

**UBS Saudi Arabia**  
**(A Saudi Closed Joint Stock Company)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2015**

## AUDITORS' REPORT TO THE SHAREHOLDERS OF UBS SAUDI ARABIA (A SAUDI CLOSED JOINT STOCK COMPANY)

### Scope of audit


We have audited the accompanying balance sheet of UBS Saudi Arabia, a Saudi Closed Joint Stock Company (the "Company") as of 31 December 2015 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

### Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Company as of 31 December 2015 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: 14 Jumad Al-Thani 1437H  
(23 March 2016)

UBS Saudi Arabia  
(A Saudi Closed Joint Stock Company)

BALANCE SHEET

As at 31 December 2015

|   | <i>Notes</i> | <b>2015</b><br>SR   | <b>2014</b><br>SR |
|---|--------------|---------------------|-------------------|
| <b>ASSETS</b>                                     |              |                     |                   |
| <b>CURRENT ASSETS</b>                             |              |                     |                   |
| Bank balances and cash                            | 3            | <b>88,667,187</b>   | 86,377,861        |
| Due from related parties, prepayments and others  | 4            | <b>4,565,908</b>    | 4,743,859         |
| Deferred tax asset                                | 8(c)         | <b>547,138</b>      | 368,464           |
| <b>TOTAL CURRENT ASSETS</b>                       |              | <b>93,780,233</b>   | 91,490,184        |
| <b>NON-CURRENT ASSET</b>                          |              |                     |                   |
| Property and equipment                            | 5            | <b>4,601,512</b>    | 5,967,361         |
| <b>TOTAL ASSETS</b>                               |              | <b>98,381,745</b>   | 97,457,545        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |              |                     |                   |
| <b>CURRENT LIABILITIES</b>                        |              |                     |                   |
| Accrued expenses and other liabilities            | 7            | <b>1,322,336</b>    | 1,369,947         |
| Income tax payable                                | 8            | <b>450,187</b>      | 416,878           |
| <b>TOTAL CURRENT LIABILITIES</b>                  |              | <b>1,772,523</b>    | 1,786,825         |
| <b>NON-CURRENT LIABILITY</b>                      |              |                     |                   |
| Employees' terminal benefits                      |              | <b>1,007,660</b>    | 821,304           |
| <b>TOTAL LIABILITIES</b>                          |              | <b>2,780,183</b>    | 2,608,129         |
| <b>SHAREHOLDER'S EQUITY</b>                       |              |                     |                   |
| Share capital                                     | 9            | <b>110,000,000</b>  | 110,000,000       |
| Accumulated losses                                |              | <b>(14,398,438)</b> | (15,150,584)      |
| <b>TOTAL SHAREHOLDER'S EQUITY</b>                 |              | <b>95,601,562</b>   | 94,849,416        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |              | <b>98,381,745</b>   | 97,457,545        |

The attached notes 1 to 18 form part of these financial statements.

UBS Saudi Arabia  
(A Saudi Closed Joint Stock Company)

STATEMENT OF INCOME  
Year ended 31 December 2015

|   | <i>Notes</i> | <b>2015<br/>SR</b>    | <b>2014<br/>SR</b>    |
|---|--------------|-----------------------|-----------------------|
| <b>REVENUE</b>                              |              |                       |                       |
| Service and other fees                      | 6            | 13,075,150            | 13,192,252            |
| Special commission income                   |              | 488,681               | 474,795               |
|   |              | <u>13,563,831</u>     | <u>13,667,047</u>     |
| <b>GENERAL AND ADMINISTRATION EXPENSES</b>  |              |                       |                       |
|   | 10           | <u>(12,860,135)</u>   | <u>(13,514,444)</u>   |
| <b>INCOME FROM MAIN OPERATIONS</b>          |              |                       |                       |
|   |              | 703,696               | 152,603               |
| Rent income                                 |              | 851,565               | 851,565               |
| <b>INCOME BEFORE TAX</b>                    |              |                       |                       |
|   |              | 1,555,261             | 1,004,168             |
| Income tax charge for the year              | 8            | <u>(803,115)</u>      | <u>(32,629)</u>       |
| <b>NET INCOME FOR THE YEAR</b>              |              |                       |                       |
|   |              | <u><u>752,146</u></u> | <u><u>971,539</u></u> |
| <b>EARNINGS PER SHARE</b>                   |              |                       |                       |
| Attributable to income from main operations | 11           | <u>0.06</u>           | <u>0.01</u>           |
| Attributable to net income for the year     | 11           | <u>0.07</u>           | <u>0.09</u>           |

The attached notes 1 to 18 form part of these financial statements.

UBS Saudi Arabia  
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STATEMENT OF CASH FLOWS  
Year ended 31 December 2015

|  | <i>Notes</i> | 2015<br>SR               | 2014<br>SR               |
|--|--------------|--------------------------|--------------------------|
| <b>OPERATING ACTIVITIES</b>                                |              |                          |                          |
| Income before tax  |              | 1,555,261                | 1,004,168                |
| Adjustments for:   |              |                          |                          |
| Depreciation   | 5            | 1,471,889                | 1,459,353                |
| Provision for employees' terminal benefits                 |              | 186,356                  | 498,828                  |
| <i>Operating cash flows before working capital changes</i> |              | <u>3,213,506</u>         | <u>2,962,349</u>         |
| Changes in operating assets and liabilities:               |              |                          |                          |
| Due from related parties, prepayments and others           |              | 177,951                  | (52,351)                 |
| Accrued expenses and other liabilities                     |              | (47,611)                 | (68,310)                 |
| Cash from operations                                       |              | <u>3,343,846</u>         | 2,841,688                |
| Income tax paid  | 8            | (948,480)                | (546,039)                |
| Net cash from operating activities                         |              | <u>2,395,366</u>         | <u>2,295,649</u>         |
| <b>INVESTING ACTIVITY</b>                                  |              |                          |                          |
| Purchase of property and equipment                         | 5            | (106,040)                | (81,874)                 |
| Net cash used in investing activity                        |              | <u>(106,040)</u>         | <u>(81,874)</u>          |
| <b>INCREASE IN BANK BALANCES AND CASH</b>                  |              |                          |                          |
| Bank balances and cash at beginning of the year            | 3            | 86,377,861               | 84,164,086               |
| <b>BANK BALANCES AND CASH AT END OF THE YEAR</b>           | 3            | <u><u>88,667,187</u></u> | <u><u>86,377,861</u></u> |

The attached notes 1 to 18 form part of these financial statements.

UBS Saudi Arabia  
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
Year ended 31 December 2015

|                                    | <i>Share capital</i><br>SR | <i>Accumulated</i><br><i>losses</i><br>SR | <i>Total</i><br>SR |
|------------------------------------|----------------------------|---|--------------------|
| Balance at 31 December 2013        | 110,000,000                | (16,122,123)                              | 93,877,877         |
| Net income for the year            | -                          | 971,539                                   | 971,539            |
| Balance at 31 December 2014        | 110,000,000                | (15,150,584)                              | 94,849,416         |
| Net income for the year            | -                          | 752,146                                   | 752,146            |
| <b>Balance at 31 December 2015</b> | <b>110,000,000</b>         | <b>(14,398,438)</b>                       | <b>95,601,562</b>  |

The attached notes 1 to 18 form part of these financial statements.

UBS Saudi Arabia  
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NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

**1 ACTIVITIES**

UBS Saudi Arabia, (the "Company") is a Saudi closed joint stock company registered with the Capital Market Authority ("CMA") under license number 08113-37 dated 4 Rajab 1429H (corresponding to 7 July 2008). It operates in the Kingdom of Saudi Arabia under commercial registration number 1010257812 dated 6 Dhul Qada 1429H (corresponding to 4 November 2008). The Company is licensed to act as principal, agent and to provide brokerage, underwriting, management, advisory and custodial services.

The Company is owned 99.96% by UBS Saudi Arabia Holding Limited, 0.01% by S.G. Securities U.K. Limited, 0.01% by S.G. Warburg and Company Limited, 0.01% by UBS A.G. and 0.01% by UBS U.K. Holding Limited.

**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.

*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 year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

*Bank balances and cash*

For the purposes of statement of cash flows, cash and cash equivalents consist of term deposits with an original maturity of ninety days or less, bank balances and cash in hand.

*Revenue recognition*

Revenue is recognised in the statement of income as set out below:

*Service and arranging fee income*

Service and arranging fee income are recognised when the related services are performed.

*Special commission income*

Special commission income is accrued on an effective yield basis.

*Brokerage income*

Income from transaction-type services such as brokerage services for which customers are billed on completion of the deal are recognised when the deal has been executed.

*Asset management fees*

Fees charged for managing assets (including mutual funds) are recognised as revenue rateably as the services are provided. Subscription fees are recognised upon subscription of the investor to the Fund. Fund performance income is recognised at the year end, if the fund results meet the annual pre-set target.

*Advisory and other income*

Advisory service fees are accrued on a time proportionate basis, as the services are rendered.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Property and equipment***

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

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

Any additions below the threshold set by the Company and expenditure for repairs and maintenance are charged to the statement of income.

***Leases***

Finance leases are capitalised at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income. Assets subject to finance lease are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

***Accounts receivable***

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

***Accounts payable and accruals***

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

***Provisions***

Provisions are recognised when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

***Employees' terminal benefits***

Provision is made for amounts payable related to the accumulated periods of service at the balance sheet date in accordance with the employees' contracts of employment.

***Foreign currencies***

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange 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.



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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2015

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Income tax*

Income tax is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the income statement.

Deferred tax liabilities and assets are recognised for all temporary differences at current rates of taxation. The carrying amount of any deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available in the near future to allow all or part of the deferred tax asset to be utilised. The deferred tax is charged to the statement of income.

*Expenses*

All expenses are classified as general and administration expenses.

*Statutory reserve*

As required by the Saudi Arabian Regulations for Companies, 10% of the net income for the year (after deducting losses brought forward) is required to be transferred to a statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution. In view of the accumulated losses, no such transfer has been made.

**3 BANK BALANCES AND CASH**

|                               | 2015<br>SR        | 2014<br>SR        |
|-------------------------------|-------------------|-------------------|
| Time deposit – local currency | 80,000,000        | -                 |
| Cash at bank – local currency | 7,906,598         | 85,209,082        |
| – foreign currency            | 748,878           | 1,155,721         |
| Cash in hand                  | 11,711            | 13,058            |
|                               | <u>88,667,187</u> | <u>86,377,861</u> |

Time deposit and bank balances are with a counterparty that has an investment grade credit rating. Investment grade refers to the quality of the counterparty's credit. In order to be considered investment grade, the counterparty must be rated at 'BBB' or higher by Standard and Poor's or Moody's.

**4 DUE FROM RELATED PARTIES, PREPAYMENTS AND OTHERS**

|                                   | 2015<br>SR       | 2014<br>SR       |
|-----------------------------------|------------------|------------------|
| Due from related parties (note 6) | 3,266,142        | 3,452,636        |
| Prepaid expenses                  | 1,272,871        | 1,279,040        |
| Other receivables                 | 26,895           | 12,183           |
|                                   | <u>4,565,908</u> | <u>4,743,859</u> |

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2015

**5 PROPERTY AND EQUIPMENT**

The cost of property and equipment is depreciated on a straight-line basis over the following estimated useful lives:

|                        |   |
|------------------------|---|
| Leasehold improvements | 10 years or the lease period, whichever is less |
| Furniture and fixtures | 10 years  |
| Office equipment       | 3 to 4 years                                    |

|                            | <i>Leasehold<br/>improvements</i><br>SR | <i>Furniture<br/>and fixtures</i><br>SR | <i>Office<br/>equipment</i><br>SR | <i>Total<br/>2015</i><br>SR | <i>Total<br/>2014</i><br>SR |
|----------------------------|---|---|-----------------------------------|-----------------------------|-----------------------------|
| <i>Cost:</i>               |   |   |                                   |                             |                             |
| At beginning of the year   | 12,539,733                              | 1,886,101                               | 934,933                           | 15,360,767                  | 15,544,005                  |
| Additions                  | -                                       | 16,100                                  | 89,940                            | 106,040                     | 81,874                      |
| Reversals (see note below) | -                                       | -                                       | -                                 | -                           | (265,112)                   |
| At end of the year         | 12,539,733                              | 1,902,201                               | 1,024,873                         | 15,466,807                  | 15,360,767                  |
| <i>Depreciation:</i>       |   |   |                                   |                             |                             |
| At beginning of the year   | 7,340,571                               | 1,117,902                               | 934,933                           | 9,393,406                   | 7,934,053                   |
| Charge for the year        | 1,191,917                               | 190,032                                 | 89,940                            | 1,471,889                   | 1,459,353                   |
| At end of the year         | 8,532,488                               | 1,307,934                               | 1,024,873                         | 10,865,295                  | 9,393,406                   |
| <i>Net book value:</i>     |   |   |                                   |                             |                             |
| At 31 December 2015        | 4,007,245                               | 594,267                                 | -                                 | 4,601,512                   |                             |
| At 31 December 2014        | 5,199,162                               | 768,199                                 | -                                 |                             | 5,967,361                   |

During the previous year, the Company had reversed office reinstatement provision of SR 265,112 after obtaining a waiver for dismantling the existing office layout from the landlord.

**6 RELATED PARTY TRANSACTIONS**

The following are the details of major related party transactions during the year:

| <i>Related parties</i>   | <i>Nature of transactions</i>            | <i>Amount of transactions</i> |            |
|--------------------------|--|-------------------------------|------------|
|                          |  | 2015<br>SR                    | 2014<br>SR |
| <i>Shareholder</i>       |  |                               |            |
| UBS AG - Switzerland     | Service fees charged by the Company (a)  | 9,500,813                     | 9,313,303  |
|                          | Reimbursement of expenses by the Company | (474,008)                     | (483,904)  |
| <i>Affiliate</i>         |  |                               |            |
| UBS AG - London Branch   | Service fees charged by the Company (a)  | 3,574,337                     | 3,878,949  |
|                          | Reimbursement of expenses by the Company | (17,095)                      | (110,661)  |
| UBS AG - Stamford Branch | Maintenance expenses (IT services)       | 348,386                       | 375,226    |

- a) The Company has signed service agreements to reflect any value add arising from the local activities for the booking centre UBS AG - Switzerland and its London branch. The service fee is charged on the basis of a mark-up on expenses (excluding income tax) incurred by the Company.

Service and arranging fee income are recognised when the related services are performed and are accounted for on accrual basis. Commission income for Corporate Client Solutions (CCS) and Wealth Management (WM) represents higher of amount allocated by the booking entities through Global Transfer Pricing Model or reimbursement of costs incurred with a mark up and for Asset Management (AM) on cost plus model.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2015

**6 RELATED PARTY TRANSACTIONS (continued)**

- b) UBS AG - Switzerland is the custodian of the Company's client assets and money amounting to SR 204.78 million (2014: SR 137.85 million) as at balance sheet date. Control functions including reconciliation controls are performed by the custodian.

Amounts due from / to related parties are shown in notes 4 and 7 respectively.

**7 ACCRUED EXPENSES AND OTHER LIABILITIES**

|                        | 2015<br>SR       | 2014<br>SR       |
|------------------------|------------------|------------------|
| Accrued expenses       | 801,516          | 922,274          |
| Deferred rent income   | 330,560          | 330,560          |
| Due to related parties | 120,748          | 63,397           |
| Other liabilities      | 69,512           | 53,716           |
|                        | <u>1,322,336</u> | <u>1,369,947</u> |

**8 INCOME TAX**

*a) Charge for the year*

Income tax charge consists of:

|   | 2015<br>SR     | 2014<br>SR     |
|---|----------------|----------------|
| Current year provision                                | 450,187        | 416,878        |
| Prior year adjustment (see note (8d))                 | 531,602        | -              |
|   | <u>981,789</u> | <u>416,878</u> |
| Provided during the year                              | 981,789        | 416,878        |
| Deferred tax adjustments for the year (see note (8c)) | (178,674)      | (384,249)      |
|   | <u>803,115</u> | <u>32,629</u>  |

The current year provision is based on 20% of the adjusted taxable profit. Differences between the financial and taxable profit are mainly due to provisions and certain expenses, which are disallowed for tax purposes.

*b) Movements in provision during the year*

|                               | 2015<br>SR     | 2014<br>SR     |
|-------------------------------|----------------|----------------|
| At beginning of the year      | 416,878        | 546,039        |
| Provided during the year      | 981,789        | 416,878        |
| Payments made during the year | (948,480)      | (546,039)      |
|                               | <u>450,187</u> | <u>416,878</u> |

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2015

**8 INCOME TAX (continued)**

*c) Deferred tax*

The Company has recognised deferred tax asset amounting to SR 547,138 (2014: deferred tax asset of SR 368,464) as at the balance sheet date, in respect of timing differences due to disallowance of employee's terminal benefits, difference in basis of depreciation, and tax losses carried forward calculated at effective income tax rate of 20%.

*d) Status of assessment*

The Company has filed its income tax returns with the Department of Zakat and Income Tax ("DZIT") for all the years ended up to 31 December 2014. Assessments have been raised by the DZIT for the period ended 31 December 2009 upto the year ended 31 December 2014, whereby the Company has been assessed and has paid an additional income tax of SR 531,602 (2014: Nil). Tax assessments have not been filed by DZIT for the year ended 31 December 2015.

**9 CAPITAL**

The Company's authorised, issued and fully paid up share capital is 11,000,000 shares (2014: 11,000,000 shares) of SR10 each.

**10 GENERAL AND ADMINISTRATION EXPENSES**

|                                 | 2015<br>SR        | 2014<br>SR        |
|---------------------------------|-------------------|-------------------|
| Employee related cost           | 6,784,387         | 7,544,170         |
| Rent                            | 1,962,918         | 1,962,918         |
| Depreciation (note 5)           | 1,471,889         | 1,459,353         |
| Professional and consulting fee | 711,105           | 494,098           |
| Maintenance expenses (note 6)   | 580,100           | 637,087           |
| Travelling and conveyance       | 264,405           | 225,336           |
| Contract staff cost             | 240,044           | 236,890           |
| License fees                    | 235,333           | 226,720           |
| Phone and carrier               | 175,892           | 172,752           |
| Insurance premium               | 145,974           | 151,012           |
| Others                          | 288,088           | 404,108           |
|                                 | <u>12,860,135</u> | <u>13,514,444</u> |

**11 EARNINGS PER SHARE**

Earnings per share for the year have been calculated by dividing the attributable income for the year by 11 million shares (2014: 11 million shares) outstanding at year end.

**12 RISK MANAGEMENT**

*Special commission rate risk*

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market special commission rates. The Company is not subject to significant special commission rate risk as all financial assets and liabilities are non-commission bearing.

## 12 RISK MANAGEMENT (continued)

### *Credit risk*

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. It is management's assessment that the Company is not subject to credit risk since most of its receivables are from related parties.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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 sufficient cash and cash equivalents are available to meet liabilities as they arise.

### *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations on its foreign currency bank balances denominated in Swiss Francs. Apart from that, the Company did not undertake significant transactions in currencies other than Saudi Riyals or US Dollars during the year.

## 13 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Financial instruments comprise financial assets and financial liabilities. The Company's financial assets consist of bank balance and receivables. Its financial liability consists of accrued expenses and other liabilities. The fair values of financial instruments are not materially different from their carrying values at the balance sheet date.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2015

**14 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:

|   | 2015<br>SR | 2014<br>SR |
|---|------------|------------|
| <b>Capital Base:</b>                                    |            |            |
| Tier 1 Capital  | 95,054,424 | 94,480,952 |
| Total Capital Base                                      | 95,054,424 | 94,480,952 |
| <b>Minimum Capital Requirement:</b>                     |            |            |
| Market Risk   | 97,516     | 176,157    |
| Credit Risk   | 8,992,196  | 11,456,953 |
| Operational Risk  | 3,415,813  | 3,386,768  |
| Total minimum capital required (see note (d) below)     | 12,505,524 | 15,019,878 |
| <b>Capital Adequacy Ratio:</b>                          |            |            |
| Total Capital Ratio (times)                             | 7.60       | 6.29       |
| Tier 1 Capital Ratio (times)                            | 7.60       | 6.29       |
| Surplus / (deficit) in the capital (see note (d) below) | 82,548,900 | 79,461,074 |

- a) The capital base consists of Tier 1 capital (which includes share capital and audited retained earnings). The company does not have Tier 2 capital as defined in article 4 and 5 of the Prudential Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules.
- b) The Company manages its capital base in light of Pillar I and Pillar II of the Prudential Rules - the capital base should not be less than the minimum capital requirement.
- c) The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.
- d) The minimum capital required as per Article 6(g) of the Authorised Persons regulations issued by the Capital Market Authority in the Kingdom of Saudi Arabia in respect of the licensed activities of the Company is SR 50 million.
- e) The Company discloses on annual basis certain information as per Pillar III of the Prudential Rules for public on the Company's website (<http://www.ubs.com/sa/>). However these are not subject to review or audit by the external auditors of the Company.
- f) The prior year numbers are restated due to operating lease commitments.
- g) Interest rate risk is not calculated on time deposits, as it is not considered as part of the trading book.

UBS Saudi Arabia  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2015

**15 FIDUCIARY ACCOUNT**

The Company holds the following balances in a fiduciary capacity. These are not treated as assets of the Company and accordingly are not included in these financial statements.

|                         | 2015<br>SR         | 2014<br>SR         |
|-------------------------|--------------------|--------------------|
| Assets under management | <u>204,783,497</u> | <u>137,852,425</u> |

UBS AG - Switzerland is the custodian of the Company's client assets.

**16 SEGMENT REPORTING**

The Company effectively operates in only one segment. Accordingly, segmental information is not deemed relevant.

**17 COMMITMENTS AND CONTINGENCES**

*Lease commitments*

The rental commitments in respect of office premises as at 31 December 2015 amounted to SAR 3,925,836 (31 December 2014: SR 5,888,754).

**18 APPROVAL OF FINANCIAL STATEMENTS**

The Board of Directors has approved the financial statements on 14 Jumad Al-Thani 1437H (corresponding to 23 March 2016).