

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

FINANCIAL STATEMENTS

31 DECEMBER 2017



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

Opinion

We have audited the financial statements of UBS Saudi Arabia (the "Company"), which comprise the balance sheet as at 31 December 2017, and the statement of income, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and the provisions of Companies' Law and Company's By-laws, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young



Yousef A. AlMubarak
Certified Public Accountant
Registration No. 427

Riyadh: 10 Rajab 1439H
27 March 2018



UBS Saudi Arabia
(A Closed Joint Stock Company)

BALANCE SHEET

As at 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
ASSETS			
CURRENT ASSETS			
Bank balances and cash	3	96,839,319	95,958,454
Due from related parties, prepayments and others	4	5,266,367	4,542,235
TOTAL CURRENT ASSETS		<u>102,105,686</u>	<u>100,500,689</u>
NON-CURRENT ASSETS			
Deferred tax asset	8(c)	1,284,647	1,190,861
Property and equipment	5	1,869,813	3,235,662
TOTAL NON-CURRENT ASSETS		<u>3,154,460</u>	<u>4,426,523</u>
TOTAL ASSETS		<u>105,260,146</u>	<u>104,927,212</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accrued expenses and other liabilities	7	1,689,912	2,902,163
Income tax payable	8	536,458	1,034,864
TOTAL CURRENT LIABILITIES		<u>2,226,370</u>	<u>3,937,027</u>
NON-CURRENT LIABILITY			
Employees' terminal benefits		<u>1,552,775</u>	<u>1,296,511</u>
TOTAL LIABILITIES		<u>3,779,145</u>	<u>5,233,538</u>
SHAREHOLDERS' EQUITY			
Share capital	9	110,000,000	110,000,000
Accumulated losses		(8,518,999)	(10,306,326)
TOTAL SHAREHOLDERS' EQUITY		<u>101,481,001</u>	<u>99,693,674</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>105,260,146</u>	<u>104,927,212</u>

The attached notes 1 to 19 form part of these financial statements.

UBS Saudi Arabia
(A Closed Joint Stock Company)

STATEMENT OF INCOME

Year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
REVENUE			
Service and other fees	6	13,484,742	10,621,229
Arranging fees	10	-	10,126,421
Special commission income		992,763	1,743,875
		<u>14,477,505</u>	<u>22,491,525</u>
TOTAL REVENUE		14,477,505	22,491,525
Direct costs	10	-	(5,063,210)
		<u>14,477,505</u>	<u>17,428,315</u>
GROSS PROFIT		14,477,505	17,428,315
General and administration expenses	11	(13,108,071)	(13,803,377)
		<u>1,369,434</u>	<u>3,624,938</u>
INCOME FROM MAIN OPERATIONS		1,369,434	3,624,938
Rent income		860,565	858,315
		<u>2,229,999</u>	<u>4,483,253</u>
INCOME BEFORE TAX		2,229,999	4,483,253
Income tax charge for the year	8	(442,672)	(391,141)
		<u>1,787,327</u>	<u>4,092,112</u>
NET INCOME FOR THE YEAR		1,787,327	4,092,112
EARNINGS PER SHARE			
Attributable to income from main operations	12	0.12	0.33
		<u>0.12</u>	<u>0.33</u>
Attributable to net income for the year	12	0.16	0.37
		<u>0.16</u>	<u>0.37</u>

The attached notes 1 to 19 form part of these financial statements.

UBS Saudi Arabia
(A Closed Joint Stock Company)

STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	<i>Notes</i>	2017 SR	2016 SR
OPERATING ACTIVITIES			
Income before tax		2,229,999	4,483,253
Adjustments for:			
Depreciation	5	1,365,849	1,374,750
Provision for employees' terminal benefits		277,394	288,851
		<u>3,873,242</u>	<u>6,146,854</u>
Operating cash flows before working capital changes			
Changes in operating assets and liabilities:			
Due from related parties, prepayments and others		(724,132)	23,673
Accrued expenses and other liabilities		(1,212,251)	1,579,827
		<u>1,936,859</u>	<u>7,750,354</u>
Cash from operations			
Employees' terminal benefits paid		(21,130)	-
Income tax paid	8	(1,034,864)	(450,187)
		<u>880,865</u>	<u>7,300,167</u>
Net cash from operating activities			
INVESTING ACTIVITY			
Purchase of property and equipment	5	-	(8,900)
		<u>-</u>	<u>(8,900)</u>
Net cash used in investing activity			
INCREASE IN BANK BALANCES AND CASH			
		<u>880,865</u>	<u>7,291,267</u>
Bank balances and cash at beginning of the year	3	95,958,454	88,667,187
BANK BALANCES AND CASH AT END OF THE YEAR	3	<u><u>96,839,319</u></u>	<u><u>95,958,454</u></u>

The attached notes 1 to 19 form part of these financial statements.

UBS Saudi Arabia
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2017

	<i>Share capital</i> SR	<i>Accumulated</i> <i>losses</i> SR	<i>Total</i> SR
Balance at 31 December 2015	110,000,000	(14,398,438)	95,601,562
Net income for the year	-	4,092,112	4,092,112
Balance at 31 December 2016	110,000,000	(10,306,326)	99,693,674
Net income for the year	-	1,787,327	1,787,327
Balance at 31 December 2017	110,000,000	(8,518,999)	101,481,001

The attached notes 1 to 19 form part of these financial statements.

1 ACTIVITIES

UBS Saudi Arabia, (the “Company”) is a 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 Switzerland and 0.01% by UBS U.K. Holding Limited.

According to the transition plan to International Accounting Standards approved by the board of Saudi Organization for Certified Public Accountants (SOCPA), effective 1 January 2018, the Company’s financial statements will be prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by SOCPA. Upon IFRS adoption, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards which require the Company to analyze the impacts and incorporate certain adjustments on the comparative figures and its opening balances.

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.

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)

Cash and cash equivalents

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.

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.

Operating lease incomes are recognised 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 2017

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

	2017 SR	2016 SR
Time deposit – local currency	93,000,000	92,000,000
Cash at bank – local currency	2,696,124	3,338,407
– foreign currency	1,131,793	609,152
Cash in hand	11,402	10,895
	<u>96,839,319</u>	<u>95,958,454</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

	2017 SR	2016 SR
Due from related parties (note 6)	3,647,624	3,096,868
Prepaid expenses	1,468,199	1,331,645
Special commission income receivable	150,544	113,722
	<u>5,266,367</u>	<u>4,542,235</u>

UBS Saudi Arabia
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

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	1 to 4 years

	<i>Leasehold improvements</i> SR	<i>Furniture and fixtures</i> SR	<i>Office equipment</i> SR	<i>Total 2017</i> SR	<i>Total 2016</i> SR
<i>Cost:</i>					
At beginning of the year	12,539,733	1,902,201	1,033,773	15,475,707	15,466,807
Additions	-	-	-	-	8,900
At end of the year	<u>12,539,733</u>	<u>1,902,201</u>	<u>1,033,773</u>	<u>15,475,707</u>	<u>15,475,707</u>
<i>Depreciation:</i>					
At beginning of the year	9,724,406	1,481,866	1,033,773	12,240,045	10,865,295
Charge for the year	1,191,917	173,932	-	1,365,849	1,374,750
At end of the year	<u>10,916,323</u>	<u>1,655,798</u>	<u>1,033,773</u>	<u>13,605,894</u>	<u>12,240,045</u>
<i>Net book value:</i>					
At 31 December 2017	<u>1,623,410</u>	<u>246,403</u>	<u>-</u>	<u>1,869,813</u>	
At 31 December 2016	<u>2,815,327</u>	<u>420,335</u>	<u>-</u>		<u>3,235,662</u>

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>	
		2017 SR	2016 SR
<i>Shareholder</i>			
UBS AG - Switzerland	Service fees charged by the Company (a)	10,280,684	10,621,229
	Reimbursement of expenses by the Company	(12,822)	(252,414)
<i>Affiliate</i>			
UBS AG - London Branch	Service fees charged by the Company/ (incurred in connection with arranging revenue)	3,204,058	(5,063,210)
	Reimbursement of expenses by the Company	(12,233)	(22,062)
UBS AG - Stamford Branch	Maintenance expenses (IT services)	484,326	463,157
	Reimbursement of expenses by the Company	49,341	17,714

- 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 2017

6 RELATED PARTY TRANSACTIONS (continued)

- b) UBS AG - Switzerland is the custodian of the Company's client assets and money amounting to SR 206.97 million (2016: SR 235.98 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

	2017 SR	2016 SR
Accrued expenses	1,302,796	1,303,171
Unearned rent income	334,310	778,325
Due to related parties	46,049	39,353
Withholding taxes payable	6,757	781,314
	<u>1,689,912</u>	<u>2,902,163</u>

8 INCOME TAX

a) Charge for the year

Income tax charge consists of:

	2017 SR	2016 SR
Current year provision	536,458	1,034,864
Deferred tax adjustments for the year (see note (8c))	(93,786)	(643,723)
Income tax charge for the year	<u>442,672</u>	<u>391,141</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

	2017 SR	2016 SR
At beginning of the year	1,034,864	450,187
Provided during the year	536,458	1,034,864
Payments made during the year	(1,034,864)	(450,187)
At end of the year	<u>536,458</u>	<u>1,034,864</u>

c) Deferred tax

The Company has recognised deferred tax asset amounting to SR 1,284,647 (2016: deferred tax asset of SR 1,190,861) 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%.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2017

8 INCOME TAX (continued)

d) Status of assessment

The Company has filed its income tax returns with the General Authority of Zakat and Tax ("GAZT") for all the years ended up to 31 December 2016. Assessments have been agreed with the GAZT for all years up to 31 December 2014. Tax assessments have not been finalized by GAZT for the years ended 31 December 2015 and 31 December 2016.

9 CAPITAL

The Company's authorised, issued and fully paid up share capital is 11,000,000 shares (2016: 11,000,000 shares) of SR10 each.

10 ARRANGING REVENUE

During the prior year, the Company has signed an agreement with a fee of SR 10.13 million with a client in Saudi Arabia (the "Client") to provide arranging services related to an acquisition by the client in Brazil. UBSSA has sought support from UBS Brasil Servicos de Assessoria Ltda ("UBS Brazil") in execution of the contract in Brazil. Accordingly, the Company recognised costs amounting to SR 5.06 million relating to the services provided by UBS Brazil in the prior year.

11 GENERAL AND ADMINISTRATION EXPENSES

	2017	2016
	SR	SR
Employee related cost	6,296,926	6,758,730
Rent	2,001,518	2,001,518
Depreciation (note 5)	1,365,849	1,374,750
Professional and consulting fee	1,315,644	812,012
Maintenance expenses (note 6)	889,377	851,910
License fees	255,074	258,000
Contract staff cost	235,424	225,924
Travelling and conveyance	229,464	80,703
Phone and carrier	164,344	167,465
Withholding taxes	97,461	1,106,126
Others	256,990	166,239
	<u>13,108,071</u>	<u>13,803,377</u>

12 EARNINGS PER SHARE

Earnings per share for the year have been calculated by dividing the attributable income for the year by 11 million shares (2016: 11 million shares) outstanding at year end.

13 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. Time deposit placed by the Company are short term fixed interest rate deposits.

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.

14 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.

15 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:

	2017 SR	2016 SR
<i>Capital Base:</i>		
Tier 1 Capital	100,196,354	98,502,813
Total Capital Base	100,196,354	98,502,813
<i>Minimum Capital Requirement:</i>		
Market Risk	143,583	98,128
Credit Risk	5,346,830	6,767,321
Operational Risk	3,387,686	3,548,630
Total minimum capital required (see note (d) below)	8,878,099	10,414,079
<i>Capital Adequacy Ratio:</i>		
Total Capital Ratio (times)	11.29	9.46
Tier 1 Capital Ratio (times)	11.29	9.46
Surplus / (deficit) in the capital (see note (d) below)	91,318,255	88,088,734

- 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.ubssaudi Arabia.com>). However these are not subject to review or audit by the external auditors of the Company.
- f) Interest rate risk is not calculated on time deposits, as it is not considered as part of the trading book.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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16 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.

	2017 SR	2016 SR
Assets under management	<u>206,969,839</u>	<u>235,985,273</u>

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

17 SEGMENT REPORTING

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

18 COMMITMENTS AND CONTINGENCES

Lease commitments

The rental commitments in respect of office premises as at 31 December 2017 amounted to SR 981,459 (31 December 2016: SR 1,962,918).

19 APPROVAL OF FINANCIAL STATEMENTS

The Board of Directors has approved the financial statements on 9 Rajab 1439H (corresponding to 26 March 2018G).