



Deutsche Securities Saudi Arabia Board of Directors Annual Report for 2018



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Deutsche Securities Saudi Arabia
Board of Director's Annual Report 2018

1. Overview

Deutsche Securities Saudi Arabia (“DSSA”), licensed by the Capital Market Authority (“CMA”), is the chosen vehicle through which Deutsche Bank Group (“DB Group”) delivers securities and investment banking activities in the Kingdom of Saudi Arabia.

DSSA is a subsidiary of Deutsche Bank AG. DSSA has no further subsidiaries.

2. The main activities of Deutsche Securities Saudi Arabia are as follows

- Dealing – Ex Margin Lending
- Custody
- Managing
- Arranging
- Advising

3. Future Plans and Important Decisions of DSSA in 2018

DSSA continued to carry out its plans to consolidate its leading position in the Saudi investment banking market. The year was marked by three important themes: (i) a significant slowdown in the Saudi market, which had a material impact on the stock market, demand for corporate finance products and lending to and capital raising by private and corporate clients; (ii) realization of the effects of Deutsche Bank Group's client onboarding restrictions which made it necessary to forgo several lucrative opportunities in the corporate space and (iii) DSSA investing in its platform to enable the delivery of a broad set of products and services .

Wealth Management is continuing on its growth path, which entails investment in human capital, growing an innovative product offering and making full use of the enhanced systems & services. DSSA WM has grown the international investment offering during the last 6 months and refocused on the Wealth Advisory Mandate. It is envisaged that the current team will continue to grow. Additionally, DSSA WM has decided to switch from the Discretionary Portfolio Management (DPM) to the Wealth Advisory Mandate (WAM).

On the Custody side, DSSA continues to invest in upgrading its systems and platforms. DSSA is engaged with internal stakeholders and regulators in relation to new product initiatives.

Institutional Treasury Coverage: Increased cost of funds by the Bank as well as lengthy KYC requirements affecting competitiveness of the business. That said, the division was able to win



and execute a number of transactions across structured finance, FX/Rates and equities with corporates and financial institutions.

For the Global Market Equity main goal in flow, business is to regain our market share of foreign flow. The rebuilding of our research capability is very critical to our success as clients are questioning our commitment to the country with no research coverage at all. Two projects are in the pipeline to improve revenues mix, We have received the preliminary exchange approval to launch the warrants markets in Saudi. We are in the process of getting the regulators approval to provide the Securities Borrowing and Lending service. Unlike our competitors, we have lost our inventory (>1\$bn to less than 100\$m) in the last 18 months on counterparty risk and pricing. To solve this problem, we have sourced supply from local family offices and currently working on a structure to allow us to provide liquidity from local market.

4. Changes in the Operational results

Overall, DSSA's revenues for 2018 amounted to SAR 20.4 million as compared to SAR 31.6 million in 2017 for the year. Revenues declined due to:

A transfer pricing agreement with DB Suisse for wealth management was implemented in the FY 2017. True up adjustments for prior periods was made in FY 2018 resulting in repayment to be made to DB Suisse of SAR 622 thousand compared to an income of SAR 9.2 million recognised in FY2017.

General and administrative expenses decreased from SAR78.5 million in 2017 to SAR 61.1 million in 2018. The decline was driven by reduction in intergroup charges due to prior period adjustments to estimated accruals.

5. Annual Audited Financials

KPMG conducted an external audit of DSSA's 2018 operations.

In the auditor's opinion, the accounts taken as a whole fairly present the position of the company in all material respects and comply with the requirements of regulations for companies. No significant or material matters were raised.

The auditor's report did not have any reservations on the annual financial statements



Summarized results for years 2014 to 2018					
Balance sheet	SAR (000's)				
	2018 (Draft)	2017 (Audited)	2016 (Audited)	2015 (Audited)	2014 (Audited)
Assets					
Current assets	501,964	596,626	538,356	563,977	581,909
Non-current assets	18,442	21,045	9,819	6,269	7,357
Total assets	520,406	617,671	548,175	570,246	589,266
Liabilities					
Current liabilities	87,577	149,991	53,299	22,998	42,790
Non-current liabilities	5,359	7,243	6,349	4,147	5,350
Total liabilities	92,936	157,234	59,648	27,145	48,140
Shareholders' equity	427,470	460,437	488,527	543,101	541,126
Total liabilities and Shareholders' equity	520,406	617,671	548,175	570,246	589,266

Income statement	SAR (000's)				
	2018 (Draft)	2017 (Audited)	2016 (Audited)	2015 (Audited)	2014 (Audited)
Total operating income	20,357	31,578	20,549	40,541	49,816
Expenses					
General and administration expenses	(61,093)	(78,814)	(65,825)	(39,410)	(51,547)
Total operating profit/(loss)	(40,736)	(47,236)	(45,276)	1,131	(1,731)
Net special commission	9,423	7,530	5,800	1,947	1,871
Net profit/(loss) before tax	(31,313)	(39,706)	(39,476)	3,078	140
Tax	(1,638)	11,616	(13,234)	(1,103)	2,212
Net profit/(loss) after tax	(32,951)	(28,090)	(52,710)	1,975	2,352



6. Capital Adequacy Disclosures

In line with the pillar three disclosures requirements under the prudential rules by CMA, detailed capital disclosures are included in the DSSA financial statements for 2018.

DSSA is capitalized with SAR 413.3 million of tier 1 capital. There has been minimal movement in the total capital requirements with the main item related to market risk, comprising of FX risk. There were no equities exposures as at December 2018. The market risk capital component has increased from SAR 1.8 million at December 2017 to SAR 3.8 million as at December 2018.

7. Implemented Provisions of CMA Regulations

As far as we are aware, there have been no departures from applicable regulatory requirements during 2018.

8. Formation of DSSA's Board of Directors

The board is composed of the following individuals:

Abdulhadi Shayif	Chairman	Independent
Jamal Al Kishi	Vice Chairman	Non-executive
Ashok Aram	Member	Non-executive
Alexander von-zur-Muehlen	Member	Non-executive
Tamim Jabr	Member	Executive
Sameer Alhamidi	Member	Independent



9. Outside Directorships and Managerial roles by DSSA Board Directors

DSSA's Board Directors are on the boards or senior manager of the following companies:

Board Member	Company Name	Country
Abdulhadi Shayif	Alawwal Bank	KSA
	Bupa Saudi Arabia	KSA
	Saudi Ground Services	KSA
	AlMajdouie group	KSA
	Health Water Bottling Co.	KSA
Jamal Al Kishi	Saline Water Conversion Corporation	KSA
	DB Bank AG Chief Executive Officer of the Middle East and Africa region and Chairman of the Middle East and Africa Executive Committee	UAE
Ashok Aram	Soliton Technologies Pvt. Ltd.	India
	CEO EMEA & PCB International Deutsche Bank	Germany
	Deutsche Bank Luxembourg SA	Luxembourg
Alexander von zur Muehlen	Deutsche Bank Financial LLC	USA
	Deutsche Bank AG CEO Office	Germany
Tamim Jabr	Deutsche Gulf Finance	KSA
	CEO Deutsche Securities Saudi Arabia	KSA
Sameer Alhamidi	Al Hamidi Contracting Establishment Company	KSA
	Ace International	Panama
	Saco	KSA
	Mohammed Abdulaziz Al Hamidi Sons Holding Company	KSA



10. Board meetings and Committees:

a. Audit Committee

The Audit Committee is responsible for monitoring the integrity of the company's financial statements, reviewing significant financial reporting issues and evaluating whether the company has followed appropriate accounting standards. The Committee also assesses the effectiveness of DSSA's internal controls and risk management systems, as well as the internal audit function. The Committee oversees the relationship with the external auditor, which includes making recommendations about their appointment, re-appointment, removal and remuneration, assessing their independence, approving the audit plan and reviewing the findings.

The Audit Committee is composed of the following 3 persons:

	Designation
Yousef Almobarak	Chairman
Sameer Al Hamidi	Member
Mahmoud Alsalah	Member

There were 4 meetings held for year 2018.

	Q1 2018	Q2 2018	Q3 2018	Q4 2018
	30th Mar 2018	30th May 2018	06th Sep 2018	9th Jan 2019
Yousef Almobarak	Yes	Yes	Yes	Yes
Sameer Al Hamidi	Yes	Yes	Yes	Yes
Mahmoud Alsalah	Yes	Yes	Yes	Yes

b. Nomination & Remuneration Committee

The Nomination & Remuneration Committee ensures the suitability of the Board's structure, which includes nominating and re-appointing directors and committee members, formulating succession plans and reviewing the Board's performance. It keeps under review the company's leadership needs and any related strategic issues that may affect the company.

The committee is composed of the following 3 members:

Ashok Aram	(Chairman)	
Abdulhadi Shayif	(Member)	Replaced Marco Kistner
Alexander von-zur-	(Member)	

There was one meeting held by circulation in 2018 and it was attended by:



	11 Sep 2018
Ashok Aram (Chairman)	Yes
Marco Kistner (Member)	Yes
Alexander von-zur-Muehlen (Member)	Yes

The committee remains satisfied by the structure and composition of the Board.

c. Board attendance for the Board Meetings is as follows:

There were 2 meeting held for year 2018.

	13 Mar 2018	11 Sep 2018
Abdulhadi Shayif	Yes	Yes
Jamal Al Kishi	Yes	Yes
Ashok Aram	Yes	Yes
Alexander von-zur-Muehlen	Yes	Yes
Marco Kistner	Yes	Resigned
Sameer Al Hamidi	Yes	Yes
Tamim Jabr	N/A*	Yes

*Tamim Jabr was not a board member on 13 March 2018

d. Compliance Committee

The Compliance Committee oversees the company's compliance risk, and seeks to ensure that robust, consistent and up-to-date compliance policies and procedures are in place to manage such risk. It is responsible for reviewing and considering any issues related to laws and regulations, business practices and procedures, ethics, conflicts of interest, confidentiality, 'know your customer' policies and others, as well as reviewing cases of regulatory enforcement. The Committee also coordinates compliance training where necessary.

The Committee is composed of the following 3 members:

- Mr. Tamim Jabr, Chief Executive Officer (Chairman);
- Mr. Ayman Daghestani, Head of Compliance and Anti-Money Laundering; (Member)
- Mr. Mehroz Abbas, Group Audit (Member)



There were four Compliance Committee meetings held for year 2018.

	Q1 2018	Q2 2018	Q3 2018	Q4 2018
	13 Feb 2018	09 July 2018	12 Nov 2018	08 Jan 2019
Tamim Jabr	Yes	Yes	Yes	Yes
Ayman Daghestani	Yes	Yes	Yes	Yes
Mehroz Abbas	Yes	No	Yes	Yes
Mohammed Al-Ajmi	Yes	Yes	N/A (no longer a member)	N/A (no longer a member)

11. Remuneration

Table of Disclosure of Compensations and Remunerations:

Statement	Executive Board Members	Non-Executive and Independent Board Members	Five of Senior Executives, to include the CEO and CFO if not included
Salaries and Compensations	1,099,615	633,974.32	5,174,747.62
Allowances	217,500	212,692.32	1,878,675.38
Periodic Remunerations	319,969	0	1,261,943.37
Incentives Plans	0	1,123,281.54	737,841.25
Commissions	0	0	0
Any other compensations or privileges in-kind paid monthly or annually	0	2,416,253.42	50,153.4

Figures are in Saudi Riyal

12. Penalties, Litigations and Provisions

DSSA was not a subject to any penalties, litigations, and disciplinary measures or provisions during 2018.



13. Annual Audit: Internal Control Procedures

The annual audit of DSSA was completed in December 2018 per the Capital Market Authority (CMA)'s requirement. The audit report was published on 05 December 2018 with two Significant and two important rated findings. The Significant findings relate to the AFC Governance, Know Your Client (KYC), the Important findings was raised for Wealth Management Customer Complaints policy and Disclosure policy of financial instruments.

Audit Committee is satisfied that the internal controls applied at DSSA are adequate and satisfactory.

14. Additional disclosures as per CMA requirement

e. Risk Management

As an Authorized Person operating in the Kingdom of Saudi Arabia, Deutsche Securities Saudi Arabia is exposed to credit and market risks. Detailed guidelines to manage these risks are in place and complied with as required. The company's risk management framework is included in the internal capital adequacy assessment process (ICAAP) report submitted to CMA.

f. Operational Risks

The company manages operational risks based on the framework adopted in Deutsche Bank Group to determine the operational risk profile compared to risk appetite and systematically identify appropriate risk mitigation measures and priorities. Information collected during the operational risk management process is used to identify demand on operational risk capital.

Operational risks are identified on daily basis in all operational risk management framework components, particularly via identifying internal losses and deriving scenarios to develop risk profiles based on triggers. The operational risk identification procedures include details of processes and requirements for identifying operational risks and roles and responsibilities.

g. Credit Risks

Deutsche Securities Saudi Arabia is exposed to a low credit risk in its business model, which consists mainly with DB London QFI and SWAP trades

h. Market Risks

Deutsche Securities Saudi Arabia is integrated in the Deutsche Bank Group global limit system, which is identified, controlled and monitored by Market Risk Management. Market risk measures are calculated centrally on a daily basis by the Market Risk Operations while exposures are monitored against established limits.

i. Loans

DSSA did not have any loans in fiscal year 2018.



15. Annual Review: Internal Control Procedures

In compliance with CMA's requirements, the company completed its annual internal review at December 2018. 4 main issues were identified which will be closed in a timely manner.

These issues are as follows:

DSSA AFC Governance
DSSA Know Your Client (KYC).
Wealth Management - Customer Complaints
Disclosure policy of financial instruments

16. Disclosures by DSSA Board Directors:

a. Transactions between DSSA and its associate

Within its ordinary course of business, the Company enters into commercial transactions with affiliates, including Deutsche Bank Group Head Office, regional offices and other branches including Deutsche AG, Riyadh Branch.

The company concluded agreements with Deutsche Bank AG and its branches (main shareholder) which set out the principles governing the sharing of revenues and the recovery of expenses incurred in generating such revenues.

Fees include revenues received by the company from Deutsche Bank AG and its affiliates under the agreements for sharing revenues.

Revenues and expenses related to transactions with affiliates and which are listed in the financial statements are as follows, the below are in Saudi Arabian Riyals in '000:

Revenues	<u>2018</u>	<u>2017</u>
Fees income – regional offices of Deutsche Group and other branches	16,438	14,223
Services income- Deutsche Bank AG – Riyadh Branch	(452)	12,627
Income from special commissions – Deutsche Bank – Riyadh Branch	9,423	7,530
Expenses:		
Support services expenses		
Regional offices for Deutsche Group and other branches	4,283	18,499
Compensation for senior management personnel	<u>12,259</u>	<u>11,264</u>

The balances at 31 December resulting from such transactions included in the financial statements are as follows:

	<u>2018</u>	<u>2017</u>
Due from Deutsche group regional offices and other branches	<u>61,733</u>	<u>59,806</u>



Due to Deutsche group regional offices and other branches

64,075 117,572

In addition to the above balances, the Company held a balance in an account with Deutsche Bank AG, Riyadh Branch of SAR 429,161 (2016: SAR 534,393). Further, no amount (2017: SAR nil) is payable to the parent Company related to the employee share option plans.

b. Conflict of Interest

The Board confirms that during 2018, neither DSSA's Board of Directors nor DSSA's CFO or senior executives of DSSA or any associated or related person to them, held any interest, contractual securities, and subscription rights in the shares or debt instruments of DSSA during 2018.

DSSA did not have any deal with any associated person.

c. Business or contracts

The Board confirms that during 2018, neither DSSA's Board of Directors nor DSSA's CFO or senior executives of DSSA or any associated or related person to them, held any interest in business or contracts where DSSA is counterparty.

d. DSSA ownership interests in other Companies:

Deutsche Securities Saudi Arabia does not have any ownership interest in any company inside or outside the kingdom of Saudi Arabia

e. Compensation waivers:

None of the board members has waived any compensation, allowance or any type of remuneration.