SABB ساب

SAUDI BRITISH BANK

Basel III Pillar 3

<u>Qualitative and Quantitative Disclosures</u>

AS AT 31st DECEMBER 2016

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B.1 - Table OVA: Bank risk management approach

(a) Business model determination and risk profile;

The Saudi British Bank (SABB) or (the Bank), a Saudi Joint Stock Company, was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978G) and is an associate of the HSBC Group. The Bank's capital is Saudi Riyals (SAR) 15 billion divided into 1.5 billion shares with a nominal value of SAR 10.

The main objectives of the Bank are to provide a complete range of integrated banking products and services to both retail and corporate sectors throughout its departments, business segments and its branch network across the Kingdom of Saudi Arabia (the Kingdom). The Bank has no subsidiaries established or operating outside the Kingdom.

SABB maintains a valuable strategic partnership with the HSBC Group, one of the largest and most geographically diverse banking groups in the world. This strategic partnership provides SABB with a competitive advantage to provide its customers with access to the best local and international service offering in the market.

SABB's strategic goal is to remain a leading international player in the financial services industry in Saudi Arabia by offering a comprehensive suite of banking propositions and finance products services to its customers. In doing so, the Bank is continually evaluating new business opportunities that are complimented by its associate companies who offer Takaful, Investment Banking, Asset Management, Brokerage and Securities services.

SABB's principal lines of business are Retail Banking & Wealth Management (RBWM), Commercial Banking (CMB) and Global Banking and Markets (GBM). These businesses utilise a comprehensive network of Branches and ATMs in conjunction with digital channels to offer conventional and Islamic Law (Shariah) compliant products under the "Islamic Financial Solutions" name.

The Bank is organised into the following main business segments:

Retail Banking and Wealth Management provides services and products to personal and private banking customers including time deposits, current and savings accounts, home finance, consumer loans, and credit cards where it maintains a market leading position in the Kingdom. Retail Banking provides a range of digital solutions so customers can access their finances anytime and anywhere, as well as access to a traditional branch network.

Corporate Banking SABB is one of the largest commercial banks in the Kingdom. Corporate customers are supported by dedicated relationship management teams that build a comprehensive understanding of financial requirements and take a long-term relationship view. Relationship Managers provide tailored solutions through access to specialist teams in treasury, liquidity and cash management, trade finance, investment banking and insurance. Corporate Banking is divided into two segments: Global Banking (GB) and Commercial Banking (CMB).

Treasury undertakes two functions in SABB. Principally it provides corporate, institutional and private banking customers with access to capital markets, foreign currency and derivative solutions. In addition, it manages the liquidity and market risk of the Bank, including the deployment of the Bank's commercial surplus through its investment portfolio.

Others segment primarily includes activities of the Bank's investment in a joint venture and an associate, which provide Investment Banking services through HSBC SA and Insurance solutions through SABB Takaful.

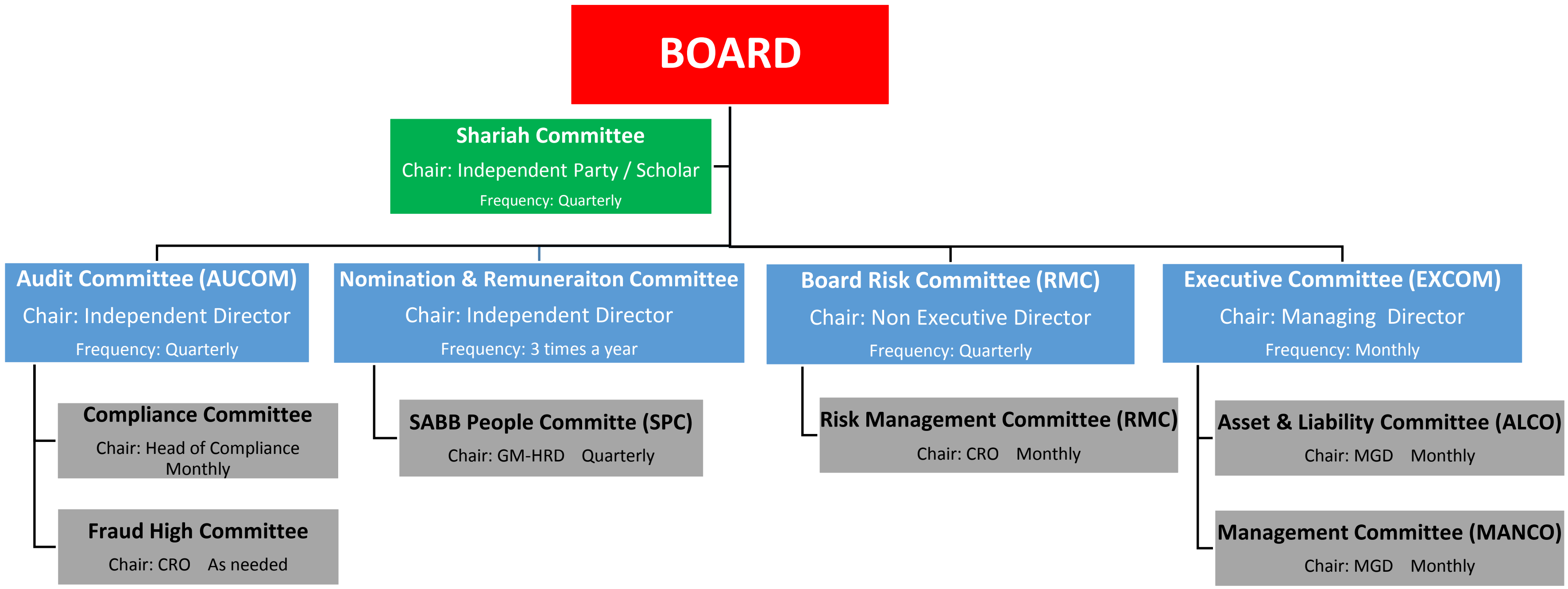
Given its business model, SABB is exposed to credit risk, market risk, liquidity risk, macroeconomic risk and interest rate risk in banking book as primary risks. In addition, the Bank is potentially exposed to legal, operational, strategic, reputational, and information security risks. The overall management and mitigation of risks are entrusted with the Risk Group, which consists of seven departments, viz. (i) Risk Strategy & Infrastructure, (ii) Wholesale Credit & Market Risk, (iii) Retail Risk, (iv) Operational Risk & Internal Control, (v) Credit Review and Risk Identification, (vi) Special Assets, and (vii) Security and Fraud Risk. The Risk Group operates closely with the business groups, Finance Control, the Compliance, the Legal, the Internal Audit, and the Shari'ah Group. Overall risk governance is ensured through a number of management level committees and the Board level committees to safeguard that SABB acquires assets with an acceptable risk-return profile in the interest of generating sustainable earnings, whilst maintaining healthy capital adequacy and liquidity to secure a strong credit rating.

(b) The risk governance structure;

Managing under a clear risk framework has always been a fundamental governance principle within SABB.

The Board Risk Committee continues to act as the Board designated committee for the review and approval of risk matters. The Committee meets quarterly, with all 4 members, including the Chairman, being Non-Executive Directors. The committee is assigned to oversee and advise the Board on all high-level risk related matters, and to provide strategic direction for Risk across SABB, including setting the risk vision, deciding priorities and overseeing the execution of major transformational risk initiatives.

SABB has a robust risk governance framework in place with accountability embedded throughout the bank:



SABB applies a three lines of defence model within which the business are responsible for the risks that form part of their area and must ensure that all key risks are identified, mitigated and monitored through appropriate controls. Risk and Finance form part of the second line of defence and have responsibility for providing assurance, challenge and oversight activities. Internal audit is the third line and provide an independent assurance to senior management and the Board.

The Risk Management function, which manages the overall level of credit, market and operational risk within SABB, is under the direct control of the CRO. The Chief Risk Officer is appointed by, appraised by, and has a reporting line directly to the Board Risk Committee.

The core SABB governance policy manuals covering Corporate Governance, SABB Standards, Risk Management and Credit Policy were reviewed and approved by the Board or its designated committees during 2016. An annual review of the risk governance framework was completed and approved by the Board Risk Committee which resulted in only minor changes to the members and frequency of various committees to align with the current risk control requirements and priorities.

The risk reporting framework to the Board was maintained including the Risk Appetite Statements, Risk Heatmap and Top and Emerging Risks.

(c) Channels to communicate, decline and enforce the risk culture;

Risk Management is an independent function within SABB managed under the Chief Risk Officer with responsibility for the development, validation and oversight of SABB's risk policies, reporting and models. Essentially, this team reviews the stress tests used to determine the incremental capital required in managing Pillar II risks.

Whilst business units have primary responsibility for managing specific risk exposures under the oversight of the Chief Risk Officer, the Board Risk Committee (BRC), the Audit Committee (AUCOM), the Risk Management Committee and ALCO have primary responsibility for managing SABB's overall risk exposure.

The process of identifying and reporting the health of SABBs businesses and portfolios is undertaken through the use of risk appetite statements, risk heatmaps and top and emerging risk reports. These are compiled and submitted to the relevant risk governance committee where the reports are challenged and action plans agreed.

Composition of the major committees as follows:

The Board of Directors – Generally meets four times a year. It is made up of ten members (the "Directors"), including the Chairman and the Managing Director. The Chairman is required to be a non-executive director and the Managing Director is selected from among the Directors appointed by HSBC Holding BV. Six of the Directors represent SABB's Saudi shareholders and are elected via accumulative voting every three years. SABB's by-laws provide that the other four Directors are to be appointed by HSBC Holding BV. The Board of Directors maintains control over SABB and monitors the executive management of SABB.

The Board Risk Committee – The committee is assigned to oversee and advise the Board on all high-level risk related matters, and to provide strategic direction for Risk across SABB, including setting the risk vision, deciding priorities and overseeing the execution of major transformational risk initiatives. It consists of three to five members, whom should be Non-Executive Directors. The Committee meets on a quarterly basis, and is chaired by one of the non-executive directors whom will be appointed by SABB Board of Directors. The Board Risk Committee is a Board committee and reports directly to the Board.

Executive Committee – Through delegated authority from the Board of Directors, the Executive Committee comprises of five members, and is chaired by the Bank's Managing Director. It is assigned to exercise all of the powers, authorities and discretion of the Board in so far as they concern the management and day to day running of SABB in accordance with policies and directions as the Board may from time and time determine. This delegation includes to endorsement of strategic and operating plans, approval of project costs within expenditure limits assigned by the Board, approval of credit facilities and credit matters within credit limits assigned by the Board, review of Business performance reports, monitoring AOP progress, financial reports, competitor bank reports, along with other matters necessary to support the Managing Director, MANCOM and IT Steering Committee.

Audit Committee – The Committee is appointed by the Annual General Meeting, meets on a quarterly basis and consists of three to five members appointed from SABB's non-executive or independent directors and of non-Board members who must comprise a majority of members. The Committee is accountable to the Annual General Meeting and the Board and assists the Board in meeting its responsibilities by a) ensuring an effective system of internal control and compliance b) being responsible for the selection, oversight and remuneration of the external auditors c) meetings its external financial reporting obligations d) any changes in accounting policies and standards that could have a material impact on compliance with accounting standards e) reviewing issues of material concern raised by internal and external auditors f) any other duties as set in the Terms of Reference of the Committee approved by the Board and AGM.

Nomination and Remuneration Committee – The committee consist of three to five members, and meets on half yearly basis or more frequently if required. It is assigned to ensure that, inter alia: the Board members are qualified and independent; that compensation for Board members and employees are in line with the performance criteria taking into consideration the management of risk; evaluate all compensation policies; and that compensation policies and practices are compliant with SAMA guidelines on compensation. The committee is chaired by an independent Board member, with membership of other two independent directors and an independent from outside the Board.

Risk Management Committee (RMC) – This is the senior management designated by the Board to review risk management matters, including reviewing risk appetite and emerging risk and risk policy, the committee meets monthly and is chaired by the Chief Risk Officer. Attending members include senior management, businesses and support functions.

Assets and Liability Committee (ALCO) – The committee is chaired by MGD and meets once a month to discuss balance sheet and its associated risks. The committee consists of members including senior management, businesses and support functions.

(d) The scope and main features of risk measurement systems;

The material risks that may impact SABB's operations are identified and thoroughly assessed and stressed, both qualitatively and quantitatively. It is envisioned that the assessment processes will become more advanced with the development or adoption of industry best practices after being calibrated to parameters that best fit the risks pertinent to SABB's business, regulatory, and economic environment. The risk review cycle is as follows:

- A monthly review of the top and emerging risks is undertaken and challenged through the RMC with a Risk Heatmap maintained and mitigation action plans required for high risk items.
- The risk appetite and risk assessment process is reviewed at least quarterly by ALCO and RMC in consultation with the business functions.
- Risk reports for each risk category are submitted to the BRC quarterly.
- The stress test scenarios and outcomes are updated half yearly based on the revised parameters and reviewed by the RMC and BRC.
- Senior management challenges the risk appetite and risk assessment methodologies through the RMC.
- The BRC challenges and approves the risk appetite and the ICAAP.

Credit risk is the risk of financial loss through the failure of a customer or counterparty to honour their commitments as they fall due. Credit risk arises principally in corporate and personal lending, trade finance, treasury and syndication underwriting. But credit risk also arises from off balance sheet products such as guarantees and derivatives or from SABB's holdings of debt securities.

A strong culture of prudent and responsible lending is a cornerstone of SABB's risk management philosophy. This is attained through effective control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns.

Credit manuals provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. These policy manuals are reviewed annually by the Risk Management function and approved by the Chief Risk Officer (CRO) with material policy changes approved through the Risk Management Committee (RMC). In line with SAMA Rules on Credit Risk Management, the main Credit Policy manual has been reviewed and approved by the Board Risk Committee (BRC) in 2016.

Credit risk assessment is undertaken by the credit approval function which reports to the Managing Director through the CRO; hence ensuring that they have an appropriate degree of independence. The teams are responsible for credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.

The approval process is reviewed annually by the BRC with limit delegations named down from the Board. Within SABB, emphasis is placed on the individual's responsibility for making credit decisions and as such there is a series of delegated approval limits agreed by Board.

A key element in the Bank's credit culture is the proactive management of the portfolio through:

- The regular review of facilities by lending and credit officers, at least annually.
- The operation of an independent special asset management function to handle non performing and problem exposures.
- The central monitoring of credit concentration in certain countries, specialized industries / sectors, products, customers and customer groups with monthly reports to the RMC, Asset and Liability Committee (ALCO) and quarterly to BRC.
- The continual development of improved techniques for measuring and evaluating risk, and for optimizing risk-adjusted return on capital.

- The development and adoption of automated application processing and assessment systems, to enable consistency of decisions and an efficient framework for application processing.
- A structured framework of credit training and accreditation to build risk awareness and credit assessment capabilities.

Personal lending decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.
For defaulted customers, impairment provisions (collective and discounted cash flow basis) are maintained in accordance with established IFRS accounting practices.

SABB operates dedicated special assets and recoveries teams to manage companies in financial distress and non-performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from Legal. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency including the use of external and overseas recovery agencies.

Credit risk consumes the largest proportion of SABB's minimum capital requirement. Within the established principles and parameters SABB ensures that strict capital discipline is maintained through correct pricing and management of credit risks in relation to the regulatory and economic capital requirements.

Market Risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices will reduce SABB's income or the value of its portfolios.

Foreign exchange risk (FX) arises from an open position, either overbought (long) or oversold (short), in a foreign currency, creating exposure to a change in the relevant exchange rate.

SABB categorises foreign exchange risk as follows:

- **Trading Book FX risk -** arises from proprietary currency trading i.e. spot, forwards, futures, swaps and options. Trading exposures are controlled through assigning limits to each currency and aggregate exposure levels as well as through VAR and stress testing measures.
- **Banking Book FX risk -** arises from a currency mismatch / revaluation between assets and liabilities, including accrued interest and accrued expenses. The mismatch is transferred to Treasury and managed on daily basis through the trading book.
- **Structural FX risk-** arises due to two reasons a) relates to net investments in subsidiaries, branches or associated capital undertakings. b) Relates to the non-SAR denominated assets. The currencies where structural FX rise arises are those other than the designated reporting currency of the SABB, which is the Saudi Riyal (SAR).

SABB uses a range of control measures to manage market risk ranging from specific stop loss control limits, to sensitivity analysis limits including the present value of a basis point movement of interest rates, as well as VAR loss limits designed to estimate the potential loss from market movements across a specified time horizon and for a given level of confidence using a historical simulation approach. SABB recognizes the limitations of VAR and compliments its analysis with scenario stress testing to evaluate the impact of more extreme but plausible events or movements in market variables.

Whilst SABB uses both VAR and standard rules to manage market risk, capital requirements are assessed for all positions using the standard rules approaches prescribed by SAMA.

Operational risk governance framework is made up of a series of operational risk meetings and processes. An operational risk assessment process is undertaken periodically and at least annually by each line of business and support functions with the output challenged through the Operational Risk and Internal Control Committee (ORICC).

The operational risk taxonomy was expanded from the previous 4 major risk categories (people, process, systems, and external) to a more granular 16 key Level 1 risk categories which include major areas that are currently a focus of regulatory/national bodies:

- People	- Compliance	- Business continuity	- Tax
- Systems	- Legal	- Accounting	- Shariah
- Operations	- Internal fraud	- Physical	- Political
- Information	- External fraud	- Fiduciary	- Project

A Bank level Operational Risk dashboard is used by Senior Management to highlight the major risks and breaches. Loss trends reports are reviewed monthly by ORICC and RMC with a quarterly update provided to the BRC.

Systems established to record risks and losses by Basel business lines, risk and loss event categories enable business units to manage their action plans and request for management information reports. Duties are segregated to ensure integrity of loss and risk data in the system. Data is captured and approved in the system by the business. The central Operational Risk department coordinates the recording process, reconciles to ensure only operational losses are captured and the data meets both SABB and regulatory guidelines in addition to ensuring the quality of the input data.

During 2016, SABB continued the consolidation/strengthening of its Operational Risk Management and Governance processes:

- The Risk Governance Framework was reviewed by the BRC.
- Effectiveness reviews continued to be undertaken by the BRC with business heads and risk owners to provide an assurance on the effectiveness of internal controls within their business or across their risk area.
- Continued focus to implement the Board approved SIS programme covering adherence to laws and regulations, Treating Customers Fairly, and Protecting Customer Information.
- SABB continued to fully assess the dependencies and business impact analysis related to the Bank's association with the HSBC Group.
- The Three Lines of Defence model was enhanced to underpin our approach to strong risk management. The Three Lines of Defence model defines who is responsible to identify, assess, measure, manage, monitor, and mitigate operational risks, encouraging collaboration and enabling efficient coordination of risk and control activities.
- Risk and Control Assessment (RCA) is a component of the Operational Risk and Internal Control (ORIC) Management Framework implemented across SABB. The RCA process is designed to provide business/function with a forward looking view of operational risk to help them proactively determine whether their key operational risks are controlled within acceptable levels.

- The formalisation of Second Line of Defence Reviews and establishment of an assurance programme within ORIC was established to ensure implementation of the Bank's ORIC framework within the businesses.
- The ongoing implementation of findings from the independent review of the Internal Control Guidelines are tracked using the ORIC system to verify timely close of item with updates submitted monthly to RMC and quarterly to the BRC and Audit Committee.

Capital requirements are assessed using the standardised approach, which applies one of three fixed percentages to an average of the last three financial years gross revenues allocated across eight defined business lines.

(e) Process of risk information reporting provided to the board and senior management;

The Board is constantly informed and updated regarding the risk status of the bank through several reports. Following are the key reports which are considered comprehensive and hence provide Group wide risk assessment on periodic basis.

Monthly Risk Report is submitted to the Risk Management Committee encompassing risks related to the Bank. The report provides a concise overview of all regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, risk adjusted return, liquidity position of the Bank, market risk due to the trading activities, interest are risk in the banking book, major operational risk incidents and mitigating actions, and information security update. Also review risk management matters, including reviewing risk appetite and emerging risk and risk policy.

Quarterly Risk Report is submitted to the Board Risk Committee encompassing risks related to the Bank. The report provides a concise overview of key regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, risk adjusted return, liquidity position of the Bank, market risk due to the trading activities, interest are risk in the banking book, major operational risk incidents and mitigating actions, and information security update.

Risk appetite monitoring of the Bank is an integral part of the monthly reporting to the senior management, which it combines the Bank's business model, governance, and strategic decisions. It holistically integrates the risk limits and performance targets for the Bank and the business groups, and sets the overall risk tolerance boundaries. Additionally, it facilitates the management decisions with various risk targets in order to ensure compliance with regulatory constraints and changing economic conditions.

Stress testing is another key component of the quarterly risk reporting process to the Board and senior management that assesses the potential risk and the resulting impact due to stressed operating scenarios, both macroeconomic or/and idiosyncratic. Stress testing framework at SABB is comprehensive and is reasonably granular, which enables the management and the Board to assess the impact of different scenarios on specific portfolios and sub-portfolios in terms of credit quality, liquidity, and capital adequacy.

Internal Capital Adequacy Assessment Process (ICAAP) is considered as the most comprehensive exercise that conducts the risk assessment of the Bank on forward looking basis, given the business plan and growth aspirations. This provides a complete overview of existing capital adequacy and future capital requirements to the Board and the senior management, which aids the long term capital management process in the Bank.

Moreover, senior management exercises its risk management function through various management committees which require more frequent and more granular reporting on risk exposures.

(f) Qualitative information on stress testing;

SABB undertakes a range of stress test scenarios to assess the risk and impact of different events on profitability or capital requirements, the most significant of which is the macroeconomic scenario which is undertaken annually alongside the ICAAP. In terms of governance, SABB has a Stress Testing Committee chaired by the Chief Risk Officer and comprising members from different businesses and support areas to oversee the development of stress tests within SABB across the various customer segments and risk categories.

SABB has maintained its stress testing framework in line with the Rules on Stress Testing for Banks under Circular reference 60687 BCS 38747 issued by SAMA in November 2011 and with industry best practice. Under SABB's stress methodologies, the inputs to each stress test are based on a combination of analytical inputs and expert panels to review the quantitative data and incorporate qualitative factors. As part of SABB stress testing framework, two integral reports are produced and submitted to SAMA in March (year-end data) and September (mid-year data) including details of the stress test carried out by the bank considering various customer segments and risk categories. At least three stress-testing scenarios are applied to arrive at the stressed capital ratios, with a view to ensure that the Bank remains adequately capitalized under stressed conditions during economic down-turns. Adequate stress-testing procedures are in place for Credit, Market (trading book), Interest Rate (Banking book), Liquidity and Operational Risks. All the other risks covered under Internal Capital Adequacy Assessment Plan (ICAAP).

SABB also runs a series of reverse stress tests to consider scenarios beyond normal business settings to evaluate potential vulnerabilities and assess the mitigation required.

(g) The strategies and processes to manage, hedge and mitigate risks;

The mitigation of credit risk is an important aspect of its effective management and takes many forms.

SABB grants facilities based on the borrower's ability to repay, rather than placing its reliance on credit risk mitigation. SABB nevertheless does hold a range of security to reduce the risk of loss and maximise the probability of facilities being repaid. A number of these risk mitigants have been applied under the Standardised approach in Pillar I, and there are other securities that cannot be assigned a value such as shares, land and local property.

International and Local Banks Guarantees are referred to Institutional Banking for counterparty and cross border country risk approval.

The granting of facilities and taking of collateral as risk mitigants is governed by defined policies and procedures, as well as the use of bank standard documentation that cater for the offset of credit balances against facilities granted, the control over the integrity and valuation of collateral, and the rights required to enforce and realize security. SABB monitors the concentration of risk mitigants and does not have any material concentrations in the risk mitigants currently held.

A key element in the Bank's credit culture is the proactive management of the portfolio through:

- The regular review of facilities by lending and credit officers, at least annually.
- The operation of an independent special asset management function to handle non performing and problem exposures.
- The central monitoring of credit concentration in certain countries, specialized industries / sectors, products, customers and customer groups with monthly reports to the RMC, ALCO and quarterly to Board Risk Committee.
- The continual development of improved techniques for measuring and evaluating risk, and for optimizing risk-adjusted return on capital.
- The development and adoption of automated application processing and assessment systems, to enable consistency of decisions and an efficient framework for application processing.
- A structured framework of credit training and accreditation to build risk awareness and credit assessment capabilities.

Personal lending decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.

For defaulted customers, impairment provisions (collective and discounted cash flow basis) are maintained in accordance with established IFRS accounting practices.

The Bank has implemented an interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with an aim to keep the interest rate risks within limits. The Bank also uses currency swaps to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

SABB operates dedicated special assets and recoveries teams to manage companies in financial distress and non-performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from Legal. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency including the use of external and overseas recovery agencies.

SABB has established a monitoring control metric, approved by ALCO and endorsed by EXCOM, based on the Basel III Liquidity Coverage Ratio (LCR) and the Net Stable Funds Ratio (NSFR) ratios. These measures are closely monitored in the Bank's Risk Appetite Statements against the established limits. From 1st January 2016, the Bank's internal liquidity management framework has migrated to the Basel III LCR and NSFR framework from the previous Operating Cashflow Projections (OCP) methodology.

SABB recognizes the importance of liquidity management and has in place this Liquidity Contingency Funding Plan (CFP) to provide guidance for Liquidity Crisis Management Team (LCMT) and the Liquidity Management Committee (LMC) on how to approach any potential liquidity event, defining responsibilities and setting out a predetermined plan of action. CFPs are a crucial tool in effective liquidity and funding risk planning.

B.2: OV1 Overview of RWA (Figures in SAR 000's)

		a	b	c
		RWA		Minimum capital requirements
		Dec-16	Sep-16	Dec-16
1	Credit risk (excluding counterparty credit risk) (CCR)	158,378,343	163,843,518	12,670,267
2	Of which standardised approach (SA)	158,378,343	163,843,518	12,670,267
3	Of which internal rating-based (IRB) approach			
4	Counterparty Credit Risk	1,914,981	2,094,427	153,198
5	Of which standardised approach for counterparty credit risk (SA-CCR)*	1,914,981	2,094,427	153,198
6	Of which internal model method (IMM)			
7	Equity positions in banking book under market-based approach			
8	Equity investments in funds? look-through approach			
9	Equity investments in funds? mandate-based approach			
10	Equity investments in funds? fall-back approach			
11	Settlement risk			
12	Securitisation exposures in banking book			
13	Of which IRB ratings-based approach (RBA)			
14	Of which IRB Supervisory Formula Approach (SFA)			
15	Of which SA/simplified supervisory formula approach (SSFA)			
16	Market risk	2,514,488	808,000	201,159
17	Of which standardised approach (SA)	2,514,488	808,000	201,159
18	Of which internal model approaches (IMM)			
19	Operational risk	13,333,290	13,163,042	1,066,663
20	Of which Basic Indicator Approach			
21	Of which Standardised Approach	13,333,290	13,163,042	1,066,663
22	Of which Advanced Measurement Approach			
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	1,605,743	1,539,209	128,459
24	Floor adjustment			
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24)**	**177,746,845**	**181,448,196**	**14,219,748**

** CCR figures reported above are based on Current Exposure Method as SA-CCR methodology is applicable starting from 1st January 2017.*

Pillar I RWA's decrease was mainly driven by lower Credit Risk RWA's as a result of the decrease in loan book and lower interbank placements, this was partially offset by an increase in market risk as a result of higher open FX positions.

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B.3 : LI1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories (Figures in SAR 000's)

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
				Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Assets							
1	Cash and balances at central banks	24,121,821	24,121,821	24,121,821				
2	Due from banks and other financial	8,217,746	8,217,746	8,217,746				
3	Positive fair value derivative	721,912	721,912		721,912			
4	Investments, net	29,273,055	29,273,055	29,273,055				
5	Loans and advances, net	120,964,815	120,964,815	120,964,815				
6	Investment in associates	642,297	642,297	642,297				
7	Property and equipment, net	1,038,352	1,038,352	1,038,352				
8	Other assets	1,075,896	1,075,896	1,075,896				
	Total assets	**186,055,894**	**186,055,894**	**185,333,982**	**721,912**	**-**	**-**	**-**
	Liabilities							
9	Due to Banks and other financial	3,419,174						3,419,174
10	Customer deposits	140,639,785						140,639,785
11	Negative fair value derivative	604,793						604,793
12	Debt securities in issue	4,517,636						4,517,636
13	Other liabilities	5,595,578						5,595,578
	Total liabilities	**154,776,966**	**-**	**-**	**-**	**-**	**-**	**154,776,966**

B.4: LI2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (Figures in SAR 000's)

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	186,055,894	185,333,982		721,912	
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation	186,055,894	185,333,982		721,912	
4	Off-balance sheet amounts	123,459,222	39,784,174			
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters					
9	Derivatives	217,810,282			1,110,536	2,514,488
10	Exposure amounts considered for regulatory purposes	**527,325,398**	**225,118,156**	**-**	**1,832,448**	**2,514,488**

B.5 - Table LIA: Explanations of differences between accounting and regulatory exposure amounts

(a) Explanation of significant differences between the amounts in columns (a) and (b) in LI1;

SABB Bank does not have any difference between 'Carrying values as reported in published financial statements' and 'Carrying values under scope of regulatory consolidation'

(b) Explanation of the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2;

On-Balance Sheet

In case of On-Balance Sheet items, currently there are no differences between carrying values and amounts considered for regulatory purposes except certain provisions.

Off-Balance Sheet & Derivatives

In case of Off-Balance sheet and Derivatives Notional values are populated as total carrying / accounting value whereas credit equivalent amounts (i.e. after applying conversion factors including Add-on adjustments in case of Derivative portfolio are populated under respective regulatory framework.

(c) Valuation methodologies;

Please refer to note no. 2f & 33 of Annual Published Financial Statements

B.6 - Table CRA: General qualitative information about credit risk

(a) How the business model translates into the components of the bank's credit risk profile;

Credit risk, is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk on credit related commitments, contingencies and derivatives.

SABB is a diversified financial services institution operating in Saudi Arabia, with a range of business activities and income streams. SABB offers a wide range of credit products and facilities through three core business segments; Commercial Banking (CMB), Global Banking & Markets (GBM) and Retail Banking & Wealth Management (RBWM).

- Commercial Banking caters to the banking requirements of commercial banking customers including the provision of credit facilities, trade and receivables finance, guarantees and other credit products.
- Global Banking and Markets is responsible for the relationship management of top-end Saudi companies that are globally active; multinational companies operating in Saudi Arabia but headquartered overseas; and institutional clients such as ministries, government agencies and departments, banks and other financial institutions, as well as managing the banks treasury activities.
- Retail Banking and Wealth Management caters to the banking requirements of personal and private banking customers including current accounts, personal finance, home finance and credit cards.

(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits;

SABB has established clear standards that should be met by employees, for application across the Bank. This includes a set of Board Risk Committee approved risk appetite statements that reflect the banks appetite for credit risk across different segments, sectors, products and borrower types.

Credit manuals provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. These policy manuals are reviewed annually by the designated Risk Management function and approved by the Board Risk Committee. In line with SAMA Rules on Credit Risk Management.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

SABB assesses the probability of default of counterparties using internal rating tools. Also the Bank uses external ratings, of major rating agencies, where available.

The Bank also seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

Authority to carry out various activities and responsibilities for financial performance are delegated to SABB management within limits set by the Board. Authorities to enter into credit and market risk exposures are delegated with limits to line management. The concurrence of the EXCOM is required, however, for credit proposals with specified higher risk characteristics.

The approval process is reviewed annually by the Board Risk Committee with limit delegations cascaded down from the Board. Within SABB, emphasis is placed on the individual's responsibility for making credit decisions and as such there is a series of delegated approval limits agreed by Board.

Personal finance credit decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.

Credit Risk identification and monitoring systems and procedures are in place in SABB to identify, control and report on any emerging risks.

(c) Structure and organisation of the credit risk management and control function;

The Board of Directors is responsible for the overall risk management approach within SABB and for reviewing its effectiveness. The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Bank’s risk framework, plans and performance targets, which include the establishment of risk appetite statements, risk management strategies, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

The Bank has established a number of risk committees from Board level to middle management level in order to ensure that all the risks to which the Bank is exposed in its daily operations are managed effectively.

SABB operates an independent risk management function which provides high-level oversight and management of Credit and Market risk. The credit teams are responsible for credit review, credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.

A dedicated special assets and recoveries teams to manage companies in financial distress and non-performing. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency including the use of external and overseas recovery agencies.

In SABB the administration of credit facilities is performed by an independent credit administration function. This function is responsible for ensuring completeness of documentation in accordance with approved terms and conditions, along with undertaking the operationally management and control of facilities.

(d) Relationships between the credit risk management, risk control, compliance and internal audit functions;

The Board is also responsible for internal control in SABB and for reviewing its effectiveness. The framework of standards, policies and key procedures that the Directors have established is designed to provide effective segregation of duties and internal control within SABB for managing risks within the accepted risk appetite along with the on-going identification, evaluation and management of the significant risks faced by the Bank.

SABB's management is responsible for establishing and maintaining an adequate and effective system of internal control which encompasses the policies, procedures/ processes and information systems as approved by the Board, that facilitate effective and efficient operations. The bank has implemented a 'Three Lines of Defence' model for managing risks facing the Bank.

Business management, as the First Line of Defence, is responsible for defining operating procedures and standards across all areas under their responsibility. Specific business manuals are established by functions covering all material risks including credit, market, liquidity, information technology and security, capital, financial management, model, reputational, strategic, sustainability, compliance and other operational risks. Business management is also responsible for implementing effective monitoring mechanisms to identify, assess, measure, manage, monitor, and mitigate operational risks and prevent deviations or breaches from established policies and regulatory requirements.

The Second Line of Defence comprises various risk management and control functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud. These functions act as the risk stewards, who set policy and guidelines for managing risks, provide advice to support these policies and test effectiveness of first line processes in adherence to the policy. They also challenge the First Line of Defence to ensure that its risk management activities are working effectively. The Second Line of Defence operates independently of the day to day commercial risk-taking activities undertaken by the business.

The Credit function undertake a credit review to ensure that the facilities are in line with the bank's credit policy & procedures, SAMA guidelines and are appropriately structured to ensure end use of funds. They also monitor the financial performance & condition, approval conditions wherever applicable and past dues to identify early warning signs.

As part of the second line, the Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements, particularly the Rules for Opening of Bank Accounts, Anti-Money Laundering and Terrorism Finance Fighting Rules, CMA Rules and Regulations, and other key level international regulatory requirements.

Internal Audit (INA) represents the Third Line of Defence by independently reviewing the design effectiveness and operating efficiency of internal control systems and policies focusing on the areas of greatest risk to the Bank as determined by a risk based grading approach. The Audit Committee supervises Internal Audit and reviews control weaknesses and system deficiencies.

(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors;

Systems and procedures are in place to identify, control and report on the material risk issues facing SABB. The top level governance committee reports encompass the Risk Appetite Statements, Risk Heat map and Top and Emerging Risks, market risk positions, stress testing, and well as specific reports for sectors or segments. Exposure to current and emerging risks is monitored through the various risk management committees, and the asset and liability committee (ALCO) where the business is challenged by the Chief Risk Officer.

More granular Reports for monitoring and control purposes are provided on periodic basis- monthly, quarterly to Senior Management. The reports cover a full range of material risk issues and trends including, risk exceptions, watch lists, portfolio quality, and concentration risk in term of industries, countries and individual counterparties.

B.7 CR1: Credit Quality Asset (Figures in SAR 000's)

		a	b	c	d
		Gross carrying values of		**Allowances / Impairments**	**Net Value (a+b-c)**
		Defaulted Exposures	**Non-Defaulted Exposures**		
1	Loans	1,655,479	122,199,047	2,889,711	120,964,815
2	Debt Securities	17,716	28,215,198	17,716	28,215,198
3	Off-balance sheet exposures		71,720,355		71,720,355
4	**Total**	**1,673,195**	**222,134,600**	**2,907,427**	**220,900,368**

Defaulted exposure is considered when non-performing loans and past due are over 90 days and impaired.

B.8: CR2 Changes in stock of Defaulted Loans and Debt Securities (Figures in SAR 000's)

		a
1	Defaulted loans and debt securities at end of the previous reporting period	1,534,988
2	Loans and debt securities that have defaulted since the last reporting period	907,783
3	Returned to non-defaulted status	
4	Amounts written off	753,917
5	Other changes	-15,659
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**1,673,195**

B.9 - Table CRB: Additional disclosure related to the credit quality of assets

(a) The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes;

The scope and definition of past due is when customer fails to meet his payment obligations on time and the amount due is classified as past due. The number of days amount remains past due is counted and termed as the past due period. While an impaired exposure is considered by the bank as a credit obligation that the customer is unlikely to repay without recourse by the bank to actions such as realizing security (if held).

(b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this;

The 90 days past due rule will be generally applied unless the bank has strong evidence that will support different classification. Therefore it is been assessed on case by case basis and those cases past due for 90 days without any solid evidence that account will be regularized soon will be considered for impairment while cases were technically past dues over 90 days and has solid evidence of clear sources of repayment / restructuring, then the case will be documented and approved by proper authority.

(c) Description of methods used for determining impairments;

The collective impairment methodology was introduced during 2004 to ensure compliance with International Accounting Standard ("IAS") 39-AG87. The methodology for corporate portfolio follows an incurred loss model for estimating the collective impairment provision by using the average cumulative historical loss rate split by industry, based on SABB's funded exposures. This is then scaled up or down based on an economic factor which combines an assessment of the current risk associated with the macroeconomic environment, industry sector and financial risk factors.

A corporate default is considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- Obligor is past due more than 90 days on any material credit obligation to the bank, in case of overdrafts, this means 90 consecutive days over agreed limit and in case of revolving facilities and instalment loans, this means 90 days past repayment date.
- Bank considers that the obligor is unlikely to pay its credit obligations to the group in full or on originally agreed repayment terms, without recourse by the bank to action such as realising security (if held).

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(e) Breakdown of exposures by geographical areas, industry and residual maturity;

For breakdown please refer to quantitative disclosures B.9.1, B.9.2, B.9.3, respectively:

B.9.1 : Geographic Breakdown (Figures in SAR 000's)

Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Others Countries	Total
Sovereigns and central banks:	**37,815,296**	**1,259,189**	**321,227**	**750,288**	**509,597**	**151,331**	**40,806,927**
SAMA and Saudi Government	37,815,296						**37,815,296**
Others		1,259,189	321,227	750,288	509,597	151,331	**2,991,631**
Multilateral Development Banks (MDBs)			**978,795**	**1,284,695**		**574**	**2,264,064**
Public Sector Entities (PSEs)							
Banks and securities firms	**5,427,404**	**3,402,433**	**2,340,442**	**5,147,658**	**41,899**	**2,662,039**	**19,021,874**
Corporates	**132,215,098**	**471,147**					**132,686,245**
Retail non-mortgages	**16,625,110**						**16,625,110**
Small Business Facilities Enterprises (SBFE's)							
Mortgages	**10,314,923**						**10,314,923**
Residential	10,314,923						**10,314,923**
Commercial							
Securitized assets							
Equity	**1,700,155**						**1,700,155**
Others	**3,331,836**						**3,331,836**
Total	**207,429,822**	**5,132,769**	**3,640,463**	**7,182,641**	**551,496**	**2,813,944**	**226,751,134**

B.9.2 : Industry Sector Breakdown (Figures in SAR 000's)

Portfolios	Industry sector												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:	**40,806,927**												**40,806,927**
SAMA and Saudi Government	37,815,296												**37,815,296**
Others	2,991,631												**2,991,631**
Multilateral Development		**2,264,064**											**2,264,064**
Public Sector Entities (PSEs)													
Banks and securities firms		**19,021,874**											**19,021,874**
Corporates		**7,836,001**	**615,004**	**28,589,146**	**5,117,768**	**7,273,609**	**29,344,722**	**35,442,488**	**7,546,932**	**7,278,151**		**3,642,427**	**132,686,245**
Retail non-mortgages											**16,625,110**		**16,625,110**
Small Business Facilities Enterprises (SBFE's)													
Mortgages											**10,314,923**		**10,314,923**
Residential											10,314,923		**10,314,923**
Commercial													
Securitized assets													
Equity		**1,700,155**											**1,700,155**
Others												**3,331,836**	**3,331,836**
Total	**40,806,927**	**30,822,094**	**615,004**	**28,589,146**	**5,117,768**	**7,273,609**	**29,344,722**	**35,442,488**	**7,546,932**	**7,278,151**	**26,940,033**	**6,974,263**	**226,751,134**

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B.9.3 : Residual Contractual Maturity Breakdown (Figures in SAR 000's)									
Portfolios	**Maturity breakdown**								
	Less than 8 days	**8-30 days**	**30-90 days**	**90-180 days**	**180-360 days**	**1-3 years**	**3-5 years**	**Over 5 years ***	**Total**
Sovereigns and central banks:	**15,936,197**	**4,145,703**	**1,390,813**			**608,542**	**4,853,693**	**13,871,979**	**40,806,927**
SAMA and Saudi Government	15,936,197	3,711,971	640,526				3,791,094	13,735,510	**37,815,296**
Others		433,733	750,288			608,542	1,062,599	136,470	**2,991,631**
Multilateral Development Banks (MDBs)		**146,472**	**281,638**	**93,697**	**187,712**	**1,554,545**			**2,264,064**
Public Sector Entities (PSEs)									
Banks and securities firms	**8,590,555**	**161,687**	**1,470,694**	**1,045,619**	**1,859,921**	**3,156,370**	**1,326,241**	**1,410,788**	**19,021,874**
Corporates	**17,557,701**	**11,927,084**	**26,693,581**	**18,387,437**	**13,708,341**	**10,015,221**	**9,032,850**	**25,364,029**	**132,686,245**
Retail non-mortgages	**2,538,693**	**10,553**	**51,538**	**88,664**	**297,785**	**4,379,521**	**9,258,356**		**16,625,110**
Small Business Facilities Enterprises (SBFE's)									
Mortgages	**5,038**	**182**	**1,298**	**1,783**	**4,823**	**84,544**	**238,386**	**9,978,868**	**10,314,923**
Residential	5,038	182	1,298	1,783	4,823	84,544	238,386	9,978,868	**10,314,923**
Commercial									
Securitized assets									
Equity								**1,700,155**	**1,700,155**
Others								**3,331,836**	**3,331,836**
Total	**44,628,184**	**16,391,682**	**29,889,562**	**19,617,200**	**16,058,582**	**19,798,743**	**24,709,526**	**55,657,655**	**226,751,134**

***** *Items with no fixed maturities such as statutory legal reserve, equity and other assets items are included in over 5 years.*

(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry;

For breakdown please refer to the following tables B.9.4, B.9.5 and B.9.6:

B.9.4 : Impaired Loans, Past Due Loans and Allowances (Figures in SAR 000's)

Industry sector	Impaired loans	Aging of Past Due Loans but not impaired (days)				Specific allowances			General allowances
		Less than 90	90-180	180-360	Over 360	Charges during the period	Charge-offs during the	Balance at the end of the	
Government and quasi government									1,864
Banks and other financial institutions		30,849							85,441
Agriculture and fishing									293,788
Manufacturing	127,552	317,220	30,160			(3,182)		62,378	17,348
Mining and quarrying									21,225
Electricity, water, gas and health services		1,659							295,520
Building and construction	680,253	40,136	2,822			306,052	(17,705)	519,831	440,116
Commerce	277,331	493,956	2,989			222,788	(315,755)	245,287	9,409
Transportation and communication	77,966							77,966	436
Services	16,426	6,216				2,383		16,206	28,031
Consumer loans and credit cards	125,673	1,653,535	188,509			520,793	(420,242)	459,069	
Others	350,278	8,976	1,426			81,000	(215)	308,730	7,066
Total	**1,655,479**	**2,552,547**	**225,906**			**1,129,834**	**(753,917)**	**1,689,467**	**1,200,244**

B.9.5 : Impaired Loans, Past Due Loans And Allowances (Figures in SAR 000's)							
Geographic area	**Impaired loans**	**Aging of Past Due Loans but not impaired (days)**				**Specific allowances**	**General allowances**
		Less than 90	**90-180**	**180-360**	**Over 360**		
Saudi Arabia	1,655,479	2,552,547	225,906			1,689,467	1,200,244
Other GCC & Middle East							
Europe							
North America							
South East Asia							
Others countries							
Total	**1,655,479**	**2,552,547**	**225,906**			**1,689,467**	**1,200,244**

B.9.6 : Reconciliation Of Changes In The Allowances For Loan Impairment (Figures in SAR 000's)		
Particulars	**Specific allowances**	**General allowances**
Balance, beginning of the year	**1,313,550**	**1,172,996**
Charge-offs taken against the allowances during the period	(753,917)	
Amounts charged during the period	1,129,834	27,248
Other adjustments:		
- exchange rate differences		
- business combinations		
- acquisitions and disposals of subsidiaries		
- etc.		
Transfers between allowances		
Balance, end of the period	**1,689,467**	**1,200,244**

(g) Ageing analysis of accounting past-due exposures;

	Ageing analysis of accounting past-due exposures (Figures in SAR 000's)			
	Credit cards	**Consumer loans**	**Commercial loans and OD**	**Total**
From 1 day to 30 days	59,645	1,349,201	888,173	**2,297,019**
From 31 Days to 90 days	51,195	193,494	10,839	**255,528**
From 91 days to 180 days	50,704	137,805	37,397	**225,906**
Over 180 days				
Total	**161,544**	**1,680,500**	**936,409**	**2,778,453**

B.10 - Table CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

(a) Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting;

The bank does not use on- and off-balance sheet netting for capital adequacy reporting. The bank uses deposit /cash for of collateral.

(b) Core features of policies and processes for collateral evaluation and management;

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The bank's approach when granting credit facilities is to evaluate each proposal on its own merits, rather than on availability of collateral. Where credit risk mitigation is available in the form of eligible non-financial collateral or credit derivatives, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying the appropriate "haircut". The value of exposure is adjusted under the financial collateral comprehensive methods.

When valuations are obtained from Banks' approved values. The lowest valuation is taken for collateral / LTV computation. A refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the bank accepts fixed assets e.g. property as collateral these are adequately insured with the bank as loss payee. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities.

All securities are held under the custody of an independent credit administration function.

(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers);

The bank endeavors to take an appropriate level of security to secure our advances. All borrowing relationships need to identify a secondary source of repayment. The nature of collateral types available to the bank is limited and these collaterals mostly include time, demand and other cash deposits, financial guarantees, equities, real estate and other fixed assets. The security margin is computed accordingly keeping in view the type of collateral held.

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B.11: CR3 Credit Risk Mitigation techniques – Overview (Figures in SAR 000's)

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	116,796,817	2,482,419	1,530,940	1,685,579	595,310		
2	Debt Securities	28,215,198						
3	Total	145,012,015	2,482,419	1,530,940	1,685,579	595,310		
4	Of Which Defaulted	1,634,041	39,154	2,937				

The above table only includes collateral that is eligible for standardized RWA's calculation. The Bank has additional collateral for credit risk mitigation purposes that are not included in the above.

B.12 - Table CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period;

SABB has nominated three SAMA recognized External Credit Assessment Institutions (ECAIs) for this purpose – Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group. There are no changes over the reporting period.

(b) The asset classes for which each ECAI or ECA is used;

In accordance with the guideline issued by the local Regulator, ECAI risk assessments are used by the Bank as part of the determination of risk weightings for the following classes of exposure:

- Claims on sovereigns and their central banks;
- Claims on Multilateral Development Banks;
- Claims on Banks and Securities Firms; and
- Claims on corporates.

Credit ratings of all exposures are individually determined from the ECAIs and mapped to the exposures assigning a risk weight according to the supervisory tables.
The alignment of alphanumeric scales of each agency to risk buckets is as follows:

Moody's	Standard and Poor's	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA

Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
Caa3	CCC-	CCC-
Ca	CC	CC
C	C	C
WR	D	D
	NR	NR

Claims on sovereigns and their central banks

Credit Assessment	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Below B-**	**Unrated**
Risk Weight	0%	20%	50%	100%	150%	100%

Claims on Banks and Securities Firms (Under Option 2 as required by SAMA)

Credit Assessment	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Below B-**	**Unrated**

Risk Weight under option 2	20%	50%	50%	100%	150%	50%
Risk weight for short-term claims under Option - 2	20%	20%	20%	50%	150%	20%

Claims on Multilateral Development Banks

0% risk weight for qualifying MDB's as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for option# 2 for banks.

Claims on corporates

Credit Assessment	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**Below BB-**	**Unrated**
Risk Weight	20%	50%	100%	150%	100%

B.13: CR4 Standardised approach – Credit risk exposure and Credit Risk Mitigation (CRM) effects (Figures in SAR 000's)

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposure Post CCF and CRM		RWA and RWA density	
	Exposure Classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereigns and their central banks	40,806,927		40,806,927		151,205	0.4%
2	Non-central government public sector entities						
3	Multilateral development banks	2,263,490	57,398	2,263,490	574	104,925	4.6%
4	Banks	12,207,659	14,006,635	12,802,970	6,818,071	7,738,643	39.4%
5	Securities firms						
6	Corporates	98,559,612	102,912,745	96,436,299	31,487,032	123,160,784	96.3%
7	Regulatory retail portfolios	16,472,436	6,473,435	16,472,436	126	12,354,422	75.0%
8	Secured by residential property	10,203,858	7,658	10,203,858		10,203,858	100.0%
9	Secured by commercial real estate						
10	Equity	1,694,479		1,694,479		2,657,925	156.9%
11	Past-due loans	1,420,988		1,418,050		1,851,629	130.6%
12	Higher-risk categories		1,351		188	282	150.0%
13	Other assets	3,337,511		3,337,511		1,760,413	52.7%
14	**Total**	**186,966,960**	**123,459,222**	**185,436,020**	**38,305,991**	**159,984,086**	**71.5%**

B.14: CR5 Standardised approach – exposures by asset classes and risk weights (Figures in SAR 000's)

		a	b	c	d	e	f	g	h	i	j
	Exposure Classes/Risk Weight	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereigns and their central	40,580,057				151,331		75,539			40,806,927
2	Non-central government public sector entities (PSEs)										
3	Multilateral development banks (MDBs)	1,739,438		524,626							2,264,064
4	Banks			7,204,335		12,237,859		178,847			19,621,041
5	Securities firms										
6	Corporates			1,245,764		7,531,872		119,145,695			127,923,331
7	Regulatory retail portfolios						16,472,562				16,472,562
8	Secured by residential property							10,203,858			10,203,858
9	Secured by commercial real estate										
10	Equity							1,052,182		642,297	1,694,479
11	Past-due loans							550,893	867,157		1,418,050
12	Higher-risk categories								188		188
13	Other assets	1,444,680		247,115				1,640,040		5,676	3,337,511
14	**Total**	**43,764,175**		**9,221,841**		**19,921,061**	**16,472,562**	**132,847,055**	**867,345**	**647,973**	**223,742,011**

B.21 - Table CCRA: Qualitative disclosure related to counterparty credit risk

(a) Risk management objectives and policies related to counterparty credit risk, including:

Risk management objective is to identify, measure, manage and govern counterparty credit risk aimed at efficiency in SABB's capital utilization through stringent monitoring propensity of counterparty to default.

(b) The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures;

The Standardised Approach for Counterparty Credit Risk (SA-CCR) is used for computing Exposure at Default (EAD). The EAD is converted to Risk Weighted Assets (RWA) by applying RWA percentages based on external ratings. The RWA includes a CVA component added to it. As of 31DEC16 SABB had limited use of Central Counterparty (CCP) exposure where again the EAD is computed using SA-CCR, however here the RWA percentage used for computing RWA is as applicable for recognized CCPs.

(c) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;

The exposures to counterparties are governed by the International Swaps & Derivatives Agreements (ISDA) along with Credit Support Annexe (CSA) to ISDA. With margining becoming compulsory we are signing CSA's to ISDA for margining covered counterparties. Hence netting wherever applicable and collateralization through margining is the primary credit mitigant. Corporate Guarantee or other form of guarantee support is not specific for counterparty credit risk but is stipulated for overall credit risk (that includes counterparty credit risk) if felt desirable for that overall risk profile.

(d) Policies with respect to wrong-way risk exposures;

Product Due Diligence (PDD) and its periodic review takes into consideration various risks of the product including Wrong Way Risk (WWR) before being introduced.

Further SABB's Markets Functional Instruction Manual (FIM) has defined General & Specific WWR. The WWR is currently under review.

(e) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade;

SABB is required to and places Variation Margin (VM) in the form of cash, to cover adverse Marked-to-Market (MTM) daily positions in respect of covered counterparties as required by the margining regulations. This placement of collateral (margin) is not dependent on ratings and hence in general a ratings downgrade would not require an increase in collateral placement.

B.22: CCR1 Analysis of counterparty credit risk (CCR) exposure by approach (Figures in SAR 000's)

		a	b	c	d	e	f
		Replacement Cost	**Potential Future Exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
1	SA-CCR (for derivatives) CEM*	721,912	1,110,537			1,832,448	1,300,366
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	**Total**					**1,832,448**	**1,300,366**

**CCR figures reported above are based on Current Exposure Method as SA-CCR methodology is applicable starting from 1st January 2017.*

B.23: CCR2 Credit Valuation Adjustment (CVA) capital charge (Figures in SAR 000's)

		a	b
		EAD post-CRM	**RWA**
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3×multiplier)		
2	(ii) Stressed VaR component (including the 3×multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	1,832,448	614,614
4	Total subject to the CVA capital charge	**1,832,448**	**614,614**

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B.24: CCR3 Standardised approach – CCR exposures by regulatory portfolio and risk weights (Figures in SAR 000's)

		a	b	c	d	e	f	g	h	i
	Regulatory portfolio/ Risk weight	**0%**	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures**
1	Sovereigns and their central banks									
2	Non-central government public sector entities (PSEs)									
3	Multilateral development banks (MDBs)									
4	Banks			138,156	825,300					**963,456**
5	Securities firms									
6	Corporates			823	3,000		865,168			**868,991**
7	Regulatory retail portfolios									
8	Other assets									
9	***Total***			**138,979**	**828,300**		**865,168**			**1,832,448**

B.26: CCR5 Composition of Collateral for CCR Exposure (Figures in SAR 000's)

		a	b	c	d	e	f
		Collateral used in derivative transactions				Collateral used in SFTs	
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash – domestic currency						
2	Cash – other currencies						
3	Domestic sovereign debt						
4	Other sovereign debt						
5	Government agency debt						
6	Corporate bonds						
7	Equity securities						
8	Other collateral						
9	**Total**						

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B.35 - Table MRA: Qualitative disclosure requirements related to market risk

(a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges;

Market Risk primary function is to protect revenues against inappropriate position taking, and to identify risks, surprises and protect SABB against significant losses.

Market Risk function provides control over Intra-day and EOD exposures in terms of PVBP, FX Stop loss, MTM limits, VaR, CS01 for both Banking and Trading Book. Market Risk mandates further stipulates Permitted Instruments and Product Maturities. These indicators are being monitored to ensure that the Banks is not over-exposed to adverse market movements. Market Risk monitoring is done on a daily basis and exposure reported to various forums, such as ALCO, RMC and BRC.

(b) Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management;

Bank-wide Trading Authority and Limits (TAL) approved for Market risk are allocated to the Treasurer (Level 1). These TAL are sub-allocated to Desk Heads at Level 2 (examples - Investment & Balance Sheet Management Desk, Trading desk for Foreign Currency Forex, Saudi Riyal, Derivatives & Rates and Sales Desk).

Further sub allocation of TAL is made to individual dealers at Level 3. Dealers need to take "Prior" approval for transactions from Desk Head in order to avoid limit breach. Desk Heads need to take prior approval from Market Risk Manager for all products outside their Desk limits and for all non-routine transactions prior to dealing in order to avoid limit mandate breaches. The Market Risk Manager Functions independent of Treasury business and reports directly in to Head of Wholesale Credit & Market Risk and through him further up the reporting lines into the Chief Risk Officer, Managing Director and Board Risk Committee.

(c) Scope and nature of risk reporting and/or measurement systems;

The MUREX system is used to monitor market risk limits and exposures. SABB is progressing with implementation in stages of MUREX for management of Treasury products including for full management of credit & market risk on these products. Hence VaR computation and subsequent requirements under the Fundamental Review of Trading Book (FRTB) will be conducted internally at SABB in MUREX when the system is fully implemented. The Murex system reports excesses on-line real time for both counterparty credit risk excesses and market risk excesses.

B.37: MR1 Market Risk under standardised approach (Figures in SAR 000's)

		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	515,588
2	Equity risk (general and specific)	
3	Foreign exchange risk	1,998,900
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	**2,514,488**

B.41 - Operational risk

(a) In addition to the general qualitative disclosure requirement (paragraph 824), the approach (as) for operational risk capital assessment for which the bank qualifies;

SABB follows the standardised approach in calculating its capital requirements. The business has been segmented according to Basel lines of business to determine the correct risk factors to apply. The capital requirements have been calculated by applying the SAMA designated beta factor on gross income (based on average of last 3 years) for each line of business

(b) Description of the advanced measurement approaches for operational risk (AMA), if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach;

AMA not applicable as SABB follows the Standardised Approach

(c) For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk;

AMA not applicable as SABB follows the Standardised Approach

B.42 - Interest rate risk in the banking book (IRRBB) (Figures in SAR 000's)

(a) Qualitative disclosure requirement of IRRBB;

Interest rate risk in the banking book (IRRBB) is defined as the exposure of the non-trading products of the bank to interest rates. Interest rate risk arises principally from mismatches between the future yield on assets and their funding costs, as a result of changes in interest rates.

Analysis of this risk is complicated by having to make assumptions on embedded optionality in products such as mortgage prepayments and from behavioural assumptions regarding the economic duration of assets and liabilities, which do not have contractual maturities and can be repaid or withdrawn by customers at any time without penalty.

The assumption and management of IRRBB can be an important source of profitability and shareholder value for SABB, hence its objective is to protect the balance sheet and earnings from adverse movements arising from various interest rate risk types.

SABB has an established risk management framework, and governance structure including risk appetite statements and stress testing processes through which the Bank manages the Interest Rate Risk in Banking Book. SABB manages the IRRBB risk by assigning limits based on a Present Value Basis Point basis at an absolute level and across maturity bands.

Stress testing and sensitivity analysis is also carried out and results reported to ALCO on a monthly basis.

SABB Treasury seeks to manage the impact of interest rate risk on net interest income in so far as such hedging is possible and cost effective to undertake.

SABB is in the process of implementing the new rules for computing IRRBB, hence methodology for computing key assumptions is underway. These rules come into force from January 2018.

(b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant);

200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities	
Rate Shocks	**Change in earnings**
SAR -200bp	(950,544)
SAR -200bp	(91,223)
SAR +200bp	950,544
SAR +200bp	91,223

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APPENDIX: TABLES AND TEMPLATES ARE CURRENT NOT APPLICABLE FOR SABB

	Tables and templates	Template ref. #
Credit risk	CRE - Qualitative disclosures related to IRB models	B.15
	CR6 - IRB - Credit risk exposures by portfolio and PD range	B.16
	CR7 - IRB - Effect on RWA of credit derivatives used as CRM techniques	B.17
	CR8 - RWA flow statements of credit risk exposures under IRB	B.18
	CR9 - IRB - Backtesting of probability of default (PD) per portfolio	B.19
	CR10 - IRB (specialised lending and equities under the simple risk weight method)	B.20
Counterparty credit risk	CCR4 - IRB - CCR exposures by portfolio and PD scale	B.25
	CCR6 - Credit derivatives exposures	B.27
	CCR7 - RWA flow statements of CCR exposures under the Internal Model Method (IMM)	B.28
	CCR8 - Exposures to central counterparties	B.29
Securitisation	SECA - Qualitative disclosure requirements related to securitisation exposures	B.30
	SEC1 - Securitisation exposures in the banking book	B.31
	SEC2 - Securitisation exposures in the trading book	B.32
	SEC3 - Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor	B.33
	SEC4 - Securitisation exposures in the banking book and associated capital requirements - bank acting as investor	B.34
Market risk	MRB - Qualitative disclosures for banks using the Internal Models Approach (IMA)	B.36
	MR2 - RWA flow statements of market risk exposures under an IMA	B.38
	MR3 - IMA values for trading portfolios	B.39
	MR4 - Comparison of VaR estimates with gains/losses	B.40

Basel III Qualitative and Quantitative Pillar 3 Disclosures Policy:

To assure compliance with the requirements of the guidance issued by SAMA dated 9 July 2015, SABB has created Basel III Pillar 3 Disclosures Policy which approved by the Board.