

**ENBDC KSA Annual Report for the year 2016**

**Issued by**

**Board Member Committee**

**To**

**Capital Market Authority, KSA**

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## 1. Introduction:

This report has been issued pursuant to Capital Market Authority Circulars No: 519/6 dated 20/2/1432 H corresponding to 24/1/2011 G, CMA letter dated 9/12/2015 (G) corresponding to 21/2/1437, CMA Circular number 16/19/6 dated 30/1/2016 (G) and assuring to the role of CMA in the organization & development of the financial market with the aim to support the efforts exerted to strengthen the regulatory environment.

## 2. Main Activities (licensed) of ENBDC KSA:

ENBDC KSA being a full-fledge Authorised Person regulated by Capital Market Authority and a brief synopsis of each licensed activity is as follows:

- **Dealing:** Brokerage service extended to customers for trading in Tadawul market as well as UAE market covering both Dubai and Abu Dhabi stock exchanges. The total Value of Shares Traded in Tadawul Exchange for the year 2016 reached SAR 1,156.99 billion compared to SAR 1,660.62 billion for the previous year, decreased by 30.33%. In line with that, ENBDC local brokerage trading value came down by 21.5 % while revenue saw a decline of 27 % vis a vis previous year.
- **Managing:** ENBDC Management has achieved Asset Under Management to the tune of SAR 3.024 Billion which has grown by 121 % on YOY basis, while the revenue booking in 2016 had seen a spike of more 50 % from the previous year. Revenue from Asset Management has contributed more than 50 % of 2016 Operating Income of ENBDC.
- **Arranging:** Revenue generation from Investment Banking may not achieve the desired level in 2016, however more concerted efforts are on the cards to witness sizeable growth in 2017.
- **Advisory & Wealth Management:** As envisaged, both business and revenue generation could not be achieved in 2016, however with the proposed pipeline business issues pending at the gross root will garner good revenue in the forthcoming year; and
- **Custody:** The revenue generation from Custody license has seen a steady growth over the past few years and on YOY basis, it is more than 60 % which contributes around one fifth of total Operating Income of ENBDC. In years to come, it is expected to yield higher revenue based on the support from ENBD group entities.

### **3. Action plans/Decisions initiated:**

In order to comply with Regulatory regulations as well as to comply with New Companies Laws of Kingdom of Saudi Arabia, the shareholders have provided approval to convert ENBDC into Closed Joint Stock Company (CJSC) from the Limited Liability Company stature.

Shareholders have gratefully agreed to absolve the accumulated loss to the tune of SAR 50 Million by way of write off and capital reduction, hence the Capital of ENBDC will be stand reduced to SAR 65 Million for which necessary approval from Capital market Authority has been obtained during first quarter of 2016. Legal team is initiating the capital reduction process with Government Agencies along with CJSC conversion, which is expected to be completed before 30<sup>th</sup> April 2017.

Another conscious decision taken during 2016 was to prepay the subordinated loan of SAR 15 Million which has certainly maintained the Capital Adequacy Ratio of ENBDC which stands at 8.27.

One of the shareholders (Emirates Financial Service PSC) had undergone name change to Emirates NBD Capital PSC and process of name change had experienced inordinate delay.

In June 2016, the Board has elevated Head of Asset Management to be the new Chief Executive Officer for ENBDC KSA to guarantee the business continuity and promote the business activity.

During 2016, shareholders have provided their resolution in supporting ENBDC to continue with the operations in complying with Article 181 required by Saudi Arabia regulations for Companies (as accumulated losses of the company is exceeded 50 % of its capital).

As per ENBDC's (Prudential) Report for Dec' 2016, the Total Capital Ratio stood at 8.27x (minimum of 1x is required as per Prudential Guidelines of CMA). Despite reduction in capital from SAR 115 M to SAR 65 M, the Capital Adequacy Ratio will not undergo any change as it is absolving the accumulated loss from the balance sheet of ENBDC KSA.

### **4. Details of number of branches/Subsidiaries:**

Emirates NBD Capital KSA is a wholly owned subsidiary of Emirates NBD Group, Dubai and it is operating from its main office in Riyadh with no other branches and subsidiary to it.

### **5. Particulars of Sub-ordinated loan:**

The management of ENBDC took a call to go for prepayment of subordinated loan which was approved by the members and closed upon approval from the Regulatory authorities. As on 31st Dec 2016, ENBDC do not have subordinated loan in the balance sheet.

## 6. ENBDC Shareholders:

During 2016, one of the shareholders name had undergone change say Emirates Financial Services PSC to Emirates NBD Capital PSC and the process of conversion at Regulatory and Government agencies had taken much longer time which had delayed the Closed Joint Stock Company conversion process of ENBDC in KSA.

#	Full Name	Nationality	%	Paid up capital
1	EMIRATES NBD (PJSC)	UAE	95.00 %	SAR 109,250,000
2	EMIRATES FINANCIAL SERVICES PSC	UAE	5.00 %	SAR 5,750,000
<b>Total</b>			<b>100 %</b>	<b>SAR 115,000,000</b>

## 7. Risk Management Activity (Risk Events/Incidents) 2016:

Risk Management is an integral function within ENBDC KSA and is headed by the Head of Risk & Compliance who is functionally reports to Board Risk & Compliance Committee. The department is responsible for the design, development and implementation of risk management process, policies and framework that caters for the identification, assessment, monitoring and control of operational risks arising from the business activities of ENBDC KSA across all its business lines and support functions. Risk management helps to ensure that risk exposures do not become excessive relative to the firm's capital position and its financial position. Risk & Compliance department is performing the risk reviews and assessments of any new products/ processes/changes initiative documents and provides necessary sign off from the risk management perspective. In the process of risk assessment and identification, the units are provided with appropriate solution for mitigation of identified risk.

Based on Committee for Resolution of Securities Disputes verdict in Feb'16 on long pending customer complaint issue, an amount of SAR 13,080.88 was paid to Customer in Mar'16. Apart from that, few Operational risk incidents had occurred due to System and Data Entry errors which had a minor financial impacts and the necessary corrective action have been taken place to avoid any such occurrence in future. The Company is not exposed to any type of liquidity, market, credit and funding risk events due to current business activities carried out by ENBDC KSA.

## 8. Internal Control Review:

As per approved Risk & Compliance annual monitoring plan, the Risk & Compliance department is conducting an internal control review over all business and support units and the identified/outstanding issues are classified as Low/medium or High risk based on the ENBDC KSA Risk Matrix. The relevant suggested action plan with target dates are recorded and monitored till closure. The review report is being shared with Risk & Compliance committee during Quarterly meetings and the minutes of the same is shared with Board Members.

In addition to above, a review on ENBDC's Information Technology controls was conducted by Internal Audit team during 2016. The overall audit rating for this review was "Acceptable" and the action items due for 2016 have been closed.

## 9. Audited Financial Report:

Statutory audit for 2016 has been carried out by external auditor E & Y Saudi Arabia on Financials of ENBDC KSA and it was presented to BoD members before being submitted to Regulatory Authorities. Copy of the Audited financials is attached herewith for reference. BOD would like to highlight of the following:

- ENBDC has achieved a Net Operating Income (Before Zakat) of SAR 3,303 K in 2016 compared to SAR 210 K in 2015;

ENBDC KSA Board is confident that the financial turnaround made in 2016 would be maintained and greater goals in terms of reducing the accumulated loss would be achieved in years to come.

## 10. Structure of ENBDC KSA Board:

It has been decided to increase the number of existing Board members from five to six by including Mr. Ahmad Al-Qassim as Non-Executive Board Member and the same has been documented in the revised articles of association drafted for conversion process of ENBDC KSA Closed Joint Stock Company. Upon conversion, the regulatory approval process will be taken up. As on 31<sup>st</sup> Dec 2016, the Board members are as follows:

#	Name of the Director	Designation	Other Directorships
1	Mr. Hesham Abdulla Al Qassim	Chairman (Non-Executive Director)	<ul style="list-style-type: none"> <li>• CEO and Vice Chairman for wasl Asset Management Group/DREC .</li> <li>• Vice Chairman of Emirates NBD Bank PJSC.</li> <li>• Chairman of Emirates Islamic Bank.</li> <li>• Chairman of Emirates NBD Egypt.</li> <li>• Board member for:               <ul style="list-style-type: none"> <li>a) Dubai International Financial Centre (DIFC) Authority;</li> </ul> </li> </ul>

			b) Emirates Telecommunications Corporation (Etisalat); c) National General Insurance Co. ; d) Amlak Finance; e) Emirates Institute for Banking and Financial Studies (EIBFS) and f) International Humanitarian City.
2	Mr. Suvo Sarkar	Director (Non-Executive)	General Manager, Retail Banking Emirates NBD Dubai. • Director, Emirates Money Consumer Finance LLC • Director, Tanfeeth LLC • Director, Emirates NBD S.A.E. • Chairman, Emirates NBD AM LLC
3	Mr. Loai Hassan MohammedAli Abduljawad	Director (Non-Executive)	Chief Executive Officer, Emirates NBD KSA Branch.
4	Mr. Tamer Waleed Bazzari	Director (Independent)	Founder & CEO - Genero Capital LLC, Dubai.
5	Mr. Thamer Jan Abdulqader Abdullah	Director (Independent)	Gulf Finance Company, Saudi Arabia as Chairman. Director, Delta Co. - KSA

### 11. ENBDC Board Meetings:

As planned earlier in 2015, the Board meetings were held on each quarter of 2016 as per detail below:

1. Q 1'16 – 30<sup>th</sup> March 2016 – all members were present;
2. Q 2'15 – 29<sup>th</sup> May 2016 – all members were present;
3. Q 3'16 – 11<sup>th</sup> October 2016 – all members were present; and
4. Q 4'16 – 7<sup>th</sup> December 2016 - all members were present.

### 12. Remuneration to Board Members & Top five Executives salaries in ENBDC KSA

As per the Board resolution, the Independent members are being compensated with SAR 120 K per annum by way of sitting fees apart from Travelling & Boarding expenses (if any), while the services of other Non-Executive Directors are considered as honorary and no monetary benefits is offered to them. Bonuses in kind (Employee Stock Option (ESOP)) is not available neither to Board members nor staff members of ENBDC KSA.

Disclosure of Salaries and Bonus paid in ENBDC KSA			
Details	Executive BoD	Independent BoD	Salary of Top 5 Executives (including CEO and CFO)
Salaries & Compensations	Not Applicable	Not Applicable	<b>SAR 3,549,826</b>
Allowances	Not Applicable	Not Applicable	Not Applicable
Periodical & Annual Bonus	Not Applicable	<b>SAR 240,000</b>	<b>SAR 807,000</b>
Incentives	Not Applicable	Not Applicable	Not Applicable
Other Perks paid on Monthly/ Annual basis	Not Applicable	Not Applicable	Not Applicable

### 13. ENBDC Board Sub-Committees:

In compliance to Corporate Governance charter of ENBDC KSA and Capital Market Authority requirements, the following Board committees are in place:

- a) Executive Committee;
- b) Nomination & Remuneration Committee;
- c) Risk & Compliance Committee; and
- d) Audit Committee.

Roles & Responsibilities of Board & Sub-Committees are attached (Appendix 1) for reference.

Members of board sub-committees & meetings held during 2016 are as follows:

#### a. Board Executive Committee (BEC):

1. Mr. Suvo Sarkar – Chairman;
2. Mr. Loai Abduljawad – Member;
3. Mr. Tamer Bazzari – Member; and
4. Mr. Thamer Jan – Member.

Meetings were held on 9<sup>th</sup> March 2016, 24<sup>th</sup> May 2016, 4<sup>th</sup> October 2016 and 4<sup>th</sup> December 2016 and the minutes were presented to Board members subsequently.



**b. Board Nomination & Remuneration Committee (BNRC):**

1. Mr. Suvo Sarkar – Chairman;
2. Mr. Loai Abduljawad – Member; and
3. Mr. Tamer Bazzari – Member.

As there was no issue to take it up with BNRC during 2016, no meeting has been convened in the year 2016.

**c. Board Risk & Compliance Committee (BRCC):**

1. Mr. Loai Abduljawad – Chairman;
2. Mr. Said Abdallah – Member; and
3. Mr. Amir El Zanati – Member.

Meetings were held on 9<sup>th</sup> March 2016, 10<sup>th</sup> May 2016, 26<sup>th</sup> Sep 2015 and 1<sup>st</sup> December 2016 and the minutes were presented to Board members subsequently.

**d. Board Audit Committee (BAC):**

1. Mr. Tamer Bazzari – Chairman;
2. Mr. Thamer Jan – Member; and
3. Mr. Mazen Ibrahim – Member.

Meetings were held on 17<sup>th</sup> March 2016, 19<sup>th</sup> May 2016, 6<sup>th</sup> October 2016 and 5<sup>th</sup> December 2016 and the minutes were presented to Board members subsequently.

**14. RELATED PARTY TRANSACTIONS DURING (2016):**

The Company transacted with the following related parties. The terms of those are approved by the management of the Company.

Name	Relationship
Emirates NBD Dubai – PJSC	Shareholder
Emirates NBD Private Banking Dubai	Shareholder
Emirates NBD Bank – Riyadh Branch	Shareholder
Emirates NBD Securities, Dubai	Affiliate
Emirates NBD Asset Management Limited, Dubai	Affiliate

The significant transactions with related parties and the related amounts are as follows:

Transactions Details	2016	2015
Recharge of Staff cost from ENBD Private Banking Dubai	1,390,552	520,362
Custody fees from ENBD Bank Riyadh Branch	4,594,186	4,473,126
Referral Fees from ENBD Private Banking Dubai	149,831	161,404
Premises Rent to ENBD Bank Riyadh Branch	604,439	709,940
Management Fees from ENBD Asset Management Ltd. Dubai	5,227,295	2,861,882
Annual Charges to Emirates NBD Dubai – PJSC	539,507	499,711
Charges to Emirates NBD Securities, Dubai	18,609	18,608

The Company's audited financial report (2016) had detailed narration of each of the above items in paragraph 8 along with relevant notes. Besides the above related party transactions, there are no other businesses or contracts in which the Company is a party or in which any of the Company's Board Members, Chief Executive Officer, Finance Manager or any related party has an interest.

#### 15. Penalty payments:

Board Members are pleased to place on record that the Company was not subject to any penalty either from the regulatory authority or from any of the governmental agency during the calendar year 2016.

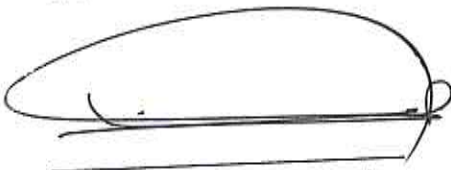
#### 16. Internal Audit Review:

As per Internal Audit plan, an audit exercise covering General Control on Information Technology has taken place in 2016 which came out with a rating of "Acceptable" with two significant findings and three insignificant findings. Suggested mitigation plans have been monitored internally by Risk & Compliance team and quarterly updates have been submitted to both Risk & Compliance and Audit committee members. In addition, Board members were being apprised. As on 31/12/2016, ENBDC KSA has no outstanding audit issues.

**17. Conclusion:**

ENBDC KSA has achieved an excellent financial result in 2016 that is the revenue generation has seen a massive growth of 32 % on YOY basis and the Net Profit before Zakat/Tax stood at SAR 4,406 K compared to SAR 210 K in the previous year. Achievement of this financial result is really commendable at this stage in KSA where the market sentiment is at very low due to various economic reasons and this has been possible with able leadership and collective team work at the ground level and continuous support from ENBD Group subsidiaries.

The Board of Directors takes this opportunity to express its appreciation and gratitude to ENBDC KSA's customers, shareholders and staff for their support during 2016. The Board also extends its thanks to the Capital Market Authority for their support of all that contributes to the development of the investment banking sector.

A handwritten signature in black ink, appearing to be "Hesham Abdulla Al Qassim", written over a horizontal line.

Hesham Abdulla Al Qassim.  
Chairman, ENBDC KSA.  
Date: 14/03/ 2017.

## **APPENDIX 1:**

### **FUNCTIONS & RESPONSIBILITIES OF SUB-COMMITTEES:**

#### **A. Functions and Responsibilities of the Audit Committee:**

- Oversee the Company's internal audit department to ascertain the extent of effectiveness in carrying out the works and tasks set by the Board.
- Review the internal control system and prepare a written report outlining its opinions and recommendations in this regard.
- Review the internal audit reports and follow up the implementation of the corrective actions proposed therein.
- Provide recommendations to the Board on the selection, appointment and removal of auditors, and the review by the Committee of their professional competence and independence, and the potential risks of any conflict of interest, and their fees.
- Follow-up the auditors' works and approve any works outside the audit scope of work that may be assigned to them while performing the audit works.
- Review the audit plan with the auditors and comment on the same.
- Review the notes of the auditors on the financial statements and follow up the actions taken in respect thereof.
- Review the interim and annual financial statements before submission to the Board and give opinion and recommendation in respect thereof.
- Review the accounting policies used and give opinion and recommendation to the Board on the same.

#### **B. Functions and Responsibilities of the Nomination and Remuneration Committee**

- Recommend nominees to the Board of Managers in accordance with applicable policies and guidelines. No person previously convicted of any crime involving dishonesty or moral turpitude may be nominated.
- Conduct annual review of appropriate skills needs required for Board membership and prepare a description of the capabilities and qualifications required for Board membership, including determination of the amount of time that must to be devoted by the member to the Board activities.
- Review the structure of the Board of Managers and provide recommendations on such changes that can be made.

- Identify the weaknesses and strengths of the Board, and propose appropriate actions to address weaknesses based on the Company's interests.
- Annually ascertain independence of independent members, and ensure that there is no conflict of interest if the member serves on the Board of another company.
- Develop clear policies for compensation and remuneration of Board members and senior executives using performance-linked criteria.

**C. Functions and Responsibilities of the Executive Committee**

- Oversee implementation of decisions passed by the Company's Board of Managers.
- Regularly update the Company's Board of Managers on the Executive Committee's activities.
- Oversee the provision of the annual strategic plan.
- Submit recommendations to the Company's Board of Managers to approve unbudgeted expenditures.
- Review the Company's budget and recommend approval thereof.
- Assign tasks to other committees, monitor performance of the same and provide recommendations thereon.
- Implementation of the Companies policies.
- Review the financial strategy specified by the Company to ensure achievement of financial targets.
- Review the investment objectives, policies and guidelines proposed by the Company managers and direct the Company's investment portfolio.
- Provide recommendations to the Board on the following resolutions:
  - The Company's strategy and action plans.
  - The business budgets.
  - New Projects and products outside the Executive Committee powers.
  - Policies and procedures relating to investments outside the Executive Committee powers.
  - Suggestions on bonuses of Company employees.

**D. Functions and Responsibilities of the Risk and Compliance Committee**

- Develop the Company's Risk/Compliance guidelines, policies and procedures.
- Establish a separate Risk/Compliance management in the Company.
- Ensure that all material Risk/Compliance activities are put forth to the Company's Board of Managers.
- Ensure implementation of Risk/Compliance policies and procedures and Risk/Compliance control plans and ensure adherence to Capital Market Law and its implementing regulations.
- Assess Risk/Compliance policies and procedures on a regular basis.
- Review risks of non-compliance with the responsibilities and functions of Risk/Compliance employees, and monitor and report such risks.
- Submit suggestions to develop Risk/Compliance policy and procedures and control plan.
- Notify the Audit Committee of all activities that may have material financial impact on the Company.
- Meet regularly to discuss compliance and complaint handling activities and any other regulatory activities, and, if appropriate, adjust the same.
- Supervise and train the Committee staff and follow up their performance in order to ensure fulfillment of their responsibilities appropriately.
- Notify the Company's Board of Managers of any material violations of laws, regulations, rules, code of conduct, or best practice standards.
- Determine the penalties to be applied in case of detection of any violation.
- Present the minutes of meetings to the Company's Board for approval.
- Provide in-house resources to the committee.
- Present a report to the Company's Board on current compliance status with respect to the following:
  - i. Achievement of the objectives of the Risk & Compliance Department
  - ii. Human and technical resources required to achieve these objectives.
  - iii. Key remarks, weaknesses, irregularities (if any), recommendations, and the corrective actions taken, as well as any preventive measures to ward off the risks identified.
  - iv. Information related to the functions and responsibilities of the Risk/Compliance department.