

**HSBC SAUDI ARABIA**

**Directors' Report**

**December 31, 2023**

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## Directors Report 2023

The Board of Directors (the “**Board**”) are pleased to submit to the shareholders the Annual Report of HSBC Saudi Arabia (“**HSBC**”) for the financial year ended 31<sup>st</sup> December 2023.

### Our Vision

HSBC’s vision is to be the best investment banking and capital market 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 and capital market services provider in the Kingdom of Saudi Arabia. We give our customers the highest quality service with an unmatched breadth and depth of experience and know-how from local and international best practice, delivered through digital and personalized service driven by customer preference. Our staff will see us as the best place to work in the Kingdom of 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.

We aim to create long-term value for our shareholders and capture opportunity.

### Our Values



## 1. Principal Activities

HSBC is a closed Saudi 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 broad range of securities business services including investment banking advisory, debt capital market and syndicated finance advisory, project and export finance advisory, custody and funds administration securities services. The Company

serves a wide range of clients including but not limited to corporates, financial institutions, non-bank financial institutions.

## **2. Business Overview**

Our operating model consists of Investment Banking, Securities Services and Brokerage business ably supported by operations, services and technology, and support functions, including risk, finance, compliance, legal, marketing, audit and human resources.

### **Global Banking and Markets (GBM)**

- ◆ Arranging and Investment Banking Advisory
- ◆ Project & Export Finance
- ◆ Debt Capital Markets, Syndicated Finance & Leveraged & Acquisition Financing
- ◆ Issuer Services
- ◆ Securities Services
- ◆ Institutional Brokerage
- ◆ Global Banking Coverage

#### **Global Banking and Markets (GBM)**

##### **Arranging and Investment Banking Advisory:**

HSBC 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 the Kingdom of Saudi Arabia.

##### **Project & Export Finance**

HSBC dominates the project and export finance advisory market in the Kingdom of Saudi Arabia, with advisories spanning the largest Saudi sponsors.

##### **Debt Capital Markets, Syndicated Finance & Leveraged & Acquisition Financing**

HSBC is the leading market player in developing integrated financial solutions for corporates and institutions. It has maintained its leadership, through a partnership approach with clients, and detailed market knowledge and experience.

##### **Issuer Services ("ISV")**

HSBC Issuer Services dominates this segment in the Saudi market and is positioned as the Islamic hub for the MENA region, providing a comprehensive range of Issuer services to corporates to pursue local and regional capital market activities, which include Sukuks, conventional and Islamic finance facilities.

##### **Securities Services**

HSBC Securities Services is a market leader in the Kingdom of Saudi Arabia offering a range of services such as post trade and asset servicing solutions, direct custody and clearing, safekeeping and settlement, corporate actions servicing, proxy voting services, fund administration services, global custody services and transfer agency services and securities lending agency. The business serves institutional clients, banks, broker dealers, Asset Owners and Managers.

##### **Institutional Brokerage**

HSBC Institutional Brokerage offers a comprehensive range of trading services to 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.

### Global Banking Coverage:

The team provide holistic coverage of all businesses to HSBC's priority clients. The platform supports all businesses with focus on Investment Banking and Strategic Event Coverage, engaging across various sectors and product lines.

### Financial Highlights:

GBM Revenues (SAR millions)	2023	2022	2021	Var 2023 vs 2022 %
Investment Banking Advisory services	278	311	205	-11%
Securities Services	388	334	246	16%
Institutional Brokerage	51	55	36	-7%
<b>Total Revenues</b>	<b>717</b>	<b>700</b>	<b>487</b>	<b>2%</b>

### Business Highlights

#### Investment Banking Advisory:

HSBC's Investment Banking Advisory is the market leading Equity Capital markets (ECM) and Mergers & Acquisitions (M&A) advisory platform in the Kingdom, consistently maintaining its leading position in ECM and M&A league tables with significant origination and execution resources and capabilities established on-the-ground in Riyadh.

During 2023, Investment Banking Advisory unit continued to build on its unparalleled track record of executing landmark ECM and M&A transactions in the Kingdom of Saudi Arabia, the team executed 3 IPOs in the Kingdom of Saudi Arabia in 2023, including the 1st and 2nd largest and the first IPO of a media and entertainment business in the region, further reinforcing its #1 2023 ranking on ECM transactions in the Kingdom of Saudi Arabia with c.1.5x more market share than the next bank and c.2.7x more market share than the next international bank for full year 2023, and #1 for IPOs across EMEA. Noteworthy ECM deals in 2023:

- HSBC acted as Joint Financial Advisor, Bookrunner, Global Coordinator, Lead Manager and Underwriter on the IPO of MBC Group ("MBC") on the Saudi Exchange – Main Market. This is the first-ever IPO of a Media and Entertainment company in the Middle East and alongside solutions by STC (2021) and Jahez (2022) IPOs, and also the 3rd TMT IPO that HSBC has led in the last 3 years in the Kingdom of Saudi Arabia, putting HSBC at the forefront of TMT sector listings in the region.
- HSBC acted as Sole Financial Advisor, Bookrunner, Global Coordinator, Lead Manager and Underwriter on the c. SAR2.5 billion (c. USD678m) IPO of SAL Saudi Logistics Services Company ("SAL") on the Saudi Exchange - Main Market. This transaction represents the largest logistics IPO in the Kingdom of Saudi Arabia since June 2015 and the second largest Logistics IPO globally in 2023, behind ADNOC L&S which HSBC also led as Joint Global Coordinator.
- HSBC acted as Joint Bookrunner and Underwriter on the c. SAR4.57 billion (c. USD1.22 billion) IPO of ADES Holding Company ("ADES") on the Saudi Exchange – Main Market. It was the largest IPO in 2023 in the Kingdom of Saudi Arabia. ADES, whose key anchor shareholder is PIF, is a leading regional provider of oil and gas drilling and product services.

Some of the noteworthy M&A deals executed in 2023 include:

- HSBC acted as Sole financial advisor to TAQA Saudi Arabia's acquisition of 100% share capital of Al Mansoori Petroleum Services (AMPS). The acquisition of AMPS is highly aligned with Saudi Vision 2030 and TAQA Saudi Arabia's objectives. The Transaction is an illustration of HSBC's ability to continue to undertake sector leading transactions despite significant market headwinds. This transaction highlights the strength and reach of our unique global franchise, and demonstrates our ability to act as a trusted strategic advisor on critical cross-border investments.
- HSBC acted as the Sole financial advisor to Dur Hospitality Company on its strategic combination with Taiba, representing a combined enterprise value of USD2.3 billion. HSBC worked closely with Dur and advised on all aspects of providing strategic advice and seamless execution throughout the entire process. Upon completion, our Saudi franchise had advised in 4 out of the 6 largest Saudi Arabia's public mergers since 2013 making us the most active bank in the Kingdom of Saudi Arabia for public to public M&As.
- HSBC acted as the Sole financial adviser on Allianz's sale of its 51% equity stake (c. SAR979 million) in Allianz Saudi Fransi, delivering a highly successful outcome in terms of price and certainty of execution.
- HSBC acted as the Sole Financial Adviser to Qassim Cement Company ("QCC") in its strategic acquisition of 100% Hail Cement Company ("HCC") in an all-share deal valued c. SAR1.3 billion. HSBC worked closely with QCC and advised on all aspects of the transaction, providing strategic advice and seamless execution throughout the entire process and provided fairness valuation opinion.

## Debt Capital Markets, Syndicated Financing and Leveraged & Acquisition Financing

### Debt Capital Markets ("DCM") and Syndicated Financing

HSBC's Debt Capital Markets business is a recognized market leader in the Kingdom of Saudi Arabia with strong experience and a successful track record in the debt capital and loan markets, with wide-ranging expertise in multi-currency, local and international capital market transactions, both in Islamic and conventional structures. HSBC has extensive experience providing bespoke financial solutions to clients ranging from privately-owned companies to publicly-listed corporates and government-related entities. Over the years, we have successfully raised funding for clients within industrial and services sectors including transport and communications, oil, gas and petrochemicals, power and utilities etc. In 2023, HSBC remained to be one of the top DCM houses in the Kingdom of Saudi Arabia since inception, as it ranked at the top of league tables for both local and international issuances in the Kingdom of Saudi Arabia. HSBC expanded its unparalleled track record, executing landmark transactions in the Kingdom of Saudi Arabia in 2023, namely:

- HSBC acted as Sole Lead Coordinator, Sole Lead Manager and Bookrunner on Saudi Real Estate Refinance Company's ('SRC') Dual tranche with total issue size of SAR 3.5 billion (c. USD933 million) Sukuk issuance guaranteed by the Government of the Kingdom of Saudi Arabia through the Ministry of Finance, under its SAR20 billion Sukuk Program. HSBC acted as Sole Lead Coordinator and Sole Lead Manager on the issuance. HSBC has led all of SRC's debt capital market issuances.
- HSBC acted as Sole Arranger and Dealer in the establishment of the Sukuk Programme and Sole Lead Manager and Sole Bookrunner on the issuance. HSBC also acted as Sukukholder's Agent and Payment Administrator on Saudi Awwal Bank's ("**SAB**") highly successful SAR 4.0 billion (c. \$1.068 billion) Additional Tier 1 Sukuk issue. This issuance is a ground breaking milestone as it represents the first-ever widely distributed Tier 1 Sukuk with a floating coupon.
- HSBC acted as Joint Global Coordinator, Joint Bookrunner and Billing & Delivery Agent for The Investment Fund ("PIF") 's USD 3.5 Billion Dual-Tranche Reg S Only Sukuk Offering, moreover HSBC acted as well as Joint Sukuk Structuring Bank for the establishment of the transaction.

- HSBC acted as Global Coordinator, Joint Lead Manager, and Joint Bookrunner (B&D) on Almarai Company USD 750 million Senior Unsecured 10 years Sukuk. The transaction is considered the largest BBB/BBB- rated GCC deal in over 3 years for USD benchmark senior unsecured Sukuk.
- HSBC acted as Joint Lead Manager, and Joint Bookrunner (B&D) Banque Saudi Fransi (“BSF”) USD 900 million Senior Unsecured Sukuk Issued Under BSF’s USD 4 billion Trust Certificate Issuance Programme. Also HSBC acted as Delegate & Paying Agent.
- HSBC acted as Joint Global Coordinator, Joint Lead Manager, Joint Bookrunner, and Joint Green Structuring Agent on Saudi Electricity Company (“SEC”) 10y Green USD 1.2 billion and 30y USD 800 million Senior Unsecured Reg S Sukuk under SEC’s USD 3 billion Trust Certificate Issuance Programme. The transaction is marked as the first 30- year USD benchmark Regulation S senior unsecured Sukuk issued by a corporate and the first Saudi corporate public issuance of 2023.
- HSBC acted as Joint Global Coordinator and Joint Bookrunner on GreenSaif Pipelines Bidco S.à.r.l. (“GreenSaif”) successfully priced USD 4.5 billion across three amortising tranches in a transaction that set the first Sukuk project bond in the international markets, the first dual-listed Formosa project bond and the largest ever order book for a Project Bond out of MENA Including a Sukuk tranche enabled access to Sukuk investors which were previously untapped for similar project bonds in the region.
- 2023 HSBC acted as Dealer Manager for the Kingdom of Saudi Arabia 4th local liability management transaction. The kingdom exchanged some Sukuk maturing 2024-2026 with new papers maturing 2029-2038. The total size of the transaction was SAR 35.9 billion. HSBC was dealer manager for all previous transaction since 2020.

### Leveraged & Acquisition Finance (“LAF”)

Leveraged and Acquisition Finance provides strategic solutions in all areas of debt and is responsible for the arrangement, underwriting and syndication of event-driven and flow financing solutions as well as providing clients access to loans and high yield bond markets. HSBC maintained its leading position in LAF and were involved in landmark transactions such as Rawabi Energy Company SAR 5.615 billion & USD 416 million Dual Currency, Islamic & Conventional, Syndicated Loan, named *Syndicated Loan Deal of the Year* by the Capital Markets and ESG Finance Saudi Arabia Awards being organized by GFC Media Group (“GFC”), AviLease USD 1.1 billion Syndicated Loan, named *Transport Finance Deal of the Year* by GFC, and Ma’aden SAR 11.25 billion Syndicated Revolving Credit Facility, named *Local Currency Loan Deal of the Year* by GFC. HSBC was also named *Investment Bank of the Year*, *Local Currency Debt House of the Year*, and *Structured Finance House of the Year* which serves as a true testament to HSBCs leading position in the market.

Some of the noteworthy LAF deals executed in 2023 include:

- HSBC acted as the exclusive Financial Coordinator and Lead Sustainability Coordinator for a dual-tranche dual-currency senior secured term and revolving syndicated SAR/USD facilities allowing Cenomi Centres and its subsidiaries to successfully raise SAR 5.25 billion (SAR 3.45 billion, USD 0.20 billion and SAR 1 Billion Accordian) for the purposes of refinancing existing facilities and for general corporate and working capital purposes. The Transaction marks one of the first sustainability-linked financing for the Saudi Arabian market.
- HSBC acted as the Bookrunner and Mandated Lead Arranger on its USD 1 billion participation in a 10 year USD 11 billion conventional loan facility that was raised by the Kingdom of Saudi Arabia through the Ministry of Finance to fund the capex requirements of select government owned entities.
- HSBC advised SAB in its SAR 1.75 billion participation in TAWAL’s SAR 3.75 billion 1.5 years Murabaha facility, the purpose of the facility is to refinance the company’s shareholder loan.



- HSBC advised SAB on its c. USD 158 million participation in QNB's USD 2 billion 3-year senior unsecured term facility to partially refinance its existing facility and included new funding for general corporate purposes. SAB acted as MLA on the transaction.
- HSBC advised SAB on its participation in Saudi Aramco Rowan Offshore Drilling Company's (ARO) 8 years c. USD 359 million Senior Secured Islamic Financing facility to fund the development of two rigs.
- HSBC acted as the Mandated Lead Arranger, Underwriter, Bookrunner, and Facility Agent on AviLease's USD 2.1 billion senior unsecured bridge facility in connection with the acquisition of Standard Chartered Aviation Finance platform from Standard Chartered Bank.
- HSBC acted as the Sole Structuring Bank for a multi-tranche dual currency senior secured term and revolving syndicated SAR/USD facilities allowing Rawabi Energy and its subsidiaries to successfully raise SAR 7.175 billion (SAR 5.615 billion and USD 0.416 billion) for the purposes of refinancing, capital expenditure for the purchase of new vessels. This transaction marks one of the largest private sector syndicated financing in the history for the Saudi Arabian market.
- HSBC acted as the Mandated Lead Arranger on AviLease's debut USD 1.1 billion 5-year senior unsecured term loan dual-tranche facility which will be used for general corporate purposes and notably to fund the acquisition of 13 aircraft portfolio from Avolon.

### **Project and Export Finance (“PEF”)**

The Project & Export Finance (PEF) business had a strong 2023. The business led and participated in marquee transactions allowing it to remain on top of league table(s) in the Kingdom of Saudi Arabia. HSBC won the “Project Finance Bank of Year” in the Capital Markets and ESG Finance Saudi Arabia Awards being organized by GFC Media Group which is a testament of the franchise's market leading debt arranging and advisory capabilities within Project Finance space.

The following transactions across debt arranging and advisory are the highlights for 2023:

- HSBC acted as an ECA coordinating Bank and a Mandated Lead Arranger on a EUR 1 billion Italian Export Credit Agency (SACE) supported term loan in favor of The Kingdom of Saudi Arabia acting through the Ministry of Finance. HSBC is also acting as the facility agent.
- HSBC participated with a USD 300m ticket in a USD 3 billion 100% KSURE covered facility under KSURE's "pulling line" untied scheme in favor of the Public Investment Fund scheme.
- HSBC acted as Mandated Lead Arranger and Original Murabaha Participant for a USD 700m financing to Qiddiya Investment Company (“QIC”) to finance the construction of the Six Flags Qiddiya City in the Kingdom of Saudi Arabia.

### **Issuer Services (“ISV”):**

HSBC Issuer Services desk, is a leading local service provider and is the sole third-party agency service provider in the Kingdom of Saudi Arabia. HSBC continues to utilize its global HSBC network to engage with new international investors in the Kingdom of Saudi Arabia. ISV has had a successful year in 2023 by closing around 42 deals.

HSBC was the first local agent to provide agency solutions to Fintech finance providers and closed deals with Tabby and Tamara.

HSBC successfully closed around 25 loan transactions, acting in various roles such as the Global, Intercreditor, facility, investment, and Security Agent to conventional and Islamic Facilities. ISV successfully supported 6 significant Sukuk transactions and 2 IPO transactions in collaboration with its Investment banking unit.



- HSBC acted as the Murabaha Facility Agent for Saudi Electricity Company on a SAR 10 billion Facility, Facility Agent for Nesma Neom residential community on a SAR 4.5 billion Facility and Onshore Security Agent for DP World on a SAR 1.3 billion Facility.
- HSBC acted as the receiving agent for SAL IPO valued SAR 2.4 billion.
- HSBC acted as the Global Agent, Conventional Facility Agent and Murabaha Investment Agent for Rawabi Holding on a SAR 7.175 billion Facility.
- HSBC acted as the Sukukholders' Agent and Payment Administrator for Saudi Real Estate Company "SRC" for 3 issuances, valued SAR 7 billion all issuances.
- HSBC acted as the Investment Agent, Istisna-Ijara Facilities Agent and Onshore Security Agent for Neom Green Hydrogen Company on SAR 4.125 billion Facilities.
- HSBC acted as the Sukukholders' Agent and Payment Administrator for SAB Additional T1 Sukuk Issuance, valued SAR 4 billion.
- HSBC acted as an Escrow Agent for a couple of large M&A transactions.

### **Securities Services (Custody):**

HSBC is a leading provider of custody and asset servicing solutions for institutional clients and continues to play a pivotal role in facilitating access for foreign institutions to the Saudi capital markets and for institutions based in the Kingdom of Saudi Arabia to an extensive network of international markets.

HSBC delivered a strong performance during 2023. Some of the key highlights are mentioned below:

- Strongest ever financial performance crossing USD 100m in annual revenues for the first time in history. This was achieved in backdrop of pricing pressure, and a tough competitive landscape in the Kingdom. The market witnessed consolidation with large global institutions establishing local offices and domestic institutions scaling up their custody presence.
- HSBC continues to maintain its market leading position as one of the largest custodians by Assets Under Custody and the largest custodian from a share of published revenue wallet.
- HSBC witnessed strong growth in business from public sector entities and also from domestic institutions to whom we offer custody services and additional services such as global custody, fund administration and securities lending agency services.
- HSBC's award winning global Securities Lending Agency product was successfully introduced in the Kingdom of Saudi Arabia and HSBC is one of the first custodians to execute the stock loan transactions in the Kingdom. In 2023 a securities lending desk was established in the Kingdom of Saudi Arabia and as at Dec 2023 HSBC's lending market share stood in excess of 90%.
- HSBC during the year on-boarded a number of key strategic mandates, noteworthy mandates include; USD 1.25 billion mandate from a local asset manager, fund admin mandate from one of the largest asset managers in the MENA region, custody and securities lending for a HK based asset manager, successfully issued the largest Saudi Arabia-focused ETF.
- HSBC was recognized with a number of industry awards from as Best Fund Administrator, Best Domestic Custodian and Best Sub-Custodian in the Kingdom of Saudi Arabia award from The Asset Triple AAA and Best Global Custodian of the year and Best Fund Administrator in the Middle East from Global Investor MENA Awards.

### **Institutional Brokerage:**

HSBC offers brokerage services on Saudi Arabian Stock Exchange for local, GCC and QFI clients for equities, fixed income and derivative products. Key highlights include:

- In Cash Equities, we traded SAR 21.5 Billion in 2023. Our volumes were down 14% while the overall market volumes were down 22%. HSBC captured a market share of 3% compared to 2.7% in 2022. HSBC ranked 5th amongst the International Brokers, compared to 6<sup>th</sup> in 2022.
- HSBC successfully supported the launch of 1st Saudi ETF in Hong Kong. HSBC managed range of the roles covering Trustee, Custodian, Facility Agent, Foreign Exchange, Market and Primary dealer for this transaction. The deal show-cased HSBC's global network and product capabilities connecting Hong Kong and MENA.

### **3. Our Market – Saudi Arabia Macro**

2023 was a year of resilience and continued diversification for the Kingdom of Saudi Arabia's economy, navigating challenges in the oil sector and the broader global economy. As part of the strategic oil production cuts implemented by OPEC+, the Kingdom of Saudi Arabia voluntarily reduced its oil production in July 2023 by 1 million barrels per day (mbpd), resulting in a year-on-year (YoY) decrease of 17.3%<sup>1</sup> in oil activities, which contributed to an overall annual GDP decline of 4.5%<sup>1</sup>

The sustained growth of the non-oil sector was encouraging, growing 3.6% YoY in 2023, complemented by government services activities (1.9% YoY), according to the General Authority for Statistics (GASTAT). This robust expansion reflects the success of diversification efforts outlined in Vision 2030. The government's focus on fostering a vibrant non-oil economy, coupled with improvements in the regulatory environment, has spurred growth in areas like tourism, trade, and hospitality. This diversification strategy aims to reduce the Kingdom's reliance on oil and ensure long-term economic sustainability.

The Kingdom of Saudi Arabia's financial services sector continued to demonstrate strength and stability in 2023, despite facing challenges and navigating a dynamic landscape. This vital sector plays a crucial role in supporting the Kingdom's economic transformation and Vision 2030 aspirations.

#### **The year ahead**

2024 promises to be a continuation of the Kingdom's journey on its economic transformation and diversification strategy, enhancing the non-oil sector, developing more stable revenue streams that in turn will support further investment and development of both social and economic reforms. This is an addition to continued efforts to in develop fiscal policy to also support revenues.

The Kingdom's budget assumes total revenue and expenditure levels fall marginally compared with the expected 2023 ending point, with the 2024 budget deficit remaining broadly at the same levels as 2023.

The overall Vision 2030 strategy together with the focused regional and sectoral strategies that have been announced pave the way for a firmer, brighter more sustainable future for the Kingdom and its people. From advancing home ownership to developing new industries, from developing areas of heritage to leading tech development, the future diversity remains exciting.<sup>1</sup>

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<sup>1</sup> SAMA Key Economic Developments, Q3 2023

#### 4. Our Strategy:

Our leading performance continues to demonstrate that our strategy is working and improving returns to our shareholders alongside strengthening the overall capital markets landscape in the Kingdom. HSBC continues to be one of the market leaders in the Kingdom of Saudi Arabia maintaining a leading position in its Investment Banking, Securities Services and Brokerage business lines.

Our aspiration continues to consistently maintain our strong Global Banking market share in a significantly growing market. We also estimate our market share for Global Markets (Institutional Equities) will grow as well whilst we foresee that we will maintain a stable position in our Securities Services business. 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. The Board and management team are fully focused on continuously delivering our strategy.

HSBC has a market leading position in key investment banking products, and it is in HSBC interests to retain this leading position, leveraging upon key strengths which include:

- world-class on-the-ground execution and coverage platform with local staffing needing an increased bench strength amidst intense talent war with competition.
- flexible business model, that empowers local team allowing greater agility and solution-mindset subject to overall control environment.
- increased collaboration with SAB/HSBC to retain our leadership position and maximize franchise opportunities for entire HSBC group.
- digitization at scale by accelerating technology investment and increasing automation/reducing manual intervention and better enabling frontline.

**HSBC's vision** is to continue being the best investment banking and capital markets services provider in the Kingdom, delivering long-term sustainable value to all our stakeholders and contributing to the success of Vision 2030. In pursuit of this vision, we aim to play a pivotal role by bridging the Kingdom of Saudi Arabia with the world, facilitating the growth for our valued clients by providing outstanding products and services, and fostering an environment that attracts and develop exceptional and diverse talent.

#### **Awards:**

In line with the strategy, the company continued to maintain its leadership and was recognised with a number of accolades and awards. During the year, the company maintained its longstanding track record of providing excellent performance across the various businesses underpinned by the following awards:

- Best Merger & Acquisition (M&A) House by Tadawul at the SCM Forum 2023, making a significant achievement for the global banking and financial services institution. The recognition not only speaks volumes about our capabilities and track record but also reinforces our position as a leading global financial institution that consistently delivers exceptional outcomes for its clients.
- HSBC has been recognized with multiple awards from GFC Media Group, at the Capital Markets & ESG Finance Saudi Arabia Awards. The awards reflect the exceptional performance of HSBC in various areas of investment banking as the best Investment Bank of the Year, ESG Bond House of the Year, Local Currency Bond House of the Year, ESG Loan House of the Year, Project Finance Bank of the Year.
- Best IPO Financial Advisor of the Year by Argaam. This prestigious recognition is a testament to our commitment to providing the best financial advisory services and our dedication to excellence in the industry.

- Best Foreign Investment Bank in the Kingdom of Saudi Arabia by EMEA Finance, highlighting the bank’s leading position in the region and its ability to provide exceptional financial services to its clients.
- Best Fund Administrator, Best Domestic Custodian and Best Sub-Custodian in the Kingdom of Saudi Arabia award from The Asset Triple AAA.
- Best Global Custodian of the year and Best Fund Administrator in the Middle East from Global Investor MENA Awards.

**5. 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 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 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 local workforce has continued to be a priority and our Saudiasation ratio has reached 78%. The increase in Saudiasation rate underscores our commitment to promising meaningful employment opportunities to local talents.

	2023	2022
<b>Women Workforce Ratio</b>	33%	29%
<b>Saudiasation Ratio</b>	78%	73%

**Gender balance** is an important area of focus and we made good progress. Our Saudi Arabian female work force ratio has improved by 4%, we also recognize 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 around 33% as of December 2023. 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 successfully implemented a Talent Development Programme, aimed at fostering the Kingdom of Saudi Arabia’s local talent with focus on fresh graduates, the TDP aims to bridge the gap between academic achievement and the practical skills required in the local market. This program seeks to empower local talent with the knowledge, expertise, and ethical standards necessary to excel.

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. Other trainings aspects were focused on developing the high potential staff with courses by trusted local & international training house Centers in technical and soft skills trainings. Additionally, HSBC continues to offer wide range of training and courses on its learning management platform.

## 6. Corporate Social Responsibility (CSR):

At HSBC, we believe our success is intrinsically tied to the well-being of the community we serve. That's why we're proud to be one of the founding members of the Altamayyuz Academy, an initiative dedicated to fostering future generations of talent. We actively collaborate with the Academy by participating in giving cohorts and sessions, equipping students with valuable skills and knowledge. Additionally, we take interns from the Academy, giving them practical experience and helping them launch their careers.

Our social responsibility efforts reflect our core values. We continuously strive to serve the community through various initiatives. These initiatives target diverse groups across the Kingdom of Saudi Arabia, focusing on those most in need. We actively promote a culture of social responsibility, encouraging employee participation in our volunteer programs, such as; partnered with King Faisal Hospital for a blood donation drive, joined the global movement for Earth Hour, raising awareness about environmental sustainability, and launched awareness campaigns on critical issues like Breast Cancer, Diabetes, Alzheimer's, and the importance of reducing plastic bag usage.

We are committed to building a stronger community and look forward to expanding our corporate social responsibilities efforts in the years to come.

## 7. Financial results and Segment performance

HSBC is one of the leading Investment banks in the Kingdom of Saudi Arabia. We have a clear strategy to deliver revenue and profit growth, enhance customer service and improve returns to shareholders. In assessing our financial performance, we use a range of financial measures that focus on the delivery of sustainable returns for our shareholders and maintaining our market leadership strength.

### Key Financial Highlights:

SAR millions	2023	2022	2021	2020	2019
Total revenues*	777	986	717	561	626
Total Operating expense	311	417	369	340	329
Profit Before Tax	466	569	348	222	297
Profit after Tax	393	486	294	189	247
Loans and Advances**	-	-	1,159	731	741
Investments, Net	-	78	81	88	231
Term Deposits	557	856	-	-	-
Total Assets	1,318	1,567	1,712	1,213	1,504
Total Liabilities	412	420	755	364	598
Shareholder's Equity	905	1,147	956	849	906
Gross Dividend***	636	296	186	244	122
Return on Average Equity	38%	46%	33%	22%	29%
Cost Efficiency Ratio	40%	41%	52%	62%	51%

\* Includes revenues from continued and discontinued operations FY 2019-2022

\*\*Relates to margin lending portfolio – business sold to SAB Invest in September 2022

\*\*\* Includes payment of statutory reserve of SAR 150m in a form of special dividend for the year in FY 2023

**Statement of Income and Other Comprehensive Income:**

	31 December 2023	31 December 2022
<u>Continuing operations</u>		
Income from advisory services	277,821,893	310,948,405
Income from brokerage	51,315,143	55,214,000
Income from securities services	387,933,605	333,967,926
Special commission income	44,920,168	7,270,770
Other income, net	15,388,232	4,744,312
<b>Total revenues</b>	<b>777,379,041</b>	<b>712,145,413</b>
Salary and employee related expenses	(181,101,256)	(219,397,893)
Service cost under service level agreement	(58,983,817)	(62,044,993)
Expected credit losses on financial assets, net	3,347,137	(4,640,387)
Advertising and promotion expenses	(1,161,845)	(1,449,194)
Depreciation and amortization	(8,770,185)	(8,984,029)
Other office expenses	(64,665,784)	(47,733,863)
<b>Total expenses</b>	<b>(311,335,750)</b>	<b>(344,250,359)</b>
Income before zakat and income tax from continuing operations	466,043,291	367,895,054
Zakat and income tax expense	(73,360,932)	(58,731,196)
Deferred tax income	392,202	10,781
<b>Net income for the year from continuing operations</b>	<b>393,074,561</b>	<b>309,174,639</b>
<u>Discontinued operations</u>		
Total revenue	-	166,902,153
Total expenses	-	(72,723,721)
Gain on sale of discontinued operations, net	-	107,801,403
Income before zakat and income tax from discontinued operations	-	201,979,835
Zakat and income tax expense	-	(9,820,616)
Deferred tax income	-	-
Zakat and income tax on gain on sale of discontinued operations	-	(15,181,941)
Net Income after Zakat and income tax from discontinued operations	-	176,977,278
<b>Net Income for the year</b>	<b>393,074,561</b>	<b>486,151,917</b>
<u>Other comprehensive income for the year</u>		
Item that cannot be reclassified to statement of income in subsequent years:		
Remeasurement gain / (loss) on employees' EOSB	1,430,878	267,445



Deferred tax (expense) / income on remeasurement loss on employees' EOSB	(189,419)	(35,404)
<b>Total Comprehensive Income For The Year</b>	<b>394,316,020</b>	<b>486,383,958</b>

- For the year 2023, HSBC generated total revenues of SAR 777.4 million (2022: 986.8 million) from its continued operations, driven by growth in securities services and special commission income from investments.
- For the year 2023, HSBC incurred total expenses of SAR 311.3 million (2022: SAR 412.3 million) from its continued operations.
- For the year 2023, HSBC's Net income from continuing operations was SAR 393.1 million (2022: SAR 309.2 million). The growth in Net income was driven by increase in revenues complimented by lower expenses.
- For the year 2023, the Company expensed SAR 73.4 million (2022: 82.8 million) towards zakat, income tax and deferred tax.
- For the year 2023, HSBC's Net income was SAR 393.1 million (2022: SAR 486.2 million). The decrease is attributable to the discontinued operations of 2022.

### Statement of Financial Position

	31 December 2023	31 December 2022
<b>Assets</b>		
Cash and cash equivalents	900,739,017	1,071,376,555
Margin deposit with clearing house	82,960,955	117,832,248
Investments held at fair value through statement of income (FVSI)	-	77,961,746
Advisory income receivable, net	54,852,649	91,866,722
Receivable from security services, net	31,986,062	35,011,268
Advances, prepayments and other assets	167,870,321	150,999,071
Property and equipment, net	61,877,330	4,696,775
Intangible assets, net	2,946,466	2,495,454
Deferred tax asset, net	14,537,659	14,334,877
<b>Total Assets</b>	<b>1,317,770,459</b>	<b>1,566,574,716</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Deferred income	7,778,178	5,077,860
Accrued expenses and other liabilities	290,481,020	288,937,360
Zakat and income tax	73,052,961	85,120,301
Employees' end of service benefits (EOSB)	41,639,150	40,794,929
Total liabilities	412,951,309	419,930,450
<b>Shareholders' equity</b>		
Share capital	500,000,000	500,000,000
Statutory reserve	-	150,000,000
Retained earnings	413,156,946	506,223,521
Other reserves	(8,337,796)	(9,579,255)
Total equity	904,819,150	1,146,644,266
<b>Total liabilities and equity</b>	<b>1,317,770,459</b>	<b>1,566,574,716</b>

- As at 31 December 2023 the total assets of the Company were at SAR 1,317 million compared to SAR 1,567 million in 2022. The total assets decreased mainly due to decline in cash and cash equivalents on account of payment of statutory reserves SAR 150 million to the shareholders. During the year, the company redeemed all its investments held in SAB Invest funds amounting to SAR 78 million.

- As at 31 December 2023 the total liabilities of the company were at SAR 413 million compared to SAR 420 million in 2022.
- As at 31 December 2023, the company's total equity was SAR 904.8 million (2022: 1,146 million), decrease on account of payment of statutory reserves of SAR 150 million to the shareholders.
- As at 31 December 2023, the company's capital adequacy ratio reported as per the Prudential rules was at 46.2% compared to the minimum ratio of 8%.

### Segment Analysis:

Segment (Revenues) SAR Millions	2023	2022	2021	2020	Var 2023 vs 2022 %
GBM revenues	717	700	487	350	2%
Retail Banking	-	167	229	205	-
Other Revenues	60	12	0.8	6	403%
Non-operating Income (One off)	-	108	-	-	-
Total Revenues	777	987	717	562	-21%

**GBM Revenues:** In 2023, revenues from the GBM business amounted to SAR 717 million with contributions from Investment banking advisory services, security services and Brokerage business. Successful closure of number of mandates in Investment Banking, new custody mandates, higher interest rates and steady flow of brokerage revenues were the main drivers.

**Retail Banking:** In September'2022 retail business was fully transferred to SAB Invest as part of sale of retail business.

**Other Revenues:** This mainly consist of income earned from deposits placed with SAB and gain on investments redeemed during the year 2023.

### 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	Note	As at 31 December 2023
<b>Due from related parties</b>		
Receivable from SAB and its affiliates	1	63,118,872
Receivable from SAB Invest	2	1,196,014
Receivable from affiliates		17,403,708
		<b>81,718,594</b>
<b>Due to related parties</b>		
Payable to SAB and its affiliates	3	6,138,799
Payable to other HSBC affiliates	4	22,547,866
		<b>28,686,665</b>
<b>Cash and cash equivalents/ Investment</b>		
Cash at bank (SAB)		343,851,350
Short-term deposits with SAB	5	556,887,667
Investment in mutual funds managed by SAB Invest		-
		<b>900,739,017</b>

1. This mainly represents receivable on account of securities services, advisory services and net balance on intercompany transaction with SAB.
2. This includes receivable from SAB Invest under sub lease arrangement. This also includes gross receivable from SAB Invest Logistics Income Fund amounting to SAR 8.4 million as at 31 December 2023 (31 December 2022: SAR 8.4 million) against which 100% expected credit losses have been recognized. As at 31 December 2023, ECL provision against the receivable from SAB Invest Logistic Fund amounts to SAR 8.4 million (31 December 2022: SAR 8.4 million).
3. This mainly represents net balance payable on intercompany transactions with SAB.
4. This mainly represents payable to HSBC entities for profit sharing of advisory deals and other intercompany.
5. This represents multiple short-term deposits with SAB having maturity of less than three months. These deposits are placed at mutually agreed commercial rate of 3 months SAIBOR plus 0.5% - 1% per annum.
6. This represents investment in mutual funds managed by SAB invest. During the year ended 31 December 2023 the investments in funds were redeemed at fair value at the redemption date.

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

Related party transactions		31 December 2023
SAB	Income from advisory services	111,304,804
	Income from securities services	158,991,944
	Services cost under service level agreement	(22,958,249)
	Special commission income	44,920,168
	Special commission expense	-
	Fees paid for discretionary portfolios service and mutual funds	-
SAB Invest	Rental income from sub lease arrangement	2,779,497
	Income from securities services	11,470,543
	Proceeds from sale of discontinued operations	-
Mutual Funds managed by SAB Invest * ("the Mutual Funds")	Unrealised gain on investment held at FVSI	-
	Realized gain on investment held at FVSI	5,843,127
	Dividend income	3,474,493
HSBC entities	Income from advisory and securities services	61,892,282
	Income from brokerage	31,112,705
	Service cost under service level agreement	(36,025,568)
Key management compensation **	Salaries, allowances and compensations	34,516,487

\* Starting from 15 September 2022, mutual funds are managed by SAB Invest as part of sale of discontinued operations (note 26).

\*\* Key management personnel include top six senior executives, including Chief Executive Officer and Chief Financial Officer having authority and responsibility for planning, directing and controlling the activities of the Company.

## **Conflict of Interest**

Except as disclosed in the Related Party Transactions section or in the Company's financial statements, the Company has not entered into any transactions (business or contracts) with its board of director, executive officer, chief financial officer or any person related to any of them.

## **8. Risk Overview and Risk Management**

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

HSBC as an overall Group and as an entity in the Kingdom of Saudi Arabia has maintained a conservative and consistent approach to risk throughout its history, helping to ensure we protect customers' funds 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. The company has a strong risk culture, embedded through clear communication and appropriate training for all employees. A comprehensive Risk Management Framework is applied throughout the entity, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by our values.

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

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

Four key enterprise risk management tools support risk management in HSBC:

1. Risk Appetite report
2. Risk Map
3. Emerging Risks and
4. Stress Testing

**Risk Appetite:** We define risk appetite as the level and types of risks that we are willing to take in order to achieve our strategic objectives. This is articulated through the Risk Appetite Statement (RAS), which consists of qualitative statements and quantitative metrics covering financial and non-financial risks with defined Risk Appetite and Tolerance thresholds. Entity RAS is approved by the company's Board and provides the foundation to produce policies and limits for the entity.

**Risk Map:** The Risk Map is an integrated risk management tool used to identify, assess, monitor and mitigate residual risk. It provides a point-in-time view of the risk profile of the company, ensuring that risks are consistently reported, communicated, understood, monitored and mitigated. The Risk Map Report includes two Levels of Financial and Non-Financial risks:

- Level 1 risks – a set of standard risk types which are actively managed within the company; and
- Sub-risks – certain Level 1 risk types are sub-categorised into sub-risks on the Risk Map to allow a more granular assessment of residual risks.

**Emerging Risks:** This is defined as one which has large unknown components, which may form and crystallise beyond a one-year horizon. If these risks were to materialise, they could have a material impact on company's long term strategy, affect profitability and damage the Group's reputation.

**Stress Testing:** Stress testing is used to inform the level of adequate capital and liquidity to withstand external shocks such as a global economic downturn or internal events such as a system failure. Stress testing results are also used by management to inform risk mitigation actions and support appropriate allocation of financial resources.

We maintain a wide-ranging stress testing programme including scenario analysis. Stress tests are conducted across the entity. The stress scenarios may include adverse macroeconomic events, failures at country, sector and counterparty levels, climate related events, geopolitical events and a variety of projected major operational conduct and market risk events. HSBC's stress tests follow the best practices of Basel Committee on Banking Supervision (BCBS) Principles of Stress Testing.

Stress tests are performed to varying levels of severity to calibrate our risk appetite and the ability to recover from a severe but plausible stress. Stress tests are also performed on an ad hoc basis to address emerging risks and test business resilience to these risks. Additionally, the stress tests also support considerations on our ability to restructure the business with a viable plan under either a recovery or resolution scenario. Finance is responsible for coordinating stress testing activities, the group aggregate output of this is subject to Risk or other appropriate function's oversight.

Risk Stewards and their functions responsible for each of the risks may implement more granular or targeted stress testing frameworks specific to their risk management responsibilities as required.

The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the company's risk framework, risk appetite statement, risk map, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

## **Our Risk Management Framework**

HSBC uses a Risk Management Framework across the organization 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 summarize key aspects of the framework, including governance and structure, our risk management tools and our risk culture, which together help align employee behavior with our risk appetite.

<b>HSBC Values and Risk Culture</b>		
<b>Risk governance</b>	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
<b>Roles and responsibilities</b>	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
<b>Processes and tools</b>	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	
<b>Internal controls</b>	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

To ensure our safe operation and to meet regulatory obligations, we need to hold sufficient capital and liquidity resources to absorb potential losses from both financial and non-financial risks and meet our financial obligations under stressed conditions. 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 organizational requirements, taking into account the regulatory, economic and commercial environment.

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 ratio of 1 as defined by the Prudential Rules.

### Company's internal capital adequacy framework ( SAR 000s)

	As at 31 December 2023	As at 31 December 2022
Tier 1 Capital	890,281	1,129,814
<b>Minimum Capital Requirement:</b>		
Market Risk	90,331	15,989
Credit Risk	450,073	141,824
Operational Risk	1,005,944	99,848
<b>Total Minimum Capital Required</b>	<b>123,708</b>	<b>257,661</b>
<b>Capital Adequacy Ratio:</b>		
Total Capital Ratio	57.57%	4.38
Tier 1 Capital Ratio	57.57%	4.38
<b>Surplus in Capital</b>	<b>766,573</b>	<b>872,153</b>

\* Note: Capital Market Authority has amended Prudential Rules effective from April 2023 with introduction of new methodology to calculate capital adequacy on basis of risk weighted assets, and defined a minimum total capital requirement threshold of 8%.

### 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 borrowing facilities. The liquidity risk related to these cash flows is managed by matching external debt obligations 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 overdraft 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 (placing of term deposits with local bank) 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.

Liquidity and Funding Sources	Balance 2023 (SAR)	Description
Cash balances at bank	900,739,017	Includes cash balances of the Company that are generated from its business activities. The Company holds its balances with SAB. Moreover, it includes multiple short-term deposits with SAB having maturity of less than three months and the related accrued interest.
Investments	-	This represents investment in mutual funds managed by SAB invest. During the year ended 31 December 2023 the investments in funds were redeemed at fair value at the redemption date.

**Borrowing from Banks** HSBC has established credit facilities with SAB on an uncommitted basis including but not limited to overdraft facilities, letter of guarantee facilities and hedging facilities.

### 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 the Kingdom of Saudi Arabia. Regular testing of these facilities is carried out with representation from each business and support function, to ensure business continuity plans remain accurate, relevant and fit for purpose.

### Three Lines of 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.

### Risk Function (Chief Risk Officer)

Financial Risk  
(Counterparty Credit,  
Market Risk, FX etc.)

Enterprise Risk  
(Operational and  
Resilience)

Shariah Risk

Other Risks  
(Reputational, Strategic  
etc.)

## Non-financial Risk Management

Non-financial risk (NFR) management continues to be a critical focus for our customers, regulators and the financial service industry. Appropriate NFR management is critical to enabling HSBC business strategy and purpose, and is an integral part of our values.

### 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 exposure to a counterparty such as cash balances with Banks and fee receivable from corporates, financial institutions and GREs.	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 and managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance for risk managers.

### 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, equity risk or the value of our exposure.	Exposure to market risk is in the form of non-trading Investments of its surplus capital, foreign exchange rate, Equity Underwriting 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.
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### Operational and Resilience Risk (Enterprise Risk)

Risks	Arising From	Measurement and Mitigation
Operational Risk (Enterprise Risk) is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.	Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of our business.	<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.</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>
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.	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 & Cyber Resilience Risk.	<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.</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</p>

		using the risk management framework.
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### Financial Crime Risk

Risks	Arising From	Measurement and Mitigation
Financial crime risk is the risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity through HSBC.	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, including Money Laundering, Fraud, Bribery and Corruption, Tax Evasion, Sanctions Breaches and / or evasions, and Terrorist and Proliferation financing).	<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>

### Reputational risk

Risks	Arising From	Measurement and Mitigation
Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behavior, 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</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 managed by every member of staff, and covered by a number of policies and guidelines.</p>

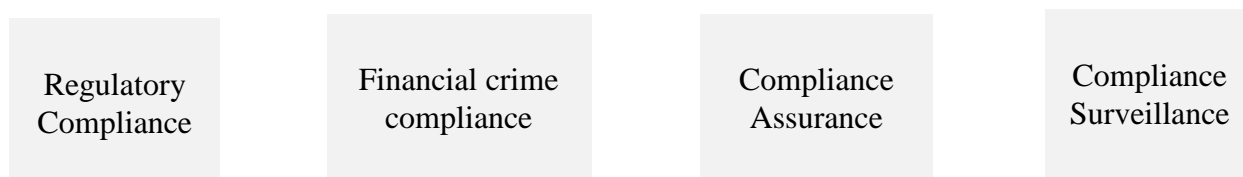
	control any other risks.	
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**Regulatory Compliance Risk**

Risks	Arising From	Measurement and Mitigation
Regulatory compliance risk is the risk that we fail to observe the letter and spirit of all relevant local laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.	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>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 managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance.</p>

**Compliance Overview**

**Compliance (Chief Compliance Officer)**



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 Assurance unit 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 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 acts as a third line of defense through reviewing the business and control functions within the Company against local regulations and international best practices.

## 9. Legal Entity Structure Shareholding:

Description	Number of Shares	% of contribution	As at 31 December 2023 (SAR)
HSBC Asia Holding B.V. (HAHB)	25,500,000	51%	255,000,000
Saudi Awwal Bank (SAB), (previously the Saudi British Bank)	24,500,000	49%	245,000,000
<b>Total</b>	<b>50,000,000</b>	<b>100%</b>	<b>500,000,000</b>

## 10. Corporate Governance

### Corporate Governance Principles

HSBC recognizes the positive impact associated with the adoption of prudent corporate governance principles and standards and believes that such adoption will lead to observance of professional and ethical standards in the Company's operations, as well as transparency and disclosure, which will help promote and improve the Company's efficiency and relationships with all interested parties. It is also expected that the adoption of this approach will enhance investor confidence in both HSBC and the Kingdom of Saudi Arabia's capital markets.

HSBC's Bylaws and the HSBC Code of Corporate Governance provide for disclosure policies and procedures, the formation of the Board and its sub-committees, the responsibilities of the Board of Directors, policies governing relations with stakeholders, shareholders' rights, and attendance at meetings.

### Board of Directors (the "Board")

The Board aims to promote the Company's long-term success, deliver sustainable value to shareholders and fostering a culture of openness and discussion. Under the leadership of the Chairman, the Board sets the Company's strategy and risk appetite. It also approves, on the recommendation of the management, the capital and operating plans to achieve the strategic objectives of the Company.

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

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

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

- Five (5) Directors are appointed and removed by HAHB;
- One (1) Directors are appointed and removed by SAB; and
- Three (3) Independent Directors are appointed and removed by the General Assembly.
- The current Board was elected with effect from 29 March 2023 for a term of three years.

**Profile of the Board of Directors as at 31 December 2023 comprised of the following:**

<b>Board Member Name</b>	<b>Classification</b>	<b>Effective date of appointment/ resignation</b>	<b>Name(s) of other Joint Stock Companies in which the person acts as a Member of the Board of Directors or as a Manager</b>
<b>Mr. Majed Najm</b>	Chairman, Non-Executive	1 January 2015	<ul style="list-style-type: none"> <li>• Advisor to the Board of Directors, SAB</li> <li>• Board Member, HSBC Middle East Holdings BV ("HMEH")</li> <li>• Board Member, HSBC Bank Middle East Limited ("HBME")</li> <li>• Advisory Board Member to College of Business, Al-Faisal University</li> </ul>
<b>Mr. Stephen C. Moss</b>	Deputy Chairman, Non-Executive	28 June 2021	<ul style="list-style-type: none"> <li>• GMD, Regional Chief Executive for MENAT, HSBC Holdings plc</li> <li>• Non Independent Executive Director, HSBC Middle East Holdings B.V.</li> <li>• Executive Director, HSBC Bank Middle East Limited</li> <li>• Non-Executive Director, SAB</li> <li>• Non Independent Non-Executive Director, HSBC Bank Egypt S.A.E</li> <li>• Advisory Board Member, Hong Kong Red Cross</li> <li>• Board Member, Dubai International Chamber</li> <li>• Board Member, Altamayyuz Finance and Accounting Excellence Academy</li> </ul>
<b>Mr. Anthony Cripps</b>	Board Member, Non-Executive	28 June 2021	<ul style="list-style-type: none"> <li>• Board Member and Managing Director, SAB</li> <li>• Board Member, SAB Invest Company</li> </ul>
<b>Mr. Gareth Thomas</b>	Board Member, Non-Executive	3 October 2022	<ul style="list-style-type: none"> <li>• Director, Red Dog Investments Limited</li> <li>• CRO, HSBC Bank Middle East Limited</li> </ul>
<b>Mr. Faris AlGhannam</b>	Board Member & CEO, Executive	29 March 2023	<ul style="list-style-type: none"> <li>• Board Member, Jamjoom Pharmaceuticals Factory Company (Jamjoom Pharma)</li> <li>• Member of the Board of Advisory, Finance Program, College of Business Administration, Prince Sultan University</li> </ul>

<b>Mr. Yasser AlBarrak</b>	Board Member, Non-Executive	29 March 2023	<ul style="list-style-type: none"> <li>Board Member, SAB Invest Company</li> </ul>
<b>Mr. Khalid Al-Buainain</b>	Board Member, Independent	10 January 2019	<ul style="list-style-type: none"> <li>Saudi Ground Services Company (JSC)</li> </ul>
<b>Eng. Saad Alkhalb</b>	Board Member, Independent	22 July 2019	<ul style="list-style-type: none"> <li>Board Member, United Company for Financial Services</li> <li>CEO, Saudi EXIM Bank</li> <li>Board Member, Saudi Export Development Authority</li> <li>Independent Board Member, Sinad Holding Co.</li> </ul>
<b>Mr. Abdulhameed AlMuhaidib</b>	Board Member, Independent	29 March 2020	<ul style="list-style-type: none"> <li>Board Member, Shuaa Energy 1 (PSC)</li> <li>Board Member, Shuaa Energy 3 (PSC)</li> </ul>

### Board Members who resigned during 2023:

Board Member Name	Classification	Effective date of appointment/ resignation	Name(s) of other Joint Stock Companies in which the person acts as a Member of the Board of Directors or as a Manager
<b>Mr. Mohammad Alshayea</b>	Board Member, Non-Executive	1 <sup>st</sup> January 2015/ Stepped down on 28 <sup>th</sup> March 2023	<ul style="list-style-type: none"> <li>Chairman of the Board of Directors, SAB Takaful (JSC)</li> <li>Board Member, The General Authority for Competition</li> <li>Board Member, Alessa Industries Company (JSC)</li> <li>Board Member, Amlak International for Real Estate Financing (JSC)</li> <li>Chairman, Saudi Steel Pipes Company (JSC)</li> </ul>

### Board & Sub-Committee Meetings during 2023:

#### Board Meetings and Attendance

Board Meetings Dates & Attendance				
Board Member Name	27 March 2023	6 June 2023	19 September 2023	18 December 2023
<b>Mr. Majed Najm</b>	✓	✓	✓	✓
<b>Mr. Stephen C. Moss</b>	✓	✓	✓	✓
<b>Mr. Anthony Cripps</b>	✓ (granted proxy)	✓	✓	✓ (granted proxy)
<b>Mr. Gareth Thomas</b>	✓	✓	✓	✓
<b>Mr. Faris AlGhannam*</b>	-	✓	✓	✓

Mr. Yasser AlBarrak*	-	✓	✓	✓
Mr. Khalid Al-Buainain	✓	✓	✓	✓
Mr. Saad Alkhalb	✓	✓	✓	✓
Mr. Abdulhameed AlMuhaidib	✓	✓ (granted proxy)	✓	✓
Mr. Mohammad Alshayea**	✓	-	-	-
<b>Total Strength</b>	8	9	9	9
<b>Number of Attendees</b>	8	9	9	9
<b>Percentage Attendance</b>	100%	100%	100%	100%

\* Mr. Faris AlGhannam and Mr. Yasser AlBarrak were appointed as a Board Member effective from 29 March 2023.

\*\* Mr. Mohammad AlShayea stepped down as a Board Member effective from 28 March 2023.

### Board Sub-Committees:

The Board has established four (4) sub-committees (individually a "Committee" and collectively the "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 the Board Members. The detailed duties and responsibilities of each Committee are set out in the respective terms of reference established for each Committee. The effectiveness of the Committees is evaluated as part of the overall performance evaluation of the Board and through annual effectiveness reviews at the Committee level.

### Audit Committee

The HSBC Audit Committee reports directly to the Board of Directors, and meets at least four times a year. The Audit Committee consists of at least three members, including Non-Executive Director, Independent Directors, and/or non-board committee members.

In discharging its responsibilities, the Audit Committee oversees the following significant matters, among others:

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

In 2023, the Audit Committee comprised of the following members:

Committee Member Name	Position
Mr. Saad AlKhalb	Committee's Chairman <i>*appointed as Audit Committee's Chairman effective from 29 March 2023</i>
Mr. Gareth Thomas	Member <i>*appointed as Audit Committee's Member effective from 29 March 2023.</i>

<b>Mr. Rob Underwood</b>	Non-Board Committee Member
<b>Ms. Neslihan Alankus Erkazanci</b>	Non-Board Committee Member
<b>Mr. Collin D Lobo</b>	Non-Board Committee Member
<b>Mr. Mohammad Alshayea</b>	Committee's Chairman <i>*stepped down effective from 28 March 2023</i>
<b>Mr. Abdulhamid Al-Harbi</b>	Non-Board Committee Member <i>*stepped down effective from 28 March 2023</i>

Audit Committee Meetings & Attendance:

<b>Audit Committee Meetings Dates &amp; Attendance</b>					
<b>Board Member Name</b>	<b>7 March 2023</b>	<b>21 March 2023</b>	<b>24 May 2023</b>	<b>7 September 2023</b>	<b>5 December 2023</b>
<b>Mr. Saad Alkhalb*</b>	-	-	✓	✓	✓
<b>Mr. Gareth Thomas*</b>	-	-	✓ (granted proxy)	✓	✓
<b>Mr. Rob Underwood</b>	✓	✓	✓	✓	✓
<b>Ms. Neslihan Alankus Erkazanci</b>	✓	✓	✓	✓	✓
<b>Mr. Collin D Lobo</b>	✓	✓	✓	✓	✓
<b>Mr. Mohammad Alshayea**</b>	✓	✓	-	-	-
<b>Mr. Abdulhamid Al-Harbi**</b>	x	x	-	-	-
<b>Total Strength</b>	5	5	5	5	5
<b>Number of Attendees</b>	4	4	5	5	5
<b>Percentage Attendance</b>	80%	80%	100%	100%	100%

\* Mr. Saad AlKhalb and Mr. Gareth Thomas were appointed as Committee Members effective from 29 March 2023.

\*\* Mr. Mohammad AlShayea and Mr. Abdulhamid Al-Harbi stepped down as Committee Members effective from 28 March 2023.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee ("NRC") reports directly to the Board of Directors, and meets at least twice a year. NRC consists of at least three members appointed by the Board, including Non-Executive Director, Independent Directors, and/or non-board committee members.

In discharging its responsibility, NRC oversees, among other things, the following significant matters:

NRC leads the process for appointing the Board members, determines the criteria for any appointment and is consulted as required. NRC reviews the structure, size and composition of the Board, including the skills, knowledge, and independence represented on the Board, to ensure that the Board is aligned with strategic priorities of the Company. NRC determines the membership of Board committees and reviews appointments to the Committees. NRC is also responsible for overseeing succession planning for the top management roles across the Company. NRC sets the overarching principles, parameters

and governance framework of the Company's remuneration policy and the remuneration of executive directors and other senior employees. NRC also oversees the Company's corporate governance framework, and provide recommendations to the Board to ensure that the framework remains robust and reflects best practice.

In 2023, NRC comprised of the following members:

<b>Committee Member Name</b>	<b>Position</b>
<b>Mr. Khalid Al-Buainain</b>	Committee's Chairman
<b>Mr. Stephen C Moss</b>	Member
<b>Mr. Majed Najm</b>	Member
<b>Ms. Rachel S Montgomerie</b>	Non-Board Committee Member
<b>Ms. Rania Al Sharyoufi</b>	Non-Board Committee Member <i>*appointed as NRC's Member effective from 29 March 2023.</i>
<b>Mr. Faisal Jadu</b>	Non-Board Committee Member <i>*stepped down effective from 28 March 2023</i>

NRC Meetings & Attendance:

<b>NRC Meetings Dates &amp; Attendance</b>		
<b>Board Member Name</b>	<b>8 February 2023</b>	<b>18 December 2023</b>
<b>Mr. Khalid Al-Buainain</b>	✓	✓
<b>Mr. Majed Najm</b>	✓	✓
<b>Mr. Stephen C. Moss</b>	✓	✓
<b>Ms. Rachel S Montgomerie</b>	✓	✓
<b>Ms. Rania Al Sharyoufi</b>	-	✓
<b>Mr. Faisal Jadu</b>	✓	-
<b>Total Strength</b>	5	5
<b>Number of Attendees</b>	5	5
<b>Percentage Attendance</b>	100%	100%

#### **Executive Committee:**

The Executive Committee ("EXCOM") reports directly to the Board and meets at least four (4) times a year. EXCOM consists of at least three (3) members appointed by the Board, including Non-Executive Directors, Independent Directors, and/or non-board committee members.

In discharging its responsibilities, EXCOM oversees the significant matters including the following:

The primary task of EXCOM is to assist the Company's CEO, within the scope of authorities delegated 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.

In 2023, EXCOM comprised of the following members:

Committee Member Name	Position
Mr. Majed Najm	Committee's Chairman
Mr. Stephen C Moss	Member
Mr. Faris AlGhannam	Member
Mr. Yasser AlBarrak	Board Member <i>*appointed as Executive Committee's Member effective from 29 March 2023.</i>
Mr. Julian Wentzel	Non-Board Committee Member
Mr. Nabeel AbdelRahim	Non-Board Committee Member <i>*appointed as Executive Committee's Member effective from 1 November 2023.</i>
Mr. Antoine Maurel	Non-Board Committee Member <i>*stepped down effective from 31 October 2023</i>
Mr. Mohammed AlShaikh	Non-Board Committee Member <i>*stepped down effective from 28 March 2023</i>

Executive Committee Meetings & Attendance:

Executive Committee Meetings Dates & Attendance				
Board Member Name	16 February 2023	1 June 2023	3 October 2023	16 November 2023
Mr. Majed Najm	✓	✓	✓	✓
Mr. Stephen C. Moss	✓	✓	✓	✓
Mr. Faris AlGhannam	✓	✓	✓	✓
Mr. Yasser AlBarrak*	-	✓	✓	✓
Mr. Julian Wentzel	✓	✓	✓	✓
Mr. Nabeel AbdelRahim*	-	-	-	✓
Mr. Antoine Maurel**	✓	✓	✓	-
Mr. Mohammed AlShaikh**	✓	-	-	-
<b>Total Strength</b>	6	6	6	6
<b>Number of Attendees</b>	6	6	6	6
<b>Percentage Attendance</b>	100%	100%	100%	100%

\* Mr. Yasser AlBarrak was appointed as a Committee Member effective from 29 March 2023 and Mr. Nabeel AbdelRahim was appointed as Committee Member effective from 1<sup>st</sup> November 2023.

\*\* Mr. Antoine Maurel stepped down effective from 31<sup>st</sup> October 2023 and Mr. Mohammed AlShaikh stepped down effective from 28 March 2023.



## Board Risk Committee

The Board Risk Committee ("BRC") reports directly to the Board, and meets at least four (4) times a year. BRC consists of at least three (3) members appointed by the Board, including Non-Executive Directors, Independent Directors, and/or non-board committee member.

In discharging its responsibility, BRC oversees, among other things, the following significant matters:

BRC is responsible for risk management and oversight of enterprise risk management, risk governance and internal control systems (with the exception of internal financial controls which is overseen by the Audit Committee). BRC advises the Board on all matters relating to high level risks relevant to the Company's business and is responsible for the strategic alignment of risks across the Company and overseeing the implementation of key risk transformation initiatives.

In 2023, BRC comprised of the following members:

Committee Member Name	Position
Mr. Gareth Thomas	Committee's Chairman
Mr. Saad AlKhalb	Member <i>*appointed as Risk Committee's Member effective from 29 March 2023.</i>
Mr. Abdulhameed AlMuhaidib	Member
Mr. Collin D Lobo	Non-Board Committee Member
Ms. Mashael Alshebaiky	Non-Board Committee Member <i>*appointed as Risk Committee's Member effective from 1<sup>st</sup> June 2023.</i>
Mr. Ali AlSabhan	Non-Board Committee Member <i>*stepped down as a Committee' member effective from 28 March 2023</i>
Mr. Majed Najm	Board Member <i>*stepped down as a Committee' member effective from 28 March 2023</i>

Risk Committee Meetings & Attendance:

Risk Committee Meetings Dates & Attendance				
Board Member Name	16 March 2023	24 May 2023	7 September 2023	5 December 2023
Mr. Gareth Thomas	✓	✓	✓	✓
Mr. Saad AlKhalb*	-	✓	✓	✓
Mr. Abdulhameed AlMuhaidib	✓	✓	✓	✓
Mr. Collin D Lobo	✓ (granted proxy)	✓	✓	✓
Ms. Mashael Alshebaiky*	-	-	✓	✓
Mr. Ali AlSabhan**	✓	-	-	-

<b>Mr. Majed Najm**</b>	✓	-	-	-
<b>Total Strength</b>	5	4	5	5
<b>Number of Attendees</b>	5	4	5	5
<b>Percentage Attendance</b>	100%	100%	100%	100%

\* Mr. Saad AlKhalb was appointed as Committee Member effective from 29 March 2023 and Ms. Mashaal AlShebaiky was appointed as a Committee Member effective from 1<sup>st</sup> June 2023.

\*\* Mr. Majed Najm and Mr. Ali AlSabhan stepped down as Committee Members effective from 28 March 2023.

### Entitlement of profit (Dividend)

A shareholder is entitled to the shareholder's profit share in accordance with the resolution of the General Assembly issued in this regard. The resolution shall indicate the date of entitlement and the date of distribution. The entitlement to dividends shall be for the shareholders registered in the shareholders' register at the end of the day specified for such entitlement. The Board of Directors shall implement the resolution of the General Assembly regarding the distribution of profits to shareholders.

The Ordinary General Assembly, in determining the share of net profit, may resolve to form reserves it deems appropriate to achieve the interests of the Company and to guarantee, as much as possible, the distribution of fixed profits to the shareholders. The General Assembly may also deduct amounts from the net profit to fulfill social purposes for the employees of the Company. The General Assembly shall determine the percentage that shall be distributed to the shareholders from the net profit after deduction of the reserves (if any) that the General Assembly may decide to. The Company may distribute semi-annual and quarterly profits after compliance with the controls set by the competent authorities.

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

Description	SAR '000s
Net Income 2023	506,223
Retained earnings from the previous years	393,074
<b>Total</b>	<b>899,297</b>
<b>Distributed as follows:</b>	
Paid / Proposed Dividend, Net	(486,141)
<b>Retained earnings for 2023</b>	<b>413,156</b>

### 11. Statutory Payments

Statutory payments payable by the Company during 2023 consist of Zakat payable by the shareholder resident in the Kingdom of Saudi Arabia, 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 2023 were as follows:

	SAR '000s
Zakat and Tax paid to ZATCA	101,162
GOSI payments	13,064

## 12. Remuneration Report

Directors' fees for their membership of the Board and participation in the Company's operations, during 2023 amounted to SAR 1,776,000 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.

The Non-Executive Directors nominated by the Company's shareholders have waived their remuneration for 2023.

During 2023, 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 during the year:

Description SAR (000)	five 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	7,812
Allowances	1,935
Periodic and annual remunerations	6,232
Incentive plans	18,537
<b>Total</b>	<b>34,516</b>

Board & Non-Board Members' Remuneration			
Description SAR	Independent Board Members	Non-Executive Board Members	Non-Board Committee Members
Allowance for attendance of the board of directors' sessions	33,000	3,000	-
Allowance for attendance of the committees' sessions	36,000	6,000	18,000
Periodic and annual remunerations	930,000	575,000	175,000
Incentive plans	-	-	-
Any compensations or other in-kind benefits paid monthly or annually	-	-	-
<b>Total</b>	<b>999,000</b>	<b>584,000</b>	<b>193,000</b>

### Staff Benefits and Schemes

According to the Labor 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 2023 based on independent actuary valuation amounted to SAR 41.6 million.

### **13. 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.

### **14. Internal control for the regulatory systems and procedures**

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the overall level and types of risks the Company is willing to take in order to achieve 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 the reliability and usefulness of financial information used within the Company or for publication. These procedures can only provide reasonable assurance against material misstatement, error, loss, or fraud.

Key risk management and internal control procedures include the following:

- **HSBC Standards:** The core principles within which the Company and its employees must operate in conducting 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 operations 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 is exposed. Our risk measurement and reporting systems are designed to ensure that risks are captured with all attributes necessary to make informed decisions.
- **Changes in market conditions/practices:** processes are in place to identify new risks arising from changes in market conditions/practices or customer behavior that could expose HSBC to an increased risk of loss or reputational damage.
- **A strategic plan for 2023 is in place.** The strategy outlines HSBC's risk appetite and sets out key business initiatives and the likely financial impact of these initiatives.
- **Responsibility for risk management:** All employees are responsible for identifying and managing risk as part of their job responsibilities. The three lines of defense model is an activity-based model to delineate management's responsibilities and accountabilities 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 through the Board Subcommittees and the Management Committees, which monitor the effectiveness of risk management and report to the Board Subcommittees.

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

The Company has implemented a 'Three Lines of Defense' model to manage its risks. Business management, as the First Line of Defense, is responsible for establishing policies, procedures and

standards across all areas for which it is responsible. Functional management is also responsible for implementing effective monitoring mechanisms to detect and prevent deviations or violations of established policies and regulatory requirements.

The second line of Defense includes various risk management and control functions that lead oversight of credit, market, legal, compliance, information technology, financial control, and reputational risks, as well as other operational risks related to business continuity, security, and fraud. Risks are analysed both qualitatively and quantitatively and reported to the Board of Directors and subcommittees through the management committees of HSBC.

Internal Audit provides the independent 'third line of Defense' and reviews the design and operational effectiveness of the internal control framework and policies established by the risk owners for each business unit and function to independently and objectively provide assurance that HSBC operates within its stated risk appetite and in compliance with regulatory requirements. The Head of Internal Audit reports to the Audit Committee on all audit-related matters.

Management is responsible for ensuring that management action plans submitted to Internal Audit are implemented within an appropriate and agreed timetable.

In 2023, INA conducted several reviews in HSBC in accordance with the approved internal audit plan and identified some weaknesses in the internal control framework.

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

HSBC '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 has established clear standards that should be followed by employees, departments and the Company as a whole. Within HSBC, systems and procedures are in place to identify control deviations and report on key risks such as credit risk, changes in market prices of financial instruments, liquidity, operational errors, violations of laws or regulations, unauthorised activities and fraud. In addition to ongoing management review, these risks are monitored by various management committees 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 risks.

### **Opinion of the Audit Committee**

The Audit Committee held five meetings during 2023. During this period, the Audit Committee, among other things, reviewed internal controls and oversaw the work of internal audit and external auditors. It also monitored the work of the Compliance Department. During 2022, the Internal Audit Department conducted a number of audits at HSBC in accordance with the approved internal audit plan and identified certain weaknesses in the internal control framework. Management is actively working to address these weaknesses in accordance with the agreed action plans, which 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 addressed and that HSBC 's internal control framework remains effective.

### **15. Penalties**

HSBC'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 2023, the company was subject to 3 cases of penalties as summarised below:

1. Financial penalty of SAR 40,000 from Capital Market Authority (CMA) regarding a breach to Article (22) paragraph (g) of the Capital Market Institutions Regulations. As part of the remediation, the company has implemented enhancements to the internal process related to registrable roles to prevent recurrence.

2. Financial penalty of SAR 30,000 from Capital Market Authority (CMA) regarding a breach of Article (5) paragraph (B-2) of the Capital Market Institutions Regulations. As part of the remediation, the company has implemented enhancements to the internal process for the IPO over-subscription refund amounts to investors in order to prevent recurrence.
3. Fine of SAR 10,000 from Riyadh Municipality in relation to noncompliance with regulations on design of parking spaces. As part of the remediation, the company made the necessary physical modifications to the parking layout to comply with the regulations as laid out by the Municipality.

## **16. HSBC General Meetings**

In 2023, the Annual General Assembly Meeting of the Company was held on 8th June 2023. The Company also held an Extraordinary General Assembly Meeting on 26th November 2023 to amend the Company's Bylaws.

## **17. Appointment of external auditors**

The Annual General Assembly meeting of HSBC was held on 8th June 2023, endorsed the selection of PwC according to the recommendation of the Audit Committee, to audit HSBC's annual financial statements and review quarterly interim financial statements for the year ended 31 December 2023 and the determination of their remuneration.

## **18. Board of Directors Approval**

The financial statements for 2023 were approved by the Board of Directors 19<sup>th</sup> March 2024.