

**CREDIT SUISSE**   
Credit Suisse Saudi Arabia (CSSA)

**2017 Annual Report**  
(as per CMA Circular 6/ 519)

## Contents

<b>1.0</b>	<b>Chief Executive Officer's Note .....</b>	<b>2</b>
<b>2.0</b>	<b>Business Activities .....</b>	<b>2</b>
<b>3.0</b>	<b>Shared Services Activities.....</b>	<b>3</b>
<b>4.0</b>	<b>Board of Directors and Other Committees .....</b>	<b>4</b>
<b>5.0</b>	<b>Executive Remuneration .....</b>	<b>7</b>
<b>6.0</b>	<b>Fines .....</b>	<b>7</b>
<b>7.0</b>	<b>Internal Audit .....</b>	<b>7</b>

## 1.0 Chief Executive Officer's Note

During 2017, Credit Suisse Saudi Arabia ascertained its strategy in strengthening its franchise in the Saudi market. We have pursued the implementation of the Private Banking business and delivered a full-fledge onshore platform allowing our clientele to access local and international markets. This platform works as a bridge to export the rich Credit Suisse expertise to proximity to our High Networth clients, eventually serving their investment aspirations and preserving their wealth onshore.

As part of the One Bank initiative, Credit Suisse Saudi Arabia has also enhanced its distribution capabilities for Asset Management & Investment Banking services. In this perspective, our focus is driven by adding value to the local market in line with the national 20/30 vision set-forth by the government and authorities of Saudi Arabia.

Such commitment and focus was supported by injecting additional capital by Credit Suisse AG, totalling to SAR 325m in 2017, bringing the total paid-in capital of the firm to SAR 625m as at December 31 2017.

## 2.0 Business Activities

Credit Suisse Saudi Arabia conduct business related to Dealing, Arranging, Advisory, Managing and Custody services. These services are offered under the following business divisions:

### 2.1 Private Banking:

Private Banking services High Networth segments and caters for both individual and institutional clients. The current platform provides capabilities to Private Banking team to deliver advisory services supported by the investment house view of Credit Suisse. The house view approach proposes investment themes and trends that suits clients' risk appetite & investment horizon. Clients are offered a rich product offering, ranging from local and international securities, wide menu of structured products, in addition to in-house and 3<sup>rd</sup> party managed funds.

### 2.2 Asset Management Distribution (AM):

CSSA has revamped its Asset Management business since hiring a headcount to cover the Saudi market. Asset Management built a new business strategy covering, product distribution, client coverage and asset raising model. CSSA looks to execute upon its newly formed strategy, to grow its client's base and product portfolio and to focus on the Kingdom to address relevant market demands.

### 2.3 Investment Banking

The Investment Banking services are mainly offered by 2 divisions namely Investment Banking and Capital Markets (IBCM) and Global Markets (GM).

- a. Investment Banking & Capital Markets (IBCM):  
The IBD market in Saudi Arabia is showing some potentials as the government steeped in as part of its privatization program initiative and announced new strategic projects. Credit Suisse Saudi Arabia is positioned as a main player in the space of large mandates and has won a few mandates in that regard.
- b. Global Markets (GM): In light of the Gunter project initiated in 2017, we decided to merge the two execution/trading desks (ITS Cross Asset Execution (ITS CAE) and Equity Trading (GM)) into one ITS CAE Saudi Arabia team as of 1.1.2018. The new team shall be in charge of an amended mandate that targets optimization of execution services. Amongst others, ITS CAE Saudi Arabia key objective is to support the international locations in a continuous optimization of service levels and providing state of the art execution services for internal and external clients.

### 3.0 Shared Services Activities Achievements and Challenges

3.1 Group Business Support Services (GBSS): In 2017, the primary focus was to support PB onshore project in terms of office reconfiguration to meet business growth plans, and compliance segregation requirements in the existing premises. Key activities related to uplifting the service levels provided by 3<sup>rd</sup> party while maintaining cost effectiveness.

#### 3.2 Compliance &AML:

Compliance &AML Department performed reviews for 2017 as below:

- Annual FY 2017 training for compliance and AML conduct for employees.
- Annual FY 2017 KYC review conduct for all active clients.
- Annual FY 2017 MLRO report was presented to the Board in March 2017 and has been submitted to the CMA, as per the regulations.

#### 3.3 Human Resources:

“Saudization” ratio recorded substantial improvement from 58% in 2016 to 73% by end of 2017. This improvement was driven by building-up the Wealth Management team which is exclusively constituted of Saudi nationals.

#### 3.5 Operations:

Major operational market changes for T+2 settlement in Saudi market. Operations to adopt the new techniques introduced by the regulator and the market to support the FO business. International Wealth Management Operations were established and new private banking systems were deployed under T24 platform. Operations were completed the internal audit exercise for IWM business successfully with NO findings . Ops completed the annual client money audit by KPMG with no issues raised. New regulatory reporting introduced by CMA for pledged and margin transactions to be prepared and submitted on monthly basis. Ops continue support and enhance its operational Sub-custody services support to CS AG clients. New ASL in ICM exchange module were introduce to manage QFI clients in settlement process. Tax Operations module were deployed to support the VAT implementation by GAZT.

### 3.5 Information Technology:

2017 saw the design and implementation of the Saudi Wealth management offering, along with a portfolio of integrations into CRM, Trading, Settlement and Risk & Control systems. The announcement of VAT application in Saudi Arabia for 2018, required a number of changes in our OMS and recently implemented IWM Booking and Wealth Management systems. Other deliveries made include the facilitation of hidden orders, changes to tick sizes, market segmentation and analysis on the independent custody model – all regulatory or Tadawul driven initiatives.

### 3.6 Finance:

Legal Entity Finance reported the following in FY 2017:

- “Unqualified” Auditors’ report for FY 2017 Audited Financial Statements
- “Unqualified” Auditors’ report for FY 2017 ensuring compliance with CMA Capital Adequacy Rules:
- Completed FY 2017 Pillar 3 disclosure report
- Annual Company’s Tax/Zakat return
- Annual Company’s Withholding Tax Return (AWTH)

### 3.7 Financial Year 2017:

- Revenues: FY 2017 revenue were at SAR 5.3m compared to SAR 4.7m for FY 2016 which represents an increase of approximately 13% YoY. This increase is mainly due to higher Arranging and Advisory Services offset by a decrease in Brokerage Services. The lower commissions were driven by overall reduction in trading volumes.

- Operating expense:

Compensation & Benefits: for the FY 2017 was SAR 20.1m compared to SAR 13.1m in FY 2016 which is an increase by approximately 54% YoY. The higher costs were driven by headcount increases.

Other Operating Expenses: FY 2017 other Operating Expenses were SAR 13.3m compared to SAR 9.5m in FY 2016. This increase was mainly due to an increase in cost of the intercompany support charges as per the service level agreements (SLA), financial consultancy and legal charges, recruitment cost, non income tax, depreciation and occupancy cost.

- Net Profit/(Loss) before Tax (PBT): Based on the above analysis, the loss before tax for 2017 was SAR 28.1m compared to SAR 17.9m in FY 2016.

## 4.0 Board of Directors and Other Committees

### The Board of Directors :

The Board of Directors were appointed by the Ordinary General Meeting for a period not exceeding three years in accordance with Article 17 of CSSA’s By-Laws and consists of six members, including 3 members representing Credit Suisse AG, one being the CEO as

Executive board member and two Non-Executive Independent Board Members. The Board of Directors follow Articles 14 to 22 of the By-Laws.

The Board of Directors held 3 meetings during the year 2017. The following represents the Board of Directors:

Name	Role	Tenure	Other Directorship in Saudi Arabia	Meeting Attendance
<b>Mahdi Katbe</b>	Chairman and Independent Member	Chairman: 22/06/2017 to Present	<ul style="list-style-type: none"> <li>Unicharm Gulf Hygienic Industries</li> <li>EDANA, the Brussels Based European Organization for the Hygiene and Nonwoven Industries</li> <li>Unicharm Middle East and North Africa Hygienic Industries (UCMENA)</li> </ul>	<ul style="list-style-type: none"> <li>April, 2017</li> <li>August, 2017</li> <li>November, 2017</li> </ul>
<b>Abdulaziz Bin Hassan</b>	Executive Director	22/06/2017 to Present	None	<ul style="list-style-type: none"> <li>April, 2017</li> <li>August, 2017</li> <li>November, 2017</li> </ul>
<b>Bruno Daher</b>	Non-Executive Director	22/06/2017 to Present	None	<ul style="list-style-type: none"> <li>April, 2017</li> <li>August, 2017</li> <li>November, 2017</li> </ul>
<b>Mohammed Hijazi</b>	Non-Executive Director	22/06/2017 to Present	None	<ul style="list-style-type: none"> <li>August, 2017</li> <li>November, 2017</li> </ul>
<b>Saad Osseiran</b>	Non-Executive Director	22/06/2017 to Present	None	<ul style="list-style-type: none"> <li>November, 2017</li> </ul>
<b>Huda Al-Ghpson</b>	Non-Executive Independent Director	22/06/2017 to Present	<ul style="list-style-type: none"> <li>Yanbu Aramco Sinopec Refining Company</li> <li>Saudi Aramco Development Company</li> <li>Johns Hopkins Aramco Healthcare Company</li> <li>Saudi Aramco Investment Management Company</li> <li>Saudi Aramco Asia Company</li> <li>GOSI</li> <li>Arabian Society of Human Resources Management</li> <li>Saudi Electricity Company</li> </ul>	None

#### The Audit Committee:

Audit Committee reports directly to the Board of Directors, and meets four times during the year. The AC's primary function is to assist the Board of Directors in fulfilling its oversight responsibilities defined by law, articles of association and internal regulations by:

- Monitoring and assessing the overall integrity of the financial statements and disclosures of the financial condition, results of operations and cash flows of the company
- Monitoring processes designed to ensure compliance by the company in all significant respects with legal and regulatory requirements, including disclosure controls and procedures, and the impact (or potential impact) of developments related thereto
- Monitoring the qualifications, independence and performance of the External Auditors

- Monitoring the adequacy of financial reporting processes and systems of internal accounting and financial controls in the context of the consolidated financial statements taken as a whole
- Monitoring the company's risk profile and compliance to the regulator's rules and regulations

The voting members of the Audit Committee as at 31 December 2017 were: Mr. Yassin Tabet (Chairman), Mr Mahdi Katbe, and Mr. Mohammed Hijazi.

The Audit Committee held 4 meetings during the year 2017.

The Operating committee & Front office/Office Back office Committee (OpCo & FoBo):

The OpCo & FoBo committee is chaired by CEO Abdulaziz Bin Hassan and its membership is formed of all heads of business divisions, Compliance and control functions, and support functions. The Committee oversees business performance at CSSA across all Divisions and Shared Services and Front office/Back office operational topics like Projects and New Business. It has the mandate to review operational execution of divisional strategies and monitor key Risks across divisions and legal entities.

Nomination Committee and Remuneration Committee

The mandate of the Remuneration and Nomination Committee is to advise the Credit Suisse Saudi Arabia Board in respect of matters relating to the appointments to membership of the Board, the oversight of the profile & qualifications of board members, the review of board structure and its efficiency, as well as establishing remuneration & indemnities policies for Board members & senior executives.

The committee's membership includes Mrs. Huda Al Ghoson, Mr. Mohammed Hijazi, and Mr. Saad Osseiran. The committee held one meeting during 2017.

Compliance and Risk Committee :

Compliance and risk matters are currently addressed by the Audit Committee and by the OpCo & FoBo. In line with the scale and complexity of business if board recommends as appropriate to have Compliance and Risk committee, it would be established

Legal Entity Risks:

All risk identified are systematically escalated through the existing governance framework. In addition, CSSA issues annual ICAAP report as required by the CMA which embeds all risks identified within the risk management framework.

As at December 31 2017, there were no material legal Risk, Business Risk, Operational Risk, Market Risk or Financial risk identified.

Financing:

The Legal Entity as an authorised person did not obtain any financing or loans in 2016

Activities from Executives of CSSA

There were no transactions or activities/Contracts conducted by Board of Directors, Chief Executive officer, Financial officer or any related person on behalf the entity in 2016

#### Related Party Services :

CSSA has service level agreements with Credit Suisse Europe Limited UK, Credit Suisse DIFC branch, Credit Suisse Bahrain branch, Credit Suisse Singapore and Credit Suisse Asset Management Limited. The services provided to Saudi Arabia mainly pertains to shared services support such as Finance, Human resource, Information technology, Legal support, Investment Advisory, business support and regional management. The services provided from United Kingdom mainly refers to execution of transactions arranged by CSSA.

## 5.0 Executive Remuneration

	Executive Board Member	Independence & Non Executive Board Member	Top High paid executive employee
<b>Salaries</b>	-	300,000	4,613,857.17
<b>Allowance</b>	-		1,932,215.22
<b>Annual bonus</b>	-		246,700.47
<b>Others</b>	-		323,434.00

## 6.0 Fines

No fine was received during 2017.

## 7.0 Internal Audit:

2 internal Audit reviews were performed in 2017 to meet the requirement for annual audit coverage of under Article 62 of the CMA's Authorized Persons Regulations.

The scope of the first review conducted in February 2017 included a review of Global Markets (GM) trading activities; key Shared Service functions, e.g., Compliance, in supporting and controlling these activities; legal entity oversight and governance (including status of strategic initiatives); and local, regional and functional supervision and oversight provided across Riyadh, London and Dubai.

The scope of the second review dated October 2017, included an examination of the design effectiveness of the policies and procedures in supporting the new PB Saudi Platform. In particular the scope included:

- Governance framework including roles and responsibilities;
- Management information and Supervisory controls;
- Third party management;
- Adherence to Anti Money Laundering requirements including client due diligence and continuous monitoring;
- Compliance with Conduct risks aspects, in particular suitability and appropriateness requirements;
- Client transaction execution, including orders acceptance and processing;
- System architecture, security and IT operations for the core IT platform.



In line with Internal Audit's Culture Audit Methodology, we will be reviewing management's risk and control culture through a combination of cultural indicators, including disposition to compliance with policies, control consciousness, supervisory discipline, personnel composition and conduct, openness in risk identifications and escalation of issues.

As a result of the second audit, CSSA was rated as "Adequate" on the Management Risk and Control Culture Rating, and "B2" Internal Control Rating and Potential Impact – defined below:

Internal controls generally found to be designed and operating adequately; Minor internal control issues were identified, which if not addressed, could pose undue risk to the Bank; or Deficiencies were identified in the application of internal directives, policies or best practices; however: No significant residual risk exposures were identified; No instances of non-adherence to laws and regulations were noted.