

# **UBS Saudi Arabia**

(A Closed Joint Stock Company)

# **Board of Directors'**

# **Annual Report**

As of 31 December 2017

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 2017

## 1. ACTIVITIES

UBS Saudi Arabia, (the "Company" or "UBS SA") 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

### 2017 Summary:

2017 saw UBS Saudi Arabia increase its profile in the Saudi market. However, the difficult business environment, and some strong competition from the Company's peer group meant that converting the opportunities presented by this increased profile proved challenging.

- ❖ Strong coverage of a select list of prospects resulted in the Company being invited to pitch for 20 investment banking mandates (formally mandated on 2 transactions that did not close, 3 transactions moved to the 2018 pipeline)
- ❖ UBS Saudi Arabia was a major sponsor of the 21-39 Jeddah Arts initiative for the third year in a row. This event is Jeddah's flagship art event and is consistent with the overall UBS strategy of sponsoring art led events globally

The Company continued to make progress on the activities of the business lines (Wealth Management, Asset Management and Investment Bank) through the implementation of several strategic initiatives:

- ❖ The strengthening of the Wealth Management product shelf and offering continues, despite facing some delays. The offering of Discretionary Portfolio Management services by the Company was implemented in Q4 2017.
- ❖ In addition, the new business initiative ("NBI") for offering services to DomCos was kicked off on 15 November 2017. The NBI is in its final stages and go-live is expected to take place in early 2018.
- ❖ The enhancement of the UBS Manage Advance Offering does not require a separate NBI and will go through an alternative process. Go-live is expected to take place in early 2018.

- ❖ The projects for eBanking, advisory mandates, margin lending and ISG offerings have been re-launched in November 2017 and the completion of the NBI template has been initiated.
- ❖ The NBI for Custody of Saudi Shares will go through an alternative governance process, on the back of an existing (non UBS SA) NBI. This process is under assessment.
- ❖ An NBI to lend against Saudi shares is still in an exploratory stage, pending certainty of the custody NBI.
- ❖ The Asset Management NBI is in the process of being reconsidered as part of a large scale reorganization of the Asset Management business
- ❖ The decision to utilize a third party broker model to access the local equity market has been given the initial green light by IB Equities. This initiative will also include the ability to cover Saudi companies with an equity research offering.

Financially, UBS SA continued to rely on transfer pricing methodologies as its main source of revenue for 2017. Strong cost discipline saw retained losses further reduced by c. 25% compared to 2016.

**2018 Group level key initiatives:**

- ❖ Continue to implement the initiatives 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.

**2018 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.

**2018 Asset Management initiatives:**

- ❖ Assist the new management team with Asset Management in defining strategic priorities for UBS SA

**2018 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

- Five Board meetings were held in 2017 on 31 January, 27 March, 24 July, 30 October, and 28 November. The attendance was as follows:

Name of Members		Total times of attendance
Abdulaziz Alissa	Chairman - Independent Director	4
Ali Janoudi	Vice Chairman	5
Michel Adjadj	Member	5
Mark Petheram	Member	4
Omar Al Bulaihidi	Member – Independent Director	2
Mahmoud Abdulhadi	Member – CEO	5

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

Abdulaziz Alissa	Chairman – Independent Director
Ali Janoudi	Vice Chairman – Non Executive
Michel Adjadj	Board Member - Non Executive Member of the Audit Committee and of the Nomination and Remuneration Committee
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

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

Member's Name	Within the KSA	Outside of KSA
Abdulaziz Alissa	Chairman of Batic Board member Savola Group Board member Arabian shield insurance	N/A
Ali Janoudi	N/A	Children Action, Geneva, Switzerland Coseco AG, Zürich, Switzerland
Mahmoud Abdulhadi	N/A	N/A
Mark Petheram	N/A	Mitsubishi Corporation UBS Realty
Michel Adjadj	N/A	Coseco RESTOM/QUATROM Trust
Omar Al-Bulaihid	N/A	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 established the audit, the risk, 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 five times in 2017 with the following key items approved:

- Renewal of Mr. Mahmoud Abdulhadi's dual role as CEO and Head of Corporate Client Solutions for year 2017.
- UBS SA Annual Board Report FY2016.
- UBS Saudi Arabia Audited Financial Statements FY2016 and related disclosures.
- The Money Laundering Reporting Officer Annual Report FY2016.
- The Client Money and Assets audit for Y2016.
- Custodian Risk Assessment Report Y2016.
- Internal Capital Adequacy Assessment Process Report Y2016.
- Independent Directors' Independence Certification FY2017.
- Internal Audit Report (for the FY 2016).
- Appointment of the auditors for the financial year ending 31 December 2017 and their fees.
- Changes to various policies and procedures and updated manuals.
- Continuation of the outsourcing relationship with UBS AG and UBS Switzerland 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 Audit Committee is comprised of the following members:

Mark Petheram	Chairman of the Committee	Board Member – Non Executive
Michel Adjadj	Committee Member	Board Member – Non Executive
Omar Al-Bulaihid	Committee Member	Board Member - Independent
Wael Al-Rasheed	Secretary	UBS SA's CFO

The AC met four times in 2017 on 15 March, 22 June, 28 September, and 14 December.

Name of Members		Total times of attendance
Mark Petheram	Chairman of the Committee	<b>3</b>
Omar Al Bulaihid	Member – Independent Director	<b>4</b>
Michel Adjadj	Board Member – Non Executive	<b>3</b>

The AC met four times in 2017 and recommended the following:

- Approval of the annual Client Money and Assets audit Report for Y2016.
- Approval of the annual Custodian Risk Assessment Report for Y2016.
- Approval of the annual Money Laundering Reporting Officer Report Y 2016.
- Approval of the Audited Financial Statements for Y2016.
- Approval of the Auditor's report for Y2016.
- Approval of the Prudential's Pillar III Disclosures' report for Y2016.
- Approval of the Draft Internal Audit Report Review FY2016.
- Approval of the IA Plan FY2017.

### **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 Nomination and Remuneration Committee is comprised of the following members:

Mark Petheram	Chairman of the Committee	Board Member – Non Executive
Michel Adjadj	Committee Member	Board Member – Non Executive
Omar Al-Bulaihid	Committee Member	Board Member – Independent
Fady Fakhoury	Secretary	Corporate Administrator, and Secretary of the Board.

The NRC met on 15 March 2017.

Name of Members		Total times of attendance
Mark Petheram	Chairman of the Committee	0
Omar Al Bulaihid	Member – Independent Director	1
Michel Adjadj	Board Member – Non Executive	1

The NRC recommended the following at its meeting:

- Assessment that the independence of the Independent Directors was maintained for 2017 without issues.
- Approval of the Independent Director's remuneration for 2016.
- Assessment of the performance of Board of Directors and its Committees Members for the year was maintained.
- Succession Plan of the Board of Directors.
- Succession Plan of Key Positions.
- Updated policies regarding the indemnities and remunerations of the Board, and the Committees Members.
- Updated terms of reference of the NRC and the AC.
- Renewal of Mahmoud Abdulhadi's dual role as CEO / Head of CCS for 2017.
- Additional authorities of the Chairman of the Board.

### **Risk Control Committee**

The committee ensures that the risk appetite of UBS Saudi Arabia is properly defined through policies and procedures and is consistent with its strategy, as well as with applicable regulatory requirements. It is

responsible for the effectiveness of risk management and control. Furthermore, it is responsible for initiating and monitoring actions to prevent, control, mitigate and / or eliminate any identified deficiencies.

The Risk Control Committee is comprised of the following members:

Name of Members	
Michel Adjadj	UBS SA Non Executive Board Member - (Chair)
Mahmoud Abdulhadi	UBS SA CEO
Fady Fakhoury	UBS SA C&ORC and MLRO
Wael Al-Rasheed	UBS SA Finance Head
Jae-Min Kan	META Business Risk Partner
Steven Klemme	Regional Country Head (WM)
Katrin Juerissen	Group Operating Head MENA
Remo Menn	Head, Quality Desk CH
Roland Oschner	EEM Business Risk Organisation Governance, CH

The Risk Control Committee met twice in 2017, on 12 July, and 19 October.

Name of Members		Total times of attendance
Michel Adjadj	UBS SA Non Executive Board Member - (Chair)	1
Mahmoud Abdulhadi	UBS SA CEO	2
Fady Fakhoury	UBS SA Compliance & Operational Risk Control and MLRO	2
Wael Al-Rasheed	UBS SA Finance Head	1
Jae-Min Kan	META Business Risk Partner	2
Steven Klemme	Regional Country Head (WM)	1
Katrin Juerissen	Group Operating Head MENA	2
Remo Menn	Head, Quality Desk CH	1
Roland Oschner	EEM Business Risk Organisation Governance, CH	1

The committee recommended the following:

- To establish the committee, its terms of reference, its constituents, and its authorities.
- To acknowledge the inventory of controls performed at or for UBS Saudi Arabia.

## 5. 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.



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

### Balance sheet since year 2013:

	2017 SR	2016 SR	2015 SR	2014 SR	2013 SR
<b>Current Assets and Deferred Tax Asset</b>	103,390,333	101,691,550	93,780,233	91,490,184	88,855,594
<b>Property and Equipment</b>	1,869,813	3,235,662	4,601,512	5,967,361	7,609,952
<b>Total Assets</b>	<b>105,260,146</b>	<b>104,927,212</b>	<b>98,381,745</b>	<b>97,457,545</b>	<b>96,465,546</b>
<b>Current Liabilities</b>	2,226,370	3,937,027	1,772,523	1,786,825	2,265,193
<b>Non-Current Liabilities</b>	1,552,775	1,296,511	1,007,660	821,304	322,476
<b>Total Liabilities</b>	<b>3,779,145</b>	<b>5,233,538</b>	<b>2,780,183</b>	<b>2,608,129</b>	<b>2,587,669</b>
<b>Share Capital</b>	110,000,000	110,000,000	110,000,000	110,000,000	110,000,000
<b>Accumulated Losses</b>	(8,518,999)	(10,306,326)	(14,398,438)	(15,150,584)	(16,122,123)
<b>Total Liabilities and Shareholder's Equity</b>	<b>105,260,146</b>	<b>104,927,212</b>	<b>98,381,745</b>	<b>97,457,545</b>	<b>96,465,546</b>

### Statement of Income since year 2013:

	2017 SR	2016 SR	2015 SR	2014 SR	2013 SR
<b>Service and Other Fees</b>	13,484,742	10,621,229	13,075,150	13,192,252	12,794,790
<b>Arranging fees</b>		10,126,421			
<b>Special Commission Income</b>	992,763	1,743,875	488,681	474,795	596,592
<b>Direct Cost</b>		(5,063,210)			
<b>General and Administrative Expenses</b>	(13,108,071)	(13,803,377)	(12,860,135)	(13,514,444)	(12,732,074)
<b>Rent Income</b>	860,565	858,315	851,565	851,565	827,433
<b>Income Tax Charge for the Year</b>	(442,672)	(391,142)	(803,115)	(32,629)	(561,824)
<b>Net Income (Loss) for the Year</b>	<b>1,787,327</b>	<b>4,092,112</b>	<b>752,146</b>	<b>971,539</b>	<b>924,917</b>
<b>Earnings (Loss) Per Share</b>	<b>0.16</b>	<b>0.37</b>	<b>0.07</b>	<b>0.09</b>	<b>0.08</b>

## 7. 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 2017 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 2018.

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			3,268,000
Allowances			1,379,375
Periodic Bonuses and annual allowances to attend meetings		33,000	
Incentive plans			346,879
Any compensations or other in kind benefits payable on a monthly or yearly.			

## 8. 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.

## 9. 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; and,
- Quarterly risk assessments.

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

## 10. Compliance

2017 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 2017:

- The CMA issued a number of new rules as follows:
  - October 2017 – Amendment of the Authorised Persons Regulations (APR) and the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market.
  - November 2017 – Issuance of an updated Anti Money Laundering (AML) Law.
  - November 2017 – issuance of the new Counter Terrorism Financing (CTF) Rules.
  - December 2017 – Issuance of the Rules of Offering Securities and Continuing Obligations, and the Updated Glossary Of Defined Terms Used In The Regulations And Rules Of The Capital Market. These rules replace the Offer of Securities Regulations and the Listing Rules issued in 2004.
  - December 2017 – Rules for Special Purposes Entities
  - UBS Saudi Arabia updated its operations manuals accordingly.
- The General authority of Zakat & Tax issued a new value added tax legal framework for Saudi Arabia in September 2017. The implementation is due at the end of March 2018. UBS Saudi Arabia is updating its operations manuals accordingly.
- The Company participates actively in the Authorised Persons Committee that is established by the CMA and it is attended regularly by the CEO.
- UBS Saudi Arabia has successfully conducted its extraordinary general assembly on 25 April 2017. The Ministry of Commerce and Industry approved on 16 August 2017 UBS SA latest bylaws that were updated according to the new companies' regulations issued in September 2015.

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

No GAZT queries were issued during the year 2017. Final certificates from the GAZT for the three years (Y2011, Y2012 and Y2013) have been provided. The Company is awaiting the final certificate from GAZT for the year 2014. FY2015 and 2016 have not been yet assessed by the GAZT.

VAT assessment has been conducted by an external consultant and the Company has been registered for VAT.

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

There were no lawsuits, fines or other obligations against UBS Saudi Arabia during FY 2017.

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

- The accounting records for the year ended properly on 31/12/2017 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.

## **13. Proposals to the Ordinary General Assembly FY2017**

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

1. To approve any changes to the audit committee terms of reference.
2. To approve the report of the Board of Directors for the financial year ended 31 December 2017.
3. To approve the audited financial statements for the fiscal year ended December 31, 2017.
4. To approve the auditor's report for the financial year ended 31 December 2017.
5. 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 2017.
6. To approve the appointment of the Company's external auditors for the fiscal year ending December 31, 2018 and their remuneration.
7. To approve attendance fees FY2017 of the Independent Directors, and the disbursement of the fees to them.

**Kind Regards**

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