Capital Market Authority (CMA) has issued Prudential Regulations (the “Rules”) dated 30th December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under Pillar I. In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	<u>2015</u>	<u>2014</u>
Capital base		
Tier 1 capital	218,325	213,808
Tier 2 capital	99,124	106,904
Total capital base (A)	317,449	320,712
Minimum capital requirement		
Credit risk	22,586	13,629
Operational risk	9,293	6,939
Market risk	-	-
Total minimum capital requirement (B)	31,879	20,568
Surplus (C=A-B)	285,570	300,144
Capital adequacy ratio (D=A/B)	9.96	15.59

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

16 REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY (continued)

- a) The capital base of the Company comprised:

Tier 1 capital comprises paid up share capital, retained earnings, and reserves.

Tier 2 capital comprises subordinated loans up to an amount equivalent to 50% of Tier 1 capital. For the purposes of calculating the Tier2 capital, the subordinated loan gets amortised equally on a monthly basis over the subordinated loan period.

- b) The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Rules issued by the CMA.
- c) The Company's business objective 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.

17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Management of risk is an essential element of the Company's business. The major risks faced by the Company are those related to credit, market, foreign exchange rates and liquidity. These risks are managed in the following manner:

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises principally on short term deposits, accounts receivable and the cash at bank balance.

Management believes that the Company has no significant exposure to credit risk in respect of short term deposits or the cash at bank balance, as these amounts were maintained with Gulf International Bank B.S.C., Saudi Arabian Operations as at 31stDecember 2015, which has a good repute in the Kingdom of Saudi Arabia. The credit risk with respect to accounts receivable is limited as these balances are spread across multiple customers.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Interest rate risk

Interest rate risk results from exposure to changes in the level and volatility of interest rates and credit spreads. The Company's interest rate risk arises on its cash at bank balance, short term deposits and subordinated loan. The Company's short term deposit have a short tenure and carry a fixed rate of interest. The subordinated loan carries floating rates of interest and the Company manages any significant interest rate risk by keeping the interest periods to the short-term and by regularly monitoring short-term interest rate movements.

Foreign exchange rate risk

Foreign exchange rate risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liability in that currency. The Company is not exposed to risk of fluctuation in foreign exchange rates as most of the Company's transactions are in Saudi Arabian Riyals.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions which may cause certain sources of funding to be unavailable. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments.

GIB CAPITAL COMPANY
(A Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2015
(Saudi Arabian Riyals in '000')

17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Equity price risk

Equity price risk arises from exposures to changes in the price and volatility of individual equities or equity indices. The Company seeks to manage this risk by investing in dissimilar sectors. In addition to the exercise of business judgment and management experience, the Company utilises limit structures including those relating to positions, portfolios and maturities to manage its equity price risk exposures.

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair values of on-balance sheet financial instruments are not significantly different from their carrying values included in these financial statements.

19 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company were approved by the Board of Directors on 19 Jumada Al-Awwal 1437H corresponding to 28th February 2016.