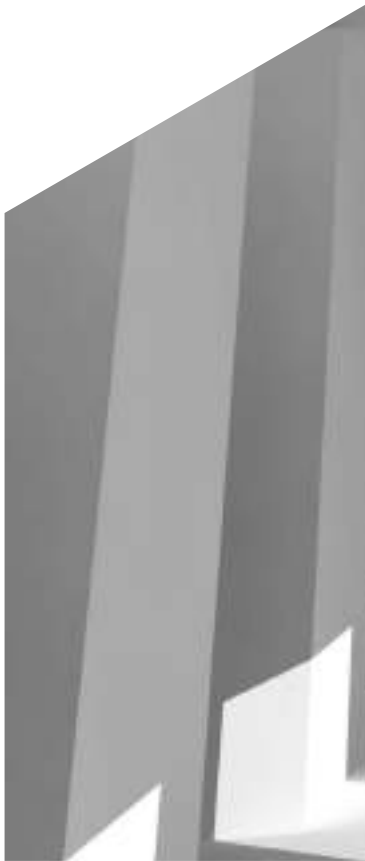


GIB

جي آي بي ڪابيتال
CAPITAL

Board of Directors Report 2017



GIB CAPITAL BOARD OF DIRECTORS REPORT 2017

On my behalf and on behalf of the Members of the Board of GIB Capital, I am pleased to present to you the company's annual report, which includes the company profile, the company's main activities during the year, the results of the annual audits, and the financial indicators and analysis that highlight the 2017 financial performance. The report also includes the audited final accounts and accompanying notes, and the external auditor's report for the year ended 31 December 2017.

Abdulla Mohammed Al Zamil
Chairman of the Board



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COMPANY HEADQUARTERS





GIB Capital Overview

COMPANY PROFILE

GIB Capital was established as “GIB Financial Services LLC” under Commercial Registration No 1010244294, dated 14 April 2008. It is a wholly owned subsidiary of the Bahrain-based Gulf International Bank (GIB). The company’s name was later changed to GIB Capital with the approval of the Capital Market Authority (CMA) on 2 March 2011.

In an effort to expand its operations and assert its presence to serve its clients across the Kingdom, GIB Capital established its first branch in the Eastern Province on 6 September 2011.

The legal entity of GIB Capital was changed from a limited liability company to a closed joint stock company (single shareholder company) under Ministry of Commerce Decision No. Q/343 dated 23 July 2017, and the company’s commercial registration was amended accordingly on 14 August 2017.

COMPANY ACTIVITIES

GIB Capital offers various innovative products and services designed to meet the investment and financial needs of its clients. These include:

- Dealing in securities
 - As Principal
 - As Agent
 - Underwriting
- Securities management
 - Managing investment funds
 - Managing client portfolios
- Arrangement
 - Advisory
 - Custody

GIB Capital obtained CMA license No. 07078-37 on 22 July 2007.

On 31 December 2017, the company obtained CMA’s approval to amend the list of licensed activities to include dealing as agent. The company is now making preparations to start dealing as agent, and we expect to start this business activity in the third quarter of 2018.



Ownership and capital structure, statutory reserve, and shareholder equity

OWNERSHIP AND CAPITAL STRUCTURE

The company's authorised and paid-up capital as of 31 December 2017 is SAR 200,000,000 divided over 20 million shares, with a nominal value of SAR 10 each. The following table shows the details of the shareholder's contribution to capital:

| Shareholder | No. of shares | Nominal value | Share percentage |
|-------------------------------|---------------|---------------|------------------|
| Gulf International Bank B.S.C | 20,000,000 | 20,000,000 | 100% |

STATUTORY RESERVE

According to the Articles of Association, the company must transfer 10% of the annual net profit to the statutory reserve until this reserve amounts to at least 30% of the paid-up capital. Due to net losses incurred during 2017 and 2016, no such transfers have been made. The company's statutory reserve as at 31 December 2017 amounted to SR 3,768,000. This reserve is not distributable.

CHANGES IN SHAREHOLDER EQUITY

The table below shows changes in shareholder equity from 2013 to the end of 2017.

| Item (SAR thousands) | Company capital | Statutory reserve | Retained profits | Total |
|----------------------------------|-----------------|-------------------|------------------|----------|
| Balance as of 31/12/2013 | 60,000 | 3,316 | 16,502 | 79,818 |
| Capital increase | 140,000 | - | - | 140,000 |
| Year's net loss | - | - | (6,010) | (6,010) |
| Balance as of 31/12/2014 | 200,000 | 3,316 | 10,492 | 213,808 |
| Year's net profit | - | - | 4,517 | 4,517 |
| Transferred to statutory reserve | - | 452 | (452) | - |
| Balance as of 31/12/2015 | 200,000 | 3,768 | 14,557 | 218,325 |
| Year's net loss | - | - | (1,392) | (1,392) |
| Balance as of 31/12/2016 | 200,000 | 3,768 | 13,165 | 216,933 |
| Year's net loss | - | - | (23,668) | (23,668) |
| Balance as of 31/12/2017 | 200,000 | 3,768 | (10,503) | 193,265 |

Corporate governance and management

GIB Capital's Board of Directors pays utmost attention to corporate governance standards and best practices as it works to increase transparency and protect the interests of owners and clients.

The company's management is supervised by a 6-member Board of Directors. Two committees, an Audit Committee and a Nomination and Remuneration Committee, emanate from the Board. Both are supervised by the Board to ensure their independence.

BOARD MEMBERS

GIB Capital is run by a Board of Directors appointed by Gulf International Bank BSC based on independent contracts after obtaining prior approval from the competent authorities. The company and the Board members are notified when appointments to the Board are made.

Here are the biographies of the Board Chairman and Members

Abdulla Mohammed Al Zamil

Chairman of the Board - Non-executive Director
Kingdom of Saudi Arabia

Academic qualifications: Master of Business Administration ("MBA") degree from King Fahd University of Petroleum and Minerals, Dhahran, in 1993; Bachelor of Science ("BS") degree in Industrial Engineering from University of Washington, Seattle, in 1987.

Other positions:

- CEO and Board Member, Zamil Industrial Investment Company
- Chairman of the Board, Saudi Global Ports, LLC (SGP)
- Board Member, Gulf International Bank B.S.C. (Bahrain)
- Board Member, Gulf International Bank (UK) Limited
- Board Member, Zamil Infra Ltd. (New Delhi)
- Board Member, Arabian Fiberglass Insulation Company Ltd

- Board Member, Middle East Air Conditioners Co. (MEAC)
- Board Member, Gulf Insulation Group (GIG)
- Board Member, Zamil Steel Industries – Egypt, Vietnam and India
- Board Member, RANCO Zamil Concrete Industries
- Board Member, Human Resources Development Fund
- Board Member, VIVA Bahrain
- Board Member, General Authority of Civil Aviation

Abdulaziz Abdulrahman Al Helaissi

Board Member - Non-executive Director
Kingdom of Saudi Arabia

Academic qualifications: Bachelor of Arts ("BA") degree in Economics from University of Texas, Austin, USA in 1989.

Other positions:

- Chief Executive Officer of Gulf International Bank - Bahrain
- Board member, Gulf International Bank (UK) Limited

Abdulaziz A. Alnaim, CFA

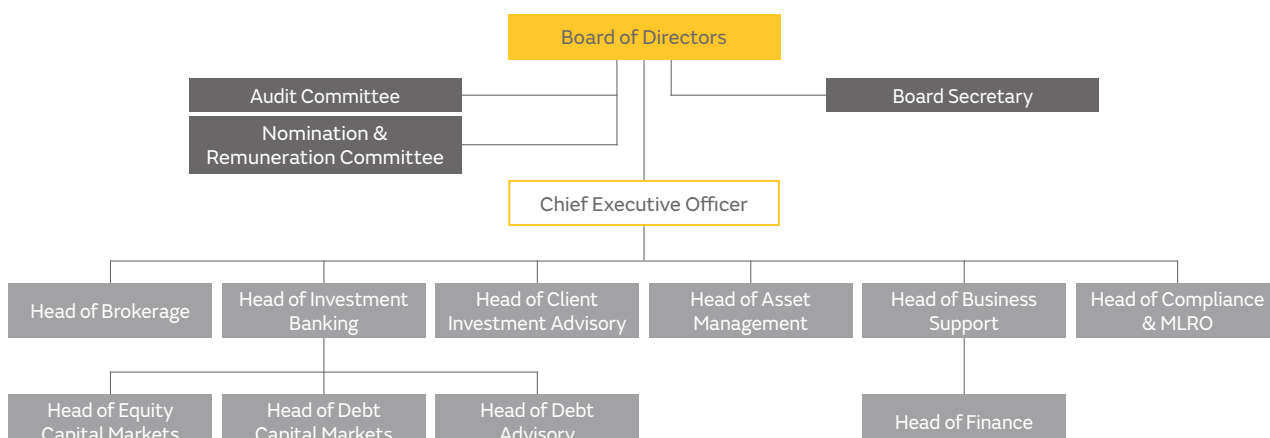
Board Member - Independent Director
Kingdom of Saudi Arabia

Academic qualification: BS in Management Science with major in Finance and minor in Economics from the Massachusetts Institute of Technology. A CFA charter-holder and member of CFA Bahrain and CFA UK.

Other positions:

- Managing Partner at Mayar Capital
- Board member: Basic Chemical Industries (BCI)
- Board member: The Saudi Association for Investment Professionals "Mostathmer"
- Member of the Advisory Council and the Financial Committee: Dhahran Ahliya Schools
- Board member and founder, "Oqal" angel investors network
- Member of the Annual Charity Run Committee

The chart below shows the company's organisational and administrative structure.



Corporate governance and management (continued)

Abdulaziz Abdulrahman Al Omran

Board Member - Independent Director
Kingdom of Saudi Arabia

Academic qualifications: BS degree in Finance from King Fahd University of Petroleum and Minerals, Dhahran, in 2000. MBA degree from London Business School in 2010.

Other positions:

- Founder of Zeej Print in 2002
- Vice President in Khalid & Abdulaziz Al Omran Company

Matthew C. Snyder

Board Member - Non-executive Director
United States of America

Academic qualifications: Bachelor's degree from LIU Post (formerly known as C.W. Post) New York, in 1964, and Master's degree from Long Island University, New York, in 1965.

Other positions:

- Board member, Gulf International Bank (UK) Limited

John E. Xefos

Board Member - Non-executive Director
United States of America

Academic qualifications: Bachelor's degree from Cornell University, New York, in 1976. JD in Law from University of Pennsylvania in 1980.

Other positions:

- Member of the American Bar Association
- Member of the State of Illinois Bar Association
- Board Member, Gulf International Bank (UK) Limited



Mr. Abdulla Mohammed Al Zamil
Chairman
Kingdom of Saudi Arabia



Mr. Abdulaziz A. Al-Helaissi
Board Member
Kingdom of Saudi Arabia



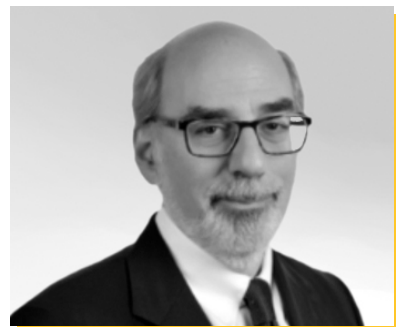
Mr. Abdulaziz A. Alnaim
Board Member
Kingdom of Saudi Arabia



Mr. Abdulaziz Abdulrahman Al Omran
Board Member
Kingdom of Saudi Arabia



Mr. Matthew C. Snyder
Board Member
United States of America



Mr. John E. Xefos
Board Member
United States of America

BOARD OF DIRECTORS MEETINGS IN 2017

The Board of Directors held four meetings during the year ended 31 December 2017, as follows:

| Attendees | 8 March | 10 May | 20 September | 11 December |
|------------------------------------|---------|--------|--------------|-------------|
| Abdulla Mohammed Al Zamil | ✓ | ✓ | ✓ | ✓ |
| Abdulaziz Abdulrahman Al Helaiissi | ✓ | ✓ | ✓ | ✓ |
| Abdulaziz A. Alnaim | ✓ | ✓ | ✓ | ✓ |
| Abdulaziz Abdulrahman Al Omran | ✓ | ✓ | ✓ | ✓ |
| Matthew C. Snyder | ✓ | ✓ | ✓ | ✓ |
| John E. Xefos | ✓ | ✓ | ✓ | ✓ |

REMUNERATIONS FOR BOARD MEMBERS AND SENIOR EXECUTIVES

Based on the regulations of the Ministry of Commerce and Investment and the company's Articles of Association, the company pays remunerations for the Board members.

Remunerations were also paid for the executive management based on the relevant contracts with them, in addition to annual performance bonuses.

The following table shows the total remunerations and bonuses paid for the Board Members and the Senior Executives:

| (SAR thousands) | Board Executive Members | Board Non-Executive Members | Senior Executives |
|-------------------------------------|-------------------------|-----------------------------|-------------------|
| Salaries and remunerations | N/A | N/A | 5,615 |
| Allowances | N/A | 120 | 2,933 |
| Regular and annual bonuses | N/A | 720 | 2,675 |
| Incentive plans | N/A | N/A | N/A |
| Material remunerations and benefits | N/A | N/A | N/A |

Senior Executives are:

- CEO
- CFO
- Head of Asset Management
- Head of Equity Capital Markets - Investment Banking
- Head of Debt Capital Markets - Investment Banking
- SVP - Investment Banking



Board committees

The Board has two committees, each comprised of Board members and/or expert non-Board members. The responsibilities and work procedures of the two committees are as follows:

NOMINATION AND REMUNERATION COMMITTEE

The committee was established based on a Board decision made on 14 November 2011. The committee consists of three members, and its chairman and members are appointed by the Board.

The committee held two meetings during the year ended 31 December 2017. Below is a list of the committee members:

| Committee member | Position | Position Classification |
|-----------------------------------|----------|----------------------------|
| Abdulaziz A. Alnaim | Chairman | Independent Board Member |
| Abdulaziz Abdulrahman Al Helaissi | Member | Non-executive Board Member |
| Abdulaziz Abdulrahman Al Omran | Member | Independent Board Member |

Main responsibilities:

- Make recommendation to the Board on nominees for Board membership based on the policies and standard in place.
- Annually verify that the independent members are really independent or that there is no conflict of interests if they are on the boards of other companies.
- Draw up remuneration and incentive policies for Board members and senior executives.
- Establish and assess requirements for membership of Board and Senior Management committees.
- Establish policies on recruitment, performance metrics, and termination.
- Review the performance of the Board as a whole and as individual members, as well as the performance of the executive management.
- Establish a succession plan for the Board and the Senior Management.

AUDIT COMMITTEE

The committee was established based on a Board decision made on 14 November 2011. The committee consists of three non-executive members. Its Chairman and members are appointed by the Board, provided one member at least has adequate financial and accounting background.

The Audit Committee held four meetings during the year ended 31 December 2017. Below is a list of the committee members:

| Committee member | Position | Position Classification |
|--------------------------------|----------|--------------------------|
| Abdulaziz Abdulrahman Al Omran | Chairman | Independent Board Member |
| Hassan Al Mulla | Member | Not a Board Member |
| Sultan Abdulaziz Al Medbal | Member | Not a Board Member |

Main Responsibilities

- Approve the selection of the company's external auditor.
- Review audit arrangements and scope and approve any activity outside the scope of the audit while the external auditor is doing his job.
- Study the external auditor's observations about the internal audit function and relevant Management processes.
- Discuss results of the audit, the financial statements, and any other important issues with the Management and the external auditor.
- Review the internal accounting system with the Accounting and Finance departments.
- Supervise and review the work and recommendations of the internal auditor to ensure efficiency and implementation of the duties set by the Board.
- Ensure that there are no unjustified restrictions on the work of the internal audit function.
- Make sure that the company's laws and processes comply with the laws, regulations, and practices set by the regulators.
- Review the efficiency of systems in place for compliance with laws and regulations.
- Provide advice to the Board on corporate governance.



Future plans and key decisions

DEALING AS AGENT

As part of its efforts to provide investment solutions in various domains to all of its clients according to their needs and investment preferences, GIB Capital has applied for the Capital Market Authority's approval to amend the company's business profile by adding 'Dealing as Agent' activity on 17 October 2017. The CMA gave its approval on 31 December 2017.

The company is now working to prepare the necessary human resources with the required academic and work expertise in addition to setting the technical ground needed to deliver the best service possible.

COMPANY'S DHAHRAN BRANCH

Given the current state of the region's investment markets and the nature of the services provided by the company, the management of GIB Capital is currently considering the possibility of closing the company's branch in Dhahran, in the Eastern Province, taking into consideration the company's current and future interest in terms of both financial and professional aspects, and the quality of services provided.



Risk management

Risk management is an essential part of the company's business. In addition to the practical approach, risk management is based on the concept of establishing and promoting a risk management culture to raise awareness of its importance at the different management levels of the company.

Under its Corporate Policy Manual, the company pursues a disciplined approach by maintaining a set of policies and procedures applied to all of its activities, supported by an appropriate framework on the management and control of such activities in general. The company also takes, on a regular basis, systematic steps to identify, control, monitor and report on all risks that face or may face the company according to the nature and type of each activity carried out by the company.

REPUTATIONAL RISKS

The company attaches particular importance to reputational risks, which may result in a significant adverse impact if customer confidence is not gained, limiting opportunities for future business expansion. Over the past years, GIB Capital worked to uphold its brand name as a market leader in the investment domain. The company embraced and adopted the best local and international policies and standards and has attracted highly skilled and experienced professionals to maintain the company's name and position in the local investment market. It also worked hard to ensure compliance with all laws and directives issued by the relevant authorities.

MARKET RISKS

Market risks are the risks to fair value or change in future cash flows arising from changes in prevailing market rates such as interest rates, currency exchange rates and equity price fluctuations. GIB Capital monitors this type of risks by periodically analysing their impact and measuring the capital requirements arising from each market risk. The company

also pursues a policy of holding deposits at short terms to avoid this type of risks.

OPERATIONAL RISKS

An operational risk is the risk of loss resulting from the inadequacy or failure of the company's systems or employees to perform or default in the work assigned to them, in addition to the absence or inaccurate data disclosure at the right time and form. The company's management believes that operational risks are almost non-existent and are well-managed due to the size and nature of the measures, readiness and policies it adopts to address any potential risk.

LIQUIDITY RISK

Liquidity risks are the risks that arise from having insufficient funds needed to meet the company's financial liabilities when due. This risk may arise from timing differences between the maturity profile of the company's assets and liabilities. Since the company has a high liquidity balance sheet, it is able to cover all of its obligations with ease. In its liquidity risk management policy, the company relies on the development of several different scenarios of liquidity shortfalls and based on those scenarios, the company works to determine the minimum liquidity required, taking into account the type and size of liabilities.

CREDIT RISKS

Credit risks are the losses arising from the lower creditworthiness of securities of any issuer, counterparty or debtor that GIB Capital may face. In compliance with CMA requirements, the company uses agency ratings to determine the right risk weight for exposure to this type of risk with each potential source that may result in this type of risk.



Financial indicators and analysis

SUMMARY OF FINANCIAL RESULTS FOR 2017

The table below shows the income statement for the five-year period (2013-2017):

| Income statement (SAR thousands) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-----------------|----------------|---------------|----------------|---------------|
| Fee and commission income | 28,597 | 26,543 | 38,444 | 21,537 | 29,181 |
| Income from asset management services | 4,164 | - | - | - | - |
| Realised gains on sale of investments held for trading | - | 47 | 567 | 1,283 | 3,242 |
| Unrealised (loss) gains on revaluation of investments held for trading | (35) | (166) | - | - | 463 |
| Total revenue | 32,726 | 26,424 | 39,011 | 22,820 | 32,886 |
| Employees' salaries and expenses | 36,757 | 23,060 | 21,126 | 17,398 | 11,843 |
| Rent and building expenses | 1,907 | 1,264 | 2,061 | 2,233 | 1,664 |
| Provision for doubtful debts | 7,300 | - | 649 | 1,650 | 1,000 |
| Depreciation | 1,479 | 754 | 344 | 187 | 254 |
| Other general and administrative expenses | 13,336 | 8,220 | 5,389 | 4,786 | 5,091 |
| Total operating expenses | 60,779 | 33,298 | 29,569 | 26,254 | 19,852 |
| Net operating (loss) profit | (28,053) | (6,874) | 9,442 | (3,434) | 13,034 |
| Finance income | 4,273 | 7,350 | 3,341 | 1,668 | 335 |
| Finance expenses | - | (1,868) | (663) | (1,992) | - |
| Net (loss) profit before Zakat | (23,780) | (1,392) | 12,120 | (3,758) | 13,369 |
| Zakat provision | 112 | - | (7,603) | (2,252) | (2,250) |
| Net (loss) profit | (23,668) | (1,392) | 4,517 | (6,010) | 11,119 |

The table below reflects the change in the income statement for 2017 compared to 2016:

| Income statement (SAR thousands) | 2016 | 2017 | Change | % of change |
|--|----------------|-----------------|-----------------|----------------|
| Fee and commission income | 26,543 | 28,597 | 2,054 | 8% |
| Income from asset management services | - | 4,164 | 4,164 | - |
| Realised gains on sale of investments held for trading | 47 | - | (47) | -100% |
| Unrealised (loss) gains on revaluation of investments held for trading | (166) | (35) | 131 | 79% |
| Total revenue | 26,424 | 32,726 | 6,302 | 24% |
| Employees' salaries and expenses | 23,060 | 36,757 | 13,697 | 59% |
| Rent and building expenses | 1,264 | 1,907 | 643 | 51% |
| Provision for doubtful debts | - | 7,300 | 7,300 | - |
| Depreciation | 754 | 1,479 | 725 | 96% |
| Other general and administrative expenses | 8,220 | 13,336 | 5,116 | 62% |
| Total operating expenses | 33,298 | 60,779 | 27,481 | 83% |
| Operating (loss) | (6,874) | (28,053) | (21,179) | -308% |
| Finance income | 7,350 | 4,273 | (3,077) | -42% |
| Finance expenses | (1,868) | - | 1,868 | 100% |
| Net (loss) before Zakat | (1,392) | (23,780) | (22,388) | -1,608% |
| Zakat provision | - | 112 | 112 | - |
| Net (loss) | (1,392) | (23,668) | (22,276) | -1,600% |

The table below shows the five-year balance sheet (2013 to 2017):

| Balance sheet (SAR thousands) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|----------------|----------------|----------------|----------------|---------------|
| Current assets - Cash and cash equivalents | 2,790 | 3,402 | 6,292 | 27,879 | 5,358 |
| Current assets - Deposits | 186,809 | 205,000 | 310,000 | 345,000 | 65,000 |
| Current assets - Held for trading investments | 200 | 235 | - | - | 1,068 |
| Current assets - Accounts receivable | 8,111 | 11,336 | 10,464 | 1,440 | 13,848 |
| Current assets - Prepayments and other assets | 5,123 | 4,641 | 5,936 | 3,688 | 2,284 |
| Total current assets | 203,033 | 224,614 | 332,692 | 378,007 | 87,558 |
| Noncurrent assets - Property and equipment, net | 6,400 | 5,965 | 1,849 | 476 | 155 |
| Total assets | 209,433 | 230,579 | 334,541 | 378,483 | 87,713 |
| Current liabilities - Accrued expenses and other current liabilities | 12,176 | 9,399 | 4,687 | 9,930 | 3,372 |
| Current liabilities - Zakat provision | - | 112 | 8,304 | 2,614 | 2,412 |
| Total current liabilities | 12,176 | 9,511 | 12,991 | 12,544 | 5,784 |
| Noncurrent liabilities - End-of-Service benefits | 3,992 | 4,135 | 3,225 | 2,131 | 2,111 |
| Noncurrent liabilities - Subordinated loan | - | - | 100,000 | 150,000 | - |
| Total noncurrent liabilities | 3,992 | 4,135 | 103,225 | 152,131 | 2,111 |
| Total liabilities | 16,168 | 13,646 | 116,216 | 164,675 | 7,895 |
| Shareholder's equity - Capital | 200,000 | 200,000 | 200,000 | 200,000 | 60,000 |
| Shareholder's equity - Statutory reserve | 3,768 | 3,768 | 3,768 | 3,316 | 3,316 |
| Shareholder's equity - (Accumulated losses) Retained earnings | (10,503) | 13,165 | 14,557 | 10,492 | 16,502 |
| Total shareholder's equity | 193,265 | 216,933 | 218,325 | 213,808 | 79,818 |
| Total liabilities and shareholder's equity | 209,433 | 230,579 | 334,541 | 378,483 | 87,713 |

PERFORMANCE HIGHLIGHTS FOR 2017

- Staff salaries and expenses increased by 59% to SAR 37 million as a result of the rise in employee salaries and the increase in the number of employees from 29 in 2016 to 38 employees in 2017.
- Rental and building expenses increased by 51% to SAR 1.9 million as a result of the rise in leased space at the company's offices in Riyadh to accommodate the asset management offices.
- Depreciation expenses increased by 96% to reach SAR 1.5 million due to the furnishing cost of the asset management offices at the company's head office in Riyadh, Granada Residential and Office Buildings.
- At the end of FY 2017, the company incurred SAR 7.3 million in provision for doubtful debts.
- Operating losses for the year increased by 308% to reach SAR 28 million due to the increase in the company's total expenses such as employee salaries and expenses, office rents and other administrative expenses as well as provision for doubtful debts.
- Income from short-term deposits decreased by 42% to SAR 4.3 million. These short-term deposits represent deposits with Gulf International Bank. These deposits have original maturities ranging from three to six months and carry a profit margin ranging between 1.62% and 2.1% (between 0.90% and 3.25% in 2016).
- Retained earnings decreased from SAR 13.2 million to accumulated losses of SAR 10.5 million as a result of the net loss realised this year.



Company liabilities

COMPANY DEBT STATEMENT

The total value of the company's liabilities at the end of the fiscal year ended on 31 December 2017 amounted to SAR 16,168,000 (sixteen million one hundred and sixty-eight thousand Saudi Riyals) divided into current liabilities (accrued expenses and other current liabilities) amounting to SAR 12,176,000 (twelve million one hundred and seventy six thousand Saudi Riyals) and non-current liabilities (employees' end of service benefits provision) amounting to SAR 3,992,000 (three million nine hundred and ninety-two thousand Saudi Riyals).

LOANS

After the early payment of the full amount of the subordinated loan on 23 November 2016 to Gulf International Bank, the company no longer has any outstanding loans.



Annual audit results

Stemming from the importance of compliance with the laws and regulations set by regulators and the procedures and policies adopted within the company, the company conducts an internal annual audit covering all business units and supporting units, taking into account the nature and size of the company's business.

The internal audit in 2017 included the following units and activities:

- Anti-Money Laundering (AML)
- Compliance
- Financial Management
- Operational Risks
- Asset Management

ANTI-MONEY LAUNDERING

The scope of the audit included anti-money laundering measures and testing the relevant fields related to the opening, maintenance and control of various client accounts. The internal work and control systems in this area were evaluated for the period under audit on 16 July 2017 on the basis of random sampling and audit. This audit did not reveal any evidence of money-laundering activities. Internal records and procedures governing compliance with AML and with regulations and laws issued by the CMA have been evaluated as satisfactory by the Internal Audit Unit.

COMPLIANCE

The scope of the audit included compliance with the regulatory requirements issued by the CMA, in addition to the ten principles of the Basel Committee on Banking Supervision. Accordingly, relevant internal controls in this area were evaluated on 7 May 2017. The evaluation was carried out by the Internal Audit Unit concluding that internal control processes and systems and the corporate governance framework are satisfactory.

FINANCIAL MANAGEMENT

The scope of the audit included financial management activities and controls, accounts payable, as well as financial management check and control systems. The internal controls and monitoring in this area were evaluated for the period under audit on 13 July 2017. The Internal Audit Unit concluded that the accounting files and the check and control systems are satisfactory.

OPERATIONAL RISKS

The scope of the audit included the business activities of GIB Capital in relation to the Operational Risk Management and Self-Assessment and Control function, as well as the adequacy of business continuity plans and management. Internal control and monitoring systems in the area of control, monitoring, reporting, management and evaluation of operational risks were evaluated for the period under audit on 26 July 2017. The evaluation was carried out by the Internal Audit Unit concluding that internal control procedures and systems governing operational risk management function are satisfactory.

ASSET MANAGEMENT

The scope of the audit included the overall framework for the establishment and start-up of asset management unit, where private portfolios, customer relationship management, custody and settlements activities, procedures and policies for asset management were covered. No evaluation was made by the Internal Audit Unit on this check because the audit was conducted on a general basis to ensure the integrity of the initial and institutional procedures of this section.

Definition of the Internal Audit Unit evaluation

| Evaluation | Definition |
|--------------------------|---|
| Satisfactory | <p>In general, the internal control system is sufficient and efficient.</p> <ul style="list-style-type: none"> • Risks are managed effectively • The system provided reasonable assurance that the desired internal control objectives were achieved • All observations were classified as “low” risks • Observations were classified as “high” / “medium” risks but in areas that are not considered to pose prime risks and have a minimum impact |
| Generally satisfactory | <p>In general, the internal control system is considered sufficient and efficient, however; weaknesses in the control system have been observed.</p> <ul style="list-style-type: none"> • Prime risks are managed effectively • The system provided reasonable assurance that the desired internal control objectives were achieved • Observations were classified as “high” or “medium” risks in policies, procedures, controls, etc., and are considered to be prime risks with a minimum impact |
| Generally unsatisfactory | <p>In general, the internal control system is considered to be partially adequate with significant weaknesses.</p> <ul style="list-style-type: none"> • The desired objectives of internal control system have not been fully achieved • Prime risks are not effectively controlled • Observations classified as “high” risks identified weaknesses or shortcomings and required the attention of the senior management and the internal audit committee |
| Unsatisfactory | <p>In general, the internal control system is considered inadequate and inefficient.</p> <ul style="list-style-type: none"> • The objectives of internal control are not achieved and the main risks are not managed • Observations within the internal control environment have a significant impact on financial statements and operational capacity • The situation requires the urgent attention of the senior management and the internal audit committee |



Sanctions and statutory penalties

The Board of Directors of GIB Capital affirms that no fines or irregularities were imposed by CMA or any other regulatory bodies inside or outside the Kingdom on the company during 2017.



Agreements with related parties

LEASE CONTRACTS

- A sub-lease agreement was signed between Gulf International Bank and GIB Capital on 1 January 2015, whereby GIB leased an area of 550 square meters in the fourth floor of Building No. (B1) in Granada neighbourhood, located near the eastern ring road in Riyadh, to GIB Capital to use it as company offices.

It was agreed that the contract term shall be for three years and three months from the date of signing the contract. The value of the annual rent for the leased property amounted to SAR 786,500 only.

- A sub-lease agreement was signed between Gulf International Bank and GIB Capital on 1 January 2017, whereby GIB leased an area of 550 square meters in the third floor Building No. (B1) in Granada neighbourhood, located near the eastern ring road in Riyadh, to GIB Capital to be part of the company's offices.

It was agreed that the contract term shall be for one year and three months from the date of signing the contract. The value of the annual rent for the leased property amounted to SAR 786,500 only.

- A sub-lease agreement was signed between Gulf International Bank and GIB Capital on 28 January 2014, whereby the Gulf International Bank leased an area of 424 square meters in Al-Kifah Commercial Tower on Dammam-Khobar Highway in Dhahran to GIB Capital for use as an office for its activities.

It was agreed that the contract term will be three years and six months, starting from 1 January 2014, while the annual rent for the leased property amounted to SAR 296,800 only.

It should be noted here that the company has obtained the lessor's approval to take a grace period for the final decision to close the office or not. If the decision is made to close the company's office in Dhahran, the grace period will be extended until the employees are all relocated to the new workplace.

SERVICE AGREEMENT

GIB Capital appointed Gulf International Bank (GIB), as an external party, to provide support and services to the company. These services include:

- Human resources management
- Accounting and administrative affairs management
- Operations management
- Internal audit management
- Information technology support and management
- Legal affairs management
- Risk management
- Media and communication management

It has been agreed that the contract term shall be for one year from 1 January 2014 and shall be automatically renewed upon the expiry of the contract term unless cancelled by one of the parties.

It should be noted here that the scope of services provided by Gulf International Bank to GIB Capital was amended on 1 April 2014, adding services covering the scope of legal affairs management, risk management and media and communication management to cover all of the services described above.

GIB Capital and Gulf International Bank agreed on 20 January 2016 to identify and detail the type of services provided by the Gulf International Bank to GIB Capital with regard to information technology.

It should be noted that the service agreement and the subsequent amendments and clarifications set out above are valid as of the end of 2017.

Furthermore, Gulf International Bank (GIB) and GIB Capital signed on 14 January 2015 an agreement whereby GIB Capital shall offer investment banking services to the Gulf International Bank clients on its behalf in return for fees agreed upon with the Gulf International Bank, and calculated based on each service separately.

CASH AND DEPOSITS

Gulf International Bank is the principal bank of GIB Capital, through which the company conducts most of the banking operations and services, as set out in the audited financial statements for the year ended 31 December 2017.

ASSET MANAGEMENT

GIB Capital, represented by the Asset Management Administration, manages an amount of SAR 133,917,950 as at 31 December 2017 for Gulf International Bank. The amount represents the value of subscriptions to the Discretionary Portfolio Management Services (DPMS) as well as subscription in one of the company's investment funds.

GIB Capital also provided services to Gulf International Bank (UK) Limited during the year ended 31 December 2017. The cost of these services has been charged to Gulf International Bank (UK) Limited for SAR 1,020,309.

OTHER OPERATIONS WITH RELATED PARTIES

During the year ended 31 December 2017, Gulf International Bank provided services to GIB Capital where the company was charged an amount of SAR 1,954,486.

Other than the above, there are no transactions or contracts between GIB Capital and any person related to the company. Also, there are no such businesses or contracts with any member of the company's Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the company's Executive Directors or any person related to any of them.

ACKNOWLEDGEMENTS

The Board of Directors of GIB Capital expresses sincere thanks and appreciation to the Capital Market Authority (CMA) for its pioneering role in promoting and consolidating sound investment environment and culture, which translates into better investment climate, broader investors' culture and protection from wrong practices.

We also extend our sincere thanks and appreciation to our valued clients for their trust in our company, and we promise them to strive to provide the highest levels of service that fulfil their needs and expectations.

We would also like to thank the management and staff of GIB Capital for their continued efforts and hard work to deliver all the best.

May Allah Grant us Success

GIB

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CAPITAL

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