

# **UBS Saudi Arabia**

(A Closed Joint Stock Company)

# **Board of Directors'**

# **Annual Report**

As of 31 December 2016

UBS Saudi Arabia is a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia with a paid capital of 110,000,000 Saudi Riyals under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorised and regulated by the Capital Market Authority to conduct securities business under licence number 08113-37.

UBS Saudi Arabia is a subsidiary of UBS AG. UBS AG is a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich

# Board of Directors' Annual Report As of 31 December 2016

## 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). The Company is licensed in dealing as principal, dealing as agent (except in the Saudi Arabia stock market), underwriting, managing, arranging, advising, and in custody of securities.

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. UBS Saudi Arabia Holding Limited is owned 100% by UBS AG.

## 2. STATUS

### 2016 Summary:

2016 saw the Company realize its first operating profit for the Corporate Client Solutions business. This had the effect of reducing retained losses at the Company by around 28%. The Company also continued to make progress on the activities of the business lines (Wealth Management, Asset Management and Investment Bank) through the implementation of the initiatives identified in the deep dive exercise conducted in 2014 / 2015, despite facing some delays. To this end:

- ❖ The strengthening of the Wealth Management product shelf and offering continues, despite facing some delays. The original implementation of H1 2016 has been pushed back to H1 2017. All necessary approvals for offering Discretionary Portfolio Management by the Company have been approved.
- ❖ The Asset Management New Business Initiative ("NBI") continues to be delayed because of internal project resourcing and structuring issues. Implementation of the initiatives is not expected before the end of 2017.
- ❖ The decision to utilize a third party broker model to access the local equity market has been put on hold until further clarity on the Tadawul's inclusion into the MSCI is obtained.

**2017 Group level key initiatives:**

- ❖ Continue to implement the initiatives identified in the 2014 / 2015 strategy “deep dive” involving the Wealth Management business and finalize the strategy road map for the Company.
- ❖ Ensure that the UBS SA Permitted Business Profile is in line with the businesses currently conducted at the Company.

**2017 Wealth Management initiatives:**

- ❖ Deliver on the identified changes to the Wealth Management product shelf.
- ❖ Business focus will continue to be the High Net Worth segment.

**2017 Asset Management initiatives:**

- ❖ Deliver the NBI for the revised product shelf

**2017 Investment Bank initiatives:**

- ❖ Continue to develop a strong pipeline of CCS transactions that includes possible Mergers & Acquisitions, Privatization and Strategic Equities Solutions mandates,
- ❖ Business focus for CCS continues to be on companies who will seek to enhance shareholder value by undertaking significant strategic transactions.

### 3. Board of Directors Members

**Number of Board meetings and log of attendance to the board**

- Four Board meetings were held in 2016 on 28 January, 23 March, 27 July, and 8 November. The attendance was as follows:

Name of Members		Total times of attendance
Abdulaziz Alissa	Chairman - Independent Director	1
Ali Janoudi	Vice Chairman	4
Michel Adjadj	Member	3
Mark Petheram	Member	2
Omar Al Bulaihid	Member – Independent Director	1
Mahmoud Abdulhadi	Member – CEO	4

Mr. Alissa's appointment to the UBS SA Board as an independent non executive board member was approved on March 16<sup>th</sup>, 2016 and he officially joined the Board on the March 24<sup>th</sup>. As a result, he didn't attend the first two board's meetings of 2016.

**The current structure of the board of directors comprises the following members:**

Abdulaziz Alissa (Joined UBS SA board on 24 March 2016))	Chairman – Independent Director (since 27 September) Board Member – Independent (from 24 March to 26 September) Member of the Audit Committee and of the Nomination and Remuneration Committee (from 24 March to 26 September)
Ali Janoudi	Vice Chairman – Non Executive
Michel Adjadj	Chairman (until 26 September ) Member of the Audit Committee and of the Nomination and Remuneration Committee (since 24 November)
Mark Petheram	Board Member - Non Executive Chairman of the Audit Committee and of the Nomination and Remuneration Committee
Omar Al-Bulaihid	Board Member - Independent Director
Mahmoud Abdulhadi	Board Member – CEO

Mr. Alissa's appointment to the UBS SA Board as a Non-Executive Independent Director was approved on 16 March 2016 as a replacement for Mr. Ziad Alsaleh. Mr. Alissa replaced Mr. Adjadj as Chairman of the Board on 27 September due to the CMA circular that requires the appointment of an Independent Chairman of the Board at authorized persons.

**Companies where UBS SA's Board members are also members of their boards:**

Member's Name	Within the KSA	Outside of KSA
Michel Adjadj	N/A	Coseco RESTOM/QUATROM Trust PELIKAN Trust
Ali Janoudi	N/A	Coseco AG, Zürich, Switzerland
Mahmoud Abdulhadi	N/A	N/A
Mark Petheram	N/A	N/A
Abdulaziz Alissa	Savola Group Co. Saudi Transport & Investment Co. Herfy Food Services Co. Arabian Shield Insurance Co. Global Investment House Kingdom of Saudi Arabia	N/A
Omar Al-Bulaihid	Tamkean Investment & Real Estate Development Co.	N/A

## 4. Board of Directors

The BoD's key purpose is to ensure the company's prosperity by collectively directing the company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders. The BoD is the highest governing authority within the management structure at the company. In addition to business and financial issues, the BoD responsibilities include the establishment of the audit, and the nomination and remuneration committees to assist in preparing its decisions. The committees report to the BoD on their work and comments and submit their opinions, proposals or recommendations. The BoD met four times in 2016 with the following key items approved:

- Acceptance of Mr. Abdulaziz Alissa as Independent Board Member effective 16 March 2016 to fill the vacant seat in the board due to the resignation of Mr. Ziad Alsaleh.
- Acceptance of Mr. Abdulaziz Alissa as Independent Chairman of the Board effective 27 September 2016, in compliance with the CMA requirement to appoint Independent Chairpersons at Authorized Persons.
- Approval of Mr. Michel Adjadj to step down from his role as Chairman of the Board of UBS Saudi Arabia, and that he continues in his role as a non-executive Board Member on the Board of UBS Saudi Arabia effective 27 September 2016.
- Appointment of Mr. Michel Adjadj as Member of the Audit Committee and of the Nomination and Remuneration Committee effective 24 November 2016.
- Renewal of Mr. Mahmoud Abdulhadi's dual role as CEO and Head of Corporate Client Solutions (CCS) for year 2016.
- UBS SA Annual Board Report FY2015.
- UBS Saudi Arabia Audited Financial Statements FY2015 and related disclosures.
- The Money Laundering Reporting Officer Annual Report FY2015.
- The Client Money and Assets audit for Y2015.
- Custodian Risk Assessment Report Y2015.
- Internal Capital Adequacy Assessment Process Report Y2015.
- Independent Directors' Independence Certification FY2016.
- Internal Audit Report (for the FY 2016).
- Appointment of the auditors for the financial year ending 31 December 2016 and their fees.
- Changes to various policies and procedures and updated manuals.
- Continuation of the outsourcing relationship with UBS AG.

## **5. Board of Directors Committees**

### **The Audit Committee**

The Audit Committee (the "AC") is "concerned with activities that might involve a conflict of interest, such as ensuring the integrity of the financial and non-financial reports". It manages the relationship with the external auditors and UBS AG's Group Internal Audit.

The BoD agreed on 12/12/2011 to establish an Audit Committee with the following objectives, duties and responsibilities:

- The selection of the external auditors, the negotiations of the audit fee, and any questions of resignation or dismissal (in consultation with the Board); upon any such recommendation, regard must be made to their independence.
- To discuss with the external auditors before the audit commences the nature and scope of the audit; supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties;
- To consult with the external auditors and to discuss problems and reservations arising from the interim (if any) and final audits, and any other matters the external auditors may wish to discuss (in the absence of management where necessary) or as they may arise;
- To review the external auditors' management letter and management's response;
- To review the accounting policies in force and advise the Board of any recommendation regarding them;

- To review reports submitted by the regulators insofar as they relate to the Company and management's response;
- To review the Annual Audit Plan prepared by UBS AG Group Internal Audit insofar as it relates to the Company and oversee the co-ordination between the internal and external auditors;
- To consider the major findings of internal and external audits and management's response and to follow up on remedial actions;
- Through the Chairman of the Committee, report formally to the Board its proceedings after each meeting on all matters within its duties and responsibilities.

The Audit Committee is comprised of the following members:

Mark Petheram	Chairman of the Committee	Board Member – Non Executive
Michel Adjadj (since 24 November)	Committee Member	Board Member – Non Executive
Omar Al-Bulaihid	Committee Member	Board Member - Independent
Abdulaziz Alissa (from 16 March to 26 September)	Committee Member	Board Member - Independent
Wael Al-Rasheed	Secretary	UBS SA's CFO

The AC met four times in 2016 on 15 March, 27 June, 28 September, and 19 December.

Name of Members		Total times of attendance
Mark Petheram	Chairman of the Committee	4
Omar Al Bulaihid	Member – Independent Director	3
Abdulaziz Alissa (from 16 March to 26 September)	Member – Independent Director	2
Michel Adjadj (since 24 November)	Board Member – Non Executive	0

Mr. Alissa's appointment to the UBS SA Board as an independent non executive board member was approved on March 16<sup>th</sup>, 2016 and he officially joined the Board on the March 24<sup>th</sup>. He attended two AC meetings in 2016 and did not attend the AC meeting on 19 December as he was appointed Chairman of UBS SA on 27 of September.

The AC met four times in 2016 and recommended the following:

- Approval of the annual Client Money and Assets audit Report for Y2015.
- Approval of the annual Custodian Risk Assessment Report for Y2015.
- Approval of the annual Money Laundering Reporting Officer Report Y 2015.
- Approval of the Audited Financial Statements for Y2015.
- Approval of the Auditor's report for Y2015.
- Approval of the Prudential's Pillar III Disclosures' report for Y2015.

### **The Nomination and Remuneration Committee (NRC)**

The Nomination and Remuneration Committee is concerned with the “nomination to membership of the Board and committees, appointment of executive directors, and determination of their remuneration.

The Board agreed on 12/12/2011 to establish a Nomination and Remuneration Committee comprised of four members with the following objectives, duties and responsibilities:

- Recommend to the BoD / Committees appointments to membership of the Board in accordance with the approved policies and standards; the NRC shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership; the NRC documented Board Member roles and responsibilities memorandums (RRM). The NRC will request from newly appointed directors to sign their RRM;
- Annual review of the requirement of suitable skills for membership of the Board / Committees and the preparation of a description of the required capabilities and qualifications for such membership, including, inter alia, the time that a the member should reserve for the activities of the Board / Committees;
- Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Company’s Board / Committees and make recommendations to the Board with regard to any changes, or other adjustments e.g. to the Non-Executive / Independent members composition that the NRC considers necessary or appropriate;
- Develop the succession plan for (i) Non-Executive Directors (ii) Independent members and (iii) the Secretary, taking into account the challenges and opportunities facing UBS SA at the time, and what skills and expertise are therefore needed on the BoD / Committees;
- Give consideration to succession planning for Key Positions in the company, taking into account the challenges and opportunities facing UBS SA at the time, and what skills and expertise are therefore needed for the organisation. The NRC would interview senior position candidates and examine their qualifications; and the Succession Plan would be approved by the Board;
- Determine the points of strength and weakness in the Board / Committees and recommend remedies that are compatible with the company’s interest;
- Ensure on an annual basis the independence of members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of another company;
- Draw clear policies regarding the indemnities and remunerations of the members and top executives; in laying down such policies, the standards related to performance shall be followed;
- Be responsible for identifying and nominating for the approval of the Board, candidates to fill vacancies on the Board / Committees;
- Ensure that either on or shortly after appointment to the Board / Committees, the respective appointee receives an appropriate induction to the Company business;
- Through the Chairman of the Committee, report formally to the Board the NRC’s proceedings after each meeting on all matters within its duties and responsibilities;
- Ensure copies of the agreed (by the meeting’s Chairman) Minutes of the NRC’s Meetings are distributed to the Board’ Directors in a timely manner after each meeting of the NRC;

- The NRC should review its constitution and terms of reference at least annually and recommend any changes it considers necessary, or desirable, to the BoD for approval; and
- Performs the assessment of Board of Directors and its Committees' Members.

The Nomination and Remuneration Committee is comprised of the following members:

Mark Petheram	Chairman of the Committee	Board Member – Non Executive
Michel Adjadj (since 24 November)	Committee Member	Board Member – Non Executive
Omar Al-Bulaihid	Committee Member	Board Member - Independent
Abdulaziz Alissa (from 16 March to 26 September)	Committee Member	Board Member - Independent
Fady Fakhoury	Secretary	Head of C&ORC & MLRO Saudi Arabia, Corporate Administrator, and Secretary of the Board.

UBS SA Nomination and Remuneration Committee met twice in 2016 and recommended the following:

- Assessment that the independence of the Independent Directors was maintained for 2016 without issues.
- Approval of the Independent Director's remuneration for 2015.
- Recommended potential short listed candidates for the Chairmanship of the Board.



## 6. The Expected Risks

Risk Type	Level of Risk
<b>Credit risk</b>	Credit risk is the risk of loss resulting from failure by a counterparty (including issuers) to meet its contractual obligations with UBS SA. The business model of the Company is such that it does not grant funding to third parties. The small amount of credit risk exposure that arises in the Company is mainly as a result of bank deposits and receivables. Any credit exposure arising in the Company is subject to the general policies and controls for the recognition of the financial strength of the counterparties involved. The Company is not subject to significant credit risk since most of its receivables are from related parties and the term deposits and bank balances are with a counterparty that has an investment grade credit rating (i.e. where the counterparty is rated at 'BBB' or higher by Standard and Poor's or Moody's).
<b>Market Risk</b>	Market risk is the risk of loss resulting from adverse movements in the level and in the volatility of market prices of assets, liabilities and financial instruments. The business model of UBS SA is such that it is not exposed to risks associated with trading as it does not perform proprietary investments. The business is an agency business whereby there is no intention to hold open positions in the normal course of business.
<b>Operational Risk</b>	Operational risk is the risk resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural). An Operational Risk Event may be a direct financial loss (e.g. negative cash flow, asset write down, claim, litigation , fines or other penalties imposed on UBS SA) or indirect in the form of revenue forgone as a result of business suspension. The Company manages its operational risk by ensuring effective segregation of tasks and duties, reinforcing organizational ethics and by conducting periodic risk assessment.
<b>Liquidity risk</b>	Liquidity risk is the risk that UBS SA will not be able to meet efficiently both expected and unexpected current and future cash flows needs without affecting either daily operations or the financial condition of the Company. The nature of the business model translates to low levels of liquidity risk. The Company manages its liquidity risk by ensuring that sufficient cash and cash equivalents are available to meet liabilities as they arise.

## 7. Financial Results (to be update later from the audit report)

### Balance sheet since year 2012:

	2016 SR	2015 SR	2014 SR	2013 SR	2012 SR
<b>Current Assets</b>	101,691,550	93,780,233	91,490,184	88,855,594	86,020,926
<b>Property and Equipment</b>	3,235,662	4,601,512	5,967,361	7,609,952	8,705,658
<b>Total Assets</b>	<b>104,927,212</b>	<b>98,381,745</b>	<b>97,457,545</b>	<b>96,465,546</b>	<b>94,726,584</b>
<b>Current Liabilities</b>	3,937,027	1,772,523	1,786,825	2,265,193	1,534,160
<b>Non-Current Liabilities</b>	1,296,511	1,007,660	821,304	322,476	239,464
<b>Total Liabilities</b>	<b>5,233,538</b>	<b>2,780,183</b>	<b>2,608,129</b>	<b>2,587,669</b>	<b>1,773,624</b>
<b>Share Capital</b>	110,000,000	110,000,000	110,000,000	110,000,000	110,000,000
<b>Accumulated Losses</b>	(10,306,326)	(14,398,438)	(15,150,584)	(16,122,123)	(17,047,040)
<b>Total Liabilities and Shareholder's Equity</b>	<b>104,927,212</b>	<b>98,381,745</b>	<b>97,457,545</b>	<b>96,465,546</b>	<b>94,726,584</b>

### Statement of Income since year 2012:

	2016 SR	2015 SR	2014 SR	2013 SR	2012 SR
<b>Service and Other Fees</b>	10,621,229	13,075,150	13,192,252	12,794,790	12,747,853
<b>Arranging fees</b>	10,126,421				
<b>Special Commission Income</b>	1,743,875	488,681	474,795	596,592	679,889
<b>Direct Cost</b>	(5,063,210)				
<b>General and Administrative Expenses</b>	(13,803,377)	(12,860,135)	(13,514,444)	(12,732,074)	(12,484,345)
<b>Rent Income</b>	858,315	851,565	851,565	827,433	817,909
<b>Income Tax Charge for the Year</b>	(391,142)	(803,115)	(32,629)	(561,824)	(459,813)
<b>Net Income (Loss) for the Year</b>	<b>4,092,112</b>	<b>752,146</b>	<b>971,539</b>	<b>924,917</b>	<b>1,301,493</b>
<b>Earnings (Loss) Per Share</b>	0.37	0.07	0.09	0.08	0.12

## 8. The Compensation and the Remuneration for the Members of the Board of Directors and the Senior Executives

Details of remunerations and compensations attributed to the board members for the year 2016 are illustrated in the following table. The remuneration for the Independent Directors will be SR. 3,000 per meeting and the payment will take place once the shareholders' approval is obtained at the ordinary general assembly that will be conducted before the end of June 2017.

Description	Executive Board Members	Non-executive / independent members	Five of the senior executives who received the highest remunerations and compensation plus Chief Executive Officer and Chief Financial Officer
Salaries and Compensation			2,898,000
Allowances			1,223,075
Periodic Bonuses and annual allowances to attend meetings		27,000	457,317
Incentive plans			364,317
Any compensations or other in kind benefits payable on a monthly or yearly.			

## 9. The Conflict of the Interests of Members of the Board of Directors and the Senior Executives:

- The Company does not have any contracts or any substantial interest for any of the members of the Board of Directors or the Chief Executive Officer or the Chief Finance Officer or the senior executives of the Company or for any person with a relationship with any of them.
- The Company did not offer a cash loan of any kind to the members of the BoD or guarantee any loan held by one of them with others.

## 10. Annual board review

UBS SA Board confirms that no major risks or deficiencies are identified in the systems and controls of UBS SA. All areas for improvements identified through the year have been addressed by updating the systems and controls and were approved by the management and the Board. These changes are identified from different, but not limited to, work streams as follows:

- Compliance monitoring findings requiring fine tuning or creation of new controls;
- Cascaded policies and procedures from UBS AG;
- Annual internal audit covering the assessment of the systems and controls listed by the CMA;
- External audit covering the annual Financial Audit;
- External Audit covering UBS SA compliance with the Client Money and Assets rules;
- CMA circulars and any regulatory requests to Authorised Persons.

The Board conducted its annual review of UBS SA systems and controls and confirms it is in line with CMA requirements.

## 11. Compliance

2016 has been a sound year from a Risk, Compliance and Anti Money Laundering point of view. Risks were identified and have been mitigated without issues. Following is a list of compliance deliverables in 2016:

- The CMA has issued two sets of rules, the Investment Account Instructions that were effective 4 October 2016, and the Investment Funds Regulations that were effective 6 November 2016. UBS Saudi Arabia updated its operations manuals and processes and its permitted business profile accordingly.
- UBS SA remediated most of the observations raised by the Internal Auditor as described in section 10.2 above.
- The Company participates actively in the Authorised Persons Committee that is established by the CMA and it is attended regularly by the CEO.
- The CMA requested from UBS SA to appoint an independent board member as chairman of its Board. UBS SA complied with the request and appointed an independent chairman on 27 September 2016.
- UBS Saudi Arabia has successfully conducted its general assembly on 22 June 2016.

## **12. General authority of Zakat & Tax ("GAZT") Queries**

No GAZT queries were issued during the year 2016. Final certificates from the GAZT for the three years (Y2011, Y2012 and Y2013) have been provided. Final assessment from the GAZT for the year Y2014 has been provided with an additional income tax of SR 113,187 related to the disallowance of the bonus expenditure. The Company has fully paid the additional income tax in Y2015 and is awaiting the final certificate from GAZT for the year 2014.

FY2015 has not been yet assessed by the GAZT.

## **13. Contingent Liabilities and Regulatory Fines**

There were no lawsuits, fines or other obligations against UBS Saudi Arabia during FY 2016.

### **The Board of Directors and the administration of the Company certify that:**

- The accounting records for the year ended properly on 31/12/2016 have been properly prepared.
- There is no doubt in the Company's ability to continue its operations.
- There are no significant differences in the operating results from the prior year's results or any declared expectations by the Company.
- There is no difference in the accounting standards issued by the Saudi Organization for Certified Public Accountants.
- The Company has implemented an effective governance structure and adequate internal control framework, including a comprehensive policy framework and compliance monitoring program. Legal entity governance arrangements are adequate. Roles and responsibilities are clearly assigned and the Board of Directors meets regularly to discuss and decide on both business and risk issues. These policies and procedures are reviewed during the year on a regular basis.

## **14. Proposals to an Extraordinary General Assembly**

The board proposed the following items for the agenda of the next extraordinary general assembly:

1. To approve the constitution of the audit committee.
2. To approve the changes to the bylaws according to the new companies law.

## **15. Proposals to the Ordinary General Assembly FY2016**

The board will propose in its next meeting the following items for the agenda of the next ordinary general assembly:

1. To approve the report of the Board of Directors for the financial year ended 31 December 2016.
2. To approve the audited financial statements for the fiscal year ended December 31, 2016.
3. To approve the auditor's report for the financial year ended 31 December 2016.
4. To discharge the members of the Board of Directors from liability for their management of the company during the fiscal year ending on 31 December 2016.
5. To approve the appointment of the Company's external auditors for the fiscal year ending December 31, 2017 and their remuneration.
6. To approve attendance fees FY2016 of the Independent Directors, and the disbursement of the fees to them.

**Kind Regards**

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**Abdulaziz Alissa**  
**Chairman of the Board**