

# **UBS Saudi Arabia**

(A Closed Joint Stock Company)

# **Board of Directors'**

# **Annual Report**

As of 31 December 2018

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 2018

## 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

### 2018 Summary:

2018 saw UBS Saudi Arabia continue to increase its profile in the Saudi market. While market conditions remained difficult within the business environment, and competition from the Company's peer group remained strong given the overall UBS business model, UBS Saudi Arabia achieved a milestone within its WM business:

- ❖ UBS Saudi Arabia WM met its 2018 Net New Money targets for the first time in 2018 since inception. This is an important milestone for the company and sets the tone for future growth.
- ❖ Strong coverage of a select list of prospects resulted in the Company pitching / exploring 11 opportunities as follows:
  - 2 IPOs of Saudi companies with an intention to raise capital from outside Saudi Arabia. No mandates awarded
  - 1 Financing transaction. Financing package did not meet client's expectations
  - 8 Cross border M&A opportunities. 3 of these opportunities were carried over from 2017 but sadly did not progress, while the remaining 5 opportunities were discussed or pitched for but final mandates were not awarded to UBS SA
- ❖ UBS Saudi Arabia remains a major sponsor of the 21-39 Jeddah Arts initiative for the fourth 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, with a number major New Business Initiatives ("NBI") being implemented in 2018
  - NBI for the UBS Advice Product.
  - NBI for serving Domiciliary Companies
  - UBS Manage Advance Offering and eBanking went live in 2018
  - The projects for margin lending, custody of Saudi shares and ISG offerings continue to be assessed

- ❖ The review of the Asset Management business for institutional and governmental clients at UBS SA was completed and the decision to concentrate on the off shore business without developing local capabilities at UBS Saudi Arabia was taken. As a result, the Asset Management business for institutional and governmental clients was removed from the UBS SA Permitted Business Profile with the CMA
- ❖ A detailed review of the Permitted Business Profile also resulted in the following requests from the CMA to approve the following changes:
  - Removing "Dealing As Principle" from the UBS SA Permitted Business Profile
  - Removing "Managing Funds" from the UBS SA Permitted Business Profile
- ❖ The IB Equities project to utilize a third party broker model to access the local equity market has made significant progress . Initial test trades and the final agreements with the Brokers should be in place by end of Q1 2019.

Financially, UBS SA continued to rely on transfer pricing methodologies as its main source of revenue for 2018. Strong cost discipline saw retained losses further reduced by 31% compared to 2017.

**2019 Wealth Management initiatives:**

- ❖ Deliver on the hiring plan set by the latest strategy paper.
- ❖ Business focus will continue to be the High Net Worth segment.

**2019 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

Mr. Abdulaziz Alissa resigned and left the Board on 14 August 2018, and Mr. Ramzi Abukhadra joined the Board as Independent Chairman on 2 January 2019).

**Current structure of the Board of Directors:**

Abdulaziz Alissa	Chairman – Independent Director – Until 14 August 2018
Ramzi Abukhadra	Chairman – Independent Director – Since 02 January 2019
Ali Janoudi	Vice Chairman – Non Executive Director
Michel Adjadj	Board Member - Non Executive Director Member of the Audit Committee and of the Nomination and Remuneration Committee
Mark Petheram	Board Member - Non Executive Director Chairman of the Audit Committee and of the Nomination and Remuneration Committee
Omar Al-Bulaihid	Board Member - Independent Director Member of the Audit Committee and of the Nomination and Remuneration Committee
Mahmoud Abdulhadi	Board Member – Executive Director - CEO

### Board meetings and attendance:

Four Board meetings were held in 2018 on 5 February, 26 March, 25 July, and 23 October. The attendance was as follows:

Attended ✓

Did Not Attend x

Name	Position	Number of meetings (4)/date			
		1	2	3	4
		5 February	26 March	25 July	23 October
Abdulaziz Alissa	Chairman - Independent Director	✓	✓	x	x
Ali Janoudi	Vice Chairman – Non Executive Director	✓	✓	✓	✓
Michel Adjadj	Member – Non Executive Director	✓	x	✓	x
Mark Petheram	Member – Non Executive Director	✓	x	✓	✓
Omar Al Bulaihid	Member – Independent Director	x	x	✓	x
Mahmoud Abdulhadi	Member – Executive Director (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 UBS Saudi Arabia (till 14 August) Chairman of Batic Board member Savola Group Board member Arabian shield insurance	N/A
Ramzi Abukhadra	Chairman UBS Saudi Arabia (since 02 January 2019) Chairman of METLIFE - AIG – ANB Cooperative Insurance Company Board member of National blood and Cancer Center Managing Partner of Mayaasim al-Khaleej	
Ali Janoudi	N/A	Children Action, Geneva, Switzerland Coseco AG, Zürich, Switzerland OOO UBS Bank, Russia Group Head Middle East and North Africa. Head WM Central Eastern Europe, Middle East and Africa, UBS Switzerland AG, Switzerland
Mahmoud Abdulhadi	Swiss Business Network Saudi Arabia Chief Executive Officer, UBS Saudi Arabia Head of Investment Banking, UBS Saudi Arabia	N/A
Mark Petheram	N/A	Mitsubishi Corporation UBS Realty Divisional Vice Chairman at UBS AG Asset Management, United Kingdom
Michel Adjadj	N/A	Coseco



Member's Name	Within the KSA	Outside of KSA
		RESTOM/QUATROM Trust Vice Chairman, Wealth Management, UBS Switzerland AG, Switzerland
Omar Al-Bulaihid	N/A	N/A

## 4. Subsidiaries of UBS Saudi Arabia

UBS Saudi Arabia does not own any subsidiary.

## 5. Governance at UBS Saudi Arabia

Governance at UBS SA is enabled through its Board, the Audit Committee, the Nomination and Remuneration Committee, and the Risk Committee. The BoD establishes other committees as required. A brief on each body is described hereafter:

### 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 C&ORC and MLRO

The AC met four times in 2018 as follows:

Attended ✓

Did Not Attend x

Name	Position	Number of meetings (4)/date			
		1	2	3	4
		19-March	25-April	08-October	12-December
Mark Petheram	Chairman of the Committee	✓	✓	✓	✓
Michel Adjadj	Member – Non Executive Director	✓	✓	✓	x
Omar Al Bulaihid	Member – Independent Director	x	x	x	✓

## **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.

Two NRC meetings took place in 2018 at these dates: 19 March, and 4 April

**Attended ✓**

**Did Not Attend x**

Name	Position	Meeting	
		1	2
		19 March	4 April
Mark Petheram	Chairman of the Committee	✓	✓
Michel Adjadj	Member – Non Executive Director	✓	✓
Omar Al Bulaihid	Member – Independent Director	x	x

## **Risk 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 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 Business Risk Organization (Secretary)
Wael Al-Rasheed	UBS SA C&ORC and MLRO
May Al-Rajeh	UBS SA Finance Officer
Jae-Min Kan	CEEMEA Business Risk Partner
Steven Klemme (till ) Abdullah Najia (since )	WM Lead Market Head Saudi Arabia
Katrin Juerissen (till 15 June) Zi Udezue (Since 15 June)	Group Operating Head MENA
Remo Menn	Head, Quality Desk CH

The Risk Control Committee met four times in 2018 on 22 January, 23 April, 25 July, and 29 October.

**Attended** ✓

**Did Not Attend** x

Name	Position	Number of meetings (4)/date			
		1 22 January	2 23 April	3 25 July	4 29 October
Michel Adjadj	UBS SA Non Executive Board Member - (Chair)	✓	✓	✓	✓
Mahmoud Abdulhadi	UBS SA CEO	✓	✓	✓	✓
Fady Fakhoury	UBS SA Business Risk Organization (Secretary)	✓	✓	✓	✓
Wael Al-Rasheed	UBS SA Finance Officer (till 1 March) UBS SA C&ORC and MLRO (since 1 March)	✓	✓	✓	✓
May Al-Rajeh	UBS SA Finance Officer (since 6 May)	n/a	n/a	✓	✓
Jae-Min Kan	CEEMEA Business Risk Partner	✓	✓	✓	✓
Abdullah Najia	WM Lead Market Head Saudi Arabia	✓	✓	✓	n/a
Katrin Juerissen (Till 15 June )	Group Operating Head MENA	✓	✓	n/a	n/a
Zi Udezue	UBS Dubai Business Risk Organization Group Operating Head MENA (Since 15 June)	✓	x	✓	✓
Thomas Birrer	Head, Quality Desk CH	✓	✓	✓	✓



## 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

### Statement of Financial Position since year 2014:

	2018 SR	*IFRS Restated		2015 SR	2014 SR
		2017 SR	2016 SR		
<b>Current Assets and Deferred Tax Asset</b>	108,248,289	103,976,422	102,287,931	93,780,233	91,490,184
<b>Property and Equipment</b>	777,207	1,869,813	3,235,662	4,601,512	5,967,361
<b>Total Assets</b>	<b>109,025,496</b>	<b>105,846,235</b>	<b>105,523,593</b>	<b>98,381,745</b>	<b>97,457,545</b>
<b>Current Liabilities</b>	2,300,805	2,226,370	3,937,027	1,772,523	1,786,825
<b>Non-Current Liabilities</b>	2,714,509	2,349,095	2,007,773	1,007,660	821,304
<b>Total Liabilities</b>	<b>5,015,314</b>	<b>4,575,465</b>	<b>5,944,800</b>	<b>2,780,183</b>	<b>2,608,129</b>
<b>Share Capital</b>	110,000,000	110,000,000	110,000,000	110,000,000	110,000,000
<b>Accumulated Losses</b>	(5,989,818)	(8,729,230)	(10,421,207)	(14,398,438)	(15,150,584)
<b>Total Liabilities and Shareholder's Equity</b>	<b>109,025,496</b>	<b>105,846,235</b>	<b>105,523,593</b>	<b>98,381,745</b>	<b>97,457,545</b>

\*Refer to note 21 in 2018 Financial Statements

### Statement of Comprehensive Income since year 2014:

	2018 SR	*IFRS Restated		2015 SR	2014 SR
		2017 SR	2016 SR		
<b>Service and Other Fees</b>	15,350,445	13,484,742	10,621,229	13,075,150	13,192,252
<b>Arranging fees</b>	0	0	10,126,421	0	0
<b>Special Commission Income</b>	1,967,121	992,763	1,743,875	488,681	474,795
<b>Direct Cost</b>	0	0	(5,063,210)	0	0
<b>General and Administrative Expenses</b>	(14,503,712)	(13,193,129)	(13,803,377)	(12,860,135)	(13,514,444)
<b>Rent Income</b>	703,364	860,565	858,315	851,565	851,565
<b>Income Tax Charge for the Year</b>	(777,806)	(452,964)	(391,142)	(803,115)	(32,629)
<b>Net Income (Loss) for the Year</b>	<b>2,739,412</b>	<b>1,691,977</b>	<b>4,092,111</b>	<b>752,146</b>	<b>971,539</b>
<b>Earnings/(Loss) Per Share</b>	<b>0.25</b>	<b>0.15</b>	<b>0.37</b>	<b>0.07</b>	<b>0.09</b>

\*Refer to note 21 in 2018 Financial Statements

- The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). For all periods up to and including the year ended 31 December 2017, the Company prepared its financial statements in accordance with accounting standards generally accepted in KSA. These financial statements for the year ended 31 December 2018 are the first annual financial statements of the Company, prepared in accordance with IFRSs as endorsed in KSA.
- 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.
- The audit report doesn't include any qualified opinion on the financial statements.

## 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 2018 are illustrated in the following table. The remuneration for the Independent Directors will be SR. 3,000 per meeting for the Independent Director and SR. 6,000 per meeting for the Independent Chairman 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 2019.

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			3,638,000
Allowances			1,508,250
Periodic Bonuses and annual allowances to attend meetings		18,000	
Incentive plans			179,500
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. Company's Loan

There are no loans on the company to be reported as of December 31, 2018.

## 11. Related Party Transactions

<i>Related parties</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>	
		<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
<u><i>Affiliate</i></u>			
UBS Switzerland AG	Service fee income (a) (b)	<b>10,104,575</b>	10,280,684
	Reimbursement of expenses	<b>(2,234)</b>	(12,822)
UBS AG London branch	Service fee income (a)	<b>5,245,870</b>	3,204,058
	Reimbursement of expenses	-	(12,233)
UBS AG Stamford branch	Maintenance expenses (IT)	<b>2,117,615</b>	484,326
	Reimbursement of expenses	<b>(159,872)</b>	49,341
<u><i>Board remuneration</i></u>			
Remuneration of key management personal	Board fees to independent board member	<b>60,000</b>	54,000
	Salaries	<b>1,179,875</b>	1,179,875
	Other benefits	<b>712,841</b>	614,518
		<i>2018</i> <i>SR</i>	<i>2017</i> <i>SR</i>
Due from related parties		<b>4,019,178</b>	3,647,624
Due to related parties		<b>194,645</b>	46,049

a) The Company has signed service agreements to reflect any support services provided to the booking centers UBS Switzerland AG and UBS AG London branch. The service fee is charged on the basis of a mark-up on expenses (excluding income tax) incurred by the Company.

Service and arranging fee income are recognized when the related services are performed and are accounted for on an accruals basis.

b) UBS AG Switzerland is the custodian of the Company's client assets and money amounting to SR 292.7 million (31 December 2017: SR 206.97 million, 1 January 2017: SR 235.98 million) as at the reporting date. Control functions including reconciliation controls are performed by the custodian.



## **12. Results of the Annual Review of the Effectiveness of Internal Audit Procedures, in addition to the opinion of the Audit Committee on the adequacy of the internal system of the company**

In the context of its normal business functions, the Internal Audit function, which is outsourced to Deloitte & Touche Saudi Arabia, is responsible for the reviews activities, which provide objective and independent assessments that cover audit activities. The audit activities cover all operational and financial aspects, performance, and compliance. The Risk Committee 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 Audit Committee studies periodic reports prepared by the company's internal auditor and the remarks of the company's external auditor, to better evaluate the internal control procedures in terms of design, effectiveness and application. The Audit Committee follows up the findings of the internal and external auditors and their recommendations for remedial action that is required for any shortcoming. The Committee also reviews all matters related to the effectiveness of internal control procedures in general through internal audit reports in relation to the fairness of financial statements.

The control procedures mentioned above didn't show any fundamental weakness in the internal audit system that should be revealed.

## **13. Statement of any arrangement or agreement whereby a member of the Board of Directors of the Company or a senior executive assigns any remuneration**

There are no arrangements or waiver agreement whereby a board member or a senior executive assigned any remuneration.

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

There were no lawsuits, fines or other obligations against UBS Saudi Arabia during 2018.

**Kind Regards**

**Ramzi Abukhadra**  
**Chairman of the Board**