

GIB CAPITAL COMPANY
(Limited Liability Company)

FINANCIAL STATEMENTS
For the year ended 31st December 2016
Together with the
Independent Auditors' Report

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
GIB CAPITAL COMPANY
(A Limited Liability Company)**

Scope of Audit:

We have audited the accompanying balance sheet of GIB Capital Company - a Limited Liability 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 requirement 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 articles of association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



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

GIB CAPITAL COMPANY
(Limited Liability Company)
BALANCE SHEET
As at 31st December 2016
(Saudi Arabian Riyals in '000')

	Notes	2016	2015
Assets			
Current assets			
Cash balance at bank	16	3,402	6,292
Short term deposits	4	205,000	310,000
Investments held for trading	5	235	-
Accounts receivable (net)	6	10,895	10,464
Advances, prepayments and other current assets	7	5,082	5,936
Total current assets		224,614	332,692
Non-current assets			
Property and equipment (net)	8	5,965	1,849
Total non-current assets		5,965	1,849
Total assets		230,579	334,541
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Provision for Zakat	14	112	8,304
Accrued expenses and other current liabilities	9	9,399	4,687
Total current liabilities		9,511	12,991
Non-current liabilities			
Subordinated loan	15	-	100,000
Employees' terminal benefits		4,135	3,225
Total non-current liabilities		4,135	103,225
Total liabilities		13,646	116,216
Shareholders' equity			
Share capital	10	200,000	200,000
Statutory reserve	11	3,768	3,768
Retained earnings		13,165	14,557
Total shareholders' equity		216,933	218,325
Total liabilities and shareholders' equity		230,579	334,541

The financial statements appearing on pages 1 to 14 were approved for issuance by the Board of Directors on 10 Jumada Al-Thani 1438H (corresponding to 8th March 2017) and signed on its behalf by:



Abdulla Mohammed Al Zamil
Chairman of the Board



Osamah Mohammed Shaker
Chief Executive Officer

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

GIB CAPITAL COMPANY
(Limited Liability Company)
STATEMENT OF INCOME
For the year ended 31st December 2016
(Saudi Arabian Riyals in '000')

	Notes	2016	2015
Revenue			
Advisory fee income	12	26,543	38,444
Realised gain on disposal of investments held for trading	5	47	567
Unrealised loss on investments held for trading	5	(166)	-
Total revenue		26,424	39,011
Operating expenses			
Salaries and other employee related expenses		23,060	21,126
Rent and premises related expenses		1,264	2,061
Provision for doubtful accounts and bad debts written off	6	-	649
Depreciation	8	754	344
Other general and administrative expenses	13	8,220	5,389
Total operating expenses		33,298	29,569
Net operating (loss) income		(6,874)	9,442
Interest income		7,350	3,341
Financing cost		(1,868)	(663)
Net (loss) income before Zakat		(1,392)	12,120
Zakat charge for the year	14	-	(7,603)
Net (loss) income for the year		(1,392)	4,517

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

GIB CAPITAL COMPANY
(Limited Liability Company)
STATEMENT OF CASH FLOWS
For the year ended 31st December 2016
(Saudi Arabian Riyals in '000')

	Notes	2016	2015
Cash flows from operating activities			
Net (loss) income for the year		(1,392)	4,517
<i>Adjustments to reconcile net (loss) income to net cash outflow from operating activities:</i>			
Depreciation		754	344
Provision for doubtful accounts and bad debts written off	6	-	649
Realised gain on disposal of investments held for trading		(47)	(567)
Gain on sale of property and equipment		(10)	-
Unrealised loss on investments held for trading		166	-
Employees' terminal benefits		938	1,094
Financing cost		1,868	663
Zakat expense		-	7,603
		<u>2,277</u>	<u>14,303</u>
<i>Changes in operating assets and liabilities</i>			
Accounts receivable		(431)	(9,673)
Advances, prepayments and other current assets		854	(2,248)
Accrued expenses and other current liabilities		4,712	(4,263)
		<u>7,412</u>	<u>(1,881)</u>
Employees' terminal benefits paid		(28)	-
Zakat paid	14	(8,192)	(1,913)
Financing cost paid		(1,868)	(1,544)
Net cash flows used in operating activities		<u>(2,676)</u>	<u>(5,338)</u>
Cash flows from investing activities			
Purchase of property and equipment	8	(4,870)	(1,927)
Disposal of property and equipment		10	111
Purchase of investments held for trading		(709)	(1,143)
Proceeds from disposal of investments held for trading		355	1,710
Short term deposits with maturity of more than three months		105,000	(115,000)
Net cash flows from (used in) investing activities		<u>99,786</u>	<u>(116,249)</u>
Cash flows from financing activities			
Repayment of subordinated loan		(100,000)	(150,000)
Proceeds from subordinated loan		-	100,000
Net cash flows used in financing activities		<u>(100,000)</u>	<u>(50,000)</u>
Net decrease in cash and cash equivalents		<u>(2,890)</u>	<u>(171,587)</u>
Cash and cash equivalents at 1 January		6,292	177,879
Cash and cash equivalents at 31 December	16	<u>3,402</u>	<u>6,292</u>

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

GIB CAPITAL COMPANY
(Limited Liability Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31st December 2016
(Saudi Arabian Riyals in '000')

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
At 1 January 2015	200,000	3,316	10,492	213,808
Net income for the year	-	-	4,517	4,517
Transfer to statutory reserve	-	452	(452)	-
At 31 December 2015	200,000	3,768	14,557	218,325
Net loss for the year	-	-	(1,392)	(1,392)
At 31 December 2016	<u>200,000</u>	<u>3,768</u>	<u>13,165</u>	<u>216,933</u>

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

GIB CAPITAL COMPANY
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

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 dealing as a principal, 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), in addition to the approval of the Capital Market Authority (CMA) to amend the list of the company's activities under resolution No. 12-02-2011 dated 6 Jumada Alawal 1432 (corresponding to 10th April 2011)

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

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 investments held for trading 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.

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.

GIB CAPITAL COMPANY
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

3.2 ACCOUNTS RECEIVABLE

Accounts receivable are stated at the original invoice amount less an allowance for any uncollectible amounts. 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 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization 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 property and equipment. All other expenditure is recognised in the statement of income when incurred.

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

Lease Improvements	10 years or lease period which is lesser
Office furniture and fixtures	5 years
EDP Hardware / Software	5 years
Office Equipment	4 years

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

3.6 INVESTMENTS HELD FOR TRADING

An investment is classified as held for trading if it is purchased for the purpose of resale in the short term. Investments held for trading 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.

GIB CAPITAL COMPANY
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

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' TERMINAL BENEFITS

Employees' terminal benefits, calculated in accordance with Saudi Arabian labour 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.
- Interest 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 investments held for trading 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.

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.

GIB CAPITAL COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

4 SHORT TERM DEPOSITS

Short term deposits represent deposits placed with Gulf International Bank B.S.C, Saudi Arabian Operations, a related party. These deposits have original maturities ranging from three to six months and carry mark up at rates ranging from 0.90% to 3.25% (2015: 0.90% to 1.70%). These deposits are due to mature between January 2017 and May 2017.

5 INVESTMENTS HELD FOR TRADING

	<u>2016</u>	<u>2015</u>
At 1 January	-	-
Purchases	709	1,143
Disposals	(308)	(1,143)
Unrealized loss on investment	(166)	-
At 31 December	<u>235</u>	<u>-</u>

The purchases during the year comprised investments acquired during the Initial Public Offering process. The investments were sold during the year for a net gain of SAR 47 thousand (2015: SAR 567 thousand).

6 ACCOUNTS RECEIVABLE (NET)

	<u>2016</u>	<u>2015</u>
Accounts receivable – gross	12,444	12,013
Less: Provision for doubtful accounts	(1,549)	(1,549)
At 31 December	<u>10,895</u>	<u>10,464</u>

PROVISION FOR DOUBTFUL ACCOUNTS

	<u>2016</u>	<u>2015</u>
At 1 January	1,549	900
Charge for the year	-	649
At 31 December	<u>1,549</u>	<u>1,549</u>

7 ADVANCES, PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2016</u>	<u>2015</u>
Due from a related party (Note 15)	1,323	-
Accrued interest on short term deposits	1,229	1,209
Loans to employees	1,206	1,147
Prepayments	774	3,343
Other	550	237
	<u>5,082</u>	<u>5,936</u>

GIB CAPITAL COMPANY
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

8 PROPERTY AND EQUIPMENT (NET)

	<u>2016</u>			<u>2015</u>
	<i>Leasehold Improvements and Furniture</i>	<i>Equipment</i>	<i>Total</i>	<i>Total</i>
<u>Cost</u>				
At 1 January	6,644	3,954	10,598	8,788
Additions during the year	3,315	1,555	4,870	1,927
Disposals/written-off during the year	(4,490)	-	(4,490)	(117)
At 31 December	5,469	5,509	10,978	10,598
<u>Accumulated depreciation</u>				
At 1 January	4,885	3,864	8,749	8,312
Charge for the year	517	237	754	443
Disposals/written-off during the year	(4,490)	-	(4,490)	(6)
At 31 December	912	4,101	5,013	8,749
<u>Net book value</u>				
At 31 December 2016	4,557	1,408	5,965	
At 31 December 2015	1,759	90		1,849

The depreciation charge in the statement of income comprised the following:

	<u>2016</u>	<u>2015</u>
Depreciation of property and equipment	754	443
Depreciation reversed by GIB KSA Branch	-	(99)
	754	344

9 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2016</u>	<u>2015</u>
Accrued expenses	2,858	1,580
Accounts payable	2,742	-
Accrued bonus	2,438	2,219
Due to related party (Note 15)	367	315
Employees payable	232	-
Accrued interest on subordinated loan	-	75
Others	762	498
	9,399	4,687

GIB CAPITAL COMPANY
(Limited Liability Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

10 SHARE CAPITAL

The authorised and issued share capital of the Company comprised 20 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 '000</u>	<u>Amount SAR '000</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 articles of association, 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. Due to net loss during the year ended 31 December 2016, no such transfer was made (2015: SAR 452 thousand). The reserve is not available for distribution.

12 ADVISORY FEE INCOME

Advisory fee income amounting to SAR 26,543 thousand (2015: SAR 38,444 thousand) is recognised during the year based on services rendered in relation to financial advisory services.

Advisory fee income includes an aggregate amount of SAR 563 thousand which represents fees that the Company invoiced and shares with third party advisors on certain financial advisory assignments. An equivalent amount is included in other general and administrative expenses reflecting the services rendered by these third party advisors on the Company's behalf on the related assignments.

13 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
Professional fees	2,166	423
Travel	1,240	982
Directors remuneration	873	979
Advisory fee expense (note 12)	563	-
Repairs and maintenance	403	434
Withholding taxes	377	418
Others	2,598	2,153
	<u>8,220</u>	<u>5,389</u>

Other administrative expenses for the year ended 31st December 2016 included costs recharged by the Parent Bank for shared services amounting to SAR 990 thousand (2015: SAR 1,322 thousand).

GIB CAPITAL COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

14 PROVISION FOR ZAKAT

During the year ended 31 December 2016, the Company has obtained an approval from General Authority for Zakat and Tax (GAZT) for exemption to pay Zakat, accordingly, the Company has not accrued for any Zakat for the year ended 31 December 2016 (2015: SAR 7,603 thousand).

14.1 ZAKAT BASE

The Zakat charge for the year ended 31 December 2015 was calculated on the Zakat base, which had the following significant components:

	2015
Shareholders' equity at 1 January	213,808
Subordinated loan	100,000
Employees' terminal benefits at 1 January	2,131
Net book value of property and equipment	1,849

14.2 MOVEMENT IN THE PROVISION FOR ZAKAT

	2016	2015
At 1 January	8,304	2,614
Charge for the year	-	7,603
Payment during the year	(8,192)	(1,913)
At 31 December	112	8,304

14.3 STATUS OF ASSESSMENT

The Zakat returns for the period ended 31st December 2008 and for the years up to, and including, 2015 have been submitted to the GAZT. However, assessments have not yet been finalised by the GAZT for these years.

GIB CAPITAL COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2016

15 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 2016, 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>	<u>2016</u>	<u>2015</u>
Gulf International Bank B.S.C., Saudi Arabian Operations	- Income from short term deposits	<u>7,361</u>	<u>3,341</u>
	- Subordinated loan received during the year	<u>-</u>	<u>100,000</u>
	- Subordinated loan repaid during the year	<u>100,000</u>	<u>150,000</u>
	- Interest expense	<u>1,868</u>	<u>663</u>
	- Placement of short term deposits	<u>205,000</u>	<u>210,000</u>
	- Support services received	<u>240</u>	<u>240</u>
Gulf International Bank B.S.C.	- Reversal of depreciation	<u>-</u>	<u>(99)</u>
	- HO allocation of shared service cost	<u>2,391</u>	<u>2,759</u>
	- Fixed assets transferred at net book value	<u>-</u>	<u>111</u>
Gulf International Bank UK Board of Directors	- Support services provided	<u>1,198</u>	<u>-</u>
	- Directors' remuneration	<u>873</u>	<u>979</u>

During the year ended 31 December 2016, the Parent Bank recharged the Company an amount of SAR 2,391 thousand (2015: SAR 2,759 thousand) for identified allocated costs which mainly represented salaries and employee related expenses, travel expenses, information and data service expenses.

Salaries and other employee related costs include support services from GIB B.S.C., Saudi Arabian Operations.

Transactions with related parties resulted in the following balances due to / from the KSA Branch, GIB UK and Parent bank:

	<u>2016</u>	<u>2015</u>
Cash balance at bank	<u>3,402</u>	<u>6,292</u>
Short term deposits	<u>205,000</u>	<u>310,000</u>
Subordinated loan	<u>-</u>	<u>100,000</u>
Accrued interest on short term deposits (note 7)	<u>1,229</u>	<u>1,209</u>
Accrued interest on subordinated loan (note 9)	<u>-</u>	<u>75</u>
Due from GIB UK	<u>1,323</u>	<u>-</u>
Due to Parent Bank (note 9)	<u>367</u>	<u>315</u>

GIB CAPITAL COMPANY
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16 CASH AND CASH EQUIVALENTS

	2016	2015
Cash balance at bank	3,402	6,292
	3,402	6,292

17 REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

The Capital Market Authority (CMA) has issued Prudential Regulations (the "Rules") dated 30 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:

	2016	2015
Capital base		
Tier 1 capital	216,767	218,325
Tier 2 capital	-	99,124
Total capital base (A)	216,767	317,449
Minimum capital requirement		
Credit risk	21,366	22,586
Operational risk	8,324	9,293
Market risk	42	-
Total minimum capital requirement (B)	29,732	31,879
Surplus (C=A-B)	187,035	285,570
Capital adequacy ratio (D=A/B)	7.29	9.96

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 Tier 2 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 and to maintain a strong capital base.

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18 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 balance at bank.

Management believes that the Company has no significant exposure to credit risk in respect of short term deposits or the cash balance at bank, as these amounts were maintained with Gulf International Bank B.S.C., Saudi Arabian Operations as at 31 December 2016, which has a good reputation 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.

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.

19 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.

20 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company were approved by the Board of Directors on 10 Jumada Al-Thani 1438H (corresponding to 8 March 2017).