



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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## Directors' Report

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The Board of Directors (the "Board") is pleased to submit to shareholders the Annual Report of HSBC Saudi Arabia ("HSBC SA"/"Company") for the financial year ended 31st December 2020.

### Our Vision

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.

As a leader in key segments of the capital market, 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 thrive to build strong relationships with all of our stakeholders – including customers, employees and the community in which we operate.

We enjoy a unique position as the leading investment bank in the Kingdom of Saudi Arabia. We give our customers the highest quality service and an unmatched breadth and depth of experience and know-how from local and international best practice, delivered through digital and personalised service driven by customer preference. Our staff will see us as the best place to work in Saudi Arabia, offering the best training and development, unparalleled access to international best practices and the most progressive working standards in tune with the evolution of the Kingdom.

### 1. Principal activities

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HSBC Saudi Arabia ("HSBC SA"/"Company") is a Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010221555 dated 27/06/1427H (corresponding to 23/07/2006G).

The main activities of the Company are to provide a full range of capital market products and services including investment banking advisory, debt capital markets and syndicated finance advisory, project and export finance advisory, custody and funds securities services and agency and trustee 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

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#### Global Banking and Markets (GBM)

- Investment Banking Advisory
- Project & Export Finance
- Debt Capital Markets & Syndicated Finance
- Agency and Trustee Services
- Securities Services
- Institutional Brokerage

#### Retail Banking and Wealth Management (RBWM)

- Asset Management
- Retail Brokerage
- Margin Financing

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.

## Business Overview *(continued)*

### Global Banking and Markets (GBM)

Arranging and Investment Banking Advisory	Project & Export Finance	Debt Capital Markets & Syndicated Finance	Securities Services	Institutional Brokerage
HSBC SA 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. in KSA	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	HSBC SA 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 KSA	Securities Services team offers a number of post trade and asset servicing solutions, direct custody and clearing, Assessing Authorized Person services, safekeeping and settlement, corporate actions servicing, proxy voting services, fund administration services, global custody services. Transfer agency services to institutional clients. The business services banks and broker dealers and Asset Owners and Managers	Institutional Brokerage 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)	2020	2019	2018	Var 2020 vs 2019 %
Arranging and Investment Banking Advisory services	104	134	68	-22%
Securities Services	212	241	114	-12%
Institutional Brokerage	33	66	48	-50%
<b>Total Revenues</b>	<b>349</b>	<b>441</b>	<b>230</b>	<b>-21%</b>

<sup>1</sup>Arranging and Investment banking advisory services include M&A & Equity Capital Market, Advisory, Project & Export Finance, Debt Capital Markets & Syndicated finance, agency and Trustees service

## Directors' Report (continued)

### Business Overview (continued)

#### Business Highlights

##### Investment Banking Advisory

The Investment Banking Advisory is a market leading ECM and M&A advisory platform in the Kingdom, consistently maintaining leading position in ECM and M&A league tables. During 2020, our Investment Banking Advisory platform expanded its unparalleled track record of executing landmark ECM and M&A transactions in Saudi Arabia, namely;

- Financial adviser to the National Center of Privatization & PPP on the sale of two Government-owned flour milling companies as part of the flour milling sector privatization in the Kingdom of Saudi Arabia—one of the targeted sectors for full privatization under the Saudi Arabia's Vision 2030—to qualified local and international strategic investors. Saudi Arabia's flour milling sector was broken down into four milling companies to be fully divested to the private sector over two batches, with each batch comprising two milling companies
- Financial adviser to the Public Investment Fund (PIF), the sovereign wealth Fund of Saudi Arabia, in relation to its acquisition of a 20% stake in Red Sea Gateway Terminal (RSGT), the largest port operator in Saudi Arabia with annual capacity of 5.2m TEUs, implying an enterprise value of SAR 3.3 billion
- Financial Adviser to AXA SA on the SAR 1.78 billion sale of its insurance operations in the Gulf region to Gulf Insurance Group, a leading regional insurer based in Kuwait and Fairfax a leading insurance and reinsurance provider
- Co-financial adviser to the Public Investment Fund on the SAR 259.1 billion sale of its entire strategic stake in the Saudi Basic Industries Corporation to Saudi Arabian Oil Company (Saudi Aramco) through a private deal, and acted as the joint broker to execute the trade on the exchange

##### Debt Capital Markets and Syndicated Finance

HSBC SA is a market-leader in Saudi Arabia and successfully maintained its #1 DCM house position in 2020, for a record 10th year in a row. During 2020, 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 SAR 124 billion, for key clients including the Kingdom of Saudi Arabia, Saudi Aramco, Saudi Electricity Company, Riyadh Bank, and Arab National Bank;
- Acted as a sole Sukuk programme arranger, lead manager and bookrunner, sukukholders' agent and payment administrator on Saudi British Bank's SAR 5 billion 10NC5 Tier 2 Sukuk issuance; the first Sukuk transaction for a Financial Institution with conventional financing business that achieved Shariah approvals and participation from key Shariah compliant investors and first SAR-denominated Tier II transaction since SABB merger with Alawwal bank.
- Acted as joint lead manager & bookrunner on The Kingdom of Saudi Arabia's early redemption of a portion of the its outstanding bonds maturing in August, September, November and December of 2020 with a total value of SAR 34.2 billion. At the same time, at the request of selling bondholders, new Sukuk under its local Sukuk Programme totalling SAR 34.6 billion were issued. This exercise marks the single largest issuance in the history of the Saudi market
- Actively supported HSBC Group entities in syndicate financing by participating as lead bank in a number of landmark international bank financings including SAR 9 billion for Maaden Waad Al Shamal Phosphate Company which is the largest project refinancing done in Shariah compliant manner
- Actively acted as a sole financial adviser to the Saudi Electricity Company on the restructuring of government liabilities in the amount of SAR 168 billion into an equity-like non-dilutive sharia-compliant financial instrument that would be categorized as shareholder equity in the company's balance sheet. This transaction is Largest Islamic financial transaction to be executed globally with issuance of a single largest conversion to a non-dilutive equity-like instrument from debt. Second-largest restructuring of a Power and Utility Company globally and expected to be the largest regulated asset base of any utility in the MENA region

## **Business Overview** *(continued)*

### **Project and Export Finance**

During 2020, HSBC SA continued to support the Government of Saudi Arabia's privatization initiatives by advising on several first-of-their-kind Public Private Partnership projects including schools, medical cities and hospitals. In addition, HSBC SA maintained its leading position in advisory and arranging transactions. Some of the landmark transactions executed include:

- Successful arrangement of SAR 15.31 billion re-financing for Ma'aden Wa'ad Al-Shamal Phosphate Company (MWSPC) a world class fully integrated phosphate based fertilizer complex (from mine to fertilizer), located in the northern and eastern borders of the Kingdom of Saudi Arabia.
- Acted as the exclusive financial and lead advisor to Tatweer Buildings Company (TBC) in its capacity as a joint procurer along with the Ministry of Education (MOE) for the first wave of the Schools Infrastructure Development Program amounting to SAR 1.56 billion, the Kingdom's first education Public Private Partnership (PPP) project. HSBC also acted as the mandated lead arranger to the winning consortium through its affiliate the Saudi British Bank (SABB).
- Financial advisor for the Saline Water Conversion Corporation (SWCC) to raise SAR 1.6 billion corporate bridge facility to fund immediate spending needs for the construction of two out of five RO plants. This marks the first ever private sector financing for SWCC.

### **Securities Services**

HSBC SA is a leading provider in the Securities Services space and continues to play a pivotal role in facilitating access for foreign institutions to the Saudi capital markets and Saudi based institutions to global markets through its extensive global network of markets. Assets under custody serviced by HSBC SA has shown a healthy growth throughout the year. The business has also continued to win multiple awards including the Best Sub-Custodian in Saudi Arabia in the Global Investor ISF Sub-Custody Survey, The Asset Triple AAA and Global Finance. In addition, the business also won the best fund administrator in Saudi Arabia award from The Asset Triple AAA.

### **Institutional Brokerage Services**

HSBC SA operates a sizable institutional brokerage business, and during 2020 landed as #2 brokerage house by market share following the successful block trade of SABIC between ARAMCO and PIF. 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. Some key highlights for 2020:

- Structured and executed largest trade in Saudi market history: SAR 259. billion cross between PIF and ARAMCO in SABIC shares in 2020
- 1st trade in listed Saudi futures done by HSBC.
- In 2020 executed the 1st share buy-back for one of the listed companies.
- Executed Saudi inclusion to EM indices (MSCI / FTSE) with no errors and c20% market share
- #1 MENA sales team according to II survey for 2020

**Directors' Report** (continued)**Business Overview** (continued)**Retail Banking and Wealth Management (RBWM)**

<b>Asset Management</b>	<b>Retail Brokerage</b>	<b>Margin Financing</b>
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	Offers trading services to local Retail clients for individual citizens and residence expats with an access to local and international markets via an online trading platforms with its tablet and smart phone in addition to the offline trading serving high net worth Retail clients.	Is fully secured overdraft facility provided to customers to trade in the local equities

<b>RBWM Revenues (SAR millions)</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>Var %</b>
Asset Management	107	107	99	0%
Retail Brokerage	72	29	38	148%
Margin Lending	28	38	39	-26%
<b>Total</b>	<b>207</b>	<b>174</b>	<b>176</b>	<b>19%</b>

**Business Highlights****Asset Management**

During 2020, the division maintained a distinguished position within the Saudi asset management industry managing HSBC SA's asset management division continued its strong position in Saudi equity public funds and discretionary portfolios over the year. HSBC now has the largest and most diverse range of Saudi equity public funds on offer and continues to rank no.1 in terms of AUMs in Saudi equity public funds, with a market share of 21.48% as of 31st December 2020. The division offers HSBC clients a diverse range of conventional and Shariah compliant investment products within equities, fixed income, liquidity and alternative strategies, with more product launches planned for 2021.

During the year, the division maintained its longstanding track record of providing excellent performance across the various asset classes, in particular Saudi equities and multi asset fund strategies. This was underpinned by HSBC SA receiving the prestigious 2020 Lipper Fund Awards for two of its multi asset funds for the category of 'best performing funds on a 3-year basis'. HSBC SA had assets under management of over SAR 16 billion as at the end of December 2020.

**Retail Brokerage Services**

HSBC SA operates a sizable retail brokerage business, and during 2020 maintained its status as one of 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.



### 3. Responding to COVID-19

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As a result of the COVID-19 pandemic, 2020 was a profoundly challenging year for the Kingdom, its financial sector and economy. We experienced periods of lockdown, global benchmark interest rates fell, and the price of oil turned negative as the global economic outlook worsened.

Our response was direct and swift, to maintain critical services and support stakeholders while keeping customers and staff safe. We implemented stringent health and safety policies in line with regulations set by the local authorities, and at the same time significantly upgraded stress testing activity to position the Company to navigate worst-case-scenario conditions. Operational resilience was crucial, and our business continuity protocols proved their value throughout the crisis – particularly as staff transitioned to remote working.

Together with the Ministry of Health and guidance from CMA, we managed our operations diligently to reduce the risk of spreading the virus. We provided staff with the tools to work from home where processes allowed. The Company regularly reviews its business continuity plans and continues to deliver operational excellence throughout this challenging time.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a “second wave” of infections. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government. The Government has also approved multiple vaccines and has begun administering it to the residents during 2021.

The Company however continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, and continues to closely monitor the situations through its established governance forums. The management continues to monitor the ongoing situation although at this time management is not aware of any factors that are expected to have any potential impact on its financial performance during 2021.

### 4. Our Market – Saudi Arabia Macro

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COVID-19 and lower oil production levels and prices have heavily impacted the Saudi economy and the Kingdom’s fiscal position, despite its hard-hitting countermeasures. Medium-term recovery is dependent on global economic recovery and on the successful containment of the pandemic. The public debt trajectory is also expected to steepen due to medium-term fiscal deficits, although the more recent strengthening of oil prices (if sustained) could be a mitigant. The likelihood of successful diversification is complementary to a steady fiscal framework that is targeted towards the private sector. Non-oil sector growth is expected to decrease in the short term due to substantial capital spending cutbacks, the impact of social restriction measures, and household adjustments to the hike in VAT (from 5% to 15%), even while the VAT hike contributes to better government fiscal position.

The gradual lifting of strict public health measures in the second half of the year allowed for an increase in economic activity. Another spike in new cases would likely lead to further implementation of containment measures, although some optimism is returning to the market in light of the roll-out of approved vaccines. Oil prices have seen some improvement since April due mainly to the resurgence in global demand, while supply remains constrained through the OPEC+ agreement.

#### Macro-trends

- Public sector rapid need of private financing for large projects and infrastructure
- Fiscal policies reforms leading to restructuring and consolidations in key sectors
- Growing need and reliance of KSA on QFIs and FDIs
- Government push for increased role of private sector in financing key sectors
- Ongoing regulatory reforms aiming for more institutionalization and development in capital markets

## Directors' Report (continued)

### 5. Our Strategy

HSBC SA continues to be one of the market leaders in the Kingdom maintaining a particular strong position in its Investment Banking, Securities Services and Brokerage business lines.

During 2020, the Board reviewed the Company's business strategy and the steps that need to be taken in 2021. The business strategy will enable the Company to retain and build market share, improve financial performance and maintain healthy financial ratios while supporting the Kingdom's Vision 2030 economic transformation programme. The strategy looks to build further on our traditional focuses and areas of strength but also looks to expand in those target areas which complement the Vision 2030 plan.

To ensure the delivery of the strategic priorities, the Company uses a number of key performance indicators (KPIs) covering financial returns and efficiency and business strength and competitiveness, that enable Management and the Board to track progress.

#### Strategic Highlights

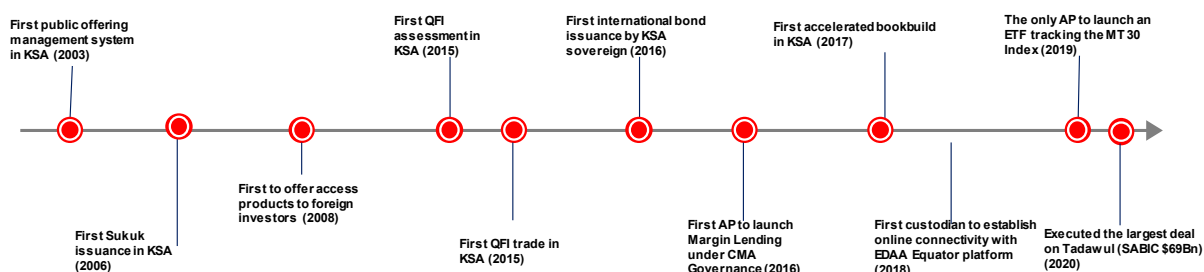
- Most diversified product offering and revenue flows amongst competition;
- Strategic partnership with its shareholders, i.e. HSBC and SABB
- Significantly ahead of any international competitor;
- Most unique and independent operating model compared to other peer group, i.e. bank owned subsidiaries;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

#### Strategic Advantages

- 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
- Significantly greater in-Kingdom product staffing as compared to international peers, particularly for the GBM businesses
- 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

Our strategy looks to build further on our traditional focuses and areas of strength but also looks to expand in those target areas which complement the Vision 2030 plan.

#### Striving to continue to be a pioneer of new products and a supporter of the development of Saudi capital









## Our Strategy *(continued)*

### Best in Class: Industry Awards

- Best Fund Award from the Refinitiv Lipper Awards for 2020
- Best Asset Manager award in the “Multi-Assets” and Best Fund awards for HSBC Multi-Assets Defensive Fund (Shariah Compliant) and the HSBC Multi-Assets Growth Fund (Shariah Compliant) by the Refinitiv Lipper fund
- Best Sub-Custodian in Saudi Arabia in the Global Investor ISF Sub-Custody Survey, The Asset Triple AAA and Global Finance
- Best fund administrator in Saudi Arabia award from The Asset Triple AAA
- Best Foreign Investment Bank in KSA by EMEA Finance
- Corporate Deal of the Year, Saudi Deal of the Year and Syndicated Deal of the year from Islamic Finance News “IFN” awards
- Played a key role in HSBC winning “Middle East’s Best Investment Bank” from Euromoney Awards for Excellence 2020 and Best International Bank in the Middle East from Asia Money

### Strategic priorities: Medium term

	1 2 3	Expand client coverage Enhance product capabilities and offering Improve distribution of services
	4	Capitalise Vision 2030 Opportunities
	5	Digitalisation and Enhance Customer Experience
	6 7 8	Foster revenue synergies with HSBC and SABB Enhance connectivity with HSBC and SABB Implement international best practice
	9 10	Streamline processes and services Strong governance framework & compliance culture
	11	Talent retention and staff engagements

### Aspirations and Outcomes

- Retain top position in League tables
- Top Institutional brokerage house
- Maintain No #1 sub custodian
- Be the No # 1 International AP
- Best institution for clients to do business
- Support the Government Savings agenda under FSDP
- Active player in IPO & Privatisations

## Our Strategy *(continued)*

## Directors' Report (continued)

### Our Strategy (continued)

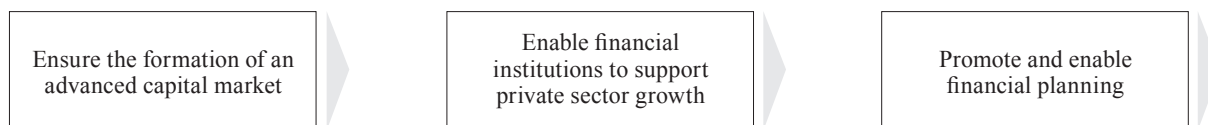
- Preferred investment banking partner for KSA in delivering Vision 2030
- Trusted partner of NDMC, NCP and select government institutions
- Conduit for partnering and channelizing international best practices from HSBC
- Drive digitalisation and enhance customer experience
- Collaboration - leveraging from HSBC and SABB capabilities
- Launch of new products and solutions
- Deliver people programs and leverage From exchange programs with HSBC
- Best and healthiest place to work

### HSBC SA and VISION 2030

HSBC SA's strategic positioning and competitive strengths ensure that it will both contribute to and benefit from the national economic growth agenda that is embodied in the government's Vision 2030 programme. The Vision is built on three themes:

Pillars	Objectives	Vision Realization Programs		
A Thriving Economy	<ul style="list-style-type: none"> <li>■ Grow &amp; diversify the economy</li> <li>■ Increase Employment</li> </ul>	Enriching the Hajj and Umrah Experience	National Transformation Program	PIF Program
A Vibrant Society	<ul style="list-style-type: none"> <li>■ Strengthen Islamic values &amp; national identity</li> <li>■ Offer a fulfilling and healthy life</li> </ul>	National Companies Promotion Program	Financial Sector Development Program	Lifestyle Improvement Program
An Ambitious Nation	<ul style="list-style-type: none"> <li>■ Enhance government effectiveness</li> <li>■ Enable social responsibility</li> </ul>	National Industrial Development and Logistics Program	Strategic Partnerships Program	The Housing Program
		Privatization Program	Saudi Character Enrichment Program	Fiscal Balance Program

**The Financial Sector Development Programme** aims to create a diversified and effective financial sector to support the development of the national economy, diversify its sources of income, and stimulate savings and investment. The Programme intends to achieve this ambition by enabling financial institutions to support private sector growth, ensuring the formation of an advanced capital market, and promoting and enabling financial planning, while maintaining the stability and solidity of the sector.



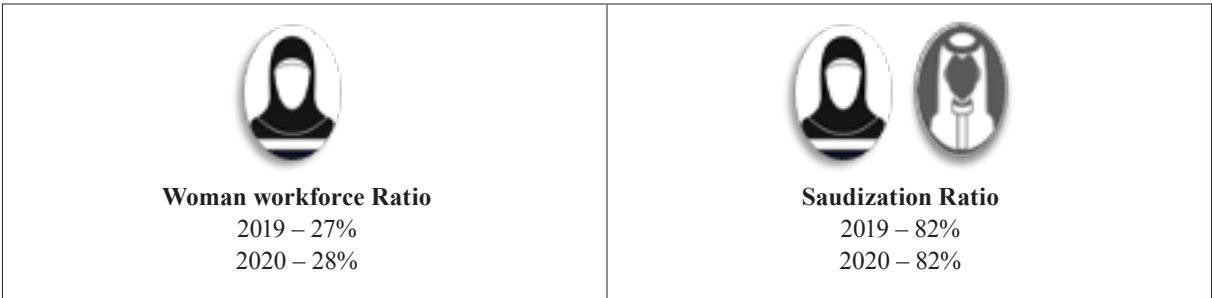
**6. People**

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. In light of the rapidly evolving COVID19 pandemic and strategic direction of the enterprise, what was important is to outline a number of key people risks and mitigation actions that Human Resources and management committee are undertaking. People’s risk with its several aspects is the main focus to HSBC SA HR.

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 while we also recognise the need to further improve. Our female representation ratio has been consistently and positively trending towards our objectives over the past 3 years, it reached 28% as of December 2020. While the overall percentage is on the right path, transformation agenda for the enterprise and a post pandemic impact pose potential threats for our aspirations to be maintained on a consistent trajectory.

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.

Staff training plays an important role in delivering best-in-class customer experience. We require our staff at all levels to undertake regular training that develops a wide range of abilities, from the soft skills necessary for customer-facing staff, to understanding our risk management framework and anti-money laundering (AML) guidelines. The Company offers a comprehensive range of training. With the onset of COVID-19, subject matters such as Treating customers fairly, Improved customer communication were valuable for ensuring that we interacted with our customer base with empathy, and with their interests at the centre of our decision-making process.

## Directors' Report (continued)

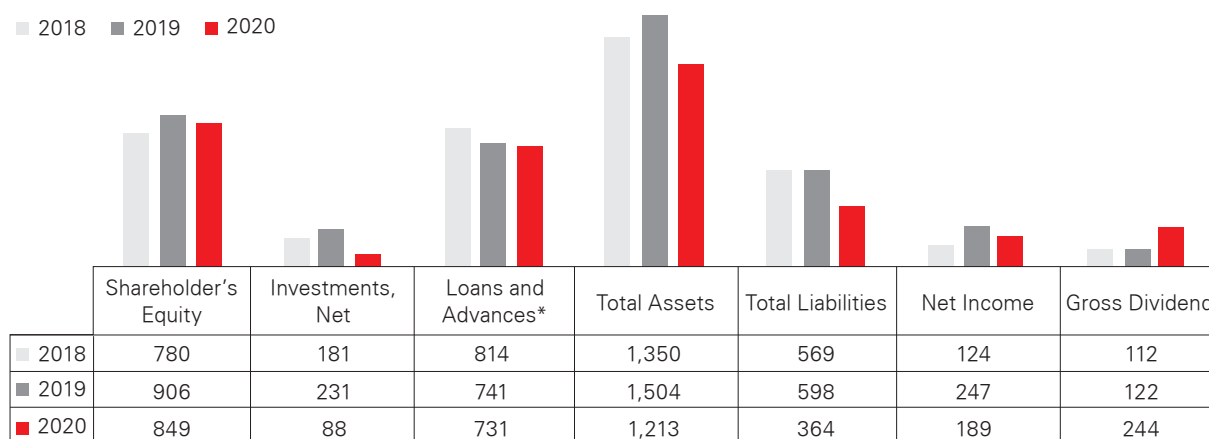
### 7. Corporate social responsibility(CSR)

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 instill the spirit of volunteer activities by involving our staff members in the various initiatives launched by the Company.

During 2020, the Company successfully conducted and organized a number of CSR activities, including a blood donation drive with King Faisal Hospital, distribution of winter bags to families in need during the winter. We also conducted the 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 & International Plastic Bag Free day awareness. The Company made donations to 2 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.

### 8. Financial results and Segment performance Key Financial Highlights

Saudi Riyal (millions)	2020	2019	2018	2017	2016
Net Income	189	247	124	129	106
Total Operating expense	340	329	264	242	266
Profit Before Tax	222	297	145	151	140
Profit after Tax	189	247	124	129	106
Loans and Advances	731	741	814	716	-
Investments, Net	88	231	181	242	615
Total Assets	1,213	1,504	1,350	1,177	1,028
Total Liabilities	364	598	569	401	262
Shareholder's Equity	849	906	780	775	765
Gross Dividend	244	122	112	104	211



#### Net income

HSBC SA recorded net profit before zakat and tax of SAR 186.9m for the year 2020 against prior year profit of SAR 296.7m. HSBC SA's total revenues for the year 2020 were SAR 561.6 compared to SAR 625.9m in 2019. Despite the above, the Company registered a strong performance during 2020, while compared to prior year the revenue is lower, it needs to be noted that 2019 included many strategic market events such as ARAMCO IPO, MSCI and FTSE inclusions.

<sup>2</sup>Relates to margin lending portfolio

<sup>3</sup>For better presentation, certain reclassification was made to the certain balances related to 2019 which have resulted in changes to previously reported balances of 2019. Please refer to Note 32 of the 2020 annual audited financial statements.

## Corporate social responsibility(CSR) (continued)

HSBC SA's total operating expenses for the year excluding expected credit losses were SAR 325.6m compared to SAR 326.7m in 2019. Expected credit losses of SAR 14.3 billion were higher than 2019 higher credit losses in 2020 are mainly on account of increase in advisory receivables that were subject to credit losses as per IFRS9 provisions.

Revenues from retail business mainly income from brokerage and asset management fee income were higher driven by increase in retail brokerage revenues. Income earned from margin lending portfolio declined compared to prior year due to lower utilisation levels of the margin lending facilities.

Revenues from institutional business comprising of advisory services, security services and brokerage declined compared to 2019. Revenue was largely affected by the cuts in benchmark rates in response to the global pandemic, and the weak economic conditions caused by the latter led to reduced deal flows

## Balance sheet

Total assets of the Company were at SAR 1,213m compared to SAR 1,504m in 2019. The decrease in the total assets was on account of lower cash balances and investments. The Company's borrowing from banks decreased from SAR 226m to SAR 50mm. The Company's total investments in HSBC SA managed funds were SAR 88m compared to 232m, as the Company redeemed its investments from the HSBC Saudi Riyal Murabaha Fund to fund its operational activities. The end of services balances as of December 2020 based on the actuary valuation was SAR 56.9m.

We ended the year with a strong capital position reporting a capital adequacy ratio of 2.16 compared to the minimum ratio of 1 as specified in the rules. Funds under management ('FuM') represents assets managed, either actively or passively, on behalf of our customers. At 31 December 2020, mutual funds' and discretionary amounted to SR 16.34bn, decrease of 7% compared to SR 17.65bn in 2019.

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 2020, our assets under custody increased to around SAR 600bn compared to SR 442bn held at 31 December 2019.

## Related Party Balances and Transactions

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

SAR	Notes	As at 31/12/2020
<b>Due from related parties</b>		
Receivable from SABB	1	12,623,718
Receivable from affiliates	2	3,618,106
		<u>16,241,824</u>
<b>Due to related parties</b>		
Payable to SABB	3	23,674,070
Payable to affiliates	4	4,547,835
		<u>28,221,905</u>

1. This mainly represents receivable on account of advisory services, receivable on special commission income on deposit and VAT related receivables
2. This mainly represents management fee receivables on account of HSBC Funds, settlements and receivables on account of advisory services.
3. This mainly represents net open unsettled cash position between the Company and SABB
4. This mainly consists of payable to HSBC entities for profit sharing of advisory deals.

**Directors' Report** (continued)**Corporate social responsibility(CSR)** (continued)

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

Transaction with	Income Statement	For the year end 31/12/2020
The Saudi British Bank (SABB)	Services cost under service level agreement-net	23,896,700
	Arranging/advisory income under service level agreement	24,652,500
	Special commission income on deposit	28,414,131
	Fees paid for discretionary portfolios service and mutual funds	4,575,308
	Special commission expense on short term loan facility	1,422,772
HSBC Saudi Arabia Mutual Funds ("the Mutual Funds")	Brokerage income, net	775,047
	Asset management fee from funds	76,382,675
	Unrealized/Realized gain on sale of investments – net	3,016,852
HSBC entities	Brokerage income on equity swaps	301,511
	Service cost under service level agreement	18,615,232
	Arranging/advisory income under service level agreement	7,999,585
Directors remuneration & Committee members Fee		2,000,000
Key management compensation	Salaries & compensations	6,749,070
	Allowances	4,215,258
	Periodic and annual remunerations	13,670,000

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

Lender - SAR	Principal	Duration/(Days)	Repayment Amount	Remaining Amount
SABB	100,000,000	90	100,000,000	0
SABB	75,000,000	361	75,000,000	0
<b>TOTAL</b>	<b>175,000,000</b>	<b>-</b>	<b>175,000,000</b>	<b>0</b>

**9. Risk Overview and Risk Management**

We actively manage risk to help protect and enable various lines of business in our Company.

HSBC SA 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 enterprise, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by our Values.



## **Risk Overview and Risk Management** *(continued)*

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 and undertake 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. The identification of these risks is an annual exercise undertaken at entity level.

### **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.

**Directors’ Report** (continued)

**Risk Overview and Risk Management** (continued)

<b>Financial Position</b>	<b>Operating Model</b>	<b>Business Practice</b>
<ul style="list-style-type: none"> <li>■ Strong capital position, defined by regulatory and internal capital ratios.</li> <li>■ Strong Liquidity and funding management for the operating entity</li> </ul>	<ul style="list-style-type: none"> <li>■ Ambition and capability to generate returns in line with a conservative risk appetite and strong risk management capability.</li> <li>■ Ambition and capability to deliver sustainable earnings and consistent returns for shareholders</li> </ul>	<ul style="list-style-type: none"> <li>■ Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.</li> <li>■ No appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.</li> <li>■ No appetite for inappropriate market conduct by a member of staff or by any business.</li> </ul>

**Our risk management framework**

HSBC SA uses a 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.

<b>HSBC Values and risk culture</b>		
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

**Risk Overview and Risk Management** *(continued)*

Processes and tools	Risk appetite	The Company has several processes to identify/assess, monitor, manage and report risks to ensure we remain within our risk appetite
	Enterprise-wide risk management tools	
	Active risk management: identification/assessment, monitoring, management and reporting	
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	The 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 and 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.

**Directors' Report** (continued)**Risk Overview and Risk Management** (continued)

<i>Amount in SAR,000</i>	<i>As at 31 December 2020</i>	<i>As at 31 December 2019</i>
Tier 1 Capitala	835,458	897,603
<b>Minimum capital requirement</b>		
Market risk	15,578	14,452
Credit risk	286,235	267,329
Operational risk	84,972	82,278
<b>Total minimum capital required</b>	<b>386,785</b>	<b>364,059</b>
<b>Capital adequacy ratio</b>		
Total capital ration (times)	2.16	2.47
Total 1 capital ration (times)	2.16	2.47
<b>Surplus in capital</b>	<b>448,673</b>	<b>533,544</b>

**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.

## Risk Overview and Risk Management *(continued)*

Liquidity and Funding Sources	Balance 2020 (SAR)	Description
Cash balances at bank	195,374,415	Includes cash balances of the Company that are generated from its business activities. The Company holds its balances with SABB.
Investments	88,127,562	The Company invests 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	50,111,823	The Company has established adequate level of borrowing and overdraft facilities with 2 local banks: SABB - Revolving facilities to support funding of Margin lending, in addition the Company has overdraft facility to support any unsettled trades Riyad Bank - Revolving facilities to support funding of Margin Lending

### Borrowing from Banks – Movement Analysis

Lender - SAR	Principal	Duration/(Days)	Repayment Amount	Remaining Amount
SABB	100,000,000	90	100,000,000	0
SABB	75,000,000	361	75,000,000	0
Riyad Bank	50,000,000	821	-	50,000,000
<b>TOTAL</b>	<b>225,000,000</b>	<b>-</b>	<b>175,000,000</b>	<b>50,000,000</b>

### 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.

## Directors' Report (continued)

### Risk Overview and Risk Management (continued)

#### Three lines of Defense

To create a robust control environment to manage risks, we use an activity-based three lines of defense 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 defense 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 control environment.
- The Company's risk management framework and control governance process.

#### Risk Function (Chief Risk Officer)

<b>Risk Management (Credit, Market Risk, FX etc)</b>	<b>Operational and Resilience Risk</b>	<b>Shariah Risk</b>	<b>Other Risks (Reputational, Strategic etc.)</b>
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#### Credit Risk

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

#### Risk Measurement and Methodology

HSBC SA 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.

**Risk Overview and Risk Management** *(continued)*

**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 up to a maximum LTV of 75%. The market value of the collateral held is monitored on a daily basis.

**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. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	measured using a range of metrics, including liquidity coverage ratio, minimum cash balance thresholds 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 form 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.

**Directors' Report** (continued)**Risk Overview and Risk Management** (continued)**Operational and Resilience Risk**

Risks	Arising From	Measurement and Mitigation
<p>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.</p>	<p>Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of our business.</p>	<p>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;</p> <p>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 risk management framework.</p>
<p>Resilience is an organisation's ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, continuing to provide important business services to customers and clients, and minimise any impact on the wider financial system when – not if – circumstances change</p>	<p>Resilience risk could arise from any of the following: Strategic Change and Emerging Threats; Third Party Risk; Information and Data Resilience Risk; Protective Security Risk; Payments and Processing Resilience Risk; And Systems &amp; Cyber Resilience Risk</p>	<p>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;</p> <p>monitored using key indicators and other internal control activities; and</p> <p>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 risk management framework</p>



**Risk Overview and Risk Management** *(continued)*

**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 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 defense risk and control assessments, the results of the monitoring and control assurance activities of the second line of defense 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 arises from non adherence to FCC laws that are related to our investment banking operations in accordance with Capital Market Authority regulations.</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 defense 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)**Risk Overview and Risk Management** (continued)**Reputational risk**

<b>Risks</b>	<b>Arising From</b>	<b>Measurement and Mitigation</b>
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 )**

<b>Regulatory Compliance</b>	<b>Financial crime compliance</b>	<b>Compliance, Monitoring and Testing</b>
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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 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 defenses against financial crime by applying advanced tools and processes. It also 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.

Compliance, Monitoring and Testing function provides assurance on the effectiveness and appropriate compliance with the regulatory requirements and testing, the effectiveness of systems and controls, and compliance with policies, and regulations.

## Risk Overview and Risk Management *(continued)*

### 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 defense through reviewing the business and control functions within the Company against local regulations and international best practices.

### 10. Legal Entity Structure shareholding

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	Number of Shares	% of contribution	As at 31/12/2020 (SAR)
HSBC Asia Holding BV (HAHB)	25,500,000	51%	255,000,000
The Saudi British Bank ("SABB")	24,500,000	49%	245,000,000
<b>Total</b>	<b>50,000,000</b>	<b>100%</b>	<b>500,000,000</b>

### 11. Corporate Governance

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#### 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.

## Directors' Report (continued)

### Corporate Governance (continued)

#### Board of Directors

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

The Board of Directors of HSBC SA 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) Directors shall be appointed and removed by SABB; and
- Three (3) Directors shall be Independent Directors and shall be appointed and removed with the unanimous consent of both SABB and HSBC.
- The term of the Board was expired on 28 March 2020 and the current Board was elected with effect from 29 March 2020 for a term of three years.

#### Profile of the Board of Directors as at 31 December 2020 comprised of the following:

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

Board Member, Saudi Ground Services Company (JSC)

Board Member, Amlak International Company (JSC)

Board Member, Jabal Omar Developments Company (JSC)

Board Member, United Electronics Company (eXtra) (JSC)

Board Member, Aseer Trading, Tourism and Manufacturing Co. (JSC)

Gas Arabian Services (JSC)

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**Mr. Majed Najm**, CHIEF EXECUTIVE OFFICER AND BOARD MEMBER HSBC SA, EXECUTIVE (EFFECTIVE FROM 1ST JANUARY 2015)

Deputy Managing Director, Saudi British Bank (JSC)

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

Board Member, The Saudi British Bank

Board Member, HSBC Bank Middle East

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**Mr Martin Tricaud**, NON-EXECUTIVE, (EFFECTIVE FROM 29TH JULY 2019)

HSBC Bank Middle East Limited

HSBC Bank A.S Turkey

HSBC Bank Egypt SAE

HSBC Middle East Holdings BV

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**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

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**Mrs. Christine Lynch**, NON-EXECUTIVE, BOARD MEMBER (EFFECTIVE FROM 29TH MARCH 2020)

Board Member, HSBC Bank Oman S.A.O.G

CRO, HSBC Bank Middle East Limited

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**Mr Mohammad Alshayea**, NON-EXECUTIVE, BOARD MEMBER (EFFECTIVE FROM 1ST JANUARY 2015)

Chairman of the Board of Directors, SABB Takaful (JSC)

Board Member, The General Authority for Competition

Board Member, Alessa Industries Company

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**Mr Khalid Al-Buainain**, INDEPENDENT, BOARD MEMBER (10TH JANUARY 2019)

Saudi Ground Services Company (JSC)

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**Eng. Saad Alkhalb**, INDEPENDENT, BOARD MEMBER (22<sup>ND</sup> 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

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**Mr Abdulhameed AlMuhaidib**, INDEPENDENT, BOARD MEMBER (29<sup>TH</sup> MARCH 2020)

Board Member & Executive Managing Director, Noor Energy 1 IPP (PSC)

Executive Director - Portfolio Management, ACWA Power International

Board Member, Shuaa Energy 3 (PSC)

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### **Board Members who resigned during 2020**

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**Mr Sridhar Chandrasekharan**, NON-EXECUTIVE, BOARD MEMBER (STEPPED DOWN FROM THE BOARD OF DIRECTORS WITH EFFECT FROM 28 MARCH 2020)

HSBC Global Asset Management Limited

Non-Executive, Hang Seng Investment Management Limited

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**Mr Hamad Al Omar**, INDEPENDENT, BOARD MEMBER (STEPPED DOWN FROM THE BOARD OF DIRECTORS WITH EFFECT FROM 28 MARCH 2020)

NIL

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**Directors' Report** (continued)**Board & Sub-Committee Meetings during 2020:****Dates of the Board Meetings and Attendance**


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**Sridhar Chandrasekharan Granted Proxy**, TOTAL STRENGTH 9, NUMBER OF ATTENDEES 8, PERCENTAGE ATTENDANCE 88.8% (EFFECTIVE FROM 18TH MARCH 2020)

Mr. Mansour Al Bosaily  
 Mr. Majed Najm  
 Mr. David Dew  
 Mr. Martin Tricaud  
 Mr. Hamad Al Omar  
 Mr. Mohammad Alshayea  
 Mr. Khalid Al-Buainain  
 Mr. Saad Alkhalb

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**No absentees**, TOTAL STRENGTH 9, NUMBER OF ATTENDEES 9, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 13TH MARCH 2020)

Mr. Mansour Al Bosaily  
 Mr. Majed Najm  
 Mr. David Dew  
 Mr. Martin Tricaud  
 Ms. Christine Lynch  
 Mr. Mohammad Alshayea  
 Mr. Khalid Al-Buainain  
 Mr. Saad Alkhalb  
 Mr. Abdulhameed AlMuhaidib

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**No absentees**, TOTAL STRENGTH 9, NUMBER OF ATTENDEES 9, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 16TH SEPTEMBER 2020)

Mr. Mansour Al Bosaily  
 Mr. Majed Najm  
 Mr. David Dew  
 Mr. Martin Tricaud  
 Ms. Christine Lynch  
 Mr. Mohammad Alshayea  
 Mr. Khalid Al-Buainain  
 Mr. Saad Alkhalb  
 Mr. Abdulhameed AlMuhaidib

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**David Dew Granted Proxy**, TOTAL STRENGTH 9, NUMBER OF ATTENDEES 9, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 13TH MARCH 2020)

Mr. Mansour Al Bosaily  
 Mr. Majed Najm  
 Mr. David Dew  
 Mr. Martin Tricaud  
 Ms. Christine Lynch  
 Mr. Mohammad Alshayea  
 Mr. Khalid Al-Buainain  
 Mr. Saad Alkhalb  
 Mr. Abdulhameed AlMuhaidib

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### **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 2020 comprised of the following members:

- Mr. Mohammad Alshayea, (Chairman)
- Mr. Mr. Rob Underwood, (Non-Board Committee Member)
- Mr. Abdulhamid F Al-Harbi, (Non-Board Committee Member)
- Ms. Neslihan Alankus Erkazanci, (Non-Board Committee Member) (Appointed with effect from 1st December 2020)
- Mr. Collin D Lobo, (Non-Board Committee Member) (Appointed with effect from 1st December 2020)
- Ms. Sonali Goiporia, (Non-Board Committee Member) (Resigned effective from 31 August 2020)

## Directors' Report (continued)

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**Sonali Goiporia did not attend**, TOTAL STRENGTH 4, NUMBER OF ATTENDEES 3, PERCENTAGE ATTENDANCE 75% (EFFECTIVE FROM 10TH FEBRUARY 2020)

Mr. Mohammad Alshayea  
 Mr. Mr. Rob Underwood  
 Mr. Abdulhamid F Al-Harbi

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**No absentees**, TOTAL STRENGTH 4, NUMBER OF ATTENDEES 4, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 11TH MARCH 2020)

Mr. Mohammad Alshayea  
 Mr. Mr. Rob Underwood  
 Ms. Sonali Goiporia  
 Mr. Abdulhamid F Al-Harbi

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**Sonali Goiporia granted proxy**, TOTAL STRENGTH 4, NUMBER OF ATTENDEES 3, PERCENTAGE ATTENDANCE 75% (EFFECTIVE FROM 12TH MAY 2020)

Mr. Mohammad Alshayea  
 Mr. Mr. Rob Underwood  
 Mr. Abdulhamid F Al-Harbi

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**No absentees**, TOTAL STRENGTH 3, NUMBER OF ATTENDEES 3, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 16TH SEPTEMBER 2020)

Mr. Mohammad Alshayea  
 Mr. Mr. Rob Underwood  
 Mr. Abdulhamid F Al-Harbi

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**Ms. Neslihan Alankus Erkazanci granted proxy**, TOTAL STRENGTH 5, NUMBER OF ATTENDEES 4, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 9TH DECEMBER 2020)

Mr. Mohammad Alshayea  
 Mr. Mr. Rob Underwood  
 Mr. Abdulhamid F Al-Harbi  
 Ms. Mr. Collin D Lobo

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### 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. The committee consists of three to five members appointed by the Board and reports directly to the Board.

The Committee leads the Board appointment process, agrees the criteria for any appointments and engages as required. In discharging its responsibilities, the Committee 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. The Committee determines the membership of Board committees and reviews appointments to the boards sub committees. The Committee is also responsible for overseeing succession planning for the top management roles across the Company. The Committee 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. The Committee also oversees the Company's corporate governance framework, providing recommendations to the Board to ensure the framework remains robust and reflects best practice.

The NRC during 2020 comprised of the following members:

- Mr. Khalid Al-Buainain, (Chairman)
- Mr. Mansour Al Bosaily, (Member)
- Mr. Faisal Jadu, (Non-Board Committee Member)
- Mr. Martin Tricaud (Member)
- Ms. Nicole Whitworth (Non-Board Committee Member) (Appointed effective from 29 March 2020)



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

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**Mr. Khalid Al-Buainain granted proxy**, TOTAL STRENGTH 4, NUMBER OF ATTENDEES 3, PERCENTAGE ATTENDANCE 75% (EFFECTIVE FROM 8TH MARCH 2020)

Mr. Mansour Al Bosaily  
Mr. Martin Tricaud  
Mr. Faisal Jadu

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**No absentees**, TOTAL STRENGTH 5, NUMBER OF ATTENDEES 5, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 12TH NOVEMBER 2019)

Mr. Khalid Al-Buainain  
Mr. Mansour Al Bosaily  
Mr. Martin Tricaud  
Mr. Faisal Jadu  
Ms. Nicole Whitworth

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**Ms. Nicole Whitworth granted proxy**, TOTAL STRENGTH 5, NUMBER OF ATTENDEES 4, PERCENTAGE ATTENDANCE 80% (EFFECTIVE FROM 13TH DECEMBER 2020)

Mr. Khalid Al-Buainain  
Mr. Mansour Al Bosaily  
Mr. Martin Tricaud  
Mr. Faisal Jadu

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## Executive Committee

The Executive Committee (“EXCOM”) is appointed by the Board and reports directly to the Board. The committee 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 2020 comprised of the following members:

- Mr. Majed Najm, (Chairman)
  - Mr. David Dew, (Member) (Resigned effective from 28 March 2020)
  - Mr. Martin Tricaud (Member)
  - Mr. Rajiv Shukla (Non-Board Committee Member & CEO)
  - Mr. Mohammed AlShaikh (Non-Board Committee Member) (Appointed effective from 29 March 2020)
  - Mr. Antoine Maurel (Non-Board Committee Member) (Appointed effective from 29 March 2020)
  - Mr. Gareth Thomas (Non-Board Committee Member) (Appointed effective from 29 March 2020)
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**No absentees**, TOTAL STRENGTH 4, NUMBER OF ATTENDEES 4, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 23RD FEBRUARY 2020)

Mr. Majed Najm  
Mr. David Dew  
Mr. Martin Tricaud  
Mr. Rajiv Shukla

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**No absentees**, TOTAL STRENGTH 6, NUMBER OF ATTENDEES 6, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 2ND APRIL 2020)

Mr. Mr. Majed Najm  
Mr. Martin Tricaud  
Mr. Rajiv Shukla  
Mr. Mohammed AlShaikh  
Mr. Antoine Maurel  
Mr. Gareth Thomas

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**Directors' Report** (continued)

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**No absentees**, TOTAL STRENGTH 6, NUMBER OF ATTENDEES 6, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 2ND JUNE 2020)

Mr. Majed Najm  
 Mr. Martin Tricaud  
 Mr. Rajiv Shukla  
 Mr. Mohammed AlShaikh  
 Mr. Antoine Maurel  
 Mr. Gareth Thomas

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**No absentees**, TOTAL STRENGTH 6, NUMBER OF ATTENDEES 6, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 25TH AUGUST 2020)

Mr. Majed Najm  
 Mr. Martin Tricaud  
 Mr. Rajiv Shukla  
 Mr. Mohammed AlShaikh  
 Mr. Antoine Maurel  
 Mr. Gareth Thomas

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**No absentees**, TOTAL STRENGTH 6, NUMBER OF ATTENDEES 6, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 11TH OCTOBER 2020)

Mr. Majed Najm  
 Mr. Martin Tricaud  
 Mr. Rajiv Shukla  
 Mr. Mohammed AlShaikh  
 Mr. Antoine Maurel  
 Mr. Gareth Thomas

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**Mr. Antoine Maurel granted proxy**, TOTAL STRENGTH 6, NUMBER OF ATTENDEES 5, PERCENTAGE ATTENDANCE 83.3% (EFFECTIVE FROM 6TH DECEMBER 2020)

Mr. Majed Najm  
 Mr. Martin Tricaud  
 Mr. Rajiv Shukla  
 Mr. Mohammed AlShaikh  
 Mr. Gareth Thomas

**Board Risk Committee**

The Board Risk Committee ("BRC") was formed by the Board to handle risk management affairs. As per its terms of reference, the BRC consists of not less than 3 members including at least one Non-Executive Independent Board Member, and non-board member and reports directly to the Board. The BRC meets four times a year. 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 committee 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 2020 comprised of the following members:

- Mr. Sridhar Chandrasekharan (Chairman) (Stepped down effective from 28 March 2020)
- Ms. Christine Lynch (Chairman)
- Mr. Mansour AlBosaily (Member)
- Mr. Hamad Al Omar (Member) (Stepped down effective from 28 March 2020)
- Mr. Richard Hinchley (Member from outside the Board)
- Mr. Abdulhameed AlMuhaidib (Member) (Appointed effective from 29 March 2020)
- Mr. Collin D Lobo (Member from outside the Board) (Appointed effective from 29 March 2020)

## Dates of the Board Risk Committee Meetings and Attendance

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**Mr. Sridhar Chandrasekharan granted proxy**, TOTAL STRENGTH 5, NUMBER OF ATTENDEES 4, PERCENTAGE ATTENDANCE 80% (EFFECTIVE FROM 15TH MARCH 2020)

Mr. Mansour Al Bosaily  
Mr. Hamad Al Omar  
Mr. Richard Hinchley  
Ms. Christine Lynch

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**No absentees**, TOTAL STRENGTH 5, NUMBER OF ATTENDEES 5, PERCENTAGE ATTENDANCE 100% (EFFECTIVE FROM 13TH MAY 2020)

Ms. Christine Lynch  
Mr. Mansour Al Bosaily  
Mr. Richard Hinchley  
Mr. Abdulhameed AlMuhaidib  
Mr. Collin D Lobo

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**Mr. Richard Hinchley provided proxy**, TOTAL STRENGTH 5, NUMBER OF ATTENDEES 4, PERCENTAGE ATTENDANCE 80% (EFFECTIVE FROM 8TH SEPTEMBER 2020)

Ms. Christine Lynch  
Mr. Mansour Al Bosaily  
Mr. Abdulhameed AlMuhaidib  
Mr. Collin D Lobo

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**No absentees**, TOTAL STRENGTH 5, NUMBER OF ATTENDEES 5, PERCENTAGE ATTENDANCE 80% (EFFECTIVE FROM 13TH DECEMBER 2020)

Ms. Christine Lynch  
Mr. Mansour Al Bosaily  
Mr. Richard Hinchley  
Mr. Abdulhameed AlMuhaidib  
Mr. Collin D Lobo

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## 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:

- 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.
- 10% of the net income is transferred to statutory reserves until this reserve equals 30% of the paid up share capital of the Company.
- 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.
- Un-distributed net income is carried forward as retained earnings.

<sup>5</sup>Ms. Christine Lynch appointed as a board member with effect from 29 March 2020 and became the Chairman of BRC with effect from 29 March 2020.

**Directors' Report** (continued)**Distribution of profits as per the Company's dividend distribution policy is as follows**

Description	SAR '000s
Net Income 2020	189,302
Retained earnings from the previous years	261,071
<b>Total</b>	<b>450,373</b>
<b>Distributed as follows:</b>	
Paid / Proposed Dividend, Net	243,966
Retained earnings for 2020	<b>206,407</b>

**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.

**12. Statutory payments**

Statutory payments payable by the Company during 2020 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 2020 were as follows:

	SAR '000s
Zakat attributable to the Saudi Shareholders for 2019	10,737
Income tax attributable to non-Saudi shareholder for 2019	29,578
GOSI payments	13,603

**13. Remuneration Report**

Directors' fees for their membership of the Board and participation in the Company's operations, during 2020 amounted to SAR 2 million including the 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 2020, 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:

**Description SAR (000)**

*Six of the senior executives who received the highest remunerations and compensations in addition to the CEO and CFO, if they are not among them*

Salaries and wages	6,749
Allowances	4,215
Periodic and annual remunerations	9,080
Incentive plans	4,590
Commissions	-
Any compensations or other in-kind benefits paid monthly or annually	-
<b>Total</b>	<b>24,634</b>

**Description SAR (000)**

*Independent Board Members      Non-Executive Board Members*

	<i>Independent Board Members</i>	<i>Non-Executive Board Members</i>
Allowance for attendance of the board of directors' sessions	36	24
Allowance for attendance of the committees' sessions	21	33
Periodic and annual remunerations	840	1,046
Incentive plans	-	-
Any compensations or other in-kind benefits paid monthly or annually	-	-
<b>Total</b>	<b>897</b>	<b>1,103</b>

**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 2020 based on independent actuary valuation amounted to SAR 57 million.

**14. 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.

**15. 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.

## Directors' Report (continued)

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

- 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 defense 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 Defense' model for managing its risks. Business management, as the First Line of Defense, 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 Defense 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 Defense' 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 2020, INA conducted a number of reviews across HSBC SA in accordance with the approved Internal Audit Plan and identified some 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.

## **16. Penalties**

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HSBC SA's endeavor 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 2020, HSBC SA was subject to a penalty of 30,000 SAR from CMA in relation to proper market conduct, and book building process and allocation methodology for one of the IPOs. The penalty was issued by CMA in September 2020.

As part of the remediation, the Company has implemented appropriate controls over client communication and IPO related products.

## **17. HSBC SA General Meetings**

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In 2020, the Annual General Meetings of the Company was held on 18 March 2020 and 14 May 2020.

## **18. Appointment of external auditors**

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The Annual General Assembly meeting of HSBC SA was held on 14 May 2020, 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 2020 and the determination of their remuneration.

## **19. Board of Directors Approval**

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The financial statements were approved by the Board of Directors 29th March 2021.