



Deutsche Securities Saudi Arabia Board of Directors Annual Report for 2020



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Deutsche Securities Saudi Arabia
Board of Director's Annual Report 2020

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
- Arranging
- Advising

3. Important Plans and Decisions of DSSA in 2020

Deutsche Securities Saudi Arabia has placed an increased focus on **Wealth Management** and its UHNWI and family group client base in 2020. 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 our institutional and corporate client base. DSSA’s institutional coverage delivers the entire suite of financing, risk management and treasury product solutions to corporate, financial institutions, sovereign and agency clients. The division also continues to provide local corporates with access 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 2020 amounted to SAR 17.5 million as compared to SAR 31.2 million in 2019 for the year. Revenues declined due to below items recognised in 2019 which were not repeated in 2020:

- Corporate Finance one-off fees earned on refinancing deal (SRC) and Saudi Aramco IPO fees of SAR 7.6 million in 2019.
- Wealth Management Fee income of SAR 1.9 million on fees for project Desert.
- Reduction in transfer pricing income for the Equities of SAR 4.3 million.

General and administrative expenses decreased on the prior year by SAR 10.2 million to SAR 52.1 million in 2020 from SAR62.3 million due to:

- Reduced headcount leading to decline in compensation costs of SAR 8 million &
- Reduction in intergroup charges of SAR 2 million.

5. Annual Audited Financials

EY conducted an external audit of DSSA's 2020 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 2016 to 2020					
Balance sheet	SAR (000's)				
	2020 (Draft)	2019 (Audited)	2018 (Audited) Restated	2017 (Audited)	2016 (Audited)
Assets					
Current assets	408,615	444,170	501,964	596,626	538,356
Non-current assets	2,440	5,865	18,442	20,963	9,819
Total assets	411,055	450,035	520,406	617,589	548,175
Liabilities					
Current liabilities	46,692	52,427	87,577	149,991	53,299
Non-current liabilities	4,701	4,542	5,359	7,243	6,349
Total liabilities	51,393	56,969	92,936	157,234	59,648
Shareholders' equity	359,662	393,066	427,470	460,355	488,527
Total liabilities and Shareholders' equity	411,055	450,035	520,406	617,589	548,175

Income statement	SAR (000's)				
	2020 (Draft)	2019 (Audited)	2018 (Audited) Restated	2017 (Audited)	2016 (Audited)
Total operating income	17,493	31,237	20,907	31,578	20,549
Expenses					
General and administration expenses	(52,096)	(62,262)	(60,985)	(78,513)	(65,825)
Total operating profit/(loss)	(34,603)	(31,025)	(40,078)	(46,935)	(45,276)
Net special commission	3,438	7,743	9,423	7,530	5,800
Exchange (Loss)/Gain	193	(305)	(550)		
Net profit/(loss) before tax	(30,972)	(23,587)	(31,205)	(39,405)	(39,476)
Tax	(2,505)	(11,790)	(1,638)	11,476	(13,234)
Net profit/(loss) after tax	(33,477)	(35,377)	(32,843)	(27,929)	(52,710)



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 2020.

DSSA is capitalized with SAR 359.6 million of tier 1 capital. There was a SAR 1.6 million reduction in the total capital requirements with the main item related to operational risk and Credit risk. There were no equities exposures as at December 2020. The market risk capital component has decreased from SAR 0.6 million at December 2019 to SAR 0.15 million as at December 2020.

7. Implemented Provisions of CMA Regulations

As far as we are aware, there have been no departures from applicable regulatory requirements during 2020.

8. Formation of DSSA's Board of Directors

The board is currently composed of the following 3 individuals:

Abdulahdi Shayif	Chairman	Independent
Bassel Farid-Zaouk	Member	Executive
Sameer Alhamidi	Member	Independent

The following two members have resigned from the board:

Ashok Aram	Member	Non-executive
Alexader-von-zur-Muehlen	Member	Non-executive

The following members were appointed to the Board during 2020.

Bassel Farid-Zaouk	Member	Executive
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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
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 2 persons. Linda warner will be replaced by Kumaran Balasubramanian, to be formally appointed to the Audit Committee by the Nomination and Remuneration committee.

	Designation	
Yousef Almobarak	Chairman	
Sameer Al Hamidi	Member	
Kumaran Balasubramanian	Member	Replaced Linda warner

There were 4 meetings held for year 2020.

	Q1 2020	Q2 2020	Q3 2020	Q4 2020
	11th Mar 2020	20th May 2020	5th Oct 2020	1st Dec 2020
Yousef Almobarak	Yes	Yes	Yes	Yes
Sameer Al Hamidi	Yes	Yes	Yes	Yes
Linda Warner (Left June 2020)	Yes	Yes	(no longer a member)	(no longer a member)
Kumaran Balasubramanian (Guest)	Not yet a member	Not yet a member	Not yet a member	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 currently composed of the following member. New committee members are being nominated and approved for appointment:

Abdulhadi Shayif	(Member)	Replaced Marco Kistner
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There was one meeting held by circulation in 2020 and it was attended by:

	11 Mar 2020
Ashok Aram (Chairman)	Yes
Abdulhadi Shayef (Member)	Yes
Alexander von-zur-Muehlen (Member)	Yes

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

There were 2 meetings held for year 2020.

	16 Mar 2020	12 Oct 2020
Abdulhadi Shayif	Yes	Yes
Sameer Al Hamidi	Yes	Yes
Ashok Aram	Yes	Resigned
Alexander von-zur-Muehlen	No	Resigned
Bassel Farid-Zaouk	Not yet a member	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.

The Committee currently is composed of the following members:

- Bassel Zaouk, Chief Executive Officer (Chairman);
- Abdullah Kacmaz (Group Audit)
- Rami Jari, Head of Compliance (Member)



- Sara Alrasheed, Money Laundering Reporting Officer (Member)

The following member was part of the Compliance Committee during the year 2020; however, their memberships have ceased during the year:

- Wejdan Alfraihi Compliance Manager (member);

There were four Compliance Committee meetings held for year 2020.

	Q1 2020	Q2 2020	Q3 2020	Q4 2020
	22 April 2020	15 June 2020	15 September 2020	17 December 2020
Bassel Zaouk	Yes	Yes	Yes	Yes
Abdullah Kacmaz	Yes	Yes	Yes	Yes
Sara Alrasheed	Yes	Yes	Yes	Yes
Wejdan Alfraihi	Yes	(no longer a member)	(no longer a member)	(no longer a member)
Rami Jari	Not yet a member	Not yet a member	Yes	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	3,852,634
Allowances	0	0	1,463,760
Regular and annual bonus	0	660,000	1,190,896
Incentives Schemes	0	0	0
Commissions	0	0	0
Any other compensations or privileges in-kind paid monthly or annually	0	0	402,961

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 2020.



13. Annual Audit: Internal Control Procedures

The annual audit of DSSA was completed in December 2020 per the Capital Market Authority (CMA)'s requirement. The audit report was published on 18 December 2020 with one important rated finding. The finding relates to financial regulatory reporting and this is currently under action to be closed promptly.

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 2020.

15. Annual Review: Internal Control Procedures

In compliance with CMA's requirements, the company completed its annual internal review in December 2020. One important issue was identified related to one important rated finding. The finding relates financial regulatory reporting and this is currently under action to be closed promptly.

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>2020</u>	<u>2019</u>
Fees income – regional offices of Deutsche Group and other branches	10,922	13,531
Services income- Deutsche Bank AG – Riyadh Branch	2,194	2,147
Income from special commissions – Deutsche Bank – Riyadh Branch	3,438	7,743
Expenses:		
Support services expenses		
Regional offices for Deutsche Group and other branches	17,621	12,682
Service fee – Deutsche Bank Group regional offices and other braches	-	-
Compensation for senior management personnel	<u>6,910</u>	<u>12,264</u>

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

<u>2020</u>	<u>2019</u>
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Due from Deutsche group regional offices and other branches	<u>18,094</u>	<u>23,041</u>
Due to Deutsche group regional offices and other branches	<u>31,106</u>	<u>34,792</u>

In addition to the above balances, the Company held a balance in an account with Deutsche Bank AG, Riyadh Branch of SAR 300 million (2019: SAR 300 million) who act as banker for the Company.

b. Conflict of Interest

The Board confirms that during 2020, 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.

DSSA did not have any deal with any associated person.

c. Business or contracts

The Board confirms that during 2020, 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