

**HSBC Saudi Arabia**  
**Directors' Report 31 December 2017**



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## **Directors' Report**

The Board of Directors (the “Board”) is pleased to submit to shareholders the Annual Report of HSBC Saudi Arabia (“HSBC SA”) for the financial year ended 31st December 2017. The Company has prepared statutory financial statements for its first fiscal period under the new legal status of a Closed Joint Stock Company (CJSC) which begins from the date of ministerial resolution, 29 March 2017 and ends on 31 December 2017.

### **1. Principal activities**

HSBC Saudi Arabia is a Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010221555 dated 27/06/1427H (corresponding to 23/07/2006G), organized and existing under the laws of Saudi Arabia with its principal place of business address at HSBC Building 7267, Main Olaya Street (North), Al Morooj District, Riyadh 12283-2255, Kingdom of Saudi Arabia.

The main activities of the Company are to provide a full range of investment banking services including investment banking advisory, debt and project finance services, including both conventional and Shariah compliant finance. It also manages mutual funds and discretionary portfolios, and provides brokerage and securities services. The Company serves a wide range of clients including but not limited to corporates, non-bank financial institutions and individuals.

On 01 Rajab1438H corresponding to 28 March 2017, the Company was converted from a Limited Liability Company to a Closed Joint Stock Company under Royal Decree number M/3 dated 28/01/1437H. All the assets and liabilities of the Limited Liability Company have been brought forward to the Closed Joint Stock Company.

### **Investment Banking Advisory**

HSBC SA is the market leader in the Kingdom for Mergers and Acquisitions, Initial Public Offerings and privatizations. Market leadership in investment banking advisory was maintained in 2017. During 2017, HSBC SA continued to expand its Investment Banking Advisory capabilities in order to address existing and rapidly growing private and public client demand in the Kingdom. In 2017, HSBC SA successfully completed the first ever accelerated book build process in Saudi Arabia, selling a block of 2% of the share capital of Almarai raising SAR 1,120 million overnight, attracting significant foreign investors to the Saudi Arabian market. During the last 2 years, HSBC SA maintained its position as the leading Equity Capital Market (ECM) advisor in Saudi Arabia having advised on 3 of the most key ECM related transactions (more than any other bank in Saudi Arabia).

### **Debt Capital Markets and Syndicated Finance**

Debt Capital Markets and Syndicated Finance transactions in 2017 included the inaugural dual tranche USD 9 billion Sukuk issuance by the Kingdom in April, where HSBC acted as Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager. This was followed in October by the Kingdom’s USD 12.5 billion triple-tranche jumbo bond issuance where HSBC acted as the Joint Bookrunner, Joint Lead Manager, and Fiscal and Paying Agent. Deal specific awards in which HSBC played a lead role in 2017 included “Deal of the Year” award from The Banker for the debut bond USD 17.5 billion multi-tranche transaction for which HSBC was the Global Coordinator, Joint Bookrunner, Joint Lead Manager and Fiscal and Paying Agent; and “Best Islamic Structured Trade Finance” award from Finance Asia Country Awards for the Almarai Company USD 300 million and SAR 900 million commodity murabaha revolving facilities, where HSBC SA acted as Coordinator and Bookrunner.

## **Project and Export Finance**

Key achievements in Project and Export Finance in 2017 included the successful restructuring Shariah compliant project financing for the USD 1.9 billion integrated acrylates complex. Deal specific awards for 2016 in which HSBC SA played a lead role included “MENA Refinancing Deal” award from IJ Global for Rabigh 1; and “Best Transport Infrastructure Deal in EMEA” award from Euromoney for the King Abdullah Port project in Saudi Arabia.

## **Asset Management**

HSBC SA's Asset Management business continued to hold its market leading position in terms of market share especially in the local equity asset class. As part of its product diversification strategy, business successfully launched its first real estate fund offered as a private placement fund.

## **Brokerage Services**

The brokerage division offers a comprehensive range of trading services to retail and institutional investors seamlessly delivered through multiple channels that include 12 Investment Centers, On-line services such as HSBC Tadawul and HSBC Mubasher, centralized Call Centre and dedicated market access channels for its institutional clients. The business is ably supported by a dedicated research capabilities providing timely and comprehensive sector and company research. During 2017, the business successfully launched the margin lending product offered to its retail customers. The business successfully held a number of roadshows to global investors to build awareness of Qualified Foreign Investor (QFI) initiatives.

## **Securities Services**

HSBC SA maintained its market leadership in the QFI space with a leading position in terms of assets under custody for QFIs. The number of foreign institutions putting in applications for obtaining QFI status has also increased significantly in 2017. MSCI has included Saudi Arabia in its Emerging markets watch list in June 2017 and the Securities Services team ran several internal initiatives in conjunction with SABB to ensure the processes can be managed seamlessly with a corresponding increase in volumes.

## **2. Strategic Focus:**

HSBC SA's vision is to be the best investment banking services provider in the Kingdom, focusing on the needs of its customers and contributing to the success of Vision 2030, thereby delivering long-term sustainable value to all its stakeholders. To achieve the mission, HSBC SA will continue to focus on the following key strategic objectives;

- Offer seamless customer experience and treat our customers fairly
- Gain market share with improved product offering and distribution
- Embark on digitalization and technology initiatives
- Contribute to the success of the Saudi Vision 2030
- Maintain continued market leadership in Investment Banking and Securities Services
- Grow and compete for leadership in Institutional Brokerage
- Attract, retain and grow talent

## **People:**

People are core to the success of HSBC SA's strategy. Our talent pursues customer satisfaction, constantly innovates product solutions, lives the strong risk management culture along with driving alignment with our values of being Open, Dependable, Connected and Working together aspiring for HSBC SA to be the Leading Investment banking services provider in the Kingdom. Accordingly HSBC SA has built a leading employer brand in the market to attract, engage, develop and retain talent, which is built on management ethos towards prioritising People, an internationally-connected professional environment, top class training and career development structure. Developing the Saudi workforce has continued to be a priority, including diversity agenda with women now representing around 21% of the work force.

HSBC SA has an established Human Resources function (HR) that reports directly to the CEO and regularly reports to the Board nominated committees on the direction, initiatives and success of HSBC SA's People Strategy. HR governs all policies and procedures related to the recruiting, training, career development, performance assessment, succession planning and reward of HSBC SA employees.

A career with HSBC SA offers the opportunity to enhance performance, experience and skills sets through its international connectivity with HSBC group and that forms a leading global career proposition in the Kingdom. All HSBC SA employees are eligible to apply and undertake development assignments across the HSBC along with having the opportunity to network with HSBC colleagues around the world to benchmark processes and initiatives in many fields such as customer service, technological solutions, risk management practices, capability enhancement and people management.

### **3. Best in Class: Industry Awards:**

HSBC SA received recognition in 2017 as follows:

- "Best Investment Bank in Saudi Arabia" by Euromoney
- "Best Foreign Investment Bank in Saudi Arabia" by EMEA
- "Deal of the Year" by The Banker
- "Best Islamic Structured Trade Finance" by Finance Asia Country Awards
- "MENA Refinancing Deal" by IJ Global
- "Best Transport Infrastructure Deal in EMEA" by Euro money
- **Best in Class: Industry Awards:**

### **4. Corporate social responsibility:**

In line with its core values, HSBC SA remains committed to the community where it operates. Within this framework, HSBC SA is making efforts to serve the community by providing a range of activities that serve and benefit the various community groups in Saudi Arabia that stand in need of support and assistance. HSBC SA is making all efforts to promote a social responsibility culture and instill the spirit of volunteer activities by involving HSBC SA staff members.

During 2017, HSBC SA had organised a number of CSR activities, including a blood drive donation, the Ramadan food gift basket where staff participated in distributing these baskets to families in need, winter cloths bag initiatives given to families in need during the winter. Other awareness campaigns included breast cancer, diabetes & Earth hour during their international awareness days.

## 5. Financial results and Segment performance

Key Financial Highlights:

SAR millions	2017	2016	2015	2014	2013
<b>Shareholder's Equity</b>	774	765	865	785	795
<b>Investments, Net</b>	242	615	1,029	902	872
<b>Loans and Advances*</b>	716	-	-	-	-
<b>Total Assets</b>	1,170	1,028	1,168	1,148	1,016
<b>Total Liabilities</b>	397	262	302	363	220
<b>Net Income**</b>	135	140	279	229	258
<b>Gross Dividend</b>	104	211	157	192	163

\*Relates to margin lending product that was launched in 2017

\*\* Net Income relates to the period 29 March 2017 to 31 December 2017

### Net income

HSBC SA recorded a net income of SAR 135 million for the period 29 March 2017 to 31 December 2017. HSBC SA's total income for the period 29 March 2017 to 31 December 2017 was SAR 311 million. During the period, client flows were generally lower reflecting lower trading volumes and market sentiment. HSBC SA generated strong growth in income from securities services business and maintained its market leadership in the Qualified Foreign Investor (QFI) space. HSBC SA's total operating expenses for the period 29 March 2017 to 31 December 2017 of SAR 177 million includes a one off partial release of operational loss provision amounting to SAR 30.5 million.

### Balance sheet

During 2017 HSBC SA launched Margin financing facilities to its customers and the portfolio reached SAR 716 million by end of December 2017. During 2017, the company obtained a short term revolving loan facility from SABB amounting to SAR 150 million with a maturity of 12 months. To support the funding of the balance sheet, the company liquidated its investment in units of Saudi Riyal Trading Fund of SAR 375 million.

HSBC SA generates its operating income from activities in the Kingdom of Saudi Arabia and has no branches, subsidiaries or associates established or operating outside the Kingdom of Saudi Arabia. The company's performance by business segments is summarized in the below table.

SAR 000	Advisory Services	Brokerage	Asset Management	Securities Services	Margin Lending	Others	Total
Revenue	82,479	57,372	81,132	62,375	9,997	18,035	311,393
Expenses	58,063	63,672	50,184	33,306	2,211	(30,585)	176,853

Above table represents income for the period 29 March 2017 to 31 December 2017

### Related Party Balances and Transactions

Related parties of the Company comprise of group companies including its affiliates and brokers and its shareholders. The Company and its related parties transact with each other in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms which are approved by the management.

	<u>Notes</u>	<u>2017</u>
(a) <i>Due from related parties</i>		
Receivable from SABB	1	12,682,583
Receivable from affiliates	2	12,425,613
		<u>25,108,196</u>
(b) <i>Due to related parties</i>		
Payable to SABB	3	5,747,963
Payable to affiliates	4	27,046,691
		<u>32,794,654</u>
(c) <i>Short term loans</i>		
Short term revolving loan facility from SABB	5	<u>150,000,000</u>

1. This mainly represents receivable on account of advisory services and net balance on intercompany transactions with SABB.

2. This mainly represents receivable from an HSBC entity on account of commission earned from equity swap arrangements with foreign counter parties pursuant to Capital Market Authority (CMA) circular dated 21 August 2008, as explained in note 17.

3. This mainly represents payable to SABB for service costs under service level agreement referred in note 21.

4. This mainly consists of payable to HSBC entities.

5. The Company has obtained a short term revolving loan facility from SABB having a maturity of 12 months and carrying a commission rate of 3 months SAIBOR plus 1.50% per annum.

The income and expenses in respect of related parties included in the financial statements are as follows:

<b>Transaction with</b>	<b>Income Statement</b>	<b>2017</b>
The Saudi British Bank (SABB)	Services cost under service level agreement-net	<u><b>18,446,077</b></u>
	Services cost under service level agreement- Medical Insurance	<u><b>794,735</b></u>
	Income from Time deposit	<u><b>460,336</b></u>
	Arranging/Advisory Income under service level agreement	<u><b>15,747,475</b></u>
	Fees paid for discretionary portfolios service and Mutual Funds	<u><b>5,200,989</b></u>
	Special commission expense on short term loan facility	<u><b>2,211,927</b></u>
	HSBC Saudi Arabia Mutual Funds (“the Mutual Funds”)*	Brokerage income, net
Asset Management fee from funds		<u><b>55,796,365</b></u>
Realized gain on sale of Investments - net		<u><b>14,488,756</b></u>
HSBC entities	Brokerage income on equity swaps	<u><b>12,020,500</b></u>
	Arranging/Advisory Income under service level agreement	<u><b>9,506,250</b></u>
	Services cost under service level agreement	<u><b>6,902,775</b></u>
Directors Remuneration & Committee members		<u><u><b>1,493,000</b></u></u>
Key management compensation(Key management personnel of the Company comprise senior executive	Salaries & compensations	<u><u><b>5,226,968</b></u></u>
	Allowances	<u><u><b>2,429,520</b></u></u>
	Periodic and annual remuneration	<u><u><b>7,271,250</b></u></u>

## **6. Risk Management**

The Board of Directors are responsible for the overall risk management approach with HSBC SA and for reviewing its effectiveness.

The Board’s designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Company’s risk framework, plans and performance targets which include the establishment of risk appetite statements, risk management strategies, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.



The Chief Risk Officer (CRO) is responsible for managing the risks within the Company and the Head of Compliance is responsible for regulatory and Financial Crime compliance. The CRO and Head of Compliance report to the CEO and operate under the guidance and supervision of the Board Risk Committee and Audit Committee respectively. Their key functions are:

#### Chief Risk Officer

- Risk Management
- Operational Risk
- Security and Fraud Risk
- HSBC SA Standards

#### Compliance

- Regulatory Compliance
- Financial Crime Compliance

The Company's strategy, processes and policies are documented with regular reporting through Key Risk Indicator (KRI's) and Limits and escalation to Management and Governance Committees.

The Company operates a three lines of defense model to manage the risk within the business and monitor the effectiveness of controls.

- First Line – management responsibility is with the business and control functions for the risks they are managing – supplemented by Business Risk Control Managers.
- Second Line – Risk stewards and oversight of first line.
- Third Line – Independent Audit Function.

Through the ICAAP process the Board reviews the risks of the Company against the Capital availability. On an ongoing basis the risk profile of the Company is reviewed against the Risk Appetite Statement and also the ICAAP exposures to ensure that the risks remain appropriate.

### **Annual Review of the Effectiveness of Internal Control Procedures**

HSBC SA's management is responsible for implementing and reviewing the effectiveness of the Company's internal control framework as approved by the Board of Directors.

HSBC SA has established clear standards that should be met by employees, departments and the Company as a whole. Systems and procedures are in place within HSBC SA to identify any deviations in control and report on major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, breaches of law or regulations, unauthorised activities and fraud. In addition to an on-going management review, exposure to these risks is subject to monitoring through various management committees that were established to ensure the effectiveness of the Company's control framework and to maintain specific oversight of key risks such as credit, operational, compliance and fraud.

Periodically, strategic plans are prepared for the Company and these are implemented and monitored through annual operating plans that are prepared and adopted by all business and support functions and that set out the key business initiatives and their likely financial effects.

Centralised functional control is exercised over all computer system developments and operations. Common systems are employed for similar business processes wherever practicable.

In addition, management is responsible for setting policies, procedures and standards across all areas of risk, including credit, market, liquidity, operational, IT, accounting, information, legal and regulatory compliance, human resources, reputational and purchasing risks. These policies are subject to ongoing review and are benchmarked to best practice.

The Risk Management function serves as a secondary control maintaining oversight of Credit, Market and Operational risks, as well as other functions such as security and fraud risks. The Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements. The risk management process is fully integrated with the strategic planning, annual operating plan and capital planning cycle. Furthermore, each employee is expected to be accountable for and to manage the risk within his or her assigned responsibilities based on the governance principles adopted by the Company and addressed during training programs.

The systems and procedures for the ongoing identification, evaluation and management of the significant risks faced by HSBC SA were in place throughout the year. These procedures enabled HSBC SA to discharge its obligations under the rules and regulations issued by CMA, the Capital Market Authority.

Operational Risk together with the Risk Management and Compliance functions, forms an integral part of the control environment of HSBC SA. Positioned as an independent control, Operational Risk provides management and, through the Board Risk Committee, Audit Committee and Board, with an independent and objective assessment on whether the framework of risk management, control and governance processes, as designed and represented by management, is adequate and functioning effectively.

Operational Risk accomplishes this by independently reviewing, through a risk-based approach, the design effectiveness and operating efficiency of internal control systems and policies prepared and implemented by business management. Operational Risk also reviews and reports on the adequacy and effectiveness of oversight maintained by support functions such as compliance and risk management departments, to ensure that the Company is operating within its stated risk appetite and in compliance with the regulatory framework.

A dedicated audit team within HSBC SA acts as a third line of defence through reviewing the business and control functions within the Company against local regulations and international best practices. The audit team is independent and reports directly into the Chairman of the Audit committee.

## **Credit Risk**

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposure within HSBC SA principally is from the margin lending activities. Other credit risks include settlement lines given to Brokerage and Custody counterparties, investment of the Company's capital and from a fiduciary perspective client exposures within the Asset Management Business.

The Company attempts to control credit risk by monitoring credit exposures, requesting collateral (margin lending) and place limits on transactions with specific counterparties as well as continually

assessing the creditworthiness of counterparties. The Companies risk management policies are designed to identify and set appropriate risk limits and to monitor the risks and adherence to limits.

## **Market Risk**

Market Risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates and equity prices. The company classifies exposures to market risk into either trading or non-trading books.

The market risk taken by HSBC SA is limited and is operating under approved market risk limits

### **Market Risk Trading Book**

The board has set limits for the acceptable level of risks in managing the trading book. Nominal limits have been established covering the product and the daily and monthly Mark to Market Loss referral limits.

Within the trading limits the Board has authorized Equity Underwriting limits to cover IPO's and Rights issues with nominal limits. The nature of the Saudi Market currently is focused on soft underwriting where the Company is not exposed to Equity price risk, although certain transactions (rights issuance) can have hard underwriting limits where the Company would be exposed.

### **Market Risk Non Trading Book**

The Company has deployed its surplus capital in the Company's Asset Management Funds which provided exposure to Saudi and International Money Market and Fixed Income investments resulting in special commission and FX exposure. These operate under nominal limits approved by the Board including MTM Referral Limits.

## **Liquidity Risk**

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. Daily forward looking liquidity monitoring and assessment is in place. Stress tests are also undertaken on liquidity. Liquidity needs are funded by a mixture of own capital, and wholesale bank funding. Excess liquidity is invested in Mutual Fund investments. The liquidity risk of Asset Management is covered within the fiduciary risk.

## **Fiduciary Risk**

The risk to HSBC SA of breaching its fiduciary duties where it acts in a fiduciary capacity as Trustee, Investment Manager, Broker (for cash balances maintained at SABB) as mandated by law or regulation. Within HSBC SA this risk is mainly within the Asset Management business where we are investing in funds on behalf of clients.

The risk within Asset Management is primarily managed by the business, with additional limits and controls established with the individual fund prospectus or client mandate – these limits are independently monitored by Risk.

## Compliance Risk

The risk to HSBC SA in breaching Local Regulatory and International Best Standards in regard to Financial Crime Compliance and Regulatory Compliance. Within HSBC SA this risks exists throughout all areas of the Company.

The risks is primarily managed by the business and through an independent compliance function responsible for providing guidance and independent control and review of the compliance risks within the company.

## Cyber Security Risk

Cyber security risk is a subset of information security and HSBC continues to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber-attacks.

## 7. Legal Entity Structure

The share capital of the Company was SAR 500 million divided into 10,000 shares of SAR 50,000 each. The shareholders and their respective holdings were as follows:

	<u>Number of shares</u>	<u>% of contribution</u>	<u>As at 28 March 2017</u>
HSBC Asia Holdings BV	4,900	49%	245,000,000
The Saudi British Bank ('SABB')	5,100	51%	255,000,000
<b>Total</b>	<b>10,000</b>	<b>100%</b>	<b>500,000,000</b>

On 29 March 2017, the legal formalities in respect of the incorporation were completed and the Company obtained its revised commercial registration certificate. The share capital of the Company was split from 10,000 shares of SAR 50,000 each into 50 million shares of SAR 10 each. The revised shareholding is as follows:

	<u>Number of shares</u>	<u>% of contribution</u>	<u>As at 31 December 2017</u>
HSBC Asia Holdings BV	24,500,000	49%	245,000,000
The Saudi British Bank ('SABB')	25,497,000	50.994%	254,970,000
Arabian Real Estate Company Limited	1,000	0.002%	10,000
SABB Insurance Agency Limited	1,000	0.002%	10,000
SABB Real Estate	1,000	0.002%	10,000
<b>Total</b>	<b>50,000,000</b>	<b>100%</b>	<b>500,000,000</b>

## 8. Corporate Governance

### Corporate governance principles

HSBC SA is aware of the positive impact associated with the adoption of prudent Corporate Governance Principles and Standards and that such adoption will lead to observance of professional and ethical

standards in the company's dealings as well as transparency and disclosure which will contribute to the furthering and improvement of its efficiency and relations with all interested parties. It is also believed that the adoption of this approach will enhance investors' confidence both in the HSBC SA and in the Saudi Securities Business in the Kingdom.

HSBC SA's Articles of Association and the HSBC SA Governance Document, provide for disclosure policies and procedures, formation of the Board and Sub-committees, responsibilities of the Board of Directors, policy regulating relationships with stakeholders, shareholders' rights and attendance of meetings.

## Board of Directors

The Board of Directors of HSBC SA comprises of nine (9) members, who shall be appointed and removed as follows:

- Three (3) Directors shall be appointed and removed by HSBC;
- Three (3) Directors shall be appointed and removed by SABB; and
- Three (3) Directors shall be Independent Directors and shall be appointed and removed with the unanimous consent of both SABB and HSBC.

The Board of Directors as at 31 December 2017 comprised of the following:

<b>Sr. No.</b>	<b>Board Member Name</b>	<b>Classification</b>	<b>Effective date of appointment/ resignation</b>	<b>Name(s) of other Joint Stock Companies in which the person acts as a member of the Board of Directors</b>
1	Mr. Mansour Al Bosaily	NON-EXECUTIVE, Chairman and Board Member	1 <sup>st</sup> January 2015	Board Member, Saudi Ground Services Company Board Member, Saudi Reinsurance Company Board Member, National Amlak Company Board Member, Jabal Omar Developments Company Board Member, United Electronics Company (eXtra)
2	Mr. Majed Najm	Chief Executive Officer and Board Member HSBC SA, EXECUTIVE	1 <sup>st</sup> January 2015	NIL
3	Mr. David Dew	Board Member, NON-EXECUTIVE	1 <sup>st</sup> January 2015	Board Member and Managing Director of The Saudi British Bank
4	Mr. Georges Elhedery	Board Member, NON-EXECUTIVE	15 March 2016	Board Member, HSBC Bank Egypt SAE Board Member, The Saudi British Bank Board Member, HSBC Bank Middle East Limited

5	Mr. Sridhar Chandrasekharan	Board Member, NON-EXECUTIVE	31 October 2016	Board Member, HSBC Global Asset Management Limited Board Member, Non-Executive, Hang Seng Investment Management Limited
6	Mr. Hamad Al Omar	Board Member, INDEPENDENT	1 <sup>st</sup> January 2015	NIL
7	Mr. Mohammad Alshayea	Board Member, INDEPENDENT	1 <sup>st</sup> January 2015	Board Member, Saudi Ground Services Company Board Member, NAJM for Insurance Services
8	Mr. Abdulatif Al Seif	Board Member, INDEPENDENT	15 March 2016	Board Member, Al Rajhi Bank
9	Vacant	-	-	-

**Board Members who resigned during 2017**

1	Mr. Fahad Al Saif	Board Member, NON-EXECUTIVE	Resigned with effect from 25 July 2017	NIL
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Number of Board & Committee meetings attended by each Director during 2017

No.	Name	Board Meetings	EXCOM Meetings	Audit Committee Meetings	Board Risk Committee Meetings	Nomination & Remuneration Committee Meetings
1	Mr. Mansour Al Bosaily	6	-	-	4	5
2	Mr. Majed Najm	6	6	-	-	-
3	Mr. David Dew	6	5	-	-	-
4	Mr. Georges Elhedery	4	6	-	-	5
5	Mr. Sridhar Chandrasekharan	6	-	-	4	-
6	Mr. Hamad S Alomar	6	-	-	4	-
7	Mr. Mohammad Alshayea	6	-	5	-	-

8	Mr.Abdulatif Al Seif	5	-	-	-	5
9	Mr. Fahad Al Saif	2	-	-	-	-

#### Dates of the Board Meetings and Attendance

S. No.	Date of Meeting	Number of Attendees	Percentage Attendance
1	21 March 2017	7 <sup>1</sup>	87.5%
2	9 May 2017	9 <sup>2</sup>	100%
3	13 June 2017	9	100%
4	19 October 2017	6 <sup>3</sup>	75%
5	21 November 2017	8	100%
6	18 December 2017	8	100%

#### Board committees:

##### Audit Committee

HSBC SA's Audit Committee was formed in 2011 reporting directly to the Board of Directors, and meets minimum four times during the year. The Audit Committee shall consist of at least three members including Non-Executive or Independent Board Members, and non-board members.

The Committee monitors the Company's internal and external audit functions and reviews control & compliance weaknesses and system deficiencies. It is also responsible for ensuring that all financial information is of the highest quality, concentrating on critical business issues, which enable the Company's external auditors and management to focus on those areas of greatest risk to the business.

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<sup>1</sup> It should be noted that the total strength of the Board was at 8 members.

<sup>2</sup> It should be noted that a new Board member was appointed on 21 February 2017, hence the total strength of the Board was increased to 9 members.

<sup>3</sup> It should be noted that a Board member resigned on 25 July 2017, hence the total strength of the Board dropped to 8 members.

The Audit Committee during 2017 comprised of the following members:

- Mr. Mohammad Alshayea, (Chairman)
- Mr. Hussain Al-Yami, (Member from outside the Board)
- Mr. James Madsen, (Member from outside the Board)
- Mr. Sami AlMahaid, (Member from outside the Board)
- Ms. Sonali Goiporia, (Member from outside the Board)

S. No.	Date of Meeting	Number of Attendees	Percentage Attendance
1	6 March 2017	5	100%
2	19 March 2017	5	100%
3	12 June 2017	5	100%
4	18 October 2017	5	100%
5	10 December 2017	5	100%

### **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee was formed by the Board on 19 July 2011, and meets at least once during the year. The committee consists of three to five members appointed by the Board and reports directly to the Board.

The Committee recommends to the Board of Directors nominations for Board membership, annually reviews the skills and capabilities required of those suitable for Board membership, including the time needed by a Board member for Board business, reviews the structure of the Board and submits the necessary recommendations.

The REMCOM during 2017 comprised of the following members:

- Mr. Abdulatif Al Seif, (Chairman)
- Mr. Mansour Al Bosaily, (Member)
- Mr. Georges Elhedery, (Member)
- Mr. Ahmed AlSudais, (Member from outside the Board)

### **Dates of the Nomination & Remuneration Committee Meetings and Attendance**

S. No.	Date of Meeting	Number of Attendees	Percentage Attendance
1	13 February 2017	4	100%
2	16 March 2017	3	75%
3	12 June 2017	4	100%
4	9 October 2017	4	100%
5	14 December 2017	4	100%



## **Executive Committee:**

The Executive Committee (“EXCOM”) is appointed by the Board and reports directly to the Board. The committee consists of the Company’s CEO (Chairman) and two other Board Members.

The main task of EXCOM is to assist the Company’s CEO, within the authorities entrusted to CEO by the Board, and in handling the matters referred to CEO by the Board. In addition, EXCOM review, inter alia, Business Performance Reports, Financial Markets Reports, Investment Banking Report, Monitoring of AOP Progress Reports and Human Resources Reports etc. and meets six times during the year.

The EXCOM during 2017 comprised of the following members:

- Mr. Majed Najm, (Chairman)
- Mr. David Dew, (Member)
- Mr. Georges Elhedery, (Member)

## **Dates of EXCOM Meetings and Attendance**

<b>S. No.</b>	<b>Date of Meeting</b>	<b>Number of Attendees</b>	<b>Percentage Attendance</b>
1	13 February 2017	3	100%
2	16 April 2017	3	100%
3	11 June 2017	3	100%
4	17 August 2017	3	100%
5	8 October 2017	2	66.6%
6	7 December 2017	3	100%

## **Board Risk Committee**

The Board Risk Committee (“BRC”) was formed by the Board to handle risk management affairs. As per its terms of reference, the BRC consists of not less than 3 members including at least one Non-Executive Independent Board Member, and non-board member and reports directly to the Board.

The BRC meets four times a year and supervises and gives advice to the Board on all matters relating to high level risks pertinent to the Company’s business in addition to strategic direction of risks across the Company including the drawing up of a risk vision, prioritization and supervision of principal initiatives and overseeing the execution of major transformational risk initiatives.

The BRC during 2017 comprised of the following members:

- Mr. Sridhar Chandrasekharan (Chairman)
- Mr. Mansour AlBosaily (Member);
- Mr. Hamad Al Omar (Member);
- Mr. Richard Hinchley (Member from outside the Board)
- Mr. Rob Underwood (Member from outside the Board)

## Dates of the Board Risk Committee Meetings and Attendance

S. No.	Date of Meeting	Number of Attendees	Percentage Attendance
1	20 March 2017	5	100%
2	29 May 2017	5	100%
3	18 October 2017	5	100%
4	11 December 2017	5	100%

## Dividends

In accordance with the Company's Articles of Association, the Company's dividend distribution policy is in compliance with the provisions of the Company by laws. The annual net income of the Company is distributed as follows:

1. Amounts for payment of Zakat payable by Saudi shareholders and tax payable by the non-Saudi partner, will be calculated and allocated in line with the rules and regulations in force in the Kingdom of Saudi Arabia. The company will pay such amounts from the net income distributed to these parties.
2. 10% of the net income is transferred to statutory reserves until this reserve equals 30% of the paid up share capital of the Company.
3. Based on the recommendation of the Board and the approval of shareholders at the Ordinary General Meeting dividends will be paid to shareholders in accordance with the number of shares held by each shareholder.
4. Un-distributed net income is carried forward as retained earnings.

## Distribution of profits as per the Company's dividend distribution policy is as follows:

	SAR '000s
Net Income 2017 (29-Mar'17 to 31-Dec'17)	134,539
Retained earnings from the previous year*	119,594
<b>Total</b>	<b>254,133</b>
<b>Distributed as follows:</b>	
Transferred to statutory reserves	12,595
Zakat and Income Tax	20,154
Paid / Proposed Dividend, Net	104,835
Retained earnings for 2017	116,549

\*Includes Net Income and zakat/tax provision for the period 01-Jan'17 to 28-Mar'17

## Accounting Standards

These financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia (“Saudi accounting standards”) issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) as appropriate to the circumstances of the Company.

## 9. Statutory payments

Statutory payments payable by the company during 2017 consist of Zakat payable by Saudi shareholders, tax payable by the foreign partner, and the amounts payable to The General Organisation for Social Insurance (GOSI) which represents staff insurance contributions.

The statutory payments for the year 2017 were as follows:

	<u>SAR '000</u>
Zakat attributable to the Saudi Shareholders for 2016	2, 110
Income tax attributable to non-Saudi shareholder for 2016	18, 829
GOSI payments	10,636

## 10. Remuneration Report

Directors’ fees for their membership of the Board and participation in the Company’s operations, during 2017 amounted to SAR 1, 493,000 including SAR 138,000 in attendance fees at Board meetings and Board Committees, namely: Executive Committee, Audit Committee, Nomination and Remuneration Committee and Board Risk Committee. The compensation is paid towards the end of the year.

During 2017, none of the board or committee members have assumed any work of technical or advisory role, and therefore they did not obtain any consideration or special benefits in this respect.

The following table shows details of remuneration paid to Board members and senior executives of HSBC SA during the year:

2017 SAR' 000	Salaries and Remuneration	Allowances	Annual and Periodic Bonuses**	Incentive Schemes	Any Remuneration or other benefits in kind paid monthly or annually
<b>Board of Directors</b>	-	-	-	-	-
Executive Board Members	-	-	-	-	-
Non-Executive / Independent Board Members	-	-	-	-	SAR 1,493
<b>Top six senior executives (including CEO and CFO)*</b>	SAR 5,227	SAR 2,429	SAR 7,271	-	-

\*Remuneration is for the period 29 March 2017 to 31 December 2017

\*\* Includes both cash and deferred bonus for the period 29 March 2017 to 31 December 2017.

## **Staff Benefits and Schemes**

According to the Labour Law of The Kingdom of Saudi Arabia and the Company's internal policies, staff benefits are due for payment during or at the end of an employee's period of service. The end of service benefit outstanding as at 31 December 2017 amounted to SAR 41.9million.

### **11. Board of Directors Assurance**

The Board assures shareholders and other interested parties that to the best of its knowledge and in all material aspects:

- Proper books of account have been maintained.
- The system of internal controls is sound in design and has been effectively implemented.
- It has no evidence that suggests the Company's inability to continue as a going concern.

### **12. Internal control**

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and types of risks the company is willing to take in achieving its strategic objectives. To meet this requirement, procedures have been designed to provide effective internal control; for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication. These procedures can only provide reasonable assurance against material misstatement, errors, losses or fraud.

The key risk management and internal control procedures include the following:

- HSBC SA standards outlines the core principles within which the Company and its employees must operate in conducting its business.
- Delegation of authority within the limits set by the Board. The Chief Executive has been delegated authority limits and powers within which to manage the day-to-day affairs of the company.
- Risk identification and monitoring. Systems and procedures are in place to identify, assess, control and monitor the material risk types facing HSBC SA. Our risk measurement and reporting systems are designed to help ensure that risks are captured with all the attributes necessary to support well-founded decisions,
- Changes in market conditions/practices: processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose HSBC SA to heightened risk of loss or reputational damage.

- Strategic plans: A business strategy for 2018 is in place. The strategy outlines the risk appetite of HSBC SA and sets out the key business initiatives and the likely financial effects of those initiatives.
- Responsibility for risk management: All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model, which is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. Governance is in place to provide oversight of, and advice to the Board on material risk related matters effected through the Board sub-committees and management committees which oversee the effectiveness of risk management and report to the Board sub-committees.

HSBC SA's management is responsible for establishing and maintaining an adequate and effective framework of internal control which encompasses the policies as approved by the Board. HSBC SA's management has put in place an internal control framework to ensure compliance with applicable laws and regulations, internal policies with respect to conduct of business, maintenance of proper records and processes and quality of external and internal reporting.

HSBC SA has implemented a 'Three Lines of Defence' model for managing its risks.. Business management, as the First Line of Defence, is responsible for setting policies, procedures and standards across all areas under their responsibility. Functional management is also responsible for implementing effective monitoring mechanisms to detect and prevent deviations or breaches from established policies and regulatory requirements.

The Second Line of Defence comprises various risk management and control functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud. Risks are analysed qualitatively as well as by quantitative methods and reported to the Board and sub-committees through HSBC SA's management committees.

Internal Audit (INA) represents the independent 'Third Line of Defence' and reviews the design and operating effectiveness of the HSBC SA internal control framework and policies established by business and functional Risk Owners to provide independent and objective assurance that HSBC SA is operating within its stated risk appetite and in compliance with the regulatory framework. The Head of Internal Audit reports to the Audit Committee (AUCOM) on all audit related matters. The executive management is responsible for ensuring that Management Action Plans agreed by the INA function are implemented within an appropriate and agreed timetable.

During 2017, INA conducted a number of reviews across HSBC SA in accordance with the approved Audit Plan and identified certain weaknesses in the internal control framework. The Management is actively remediating these weaknesses in line with agreed action plans that include long term IT solutions. The Audit Committee actively monitors the adequacy and effectiveness of the internal control framework to provide reasonable assurance that all identified weaknesses are being remediated and that the internal control framework of HSBC SA remains effective.

### **13. Penalties**

The Company applies in form and spirit all capital market laws, rules and regulations issued by the regulators in its day to day business. Through the establishment of three lines of defence it ensures that the application of regulations is robust and sustainable in the businesses and functions.

During 2017, HSBC SA was subject to penalties of SR 190,000 from the regulator for minor breaches which were subsequently addressed.

### **14. HSBC SA General Meetings**

In 2017, HSBC SA held Conversion General Assembly for shareholders on 16<sup>th</sup> February 2017. The Annual General meeting of the company was held on 3<sup>rd</sup> May 2017.

### **15. Appointment of external auditors**

The Annual General Assembly meeting of HSBC SA was held on 3<sup>rd</sup> May 2017, endorsed the selection of KPMG Al Fozan & Partners according to the recommendation of the Audit Committee, to audit HSBC SA's annual financial statements and review quarterly interim financial statements for the year ended 31 December 2017 and the determination of their remuneration.

### **16. Board of Directors Approval**

The financial statements were approved by the Board of Directors on 9 Rajab 1439H (26 March 2018).