



**NORTHERN  
TRUST**

# **Board of Directors' Report for 2017**

**The Northern Trust Company of Saudi Arabia**

**March 2018**



## NORTHERN TRUST

The Board of Directors of The Northern Trust Company of Saudi Arabia ('TNTCoSA' or 'Company') is pleased to submit the Annual Report for the financial year ended 31 December 2017.

### Introduction

The Northern Trust Company of Saudi Arabia is a Saudi Closed Joint Stock Company. TNTCoSA commenced in the Kingdom of Saudi Arabia from February 2013. TNTCoSA operates in the Kingdom of Saudi Arabia under Commercial Registration No. 1010366439 issued on 22/04/1434H (corresponding to 04/03/2013G) by the Saudi Arabian Ministry of Commerce and Investment and the Capital Market Authority License No. 26-12163 dated 25/10/1433H (corresponding to 12/09/2013G), which authorizes the company to managing of investment funds and client portfolios and advising and custody in the securities business. TNTCoSA's shareholders are wholly owned subsidiaries of the Northern Trust Corporation. The Registered office of the company is located in Riyadh. Northern Trust of Saudi Arabia has no subsidiaries.

### Business strategy

Northern Trust is a leading provider of asset servicing, asset management and wealth management services including global custody, fund administration, investment management, banking and fiduciary solutions for corporations, institutions and affluent individuals worldwide. Northern Trust focuses on two target market segments through its Wealth Management and Corporate & Institutional Services business units.

TNTCoSA has been established to provide custody, asset management and advisory services to local Saudi clients. These clients are expected to include Saudi domiciled funds, charities, corporates, credit institutions, insurance accounts, government agencies, pension schemes and high net worth individuals.

TNTCoSA leverages Northern Trust's global operating model. As a result, contractual arrangements have been put in place to delegate the provision of asset management, global custody and related asset servicing activities to Northern Trust group entities.

### Future Plans

TNTCoSA's business strategy is focused on four key components financial, people, strategy and business.

**Financial:** continue to win appropriately aligned business to achieve our goal of 15% return on equity as well as maintaining an 11% CAGR.

**People:** enhance our partner capabilities across client services and operations through enhanced training and talent management.

**Strategy:** implement Saudi direct custody (July 2018) with a risk based on approach to governance and control of operations and partners.

**Business:** enhance product and services efficiency for clients whilst providing thought leadership and strategic engagement with our clients.

Our strategy will be achieved through a focus on core market segments and the acquisition of new clients underpinned by TNTCoSA's differentiation in the market through its client servicing strategy and focus.



# NORTHERN TRUST

At the end of the 2017, TNTCoSA has 12 employees, seven (7) are Saudi national. TNTCoSA plans to employee five (5) employees in 2018 and two (2) interns, with a focus of employing Saudi nationals.

## Operating Results and Financial Position

Dec. 2017	Dec. 2016	All figures in SAR Thousands
34,617	29,113	Total Revenues
15,415	11,778	Total Expenses
15,282	13,692	Net income after tax
78,838	72,875	Total assets
8,151	5,146	Total Liabilities
70,687	67,729	Net Equity

As required by the CMA the Company is required to publish on an annual basis a set of Pillar 3 disclosures. These disclosures are related to market discipline and aim to make firms more transparent by requiring them to publish prescribed details of their risks, capital and risk management. The Company's most recent set of disclosures are published on the Northern Trust Corporation website and can be found at the following address:

<http://www.northerntrust.com/about-us/investor-relations/financial-information/sec-regulatory-filings>

### Dividend Payments

TNTCoSA paid a dividend of SAR12,323,146 or SAR2.37-per share, to the shareholders registered in the company's share register on the date of the meeting.

### Risk Facing TNTCoSA:

The Market Risk Rule requires Northern Trust to disclose publicly, for each material portfolio of covered positions, certain quantitative and qualitative information. Quantitative disclosures include period-end Value at Risk (VaR) based measures and Stressed VaR (SVaR) based measures.

Qualitative disclosures include the composition of material covered portfolios, Northern Trust's valuation policies, procedures and methodologies, and the characteristics of the internal models in use. All information provided below is at a consolidated Northern Trust level. Much more detailed report as of Q4 2017 is attached as an appendix to this report.

### Subsidiary Companies:

The Northern Trust Company of Saudi Arabia has no Subsidiaries.

### Interests of Board members or persons:



## NORTHERN TRUST

Three members of the Board members are non-executives at Northern Trust; these members did not obtain any bonuses or compensation for their appointment as a member of the Board of Directors of TNTCoSA.

No interest or a contractual subscription rights or securities belonging to the members of the Board of Directors in shares and bonds of the company.

### Auditors' Report

The Auditors, KPMG Al Fozan & Al Sadhan, expressed an unqualified opinion on the Financial Statements of the Company for the financial year ended 2017.

### Board of Directors Members and Related Committees

#### Board of Directors Formation

TNTCoSA Board of Directors is comprised of six (6) members, details provided below. No financial bonuses were paid to the Board members. The independent directors have financial compensations for their appointment as a member of the Board of Directors.

Name	Classification	Memberships in other companies
Fawaz Al Alamy	Non-Executive Independent	University of Prince Mugrin, KSA Batic Investment & Logistic Company, KSA Albakri Holding Group Al Fatah Water Security Company KSA The Industrial Group UAE SADIRAT, KSA Chevron KSA Incorporated
Mazen Aljubeir	Non-Executive Independent	Public Pension Agency KSA Ibrahim Abunayyan Brothers Company, KSA Lafana Company KSA Bawan Company KSA Mohammed Alsubeaei & Sons Investments Company (MASIC), CJSC The National Agricultural Development Co KSA Al Tayyar Travel Group KSA Diyar Al-Khozama Real Estate Development Company Maxis Berhard Telecom Malaysia



		Careem Networks
		Riyadh Airports Company (Closed Joint Stock Company) in Riyadh
		Alraida Investment Company
Lesley Hodgson	Non-Executive	First Arrow Managed Fund Trustees Limited
		Northern Trust Cayman International Limited
		Northern Trust Fiduciary Services (Guernsey) Limited
Michael Slater	Executive Board Member – CEO	N.A
David Wicks	Non-Executive	Northern Trust Global Services Ltd.
Robert Frazer	Non-Executive	N.A

**Board Members Meetings:**

TNTCoSA's Board of Directors held five meetings in 2017, details including dates and attendance. is attached to this report.

**Board of Directors Committees**

The company board of directors has two (2) main committees: the Audit Committee and the Remuneration and Nomination Committee. The following are the descriptions and tasks of these committees.

**(A) Audit Committee**

The Audit Committee consists of three (3) members of the Board. The Audit Committee appoints and evaluates the performance and independence of the independent registered public accounting firm (KPMG), meets with internal audit representatives, receives and discusses the internal audit program and results of examinations, meets with KPMG, and reviews and discusses their reports issued with respect to the quarterly and annual financial statements and the internal financial control structure and procedures for financial reporting. The Audit Committee held four (4) meetings in 2017.

<b>Committee Member</b>	<b>Role</b>
Mr. Robert Frazer	Chairman
Mr. David Wicks	Member
Ms. Lesley Hodgson	Member

**Audit Committee Results for 2017**

During the Audit Committee meetings in 2017, Audit Services presented the 2017 Audit Plan, outlined the results of audits performed over support activities provided by other NT entities, and highlighted the following key audit reports which assessed activities performed by TNTCoSA:

- 1) Saudi Arabia Office audit 2017 (issued November 27, 2017)
- 2) Basel Regulatory Capital and ICAAP Submissions - Saudi Arabia audit 2017 (issued December 1, 2017)

Further information on the abovementioned key audit reports is provided under the Internal Audit and Internal Control Environment section in this Report (see pages 6). The full 2017 Audit Plan was presented to the Audit Committee during 1Q 2017 and any audit issues impacting TNTCoSA were reported in subsequent Audit Committee meetings.

**(B) Remuneration and Nomination Committee (R&N committee)**

The Committee consist of three (3) members of the Board. The R&N Committee tasks and responsibilities include, approve the policies and criteria for nomination to the board membership and appointment of senior executives and ensure the integrity of board members. Annually reviews the skills and capabilities required of those suitable for board membership, ensure independency of independent members and lack of conflict of interests. Reviews the structure of the board and submits the necessary recommendations, identifies strength and weakness points in the board and recommend the necessary corrective measures. Establishment of performance related remuneration policies for the board members and senior executives. The Remuneration and Nomination Committee met twice in 2017

<b>Committee Member</b>	<b>Role</b>
Mr. Robert Frazer	Chairman
Mr. David Wicks	Member
Ms. Lesley Hodgson	Member

**R&N committee Results for 2017:**

During the R&N committee meetings in 2017, the committee recommended the following action to the Board:

- Resignation of Michael Slater as Board Secretary
- Appointment of Ms. Effat Badeeb as Board Secretary
- Resignation of Sheldon Woldt as Board Member
- Appointment of Robert Frazer as Board Member
- Appointment of Michael Slater as Deputy Chairman of the Board

**The deals that must be disclosed:**

The company has not concluded any deals where essential interest of one of the members of the Board of directors, the chief executive officer, chief financial officer, or any person that is related to them through 2017 and concluded directly all the deals with well-known and large companies .

**Board of Directors members and Senior Executives remuneration and bonus**

Please see attached the table for compensations of Board Members and executives; the non-executive directors received SAR407,500 for their Board membership during 2017





**Fines, Penalties and Regulatory Restrictions**

TNTCoSA had one fine in 2017, where the CMA Board issued a fine of SAR60,000 for six (6) breaches of para (A) of article 3 of the APR based on para (b) article 59 of Capital Market Law for delaying the answer of six (6) AML circular(s).

**Internal Audit and Internal Control Environment**

**Audit Committee Results for 2017**

The full 2017 Audit Plan was presented to the Audit Committee during 1Q 2017 and any audit issues impacting TNTCoSA were reported in subsequent Audit Committee meetings.

There were two key audits conducted during 2017 over the activities performed by TNTCoSA:

Audit Name	Issuance Date
Saudi Arabia Office	Nov 27, 2017
Basel Regulatory Capital and ICAAP Submissions - Saudi Arabia	Dec 1, 2017

**1) Saudi Arabia Office audit 2017 (issued November 27, 2017) Assessment of Control Environment**

Based on our overall assessment of the activities reviewed, a control rating of Fair has been assigned, resulting in moderate residual risk. The control environment within the Office has remained stable; however, a continued focus on overseeing the controls to address regulatory requirements is warranted. Management should ensure that all actions raised following the independent review of regulatory compliance are appropriately tracked and addressed.

► **Summary of Issues**

The issues below were considered in assigning the overall audit rating and will be monitored by Audit Services until closure

	Issue Title	Issue Rating	Primary Risk	Accountable	Implementation Date	Status
1	Maintenance of Chaperone Log	Substantive Repeat	Compliance	Michael Slater (Corporate and Institutional Services (C&IS) - TNTCoSA)	January 31, 2018	Audit Tested & Validated Closed
2	Client Onboarding, Counterparty Due Diligence and Enhanced Due	Substantive	Compliance	Michael Slater (C&IS - TNTCoSA)	April 30, 2018	Open



	Diligence Process					
3	Expense Policy Adherence	Other	Operational	Michael Slater (C&IS - TNTCoSA)	January 18, 2018	Audit Tested & Validated Closed

**2) Basel Regulatory Capital and ICAAP Submissions - Saudi Arabia audit 2017 (issued December 1, 2017)**

► **Assessment of Control Environment**

Based on our overall assessment of the activities reviewed, a control rating of Fair has been assigned, resulting in limited residual risk. The TNTCoSA entity is well capitalized and the ICAAP submission is generally aligned with regulatory requirements. Internal controls, including oversight and monitoring, should be fully embedded to ensure that assumptions and projection values reported in the submission are comprehensive and adequately supported by the forecasting tool (i.e., ICAAP Forecasts spreadsheet). Additionally, management should enhance the ICAAP risk assessment process to evidence adequate consideration of all material risks and facilitate the ICAAP's internal consistency. Despite the limited size of the entity relative to the NTC, internal control practices should be strengthened to progress the ICAAP to an effective state.

► **Summary of Issues**

The issues below were considered in assigning the overall audit rating and will be monitored by Audit Services until closure.

	Issue Title	Issue Rating	Primary Risk	Accountable	Implementation Date	Status
1	Controls Supporting The Northern Trust Company of Saudi Arabia Internal Capital Adequacy Assessment Process	Substantive	Compliance	Daniel Usher (Finance - Financial Control)	June 29, 2018	Open
2	The Northern Trust Company of Saudi Arabia Internal Capital Adequacy Assessment Process Risk Assessment	Substantive	Compliance	Mark Jones (Risk Management (RM) - United Kingdom (UK) Risk)	July 30, 2018	Open

**TNTCoSA loans**

TNTCoSA has not provided any loans for the year of 2017. The Northern Trust Company of Saudi Arabia strategy is not to provide loans to staff, Board Members or clients.





# NORTHERN TRUST

## Disclosures

TNTCoSA was appointed by a Saudi entity where a Member of the TNTCoSA Board is also a Board Member of the Saudi entity. All precautionary procedures have been taken and noted as a conflict of interest recorded locally.

## Pledge of the Board members on the followings:

No loans to the company as at December 31, 2017.

It did not conclude any deals or contracts for the Board members, chief executive officer, or chief financial officer, or any person related to the company personal interests of those contracts or transactions.

## Conclusion

The Board of Directors is pleased to express its gratitude to the Government of the Kingdom of Saudi Arabia and the Capital Market Authority for its continued and constructive support. The Board also acknowledges the dedication and loyalty of its employees. And the board also confirm that the information contained in this report is up to date.

## Attached with this report:

- The Board attendance record
- Pledge of the Board
- Compensation Table
- Risk Assessment Report

## Signatures

Signed on behalf of The Board of Directors.

Fawaz Al Alamy

Chairman

Michael Slater

Deputy Chairman

Chief Executive Officer



15 February 2017 27 March 2017 24 May 2017 25 Sep 2017 15 Nov 2017 30 Nov 2017

**Board Member**

Dr. Fawaz Al Alamy

Mazen Al Jubeir

Lesley Hodgson

John Krieg

Michael Slater

David Wicks

Sheldon Woldt/ Till June 2017

Robert Frazer

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

Apologies

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

by Telephone

Apologies

by Telephone

by Telephone

**Audit Committee**

HELD

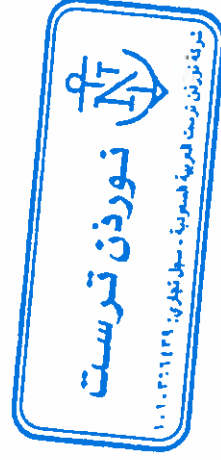
HELD

Held

Held

**Nominations & Remuneration Comm.**

HELD



*[Handwritten signature]*

Disclose the Compensation and Bonuses in the report of the Board of directors 2017

Statement	Executive Board Members	Non-Executive Board Members	5 Top Executives received the highest bonuses and Compensation (add Chief Executive officer-Chief Financial Officer) if they were not included.
Salaries & Compensation	SAR 859,959		SAR 974,000
Periodic and annual Bonuses	SAR 773,020		SAR 205,000
Any Compensation or any other benefits paid monthly or yearly	SAR 88,019		SAR 340,900



*(Handwritten signature)*