

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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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 2019.

1. Principal activities

HSBC Saudi Arabia ("the Company") is a Saudi closed joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010221555 and regulated by the Capital Market Authority, pursuant to Capital Market Authority Licence No. 05008-37, whose principal place of business in the Kingdom of Saudi Arabia is at HSBC Building, 7267 Olaya- Al Morooj, Riyadh 12283-2255 Kingdom of Saudi Arabia.

The main activities of the Company are to provide a full range of securities business services including investment banking advisory, debt capital markets and syndicated finance advisory, project and export finance advisory, and custody and funds securities services. It also manages mutual funds and discretionary portfolios and provides brokerage services including margin lending conventional and Shariah compliant overdraft facility for customers to trade in the capital market. The Company serves a wide range of clients including but not limited to corporates, financial institutions, non-bank financial institutions and individuals.

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.

2. Business overview

Our operating model consists of two businesses and a corporate centre, supported by operations, services and technology, and support functions, including risk, finance, compliance, legal, marketing, audit and human resources.

Global Banking and Markets (GBM)

- Investment Banking Advisory
- Project & Export Finance
- Debt Capital Markets
- Securities Services
- Institutional Brokerage

Retail Banking and Wealth Management (RBWM)

- Asset Management
- Retail Brokerage
- Margin Financing

Best in Class: Industry Awards:

HSBC SA received recognition in 2019 as follows:

- Best Investment Bank in Saudi Arabia by Euromoney
- Best Foreign Investment Bank in KSA by EMEA Finance
- Saudi Asset Manager by MENA Fund Manager Awards
- Best Asset Manager in Saudi Arabia by Global Investor MENA
- Best Sector Fund from MENA Fund Manager Awards
- Best Sub Custodian of Saudi Arabia for 2019 by Global Finance
- Best Sub custodian of Saudi Arabia for 2019 by The Asset Tripe A.

Global Banking and Markets (GBM)

Investment Banking Advisory	Project & Export Finance	Debt Capital Markets	Securities Services	Institutional Brokerage
The Investment Banking Advisory team is one of Saudi's prominent advisors on equity capital markets (ECM), mergers and acquisitions (M&A), and related strategic matters with a leading market position in ECM and M&A transactions over the last decade.	The Project and Export Finance team is the leading adviser and arranger of project financing in Saudi Arabia in addition to export credit agency supported finance.	This specialist debt team develops integrated financial solutions for corporates and institutions. Through a partnership approach with clients, and detailed market knowledge and experience, we maintain our position as the leading player in Saudi Arabia.	The Securities Services team offers services to local, regional and international institutional clients for direct custody and clearing services, fund administration and global custody services and a wide range of issuer services which include loan agency services, escrow services, payment administration services etc.	The Institutional Brokerage team offers a comprehensive range of trading services to both retail and institutional investors (domestic and foreign) seamlessly delivered through multiple channels. The business offers dedicated market access channels for its institutional clients and is ably supported by research capabilities providing timely and comprehensive sector and company research.

Financial highlights

GBM Revenues (SAR millions)	2019	2018	2017	Var 2019 vs 2018 %
Advisory services	134	68	98	97%
Securities Services	245	119	83	106%
Institutional Brokerage	66	48	34	38%
Total Revenues	445	235	215	89%

Business Highlights

Investment Banking Advisory:

HSBC SA is a market-leading investment banking franchise in the Kingdom, delivering leading advisory services across the platform's product offering. During 2019, HSBC SA further expanded its unparalleled track record of executing landmark transactions in Saudi Arabia, namely;

- Co-advisor on the largest MENA M&A transaction to date – PIF's divestment of 70% stake in Saudi Arabian Basic Industries Corporation (SABIC) to Saudi Aramco;
- Advisor to Ma'aden on the cross-border acquisition of majority stake in the Mauritius-based Meridian Consolidated Investments Limited;
- Advisor to Saudi International Petrochemical Company (Sipchem) on its merger with Sahara Petrochemicals Company, as the first public merger under the revised M&A regulations;
- Launch of the bidding process on the Kingdom's first privatization sale process - Saudi Grains Organization (SAGO)
- Co-Financial Advisor, Co-Underwriter and Joint Bookrunner on Saudi Aramco's IPO on Tadawul, the largest IPO globally ever;
- Advisor, Underwriter and Bookrunner on Ataa Educational Company's IPO on Tadawul.

Directors' Report (continued)

Debt Capital Markets and Syndicated Finance:

HSBC SA is a market-leader in Saudi Arabia and successfully maintained its #1 DCM house position in 2019, for a record 9th year in a row. During 2019, HSBC SA expanded its unparalleled track record of executing landmark transactions in Saudi Arabia, namely;

- Acted as joint lead manager and bookrunner on an aggregate primary bond supply of more than USD 23 billion, for key clients including the Kingdom of Saudi Arabia, Saudi Aramco, Saudi Telecom Company, Samba Financial Group, Almarai, APICORP and Arabian Centers Company;
- Acted as a sole arranger and lead manager on Savola's SAR 1 billion 7-year Sukuk issuance and exchange offer, which was the first of its kind by a corporate issuer in the Saudi market;
- Acted as a sole arranger and lead manager on Saudi Real Estate Refinance Company's SAR 750 million Sukuk as part of its SAR 11 billion Saudi-riyal denominated Sukuk Programme;
- Actively supported HSBC Group entities in syndicate financing by participating as lead bank in a number of landmark international bank financings including USD 10 billion for the Kingdom of Saudi Arabia, USD10 billion for Public Investment Fund, and USD 450 million for National Energy Services;
- Supported SABB in arranging syndicated financings of over SAR 30 billion for clients like APICORP, Saudi Electricity Company, Thakher Investment and Real Estate and Tasnee;
- Recognised with number of awards, importantly "Deal of the Year" and "Real Estate Deal of the Year" from Islamic Finance News for Saudi Real Estate Refinance Company and recognized with awards for landmark deals such as Almarai's inaugural USD 500 million Sukuk, SRC's inaugural SAR Sukuk, Saudi Telecom's USD 1.25 billion inaugural Sukuk etc.

Project and Export Finance:

During 2019, HSBC SA continued to support the Government of Saudi Arabia's privatisation initiative by advising on several first-of-their-kind Public Private Partnership projects including schools, medical equipment and medical furniture project. Some of the landmark transactions executed include;

- Successful structuring and arrangement of USD 600 million Shariah compliant re-financing for Sahara and Ma'aden Petrochemicals Company;
- Financial advisor to the Saudi Power Procurement Company in their capacity as the power off taker authority for Dumat Al Jandal Wind IPP project which was the first utility scale onshore wind project in Saudi Arabia;
- Recognized with Middle East and Africa Renewable Deal of the Year award by PFI for Saudi Power Procurement deal.

Securities Services:

HSBC SA is a leading provider in the direct custody and clearing space and continues to play a pivotal role in facilitating foreign institutions obtain Qualified Foreign Investor (QFI) status and thereafter holds their assets in custody. During the year, the business successfully managed the supported the significant increase in client on boarding and trading activity around the index inclusion events in 2019. The business was awarded the "Best sub custodian of Saudi Arabia" for 2019 by Global Finance. In addition, also won the "Best sub custodian of Saudi Arabia" award for 2019 by The Asset Triple A.

HSBC SA also is a leading provider in the fund administration and global custody space where it provides domestic institutional clients access to the extensive custody network of HSBC Group which covers about 94 international markets and also provides a wide range of fund administration, portfolio valuation, financial reporting, performance measurement and attribution and compliance monitoring services.

Institutional Brokerage Services:

HSBC SA operates a sizable institutional and retail brokerage business, and during 2019 maintained its status as the leading brokerage house by market share as compared to all its internationally-linked peers operating in Saudi Arabia. The business played a key role in supporting the Kingdom's market inclusions into MSCI Emerging Markets Index and FTSE 100 Index, and also played an active role in the Aramco IPO issuance and listing.

Retail Banking and Wealth Management (RBWM)

Asset Management

Offers a comprehensive set of investment solutions which include both domestic and overseas investment opportunities across different asset classes through Mutual Funds and Discretionary Portfolio Management Services.

Retail Brokerage

Offers services to local, regional and international institutional clients for direct custody and clearing services, fund administration and global custody services and a wide range of issuer services which include loan agency services, escrow services, payment administration services etc.

Margin Financing

Is fully secured overdraft facility provided to customers to trade in the local equities.

RBWM Revenues (SAR millions)	2019	2018	2017	Var %
Asset Management	107	99	108	8%
Retail Brokerage	29	38	44	-24%
Margin Lending	29	29	8	0%
Total	165	166	160	-1%

Business Highlights

Asset Management:

During 2019, the division maintained a distinguished position within the Saudi asset management industry managing assets of SAR 18 billion across different products and asset classes. With a product offering of 19 publicly offered mutual funds, 2 private funds and several managed portfolios, we are one of the leading asset managers in the country. Some of the business highlights include:

- Remains a top player in the local equity mutual funds;
- Converted HSBC Saudi 20 ETF to HSBC MSCI Tadawul 30 Saudi ETF with strategy to track the MSCI Tadawul 30 index;
- Launched DPM IPO strategy for the Discretionary Portfolio Management clients to support our institutional clients bidding to large Initial Public Offerings (IPOs) in the market;
- Successfully maintained top quartile performance across most of the asset strategies; HSBC Saudi Construction and Cement Equity Fund ranked 2nd across all mutual funds in Saudi Arabia with a return of 67.21%; and
- The year started with the recognition of “Saudi Asset Manager of the Year” award by MENA Fund Manager followed by “Best Asset Manager of the year Saudi Arabia” awarded by Global Investor MENA. The firm also won the “Best Sector Fund” from MENA Fund Manager Awards for its HSBC Saudi Construction and Cement Equity Fund.

Retail Brokerage Services:

HSBC SA operates a sizable institutional and retail brokerage business, and during 2019 maintained its status as the leading brokerage house by market share as compared to all its internationally-linked peers operating in Saudi Arabia.

Margin Lending:

HSBC SA offers margin lending facilities both conventional and Sharia compliant products to its customers to trade in the Saudi stock exchange (Tadawul) local equities.

Directors' Report (continued)

2. Our Strategy

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.







Our purpose is to be where the growth is, connecting customers to opportunities. We help enable businesses to thrive, help our customers realise their ambitions. To achieve our purpose, we need to build strong relationships with all of our stakeholders – including customers, employees and the community in which we operate. This will help enable us to deliver our strategy and operate our business in a way that is sustainable.

We create value by providing the products and services our customers need, and aim to do so in a seamless way. This helps us to build long-lasting relationships with our customers. We maintain trust by striving to protect our customers' data and information, and delivering fair outcomes for them and if things go wrong, we need to address complaints in a timely manner. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers.

Strategic Highlights:

- Most diversified product offering and revenue flows amongst competition;
- Significantly ahead of any international competitor;
- Most unique and independent operating model compared to other peer group, i.e. bank owned subsidiaries;
- Robust partnership with its shareholders, i.e. HSBC and SABB
- Winner of many prestigious awards

Strategic priorities: Medium term

Strategic priorities: Medium term		Expected Outcome
	1 Expand client coverage 2 Enhance product capabilities and offering 3 Improve distribution of services	<ul style="list-style-type: none"> ■ Retain top position in League tables ■ Top Institutional brokerage house ■ Maintain No #1 sub custodian ■ Support the Government Savings agenda under FSDP
Saudi Vision 2030	4 Capitalise Vision 2030 Opportunities	<ul style="list-style-type: none"> ■ Active player in IPO & Privatisations ■ Preferred investment banking partner for KSA in delivering Vision 2030
	5 Digitalisation and Enhance Customer Experience	<ul style="list-style-type: none"> ■ Trusted partner of NDMC, NCP and select government institutions ■ Conduit for partnering and channelising international best practices from HSBC
SABB   HSBC	6 Foster revenue synergies with HSBC and SABB 7 Enhance connectivity with HSBC and SABB 8 Implement international best practice	<ul style="list-style-type: none"> ■ Best institution for clients to do business with ■ Drive digitalisation and enhance customer experience
	9 Streamline processes and services 10 Strong governance framework & compliance culture	<ul style="list-style-type: none"> ■ Collaboration - leveraging from HSBC and SABB capabilities ■ Launch of new products and solutions ■ Implementation of Global standards
	11 Talent retention and staff engagements	<ul style="list-style-type: none"> ■ Deliver people programs and leverage From exchange programs with HSBC ■ Best and healthiest place to work

Strategic advantages as a leading Investment bank with platform for growth and signature global bank strengths;

- Global HSBC brand and access to global knowledge and expertise across sectors and businesses
- Strong local partner in SABB, execution capabilities and deep local knowledge and relationships
- Ability to leverage local balance sheet of SABB
- Ability to maintain strong capital, funding and liquidity position with diversified business model with a conservative approach to credit risk and liquidity management
- Committed to enhance customer service through investments in technology

HSBC SA, in partnership with its shareholders HSBC and SABB, seeks to contribute to the success of Vision 2030

Pillars	Objectives	Vision Realization Programs		
A Thriving Economy	Grow & diversify the economy	Enriching the Hajj and Umrah Experience	National Transformation Program	PIF Program
	Increase Employment			
A Vibrant Society	Strengthen Islamic values & national identity	National Companies Promotion Program	Financial Sector Development Program	Lifestyle Improvement Program
	Offer a fulfilling and healthy life			Strategic Partnerships Program
An Ambitious Nation	Enhance government effectiveness	Privatization Program	Saudi Character Enrichment Program	Fiscal Balance Program
	Enable social responsibility			

Directors' Report (continued)

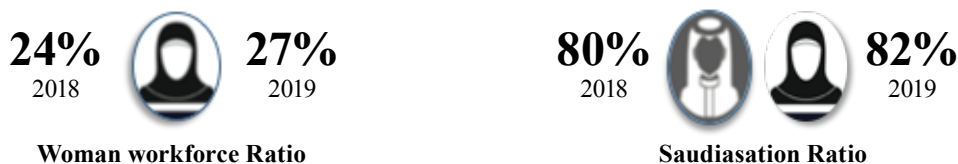
3. People:

Our people are critical to our success, and are committed to build the 'Best Place to Work' in our industry to enable them to thrive. As we work towards this, we are focused on fostering a culture in which our employees feel valued, empowered to share their views, and able to fulfil their potential.

Listening to our people and understanding how our people feel about HSBC is vital. It helps us ensure that we are giving them the right support to achieve their potential and to serve our customers well.

We are committed to a thriving environment where people are valued, respected and supported to fulfil their potential. By building upon the extraordinary range of ideas, backgrounds, styles and perspectives of our employees, we can drive better outcomes for our stakeholders including customers, communities, suppliers and shareholders. We take pride in our values of being Open, Dependable and Connected.

The company has built a leading employer brand in the market to attract, engage, develop and retain talent by offering an internationally-connected professional environment, top class training and career development structure. Developing the Saudi workforce has continued to be a priority and our Saudiasation ratio has reached 82%.



Gender balance is an important area of focus and made good progress. Our Saudi female work force ratio improved to 27%, while we also recognise the need to further improve.

During the year, HSBC SA successfully implemented a number of programs, aimed at fostering Saudi local talent, notably;

- Global Graduate Training program, gives opportunity to work with experts in HSBC Group,
- Youth for Saudi program, gives opportunity to work with specialist teams based in key markets like Dubai, London and Hong Kong for period of 18 months;
- JODP programs, hiring on short term intern placements for university students

We believe it is important to have a culture where our people feel able to speak up. Individuals are encouraged to raise concerns about wrongdoing or unethical conduct through the usual reporting and escalation channels.

4. Corporate social responsibility(CSR):

In line with our core values, we are committed to the community in which we operate. Within this framework, the company is continuously making efforts to serve the community by providing a range of activities that serve and benefit the various groups of people in Saudi Arabia that are in need of support and assistance. We are making all efforts to promote a social responsibility culture and instil the spirit of volunteer activities by involving our staff members in the various initiatives launched by the company.

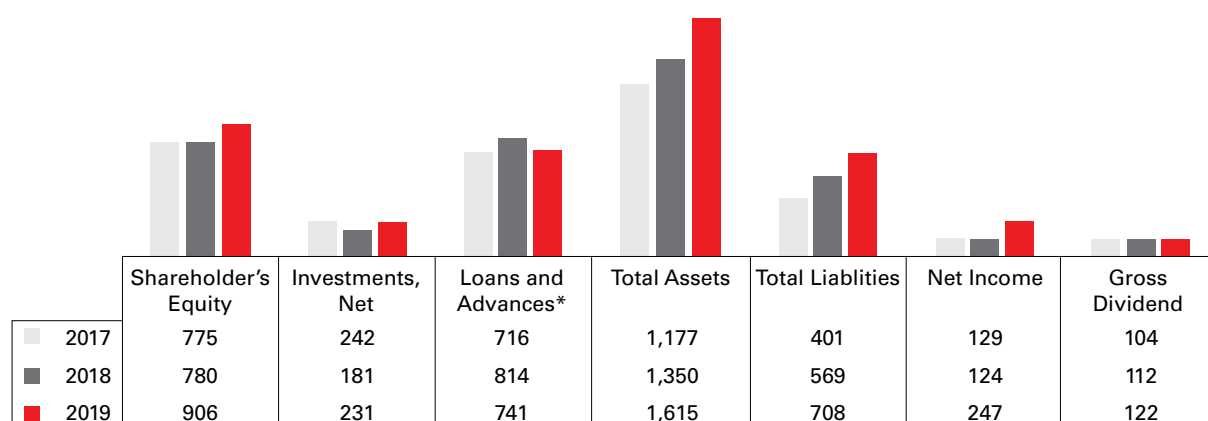
During 2019, the company successfully conducted and organised a number of CSR activities, including a blood donation drive with King Faisal Hospital, distribution of winter kits and bags that to families in need during the winter. We offered Ramadan food baskets program where staff participated in distributing them to families in need. In addition, number of awareness campaigns were carried out during the year, such as Breast Cancer, Diabetes & Ataxia day awareness. The company made donations to 4 registered charities in the Kingdom as part of the Tat'heer process (purification) for Mutual funds, in which an allocated amount from Shariah complaint mutual funds was made available to charities

5. Financial results and segment performance

Key financial highlights

Saudi Riyal (millions)	2019	2018	2017	2016	2015
Net Income	247	124	129	106	238
Total Operating expense	329	264	242	266	295
Profit Before Tax	297	145	151	140	279
Profit after Tax	247	124	129	106	238
Loans and Advances*	741	814	716	-	-
Investments, Net	231	181	242	615	1,029
Total Assets	1,615	1,350	1,177	1,028	1,168
Total Liabilities	708	569	401	262	302
Shareholder's Equity	906	780	775	765	865
Gross Dividend	122	112	104	211	157

■ 2017 ■ 2018 ■ 2019



* Relates to margin lending portfolio

Net income

HSBC SA recorded net profit before tax of SAR 296.7m for the year 2019 against prior year profit of SR 145.2m. HSBC SA's total revenues for the year 2019 were SAR 625.9m compared to SAR 409.2m in 2018. The company's strong growth in revenues was driven mainly by securities services (HSS) whose revenues increased to SAR 244m from SAR 114.4m, and higher income from advisory services that increased to SAR 133.8m from SAR 67.7m last year. HSBC SA's total operating expenses for 2019 were SAR 329.1m compared to SAR 264.1m in 2018. It needs to be noted that 2018 expenses included one off release of operational loss amounting to SAR 30.5m.

Revenues from retail business (RBWM) remained flat compared to 2018, as growth in revenues from asset management business driven by increase in AUM's was offset by decline in brokerage revenues as the volumes declined. Income earned from margin lending portfolio was in line with last year as there was no material shift in utilisation levels.

Revenues from institutional business (GBM) increased by 89% compared to 2018. Notably, revenues from our securities services grew by 106%, growth in advisory services was over 97% whilst the brokerage revenues grew by 38%. The business was able to successfully leverage from the opportunities arising from the FTSE and MSCI Inclusion events, large Aramco IPO and increase number of QFIs entering the Saudi market.

Directors' Report (continued)

Balance sheet

Total assets of the company increased to SAR 1,615m compared to SAR 1,350m in 2018. The growth in balance sheet was mainly driven by increase in cash balances by SAR 228m and Investments by SAR 50m offset by decline in Margin lending portfolio from SAR 815m to SAR 742m. The company's borrowing from banks (as mentioned below in the Liquidity and Funding Section) decreased from SAR 326m to SAR 226m. The company's total investments in HSBC SA managed funds were SAR 232m, of which investments in HSBC Saudi Riyal Murabaha Fund were SAR 153m. The company in 2019, fully liquidated SAR 70m seed capital investment made in new Enhanced Murabaha Private fund during 2018. Zakat and income liability increased to SAR 49m compared to SAR 28m in 2018 on account of increase in company's profit and one off zakat ADRC settlement liability provision of SAR 6m. The end of services balances based on the actuary valuation was SAR 49m.

Funds under management ('FuM') represents assets managed, either actively or passively, on behalf of our customers. At 31 December 2019, mutual funds' and discretionary amounted to SR 17.65 bn, an increase of 63% compared to SR 10.85bn in 2018, driven by improved performance of the funds, market performance and new clients.

Assets held in custody and under administration, Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. At 31 December 2019, we held assets as custodian of SR 442bn, 18% higher than SR 373bn held at 31 December 2018. The increase was driven by increase in QFI's entering the market driven by the 2 inclusion events (FTSE and MSCI), capital market reforms, and the large IPO issuance.

Related Party Balances and Transactions

The Board confirms that other than what has been disclosed in this section, none of the Directors of the Board including the Chief Executive Officer and Chief Financial Officer or any of their related person has any business or contracts to which HSBC Saudi Arabia is party.

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.

SAR	Notes	As at 31/12/2019
Due from related parties		
Receivable from SABB	1	75,339,738
Receivable from affiliates	2	10,666,937
		86,006,675
Due to related parties		
Payable to SABB	3	2,323,414
Payable to affiliates	4	20,365,977
		22,689,391

1. This mainly represents receivable on account of advisory services, receivable on special commission income on deposit 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.
3. This mainly represents payable to SABB for Mutual fund profit sharing.
4. This mainly consists of payable to HSBC entities for profit sharing of advisory deals.

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

Transaction with	Income Statement	2019 SAR
The Saudi British Bank (SABB)	Services cost under service level agreement-net	<u>24,209,233</u>
	Arranging/advisory income under service level agreement	<u>13,860,372</u>
	Special commission income on deposit	<u>98,596,195</u>
	Fees paid for discretionary portfolios service and mutual funds	<u>11,215,862</u>
	Special commission expense on short term loan facility	<u>7,813,099</u>
HSBC Saudi Arabia Mutual Funds (“the Mutual Funds”)	Brokerage income, net	<u>610,906</u>
	Asset management fee from funds	<u>72,288,180</u>
	Unrealized/Realized gain on sale of investments – net	<u>6,209,561</u>
HSBC entities	Brokerage income on equity swaps	<u>4,266,683</u>
	Service cost under service level agreement	<u>13,786,074</u>
	Arranging/advisory income under service level agreement	<u>9,263,383</u>
Directors remuneration & Committee members Fee		<u>1,670,000</u>
Key management compensation	Salaries & compensations	<u>6,310,000</u>
	Allowances	<u>3,308,138</u>
	Periodic and annual remuneration	<u>16,674,000</u>

Related Party: Short Term Loans

SAR	SABB
Short-term Loan	175,000,000
Accrued commission expense	591,154
Total	<u>175,591,154</u>

Directors' Report (continued)

6. Risk Overview and Risk Management

We actively manage risk to help protect and enable the business.

HSBC has maintained a conservative and consistent approach to risk throughout its history, helping to ensure we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns.

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework is applied throughout the company, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by our Values.

Our Risk function oversees the framework and is led by the Chief Risk Officer, who reports to the CEO. It is independent from the businesses, including our sales and trading functions, to provide challenge, appropriate oversight and balance in risk/reward decisions.

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

HSBC SA's risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It is articulated in our risk appetite statement, which is approved by the Board. Key elements include:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

We operate stress testing programme undertaking both internal and regulatory stress tests. Internal stress tests are an important element in our risk management and capital management frameworks. They assess the impacts of potential adverse macroeconomic, geopolitical and other HSBC SA-specific events. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the company is exposed.

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.

Top and emerging risks

Our top and emerging risks framework helps enable us to identify forward looking risks so that we may take action either to prevent them materialising or limit their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of the company in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If any of these risks were to occur, they could have a material effect on the company.

Our conservative risk appetite

HSBC SA has maintained a conservative risk profile. This is central to our business and strategy. The following principles guide the company's overarching risk appetite and determine how its businesses and risks.

Our risk appetite encapsulates consideration of financial and nonfinancial risks and is expressed in both quantitative and qualitative terms. It is applied at the enterprise wide level,

Financial Position

- Strong capital position, defined by regulatory and internal capital ratios.
- Strong Liquidity and funding management for the operating entity

Operating Model

- Ambition and capability to generate returns in line with a conservative risk appetite and strong risk management capability.
- Ambition and capability to deliver sustainable earnings and consistent returns for shareholders

Business Practice

- Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- No appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- No appetite for inappropriate market conduct by a member of staff or by any business.

Our risk management framework

We use an enterprise-wide risk management framework across the organisation and across all risk types, underpinned by our risk culture. The framework fosters continuous monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities.

The following diagram and descriptions summarise key aspects of the framework, including governance and structure, our risk management tools and our risk culture, which together help align employee behaviour with our risk appetite.

Directors' Report (continued)**HSBC Values and risk culture**

Risk governance	Non-executive risk governance	The Board approves the Company's risk appetite, plans and performance targets. It sets the 'tone from the top'
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Company
Roles and responsibilities	Three lines of defense model	Our 'three lines of defense' model defines roles and responsibilities for risk management. An independent Risk function helps ensure the necessary balance in risk/return decisions
Processes and tools	Risk appetite Enterprise-wide risk management tools Active risk management: identification/assessment, monitoring, management and reporting	The Company has several processes to identify/assess, monitor, manage and report risks to ensure we remain within our risk appetite
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	The operational risk management framework defines minimum standards and processes for managing operational risks and internal controls
	Systems and infrastructure	The Company has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Capital management

Our objective in the management of capital is to maintain appropriate levels to support our business strategy, and meet our regulatory and stress testing related requirements. Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital base to support the risks inherent in our business and invest in accordance with our strategy, meeting local regulatory capital requirements at all times.

Our policy on capital management is underpinned by a capital management framework and our internal capital adequacy assessment process ('ICAAP'), which helps enable us to manage our capital in a consistent manner. The framework incorporates a number of different capital measures calculated on an economic capital and regulatory capital

basis. The ICAAP is an assessment of the company's capital position, outlining both regulatory and internal capital resources and requirements with our business model, strategy, performance and planning, risks to capital, and the implications of stress testing to capital.

Our assessment of capital adequacy is aligned to our assessment of risks. These risks include credit, market, operational, pensions, insurance, structural foreign exchange, residual risk and interest rate risk in the banking book.

The capital base consists of Tier 1 capital (which includes share capital, statutory reserve and retained earnings) and Tier 2 capital as per Article 4 & 5 of the Prudential Rules. The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in Part 3 of the Prudential Rules. The Company manages the capital base in accordance with Pillar 1 of the Prudential Rules. The capital base should not be less than minimum capital requirement and Company's internal capital adequacy assessment process.

	As at 31/12/2019	As at 31/12/2018
Tier 1 Capital	897,603	772,675
Minimum Capital Requirement:		
Market Risk	14,452	3,137
Credit Risk	267,329	294,749
Operational Risk	82,278	66,003
Total Minimum Capital Required	364,059	363,889
Capital Adequacy Ratio:		
Total Capital Ratio (Times)	2.47	2.12
Tier 1 Capital Ratio (Times)	2.47	2.12
Surplus in Capital	533,544	408,786

Liquidity and Funding

Risk is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality liquid investments, monitoring investments and cash concentrations and restricting them where appropriate, and establishing committed borrowing facilities. The liquidity risk related to these cash flows is managed by matching external debt obligations, internal margin lending growth and internal cash flows and by maintaining an appropriate liquidity buffer that is monitored by the company's ALCO.

Our primary sources of funding are internal cash flows generated from its business operations, cash from excess capital and finally borrowings from banks in form of committed facilities. We use a combination of these funding sources and meet the company's minimum requirement thresholds established for own funds and eligible liabilities. The positive funding gap is deployed in liquid assets (investments in HSBC managed local funds) within the liquidity framework.

The following 'Funding sources and uses' table provides a consolidated view of how our balance sheet is funded, and should be read in light of the Liquidity and Funding Risk Framework, which requires the company to manage liquidity and funding risk on a stand-alone basis.

Directors' Report (continued)

Liquidity and Funding Sources	Balance 2019 (SAR)	Description
Cash balances at bank	457,980,727	Include cash balances of the company that are generated from its business activities. The company holds its balances with SABB.
Investments	231,739,849	The company includes its excess cash in HSBC Managed funds (HSBC Sukuk Fund, HSBC Saudi Riyal Murabaha Fund, HSBC GCC Equity Income Fund, HSBC MSCI Tadawul 30 Saudi ETF)
Borrowing from Banks	225,000,000	The company has established adequate level of borrowing and overdraft facilities with 2 local banks SABB (SR 175m) - Revolving facilities to support funding of Margin lending, in addition the company has overdraft facility to support any unsettled trades Riyad bank (SR 50m) - Revolving facilities to support funding of Margin lending

Stress Testing

The company operates a wide-ranging stress testing programme that supports our risk management and capital planning. Our stress testing programme assesses our capital strength through a rigorous examination of our resilience to external shocks. It also helps us understand and mitigate risks and informs our decisions about capital levels. We undertake both regulatory-driven stress tests in addition to our own internal stress tests.

Continuity of business operations

Every department within the organisation undertakes business continuity management, which incorporates the development of a plan including a business impact analysis assessing risk when business disruption occurs. The company maintains a dedicated contingency work site in Saudi Arabia. Regular testing of these facilities is carried out with representation from each business and support function, to ensure business continuity plans remain accurate, relevant and fit for purpose.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins our approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defense owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defense sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defense on effective risk management.
- The third line of defense is our Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Company's risk management framework and control governance process.

Risk Function (Chief Risk Officer)

Risk Management (Credit, Market Risk, FX etc)	Operational Risk	Information Security and Fraud Risk (Cyber Security etc.)	Shariah Risk	Other Risks (Reputational, Strategic etc.)
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Credit Risk

Risks	Arising From	Measurement and Mitigation
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<p>Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract</p>	<p>Credit risk arises principally from direct lending business advisory services rendered, margin lending, cash with Banks, and Investments in HSBC Funds</p>	<p>measured as the amount that could be lost if a customer or counterparty fails to make repayments;</p> <p>monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and</p> <p>managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance for risk managers.</p>
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Risk Measurement and Methodology:

The Company manages its credit risk by measuring and monitoring credit exposures, establishing limits for transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Company’s risk management policies are designed to identify and set appropriate risk limits and monitor on a continuous basis. To implement credit and risk policies, the company has set settlement limits for both its Custody and Brokerage activities. These limits generate liquidity risk in the advent of client defaults or delayed trades. Such instances historically are very limited. HSBC SA has sufficient committed credit lines in place to match liquidity settlement risk on these lines. These are further ring fenced by our Settlement agent who guarantees to Tadawul all HSBC SA market trade settlements.

Collateral Management:

The company provides margin lending facilities to its customers with the underlying shares in the portfolio held as collateral. The risk function ensures that such security is adequate and enforceable when the need arises, to offset against the customer’s borrowing. In addition, the risk function monitors the total portfolio of shares held as security to ensure there is no undue concentration to a single stock. It closely monitors the customer Loan-to-Value ratios and has established LTV thresholds above the CMA requirements which goes upto a maximum LTV of 75%. The market value of the collateral held is monitored on a daily basis.

Directors' Report (continued)**Liquidity and funding risk**

Risks	Arising From	Measurement and Mitigation
Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at an excessive cost.	Liquidity risk arises from mismatches in the timing of cash flows.	measured using a range of metrics, including liquidity coverage ratio, minimum cash balance thresholds
Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	assessed through the internal liquidity adequacy assessment process managed at an entity level basis taking into account approved facilities with banks as business as usual market practice.

Market risk

Risks	Arising From	Measurement and Mitigation
Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices will reduce our income or the value of our portfolios	Exposure to market risk is separated into two portfolios: trading and non-trading Investments of its surplus capital in the Company's managed mutual funds Margin lending and borrowing from banks Equity Underwriting limits to cover IPO's and Rights issues with nominal limits.	measured using sensitivities and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, monitored using measures, including daily limits, sensitivity of net interest income and the sensitivity of foreign exchange; managed using risk limits approved by the Board and reviewed by the risk management committee.

Operational risk

Risks	Arising From	Measurement and Mitigation
Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.	Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of our business.	measured using the risk and control assessment process, which assesses the level of risk and the effectiveness of controls, and is also measured for economic capital management using risk event losses and scenario analysis; monitored using key indicators and other internal control activities; and managed primarily by business and functional managers who identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls using the operational risk management framework.

Regulatory compliance risk

Risks	Arising From	Measurement and Mitigation
<p>Regulatory compliance risk is the risk that we fail to observe the letter and spirit of all relevant Saudi laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.</p>	<p>Regulatory compliance risk is part of operational risk, and arises from the risks associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory requirements.</p>	<p>measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams;</p> <p>monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and</p> <p>managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance.</p>

Financial Crime Risk

Risks	Arising From	Measurement and Mitigation
<p>Financial crime risk is the risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity through HSBC</p>	<p>Financial crime risk is part of operational risk and arises from day-to-day banking operations.</p>	<p>measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk teams;</p> <p>monitored against our financial crime risk appetite statements and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and</p> <p>managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance.</p>

Directors' Report (continued)

Reputational risk

Risks	Arising From	Measurement and Mitigation
Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the company, our employees or those with whom we are associated.	<p>Primary reputational risks arise directly from an action or inaction by the company, its employees or associated parties that are not the consequence of another type of risk.</p> <p>Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks.</p>	<p>measured by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees;</p> <p>monitored through a reputational risk management framework that is integrated into the broader risk management framework; and</p> <p>managed by every member of staff, and covered by a number of policies and guidelines.</p>

Compliance Overview

Compliance (Head of Compliance)

Regulatory Compliance	Financial Crime Compliance	Financial Crime Threat Mitigation	Assurance, Monitoring and Testing
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Regulatory Compliance function provides independent, objective oversight and challenge, and promotes a compliance orientated culture that supports the business in delivering fair outcomes for customers, maintaining the integrity of financial markets and achieving company's strategic objectives. The function aims to ensure compliance with Local regulations and provides guidance to business and support functions.

Financial Crime Compliance function manages our financial crime control framework and manages the anti-bribery and corruption risk. The responsibilities include applying AML rules & regulations for its clients, review the client documentation, KYC framework and establishing rules and restrictions in dealing with customers especially high risk customers. The company continues to strengthen its defences against financial crime by applying advanced tools and processes.

Financial Crime Threat Mitigation manages the fraud Risk and are responsible for establishing and operating policies, standards, systems and other controls to prevent and detect fraud against the company or its customers. The function actively monitors trades, Transactions and communication platforms to ensure compliance with local FIU and CMA requirements. Where fraud occurs, the function is responsible for investigating this, identifying control weaknesses or failures, recovering stolen monies and forming evidential cases for law enforcement prosecution.

Assurance, Monitoring and Testing function provides assurance on the effectiveness and appropriate compliance with the regulatory policy and to test, the effectiveness of sanctions systems and controls, compliance with the policies, sanctions laws and regulations.

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.

The 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.

Risk Management and Compliance functions, form an integral part of the control environment. Positioned as an independent control supported by the Operational Risk function. 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.

7. Legal Entity Structure

Old shareholding:

On 29 March 2017, the legal and regulatory formalities in respect of the conversion of legal status from limited liability company to a closed joint stock company 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.

	Number of shares	% of contribution	As at 31 December 2017 (SAR)
HSBC Asia Holdings BV	24,500,000	49%	24,500,000
The Saudi British Bank (SABB)	25,497,000	50.994%	25,497,000
Arabian Real Estate Company Limited	1,000	0.002%	1,000
SABB Insurance Agency Limited	1,000	0.002%	1,000
SABB Real Estate	1,000	0.002%	1,000
Total	50,000,000	100%	500,000,000

Pursuant to the Shareholders Resolution of HSBC Saudi Arabia (the "Share Transfer Resolution"), SABB agreed to buy 1,000 shares of HSBC Saudi Arabia from each of its fully owned subsidiaries the Arabian Real Estate Company Limited, SABB Insurance Agency Limited and SABB Real Estate. The Transaction became effective on 3rd of September 2019 resulting in increase of SABB's direct ownership in HSBC Saudi Arabia to 51% representing ownership of 25,500,000 shares of HSBC Saudi Arabia. The legal & regulatory formalities in respect of the Share Transfer Resolution were completed.

The Shareholding as of 3rd September 2019 was as follows:

Description	Number of shares	% of contribution	As at 3rd September 2019 (SAR)
HSBC Asia Holdings BV (HAHB)	24,500,000	49%	24,500,000
The Saudi British Bank (SABB)	25,500,000	51%	255,000,000
Total	50,000,000	100%	500,000,000

Directors' Report (continued)

Pursuant to the Share Purchase Agreement (SPA) between SABB and HSBC Asia Holding BV (HAHB), SABB agreed to sell 1,000,000 shares (2% ownership stake in HSBC Saudi Arabia) to HAHB. As per the terms and conditions of SPA, SABB & HAHB agreed that the Transaction shall be effective from 1st October 2019. The legal & regulatory formalities in respect of the share sale were completed.

New Shareholding as of 1st October 2019 was as follows:

Description	Number of shares	% of contribution	As at 3rd September 2019 (SAR)
HSBC Asia Holding BV (HAHB)	25,500,000	51%	255,000,0000
The Saudi British Bank (SABB)	24,500,000	49%	245,000,0000
Total	50,000,000	100%	500,000,000

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 Bylaws 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 aims to promote the Company's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate. Led by the Chairman, the Board sets the company's strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives on the recommendation of management.

The Board regularly reviews reports on performance against financial and other strategic objectives, key business challenges, risk, business developments and the company's relationships with its key stakeholders. The Board routinely tracks progress with respect to each strategic priority, together with the CEO and members of his management team.

The Board is committed to regular, independent evaluation of its own effectiveness and that of its committees.

The Board of Directors of HSBC SA (prior to the latest Change of Ownership) comprised of nine (9) members, who were appointed and removed as follows:

- Three (3) Directors to be appointed and removed by HSBC;
- Three (3) Directors to be appointed and removed by SABB; and
- Three (3) Directors were Independent Directors and were to be appointed and removed with the unanimous consent of both SABB and HSBC.
- The current Board was elected on 28 March 2017 for a term of three years.

Board of Directors

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

- Five (5) Directors shall be appointed and removed by HSBC;
- One (1) Director 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 current Board was elected on 28 March 2017 for a term of three years.

Profile of the Board of Directors as at 31 December 2018 comprised of the following:

Mr. Mansour Al Bosaily, NON-EXECUTIVE, CHAIRMAN AND BOARD MEMBER (EFFECTIVE FROM 1ST JANUARY 2015)

Board Member, Saudi Ground Services Company

Board Member, Saudi Reinsurance Company²

Board Member, Amlak International Company

Board Member, Jabal Omar Developments Company

Board Member, United Electronics Company (eXtra)

Board Member, Aseer Trading, Tourism and Manufacturing Co.³

Mr. Majed Najm, BOARD MEMBER NON-EXECUTIVE⁴ (EFFECTIVE FROM 1ST JANUARY 2015)

Deputy Managing Director Corporate & Institutional Banking, SABB

Mr David Dew, BOARD MEMBER, NON-EXECUTIVE (EFFECTIVE FROM 1ST JANUARY 2015)

Board Member, The Saudi British Bank

Board Member, HSBC Bank Middle East

Mr Martin Tricud, BOARD MEMBER, NON-EXECUTIVE (EFFECTIVE FROM 29TH JULY 2019)

Board Member, HSBC Bank Middle East Limited (HBME)

Board Member, HSBC Bank A.S (HBTR – Turkey)

Board Member, HSBC Bank Egypt SAE (HBEG)

Board Member, HSBC Middle East Holdings BV (HMEH)

Board Member, Commerce Exterieur De La France - Advisor to the French Government

Mr Sridhar Chandrasekharan, NON-EXECUTIVE, BOARD MEMBER (EFFECTIVE FROM 31ST OCTOBER 2016)

Board Member, HSBC Global Asset Management Limited

Board Member, Non-Executive, Hang Seng Investment Management Limited

Mr Hamad Al Omar, INDEPENDENT, BOARD MEMBER (EFFECTIVE FROM 1ST JANUARY 2015)

NIL

Mr Mohammad Alshayea, INDEPENDENT, BOARD MEMBER (EFFECTIVE FROM 1ST JANUARY 2015)

Board Member, Saudi Ground Services Company

Board Member, NAJM for Insurance Services

Board Member, SABB Takaful (JSC)

Board Member, The General Authority for Competition

Board Member, Alessa Industrial Company⁵

Mr. Khalid Al-Buainain, INDEPENDENT, BOARD MEMBER (10 JANUARY 2018)

Board Member, Saudi Ground Services Company

²Mr. Mansour Albosaily resigned from Saudi Reinsurance Company with effect from 31 December 2019.

³Mr. Mansour Albosaily appointed as a board member with effect from 23 October 2019.

⁴Mr. Majed Najm stepped down as a CEO with effect from 31 March 2019 and continues as a Non-Executive Board Member.

⁵Mr. Alshayea appointed as a board member with effect from May 2019.

Directors' Report (continued)

Board of Directors (continued)

Mr Saad Alkhalb, BOARD MEMBER, INDEPENDENT (EFFECTIVE FROM 22ND JULY 2019)

Board Member, Saudi Company for Exchanging Digital Information (Tabadul).

Managing Director and CEO, Saudi Ports Authority

Board Member, Saudi Export Development Authority

Board Member, Saudi Civil Aviation Holding Company

Board Member, United Company for Financial Services

Board Member, Saudi Customs Authority

Board Members who resigned during 2019:

Mr. Georges Elhedery, NON-EXECUTIVE, BOARD MEMBER (EFFECTIVE FROM 22ND JULY 2019)

Board Member, HSBC Bank Middle East Limited

Board Member, HSBC Bank Middle East Holdings BV

Board Member, HSBC Bank Egypt SAE

Board Member, HSBC (Turkey) Bank A.S.

Board Member, The Saudi British Bank

Mr. Naif Alabdulkareem, NON-EXECUTIVE, BOARD MEMBER (EFFECTIVE FROM 2ND JULY 2019)

Board Member, SABB Takaful (JSC)

Board Member, Saudi Credit Bureau (SIMAH)

Board & Sub-Committee Meetings during 2019:

Dates of the Board Meetings and Attendance:

S. No.	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	7 March 2019	9	8	88.8%	Mr. Mansour Al Bosaily Mr. Majed Najm Mr. David Dew Mr. Sridhar Chandrasekharan Mr. Hamad Al Omar Mr. Mohammad Alshayea Mr. Khalid Al-Buainain Mr. Naif Alabdulkareem	Georges Elhedery (provided proxy)
2	13 May 2019	9	8	88.8%	Mr. Mansour Al Bosaily Mr. Majed Najm Mr. David Dew Mr. Sridhar Chandrasekharan Mr. Hamad Al Omar Mr. Mohammad Alshayea Mr. Khalid Al-Buainain Mr. Naif Alabdulkareem	Georges Elhedery (provided proxy) Not Applicable
3	19 September 2019	9	9	100%	Mr. Mansour Al Bosaily Mr. Majed Najm Mr. David Dew Mr. Martin Tricud Mr. Sridhar Chandrasekharan Mr. Hamad Al Omar Mr. Mohammad Alshayea Mr. Khalid Al-Buainain Mr. Saad Alkhalb	Sridhar Chandrasekharan (provided proxy)
4	17 December 2019	9	8	88.8%	Mr. Mansour Al Bosaily Mr. Majed Najm Mr. David Dew Mr. Martin Tricud Mr. Hamad Al Omar Mr. Mohammad Alshayea Mr. Khalid Al-Buainain Mr. Saad Alkhalb	Sridhar Chandrasekharan (provided proxy)

Directors' Report (continued)**Board Sub-Committees:**

The Board has established 4 Sub committees. The Chairs of each committee report matters of significance to the Board after each meeting and the minutes of the meetings are made available to all Board members. The detailed roles and responsibilities of each committee are set out in its terms of reference established for each sub-committee. The effectiveness of the committees is evaluated as part of the overall performance evaluation of the Board and through annual effectiveness reviews at a committee level.

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.

In discharging their responsibility, the Audit committee oversees:

- preparation of financial statements, compliance with accounting standards and accounting judgements;
- the effectiveness of internal financial control functions;
- the independence and performance of Internal Audit;
- the relationships with external auditors, including their independence, performance and approval of any special services.

The Audit Committee during 2019 comprised of the following members:

- Mr. Mohammad Alshayea, (Chairman)
- Mr. Mr. Rob Underwood, (Non-Board Committee Member)
- Mr. Sami AlMahaid, (Non-Board Committee Member)
- Ms. Sonali Goiporia, (Non-Board Committee Member)
- Mr. Hussain Al-Yami, (Non-Board Committee Member) (Resigned effective from 15 April 2019)
- Mr. Abdulhamid F Alharbi (Non-Board Committee Member) (Appointed effective from 19 September 2019)

S. No.	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	28 February 2019	5	5	100%	Mr. Mohammad Alshayea Mr. Mr. Rob Underwood Mr. Sami AlMahaid Ms. Sonali Goiporia Mr. Hussain Al-Yami	Not Applicable
2	26 March 2019	5	4	80%	Mr. Mohammad Alshayea Mr. Mr. Rob Underwood Mr. Sami AlMahaid Mr. Hussain Al-Yami	Sonali Goiporia did not attend.
3	5 May 2019	4	4	100%	Mr. Mohammad Alshayea Mr. Mr. Rob Underwood Mr. Sami AlMahaid Ms. Sonali Goiporia	Not Applicable
4	9 September 2019	4	4	100%	Mr. Mohammad Alshayea Mr. Mr. Rob Underwood Mr. Sami AlMahaid Ms. Sonali Goiporia	Not Applicable
5	9 December 2019	5	5	100%	Mr. Mohammad Alshayea Mr. Mr. Rob Underwood Mr. Sami AlMahaid Ms. Sonali Goiporia Mr. Abdulhamid F Alharbi	Not Applicable

Nomination and Remuneration Committee

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

NRC leads the Board appointment process, agrees the criteria for any appointments and engages as required. In discharging its responsibilities, NRC regularly reviews the Board’s structure, size and composition, including skills, knowledge, independence represented on the Board so as to ensure it is aligned with the company’s strategic priorities. NRC determines the membership of Board committees and reviews appointments to the boards sub committees. NRC is also responsible for overseeing succession planning for the top management roles across the company. NRC sets the overarching principles, parameters and governance framework of the company’s remuneration policy and the remuneration of executive directors and other senior company employees. NRC also oversees the company’s corporate governance framework, providing recommendations to the Board to ensure the framework remains robust and reflects best practice.

NRC during 2019 comprised of the following members:

- Mr. Khalid Al-Buainain, (Chairman)
- Mr. Mansour Al Bosaily, (Member)
- Mr. Georges Elhedery, (Member) (Resigned effective from 22 July 2019)
- Mr. Ahmed AlSudais, (Non-Board Committee Member) (Resigned effective from 30 June 2019)
- Mr. Faisal Jadu, (Non-Board Committee Member)
- Mr. Martin Tricud (Member) (Appointed effective from 29 July 2019)

Dates of the Nomination & Remuneration Committee Meetings and Attendance

S. No.	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	5 March 2019	4	4	100%	Mr. Mansour Al Bosaily Mr. Georges Elhedery Mr. Ahmed AlSudais Mr. Faisal Jadu	Not Applicable
2	18 November 2019	4	4	100%	Mr. Khalid Al-Buainain Mr. Mansour Al Bosaily Mr. Martin Tricud Mr. Faisal Jadu	Not Applicable
3	8 December 2019	4	4	100%	Mr. Khalid Al-Buainain Mr. Mansour Al Bosaily Mr. Martin Tricud Mr. Faisal Jadu	Not Applicable

Directors' Report (continued)**Executive Committee:**

The Executive Committee ("EXCOM") is appointed by the Board and reports directly to the Board. EXCOM consists of at least three (3) 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 reviews, inter alia, Business Performance Reports, Financial Markets Reports, business performance reports and analysis, progress against financial and strategic objectives, reviews business challenges and other key operational matters of the company.

The EXCOM during 2019 comprised of the following members:

- Mr. Majed Najm, (Chairman)
- Mr. David Dew, (Member)
- Mr. Georges Elhedery, (Member) (Resigned effective from 22-July-2019)
- Mr. Martin Tricud (Member) (Appointed effective from 29 July 2019)
- Mr. Rajiv Shukla (Non-Board Committee Member & CEO) (Appointed effective from 17 December 2019)⁶

Dates of EXCOM Meetings and Attendance

S. No.	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	5 February 2019	3	2	66.6%	Mr. Majed Najm Mr. David Dew	Georges Elhedery (provided proxy)
2	14 April 2019	3	2	66.6%	Mr. Majed Najm Mr. David Dew	Georges Elhedery did not attend.
3	12 May 2019	3	2	66.6%	Mr. Majed Najm Mr. David Dew	Georges Elhedery (provided proxy)
4	11 July 2019	3	2	66.6%	Mr. Majed Najm Mr. David Dew	
5	3 October 2019	3	3	100%	Mr. Majed Najm Mr. David Dew Mr. Martin Tricud	Georges Elhedery did not attend.
6	5 December 2019	3	3	100%	Mr. Majed Najm Mr. David Dew Mr. Martin Tricud	Not Applicable Not Applicable

⁶Noting that since his appointment, there was no EXCOM meeting in 2019.

Board Risk Committee

The Executive Committee (“EXCOM”) is appointed by the Board and reports directly to the Board. EXCOM consists of at least three (3) members.

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, at the minimum, four times a year. The committee has non-executive responsibility for the oversight of enterprise risk management, risk governance and internal control systems (other than internal financial controls overseen by the audit committee). The BRC 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 and overseeing the execution of major transformational risk initiatives.

The BRC during 2019 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)
- Ms. Christine Lynch (Member from outside the Board)

Dates of the Board Risk Committee Meetings and Attendance

S. No.	Date of Meeting	Total Strength	Number of Attendees	Percentage Attendance	Members Attended	Members who did not attend and provided proxies
1	5 March 2019	5	5	100%	Mr. Sridhar Chandrasekharan Mr. Mansour Al Bosaily Mr. Hamad Al Omar Mr. Richard Hinchley Ms. Christine Lynch	No absentees
2	7 May 2019	5	5	100%	Mr. Sridhar Chandrasekharan Mr. Mansour Al Bosaily Mr. Hamad Al Omar Mr. Richard Hinchley Ms. Christine Lynch	No absentees
3	10 September 2019	5	5	100%	Mr. Sridhar Chandrasekharan Mr. Mansour Al Bosaily Mr. Hamad Al Omar Mr. Richard Hinchley Ms. Christine Lynch	No absentees
4	5 December 2019	5	4	80%	Mr. Mansour Al Bosaily Mr. Hamad Al Omar Mr. Richard Hinchley Ms. Christine Lynch	Sridhar Chandrasekharan (provided proxy)

Directors' Report (continued)**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 2019	247,306
Retained earnings from the previous years	136,015
Total	383,321
Distributed as follows:	
Paid / Proposed Dividend, Net	122,250
Retained earnings for 2019	261,071

Accounting Standards

The financial statements of the Company have been prepared in accordance with 'International Financial Reporting Standards ("IFRS")' as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA) and in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

Adoption of IFRS 9 HSBC adopted the requirements of IFRS 9 on 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities.

Implementation of new IFRS 16 standard on 'Leases', the new standard became effective from 1st January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17 and Instead, IFRS 16 proposes on-balance sheet accounting model.

9. Statutory payments

Statutory payments payable by the company during 2019 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 2019 were as follows:

	SAR '000s
Zakat attributable to the Saudi Shareholders for 2018	967
Income tax attributable to non-Saudi shareholder for 2018	16,729
GOSI payments	13,271

10. Remuneration Report

Directors' fees for their membership of the Board and participation in the Company's operations, during 2019 amounted to SAR 1,670,000 including SAR 108,000 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 2019, 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:

	Salaries and Remuneration	Allowances	Annual and Periodic Bonuses	Incentive Schemes	Any Remuneration or other benefits in kind paid monthly or annually
Board of Directors					
Executive Board Members	-	-	-	-	-
Non-Executive / Independent Board Members	-	-	-	-	1,670
Top six senior executives (including CEO and CFO)	6,310	3,308	16,674	-	-

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 2019 based on independent actuary valuation amounted to SAR 48.2 million.

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 mis-statement, 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 Officer 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 2020 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.

The company'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. The 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.

The company 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 provided to the INA function are implemented within an appropriate and agreed timetable.

During 2019, INA conducted a number of reviews across HSBC SA in accordance with the approved Internal Audit Plan and identified several 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

HSBC SA endeavour is to apply in form and spirit all capital market laws, rules and regulations issued by the regulators in its day to day business. During 2019, HSBC SA was subject to a penalty of 10,000 SAR from CMA in relation to incident involving reporting of client holdings position to CMA. The actual event occurred in 2018 and final penalty was issued by CMA in May 2019.

The penalty was applied on the grounds that HSBC SA failed to apply to due skill, care and diligence in their reporting of information about the securities holding of a client.

As part of the remediation, the company proactively engaged with CMA in 2018 and arranged to submit the revised reports. In addition, the company has enhanced its internal reporting process by introducing more robust maker & checker controls to ensure such errors are not repeated in the future.

14. HSBC SA General Meetings

In 2019, the Annual General Meeting of the Company was held on 13 May 2019. In addition, HSBC SA held Extraordinary General Meeting for amendment of the Company's bylaws on 17 September 2019.

15. Appointment of external auditors

The Annual General Assembly meeting of HSBC SA was held on 13 May 2019, 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 2019 and the determination of their remuneration.

16. Board of Directors Approval

The financial statements were approved by the Board of Directors 1st March 2020.