



Deutsche Securities Saudi Arabia Board of Directors Annual Report for 2019



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Deutsche Securities Saudi Arabia
Board of Director's Annual Report 2019

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. Important Plans and Decisions of DSSA in 2019

Deutsche Securities Saudi Arabia has placed an increased focus on **Wealth Management** and its UHNWI and family group client base in 2019. The division is continuing on its growth path by investing in human capital and providing its client base access to an innovative product offering across asset classes as well as access to Tadawul, differentiating our offering from local and international competitors.

On the **institutional coverage** and investment banking division, Deutsche Securities Saudi Arabia continues to support client base and has executed a few large transactions locally, including the Saudi Aramco Initial Public Offering as well as a sizable negotiated sale for a large public equity stake, in addition to other notable financing and advisory transactions locally. The division also continues to provide access to local corporates to international markets.

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



4. Changes in the Operational results

Overall, DSSA's revenues for 2019 amounted to SAR 31.2 million as compared to SAR 20.9 million in 2018 for the year. Revenues increased due to:

- Corporate Finance Fee income increase of SAR 7.6 million from one off refinancing deal (SRC) and Saudi Aramco IPO fee.
- Wealth Management Fee income increase of SAR 1.9 million.
- GTB Custody increase SAR 1.5 million

General and administrative expenses increased marginally on the prior year by SAR 1.3 million to SAR 62.2 million in 2019 from SAR 60.9 million.

5. Annual Audited Financials

KPMG conducted an external audit of DSSA's 2019 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 2015 to 2019

Balance sheet	SAR (000's)				
	2019 (Draft)	2018 (Audited) Restated	2017 (Audited)	2016 (Audited)	2015 (Audited)
Assets					
Current assets	439,332	501,964	596,895	538,356	563,977
Non-current assets	10,703	18,442	20,963	9,819	6,269
Total assets	450,035	520,406	617,858	548,175	570,246
Liabilities					
Current liabilities	52,427	86,225	149,016	53,299	22,998
Non-current liabilities	4,542	5,359	7,243	6,349	4,147
Total liabilities	56,969	91,584	156,259	59,648	27,145
Shareholders' equity	393,066	428,822	461,599	488,527	543,101
Total liabilities and Shareholders' equity	450,035	520,406	617,858	548,175	570,246

Income statement	SAR (000's)				
	2019 (Draft)	2018 (Audited) Restated	2017 (Audited)	2016 (Audited)	2015 (Audited)
Total operating income	31,237	20,907	31,578	20,549	40,541
Expenses					
General and administration expenses	(62,262)	(60,985)	(78,513)	(65,825)	(39,410)
Total operating profit/(loss)	(31,025)	(40,078)	(46,935)	(45,276)	1,131
Net special commission	7,743	9,423	7,530	5,800	1,947
Exchange (Loss)/Gain	(305)	(550)			
Net profit/(loss) before tax	(23,587)	(31,205)	(39,405)	(39,476)	3,078
Tax	(11,790)	(1,638)	11,476	(13,234)	(1,103)
Net profit/(loss) after tax	(35,377)	(32,843)	(27,929)	(52,710)	1,975



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 2019.

DSSA is capitalized with SAR 390.6 million of tier 1 capital. There was a small movement in the total capital requirements with the main items related to credit and operational risk. There were no equities exposures as at December 2019. The market risk capital component has decreased from SAR 3.8 million at December 2018 to SAR 0.6 million as at December 2019.

7. Implemented Provisions of CMA Regulations

As far as we are aware, there have been no departures from applicable regulatory requirements during 2019.

8. Formation of DSSA's Board of Directors

The board is currently composed of the following 4 individuals:

Abdulhadi Shayif	Chairman	Independent
Ashok Aram	Member	Non-executive
Alexander von-zur-Muehlen	Member	Non-executive
Sameer Alhamidi	Member	Independent

The following two members have resigned from the board during the year 2019:

Jamal Al Kishi	Vice Chairman.	Non-executive
Tamim Jabr	Member	Executive



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	Nama Cargo	KSA
	AlMajdouie group	KSA
	Health Water Bottling Co.	KSA
Ashok Aram	Soliton Technologies Pvt. Ltd.	India
	Deutsche Bank SAE	Spain
	Deutsche Bank Luxembourg SA	Luxembourg
Alexander von zur Muehlen	Deutsche Bank AG CEO Office	Germany
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	
Linda Warner	Member	Replaced Mahmoud Alsalah



There were 4 meetings held for year 2019.

	Q1 2019	Q2 2019	Q3 2019	Q4 2019
	12th Mar 2019	28th Aug 2019	15th Oct 2019	10th Dec 2019
Yousef Almobarak	Yes	Yes	Yes	Yes
Sameer Al Hamidi	Yes	Yes	Yes	Yes
Linda Warner	Not yet a member	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 2019 and it was attended by:

	02 Oct 2019
Ashok Aram (Chairman)	Yes
Abdulhadi Shayef (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 2019.

	14 Mar 2019	02 Oct 2019
Abdulhadi Shayif	Yes	Yes
Jamal Al Kishi	Yes	Yes
Ashok Aram	Yes	Yes
Alexander von-zur-Muehlen	Yes	Yes
Sameer Al Hamidi	Yes	Yes
Tamim Jabr	Yes	Resigned



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 currently is composed of the following members:

- Bassel Zaouk, Chief Executive Officer (Chairman);
A senior representative of Group Audit to replace Carsten Henn. (Member)
- Wejdan Alfraihi, Compliance Manager (Member)
- Sara Alrasheed, Money Laundering Reporting Officer (Member)

The following members were part of the Compliance Committee during the year 2019; however, their memberships have ceased during the year:

- Tamim Jabr, Chief Executive Officer (Chairman);
- Mehroz Abaas, Group Audit (Member)
- Carsten Henn, Group Audit (Member)
- Ayman Daghestani, Head of Compliance and MLRO (Member)

There were four Compliance Committee meetings held for year 2019.

	Q1 2019	Q2 2019	Q3 2019	Q4 2019
	04 April 2019	24 July 2019	21 October 2019	26 December 2019
Tamim Jabr	Yes	No	Resigned	Resigned
Ayman Daghestani	Yes	Yes	Yes	no longer a member
Wejdan Alfraihi	Yes	Yes	Yes	Yes
Sara Alrasheed	Yes	Yes	Yes	No
Mehroz Abbas	Yes	Yes	Yes	(no longer a member)
Carsten Henn	Not yet a member	Not yet a member	Not yet a member	No
Bassel Zaouk	Not yet a member	Not yet a member	Not yet a member	Yes



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	0	0	4,648,232.12
Allowances	0	0	1,301,849.91
Periodic Remunerations	0	640,000	2,189,418.47
Incentives Plans	0	0	1,457,676.8
Any other compensations or privileges in-kind paid monthly or annually	0	3,644	0

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 2019.

13. Annual Audit: Internal Control Procedures

The annual audit of DSSA was completed in December 2019 per the Capital Market Authority (CMA)'s requirement. The audit report was published on 12 December 2019 with one Significant rated finding. The Significant finding relate to the High Risk Media – Wealth Management (Operational Risks).

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 2019.

15. Annual Review: Internal Control Procedures

In compliance with CMA's requirements, the company completed its annual internal review in December 2019. One significant issue was identified related to High Risk Media – Wealth Management (Operational Risk) which will be closed in a timely manner.



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>2019</u>	<u>2018</u>
Fees income – regional offices of Deutsche Group and other branches	13,531	16,648
Services income- Deutsche Bank AG – Riyadh Branch	2,147	-
Income from special commissions – Deutsche Bank – Riyadh Branch	7,743	9,423
Expenses:		
Support services expenses		
Regional offices for Deutsche Group and other branches	12,682	4,283
Service fee – Deutsche Bank Group regional offices and other branches	-	(452)
Compensation for senior management personnel	<u>12,264</u>	<u>12,259</u>

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

	<u>2019</u>	<u>2018</u>
Due from Deutsche group regional offices and other branches	<u>23,041</u>	<u>61,733</u>
Due to Deutsche group regional offices and other branches	<u>34,792</u>	<u>64,254</u>

In addition to the above balances, the Company held a balance in an account with Deutsche Bank AG, Riyadh Branch of SAR 409.456 million (2018: SAR 417.761 million) who act as banker for the Company.

b. Conflict of Interest

The Board confirms that during 2019, 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 2019.



DSSA did not have any deal with any associated person.

c. Business or contracts

The Board confirms that during 2019, 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.

Abdulhadi Shayif
Chairman of the Board