



Deutsche Securities Saudi Arabia Board of Directors Annual Report for 2017



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Deutsche Securities Saudi Arabia
Board of Director's Annual Report 2017

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 2017

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 to its Wealth Management and Custody clients. The continued focus to invest in both the wealth management and custody platforms contributed to DSSA's loss of SAR 28.1 million for the year.

Wealth Management is implementing an ambitious growth strategy that entails investment in human capital and a much wider product offering as well as enhanced services. DSSA WM launched its discretionary portfolio management offering in Q2 2017 to complement local and international securities trading. It is envisaged that the current team will continue to grow from currently 12 to 17 over the next 12 months.



On the Custody side, DSSA has invested heavily in upgrading its systems and platforms. We implemented products and policies that will enable us to operate based on the new independent custody model (ICM), which was launched recently by Tadawul. We also upgraded our systems to cater to the independent Qualified Foreign Investors model (QFI) that made it easier and more flexible for foreign investors to tap into the local equity market. DSSA is engaged with stakeholders, regulators in relation to all initiatives launched in late 2016 and early 2017 to make the Saudi market more aligned with developed international markets.

Corporate Finance, despite being involved in some high profile transactions including the Saudi sovereign loan and inaugural bond issue and despite winning several mandates during the year, had a difficult year in terms of realized revenues. That said, the division's pipeline of mandated and prospective transactions bodes well for a much brighter picture in 2018.

Equities seen significant improvement in H2 vs H1 2017. Recent changes to QFI (Version 3.0) have ignited interest in Saudi equities in Q4 2017 and early 2018. Our international flow market share has improved from 3% in H1 to >8% in H2, albeit still below our long term average of 10% and the peak of 18% we reached prior to fear of our counter-party risk in 4Q16. FTSE is due to announce on March 28 whether Saudi Arabia gets EM upgrade, while MSCI is expected to announce its reclassification in June. We are positive Saudi equities will get the nod from both FTSE and MSCI, leading to 40\$bn in foreign inflow from global asset managers (a portion of which will materialize in 2018 as EM funds start to position 6-12 months ahead of inclusion in 2019).

4. Changes in the Operational results

Overall, DSSA's revenues for 2017 amounted to SAR 31.6 million as compared to SAR 20.8 million in 2016 for the year. Revenues increased due to:

- A transfer pricing agreement with DB Suisse for wealth management that was implemented in the FY 2017 as well as a prior year true up for FY2016 for the same agreement. This contributed SAR 9.2m in revenues.
- General and administrative expenses increased from SAR65.8 million in 2016 to SAR 78.8 million in 2017. The rise was driven by system and platform costs associated with further development of the wealth management business.



5. Annual Audited Financials

KPMG conducted an external audit of DSSA's 2017 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.

6. Capital Adequacy Disclosures

In line with the pillar 3 disclosures requirements under the prudential rules by CMA, detailed capital disclosures are included in the DSSA financial statements for 2017.

DSSA is capitalized with SAR 444.5 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 2017. The market risk capital component has decreased from SAR 3.5 million at December 2016 to SAR 1.9 million as at December 2017.

7. Implemented Provisions of CMA Regulations

As far as we are aware, there have been no departures from applicable regulatory requirements during 2017.

8. Formation of DSSA's Board of Directors

Mr. Abdulhadi Shayif continued as Chairman of DSSA's Board in 2017. The Board of Directors appointed Mr. Jamal AlKishi as the Vice Chairman.

The Board had six members during 2017: Mr. Jamal Al Kishi, Mr. Ashok Aram, Mr. Alexander von zur Muehlen and Mr. Marco Kistner and two Independent Directors, Mr. Abdulhadi Shayif (Chairman) and Mr. Sameer Alhamidi.



9. Outside Directorships by DSSA Board Directors

DSSA's Board Directors are on the boards 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
	Attieh Steel Co. Ltd	KSA
	Health Water Bottling Co.	KSA
	FWU International Advisory Board	Germany
Jamal Al Kishi	Saline Water Conversion Corporation	KSA
Ashok Aram	Soliton Technologies Pvt. Ltd.	India
	Deutsche Bank Luxembourg SA	Luxembourg
Alexander von zur Muehlen	Deutsche Bank Financial LLC	USA
Marco Kistner	No outside directorship	-
Sameer Alhamidi	Al Hamidi Contracting Establishment Company	KSA
	Ace International	Panama
	Saco	KSA
	Mohammed Abdulaziz Al Hamidi Sons Holding Company	KSA



10. Board 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 with regards to their appointment, re-appointment, removal and remuneration, assessing their independence, approving the audit plan and reviewing the findings.

b. Attendance at the 4 Audit Committee meetings is detailed below

	8 th Mar 2017	14 th Jun 2017	12 th Sep 2017	6 th Dec 2017
Yousef Almobarak	Yes	Yes	Yes	Yes
Sameer Al Hamidi	Yes	Yes	Yes	Yes
Alexander von-zur-Muehlen	Yes	Yes	Yes	Yes

c. 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, setting levels of remuneration, 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.

There was meeting held by circulation in 2017. The Chairman is Mr. Ashok Aram and the members in 2017 were Mr. Ashok Aram and Mr. Alexander von zur Muehlen and Mr. Marco Kistner.

The committee remains satisfied by the structure and composition of the Board. Board attendance for the Board Meetings is as follows:

	15 th Feb 2016	19 th Sep 2016
Abdul Hadi Shayif	Yes	Yes
Jamal Al Kishi	Yes	Yes
Ashok Aram	Yes	Yes
Alexander von-zur-Muehlen	Yes	Yes
Marco Kistner	Yes	Yes
Sameer Al Hamidi	Yes	Yes



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.

11. Remuneration

Table of Disclosure of Compensations and Remunerations:

Statement	Executive Board Members	Non-Executive/ Independent Board Members	Five of Senior Executives, to include the CEO and CFO if not included *
Salaries and Compensations	0	0	11,264,100 Allowances Included
Allowances	0	0	Part of salary
Periodic Remunerations	0	640,000	0
Incentives Plans	0	0	0
Any other compensations or privileges in-kind paid monthly or annually	0	*	0

*Figures are in Saudi Riyal

* The list comprises five senior executives including CEO and CFO

*Compensations of Board members are paid on quarterly basis.



12. Penalties

DSSA was not a subject to any penalties during 2017

13. Litigation

DSSA had no litigation cases during 2017

14. Annual Audit: Internal Control Procedures

The annual audit of DSSA was completed in November 2017 per the Capital Market Authority (CMA)'s requirement. The audit report was published on 24 November 2017 with two Significant and an important rated finding. The Significant findings relate to the supervisory controls established over trader mandates, trade limits and risk feeds for DSSA Equities division; and compliance with investment guidelines and local stock holding limits for the DSSA Wealth Management division. Further, an Important finding was raised for timely update of custody client cash positions.

15. Additional disclosures as per CMA requirement

a. 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.

b. 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.



c. 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

d. 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.

e. Loans

DSSA did not have any loans in fiscal year 2017.

16. Annual Review: Internal Control Procedures

In compliance with CMA's requirements, the company completed its annual internal review at November 2017. Three main issues were identified which will be closed in a timely manner.

These issues are as follows:

1. Front office trader Supervision & Governance of trade activity
2. WM Supervisory Controls.
3. Custody Client Cash Position Update

17. 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:



b. Revenues:	<u>2017</u>	<u>2016</u>
Fees income – regional offices of Deutsche Group and other branches	<u>14,223</u>	<u>10,526</u>
Services income- Deutsche Bank group regional offices and other branches	<u>12,627</u>	<u>2,828</u>
Income from special commissions – Deutsche Bank – Riyadh Branch	<u>7,530</u>	<u>2,400</u>

c. Expenses:		
Support services expenses		
Regional offices for Deutsche Group offices and other branches	<u>18,499</u>	<u>13,140</u>
Compensation for senior management personnel	<u>11,264</u>	<u>10,059</u>

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

	<u>2017</u>	<u>2016</u>
Due from Deutsche group regional offices and other branches	<u>59,806</u>	<u>14,515</u>
Due to Deutsche group regional offices and other branches	<u>117,572</u>	<u>20,490</u>

In addition to the above balances, the Company held a balance in an account with Deutsche Bank AG, Riyadh Branch of SAR 534,393 (2016: SAR 521,526). Further, no amount (2016: SAR 1,399) is payable to the parent Company related to the employee share option plans.

d. Board members' Conflict of Interest

DSSA's Board Directors did not hold any interest, contractual securities, and subscription rights in the shares or debt instruments of DSSA during 2017.

e. Board members' Business or contracts

The Board confirms that during 2017, neither DSSA's Board of Directors nor DSSA's CFO or any associate of DSSA, held any interest in business or contracts where DSSA is counterparty.

Abdulhadi Shayif
Chairman of the Board