

# **UBS Saudi Arabia**

(A SAUDI Closed JOINT STOCK COMPANY)

# **Board of Directors'**

# **Annual Report**

As of 31 December 2015

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 2015

## 1. ACTIVITIES

UBS Saudi Arabia, (the "Company") is a Saudi closed joint stock company registered with the Capital Market Authority (CMA) under license number 08113-37 dated 11 Rajab 1429H (corresponding to 14 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

### 2015 Summary:

2015 saw the Company make progress on the activities of the business lines (Wealth Management, Asset Management and Investment Bank) through the implantation of the initiatives identified in the deep dive exercise conducted in 2014 / 2015. To this end:

- ❖ The Wealth Management product shelf and offering continues to be strengthened, with full implementation expected during H1 2016.
- ❖ The Asset Management New Business Initiative ("NBI") had faced some issues related to internal project resourcing and structuring. However, it is expected that the initiatives will be implemented in Q3 2016.
- ❖ The investigation into building a local equities platform was completed. A solution that would utilize a third party broker model will be presented to the IB Equities Management committee in 2016 for funding and approval. This approach allows UBS to better assess international demand for Saudi equities activity and be in a better position to take a future decision on building out a local platform, which is currently assessed to be unprofitable in the current market conditions.

### 2016 Group level key initiatives:

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

### 2016 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.

### 2016 Asset Management initiatives:

- ❖ Deliver the NBI for the revised product shelf on target.
- ❖ Business focus continues to be targeting institutional clients in Saudi Arabia with a secondary focus on corporates, family offices and financial institutions until the product shelf is realigned.

### 2016 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 2015 on 24 June, 28 September, 25 November, and 14 December. The attendance was as follows:

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

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

Michel Adjadj	Chairman (since May 2015) Chairman of the Audit Committee and of the Nomination and Remuneration Committee (until May 2015)
Ali Janoudi	Vice Chairman – Non Executive
Mahmoud Abdulhadi	Board Member - CEO
Mark Petheram	Board Member - Non Executive – Chairman of the Audit Committee and of the Nomination and Remuneration Committee (since June 2015)
Ziyad Al-Saleh (until 21 September 2015)	Board Member – Independent
Omar Al-Bulaihid	Board Member - Independent

On December 17, 2014, the Board of Directors ("the BoD") of UBS Saudi Arabia approved that Mr. John Fraser retires as Chairman of UBS Saudi Arabia effective 31 December, 2014 consequent upon his appointment as Secretary to the Australian Treasury. In May 2015, the CMA accepted the appointment of Mr. Michel Adjadj as a non-executive Chairman of UBS Saudi Arabia and in June 2015, the appointment of Mr. Ali Janoudi as Vice Chairman of UBS Saudi Arabia.

Mr. Ziyad Al Saleh resigned from the BoD on 21 September 2015. A replacement has not been formally approved by the CMA as of 31 December 2015.

The BoD resolved to appoint Mr. Mark Petheram as Chairman of the Audit Committee and Chairman of the Nomination and Remuneration Committee in June 2015.

**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
Ziyad Al-Saleh (until 21 September 2015)	A.K.AL-Muhaidib & Sons Gulf Union Insurance Co. Zohoor Alreef, KSA- Executive Committee Amwal Alkhaleej, KSA - Executive Committee Dr Sulaiman Habib Hospital CJSC Riyadh Cables CJSC	Pioneers Holdings JSC, Egypt Amwal International- Kuwait Mashaer Holding JSC- Kuwait
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 2015 with the following key items approved:

- Acceptance of Mr. Fraser Retirement as Chairman of UBS Saudi Arabia effective 31 December, 2014 consequent upon his appointment as Secretary to the Australian Treasury.
- Appointment of Mr. Michel Adjadj as Chairman of UBS Saudi Arabia.
- Appointment of Mr. Mohamed Ali Janoudi as non-executive Board Member and Vice Chairman of UBS Saudi Arabia's Board of Directors.
- Appointment of Mr. Mark Petheram as Chairman of the Audit Committee and Chairman of the Nomination and Remuneration Committee
- Renewal of Mr. Mahmoud Abdulhadi's dual role as CEO and Head of Corporate Client Solutions (CCS) for year 2015.
- UBS Saudi Arabia Audited Financial Statements FY2014 and related disclosures.
- UBS Saudi Arabia Strategy and Financials Forecasts for 2016 to 2018.
- Independent Director certification FY2014-2015
- Internal Audit Report (for the period from November 2014 till November 2015).
- Appointment of the auditors for the financial year ending 31 December 2015 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:

Michel Adjadj (until May 2015)	Chairman of the Committee	Board Member – Non Executive
Mark Petheram (since June 2015)	Chairman of the Committee	Board Member – Non Executive
Omar Al-Bulaihid	Committee Member	Board Member - Independent
Ziyad Al-Saleh (until 21 September 2015)	Committee Member	Board Member - Independent
Wael Al-Rasheed	Secretary	UBS SA's CFO

The AC met four times in 2015 on 19 February, 28 April, 08 September, and 10 December.

Name of Members		Total times of attendance
Michel Adjadj (until May 2015)	Chairman of the Committee	<b>2</b>
Mark Petheram (since June 2015)	Chairman of the Committee	<b>2</b>
Omar Al Bulaihid	Member – Independent Director	<b>4</b>
Ziyad Al Saleh	Member – Independent Director	<b>2</b>

The AC met four times in 2015 and recommended the following:

- Approval of the annual Client Money and Assets audit Report for Y2014.
- Approval of the annual Custodian Risk Assessment Report for Y2014.
- Approval of the annual Money Laundering Reporting Officer Report Y 2014.
- Approval of the Audited Financial Statements for Y2014.
- Approval of the Auditor's report for Y2014.
- Approval of the Prudential's Pillar III Disclosures' report for Y2014.

### **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 Board / 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;
- 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;
- Give consideration to succession planning for (i) Non-Executive Directors and (ii) Independent members, taking into account the challenges and opportunities facing the Company at the time, and what skills and expertise are therefore needed on the Board / Committees;
- 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 Nomination and Remuneration Committee is comprised of the following members:

Michel Adjadj (until May 2015)	Chairman of the Committee	Board Member –Non Executive
Marek Petheram (since June 2015)	Chairman of the Committee	Board Member –Non Executive
Ziyad Al-Saleh (until 21 September 2015)	Committee Member	Board Member -Independent
Omar Al-Bulaihid	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 on 3 March 2015 and recommended the following:

- Assessment that the independence of the Independent Directors was maintained in 2014 without issues.
- Approval of the Independent Director's remuneration for 2014.

## 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 2011:

	2015 SR	2014 SR	2013 SR	2012 SR	2011 SR
<b>Current Assets</b>	93,780,233	91,490,184	88,855,594	86,020,926	84,517,987
<b>Property and Equipment</b>	4,601,512	5,967,361	7,609,952	8,705,658	9,972,552
<b>Total Assets</b>	<b>98,381,745</b>	<b>97,457,545</b>	<b>96,465,546</b>	<b>94,726,584</b>	<b>94,490,539</b>
<b>Current Liabilities</b>	1,772,523	1,786,825	2,265,193	1,534,160	2,692,016
<b>Non-Current Liabilities</b>	1,007,660	821,304	322,476	239,464	147,056
<b>Total Liabilities</b>	<b>2,780,183</b>	<b>2,608,129</b>	<b>2,587,669</b>	<b>1,773,624</b>	<b>2,839,072</b>
<b>Share Capital</b>	110,000,000	110,000,000	110,000,000	110,000,000	110,000,000
<b>Accumulated Losses</b>	(14,398,438)	(15,150,584)	(16,122,123)	(17,047,040)	(18,348,533)
<b>Total Liabilities and Shareholder's Equity</b>	<b>98,381,745</b>	<b>97,457,545</b>	<b>96,465,546</b>	<b>94,726,584</b>	<b>94,490,539</b>

### Statement of Income since year 2011:

	2015 SR	2014 SR	2013 SR	2012 SR	2011 SR
<b>Service and Other Fees</b>	13,075,150	13,192,252	12,794,790	12,747,853	16,135,765
<b>Special Commission Income</b>	488,681	474,795	596,592	679,889	401,875
<b>General and Administrative Expenses</b>	(12,860,135)	(13,514,444)	(12,732,074)	(12,484,345)	(15,737,797)
<b>Rent Income</b>	851,565	851,565	827,433	817,909	386,100
<b>Gain on Disposal of Property and Equipment</b>					8,750
<b>Income Tax Charge for the Year</b>	(803,115)	(32,629)	(561,824)	(459,813)	(379,509)
<b>Net Income (Loss) for the Year</b>	<b>752,146</b>	<b>971,539</b>	<b>924,917</b>	<b>1,301,493</b>	<b>815,184</b>
<b>Earnings (Loss) Per Share</b>	0.07	0.09	0.08	0.12	0.07

## 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 2015 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 2016.

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			3,074,612
Allowances			1,411,837
Periodic Bonuses and annual allowances to attend meetings		30,000	309,000
Incentive plans			90,000
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. Internal Audit & Control

### 1. Annual Internal Audit

The function of the internal audit is outsourced to UBS AG - Group Internal Audit - to ensure its independence and to carry out work freely and objectively using best practice and methodologies. Group Internal Audit independently, objectively and systematically assesses the adherence to the strategy, effectiveness of governance, risk management and control processes, and monitors compliance with legal, regulatory and statutory requirements, as well as with internal policies and contracts. Group Internal Audit reports significant findings to the Audit Committee and to the Board.

UBS SA Board and Group Internal Audit (GIA) agreed that it would be more effective to conduct the annual Internal Audit (IA) by a Saudi Arabian audit firm rather than by the GIA team. The GIA team would however conduct an audit every four years. UBS Saudi Arabia selected Deloitte & Touche Middle East Limited to conduct the IA for 2015 and executed a supplemental agreement to the Service Level Agreement between UBS SA and UBS AG to manage the effectiveness of these audits. All preconditions determined to meet the outsourcing of this business initiative are met. Deloitte will conduct the Internal Audit for 2015.

Deloitte will perform in February 2016 a Limited Review for the year 2015. The key areas of focus of the review were to assess the (i) governance structure and the internal control framework, including oversight over business activities, adherence to the local regulatory framework, business continuity arrangements as well as ICAAP implementation and reporting, and (ii) design of controls over client relationship management, including initial and ongoing due diligence, KYC / AML and investment suitability.

### 2. Previous findings Internal Audit and Remediation

Group Internal Audit performed a limited review FY2014 and raised a number of issues that were remediated by UBS SA. Group Internal Audit confirmed the following FY2014:

*"UBS Saudi Arabia (UBS SA) 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. Local Compliance regularly checks that policies and procedures are aligned with local regulatory requirements and regularly trains employees about the regulatory changes, including Know Your Customer (KYC) and Anti-Money Laundering (AML) rules. UBS SA has introduced new policies and processes in line with the new Internal Capital Adequacy Assessment Process (ICAAP) rules issued by the Saudi Arabia Capital Market Authority (CMA). Finally, business continuity management and disaster recovery measures are adequate and the current business continuity plan has recently been satisfactorily tested.*

*Controls over client relationship management, including KYC, AML and investment suitability, are effectively designed. New account openings are reviewed by both the local Compliance Officer and by a Due Diligence Officer at UBS AG. The local Compliance Officer regularly verifies that investments are in line with client risk profiles and adhere to the local product shelf.*

*Nevertheless, UBS SA must strengthen its ongoing KYC reviews so that all client records are formally updated and signed by the clients annually to meet local regulatory requirements. Finally, UBS SA must implement a control to verify that clients who invest in structured products have agreed to the applicability of Swiss law by signing the related legal declaration."*

UBS SA implemented the following corrective actions in 2015 to improve these procedures:

Action Title	Action Status	Responsible
Regularize Existing Structured Products Population – Collect signature on the declaration from any client that invested in Structured Products.	Closed. All clients that invested in Structured products have signed the declaration.	Front Office
Implement a process to ensure that clients who want to invest in Structured Products sign the declaration before investing in the product.	Closed. Procedure designed, documented and implemented.	Front Office
Request an update on the Know Your Customer Profiles of clients for whom the KYC information is older than one year and collect the information where possible.	Closed. All requests to all outstanding cases completed.	Front Office
Determine which accounts' Know Your Customer information update is required, and request the update from the accounts holders, and collect the information.	Closed. Procedure designed, documented, and implemented.	Front Office
Annually check that all structured products clients have signed the declaration.	Closed. Procedure designed, documented, and implemented.	Compliance
Implement a Control over the Declaration for Structured Products in the Compliance Monitoring Program.	Closed. The compliance control log is up to date. Control documentation in the Compliance Monitoring Program and implemented.	Compliance
Update the control log control log that is used to monitor the outstanding updates of clients' KYC information with any missing clients as identified in the Client Tool and follow up with the CA on the late updates.	Closed. The compliance control log is up to date. Control documentation in the Compliance Monitoring Program and implemented.	Compliance
Implement a control over the KYC updates – Annually reconcile the accounts list in the control log used to monitor outstanding KYC updates with the active accounts in the Client Tool (CBWB) and follow up with the Front Office on any outstanding cases i.e. check to verify that the KYC information has been updated or confirmed as up-to-date.	Closed. The compliance control log is up to date. Control updated. Control documentation in the Compliance Monitoring Program is implemented.	Compliance

### 3. External Audit of the Company's compliance with the client money and assets rules

The CMA requested the Company conducts an audit of the Company's compliance with the CMA Client Money and Assets regulations. Under these regulations, the CMA would expect that an Authorised Person that outsources the Custody Services of its client's money and assets to a third party, must have arrangement, systems and procedures in place that encompasses procedures for "segregation of the client's money and assets from those of the custodian and the authorized entity", and for "reconciliation between the records and books of the two entities" etc.

In October 2013, a review was conducted for Y2012. Following this review, a query was received from the CMA enforcement division on 13 of February 2014 relating to UBS SA's compliance with Articles 89 (having a clear agreement with third party custodians) and 90 (specific reconciliation procedures of client assets held with third party custodians) of the Authorised persons regulations. UBS SA received on 1 November 2014 a written communication from the CMA enforcement division imposing two fines of 10,000 Saudi Riyals each for breaching the aforementioned Articles 89 and 90.

As these reviews take place every year, other reviews for Y2013 and Y2014 were conducted and finalised on 20 November 2014, and April 2015 respectively.

The report FY14 confirmed that UBS SA resolved the issue relevant to the "lack of a custodian agreement" by way of a Supplement Agreement to the Service Level Agreement between UBS SA and UBS AG. However, the report iterated that a reconciliation procedure is not performed locally at UBS SA but added that UBS SA has outsourced this process to UBS AG. UBS SA is taking the following approach to address the requirements of the assets reconciliations:

Firstly, we understand that the key requirements of the CMA are:

- i. a reconciliation is being performed,
- ii. a shortfall be made good and
- iii. Discrepancies not resolved beyond 7 days reported to CMA.

Secondly, these requirements are being addressed to meet the spirit of these requirements as follows - a service level agreement with UBS AG/UBS Switzerland AG demonstrates that the reconciliations are being performed by UBS Switzerland AG on behalf of UBS SA.

- As UBS AG reconciles on a contractual basis, therefore, a shortfall to be made good is always met. Nevertheless a periodic reconciliation control process is being put in place.
- A local procedure has been implemented to interact with the reconciliation unit at UBS AG and to formalise the reporting duties to CMA that should be discharged by UBS SA in case of reconciliation issues. The solution works on weekly basis. The reconciliation reports have been generated from November 2014.

The solution is being tested by Ernst and Young before next audit on the compliance of UBS SA with the client money and assets rules which will take place in March – April 2016.

## 11. Compliance

2015 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 2015:

- The CMA has requested to confirm readiness with the FATCA requirements and to submit the registration number with the Internal Revenue Services of the United States of America; UBS SA sent the information as requested. UBS SA is registered with the Internal Revenue Services of the United States of America through UBS AG.
- UBS SA remediated the observations raised by group Internal Audit FY2014 as described in section 9.1 above.
- UBS SA submitted one Suspicious Activity Report regarding an individual showing up unexpectedly at the UBS SA office and claiming, wrongfully, to have accounts and funds with UBS SA's affiliates.
- The Company participates actively in the Authorised Persons Committee that is established by the CMA and it is attended regularly by the CEO.
- UBS SA notified the CMA of transferring the outsourcing of Wealth Management outsourced functions from UBS AG to UBS Switzerland AG, and of changing its ultimate Controlling entity from UBS AG to UBS Group AG. Other regulatory interactions have been conducted without issues.

## 12. Department of Zakat and Income Tax ("DZIT") Queries

Two DZIT queries with different scopes to finalize the Company's Tax position for years from Y2011 to Y2014 were received:

Query 1: Dated 12-5-1436H for the financial years 2011 to 2013, requesting the Company to provide certain additional information/documents for the years ended 31 December 2011, 2012 and 2013 to finalize company's tax position for the above years. DZIT requested the provision of audited financial statements and reconciliation in respect of the salary cost based on the GOSI certificate and the cost presented in the tax declaration. The query has been completed and all required information and documents have been submitted to DZIT. Final assessment from the DZIT for the three years (Y2011, Y2012 and Y2013) has been provided with an additional income tax of SR 417,936 related to the disallowance of the bonus expenditure.

Query 2: Dated 26-2-1437H for the financial year 2014, requesting the Company to provide certain additional information/documents for the years ended 31 December 2014 to finalize company's tax position for the above year. DZIT requested the provision of audited financial statements and reconciliation in respect of the salary cost based on the GOSI certificate and the cost presented in the tax declaration. The query has been completed and all required information and documents have been submitted to DZIT. Final assessment from the DZIT 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.

## 13. Contingent Liabilities and Regulatory Fines

There is no lawsuit or any obligation against the UBS Saudi Arabia.

- Following a query received from the CMA enforcement division on 13th Feb 2014 relating to UBS SA's compliance with Article 90 (specific reconciliation procedures of client assets held with third party custodians) of the Authorised persons regulations, UBS SA received on 1 November 2014 a written communication from the CMA enforcement division imposing a fine of 10,000 Saudi Riyals for breaching the aforementioned Article 90. To mitigate these issues going forward, UBS SA designed a process to resolve the reconciliation issue. The solution is being tested by the external auditor.
- UBS SA has received a fine of SARs 10,000 on 10 November 2015 for not complying with articles 13 of the Offer of Securities Regulations and Article 5 of the Authorized Persons Regulation.

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

- The accounting records for the year ended properly on 31/12/2015 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 the Ordinary General Assembly FY2015**

The board will propose in its next meeting the following items for the agenda of the next ordinary general assembly and these items will be subject to the changes in the Companies Law that will be effective in 2016:

1. To approve the new non-executive Chairman and Vice Chairman of the Board.
2. To approve changes to the bylaws according to the new companies law pending ministry of commerce publications of the new model bylaws for closed joint stock companies.
3. To approve the report of the Board of Directors for the financial year ended 31 December 2015.
4. To approve the audited financial statements for the fiscal year ended December 31, 2015.
5. To approve the auditor's report for the financial year ended 31 December 2015.
6. 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 2015.
7. To approve the appointment of the Company's external auditors for the fiscal year ending December 31, 2016 and their remuneration.
8. To approve attendance fees FY2015 of the Independent Directors, and the disbursement of the fees to them.

**Kind Regards**

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**Michel Adjadj**  
**Chairman of the Board**