



The Northern Trust Company of Saudi Arabia

Pillar 3 Disclosures

Prudential Capital Rules Requirements

December 2014

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1. OVERVIEW

The Prudential Rules issued by the Capital Market Authority of Saudi Arabia (CMA) came into effect in December 2012, establishing an enhanced framework of capital adequacy regulation for authorised persons incorporating three distinct pillars. Pillar 1 prescribes the minimum capital requirements for these firms. Pillar 2 addresses the Internal Capital Adequacy Assessment Process (ICAAP). Pillar 3 promotes market discipline through further public disclosure requirements, aimed at providing market participants with key information on the firm's capital adequacy, risk exposures and risk management processes.

The adoption of the Pillar 3 requirements was made effective for the financial year ended December 2014. The Pillar 3 disclosure requirements are set forth in Chapters 21 & 22 and Annex 10 of the Prudential Rules.

The disclosures are reported in Saudi Riyals (SAR), the functional and reporting currency of The Northern Trust Company of Saudi Arabia (TNTCoSA). The disclosures provided herein are unaudited and do not constitute any form of financial statements and should not be relied upon in making investment decisions in relation to Northern Trust Corporation (NTC).

2. LOCATION AND FREQUENCY OF DISCLOSURE

The disclosure is updated at least annually as at TNTCoSA's accounting year end date of 31 December and published in the Investor Relations section of NTC's website (www.northerntrust.com).

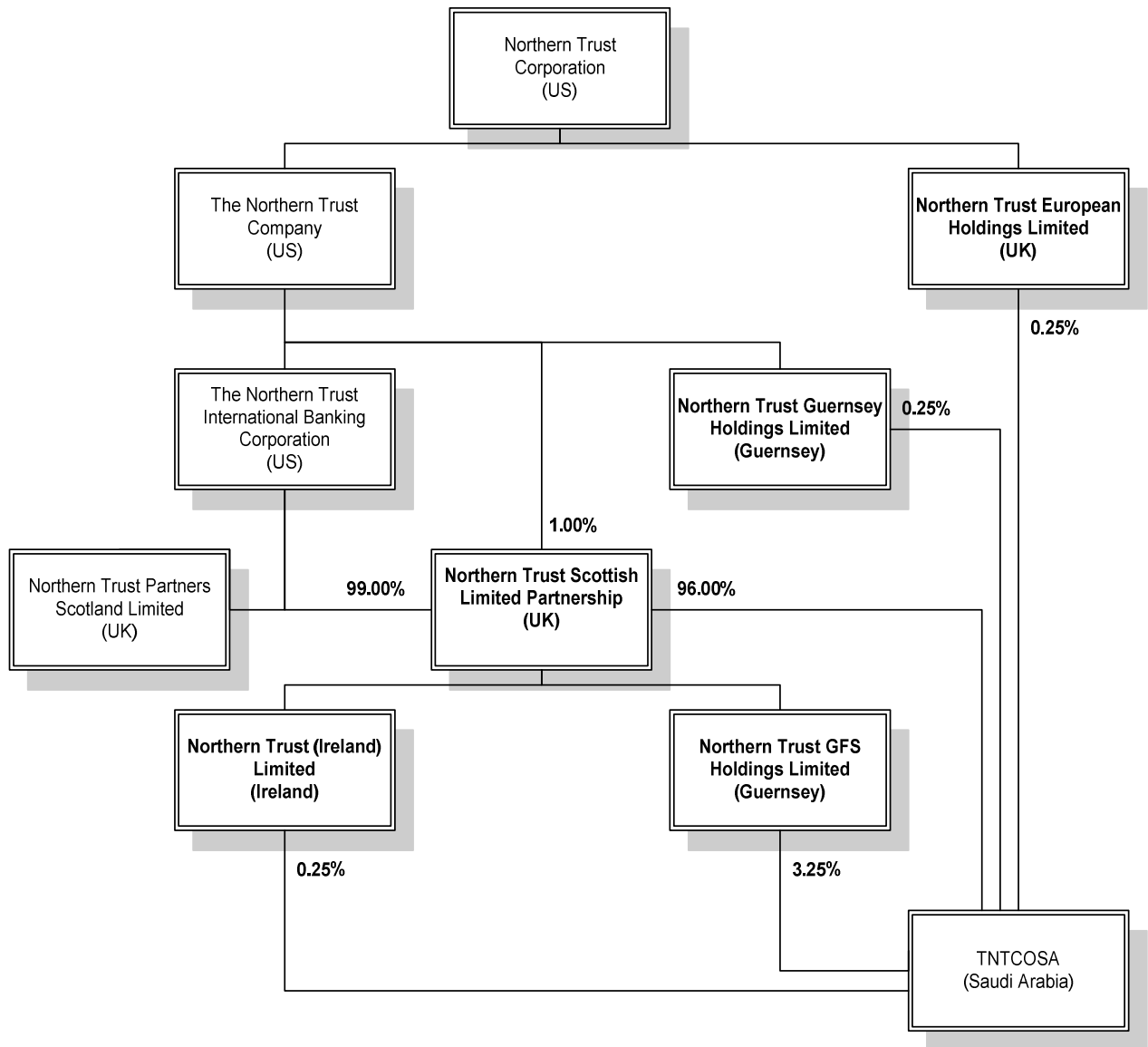
3. SCOPE OF APPLICATION

TNTCoSA is a Saudi closed joint stock company and is authorised and regulated by the CMA under licence number 26-12163 to provide securities services. TNTCoSA offers global custody, asset management and advisory services to Saudi Clients.

TNTCoSA is 96% owned by Northern Trust Scottish Partnership Limited, a subsidiary of The Northern Trust International Banking Corporation (TNTIBC), a US incorporated bank. NTC, a financial holding company based in Chicago, is the ultimate parent of TNTIBC and its subsidiaries. NTC affiliates also hold the remaining 4% of TNTCoSA.

TNTCoSA prepares financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and are submitted annually to the CMA.

The TNTCoSA ownership structure is shown below.



TNTCoSA has undertaken the following to comply with the Prudential Rules.

- Pillar 1: Minimum Capital Requirements. TNTCoSA calculates its minimum capital requirement using the Capital Adequacy Model provided by the CMA. TNTCoSA's capital position is calculated and reported on a monthly basis to the CMA.
- Pillar 2: The Supervisory Review Process. TNTCoSA completes an Internal Capital Adequacy Assessment Process (ICAAP) at least annually. The results are reviewed and approved by its Board of Directors and the relevant ICAAP documentation is submitted to the CMA; and
- Pillar 3: Market Discipline. This Pillar 3 disclosure document provides information on TNTCoSA's risk management objectives and policies, its financial position, capital position, approach to assessing adequacy of its capital and exposure to material risks. The Pillar 3 disclosure is approved by the Board of TNTCoSA before submission to the CMA and publication on the NTC website.

Other than restrictions due to regulatory capital requirements and corporate law restrictions on the reduction, redemption and purchase of share capital, there are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resource between Northern Trust affiliates.

4. CAPITAL STRUCTURE

The capital structure and capital resources of TNTCoSA as at 31 December 2014 are presented below:

All figures in SAR thousands	Dec 2014
Capital Base	
Tier-1 capital	
Paid-up capital	52,000
Audited retained earnings	6,498
Share premium	-
Statutory reserves	722
Tier-1 capital contribution	59,220
Deductions from Tier-1 capital	-
Total Tier-1 capital	<u>59,220</u>
Tier-2 capital	
Subordinated loans	-
Cumulative preference shares	-
Revaluation reserves	-
Other deductions from Tier-2 (-)	-
Deduction to meet Tier-2 capital limit (-)	-
Total Tier-2 capital	<u>-</u>
TOTAL CAPITAL BASE	<u><u>59,220</u></u>

As at 31 December 2014 TNTCoSA's capital base stood at SAR 59.22 million comprising of SAR 52.0 million paid up capital, SAR 0.7 million in statutory reserves and SAR 6.5 million in audited retained earnings.

In accordance with Saudi company law, TNTCoSA must transfer 10% of audited net profits after tax to a statutory reserve until this reserve equals 50% of paid up capital. The reserve is not available for distribution.

Audited retained earnings represents cumulative total of annual net profits minus transfers to statutory reserves and shareholder dividend payments. Under its Articles of Association the Board of Directors may set aside net profits to build up additional reserves for a specific purpose. Any remaining profits are to be paid as a dividend where in excess of 5% of paid up capital.

TNTCoSA does not have any Tier 2 Capital.

5. CAPITAL ADEQUACY

5.1. OVERVIEW

The Board of Directors of TNTCoSA is updated on the capital position on a quarterly basis to ensure that it is sufficient to meet strategic goals and commensurate with its risk profile. TNTCoSA calculates its Pillar 1 capital requirement in accordance with the CMA prudential rules as the sum of credit risk, market risk and operational risk capital requirements. The Pillar 1 Capital requirements are reported to the CMA on a monthly basis and as outlined below, the ongoing ICAAP process provides further assessment for any further risk capital under Pillar 2.

TNTCoSA is sufficiently capitalised to meet its regulatory capital requirements under Pillar 1 and Pillar 2.

5.2. PILLAR 1 CAPITAL REQUIREMENT

TNTCoSA calculates its Pillar 1 capital requirements in accordance with the Prudential Rules as the sum of the following:

1. Credit risk requirement
2. Market risk requirement
3. Operational risk requirement

A summary of Pillar 1 capital requirements of TNTCoSA as at 31 December 2014 are provided in the table below. A more detailed breakdown is provided in Appendix I.

All figures in SAR thousands	Dec 2014
Total Exposure	62,902
Total Risk Weighted Assets	15,669
Credit Risk	2,194
Market Risk	20
Operational Risk	1,800
Total Minimum Capital Requirements	4,014
Capital Base	59,220
Surplus / (deficits) in Capital	55,206
Capital Ratio (Time)	14.75

5.3. CREDIT RISK CAPITAL REQUIREMENT

TNTCoSA calculates its credit risk capital requirements using the approach as laid out in the Prudential Rules. The Minimum credit risk capital requirement is calculated by applying a risk weight for each class of exposures and is expressed as 14% of risk weighted exposures. Where available, issuer ratings from the External Credit Assessment Institutions (ECAIs) Standard & Poor's, Fitch Ratings, Capital Intelligence and Moody's are used in the determination of the relevant risk weighting across all exposure classes. Where ECAI ratings differ, the lower issuer rating is applied.

A breakdown of TNTCoSA's credit risk exposures as at 31 December 2014 by asset class and by credit quality step are provided in Appendix II and III. These exposures are representative of TNTCoSA's positions during the year hence average exposure balances have not been disclosed.

Breakdowns of exposures by geographical segment and contractual maturity as at 31 December 2014 are provided in the following tables:

All figures in SAR thousands Credit Risk Exposure by Geographical Segment	Total	Europe	North America	Kingdom of Saudi Arabia
Government and Central Banks	5,594	-	-	5,594
Authorised Person and Banks	56,577	94	3,573	52,910
Corporates	299	299	-	-
Other assets	432	-	-	432
Total	62,902	393	3,573	58,936

All figures in SAR thousands Credit Risk Exposure by Contractual Maturity	Total	Less than 1 month	Less than 3 months	Less than 6 months	Less than 12 months	undated
Governments and Central Banks	5,594	2,797	2,797	-	-	-
Authorised Persons and Banks	56,577	8,519	48,058	-	-	-
Corporates	299	299	-	-	-	-
Other Assets	432	-	-	-	370	62
Total	62,902	11,615	50,855	-	370	62

5.4. MARKET RISK CAPITAL REQUIREMENT

TNTCoSA does not hold or manage trading positions and is not subject to trading book market risks. TNTCoSA's market risk mainly arises on assets and liabilities denominated in foreign currency, calculated as 14% of the higher of net short and long positions.

5.5. OPERATIONAL RISK CAPITAL REQUIREMENT

TNTCoSA calculates its Pillar 1 operational risk capital requirement as the higher of 15% of the revenue based requirement calculated under the Basic Indicator Approach or 25% of annual overhead expenses. As at 31 December 2014 the operational risk capital requirement was represented by the annual overhead expense figure.

5.6. THE ICAAP

TNTCoSA conducts an ICAAP as required by the Prudential Rules. The ICAAP considers the adequacy of the capital resources to cover Pillar 1 risks as well as considering other risks not captured within this Pillar 1 assessment. These assessments are supported by scenario analysis and stress testing. The ICAAP also provides detail on the risk management framework and a risk assessment of all risk categories.

The ICAAP takes key input from NTC's risk professionals, business management and the finance group. For each risk category the inherent risk profile has been documented, along with the risk mitigation practices in place to derive an overall residual risk profile.

For the material risks, scenario and stress testing is used to evaluate the potential capital demands on TNTCoSA. Business management and the Board provide input to the scenarios and stress testing process to ensure all appropriate information and experience is brought to this evaluation exercise.

The ICAAP has concluded that there is no need for TNTCoSA to hold capital in addition to its Pillar 1 capital requirement. Pillar 1 capital requirements are adequately covered by existing capital resources.

The ICAAP is an ongoing process. Scenario and stress testing is revisited annually and more frequently should material events (external and/or internal) warrant a re-assessment. The ICAAP document is formally reviewed by the TNTCoSA Board on an annual basis.

The ICAAP has been prepared in accordance with Prudential Rules and relevant guidance issued by the CMA and is submitted to the CMA on an annual basis.

6. RISK MANAGEMENT

6.1 OVERVIEW

Risk management is the responsibility of the TNTCoSA Board. This is conducted within the overall global risk framework of NTC. Policies and practices are validated and locally approved by the Board and the local risk organisation is structured to provide the Board with the necessary risk reporting and oversight to satisfy their responsibilities.

Consistent with NTC's overall risk appetite, TNTCoSA's attitude towards risk is conservative with a long term objective of stability. TNTCoSA aims to maintain a low to moderate level risk appetite, which is defined and integrated with its business strategy through the use of risk tolerance thresholds. These act as triggers to measure and monitor risk on an on-going basis.

The nature of the business operating model employed by TNTCoSA results in low exposure to credit, operational, market and liquidity risk.

6.2 GENERAL QUALITATIVE DISCLOSURE FOR RISKS

Northern Trust employs an enterprise wide risk management (ERM) framework which provides for a consistent understanding of risk management throughout the organisation.

The ERM Framework is integral to capital and liquidity adequacy assessments. Key intersections include:

- The execution of corporate strategy consistent with risk appetite, inform capital and liquidity adequacy assessments.

- The risk assessment process identifies key risks and provides the basis to determine the capital and liquidity requirements, which in turn are used to help assess capital and liquidity adequacy.
- Integrated scenario analyses that considers the impacts of specific events on capital and liquidity positions.

One of Framework's principal goals is to ensure that Northern Trust's strategy is executed consistently within corporate risk appetite and the individual risk categories' thresholds.

The diagram below depicts Northern Trust's risk management governance structure:

Northern Trust Corporation Board of Directors			
Audit Committee	Business Risk Committee	Business Strategy Committee	Compensation and Benefit Committee

Global Enterprise Risk Committee (GERC)				
Asset & Liability Management Policy Committee	Credit Policy Committee	Fiduciary Risk Committee	Operational Risk Committee	Compliance & Ethics Oversight Committee

Disclosures for each individual risk category are as follows.

Credit Risk

Credit risk is the risk to interest income or principal from the failure of a borrower or counterparty to perform an obligation. For TNTCoSA credit risk arises from the placement of its surplus balance sheet capital with local banks and the risk that fee income may not be received. TNTCoSA does not undertake any derivative, repo and reverse repo or securities borrowing/lending that would give rise to counterparty credit risk. It also does not make use of credit risk mitigation arrangements.

The counterparties used by TNTCoSA for investment of surplus cash are highly credit worthy financial institutions. TNTCoSA's Board approved Liquidity and Investment Policy limits placement of capital in the interbank market to a maximum tenor of 3 months. Placement is with Saudi banks and may only be invested outside Saudi Arabia with prior approval of at least one director of the TNTCoSA Board; such external investment is also subject to the CMA's large exposure rules.

TNTCoSA has robust processes and controls in place to mitigate risk of loss including pre-approved counterparty limits set by the NTC Counterparty Risk Management Committee, periodic monitoring and reporting of exposure, daily monitoring of country risk limits and maintaining short duration for placements.

None of TNTCoSA's credit exposures were reported past due or impaired in the 2014 financial statements. All receivables are repayable on demand or within 3 months.

Market Risk - Trading

Market Risk is the risk from sensitivity of earnings and economic value of equity to interest rate changes, and changes in the value of trading position from movement in market variables such as foreign exchange, interest rates and commodity risk.

TNTCoSA does not hold or manage trading positions and therefore is not subject to trading book market risk.

In terms of foreign exchange, TNTCoSA's capital and reserve funds are invested in local base currency and therefore do not present market risk.

Interest Rate Risk in the Banking Book

Interest rate risk is the risk to earnings or common capital due to changes in interest rates.

For TNTCoSA interest rate risk is minimal due to the short term investment of surplus cash in money market deposits. Investment risk monitoring is performed by the financial control and treasury departments, with oversight performed by the Compliance department. .

Liquidity Risk

Liquidity risk is the risk of not being able to raise sufficient funds to meet on-and off-balance sheet cash flow obligations when they fall due and payables because of firm-specific or market-wide events.

Under Northern Trust's risk framework, liquidity risk is governed by the Asset and Liability Management Policy Committee (ALCO). TNTCoSA's liquidity risk is minimal as it does not take on customer deposits or trade as principal; liquidity risk is limited to the management of day to day operating expenses.

TNTCoSA's Board approved Liquidity and Investment Policy delegates responsibility for the management of working capital requirements to the financial control department, who ensures funds are available to meet expenses in a timely manner.

In addition, TNTCoSA senior management, in conjunction with the treasury, legal and financial control departments, ensure that cash and securities may be freely transferred between Northern Trust and TNTCoSA where necessary to manage liquidity. Liquidity stress testing and contingency funding planning for TNTCoSA are included as part of the wider Northern Trust liquidity risk framework.

Liquidity risk monitoring is performed by the financial control and treasury departments, with oversight performed by the Compliance department.

Operational Risk

Operational risk is defined as the risk of loss from inadequate or failed internal processes, people and systems or from external events.

Due to the current operating model (delegation of licensed activity to offshore affiliates) limited operational activity is performed locally. Therefore for TNTCoSA, business disruption represents the key component of operational risk.

Business continuity risk is managed by a dedicated Global Business Continuity and Recovery Services group (GBCRS). GBCRS sets the standards and manages the testing of incident response organisation, disaster recovery and business continuity plans.

A business continuity plan for TNTCoSA has been established, which deals with the loss of building, applications, people and service providers. Each appointed affiliate also has its own business continuity plan.

7. CONTACTS

Should you have any queries please contact:

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APPENDIX I – DETAILED CAPITAL REQUIREMENTS CALCULATION

All figures in SAR thousands		December 2014		
Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
Credit Risk				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks	5,594	5,594	-	-
Authorised Persons and Banks	56,577	56,577	11,315	1,584
Corporates	299	299	2,135	299
Retail	-	-	-	-
Investments	-	-	-	-
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	432	432	2,219	311
Total on-balance sheet exposures	62,902	62,902	15,669	2,194
<i>Off-balance Sheet Exposures</i>				
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-
Total on and off-balance sheet exposures	62,902	62,902	15,669	2,194
Prohibited Exposure Risk Requirement	-	-	-	-
Total Credit Risk Exposures	62,902	62,902	15,669	2,194
Market Risk				
	<u>Long position</u>	<u>Short position</u>		
Interest rate risks	-	-		-
Equity price risks	-	-		-
Risks related to investment funds	-	-		-
Securitisation/resecuritisation positions	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	40	261		20
Commodities risks	-	-		-
Total Market Risk Exposures	40	261		20
Operational Risk				1,800
Minimum Capital Requirements				4,014
Surplus/(Deficit) in capital				55,206
Total Capital ratio (time)				14.75

APPENDIX II - CREDIT EXPOSURES BY ASSET CATEGORY

All figures in SAR thousands

Risk Weights	Exposures after netting and credit risk mitigation											Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets	
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments			
0%	5,594	-	-	-	-	-	-	-	-	-	-	-	5,594	-
20%	-	-	56,577	-	-	-	-	-	-	-	-	-	56,577	11,315
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
200%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	-	-	209	-	-	209	627
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited	-	-	-	-	299	-	-	-	-	223	-	-	522	3,727
Average Risk Weight	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-

APPENDIX III – CREDIT EXPOSURES BY CREDIT QUALITY STEP

All figures in SAR thousands

Exposure Class	Long term ratings of counterparties							
	Credit quality step S&P Fitch Moody's Capital Intelligence	1 AAA TO AA-	2 A+ TO A-	3 BBB+ TO BBB-	4 BB+ TO BB-	5 B+ TO B-	6 CCC+ and below CCC+ and below Caa1 and below C and below	Unrated Unrated Unrated Unrated
On and off-balance-sheet exposures								
Governments and Central Banks		5,594	-	-	-	-	-	-
Authorised Persons and Banks		52,910	3,667	-	-	-	-	-
Corporates		-	-	-	-	-	-	299
Retail		-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	-
Securitisation		-	-	-	-	-	-	-
Margin Financing		-	-	-	-	-	-	-
Other Assets		-	-	-	-	-	-	432
Total		58,504	3,667	-	-	-	-	731

Short term ratings of counterparties are not disclosed given that TNTCoSA does not apply these.