

Deutsche Securities Saudi Arabia
Board of Director's Annual Report 2016

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.

The main activities of Deutsche Securities Saudi Arabia are as follows:

- Dealing
- Custody
- Managing
- Arranging
- Advising

Important Plans and Decisions of DSSA in 2016:

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 combination of the above three themes as well as provisions relating to a tax claim by the General Authority for Zakat and Taxes ("GAZT") have caused DSSA to record a loss of SAR 52.7 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. The new Avaloq system will, among other things, allow DSSA to launch 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 on the basis of 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 2017.

Equities trading too suffered significantly in 2016 due to an overall reticence among global investors to deploy capital in Saudi Arabia and concerns about Deutsche Bank's counterparty risk. The latter factor indeed was behind a major loss of market share in Q3 and Q4. However, the situation appears to have stabilized post Deutsche Bank's settlement with the US Department of Justice late in the year and we are beginning to see clients coming back to the group.

Overall, DSSA's revenues for 2016 amounted to SAR 20.8 million as compared to SAR 42.7 million in 2015 and a target of SAR 44.1 million for the year. In addition to the factors referred to above the decrease in revenues is attributable to:

- A significant reduction in transfer pricing receipts as a result of a one-off true-up of SAR 8.7 million.
- A reduction of income from revenue sharing with Deutsche Bank AG Riyadh Branch.
- Delay in realizing Custody revenues due to market entrants' uncertainty as to how to access the market with new regulations on T+2 settlement and stock borrow and lending.

General and administrative expenses increased from SAR 39.4 million in 2015 to SAR 65.8 million in 2016. The rise was driven by a one-off tax provision item totaling SAR 20.7 million and in excess of SAR 13 million in investment in developing the wealth management platform and systems.

The decline in revenues coupled with the increase in general and administrative expenses caused DSSA to report a net operating loss of SAR 52.7 million.

Annual Audited Financials

KPMG conducted an external audit of DSSA's 2016 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. Auditor's report on the DSSA Financial Statements will be submitted to the management subject to completion of audit procedures on related party receivables and payables, and on Transfer Pricing revenues. The following items are still awaited from the auditor and are subject to receiving the final DSSA Financial Statements.

- DSSA Audit report 2016.
- KPMG re-engagement letter 2017.

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 2016.

DSSA is well capitalized with SAR 484 million of tier 1 capital and risks are minimized and appropriately mitigated. There has been minimal movement in the total capital requirements with the main item relates to market risk, which mainly comprises of FX and Equities risks. There were

no equities exposures as at December 2016. The market risk capital component has increased from SAR 1.3 million at December 2015 to SAR 3.5 million as at December 2016.

Implemented Provisions of CMA Regulations

As far as we are aware, there have been no departures from applicable regulatory requirements during 2016.

Formation of DSSA's Board of Directors

Mr. Abdulhadi Shayif continued as Chairman of DSSA's Board in 2016. The Board had six members during 2016: one Executive Director, Mr. Jamal Al Kishi (Chief Executive Officer); three Non-Executive Directors, Mr. Ashok Aram, Mr. Alexander von zur Muehlen and Mr. Marco Kistner (appointed as a Non-Executive member in September 2014) and two Independent Directors, Mr. Abdulhadi Shayif (Chairman) and Mr. Sameer Alhamidi.

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	Saudi Hollandi 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

Board Committees

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.

There were Audit Committee meetings held in 2016. The Chairman is Mr. Yousef Al-Mobarak and the members are Mr. Sameer Alhamidi and Mr. Alexander von zur Muehlen.

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 2016. The Chairman is Mr. Ashok Aram and the members in 2016 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 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

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.

There were four Compliance Committee meetings held in 2016. The members are:

- Mr. Jamal Al Kishi, Chief Executive Officer (Chairman);
- Mr. Mohammed Al Ajmi, Chief Operating & Risk Officer;
- Ayman Daghestani, Head of Compliance and Anti-Money Laundering (following the departure of Mr. Abdulaziz Alyabes);
- Mr. David Ghaffari, Group Audit

Remuneration

Details of the compensation and remuneration paid to each of DSSA's Board Directors, and the top five paid executives at the company, will be supplied to CMA by an external firm.

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	10,059,141 (Including Allowances)
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 six senior executives including CEO and CFO*

**Compensations of Board members are paid on quarterly basis.*

Penalties

The CMA has imposed a monetary fine (SAR10,000/-) on DSSA for a delay on responding to a CMA Circular, received on 11 August 2016, on which the deadline was set as (1 business day) but we reverted back within a week due to a confusion between the designated circular and another one. To avoid any similar delays, Compliance has been charged to ensure-on a daily basis-that such regulatory circulars have been responded to within the relevant deadlines.

Litigation

There were no legal proceedings involving DSSA which were either on-going or resolved during 2016.

Annual Audit: Internal Control Procedures

In line with CMA's requirements, DSSA completed its annual internal audit by end of November 2016. The report dated 29th November 2016 will be submitted to CMA by the end of March 2017. No critical issues were raised during the audit. One significant finding related to Local Compliance Monitoring Program and three important findings were raised during the audit. All issues will be closed within the committed timeline.

Additional disclosures as per CMA requirement

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.

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.

It is worth noting that the operational risk regulatory and policy compliance exercise for Deutsche Bank Group was conducted in 2016 in order to monitor the framework's compliance with local regulations.

Credit Risks

Deutsche Securities Saudi Arabia is exposed to a fairly low credit risk in its business model, which consists mainly of prefunded equity swap transactions with Deutsche Bank in London. Market risks encountered by the company are managed by Market Risk Management as part of the global risk management framework. The policies and key operating procedures relating to this framework apply to Deutsche Bank Group and are supplemented by specific guidelines which apply on a legal entity level.

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.

Loans

DSSA did not have any loans in fiscal year 2016.

Annual Review: Internal Control Procedures

In compliance with CMA's requirements, the company completed its annual internal review at the end of November 2016. The report dated 29 November 2016 will be submitted to the Capital Market Authority by the end of March 2017. No critical issue was identified during the review.

Four main issues were identified which will be closed in a timely manner.

These issues are as follows:

1. Local Compliance Monitoring Program
2. Equity Trading - Business Continuity & Trade Booking Documentation
3. Payroll Reconciliation
4. Finance - Validation & Control

Disclosures by DSSA Board Directors:

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:

Revenues:

	<u>2016</u>	<u>2015</u>
Fees income – regional offices of Deutsche Group and other branches	10,526	24,109
Services income- Deutsche Bank AG – Riyadh Branch	2,828	=
Income from special commissions – Deutsche Bank – Riyadh Branch	2,400	<u>1,947</u>

Expenses:

Support services expenses		
Regional offices for Deutsche Group and other branches	13,140	4,289
Compensation for senior management personnel	<u>10,059</u>	<u>14,471</u>

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

	<u>2016</u>	<u>2015</u>
Due from Deutsche group regional offices and other branches	14,515	5,311
Due to Deutsche group regional offices and other branches	<u>20,490</u>	<u>9,513</u>


In addition to the above balances, the Company held a balance in an account with Deutsche Bank AG, Riyadh Branch of SAR 521,526 (2015: SAR 554,887). Further, an amount of SAR 1,399 (2015: SAR 237) is payable to the parent Company related to the employee share option plan.

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 2016.

Board members' Business or contracts

The Board confirms that during 2016, 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