The Saudi British Bank

# Annual Report and Accounts 2015

بسم الله الرحمن الرحيم

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**This report is issued by SABB (The Saudi British Bank)**

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Custodian of The Two Holy Mosques

**King Salman bin Abdulaziz Al Saud**

His Royal Highness

**Prince Mohamed bin Naif bin Abdulaziz Al Saud,**

Crown Prince, Deputy Prime Minister and Minister of Interior
Chairman of the Council of Political and Security Affairs

His Royal Highness

**Prince Mohamed bin Salman bin Abdulaziz Al Saud,**

Deputy Crown Prince, Second Deputy Prime Minister and Minister of Defense
Chairman of the Council of Economic and Development Affairs

## Board of Directors

Chairman
Khaled Suliman Olayan

David Dew

Sulaiman Abdulkader
Al Muhaidib

Ahmed Suliman
Banajah

Khalid Abdullah
Al Molhem

Mohammad Mazyed
Al Tuwaijri

Mohammed Omran
Al Omran

Nigel Hinshelwood

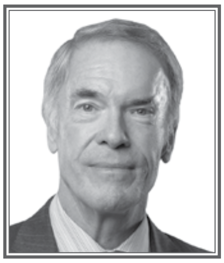
Saad Abdulmohsen
Al Fadly

Martin Spurling

# Senior Management

**David Dew**
Managing Director

**Naif Alabdulkareem**
General Manager, Retail Banking and Wealth Management



**David Kenney**
Chief Risk Officer

**Majid Al Gwaiz**
General Manager, Commercial Banking

**Fahad Al Saif**
General Manager, Global Banking and Markets

**Ahmed Al Sudais**
General Manager, Human Resources

**Saad Al Khalb**
Chief Operating Officer

**Craig Bell**
Chief Financial Officer

**Mohammed Al Obaid**
Company Secretary

**Saleh Al Motawa**
Treasurer

**Hussain Al Yami**
Chief Internal Auditor

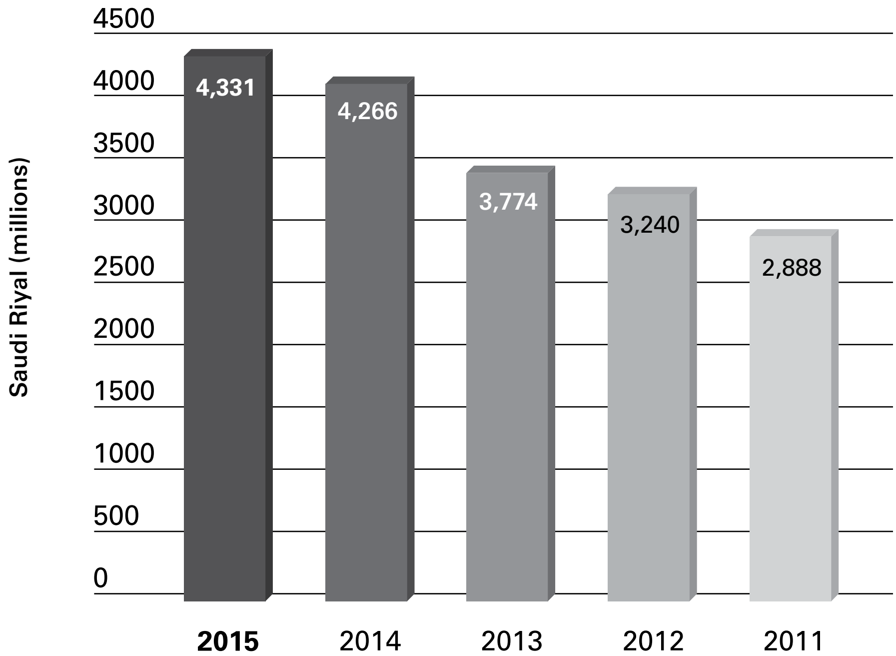
**Sami Al Muhaid**
Chief Compliance Officer

# Financial Highlights

## Five-year financial highlights

| Saudi Riyal (millions) | Year | | | | |
| --- | --- | --- | --- | --- | --- |
| | **2015** | **2014** | **2013** | **2012** | **2011** |
| Customer Deposits | **148,639** | 145,870 | 138,961 | 120,434 | 105,577 |
| Shareholders' Equity | **28,175** | 26,071 | 22,833 | 20,066 | 17,166 |
| Investments, Net | **35,426** | 45,281 | 37,400 | 27,587 | 22,200 |
| Loans and Advances, Net | **125,424** | 115,221 | 106,115 | 96,098 | 84,811 |
| Total Assets | **187,750** | 187,609 | 177,302 | 156,652 | 138,658 |
| Net Income | **4,331** | 4,266 | 3,774 | 3,240 | 2,888 |
| Gross Dividend | **1,245** | 1,150 | 1,100 | 1,000 | 563 |

## Net income



# Chairman's Statement

It gives me great pleasure on behalf of the Board of Directors to present to you the Annual Report of the Saudi British Bank for the financial year ending 31st December 2015.

The Bank has had another successful year in which it has seen further profit growth to SAR4,331 million, 1.5% over the figure for 2014. This increase is due to a rise in net special commission, a gain on a non-trading investment and an increase in a share of the earnings of a joint venture and an associate. Earnings per share were SAR2.89 at the end of 2015 as compared to SAR2.84 a year earlier. These results are most pleasing given the challenging global economic environment and difficult operating circumstances that prevailed throughout much of the year. Nevertheless they reflect the detailed and professional attention given to the ever increasing demands of its sophisticated customers and its dedicated application of the highest professional standards that pertain to all participants in the international banking environment.

SABB is a well-diversified financial services business with a wide range of activities and income streams. To sustain its role at the forefront of banking in Saudi Arabia the Bank has continued to invest in its core business infrastructure, including the creation, renovation or relocation of branches, the introduction of more ATM machines and the on-going up-grading of its electronic services, whilst constantly evaluating new and innovative traditional and Islamically-acceptable products and services.

The Bank's achievements during the year would not have been possible without the loyal support of its highly professional management and staff across the business who are undoubtedly among the best in the Kingdom's banking sector. During the year close attention continued to be paid to the provision of the highest quality training to all levels of management and staff throughout the Bank in order to develop yet further the capability of each and every member of the team, whilst also ensuring the provision of a defined career path for every individual. Particularly pleasing has been the continued rise in the employment of Saudi nationals, a figure of more than 90% having now been attained, and the growing numbers of Saudi females now employed, who represent nearly 20% of the workforce.

As a leading publicly-quoted Saudi financial institution full compliance with all the requirements of the Saudi Arabian Monetary Agency and the Capital Market Authority is wholly integral to our daily activities. The Bank gives close attention to the Basel III capital adequacy requirements and their application under the support and guidance of SAMA. Furthermore the Bank continues to abide by its core values and make a firm commitment to the principles of corporate governance as it seeks to perform all its activities ethically and transparently

Over many years SABB and its dedicated staff have maintained a strong commitment to all communities across Saudi Arabia as a wholly integral element of its corporate social responsibilities. Participation in many events and activities has again been a feature of the action taken over the past twelve months as the Bank has sought to provide support to those in need such as the blind, orphans, those burdened with ill-health and low income families. Gratifyingly, in fulfilling its social commitments in 2015, the Bank was honoured to receive recognition for providing the "Best Employment Programme for People with Special Needs in the Kingdom" by the Disabled Childern Association.

Ultimately, and together with the Board of Directors, it is a great pleasure to express thanks and gratitude to the Custodian of the Two Holy Mosques, HRH The Crown Prince and HRH The Second Deputy Prime Minister for their support and encouragement of the financial sector that is wholly integral to the national economic development of the Kingdom. The Board also wishes to recognise the important role played by the Saudi government and its continued leadership and cooperation in taking the nation forward and in supporting all national banking institutions. In particular, thanks are due to the Ministries of Finance, Commerce and Industry, the Saudi Arabian Monetary Agency and the Capital Market Authority for working jointly and constructively with all Saudi banks to advance the best interests of the Kingdom. In conclusion, sincere thanks and appreciation are due to all SABB's stakeholders for their confidence and support and especially to all the Bank's hard-working management and staff for their loyalty and desire to attain yet further achievements in continuing to ensure SABB continues to be the leading financial institution in Saudi Arabia.

Khaled Suliman Olayan
Chairman

# Directors' Report

*The Board of Directors (the "Board") is pleased to submit to shareholders the Annual Report of The Saudi British Bank ("SABB") for the financial year ended 31st December 2015.*

## Introduction

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.

The Bank provides to its customers a complete set of conventional banking products and services which include current accounts, savings, time deposits, corporate credit facilities, consumer and mortgage loans, trade finance, cash and payments management, treasury and credit cards. The Bank also provides Shariah approved products, which are approved and supervised by an independent Shariah Board.

The Bank holds a 100% (2014:100%) ownership interest in a subsidiary, SABB Insurance Agency with a capital of SAR 500 thousand, a limited liability company registered and operating in the Kingdom under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has a 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The principal activity of the subsidiary is to act as sole insurance agent for SABB Takaful Company within the Kingdom as per the agreement between them. However, the Articles of Association enables the subsidiary to act as an agent to any other insurance company in the Kingdom.

The Bank holds a 100% (2014:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited with a capital of SAR 1 million, a limited liability company registered in the Kingdom under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). The Bank has a 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

The Bank holds a 100% (2014:100 %) ownership interest in a subsidiary, SABB Real Estate Company Limited with a capital of SAR 500 thousand, a limited liability company registered in the Kingdom under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). The Bank has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The main purpose of this subsidiary is the registration of real estate.

The Bank assures there are no shares or debt securities in issue for any of these three subsidiaries.

## Five-year financial highlights

| | Year | | | | |
|---|---|---|---|---|---|
| **Saudi Riyal (millions)** | **2015** | **2014** | **2013** | **2012** | **2011** |
| Customer Deposits | **148,639** | 145,870 | 138,961 | 120,434 | 105,577 |
| Shareholders' Equity | **28,175** | 26,071 | 22,833 | 20,066 | 17,166 |
| Investments, Net | **35,426** | 45,281 | 37,400 | 27,587 | 22,200 |
| Loans and Advances, Net | **125,424** | 115,221 | 106,115 | 96,098 | 84,811 |
| Total Assets | **187,750** | 187,609 | 177,302 | 156,652 | 138,658 |
| Net Income | **4,331** | 4,266 | 3,774 | 3,240 | 2,888 |
| Gross Dividend | **1,245** | 1,150 | 1,100 | 1,000 | 563 |

### Geographical Analysis of Income

The Bank generates its operating income from its activities in the Kingdom of Saudi Arabia and has no branches, subsidiaries or associates established or operating outside the Kingdom of Saudi Arabia. The following table shows the distribution of operating income in accordance with the geographical classification of the Kingdom's regions.

**Saudi Riyal Millions**

| Year | Central Province | Western Province | Eastern Province |
|---|---|---|---|
| 2015 G | 3,902 | 1,637 | 1,092 |

### Operating Segments

The Bank is organised into the following main operating segments:

**Retail Banking -** which caters mainly to the banking requirements of personal and private banking customers including deposits, current and savings accounts, personal finances and credit cards.

**Corporate Banking -** which caters mainly to the banking requirements of commercial and corporate banking customers including deposits, current accounts, loans, finances and other credit facilities.

**Treasury -** which caters mainly to capital markets, foreign currency transactions and trading in financial derivatives. It also caters to management of the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and managing the Bank's investment portfolio and statement of financial position.

**Others -** includes activities of the Bank's investment in a joint venture and an associate.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total operating income and expenses and the results for the year ended 31 December 2015, by business segments, are as follows:

| SAR '000 | Retail Banking | Corporate Banking | Treasury | Other | Total |
|---|---|---|---|---|---|
| Total Operating Income | **2,311,689** | **2,970,362** | **1,348,576** | **-** | **6,630,627** |
| Total Operating Expenses | **1,465,074** | **829,361** | **135,990** | **-** | **2,430,425** |
| Share in Earnings of a Joint Venture and an Associate | **-** | **-** | **-** | **130,345** | **130,345** |
| Net Income | **846,615** | **2,141,001** | **1,212,586** | **130,345** | **4,330,547** |

The Bank's share in earnings of investment in a joint venture and an associate represents shares in the profits of the following companies:

**HSBC Saudi Arabia Limited**

SABB owns 51% (2014:51%) of the shares of HSBC Saudi Arabia Limited, a joint venture with HSBC. HSBC Saudi Arabia has a paid up capital of SAR 500 million. SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

**SABB Takaful**

SABB owns 32.5% (2014:32.5%) of the shares of SABB Takaful, a Saudi Joint Stock Company with a paid up capital of SAR 340 million. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 31 December 2015 is SAR 363.4 million (2014: SAR 346.9. million).

# Directors' Report (continued)

## Profits

SABB recorded a net profit of SAR 4,331 million for the year ended 31 December 2015. This is an increase of SAR 64 million or 1.5% compared to SAR 4,266 million for the year ended 2014. The increase is due mainly to an increase in net special commission income of SAR 191 million, an increase in gain on non-trading investment of SAR 59 million, an increase in share in earnings of a joint venture and an associate of SAR 21 million. These increases were partially offset by a decrease in fee and commission income of SAR 95 million, an increase in the total operating expenses of SAR 85 million and a decrease in dividend income SAR 28 million. Earnings per share were SAR 2.89 for the year ended 31 December 2015 as against SAR 2.84 for 2014 (adjusted for the bonus share issue of 1 for 2 shares in 2015).

Total assets were SAR 187.8 billion at 31 December 2015, compared with SAR 187.6 billion at 31 December 2014, an increase of 0.1% or SAR 0.2 billion. Customer deposits totalled SAR 148.6 billion at 31 December 2015 – an increase of SAR 2.8 billion, or 1.9%, compared with SAR 145.9 billion at 31 December 2014. Loans and advances to customers amounted to SAR 125.4 billion at 31 December 2015 – an increase of SAR 10.2 billion, or 8.9%, from SAR 115.2 billion at 31 December 2014.The bank's investment portfolio totalled SAR 35.4 billion at 31 December 2015, an decrease of SAR 9.9 billion or 21.8% compared with SAR 45.3 billion at 31 December 2014.

## Cash Dividend and Bonus Share Issue

In accordance with the Bank's Articles of Association and the SABB Governance Document, the Bank's dividend distribution policy is in compliance with the provisions of the Banking Control Law. The annual net income of the Bank is distributed as follows:

1. Amounts for payment of Zakat payable by Saudi shareholders and the tax payable by the non-Saudi partner, will be calculated and allocated in line with the rules and regulations in force in the Kingdom of Saudi Arabia. The Bank will pay such amounts from the net income distributed to these parties.

2. 25% of the net income is transferred to statutory reserves until this reserve equals at least the paid up share capital of the Bank.

3. Based on the recommendation of the Board and the approval of shareholders at the Ordinary General Meeting dividends will be paid to shareholders in accordance with the number of shares held by each shareholder.

4. Undistributed net income is carried forward as retained earnings or transferred to statutory reserve.

The Extra-Ordinary General Meeting of the Bank, which was held on 11 March 2015, approved the proposal of the Board to distribute a cash dividend for the financial year 2014 to all shareholders registered on the Bank's shareholders records at the Securities Depository Centre (TADAWUL) as at the end of trading on the day of holding the meeting amounting to SAR 1,150 million (gross) at the rate of SAR 1.15 per share. A dividend of SAR1.05 per share (representing 10.5% of the nominal value of each share), net of zakat was paid to Saudi shareholders on 18 March 2015.

The Bank proposed cash dividends to shareholders for the first half of the year 2015, amounting to SAR 675 million (gross) at the rate of SAR 0.45 per share. Eligibility to such dividends is for the shareholders registered on the Bank's shareholder records at the Securities Depository Centre (TADAWUL) as at the end of trading on Wednesday 28 Ramadan 1436 (15 July 2015). A dividend of SAR 0.40 per share (representing 4% of the nominal value of each share), net of zakat was paid to Saudi shareholders on 12 August 2015.

With regard to the distributable profits proposed for the second half of the year ending 31 December 2015, the Bank announced on 27 December 2015 that the Board has recommended to the Ordinary General Meeting of the Bank scheduled for 29 March 2016 the distribution of cash dividends to shareholders for the second half of the year 2015 amounting to SAR 570 million (gross) at the rate of SAR 0.38 per share. Eligibility for such dividends will be for the shareholders registered on the Bank's shareholders records at the Securities Depository Centre (TADAWUL) as at the end of trading on the General Meeting day. A dividend of SAR 0.35 per share (representing 3.5% of the nominal value of each share), net of Zakat will be distributed to Saudi shareholders.

Accordingly, total dividends paid or proposed for the financial year ending 31 December 2015 amounted to SAR 1,245 million (gross) at the rate of SAR 0.83 per share. The total distribution to Saudi shareholders after deducting Zakat is SAR 0.75 per share (representing 7.50% of the nominal value of each share).

The Board has recommended the distribution of profits as follows:

| | SAR '000 |
|---|---|
| Net Income 2015 | 4,330,547 |
| Retained earnings from the previous year | 5,858,579 |
| **Total** | **10,189,126** |
| **Distributed as follows:** | |
| Transferred to share capital | 2,500,000 |
| Transferred to statutory reserves | 1,082,637 |
| Zakat and Income Tax | 405,200 |
| Paid / Proposed dividend, net | 839,800 |
| **Retained earnings for 2015** | **5,361,489** |

**Bonus shares issued**

During the year 2015, the Bank issued bonus shares of 500 million with a nominal value of SAR 10 each on the basis of one bonus share for every two shares held.

**Extra-Ordinary General Meeting**

As per regulatory guidelines, SABB's Extra-Ordinary General Meeting was held at 16:00 PM, Wednesday 20 Jumada I, 1436H, corresponding to 11 March 2015 which was held at SABB's Head Office, Prince Abdulaziz Bin Jalawi Street in Riyadh and approved the following resolutions which were published on Tadawul website on 12 March 2015 as well as on the Bank's website:

First: Approve the Board report to shareholders on the Bank's activities during the year ending 31 December 2014.

Second: Approve the Balance Sheet as at 31 December 2014, auditors report and the Profit & Loss Account for the year ending on the same date.

Third: Relieve the directors from their liability for the period commending 01 January 2014 to 31 December 2014.

Fourth: Approve the Board's recommendation to distribute cash dividends to shareholders for the fiscal year ending 31 December 2014, of a total amount of SAR 1,150 million (gross) at the rate of 1.15 per share. This represented a net dividend to Saudi Shareholders , after the deduction of zakat of SAR 1.05 which equals to 10.50% of the nominal value of each share. Approve the appointment of KPMG AlFozan & Al Sadhan and Ernst & Young, as auditors for the Bank's financial and quarterly results for the year 2015 as per the nomination of the Audit Committee and the fixing of their fees.

Fifth: Approve the remuneration and compensation paid to the directors for their directorship and management as included in the Directors Report for the period from 1 January 2014 to 31 December 2014.

Sixth: Approve amendment of Audit Committee terms of reference in order to cope with the requirements of the regulatory authorities.

Seventh: Approve the appointment of Mr. Saad Abdulmohsen Al Fadly as Non-executive director to succeed Mr. Mohammed Bin Abdulrahman Al Samhan, effective from 1 April 2014 to the end of present board term on 31 December 2016.

Eighth: Approve the increase of the Bank's capital by 50% from SAR 10,000 million to SAR 15,000 million through capitalisation of retained earnings (SAR2,500 million) and statutory reserves (SAR2,500 million) and the issuance of one bonus share for every two shares held by Shareholders registered on the Bank's shareholders records at the Securities Depository Centre (TADAWUL) as at the end of trading on 20 Jumada I, 1436 H (11 March 2015) so that the Bank's capital shall become SAR 15,000 million divided into 1,500 million shares of a nominal value of SAR 10 each.

## Directors' Report (continued)

The bonus shares were credited to the investment portfolios of shareholders on 12 March 2015, while share fractions resulting from the capital increase sold and the proceeds credited to shareholders' bank accounts linked to their portfolios effective 01 April 2015.

Ninth: Approve amendment of Article (6) of the Bank's Articles of Association to reflect the capital increase.

Statutory Payments

Statutory payments payable by the Bank during 2015 as a whole consists of Zakat payable by Saudi shareholders, tax payable by the foreign partner, and the amounts payable to The General Organization for Social Insurance (GOSI) which represent staff insurance contributions.

The statutory payments for the year 2015 were as follows:

| | **SAR '000** |
|---|---|
| Zakat attributable to the Saudi shareholders for the year 2015 | 64,800 |
| Income tax attributable to the share of the non-Saudi shareholders for the year 2015 | 340,400 |
| GOSI payments | 108,148 |
| Other payments | 2,518 |

**Related Party Transactions**

Managerial and specialised expertise is provided under a Technical Services Agreement with the parent company of one of the shareholders, HSBC Holdings BV. This agreement was renewed on 30 September 2012G for a period of five years.

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. Such related party transactions are governed by limits set by the Banking Control Law and the regulations issued by the Saudi Arabian Monetary Agency (SAMA).

The year end balances included in the consolidated financial statements resulting from such transactions are as follows:

| | **As at 31 December 2015** |
|---|---|
| The HSBC Group: | **SAR '000** |
| Due from banks and other financial institutions | 7,007,693 |
| Investments | 943,556 |
| Other assets | 13,468 |
| Derivatives (at fair value) | (99,846) |
| Due to banks and other financial institutions | 738,502 |
| Other liabilities | 8,355 |
| Commitments and contingencies | 1,673,929 |

The above investments include investments in a joint venture and associate, amounting to SAR 693.2 million.

Directors, Audit Committee, Other Major Shareholders and their Affiliates:

| | **As at 31 December 2015** |
|---|---|
| | **SAR '000** |
| Loans and advances | 3,009,582 |
| Customers' deposits | 8,802,798 |
| Derivatives (at fair value) | 23,474 |
| Commitments and contingencies | 224,345 |

Note: Shareholders holding more than 5% of the Bank's paid-up capital are classified as major shareholders

| | **As at 31 December 2015** |
|---|---|
| Related Mutual Funds | **SAR '000** |
| Loans and advances | 7,068 |
| Customers' deposits | 697,514 |

Following is the analysis of income and expenditure pertaining to transactions with related parties included in the consolidated financial statements for the year ended 31 December 2015.

| **Item** | **SAR '000** |
|---|---|
| Special commission income | 94,372 |
| Special commission expense | (148,660) |
| Fees and commission income | 47,653 |
| Service charges paid to HSBC group | 39,384 |
| Profit share arrangement relating to investment banking activities | (2,340) |
| Share in earnings of associates | 130,345 |
| Directors' remuneration | 2,995 |

The total amount of compensation paid to key management personnel during the year ended 31 December 2015 as follows:

| **Item** | **SAR '000** |
|---|---|
| Short-term employee benefits (Salaries and allowances) | 36,749 |
| Employment termination benefits | 687 |

Key management personnel are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2015.

# Directors' Report (continued)

### Debt securities in issue

In line with the bank's continued efforts to enhance its capital adequacy position, diversification of sources of funds and reducing its asset-liability maturity mismatch, the bank has issued the following debt securities:

| | As at 31 December 2015 |
|---|---|
| | SAR '000 |
| SAR 1,500 million 5 year subordinated Sukuk - 2012 | 1,500,000 |
| SAR 1,500 million 7 year subordinated Sukuk - 2013 | 1,500,000 |
| SAR 1,500 million 10 year subordinated Sukuk- 2015 | 1,500,000 |
| Total | 4,500,000 |

### SAR 1,500 million 5 year subordinated Sukuk - 2012

The Sukuk was issued by SABB on 28 March 2012 and matures in March 2017. The Sukuk was issued as a partial commercial exchange from senior to subordinated debt to the extent of SAR 1,000 million. The remaining portion of SAR 500 million was fully subscribed in cash.

The Sukuk carries effective special commission income at three months' SAIBOR (Saudi Arabia Interbank Offered Rate) plus 120 bps payable quarterly. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

### SAR 1,500 million 7 year subordinated Sukuk - 2013

The Sukuk was issued by SABB on 17 December 2013 and matures in December 2020. This is a Basel compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SAIBOR plus 140 bps payable semi-annually. The Sukuk is unsecured and is listed on Tadawul.

### SAR 1,500 million 10 year subordinated Sukuk -201

The Sukuk was issued by SABB on 28 May 2015 and matures in May 2025. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SAIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is listed on Tadawul.

**Borrowings**

This represents a 12 year amortising fixed rate loan from International Finance Corporation that carries special commission at the rate of 5.11% payable semi-annually. The loan was taken on 7 July 2005 and is repayable by 15 June 2017. The table below sets out the its maturity profile.

| Payment Date | Payment Amounts | Outstanding Balance |
|---|---|---|
| Balance as at 31 December 2015 | | 46,875 |
| 15 June 2016 | 15,625 | 31,250 |
| 15 December 2016 | 15,625 | 15,625 |
| 15 June 2017 | 15,625 | - |

**Directors' and Senior Executives' Remuneration**:

The compensation paid to members of the Board of Directors of the Bank or members from outside the Board is determined in accordance with the frameworks set by the instructions issued by the supervisory authorities, and governed by prime principles of governance of banks operating in the Kingdom and the compensation regulations issued by SAMA, the Corporate Governance Regulation issued by the Capital Market Authority of Saudi Arabia (CMA) the provisions of the Companies Law, the Articles of Association of SABB; the SABB Governance Manual and SABB's Compensation Policy.

Directors' fees for their membership of the Board and participation in the Banks' operations, during 2015 amounted to SAR 2,995,000 including SAR 315,000 in attendance fees at Board meetings and Board Committees, namely: Executive Committee, Audit Committee, Nomination and Remuneration Committee and Board Risk Committee. The following table shows details of remuneration paid to Board and Committee members and senior executives of the Bank during the year:

| 2015<br>SAR' 000 | Executive Board Members | Non-Executive Board Members | Independent Board Members | Detailed remuneration elements for the six executives who have received the highest compensation from the Bank. The MGD and CFO are included as required | Detailed remuneration elements for the senior executives whose appointment requires SAMA no objection |
|---|---|---|---|---|---|
| Salaries and Remuneration | 2,432 | 1,489 | 1,506 | 8,042 | 18,271 |
| Allowances | 203 | - | - | 2,610 | 7,210 |
| Annual and Periodic Bonuses | 3,832 | - | - | 15,652 | 20,797 |
| Any Remuneration or other benefits in kind paid monthly or annually | 500 | - | - | 1,081 | 2,180 |

## Directors' Report (continued)

**Staff Benefits and Schemes**

An annual independent review of the Bank's compensation structure was conducted by an external consultant and submitted to the Nomination and Remuneration Committee for consideration and then together with a management report to SAMA. This comes in line with the guidelines issued by SAMA and the Financial Stability Board (FSB).

During the second half of 2014, SABB conducted a comprehensive study and an assessment on every aspect of benefits and compensation offered to all SABB employees of all career bands. The study also looked at best practices in the labour market to identify the areas of improvement. As a result, a number of existing benefits were enhanced and new benefits were introduced. Implementation of these benefits took place during October 2014 – January 2015.

Accordingly, the major changes in benefits were reflected on the Compensation Policy during the annual compensation policy review as per the "Corporate Governance Principles for Banks" issued on October 2014 by the Basel Committee on Banking supervision.

According to the Labour Law of The Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefit is due for payment at the end of an employee's period of service. The end of service benefit outstanding at the end of 2015 amounted to SAR 382.4 million.

The Bank operates three equity schemes for certain employees. The scheme reflects the number of committed shares for performance years 2012, 2013, 2014 as of 31 December 2015 with a total market value of SAR 16,046,687.

**Board of Directors' Assurance**

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

- The Bank's books of account were properly prepared
- The Bank's internal control system is effective
- It has no evidence that suggests the Bank's inability to continue as a going concern
- There is no contract the Bank is part of, where or when there were substantial interests for one of the Board Members, Managing Director, Chief Financial Officer or any person who has a relationship with them, except for that which is mentioned in the Related Party Transactions in this report

As indicated in their audit report, the Bank's auditors, for the purpose of their review of the financial statements, have considered internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to enable them to design audit procedures which are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. The auditors have reported to the Board certain deficiencies or recommendations arising from this exercise. In the Board's opinion these items do not constitute material weaknesses. The auditors have issued an unqualified audit report on the financial statements of the Bank.

## Accounting Standards

The consolidated financial statements have been prepared in accordance with the accounting standards for financial institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS) and also comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association. There has been no major deviation in the international financial reporting standards being applied at SABB against the Saudi Organisation for Public Accountants (SOCPA) accounting standards during the financial year ended 31 December 2015.

## Appointment of External Auditors

The General Assembly Meeting of the Bank held on 11 March 2015, endorsed the selection of both KPMG Al Fozan & Al Sadhan and Ernst & Young as external auditors from among the candidates and according to the recommendation of the Audit Committee, to audit the Bank's annual financial statements and quarterly interim condensed financial statements for the year ended 31 December 2015 and the determination of their audit fees.

## Basel III

Basel III is an international business standard and is intended to strengthen risk management practices and processes within financial institutions stipulating a minimum regulatory capital requirement given the risk profile of the institution. The standards have been adopted by SAMA.

Basel III builds upon and enhances the regulatory framework adopted by Basel II and Basel II.5, which now form integral parts of the Basel III framework.

The final Basel III capital reforms framework has been issued by SAMA with an implementation date effective from 1 January 2013.

The Basel framework consists of three mutually reinforcing pillars which, acting together, are intended to contribute to enforcing soundness in the financial systems:

Pillar 1: refers to Minimum Capital Requirements relating to Credit risk, Operational risk and Market risk

Pillar 2: refers to SAMA's supervisory review of SABB's Internal Capital Adequacy Assessment Process (ICAAP)

Pillar 3: refers to Market Discipline through public disclosures

ICAAP is designed to capture capital requirements under stressed scenarios as well as capital for Pillar 2 risks. Pillar 2 risks refer to risks not captured under Pillar 1, for example, Concentration risk.

SABB's ICAAP is a comprehensive document designed to evaluate the Bank's risk profile, the processes for identifying,

## Directors' Report (continued)

measuring and controlling risk, and its capital requirements and resources. It reflects a conservative and realistic approach to the assessment of SABB's current and planned capital requirements on a fully consolidated basis, based on the Basel II Pillar II framework and the expected profile of the Bank.

SABB's ICAAP is in line with guidance issued by SAMA and is updated on an annual basis.

The Basel disclosures have been prepared in accordance with the Basel III rules issued by SAMA in Dec 2012.

The Basel III rules set out a minimum common equity Tier 1 ratio of 7%, including a capital conservation buffer; any additional countercyclical buffer requirements will be phased in starting in 2016 to a maximum of 2.5%. In addition, all classes of capital instruments to be included in the regulatory capital from 1 January 2013 must fully absorb losses at the point of non-viability before taxpayers are exposed to losses. The capital treatment of securities issued prior to this date will be phased over a 10 year period commencing from 1 January 2013.

SAMA has also issued final liquidity guidelines on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR and NSFR become a minimum standard from 1 Jan 2015 and 1 Jan 2016 respectively.

SABB is well positioned to respond to the capital and liquidity requirements imposed by Basel III.

During 2016, SABB will continue participating in SAMA working groups on the various aspects of Basel III to facilitate a smooth implementation of the rules within Saudi Arabia.

**Credit Rating**

During 2015, following the downgrade by Standard and Poors (S&P) on 31 October 2015 in the sovereign rating of Saudi Arabia from AA- to A+ with a negative outlook, both S&P and Fitch have reviewed the Saudi Banking industry ratings with some banks being downgraded and others placed on negative watch. SABB has seen its rating affirmed by S&P A/A-1' long- and short-term counter-party credit rating and by Fitch A/F1 long- and short-term counter-party credit rating. Outlook on SABB has changed to negative from stable by S&P and Fitch.

On 17th February 2016 S&P downgraded the sovereign rating of Saudi Arabia from A+ to A- with a stable outlook.

SABB's credit ratings affirmation reflect SABB's financial strengths, consistently strong profitability and earnings generation, comfortable liquidity, and strong franchise with an outlook consistent with the Sovereign.

**Arrangements for Directors' or Senior Executives' waiver of salaries or remuneration:**

The Bank is not aware of information on any arrangements or agreements for the waiver by any director of the Board or any senior executive of any salaries, awards or remuneration.

**Arrangements for shareholders' waiver of rights to dividends:**

The Bank is not aware of any information on any arrangements or agreements for the waiver by any shareholder of the Bank of any of their rights to dividends.

**Notification Relating to Substantial Shareholdings (*):**

During the year, the Bank did not receive any notification from shareholders or relevant persons with regard to the change in their ownership of the Bank's shares in accordance with the disclosure requirements of the Listing Rules issued by the Capital Market Authority. Below are schedules of share ownership of major shareholders, Directors of the Board and Senior Executives or their spouses and minor children in shares or equity:

**Description of any interest, option rights and subscription rights of major shareholders**

| Major Shareholders | | | | |
|---|---|---|---|---|
| Name of stakeholder* | No. of Shares at the beginning of the year 01/01/2015 | No. of Shares at year-end 31/12/2015* | Net Change during the year | |
| | | | No. of Shares | % |
| HSBC Holdings BV | 400,000,000 | 600,000,000 | 200,000,000 | 50% |
| Olayan Saudi Investment Company Ltd. | 169,828,435 | 254,567,500 | 84,739,065 | 49.9% |
| General Organization for Social Insurance | 97,416,959 | 146,125,438 | 48,708,479 | 50% |
| Abdulkader Al-Muhaidib and Sons Company | 50,009,026 | 75,013,539 | 25,004,513 | 50% |

**Description of any interest, option rights and subscription rights of Directors of the Board and their wives and minor children:**

| Directors of the Board and their wives and minor children | | | | |
|---|---|---|---|---|
| Name of stakeholder | No. of Shares at the beginning of the year 01/01/2015 | No. of Shares at year-end 31/12/2015* | Net Change during the year | |
| | | | No. of Shares | % |
| Khaled Suliman Saleh Al-Olayan | 5,000 | 7,500 | 2,500 | 50% |
| Khalid Abdullah Abdulaziz Al-Molhem | 35,413 | 53,119 | 17,706 | 50% |
| Sulaiman Abdulkader Abdulmohsen Al-Muhaidib and family members | 82,493 | 123,739 | 41,246 | 50% |
| Mohammed Omran Mohammed Al Omran and family members | 9,373,693 | 14,060,540 | 4,686,847 | 50% |
| Ahmed Suliman Banajah and family members | 25,666 | 38,499 | 12,833 | 50% |
| Saad Abdulmohsen Al Fadly (representing GOSI) | 1,000 | 1,000 | - | 0% |
| David Robert Dew | 1,000 | 1,000 | - | 0% |
| Martin David Spurling (Representing HSBC Group) | 1,000 | 1,000 | - | 0% |
| Mohammad Mazyed Mohammad Al-Tuwaijri (Representing HSBC Group) | 1,000 | 1,000 | - | 0% |
| Nigel Hinshelwood (Representing HSBC Group) | 1,000 | 1,000 | - | 0% |

## Directors' Report (continued)

**Description of any interest, option rights and subscription rights of senior executives and their wives and minor children:**

| Bank's Senior Executives, their Spouses and Minor Children | | | | |
|---|---|---|---|---|
| Name of stakeholder | No. of Shares at the beginning of the year 01/01/2015 | No. of Shares at year-end 31/12/2015* | Net Change during the year | |
| | | | No. of Shares | % |
| David Robert Dew | 1,000 | 1,000 | 0 | 0% |
| Saad Abdulaziz AlKhalb | 18,497 | 34,977 | 16,480 | 89.1% |
| Mohammed Ibrahim AlObaid | 0 | 18,000 | 18,000 | 100% |
| Craig Bell | 0 | 0 | 0 | 0% |
| Ian Macalester** | 0 | 0 | 0 | 0% |

* *The number of shares calculated on the basis of bonus shares resulted from capital increase from SAR 10 billion to SAR 15 billion at one share for every two shares held, divided into 1,500 million shares approved by the Extraordinary General Meeting held on 11/03/2015*

** *The employment of Mr Ian Macalester with the Bank ended on 23 March 2015, and was replaced by Mr Saad AlKhalb*

**Board of Directors and its Committees**

**Directors**

The Board of the Saudi British Bank comprises ten members, six of whom represent Saudi interests and are elected and appointed by the General Assembly of the Bank for three Gregorian years with the possibility of re-election. The other four members are appointed by the HSBC Holdings BV.

On 15 December 2013, The General Assembly of the Bank convened and elected the Directors of the Board representing the Saudi shareholders for a term of 3 years which commenced on 01 January 2014 and will end on 31 December 2016. The General Assembly approved the election and appointment of directors by way of accumulative voting.

There has been no change in the membership of the Board of Directors in 2015. Consequently, the Board of Directors as at 31 December 2015 comprised of the following members, whose membership was classified as per Article (2) of the Corporate Governance Regulations issued by the CMA's and SAMA's Corporate Governance Principles Document:

| Director’s Name | Membership Classification | Directorship of Joint Stock Companies other than SABB in his personal capacity or representing another corporate person |
|---|---|---|
| Mr. Khaled Suliman Olayan | Independent Director | • Al-Zamil Industrial Investment Company |
| Eng. Khalid Abdullah Al-Molhem | Independent Director | • King Abdullah Economic City<br>• United Electronics Company (Extra)<br>• Aseer Trading, Tourism and Manufacturing Co.<br>• Saudi White Cement |
| Mr. Mohammed Omran Al-Omran | Independent Director | • Credit Suisse (Saudi Arabia)<br>• Saudi Orex Lease Finance Company<br>• Al-Rajhi Cooperative Insurance Co. |
| Mr. Ahmed Suliman Banajah | Independent Director | • Saudi Economic and Development Co.<br>• SEDCO Capital<br>• Al-Faisaliah Group |
| Mr. Sulaiman Abdulkader Al Muhaidib | Non-Executive Director | • Abdul Kadir Al-Muhaidib & Sons Company (representing Sulaiman Al Muhaidib & Partners Company)<br>• Savola Group Company (representing Abdulkadir Al Muhaidib & Sons Co.)<br>• Middle East Paper Company (representing Abdulkadir Al Muhaidib & Sons Co.)<br>• Al-Marai Company (representing Savola Group Company)<br>• National Industrialization Company (Tasnee) (representing Abdulkadir Al Muhaidib & Sons Co.)<br>• Rafal Real-Estate Development Co.<br>• Al Oula Real Estate Development Company (representing Abdulkadir Al Muhaidib & Sons Co.)<br>• Arabian Company for Water and Power Development (ACWA Holding)<br>• Power & Water International Co. |
| Mr. Saad Abdulmohsen Al Fadly | Non-Executive Director Representing GOSI | |
| Mr. Nigel Grant Hinshelwood | Non-Executive Director Representing HSBC Group | |
| Mr. Martin David Spurling | Non-Executive Director Representing HSBC Group | |
| Mr. Mohammad Mazyed Mohammad Al Tuwaijri | Non-Executive Director Representing HSBC Group | |
| Mr. David Robert Dew | Executive Director Managing Director | |

# Directors' Report (continued)

## Board Meetings

In 2015, the Board of Directors of the Saudi British Bank ("SABB") held 4 meetings. The following table shows details of those meetings and the record of attendance of directors during the year:

| | Name | Meeting dates | | | |
|---|---|---|---|---|---|
| | | 11 March 2015 | 03 June 2015 | 09 September 2015 | 16 December 2015 |
| 1. | Mr. Khaled Suliman Olayan | ✓ | ✓ | ✓ | ✓ |
| 2. | Eng. Khalid Abdullah Al-Molhem | ✓ | ✓ | ✓ | ✓ |
| 3. | Mr. Sulaiman Abdulkader Al-Muhaidib | ✓ | ✓ | ✓ | ✓ |
| 4. | Mr. Mohammed Omran Al Omran | ✓ | ✓ | ✓ | ✓ |
| 5. | Mr. Saad Abdulmohsen Al Fadly | ✓ | ✓ | ✓ | ✓ |
| 6. | Mr. Ahmed Suliman Banajah | ✓ | ✓ | ✓ | ✓ |
| 7. | Mr. David Robert Dew | ✓ | ✓ | ✓ | ✓ |
| 8. | Mr. Mohammed Mezyad Al Tuwaijri | ✓ | ✓ | - | ✓ |
| 9. | Mr. Martin David Spurling | ✓ | ✓ | ✓ | ✓ |
| 10. | Mr. Nigel Grant Hinshelwood | ✓ | - | ✓ | ✓ |
| | Number of Attendees | 10 | 9 | 9 | 10 |
| | Percentage of Attendees | 100% | 90% | 90% | 100% |

The following table shows attendance at Board and Board Committees during the year 2015:

| | Name | BOARD | EXCOM | AUCOM | BRC | REMCO |
|---|---|---|---|---|---|---|
| 1. | Mr. Khaled Suliman Olayan | 4 | - | - | 4 | 3 |
| 2. | Engr. Khalid Abdullah Al-Molhem | 4 | 10 | - | 4 | - |
| 3. | Mr. Sulaiman Abdulkader AlMuhaidib | 4 | - | - | - | - |
| 4. | Mr. Mohammed Omran Al-Omran | 4 | 11 | - | 4 | 3 |
| 5. | Mr. Saad Abdulmohsen Al Fadly | 4 | 8 | 3 | - | - |
| 6. | Mr. Ahmed Suliman Banajah | 4 | - | 4 | - | 3 |
| 7. | Mr. David Robert Dew | 4 | 11 | - | - | - |
| 8. | Mr. Mohammed Mezyad Al Tuwaijri | 3 | 10 | - | 4 | - |
| 9. | Mr. Martin Spurling | 4 | - | - | - | - |
| 10. | Mr. Nigel Hinshelwood | 3 | - | - | - | - |
| 11. | Mr. Mohammed Mutlaq Al-Ammaj (*) | - | - | 4 | - | - |
| 12. | Mr. James Justin Yorke Madsen (*) | - | - | 4 | - | - |
| 13. | Mr. Talal Ahmed Al-Zamel (*) | - | - | 4 | - | - |
| 14. | Mr. Zaid Abdulrahman Al-Gwaiz (**) | - | - | - | - | 3 |

(*) The Audit Committee, as per its formation rules and terms of reference, consists of 5 members including 3 Non-Board members.

(**) The formation of the REMCO was adjusted to include one independent non-Board member

## Board Committees

In line with the regulatory requirements issued by the Supervisory Authorities, SABB's Articles of Association and SABB's Governance Document, which provide for the formation of an appropriate number of committees, depending on the Bank's size, needs and activity diversification, the Board formed four Board sub-committees, the membership and formation of which is described in the following sections.

### Executive Committee

The Executive Committee (EXCOM) is appointed by the Board in accordance with Article 26 of the Bank's Articles of Association and reports directly to the Board. The committee consists of the Managing Director (Chairman) and four other members selected from among the Directors.

The main task of this committee is to assist the Managing Director ("MGD") within the powers determined by the Board to deal with matters referred by the MGD or by the Board. The Board approved new revised terms of reference for the committee in May 2013, in addition, EXCOM reviews and considers all monthly reports submitted by different functional heads and business segments of the Bank and meets twelve times during the year.

The committee members as of 31 December 2015 were Mr. David Dew (Chairman); Engr. Khalid Abdullah Al Molhem; Mr. Mohammed Omran Al Omran; Mr. Mohammed Mezyad Al Tuwaijri; and Mr. Saad Abdulmohsen Al Fadly.

The Committee held 11 meetings during 2015.

### Audit Committee

SABB's Audit Committee (AUCOM) was formed in 1992 and as per the formation rules and terms of reference it consists of three to five members from within and outside the Board. The committee reports directly to the Board and meets four times during the year.

The committee supervises the Internal Audit Department, monitors the Bank's internal and external audit functions, reviews control weaknesses and system deficiencies, oversees the Compliance Function, monitors its effectiveness and reviews their submitted reports. It is also responsible for the review of interim and annual financial statements including compliance with accounting policies, and provides the Board with its comments and feedback. The committee reviews the audit reports and provides its recommendations thereon, and also recommends to the Board the appointment of the Bank's auditors, the fixing of their fees, reviewing the audit plan, following-up on the auditors' work and reviewing the bank's auditors' comments, whilst also approving any work beyond normal audit business.

In line with the Bank's plan to comply with corporate governance requirements, the terms of reference of the committee were revised and approved by the Board in December 2014 and endorsed by the AGM held on 11 March 2015.

The committee members, as of 31 December 2015 are Mr. Ahmed Suliman Banajah, Independent Board member (Chairman); Mr. Saad Abdulmohsen Al Fadly, Non-Executive Board member; and Mr. James Madsen, Mr. Mohammed Mutlaq Al Ammaj and Mr. Talal Ahmed Al Zamel, who are all Non-Board members.

The committee held 4 meetings during 2015.

# Directors' Report (continued)

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee (REMCO) was formed in 2009 and meets at least twice during the year. The committee consists of three to five members from within and outside the Board, who are appointed by the Board, and reports directly to the Board.

The committee recommends to the Board, nominations for Board membership in line with SABB Board membership policies and criteria as approved by the Board, annually reviews the skills and capabilities required of those suitable for Board membership including the time needed by a Board member for Board business, reviews the structure of the Board, evaluates the effectiveness thereof as well as of the members and committees and ensures the independence of independent members and the absence of potential conflicts of interest. It also reviews the scope and limits of SABB's governance in addition to drawing-up and approving the compensation and remuneration policies and schemes and submits necessary recommendations in that regard.

During 2015, the membership of REMCO was adjusted to include one independent non-Board member, Mr. Zaid Al-Gwaiz.

As of the end of 2015, the committee members are Mr. Mohammed Omran Al-Omran, Chairman; Mr. Khaled Suliman Olayan, Mr. Ahmed Suliman Banajah and Mr. Zaid Al-Gwaiz.

The committee held three meetings during 2015.

## Board Risk Committee

The Board Risk Committee (BRC) was formed by the Board in the second half of 2013 in line with SAMA's rules on Credit Risk Management, which require the formation of a committee to handle risk management affairs.

As per its terms of reference, the committee consists of three to five non-executive members of the Board and reports directly to the Board.

The committee meets four times a year and supervises and gives advice to the Board on all matters relating to high level risks pertinent to the Bank's business in addition to strategic direction of risks across SABB including the drawing up of a risk vision, prioritisation and supervision of principal initiatives and overseeing the execution of major transformational risk initiatives.

The Committee members are Engr. Khalid Abdullah Al-Molhem (Chairman), Mr. Khaled Suliman Olayan, member, Mr. Mohammed Omran Al-Omran, member and Mr. Mohammed Mezyad Al-Tuwaijri, member.

The committee held four meetings in 2015.

## Corporate Governance

SABB is aware of the immense effects associated with the adoption of Prudent Corporate Governance Principles and Standards and that such adoption will lead to observance of professional and ethical standards in all the Bank's dealings as well as transparency and disclosure which will contribute to the furthering and improvement of its efficiency and relations with all interested parties, be they staff, depositors or others. It is also believed that the adoption of this approach will enhance investors' confidence both in the Bank and in the Saudi banking industry, which in turn will reflect positively on the security, integrity and stability of the Banking Sector in the Kingdom.

SABB has also adopted the Accumulative Voting principle for the election and selection of Board members. To this effect, the Bank's Articles of Association were amended at the Extra-Ordinary General Meeting held on 13 March 2012. This approach was adopted in electing the Saudi directors on 15 December 2013.

In addition, the Bank issued a policy to regulate potential conflicts of interest of Board directors and senior executives as well as a policy that handles the disclosure mechanism and its requirements. The two policies were implemented after the Board's approval. The Bank, in its endeavour to enhance communication with its shareholders, pursued its initiative to urge shareholders who did not receive their dividends in the past to communicate with the bank to update their details and arrange for receipt of their rights.

The Bank's Articles of Association and the SABB Governance Document as approved by the Board provide for a shareholder's right to dividends, attendance at General Meetings, discussion, voting and the disposal of shares. In line with SABB's disclosure policy, the information relating to General Meetings, balance sheets, profit and loss accounts and the Board's annual report are provided to shareholders and published in the newspapers and on the Tadawul and Bank websites. In its endeavours to enhance its shareholders' awareness, the Bank issued Guidelines for Shareholders Rights at General Meetings, which are distributed to shareholders at such meetings.

In line with the provisions of the "Principles of Governance at Banks operating in KSA" document issued by SAMA that included a general framework of governance that banks operating in the Kingdom have to observe, and subsequent to the Bank's intention to comply with all contents of the said document, a comprehensive revision of the compliance system and applications adopted by SABB was made. Consequently an action plan with a time frame was laid down and discussed with SAMA which led to the full compliance of the Bank with all requirements included in the Principles document.

In its endeavour to meet the regulatory requirements stated in the Corporate Governance Regulations issued by the CMA, Principles of Governance issued by SAMA and best international and local practices, and to ensure fulfilment of such requirements in a documented frame and approach, the Bank has worked to conduct internal reviews to assess the Bank's compliance with governance requirements and the best practices.

As a result of such revisions, and at the directions of the Board and the Remuneration and Nomination Committee, governance policies and frameworks and terms of reference of Board committees were formulated and revised and a framework for training and evaluation of the efficiency of directors was designed so as to ensure full compliance with the regulatory requirements. SABB's Corporate Governance policies include the following:

**A) Policies and Procedures**

The Bank's executive management revised SABB's Governance Policies which were endorsed by the Board and which included the following:

1. SABB Disclosure Policy
2. SABB Conflict of Interests Policy
3. The Policies and Criteria for Selection of Board Directors and Committees
4. The policy regulating the relationship with stakeholders
5. The policy to regulate Related Parties' transactions
6. The Policy for Directors' Remuneration and Compensation.
7. The SABB Corporate Governance Document

**B) Terms of reference of Board Committees**

During the past few years, The Bank has prepared the terms of reference of all Board committees (EXCOM, REMCO, AUCOM and BRC) in line with the Principles of Governance, Membership Criteria, Banking Control Law, Corporate Governance Rules and Companies Act. SABB's Board endorsed the terms of reference of all Board committees, while the General Assembly Meeting has approved terms of reference of the AUCOM and REMCO as per the regulatory directives.

# Directors' Report (continued)

As per their terms of reference, all the Board committees must review their performance, status and terms of reference on an annual basis to ensure that the Committee is operating with utmost efficiency and in compliance with the regulatory requirements and to recommend any changes deemed appropriate for the Board's approval, and subsequently, the General Assembly Meeting's approval.

Apart from the amendments approved in the past period, the Board approved the amendment of Audit Committee terms of reference in December 2014, which were endorsed by the General Assembly Meeting held on 11 March 2015 as per the regulatory guidelines.

**C) Assessment of the efficiency of the Board, Directors and Board Committees**

In line with the regulatory requirements of the Governance Principles and Corporate Governance Rules, which stipulate that the Board should, on an annual basis, assess the efficiency of its members and the size of their contribution to its business individually and as a group, which also should cover the Board committees. Frameworks for the assessment of the efficiency and the contribution of the directors as individuals and as a group in the work of the board and Committees, were designed and the implementation commenced effective 2014. Also a framework was designed to evaluate the efficiency of Board committees and the work they have undertaken measured against the scope of their responsibilities.

**D) Board and Committee Members Training Programmes:**

In the Bank's endeavours to enhance the skills of the Board and Committee members in all aspects of the banking industry, direct and remote training programmes, which extend to 3 years, were designed. Such programmes, which commenced in 2014, cover all Board and Committee members.

Generally, SABB complies in form and content with all Corporate Governance guidelines included in the Corporate Governance Regulations issued by the CMA. This commitment has resulted in the inclusion of the compulsory requirements in the Bank's Articles of Association and the Terms of Reference of Board Committees as well as in the Internal Policies and Guidelines regulating the work of different Bank sectors. These include establishment of the rights of shareholders to purchase and own shares and to participate in General Meetings; the provision of all information that ensures shareholders can exercise their rights; the disclosure of financial and non-financial information and the complete observance of transparency requirements in line with the regulatory limits; and the definition of the liabilities of the Board of Directors and formation of its various committees under Terms of Reference that are in line with the Regulatory Guidelines.

In addition, the Bank is committed to observing the majority of the guidelines included in the Corporate Governance Regulations with the exception of the following:

| Article | Requirement | Reasons For Non-Compliance by the Bank |
|---|---|---|
| 3 | This Article provides for a number of requirements relating to shareholders' rights including the right to a share of the company's assets upon liquidation. | There is no explicit text in the Bank's Articles of Association which provides for this requirement; however Article (52) of the Articles of Association handles matters relating to the liquidation of the company and the procedures as provided for in the Companies Act. In addition, the Governance Policy approved by the Board of Directors provides for the right of shareholders to a part .of the Bank's assets upon liquidation |
| Item (d) of Article 6 | Investors who are judicial persons and who act on behalf of others - e.g. investment funds - shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of fundamental rights in relation to .their investments | The Bank is not entitled under any capacity to oblige any judicial investors who act on behalf of others to disclose .their voting policies |

**Penalties and Regulatory Restrictions:**

The Bank applies all banking laws, rules and regulations issued by the regulators in its day to day business. Through the establishment of three lines of defence it ensures that the application of regulations is robust and sustainable in all businesses and functions.

During the last two years, the bank has established a number of additional controls in the businesses through the implementation of the SABB International Standards (SIS) programme that ensures that all rules and regulations are adhered to in all lines of business, customers are treated fairly and that customer information is protected

In 2015, SABB was fined SAR 5,000 by SAMA and SAR 30,000 by the CMA for a minor breach of the investment regulations.

**Compliance with Regulatory and International Standards:**

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. Reporting directly to the Board Risk Committee is the Risk Management Committee (RMC) which in turn has established the Operational Risk and Internal Control Committee (ORICC) and Compliance Committee (CCM).RMC and ORICC meet monthly and CCM convenes quarterly. The Liquidity Management Committee (LMC) convenes at least monthly and reports to the Asset and Liability Committee (ALCO) which in turn reports to EXCOM. Both EXCOM and ALCO convene monthly.

Staff Awareness and development through trainings and attachments is a priority for SABB. All staff at induction are provided two-day classroom training covering compliance, AML, sanctions and security and fraud risk. Besides, all staff in high risk roles are given annual refresher training on AML, sanctions and compliance. As part of the SIS program, the bank has launched a number of training programmes through e-Learning covering operational risk and information security in addition to the afore-mentioned compliance related training programs.

SABB is also engaged in raising staff awareness through communications by way of internal emails and SMS on mobile phones.

**Statement on Internal Controls**

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 Internal Control System ensures quality of external and internal reporting, maintenance of proper records and processes, compliance with applicable laws and regulations, and internal policies with respect to conduct of business. However, the ultimate responsibility for a system of internal controls lies with the Board and the Internal Control System is designed to manage, rather than eliminate, the risk of failure to achieve SABB's strategic objectives.

In 2015, SABB has endeavoured to ensure that an effective Internal Control System continues to perform as per the requirements of Guidelines on Internal Controls issued by SAMA, vide circular dated March 2013, which is an ongoing process for the identification, evaluation and management of significant risks faced by the Bank. The observations made by the external/internal auditors and SAMA's inspection team in their respective audits/ inspections were promptly reviewed and addressed by the Board, AUCOM, and SABB's management for rectification of such observations to safeguard SABB's interest. As per SABB's assessment, the Internal Control System in place provides reasonable assurance as to the integrity and reliability of the controls established and the management information produced.

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

The Board is 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 internal control within SABB for managing risks within the accepted risk appetite of the Bank; for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage and

## Directors' Report (continued)

mitigate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. Such procedures for the on-going identification, evaluation and management of the significant risks faced by SABB have been in place throughout the year.

SABB's management is responsible for implementing and reviewing the effectiveness of the Bank's internal control framework as approved by the Board. SABB has implemented a 'Three Lines of Defence' model for managing risks facing the Bank and its subsidiaries. Business management, as the First Line of Defence, is responsible for setting policies, procedures and standards across all areas under their responsibility. Specific policies and 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. Functional management is also responsible for implementing effective monitoring mechanisms to detect and prevent deviations or breaches from established policies and regulatory requirements.

The Second Line of Defence comprises various risk management and control functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud. Risks are analysed qualitatively as well as by quantitative methods and reported to the Board through the Bank's management committees.

The Risk function, under the Chief Risk Officer, is responsible for maintaining oversight of the management of various risks across the Bank. 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. The risk management process is fully integrated with strategic planning, the annual operating plan and the capital planning cycle. Furthermore, each employee is expected to be accountable for and to manage the risk within his or her assigned responsibilities based on the governance principles adopted by the Bank and addressed during training programmes. Results are communicated for the information of the directors by means of periodic reports provided to the Audit Committee and Board Risk Committee members.

Key internal control procedures include the following:

**SABB standards.** SABB has established clear standards that should be met by employees, departments and the Bank as a whole. Functional, operating and financial reporting standards are established for application across the whole of SABB.

**Delegation of authority within limits set by the Board.** Authority to carry out various activities and responsibilities for financial performance against plans are delegated to SABB management within limits set by the Board. Delegation of authority from the Board to individuals requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control appropriate to the business. 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. Credit and market risks are measured and aggregated for review of risk concentrations. The appointment of executives to the most senior positions within SABB requires the approval of the Board and the concurrence of SAMA.

**Risk identification and monitoring:** Systems and procedures are in place in SABB to identify, control and report on the major risks including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability, compliance, other operational risks and any emerging risks. Exposure to these risks is monitored by various management governance forums such as the Management Committee, the Asset and Liability Committee, the Risk Management Committee, the Compliance Committee, the Audit Tracker Committee and their various sub-committees. Minutes of these meetings are submitted to the Board sub-committees EXCOM, AUCOM, REMCO and BRC, and through these sub-committees to the Board.

**Financial reporting.** SABB's financial reporting process for preparing the consolidated Annual Report and Accounts 2015 is controlled using documented accounting policies and reporting formats. The submission of financial information is subject to certification by the Chief Financial Officer.

**Changes in market conditions/practices.** Processes are in place to identify new risks arising from changes in market conditions and practices and customer behaviour. During 2015, attention was focused on:

a) implementing the highest international standards across all SABB activities;
b) identifying and mitigating regulatory compliance, money laundering and financial crimes risks facing the businesses;
c) embedding risk appetite and stress testing into the business of SABB;
d) identify and managing the top and emerging risks ;
e) managing geopolitical risk and on-going instability in the region; and
f) mitigation of information risks.

**Strategic plans:** A 3 year Medium Term Outlook (MTO) for the period 2014 – 2016 is in place. Annual operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that SABB is prepared to take in executing its strategy, are prepared at business and functional levels and set out the key business initiatives and the likely financial effects of those initiatives.

**Governance arrangements:** Governance arrangements are in place to provide oversight of, and advice to the Board on, material risk related matters. These are effected through the Board sub-committees as well as management sub-committees which oversees the effectiveness of risk management and report to the Board sub-committees.

Internal Audit (INA) represents the Third Line of Defence and monitors the effectiveness of internal control framework across the whole of SABB focusing on the areas of greatest risk to the Bank as determined by a risk-based grading approach. INA accomplishes this by independently reviewing the design effectiveness and operating efficiency of internal control systems and policies established by Risk Owners, Control Owners and Business Risk and Control Managers(First Line) and by risk management and control (Second Line) functions to ensure that the Bank is operating within its stated risk appetite and in compliance with the regulatory framework. The Chief Internal Auditor reports to AUCOM on all audit related matters. The SABB Internal Audit Activity Charter sets out the accountability, independence, responsibility and authority of the INA function, while the SABB Audit Standards Manual prescribes the standards and procedures adhered to by the INA function. Both documents are reviewed and approved by AUCOM, acting on behalf of the Board on an annual basis. Executive management is responsible for ensuring that agreed Management Action Plan (MAP) made by the INA function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to INA.

During 2015, INA reviewed a number of activities and processes of SABB following a risk-based approach. Reports of these audits have been submitted to the AUCOM, highlighting areas where the effectiveness of controls or management's effectiveness in addressing control deficiencies was found to be less than satisfactory. On an overall basis, audits of the effectiveness of the internal control environment conducted during 2015 confirmed that systems and procedures for the on-going identification, evaluation and management of significant risks faced by SABB were in place throughout the year. These procedures enabled SABB to discharge its obligations under the rules and regulations issued by SAMA and the standards established by the Board.

During the year, BRC and AUCOM have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews BRC and AUCOM receive business and operational risk assessments; regular reports from SABB's risk functions and Chief Internal Auditor; reports on reviews of the internal control framework, both financial and nonfinancial; contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Directors, through BRC and AUCOM, conduct annual reviews of the effectiveness of the Bank's system of internal control covering all material controls, including financial, operational and compliance controls, risk management systems, the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. BRC and AUCOM receive confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of our framework of controls. In 2014, SABB engaged a leading consulting firm to identify gaps between the requirements of the Guidelines on Internal Control issued by SAMA and the Bank's existing control environment. Following the receipt of the report, INA conducts independent annual reviews of the implementation of the recommendations and provides its report to the AUCOM.

## Directors' Report (continued)

**Credit and Risk**

All SABB's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are Credit risk (including counterparty and cross-border country risk), Market risk (including foreign exchange, interest rate and equity price risks), Operational risk in various forms, Compliance risk (regulatory and Financial Crime risks), Information security risk, Liquidity risk, Reputational risk and Sustainability (environmental and social) risks.

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. The Board or its designated committee ,BRC, approves the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

SABB's risk appetite framework was reviewed and approved by the BRC during the year and describes the quantum and types of risk that SABB is prepared to take in executing its strategy. It is central to an integrated approach to risk, capital and business management and supports the Bank in achieving its return on equity objectives, as well as being a key element in meeting the Bank's obligations under Pillar 2 of the Basel Accord.

The Bank continued to operate an independent Credit risk function which provides high-level oversight and management of Credit and Market risk for SABB. Its responsibilities include: formulating SABB's credit policy in compliance with local regulations; guiding business segments on the Bank's appetite for Credit and Market risk exposure to specified market sectors, activities and banking products; controlling exposures to sovereign entities, banks and other financial institutions; and undertaking an independent review and objective assessment of risk.

In line with the SAMA Rules on Credit Risk Management in Banks, issued in 2013, SABB has maintained risk management practices aligned with these rules, including operating a credit review team to provide an independent credit assessment on individual counterparty risk.

**Operational Risk**

The Operational risk management framework covers the identification and assessment of current and emerging operational risks, ensuring controls are in place to mitigate risks, the assessment of the effectiveness of key controls on a regular basis and identification of actions to address any control gaps or inadequacies, and continual improvement of Bank's control environment in order to minimize operational risk losses. The Three Lines of Defence model underpins our approach to strong risk management. In conjunction with this we have continued to develop and deliver appropriate training to increase risk awareness and embed a strong risk awareness culture within SABB.

Looking ahead, key enhancements of the framework will include up-grading of the Operational risk management system to ensure that it supports businesses and managing and controlling their material risks whilst also encouraging a forward looking approach to operational risk by identifying areas of potential risk.

SABB has also adapted its robust liquidity and funding risk management framework in response to changes in the mix of business that it undertakes and the impact of global events on its liquidity positions. The liquidity and funding risk management framework will continue to evolve as the Bank assimilates knowledge from market events, and regulatory proposals covering liquidity risk outlined within the Basel III framework.

**Future Plans**

SABB is a diversified financial services institution with a range of business activities and income streams. This has been achieved through continued investment in the core business infrastructure together with capital deployment into various strategic businesses. SABB's principal lines of business are Retail Banking & Wealth Management, Global Banking and Markets (a new single umbrella comprising Global Banking & Treasury) and Commercial Banking. SABB offers Islamic (Sharia) compliant products across all principal business lines. SABB is continually evaluating new business opportunities to expand the range of banking and finance products and services which it offers customers. These offerings are complemented by our associate companies which offer Takaful, Investment Banking, Asset Management, Brokerage and Securities Services.

**Key deliverables of the plan included the following aspects:**

• Become the leading provider of personal Wealth Management solutions. Single Wealth management offerings including Asset Management, Brokerage, Takaful and FX solutions across an integrated and expanded customer base including Premier, Advance and Private Banking clients.

• Invest in technology and digital channels for improved customer experience and empowerment.

• Maintain a leadership position in Credit Cards and retain a top two market share ranking in mortgages.

• Alongside maintenance of a leadership position in Large Corporates, CMB team seeks to increase penetration into the Mid-Market and Business Banking upper segments.

• The setting-up of a dedicated international RM team to capture strong FDI inflows leveraging connectivity with HSBC.

• Combining the Global Banking and Treasury platforms under a single Global Banking and Markets umbrella. Combining both platforms will lead to better integration, strategic client prioritisation and capture of ancillary business opportunities.

• Global Banking will continue to focus on attracting multi-national corporations as well as financing public and social infrastructure projects for governmental and quasi-governmental institutions so as to maintain its number one position amongst Multinationals.

• In addition to increasing its investment portfolio size, Global Markets (Treasury) continues to work closely with all customer groups to offer market leading products both to our existing client base and to new clients attracted to the Bank. Treasury to become a more sales-led function with greater emphasis on Non-Fund Income.

• In Global Transaction Banking, Payments and Cash Management will continue to focus on capturing new opportunities particularly in untapped e-Government initiatives as well as growing current account liabilities by increasing new product penetrations.

• Enhance the product offering in trade by commercializing Receivable Finance Commodity and Structured Finance as well as exploring new distribution channels.

• Strict adherence to SABB International Standards to treat customers fairly, comply with laws and regulations and protect confidential information.

• SABB to be the best place to work by 2016. This includes investing in people, developing robust talent management with a structured learning and development proposition.

• Continued focus on Islamic Banking propositions across all customer groups.

• Continued focus on operational efficiencies and organizational effectiveness.

**Commercial Banking**

SABB Commercial Banking (CMB) is one of the strongest players in the commercial banking market in Saudi Arabia. As a full-service bank, SABB offers both conventional and Islamic banking solutions to meet the needs of commercial customers. A dedicated relationship and support team of approximately 230 staff covers customers' corporate banking requirements and provides access to specialist teams in Treasury, Cash Management, Trade and Investment Banking. SABB is both a strong local partner for its customers in Saudi Arabia and the gateway to global finan cial markets and services through the HSBC Group.

## Directors' Report (continued)

CMB supports an "Islamic Financial Services (IFS)" approach in providing financial services to corporate clients but maintains the flexibility of offering conventional products depending on clients' needs and requirements.

SABB retains its strong links with HSBC Group, which provides unrivalled international access and connectivity for the benefit of its clients, and it remains the leading international trade bank in the Kingdom supporting and servicing both domestic and foreign companies as they expand both locally and across borders.

In-house technology development combined with access to HSBC systems ensures that SABB offers state of the art banking channels to its clients including various payments and cash management solutions to meet their complex and structured needs. Vigorous business continuity arrangements ensure that SABB's clients have reliable access to their finances. The Bank's corporate online banking strategy focuses on providing multifaceted platforms to customers across all business lines, covering a wide variety of services in ways that can be packaged or personalized to suit their unique needs. Cross-product integration is offered through a single window that serves diverse customers through one unified portal. A one-stop-shop for payments, receivables, financing, markets and foreign exchange SABB's online channels aim to provide a globally consistent client experience with robust local functionality. The Bank currently has four online banking channels serving the overall needs of business customers. SWIFTnet and SABB Connect, Host-to-Host channels being offered to top tier customers with sophisticated requirements; HSBCnet, mainly targeting corporates, mid-to-large commercial customers and financial institutions with a variety of financial needs; Pay-roll Cards or SABB Salary Cards that cater to low salary groups; the Wage Protection System (WPS); and Virtual accounts for receivables. SABB Bulk Payments have also been commercialised.

In pursuit of its strategic direction to deliver market-leading propositions, international connectivity and exceptional services to customers, SABB CMB has made excellent progress on several key initiatives launched a year earlier. These include the continued growth in Large Corporate as well as expansion of the teams to service the Mid-Market segment. A dedicated international team has been established leveraging HSBC's cross-border relationships with companies entering the Saudi market. The net result has been the mutual referral of substantial levels of business as well as the strengthening of SABB's links with China through the China Desk, the first such initiative by a Saudi bank, to encourage bilateral trade flows.

SABB CMB has a history of commitment to the small business customer and was the first bank in Saudi Arabia to participate in the Kafalah Programme, a government Guarantee programme to encourage banks to lend to small businesses.

**Global Transaction Banking**

Global Transaction Banking (GTB), comprising Trade and Supply Chain (TSC), Receivable Finance (RF) and Payments and Cash Management (PCM) remains a core business for SABB. Despite a tough macro-economic environment, GTB continues to demonstrate strong performance relative to the market. As a key product partner to both Global Banking and Commercial Banking, GTB played a critical role in serving the trade and supply chain, receivable financing, as well as the payments and cash management needs of our clients through deployment of innovative and customised solutions. Furthermore, the business maintained a pro-active and leading role, particularly in shaping the trade landscape within the Kingdom supporting non-oil export growth, a key aim of the government by providing risk mitigating tools to clients whilst developing and leveraging both current and emerging trade corridors of Saudi Arabia.

As a market leader in transaction banking, GTB enjoys a healthy market share of the available business, which is demonstrated through a consultative business approach, superior service standards and a best-in-class product suite through continued innovation to cater to dynamic market needs. SABB GTB has launched several initiatives not limited to Receivable Finance, further expansion of digital and Mobile Banking solutions to enable Saudi corporates to manage their working capital in an optimal manner and improve operating efficiency. SABB is the first bank within the kingdom to launch the structured Receivable Finance proposition which offers customers an additional source of funding to help them manage their short term liquidity needs in an efficient manner. SABB has also been the first bank to successfully pilot and launch key regulatory initiatives such as SWIFTnet Guarantees and RMB denominated trade and cash management solutions in the Kingdom.

SABB continues to be recognized by the market and industry alike, winning a number of significant awards including Euromoney's "Best Domestic Cash Manager in Saudi Arabia 2015", Global Finance's "Best Trade Finance Bank Award 2015", the Asian Banker award "Best Trade Finance Bank Award in the Kingdom of Saudi Arabia" 2015" and "Best Corporate Digital Bank for Saudi Arabia Award 2015" from Global Finance. The Euromoney and Global Finance Trade awards have been won eight times in a row.

**Treasury**

Treasury enjoyed another strong and profitable year despite the low interest rate environment, subdued oil prices, and increased volatility in international and local markets. The Balance Sheet evidenced healthy and robust liquidity levels, supporting the Bank's overall growth. Active interest rate risk management, as well as maintaining a leading position in foreign exchange, made a significant contribution to the Bank's operating income.

Market conditions allowed Treasury to continue to provide both Shariah compliant and conventional hedging and investment solutions to its growing client base, whilst offering specialised geographical coverage in all three major provinces (Central, Western and Eastern). Treasury continues to make good progress on its major systems implementation project which will further enhance its product capabilities, automate processes and enhance customer service.

**Global Banking**

Under the umbrella of Global Banking and Markets, Global Banking (GB) is responsible for the relationship management of top-end Saudi companies that are globally managed by SABB; multinational companies operating in Saudi Arabia but headquartered overseas; and institutional clients such as ministries, government agencies and departments, banks and other financial institutions.

Recent economic developments created a challenge to the government's ambitious spending on mega-projects which was mainly focused on utilities, transportation, health care, education and oil and gas, from which multinational clients "GB sub segment" from Korea, China, France, Spain and India had a sizable market share. Most of the international companies have been long-standing HSBC Group clients, with several of them being Fortune 500 companies, whilst the underlying project owners are Saudi corporates or their joint ventures, which have been long-term SABB clients.

The strong ties with HSBC Group and the close coordination with SABB's joint venture, HSBC Saudi Arabia Limited and associate, SABB Takaful Company, enabled GB to provide unparalleled financial solutions locally and internationally to the segment's sophisticated group of clients. This resulted in timely and quality execution of projects in the Kingdom whilst helping Saudi corporates internationally with their ambitious expansion and acquisition plans or in tapping-into liquidity through non-Saudi financial institutions by way of Export Credit Agency finance and international bonds and Sukuk.

**Retail Banking and Wealth Management**

In 2015, SABB has continued as a leading provider in Saudi Arabia of Retail Banking and Wealth Management (RBWM) products and services.

The branch network is spread all around the kingdom with 108 retail outlets (84 branches and 24 dedicated ladies sections). In addition, there are 3 Lite branches, one in Central province and the other two in Eastern province. RBWM provides Islamic financial solutions through its entire branch network.

## Directors' Report (continued)

Over the course of the year further attention was given to internal restructuring and reorganisation to benefit high net worth customers, with specific focus on increasing the number of Premier Centres within the Kingdom, which now total 17 Kingdom-wide. These exclusive centres provide Premier customers with specially developed products and services as well as addressing their local and international needs through HSBC's global network.

Building on the success of the existing Premier offering through dedicated Premier Relationship Managers, SABB continues to expand its Advance proposition, which is available in 34 other markets across the globe. This service, which serves as a second tier Premier proposition, allows the Bank's customers access to a high quality banking service in the Kingdom that has the added advantage of being available worldwide. SABB Advance customers have access to a wider range of the very best international retail banking products aligned to priority service. The service is provided by well-trained Advance Relationship Officers who are able to offer individual customers financial management solutions and act on EDRAS model (Engage, Discover, Recommend, Act, Service) where the Relationship Manager / Officer performs the engage and discover activity, will then passes the recommendation for action to the dedicated Advisor and the service will be mutual between the Relationship Manager/Officer and the Advisor. The Relationship Manager has access to dedicated SABB Takaful and HSBC Saudi Arabia Limited, investment advisors, who can provide customers with the suitable Wealth solutions best suited to their specific needs. In addition, SABB Advance harnesses new and multi-channel platforms, so customers can manage their finances anytime, anywhere and in a manner that suits them best; provides access to knowledge and counsel that enables them to explore and broaden their financial horizons so as to achieve tomorrow's life goals; and acts as a facilitator for those who are internationally minded and informed.

Premier Top Tier has been introduced officially, which covers the gap between Premier and Private banking customers. This segment has been introduced as there are certain Premier customers that are on the border of the Private Banking eligibility and need similar attention, improved services and range of products in order to maintain, increase and enhance their business with SABB. Premier Top Tier customers have dedicated Top Tier Relationship Managers who will handle the relation.

In 2015, Credit Cards retained their number one position in the Kingdom on Card spend (Source: Visa & MasterCard). SABB's market share has been steady since 2007/08, ranging between 23% and 25% (Source: SAMA Bulletin as of Sep'2015) and this trend is expected to continue. To achieve sustained profitable growth, SABB effectively uses the Batch Management (BMS) and Alert Management Services (AMS) offered by SIMAH to enhance decisions for portfolio management in a proactive manner. During 2015, the number of e-redemption partners was increased to provide more flexibility to Credit Cardholders to redeem their ICSABB loyalty points. SABB won the Best Customer Loyalty program, 2015, and SABB's Visa Signature Card won the Best Premium Credit Card, 2015 award, both by Banker Middle East.

Business Banking Unit (BBU) Mass is integrated with RBWM in 2015 to provide tailored banking services and valued prepositions. The segment is centrally managed enabling the expansive branch network for better serving BBU Mass customers. Driven by customer centric approach, SABB has built its program for key components including, a competitive priced and full-service product set; Unique class sales and customer service experience; Convenience of transacting business via online, by phone, ATM or Branch; Introduction of Letter of Credit and Guarantee schemes that best suit the customer needs. SABB won The Best SME Internet Banking Services - 2015 award by Banker Middle East.

SABB continued to evaluate customer needs and introduce new solutions during 2015. The Bank continuously introduces new and enhanced services through its alternate channels such as Internet banking, Phone banking and Mobile banking applications as well as the enhanced Queuing system and Self Service machines and also introduced e-Forms covering both Online Account Opening and KYC submissions that will be extended to other banking products and services to ensure customers are provided with the best customer experience. SABB successfully managed to win various prestigious awards in 2015; Best Retail Bank Saudi Arabia - 2015 , Best Call Centre - 2015 by Banker Middle East. Best Internet Bank Saudi Arabia - 2015, Best Mobile Banking Saudi Arabia - 2015 and Best Customer Service Bank Saudi Arabia - 2015 by International Finance Magazine. Best Digital Consumer Bank - 2015 and Best Regional Bill Payment and Presentment - 2015 by Global Finance. SABB had formally launched the SABB

Visa Debit Card in May 2014, thus bringing a new set of features that will enhance product functionality enabling SABB customers to pay directly, conveniently, and securely with funds from their SABB account for goods and services at all MADA merchants locally and millions of Visa merchants around the world.  SABB installed a further 150 ATMs in 2015 increasing its network to 978 ATMs (including 91CDMs).

**Private Banking**

SABB Private Banking provides dedicated services to high net worth individuals (HNWI) throughout the kingdom, including tailored, customised and best in class banking services. Private Banking continues to thrive on the alignment with HSBC Group, the benefits of which include Global Network Resources, skills, specialist knowledge and expertise.

Integration of the Private Banking Unit into Wealth Management resulted in greater synergy and improved banking experiences for clients, whilst also helping in continuous achievement of quality of service.

Private Banking will continue to ensure a maximum level of Client Relationship Management by providing tailored products and fully personalised services to Clients, thereby they will continue to benefit from SABB's value-added services that include customised investment solutions and the asset management capabilities of HSBC Saudi Arabia Limited.

During 2015, SABB Private Banking has won Awards from respected international publishing houses such as "Best Private Bank in Saudi Arabia 2015" by Global Finance and "Private Bank of the Year Award, 2015 by The Banker.

**Islamic Financial Services**

Islamic Financial Services (IFS) have seen further growth in 2015, and continue to grow Islamic Businesses penetration which reached 71% of total SABB's total operating income.  SABB Shariah Committee held 11 meetings during 2015, in which a number of new products were presented for approval, with different issues and Shariah Audit Reports presented for their guidance and approval.

All of RBWM offering to customers have become Shariah-Compliant, in accordance with SABB's strategy for retail banking of providing a full package of Islamic products and services via all Branches and E-Channels. This has ensured continued growth in all retail segments.

The Islamic Financial Services Corporate Sector gave great importance to the satisfaction of the needs of its corporate customers of all categories. The Bank's approach to fulfil the increasing demand of corporate customers for Islamic banking services continued through the enhancement of current products and services, also by introducing new advanced products in cooperation with the trade department.

IFS trade services introduced the first of its kind automated Islamic Receivable Finance via a new structure which combines Tawaruq financing and Mudharbah investment, which aims to finance corporates short-term trade needs. SABB was the first in the region to provide such Shariah-Compliant product.

Furthermore, during 2015 Islamic Financial Services at SABB organized two seminars on corporate Islamic banking solutions in Riyadh and Al Khobar during which the Bank hosted a number of distinguished experts in the field of Islamic banking. The aim of these seminars was to introduce SABB's corporate Islamic banking services to current and potential customers of CMB, and to enhance the SABB Brand as a provider of Islamic banking in the market. Also to increase customers' awareness of SABB IFS products and Islamic banking in general to ensure offering IFS solutions that are compliant with Shariah law. The seminars were attended by SABB's CMB, GTB and GB customers.

A major event for Corporate Islamic Financial Services was being the lead sponsor of the Islamic Finance News 2015 forum (IFN) in Jeddah which is a global business event focused on promoting Islamic finance industry.

## Directors' Report (continued)

### Human Resources (HR)

The HR function supports and adds value to the organisational aim of becoming the leading international bank in KSA by aligning its people strategy to become **the best bank to work** for in the kingdom.

Achieving the goal of being the best bank to work for is of paramount importance to HR since it translates, in a tangible way, to the highest levels of service by our employees to our loyal and dedicated customer base.

The reward strategy continued to support this objective by way of compensation that recognises both short-term and sustainable performance. Our total compensation package is a critical component of our recruitment and retention activities, and we have remained focused on enhancing our reward proposition to qualitative parameters like enhancing the customer experience and management of risk. Incentive and bonus structures have therefore been enhanced to align individual reward with the time horizon of risk.

The people strategy for 2015 has focused on developing the capability of individuals and teams, enhancing the employee value proposition, growing levels of engagement and enablement, embedding SABB values, increasing collaboration and inclusion across the business, and demonstrating respect and recognition to colleagues across the organisation.

Statistically, financial services organisations in Saudi Arabia report the lowest levels of employee satisfaction in the Gulf region. The Global People Survey conducted by HR in June 2015 was completed by 71% of employees and engagement scores have increased to 73%, representing an increase of 22% on the previous Global People Survey in 2013. This market leading level of employee engagement makes us proud of our reputation and branding as an employer of choice that rivals not only our competitors, but also some of the highest scoring banks in the Middle East.

In 2013, 56% of staff stated that they would recommend SABB as a great place to work and this has now risen to an impressive 86%. In addition our people speak proudly of the organisation and 81% have stated that they are motivated to contribute more than required. 2015 saw the introduction of a working partnership with 'Investors In People International' and this will continue to reinforce the message to our employees that being the best bank to work for is a very real goal that is looming ever closer.

HR has worked closely with business units to create and deploy the Think Yes campaign that focuses on enhancing the overall customer experience, by providing employees with the knowledge, skills and tools that are required to provide the highest levels of service to internal and external customers and stakeholders. This bank-wide programme was launched in late 2015 and will continue throughout 2016.

The SABB Management Development Programme (SMDP) continues to attract high quality graduates from national and international universities with the intention of identifying and nurturing future business leaders across the business. Two further SMDP cohorts commenced in 2015, with two 2014 cohorts graduating from the programme this year.

As part of the SABB Leadership strategy the LEAD programme was designed and developed specifically to address development opportunities of the line manager population. LEAD is a one-year programme that aims to enhance management behaviors, increase the time dedicated to employee development, improve performance management, and embed consistent leadership capability. 52 participants participated in the LEAD programme during 2015.

The identification and development of talented individuals continues to remain a key focus in order to ensure that the organisation maintains and nurtures a strong talent pipeline of future leaders. The SABB People Committee endorsed 12 short-term assignments for colleagues in 2015. Several of these assignments took advantage of leveraging international HSBC connectivity, and the organisational succession plan has also been reviewed and agreed by the Nomination and Remuneration Committee.

In addition to leadership development programmes, HR continues to provide technical and soft skills training programmes with more than 5,580 participants attending formal training events and in excess of 16,376 training days delivered throughout the year.

Maintaining and growing the Saudi workforce has continued to be a priority and the Saudisation rate has increased to 90.7%. In addition the diversity agenda continues to flourish with females now representing 19.5% of the workforce.

In 2015 SABB was awarded the MENA private sector employer of the year and also received recognition from the Employer Branding Institute for the strength of our employer brand.

**Information Technology Services**

SABB Information Technology Services (ITS) served as a catalyst, engaging with business partners across the Bank enabling them to achieve their goals, improve productivity, efficiency, time to market and profitability.

ITS has pursued continuous transformation. The technological innovations in 2015 as part of the MTO have enabled the Bank to open up efficient delivery channels like deployment of the latest front end system, the automated Risk Assessment Methodology for KYC, and the VISA Personal Payment remittance proposition.

The expansion of digital technology is changing SABB from a paper and branch bank to a provider of digitised and networked banking services. ITS is delivering valuable innovations through e-Forms digitising applications for a paperless environment, including Interactive Teller Machines and Bulk Cash Deposit Machines, as part of SABB's ITS digital strategy.

During the year significant goals were achieved in line the Bank's streamlining strategy that included key projects, aimed at reducing and eliminating complexity, inefficiencies and risks. These achievements have ensured a solid base for future progress, positioning ITS to meet future challenges, while providing maximum value to the bank.

**Community Service:**

In line with SABB's core values, the bank continues to display a strong commitment to the communities it serves. In achievement of this objective, SABB continues to enhance its pioneering position in community service by providing a wide range of activities and programs targeting community service and sustainable development.

SABB community service programs cover a wide range of activities including education, training, medical, rehabilitation, awareness raising and financial and moral support. This is in addition to focusing on the activation of a number of social functions and attendance of recognized local and international functions as well as active participation by SABB staff in such events.

SABB has organized a number of activities that seek to integrate the Bank into the national development process in the Kingdom by focusing corporate and social responsibility efforts on community service and sustainable development. The bank is undertaking a set of programs and activities carefully selected in line with the Bank's strategy. The bank has also maximized its contribution to and participation in community service activities to support its own employees.

SABB's community service programmes, continuously seek to introduce various social programs and activities that benefit a number of community segments in all regions of the Kingdom, such as orphans, blind, people with special needs, cancer patients, seniors, people with down syndrome and low income families in addition to undertaking a set of social and humanitarian projects in collaboration with the Ministry of Social Affairs.

Owing to its rich track record of social responsibility, SABB continued to win highly regarded awards to highlight its excellence in performing its social role. SABB's special-needs-people employment program won "Best Employment Program in the Kingdom" by disabled Children Society, and is considered to be a leading initiative in the area of social responsibility achieving major success in community service.

## Directors' Report (continued)

**SABB TAKAFUL**

SABB Takaful provides a range of Shariah-compliant Family and General Takaful products to meet the protection needs of both individual and corporate customers.

As one of the first licensed Takaful companies in Saudi Arabia, SABB Takaful has experienced strong growth since commencement of operations in 2007 and is poised to continue its growth capitalising on the favourable long-term prospects of the insurance industry. With increasing growth in the market and growing awareness of Shariah-compliant insurance solutions, the Company is well placed to benefit from its competitive advantages for increasing market presence and expansion of its business and activities.

**HSBC SAUDI ARABIA LIMITED (HSBC SA)**

**Investment Banking Advisory**

Investment Banking Advisory primarily focuses on Equity Capital Markets which comprises Initial Public Offerings, Rights Issuances, and Mergers & Acquisitions. Since the establishment of the Capital Market Authority in the Kingdom in 2004, HSBC SA has been a market leader in its businesses, with top league-table positions in Initial Public Offerings and in Mergers & Acquisitions.

During the year 2015, HSBC SA maintained its leading market position on Equity Capital Markets that includes successfully leading two landmark Initial Public Offerings (Saudi Ground Services Company & Saudi Company for Hardware "SACO") out of four approved Initial Public Offerings by the Capital Markets Authority

Similarly, HSBC SA maintained its leading market position on the Mergers & Acquisitions front, including advising public companies, as well as other significant private Mergers & Acquisitions transactions within the Kingdom and cross-border transactions. Key transactions led by HSBC SA in 2015 included the buy-side advisor to Takween Advanced Industry in the acquisition of Savola Packaging Systems, the buy-side advisor to Tasnee in acquiring 13% stake in Cristal and the buy-side advisor to Al-Tayyar Travel Group in the potential acquisition of 30% stake in Thakher by way of issuance of shares

**Investment Banking Finance – Debt Capital Markets and Syndicated Finance**

HSBC SA 's debt advisory and arranging engagements across corporate financing, debt capital markets and acquisition financing ensured continuing leadership for the franchise. Such leadership is particularly in the Sukuk space where HSBC SA has led league tables every single year since market establishment. Key transactions led by HSBC SA in 2015 included four Sukuk issuances (National Shipping Company, Arab National Bank, Almarai Company & The Saudi British Bank)

**Project and Export Finance**

HSBC SA 's Project and Export Finance team is the leading advisor and arranger of project financing in Saudi Arabia in addition to Export Credit Agency supported finance. Clients range from private sector developers to government organizations seeking partnership with the private sector. The specialist team brings in-depth experience in the oil and gas, petrochemicals, mining, metals, power, utilities, transportation and infrastructure sectors.

During the year 2015, HSBC SA successfully closed two major project advisory mandates for Saudi Aramco on the procurement of the Jazan Air Separation Unit project and with Sumitomo Chemical Company on the expansion of the Petro Rabigh integrated refinery petrochemical complex. As well as securing several mandates in petrochemical and infrastructure sectors, including the debt arrangement for first private full-service commercial port, King Abdullah Port.

**Asset Management**

HSBC SA continued to maintain its strong position during the year in managing local equity mandates for institutional as well as retail and private banking clients. HSBC SA offers a wide variety of funds covering the local and regional equity markets in addition to providing specialised sector specific funds covering key economic sectors in the Kingdom such as Petrochemical and Financial Institutions. HSBC SA also offers exposure to the Saudi market through active as well as passive strategies, including an Exchange Traded Fund that is listed on Tadawul.

HSBC SA received several industry awards during the year. This included 7 awards by the MENA Fund Manager including the Asset Manager of the Year(2014) and another award by the Global Investor for the Equity Manager of the Year. HSBC SA also won two awards during the year from Lipper for best performing funds.

**Equity Brokerage**

HSBC SA continues to maintain its market ranking despite the market turnover slowdown. The brokerage division offers a comprehensive range of services for institutional as well as retail and private banking clients including equity trading through different delivery channels. This includes Direct Market Access (DMA) such as HSBC Tadawul, HSBC Mubasher, Fix-In, and phone services via the Brokerage Call Centre in addition to the 10 investment centres across the Kingdom.

**Equity Research**

HSBC SA has established an industry leading research platform catering to both local and leading international fund managers. The research team covers 55 Saudi stocks comprising more than 80% of Tadawul's market capitalisation. For seven years running, the team has been ranked number one for MENA equity research and several of its analysts consistently achieve top rankings in their individual sectors. The annual equity investor conference organised by the department has consistently attracted top Saudi corporates and more than 100 international clients.

**Securities Services**

The year 2015 was a key landmark year for the Direct Custody and Clearing unit within the Securities Services business with the opening of the Saudi stock market to foreign institutions. A significant amount of restructuring of the team and investment in terms of resourcing and automation was made by the business in preparation of the opening. HSBC SA was successful in getting the first Qualified Foreign Investor (QFI)registration and the first trades executed and settled in the market. The business also conducted roadshows in United States, Europe and Asia in addition to several global teach in calls for educating the prospective investors about the Saudi Arabian market. Securities Services has also continued to dominate the market in terms of registration requests submitted and at 31 December 2015 maintains 100% of the market share of assets under custody of the QFIs.

In addition to the market opening, the Saudi Stock Exchange also improved the settlement infrastructure with the introduction of the Independent Custody Model and Securities Services became one of the first custodians to be certified for the new custody model and also to on-board a client on this model.

**Board of Directors' approval**

The consolidated financial statements were approved by the Board of Directors on 05 Jumada AlAwola 1437H (Corresponding 14th February 2016).

# INDEPENDENT AUDITORS' REPORT

KPMG Al Fozan & Al Sadhan

**Independent Auditors' report to the shareholders of The Saudi British Bank** (a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of The Saudi British Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40. We have not audited note 37, nor the information related to "Disclosure under Basel III framework" cross referenced therein, which is not required to be within the scope of our audit.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for audit opinion.

KPMG Al Fozan & Al Sadhan

**Independent Auditors' report to the shareholders of The Saudi British Bank**
(a Saudi Joint Stock Company) *(continued)*

**Opinion**

In our opinion, the consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and
- Comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

**Ernst & Young**
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Kingdom of Saudi Arabia

Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277

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Riyadh 11663
Kingdom of Saudi Arabia

Abdullah H. Al Fozan
Certified Public Accountant
Registration No. 348

28 Rabi Thani 1436H
(15 February 2015)

# Consolidated Statement of Financial Position

## As at 31 December

| | Notes | 2015<br>SAR'000 | 2014<br>SAR'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with SAMA | 3 | **10,942,268** | 19,313,766 |
| Due from banks and other financial institutions | 4 | **11,452,326** | 2,468,871 |
| Investments, net | 5 | **35,426,239** | 45,280,816 |
| Loans and advances, net | 6 | **125,424,305** | 115,220,797 |
| Investment in a joint venture and an associate | 7 | **693,235** | 651,674 |
| Property and equipment, net | 8 | **991,455** | 663,401 |
| Other assets | 9 | **2,820,595** | 4,009,943 |
| **Total assets** | | **187,750,423** | 187,609,268 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 11 | **1,826,798** | 4,085,928 |
| Customers' deposits | 12 | **148,638,613** | 145,870,497 |
| Debt securities in issue | 13 | **4,500,000** | 5,264,678 |
| Borrowings | 14 | **46,875** | 78,125 |
| Other liabilities | 15 | **4,563,600** | 6,238,828 |
| **Total liabilities** | | **159,575,886** | 161,538,056 |
| **Shareholders' equity** | | | |
| Share capital | 16 | **15,000,000** | 10,000,000 |
| Statutory reserve | 17 | **7,583,656** | 9,001,019 |
| Other reserves | 18 | **(340,608)** | 61,614 |
| Retained earnings | | **5,361,489** | 5,858,579 |
| Proposed dividends | 26 | **570,000** | 1,150,000 |
| **Total shareholders' equity** | | **28,174,537** | 26,071,212 |
| **Total liabilities and shareholders' equity** | | **187,750,423** | 187,609,268 |

*The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.*

# Consolidated Statement of Income

## As at 31 December

| | Notes | **2015** **SAR'000** | 2014 SAR'000 |
|---|---|---|---|
| Special commission income | 20 | **4,813,421** | 4,625,951 |
| Special commission expense | 20 | **559,543** | 563,344 |
| **Net special commission income** | | **4,253,878** | 4,062,607 |
| Fees and commission income, net | 21 | **1,550,271** | 1,645,000 |
| Exchange income, net | | **465,755** | 445,710 |
| Income from FVIS financial instruments | | **3,750** | 7,500 |
| Trading income, net | 22 | **252,382** | 270,008 |
| Dividend income | | **37,050** | 64,798 |
| Gains on non-trading investments, net | 23 | **66,634** | 7,196 |
| Other operating income/(expense), net | | **907** | (610) |
| **Total operating income** | | **6,630,627** | 6,502,209 |
| Salaries and employee related expenses | 24 | **1,252,725** | 1,152,845 |
| Rent and premises related expenses | | **131,791** | 114,418 |
| Depreciation | 8 | **96,557** | 86,425 |
| General and administrative expenses | | **529,267** | 542,106 |
| Provision for credit losses, net | 6 | **429,716** | 450,756 |
| Reversal of impairment of other financial assets | 5 | **(9,631)** | (949) |
| **Total operating expenses** | | **2,430,425** | 2,345,601 |
| **Income from operating activities** | | **4,200,202** | 4,156,608 |
| Share in earnings of a joint venture and associate | 7 | **130,345** | 109,453 |
| **Net income for the year** | | **4,330,547** | 4,266,061 |
| **Basic and diluted earnings per share (in SAR)** | 25 | **2.89** | 2.84 |

*The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.*

# Consolidated Statement of Comprehensive Income

## As at 31 December

| | Notes | 2015 SAR' 000 | 2014 SAR' 000 |
|---|---|---|---|
| **Net income for the year** | | **4,330,547** | 4,266,061 |
| **Other comprehensive income to be reclassified to statement of income in subsequent years** | | | |
| Available for sale financial assets | | | |
| - Net change in fair value | 18 | **(295,809)** | 80,339 |
| - Transfer to consolidated statement of income | 18 | **(66,635)** | (7,196) |
| Cash flow hedges | | | |
| - Net change in fair value | 18 | **(31,964)** | - |
| - Transfer to consolidated statement of income | 18 | **(791)** | (791) |
| | | **(395,199)** | 72,352 |
| **Total comprehensive income for the year** | | **3,935,348** | 4,338,413 |

*The accompanying notes 1 to 39 form an integral part of these consolidated financial statements*

# Consolidated Statement of Changes in Shareholders' Equity

## For the year ended 31 December

| | Notes | Share capital SAR '000 | Statutory reserve SAR '000 | Other reserves SAR '000 | Retained earnings SAR '000 | Proposed dividends SAR '000 | Total SAR '000 |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| Balance at beginning of the year | | **10,000,000** | **9,001,019** | **61,614** | **5,858,579** | **1,150,000** | **26,071,212** |
| Total comprehensive income for the year | | | | | | | |
| Net income for the year | | - | - | - | **4,330,547** | - | **4,330,547** |
| Net changes in fair value of cash flow hedges | 18 | - | - | **(31,964)** | - | - | **(31,964)** |
| Net changes in fair value of available for sale investments | 18 | - | - | **(295,809)** | - | - | **(295,809)** |
| Transfer to consolidated statement of income | 18 | - | - | **(67,426)** | - | - | **(67,426)** |
| | | | | **(395,199)** | **4,330,547** | | **3,935,348** |
| Bonus share issue | 16 | **5,000,000** | **(2,500,000)** | - | **(2,500,000)** | - | - |
| Treasury shares | 18 | - | - | **(25,792)** | - | - | **(25,792)** |
| Employee share plan reserve | 18 | - | - | **18,769** | - | - | **18,769** |
| Transfer to statutory reserve | 17 | - | **1,082,637** | - | **(1,082,637)** | - | - |
| 2014 Final dividend paid | 26 | - | - | - | - | **(1,150,000)** | **(1,150,000)** |
| 2015 Interim dividend paid | 26 | - | - | - | **(675,000)** | | **(675,000)** |
| 2015 Final proposed dividend | 26 | - | - | - | **(570,000)** | **570,000** | - |
| Balance at end of the year | | **15,000,000** | **7,583,656** | **(340,608)** | **5,361,489** | **570,000** | **28,174,537** |
| 2014 | | | | | | | |
| Balance at beginning of the year | | 10,000,000 | 7,934,504 | (10,738) | 3,809,033 | 1,100,000 | 22,832,799 |
| Total comprehensive income for the year | | | | | | | |
| Net income for the year | | - | - | - | 4,266,061 | - | 4,266,061 |
| Net changes in fair value of cash flow hedges | 18 | - | - | - | - | - | - |
| Net changes in fair value of available for sale investments | 18 | - | - | 80,339 | - | - | 80,339 |
| Transfer to consolidated statement of income | 18 | - | - | (7,987) | - | - | (7,987) |
| | | | | 72,352 | 4,266,061 | | 4,338,413 |
| Transfer to statutory reserve | 17 | - | 1,066,515 | - | (1,066,515) | - | - |
| 2013 final dividend paid | | - | - | - | - | (1,100,000) | (1,100,000) |
| 2014 final proposed dividend | 26 | - | - | - | (1,150,000) | 1,150,000 | - |
| Balance at end of the year | | 10,000,000 | 9,001,019 | 61,614 | 5,858,579 | 1,150,000 | 26,071,212 |

*The accompanying notes 1 to 39 form an integral part of these consolidated financial statements*

# Consolidated Statement of Cash Flows

## Year ended 31 December

| | Notes | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net income for the year** | | **4,330,547** | 4,266,061 |
| **Adjustments to reconcile net income to net cash from (used in) operating activities:** | | | |
| Amortisation of premium on non-trading investments | | **177,130** | 35,824 |
| Gains on non-trading investments, net | 23 | **(66,634)** | (7,196) |
| Depreciation | 8 | **96,557** | 86,425 |
| Income from FVIS financial instruments | | **(3,750)** | (7,500) |
| Losses on disposal of property and equipment, net | | **-** | 1,321 |
| Share in earnings of a joint venture and associate | 7 | **(130,345)** | (109,453) |
| Provision for credit losses, net of reversal | 6 | **429,716** | 450,756 |
| Reversal of impairment of other financial assets | | **(9,631)** | (949) |
| Change in carrying value of debt securities in issue | | **(14,678)** | (18,195) |
| | | **4,808,912** | 4,697,094 |
| **Net (increase) decrease in operating assets:** | | | |
| Statutory deposit with SAMA | 3 | **(379,521)** | (949,722) |
| Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition | | **93,750** | (93,750) |
| Investments held for trading, net | | **-** | 1,007 |
| Loans and advances | | **(10,633,224)** | (9,556,623) |
| Other assets and derivatives | | **1,195,505** | (882,911) |
| Net increase (decrease) in operating liabilities: | | | |
| Due to banks and other financial institutions | | **(2,259,130)** | 316,288 |
| Customers' deposits | | **2,768,116** | 6,909,027 |
| Other liabilities and derivatives | | **(1,707,986)** | (162,786) |
| **Net cash (used in) from operating activities** | | **(6,113,578)** | 277,624 |
| | | | |
| INVESTING ACTIVITIES | | | |
| Proceeds from sale and maturities of non-trading investments | | **33,564,869** | 26,305,632 |
| Purchase of non-trading investments | | **(24,209,899)** | (34,135,723) |
| Purchase of property and equipment | 8 | **(424,611)** | (151,491) |
| Dividend from a joint venture and associate | 7 | **88,784** | 104,836 |
| Proceeds from disposal of property and equipment | | **-** | 4,000 |
| **Net cash from (used in) investing activities** | | **9,019,143** | (7,872,746) |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Debt securities issued | | **1,500,000** | - |
| Debt securities repaid/ matured | | **(2,250,000)** | - |
| Borrowings | | **(31,250)** | (31,250) |
| Treasury shares, net | | **(5,977)** | - |
| Dividends paid | | **(1,792,242)** | (1,044,429) |
| **Net cash used in financing activities** | | **(2,579,469)** | (1,075,679) |
| | | | |
| **Increase (decrease) in cash and cash equivalents** | | **326,096** | (8,670,801) |
| | | | |
| Cash and cash equivalents at beginning of the year | | **13,012,041** | 21,682,842 |
| **Cash and cash equivalents at end of the year** | 27 | **13,338,137** | 13,012,041 |
| | | | |
| Special commission received during the year | | **4,707,176** | 4,648,757 |
| Special commission paid during the year | | **478,314** | 627,726 |
| **Supplemental non-cash information** | | | |
| Other comprehensive income | | **(395,199)** | 72,352 |

*The accompanying notes 1 to 39 form an integral part of these consolidated financial statements*

# Notes to the Consolidated Financial Statements (31 December 2015)

## 1. General

The Saudi British Bank ("SABB") is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 84 branches (2014: 81 branches) in the Kingdom of Saudi Arabia. SABB employed 3,451 staff as at 31 December 2015 (2014: 3,314). The address of SABB's head office is as follows:

The Saudi British Bank
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia

The objectives of SABB are to provide a range of banking services. SABB also provides Shariah approved products, which are approved and supervised by an independent Shariah Board established by SABB.

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2014:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary's main purpose is the registration of real estates.

### 1.1. Basis of preparation

#### *a) Statement of compliance*

The consolidated financial statements have been prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) and interpretation issued by the IFRS Interpretation Committee (IFRIC) as issued by the International Accounting Standards Board (IASB). SABB prepares its consolidated financial statements to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and its Articles of Association.

#### *b) Basis of measurement*

These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held at fair value through income statement ("FVIS") and available for sale. In addition, assets and liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risks that are being hedged.

# Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***c) Functional and presentation currency***

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR), rounded off to the nearest thousands, which is the functional currency of SABB.

***d) Presentation of consolidated financial statements***

The Bank presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 32 (b).

***e) Basis of consolidation***

The consolidated financial statements comprise the financial statements of SABB and its subsidiaries (collectively referred to as "the Bank"). The financial statements of the subsidiaries are prepared for the same reporting year as that of SABB, using consistent accounting policies.

Subsidiaries are entities which are directly or indirectly controlled by SABB. SABB controls an entity (the "investee") over which it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to SABB and cease to be consolidated from the date on which the control is transferred from SABB.

Intra- group transactions and balances have been eliminated upon consolidation.

***f) Critical accounting judgements and estimates***

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates, and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

***i) Impairment losses on loans and advances***

Impairment methodology

The Bank's policy is to create impairment allowances for impaired loans promptly and appropriately, when there is objective evidence that impairment of a loan or portfolio of loans has occurred.

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the consolidated statement of financial position date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Collective impairment allowances are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio. The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience.

Where changes in economic, regulatory or behavioural conditions result in the most recent trends in portfolio risk factors being not fully reflected in the models, risk factors are taken into account by adjusting the impairment allowances derived from historical loss experience. Risk factors include loan portfolio growth, product mix, unemployment rates, concentration, geographical concentrations, loan product features, economic conditions such as trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns.

The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

For individually assessed loans, judgement is exercised in determining whether there is objective evidence that a loss event has occurred, through evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances that are calculated on individual loans or on groups of loans assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired loans on the Statement of Financial Position. Losses which may arise from future events are not recognised.

***Individually assessed loans and advances***

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, and the importance of the individual loan relationship, and how this is managed. Loans that meet these criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology (see below).

Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the Bank considers on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to make this assessment include:

- Known cash flow difficulties experienced by the borrower;
- Contractual payments of either principal or interest being past due for more than 90 days;
- The probability that the borrower will enter bankruptcy or other financial realisation;
- A concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- There has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- The Bank's aggregate exposure to the customer;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The likely dividend available on liquidation or bankruptcy;
- The extent of other creditors' commitments ranking ahead of, or pari passu with, the bank and the likelihood of other creditors continuing to support the company;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely costs of obtaining and selling collateral as part of foreclosure;
- The ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- When available, the secondary market price of the debt.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

***Collectively assessed loans and advances***

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant. Retail lending portfolios are generally assessed for impairment collectively as the portfolios are generally large homogeneous loan pools.

***Incurred but not yet identified impairment***

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the bank has incurred as a result of events occurring before the reporting date, which the bank is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed individually.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector);
- The estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. An estimated period may vary over time as these factors change.

Statistical methods are used to determine collective impairment losses for homogeneous groups of loans not considered individually significant. Losses in these groups of loans are recorded individually when individual loans are removed from the group and written off.

The methods that are used to calculate collective allowances are:

- When appropriate empirical information is available, The bank uses roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be written off as a result of the events occurring before the reporting date but which the bank is not able to identify individually. Individual loans are grouped using ranges of past due days; statistical analysis is then used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and become irrecoverable. Additionally, individual loans are segmented based on their credit characteristics as described above. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring and its discovery, for example through a missed payment, (known as the emergence period) and the period of time between discovery and write-off (known as the outcome period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.
- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate

methodology, the bank adopts a basic formulaic approach based on historical loss rate experience, or a discounted cash flow model. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is estimated by local management, and is typically between six and twelve months.

The inherent loss within each portfolio is assessed on the basis of these models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the models, they are taken into account by adjusting the impairment allowances derived from the models to reflect these changes as at the reporting date.

***Write-off of loans and advances***

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

***Collateral and other credit enhancements held***

The Bank's practice is to lend on the basis of customers' ability to meet their obligations out of cash flow resources rather than rely on the value of security offered. Depending on a customer's standing and the type of product, facilities may be provided without security. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk.

Additionally, risk may be managed by employing other types of collateral and credit risk enhancements such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

***ii) Fair value of financial instruments that are not quoted in an active market***

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

***iii) Impairment of available for sale equity investments***

The Bank exercises judgement to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

***iv) Classification of held to maturity investments***

The Bank follows the guidance of IAS 39 when classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

***v) Classification of fair value through income statement***

The Bank follows criteria set in IAS 39 when classifying financial assets and liabilities to fair value through income statement. In making this judgement, the Bank evaluates its compliance with the conditions as prescribed in IAS 39.

***vi) Determination of control over investees***

The control indicators set out note 1.1 (e) are subject to management's judgements.

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***vii) Provisions for liabilities and charges***

The Bank receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

***g) Going concern***

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

### 2. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

***a) Changes in accounting policies***

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2014, except for the adoption of the following new standards and other amendments to existing standards and a new interpretation, mentioned below which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

- Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in the period in which the related service is rendered.

- Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:

a) IFRS 1 – "first time adoption of IFRS" : the amendment clarifies that a first time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.

b) IFRS 2 amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

c) IFRS 3 – "business combinations" amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.

d) IFRS 8 – "operating segments" has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria..

e) IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.

f) IAS 16 – "Property plant and equipment" and IAS 38 – "intangible assets": – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.

g) IAS 24 – “related party disclosures”– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.
h) IAS 40 – “investment property” clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

***b) Trade date accounting***

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date i.e. the date on which the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

***c) Derivative financial instruments and hedge accounting***

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, currency and special commission rate options (both written and purchased), are measured at fair value (premium received for written options). All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

***i) Derivatives held for trading***

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting..

***ii) Embedded derivatives***

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading derivatives portfolio with changes in fair value recognised in the consolidated statement of income.

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***iii) Hedge accounting***

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into two categories; (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the effectiveness of the hedge is assessed on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is recognised in the consolidated statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

In relation to cash flow hedges, which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the consolidated statement of comprehensive income. The ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. On discontinuation of hedge accounting on cash flow hedges any cumulative gain or loss that was recognised in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other reserves is transferred to the consolidated statement of income for the year.

***d) Foreign currencies***

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are transferred to exchange income in the consolidated statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

### e) *Offsetting financial instruments*

Financial assets and liabilities are offset and are reported net in the consolidated statement of financial position when there is a currently legally enforceable right to set off the recognised amounts and when the Bank intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### f) *Revenue/expenses recognition*

***Special commission income and expense***

Special commission income and expense for all commission-bearing financial instruments is recognised in the consolidated statement of income on an effective yield basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective commission rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or received related transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Bank enters into special commission rate swap to change special commission from fixed to floating (or vice versa) the amount of special commission income or expense is adjusted by the net special commission on the swap.

Special commission income on Shariah approved products received but not earned is netted off against the related assets.

***Exchange income/loss***

Exchange income/loss is recognised when earned/incurred.

***Dividend income***

Dividend income is recognised when the right to receive income is established.

***Fees and commission income and expenses***

Fees and commission income are recognised on an accrual basis when the related services have been provided. Loan commitment fees for loans that are likely to be drawn down are generally deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time are recognised rateably over the period when the service is being provided. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service is received. Any fee income received but not earned is classified under other liabilities.

***Net trading income***

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense, dividends from financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

***Day one profit***

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of income when the inputs become observable, or when the instrument is derecognised.

***g) Sale and repurchase agreements***

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Bank retains substantially all the risks and reward of ownership and continued to be measured in accordance with related accounting policies for the underlying financial assets held as FVIS, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and amortised over the life of the repo agreement, using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and amortised over the life of the reverse repo agreement, using the effective yield method.

***h) Investments***

All investment securities are initially recognised at their fair value which represents the consideration given, including acquisition charges associated with the investment (except for investments held as FVIS, where acquisition charges are not added to the cost at initial recognition and are charged to the consolidated statement of income). Premiums are amortised and discounts accreted using the effective yield method and are taken to special commission income.

Following initial recognition, for securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Investments in listed equity instruments are valued at the exchange quoted prices as of day close. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

Following initial recognition, for securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

***i) Held as FVIS***

Investments in this category are classified as either investment held for trading or those designated as FVIS at inception or on adoption of the revised IAS 39. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term. An investment may be designated as FVIS by the management if it satisfies the criteria set out below (except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured):

- it is a financial instrument containing one or more embedded derivatives that significantly modify the cash flows resulting from the financial instrument, or
- it is a financial instrument with an embedded derivative that is required to be separated from the host contract under IAS 39, but the Bank is unable to measure reliably the embedded derivative separately either at acquisition or at a subsequent reporting date

The fair value designation is made in accordance with the Risk Management Strategy approved by the Bank's Assets and Liabilities Committee (ALCO) and is irrevocable. Designated financial assets are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties on trade date and derecognised when sold.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from financial instruments designated as FVIS in the consolidated statement of income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments.

***ii) Available for sale***

Available-for-sale investments are those non-derivative equity and debt securities which are neither classified as Held to maturity investments, loans and receivables nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments classified as "available for sale", are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in the consolidated statement of comprehensive income. On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.
Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

***iii) Held at amortised cost***

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Investments in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised and is disclosed as gains/ (losses) on non-trading investments. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method.

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***iv) <u>Held to maturity</u>***

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of "held at amortised cost" are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

***i) Investment in equity-accounted investees***

The Bank's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities. Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Bank's share of the profit or loss and Other Comperhansive Income ("OCI") of equity- accounted investees, until the date on which significant influence or joint control ceases.

The statement of income reflects SABB's share of the results of operations of the associate and the joint venture. The reporting dates of the associate and joint venture are identical to SABB and their accounting policies conform to those used by SABB for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between SABB and its associate and joint venture are eliminated to the extent of SABB's interest in the associate and joint venture.

***j) Loans and advances***

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at cost, being the fair value of consideration given, including acquisition charges associated with the loans and advances.

The Bank's loans and advances are classified as held at amortised cost less any amount written off and provisions for impairment.

For loans and advances, which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

***k) Due from banks and other financial institutions***

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, due from banks and other financial institutions are stated at cost less any amount written off and provisions for impairment, if any.

### l) *Impairment of financial assets*

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss on investments other than available for sale equity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in provision for credit losses.

#### i) ***<u>Impairment of financial assets held at amortised cost</u>***

A financial asset is classified as impaired when there is objective evidence of credit related impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost, including those arising from sovereign risk exposures, is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. Renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 100% for such non-performing loans (other than home loans), which reach the "write-off point" (write-off points which are set at 180 days past due). Write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

# Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***l) Impairment of financial assets***

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated statement of income.

The carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated statement of income.

***ii) Impairment of financial assets held at fair value***

For financial assets held at fair value, where a loss has been recognised directly through the consolidated statement of comprehensive income under shareholders' equity, the cumulative net loss recognised in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

***iii) Impairment of available for sale investments***

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. Unlike debt securities, the previously recognised impairment loss cannot be reversed through the consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in consolidated statement of income for the period.

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

***iv) Impairment of available for sale- debt securities***

In assessing objective evidence of impairment at the reporting date, SABB considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

***m) Property and equipment***

Property and equipment are stated at cost and presented net of accumulated depreciation and impairment loss. Freehold land is not depreciated.

The cost of other property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings | 33 years |
| Leasehold improvements | over the period of the lease contract |
| Furniture, equipment and vehicles | 3 to 4 years |

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

The assets' residual values and useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

***n) Financial liabilities***

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

***o) Provisions***

Provisions are recognised when a reliable estimate can be made by the Bank of a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

***p) Guarantees and loan commitments***

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "provision for credit losses".

The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

***q) Accounting for leases***

Leases entered into by the Bank as a lessee are all operating leases. Payments made under these operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

***r) Cash and cash equivalents***

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA and placements with SAMA excluding the statutory deposit, and due from banks and other financial institutions with an original maturity of three months or less from date of acquisition.

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

### s) *Derecognition of financial instruments*

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.
In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expired.

### t) *Assets held in trust or in fiduciary capacity*

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the accompanying consolidated financial statements.

### u) *Zakat and income taxes*

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Zakat and income taxes are not charged to the Bank's consolidated statement of income as they are the liabilities of the shareholders and therefore are deducted from the dividends paid to the shareholders.

### v) *Shariah approved banking products*

In addition to conventional banking, the Bank offers its customers certain Shariah approved banking products, which are approved by its Shariah Board.

All Shariah approved banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

### w) *End of service benefits*

The provision for end of service benefits is made in accordance with local regulations and custom. Net obligation, with respect to end of service benefits, to the Bank is reviewed quarterly by using a discounted cash flow valuation model. The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

### x) *Share Based payments*

Under the terms of the Equity Based Long Term Bonus Plan, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions.

The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

## 3. Cash and balances with SAMA

| | 2015 | 2014 |
|---|---|---|
| | SAR'000 | SAR'000 |
| Cash in hand | 1,520,252 | 1,278,469 |
| Statutory deposit | 9,056,367 | 8,676,846 |
| Placements with SAMA | 150,994 | 8,595,941 |
| Other balances | 214,655 | 762,510 |
| **Total** | **10,942,268** | 19,313,766 |

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents.

## 4. Due from banks and other financial institutions

| | 2015 | 2014 |
|---|---|---|
| | SAR'000 | SAR'000 |
| Current accounts | 7,677,105 | 2,246,121 |
| Money market placements | 3,775,221 | 222,750 |
| **Total** | **11,452,326** | 2,468,871 |

## 5. Investments, net

### a) *Investment securities are classified as follows:*

| | Domestic | | International | | Total | |
|---|---|---|---|---|---|---|
| *i) Available for sale* | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Fixed rate securities | 19,798,119 | 33,691,002 | 6,371,067 | 6,989,695 | 26,169,186 | 40,680,697 |
| Floating rate securities | 4,499,029 | 3,392,599 | 76,110 | 77,204 | 4,575,139 | 3,469,803 |
| Equities | 987,712 | 980,570 | 44,202 | 49,746 | 1,031,914 | 1,030,316 |
| **Available for sale investments, net** | **25,284,860** | 38,064,171 | **6,491,379** | 7,116,645 | **31,776,239** | 45,180,816 |

Available for sale investments, net includes impairment provision of SAR 70 million (2014: SAR 70 million) for domestic equities and SAR 18.1 million (2014: SAR 18.8 million) for International floating rate securities.

| *ii) Held at amortised cost* | | | | | | |
|---|---|---|---|---|---|---|
| Fixed rate securities | 3,650,000 | 100,000 | - | 9,000 | 3,650,000 | 109,000 |
| **Held at amortised cost, gross** | **3,650,000** | 100,000 | - | 9,000 | **3,650,000** | 109,000 |
| Allowance for impairment | - | - | - | (9,000) | - | (9,000) |
| **Held at amortised cost investment, net** | **3,650,000** | 100,000 | - | - | **3,650,000** | 100,000 |
| **Investments, net** | **28,934,860** | 38,164,171 | **6,491,379** | 7,116,645 | **35,426,239** | 45,280,816 |

### b) *The analysis of the composition of investments is as follows:*

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Fixed rate securities | 8,080,344 | 21,738,842 | 29,819,186 | 8,621,681 | 32,168,016 | 40,789,697 |
| Floating rate securities | - | 4,575,139 | 4,575,139 | - | 3,469,803 | 3,469,803 |
| Equities | 979,846 | 52,068 | 1,031,914 | 972,706 | 57,610 | 1,030,316 |
| | 9,060,190 | 26,366,049 | 35,426,239 | 9,594,387 | 35,695,429 | 45,289,816 |
| Allowance for impairment | - | - | - | - | (9,000) | (9,000) |
| **Investments, net** | **9,060,190** | **26,366,049** | **35,426,239** | 9,594,387 | 35,686,429 | 45,280,816 |

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***c) The analysis of unrealised gains and the fair values of held at amortised cost investments, are as follows:***

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **SAR'000** | | | SAR'000 | | |
| | **Carrying value** | **Gross unrealised gain** | **Fair value** | Carrying value | Gross unrealised gain | Fair value |
| **Held at amortised cost** | | | | | | |
| Fixed rate securities | **3,650,000** | **-** | **3,650,000** | 100,000 | 169 | 100,169 |
| **Total** | **3,650,000** | **-** | **3,650,000** | 100,000 | 169 | 100,169 |

***d) The analysis of investments by counterparty is as follows:***

| | **2015** | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Government and quasi government | **29,669,240** | 35,403,594 |
| Corporate | **3,823,830** | 3,562,110 |
| Banks and other financial institutions | **1,924,417** | 6,306,764 |
| Other | **8,752** | 8,348 |
| **Total** | **35,426,239** | 45,280,816 |

Equities reported under available for sale investments include unquoted shares of SAR 8.7 million (2014: SAR 8.3 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include treasury bills classified as available for sale amounting to nil (2014: SAR 12.7 million) which have been pledged under repurchase agreement with customers. The market value of these investments is nil (2014: SAR 12.7 million).

***e) Credit quality of investments***

| | **2015** | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Saudi sovereign debt | **21,704,021** | 30,136,708 |
| Investment grade | **8,480,762** | 8,481,687 |
| Non investment grade | **96,041** | 50,193 |
| Unrated investments including equities | **5,145,415** | 6,612,228 |
| **Total** | **35,426,239** | 45,280,816 |

Unrated investments include equity investments of SAR 1,032 million (2014: SAR 1,030 million).

The Saudi sovereign debt comprise of Saudi Government Development Bonds and treasury bills.

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Issuer ratings have been used for bonds amounting to SAR 169.36 million (2014: SAR 347.7 million) which have not been rated by any agency.

The unrated category mainly comprises of Saudi corporate Bonds, private equities, quoted and unquoted equities.

***f) Movements of allowance for impairment of investments:***

| | **2015** | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Balance at beginning of the year | **97,807** | 98,756 |
| Provided during the year | **-** | - |
| Amounts recovered during the year | **(9,631)** | (949) |
| **Balance at end of the year** | **88,176** | 97,807 |

The net charge to consolidated statement of income on account of impairment (reversal of impairment) of other financial assets is negative SAR 0.9 million (2013 : SAR 67.9 million), which is net of recoveries of amounts previously provided as shown above and directly written off investments amounting to SAR Nil (2013 : SAR 1.0 million).

## 6. Loans and advances, net

### a) *Loans and advances are classified as follows:*

| | 2015 | | | SAR' 000 |
|---|---|---|---|---|
| | **Credit cards** | **Consumer loans** | **Commercial loans and overdrafts** | **Total** |
| Performing loans and advances-gross | **2,172,280** | **25,390,996** | **98,830,303** | **126,393,579** |
| Non performing loans and advances, net | **2,261** | **91,284** | **1,423,727** | **1,517,272** |
| **Total loans and advances** | **2,174,541** | **25,482,280** | **100,254,030** | **127,910,851** |
| Provision for credit losses (specific and collective) | **(89,998)** | **(268,520)** | **(2,128,028)** | **(2,486,546)** |
| **Loans and advances, net** | **2,084,543** | **25,213,760** | **98,126,002** | **125,424,305** |

| | 2014 | | | SAR'000 |
|---|---|---|---|---|
| | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
| Performing loans and advances-gross | 2,091,725 | 24,027,009 | 90,009,676 | 116,128,410 |
| Non performing loans and advances, net | 3,409 | 46,182 | 1,445,341 | 1,494,932 |
| Total loans and advances | 2,095,134 | 24,073,191 | 91,455,017 | 117,623,342 |
| Provision for credit losses (specific and collective) | (98,543) | (222,605) | (2,081,397) | (2,402,545) |
| Loans and advances, net | 1,996,591 | 23,850,586 | 89,373,620 | 115,220,797 |

Loans and advances, net include Shariah approved products totalling SAR 99,039 million (2014: SAR 90,083 million) which are stated at cost less provision for credit losses of SAR 1,570.0 million (2014: SAR 1,537.1 million). Loans and advances include loans amounting to SAR 0.003 million (2014: SAR 164 million) that have been fair value hedged through a fixed to floating interest rate swap. The negative mark to market on these loans was SAR Nil as at the end of the current year (2014: negative SAR 0.003 million).
Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 215.6 million (2014: SAR 209.9 million).

### b) *Movement in provision for credit losses*

| | 2015 | | | SAR'000 |
|---|---|---|---|---|
| | **Credit cards** | **Consumer loans** | **Commercial loans and overdrafts** | **Total** |
| Balance at beginning of the year | **98,543** | **222,605** | **2,081,397** | **2,402,545** |
| Bad debts written off | **(100,043)** | **(292,567)** | **(121,467)** | **(514,077)** |
| Provided during the year, net of reversals | **91,498** | **338,482** | **194,449** | **624,429** |
| Recoveries of amounts previously provided | **-** | **-** | **(26,351)** | **(26,351)** |
| Balance at the end of the year | **89,998** | **268,520** | **2,128,028** | **2,486,546** |

| | 2014 | | | SAR'000 |
|---|---|---|---|---|
| | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
| Balance at beginning of the year | 86,189 | 204,931 | 1,967,549 | 2,258,669 |
| Bad debts written off | (104,746) | (276,974) | (60,069) | (441,789) |
| Provided during the year, net of reversals | 117,100 | 294,648 | 179,244 | 590,992 |
| Recoveries of amounts previously provided | - | - | (5,327) | (5,327) |
| Balance at the end of the year | 98,543 | 222,605 | 2,081,397 | 2,402,545 |

The allowance for credit losses related to commercial loans and overdrafts as mentioned above includes a collective allowance amounting to SAR 1,172.9 million (2014: SAR 1,148.1 million) related to the performing portfolio.Provision for credit losses charged to the consolidated statement of income related to Shariah approved products is SAR 390.9 million (2014: SAR 320.8 million).The net charge to consolidated statement of income on account of provision for credit losses is SAR 429.7 million (2014: SAR 450.8 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off amounting to SAR 168.4 million ( 2014 : SAR 134.9 million).million (2013 : SAR 374.2 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off amounting to SAR 134.9 million ( 2013 : SAR 213.5 million).

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

### *c) Credit quality of loans and advances*

#### i) Neither past due nor impaired loans

| | | | 2015 | SAR' 000 |
|---|---|---|---|---|
| **Grades** | **Credit cards** | **Consumer loans** | **Commercial loans and overdrafts** | **Total** |
| Undoubted | **-** | **-** | **524,014** | **524,014** |
| Good | **297,988** | **12,246,880** | **34,541,756** | **47,086,624** |
| Satisfactory | **1,725,913** | **11,705,152** | **62,876,002** | **76,307,067** |
| **Total** | **2,023,901** | **23,952,032** | **97,941,772** | **123,917,705** |

| | | | 2014 | SAR' 000 |
|---|---|---|---|---|
| Grades | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
| Undoubted | - | - | 664,654 | 664,654 |
| Good | 263,065 | 11,088,495 | 36,107,274 | 47,458,834 |
| Satisfactory | 1,674,101 | 11,753,677 | 52,507,093 | 65,934,871 |
| **Total** | 1,937,166 | 22,842,172 | 89,279,021 | 114,058,359 |

**Undoubted:** The strongest credit risk with a negligible probability of default. Such entities would have an extremely strong capacity to meet long term commitments in adverse market conditions

**Good:** A strong credit risk with a low probability of default. These entities have a strong capacity to meet long term commitments but some sensitivity to market events.

**Satisfactory:** A satisfactory credit risk with a moderate probability of default. These entities have the capacity to meet medium term and short term commitments however there is likely to be a need for periodic monitoring due to a higher sensitivity to market events.

#### ii) Ageing of loans and advances (past due but not impaired)

| | | | 2015 | SAR' 000 |
|---|---|---|---|---|
| | **Credit cards** | **Consumer loans** | **Commercial loans and overdrafts** | **Total** |
| From 1 day to 30 days | **68,645** | **1,164,874** | **723,835** | **1,957,354** |
| From 31 days to 90 days | **43,629** | **180,842** | **17,716** | **242,187** |
| From 91 days to 180 days | **36,105** | **93,248** | **1,813** | **131,166** |
| Over 180 days | **-** | **-** | **145,167** | **145,167** |
| **Total** | **148,379** | **1,438,964** | **888,531** | **2,475,874** |

| | | | 2014 | SAR' 000 |
|---|---|---|---|---|
| | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
| From 1 day to 30 days | 63,424 | 951,596 | 708,470 | 1,723,490 |
| From 31 days to 90 days | 46,067 | 131,204 | 16,009 | 193,280 |
| From 91 days to 180 days | 45,068 | 102,037 | 4,469 | 151,574 |
| Over 180 days | - | - | 1,707 | 1,707 |
| Total | 154,559 | 1,184,837 | 730,655 | 2,070,051 |

**iii) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:**

| **2015**<br>**SAR'000** | **Performing** | **Non performing, net** | **Provision for credit losses** | **Loans and advances, net** |
|---|---|---|---|---|
| Government and quasi Government | **3,842,663** | **-** | **-** | **3,842,663** |
| Finance | **10,658,734** | **-** | **-** | **10,658,734** |
| Agriculture and fishing | **610,384** | **-** | **-** | **610,384** |
| Manufacturing | **22,204,654** | **86,387** | **(65,560)** | **22,225,481** |
| Mining and quarrying | **2,179,336** | **-** | **-** | **2,179,336** |
| Electricity, water, gas and health services | **4,508,998** | **-** | **-** | **4,508,998** |
| Building and construction | **10,316,030** | **375,004** | **(231,484)** | **10,459,550** |
| Commerce | **27,869,631** | **472,083** | **(338,254)** | **28,003,460** |
| Transportation and communication | **3,341,913** | **74,153** | **(77,966)** | **3,338,100** |
| Services | **7,106,031** | **9,564** | **(13,823)** | **7,101,772** |
| Consumer loans and credit cards | **27,563,276** | **93,545** | **(358,518)** | **27,298,303** |
| Others | **6,191,929** | **406,536** | **(227,945)** | **6,370,520** |
| Collective impairment provision | **-** | **-** | **(1,172,996)** | **(1,172,996)** |
| **TOTAL** | **126,393,579** | **1,517,272** | **(2,486,546)** | **125,424,305** |

| 2014<br>SAR'000 | Performing | Non performing, net | Provision for credit losses | Loans and advances, net |
|---|---|---|---|---|
| Government and quasi Government | 5,014,379 | - | - | 5,014,379 |
| Finance | 13,166,493 | - | - | 13,166,493 |
| Agriculture and fishing | 1,860,838 | - | - | 1,860,838 |
| Manufacturing | 19,696,145 | 110,268 | (37,478) | 19,768,935 |
| Mining and quarrying | 2,126,829 | - | - | 2,126,829 |
| Electricity, water, gas and health services | 4,122,107 | - | - | 4,122,107 |
| Building and construction | 7,179,938 | 470,963 | (171,400) | 7,479,501 |
| Commerce | 20,063,246 | 446,490 | (471,621) | 20,038,115 |
| Transportation and communication | 4,815,881 | - | - | 4,815,881 |
| Services | 3,763,351 | 35,553 | (25,244) | 3,773,660 |
| Consumer loans and credit cards | 26,118,734 | 49,591 | (321,148) | 25,847,177 |
| Others | 8,200,469 | 382,067 | (227,548) | 8,354,988 |
| Collective impairment provision | - | - | (1,148,106) | (1,148,106) |
| TOTAL | 116,128,410 | 1,494,932 | (2,402,545) | 115,220,797 |

The provision for credit losses on the consumer loans and advances is calculated on a collective basis.

The collective impairment provision is based on an asset quality matrix, which includes the grading structure in respect of the credit risk of the customers as well as general economic outlook.

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***d) Collateral:***

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.

As of 31 December 2015, the net carrying amount of impaired loans and advances comprising of commercial loans and overdrafts amounted to SAR 1,424 million (2014: SAR 1,445 million) and the value of identifiable collateral held against those loans and advances amount to SAR 973 million (2014: SAR 973 million).

The table below set out the principal types of collateral held against loan and advances;

| | **2015** | 2014 | Principal type of Collateral held |
|---|---|---|---|
| **Credit Card and Consumer Loans** | | | |
| Mortgage Finance | **100%** | 100% | Residential Property |
| Personal Finance | - | - | |
| Credit Cards | 0.03% | - | Cash. |
| **Commercial Loans and Overdrafts** | | | |
| Commercial Real Estate | **100%** | 100% | Commercial and Residential Property |
| Other Finance | **70%** | 70% | Marketable equity securities, Property and Cash. |

### 7. Investment in a joint venture and an associate

SABB owns 51% (2014:51%) of the shares of HSBC Saudi Arabia Limited, a joint venture with HSBC. SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

SABB owns 32.5% (2014: 32.5%) of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 31 December 2015 is SAR 363.4 million (2014: SAR 346.9 million).

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **HSBC Saudi Arabia Limited** | **SABB Takaful** | **Total** | HSBC Saudi Arabia Limited | SABB Takaful | Total |
| | **SAR' 000** | **SAR' 000** | **SAR' 000** | SAR' 000 | SAR' 000 | SAR' 000 |
| Balance at beginning of the year | **526,221** | **125,453** | **651,674** | 526,302 | 120,755 | 647,057 |
| Share of undistributed profits | **128,461** | **1,884** | **130,345** | 104,755 | 4,698 | 109,453 |
| Dividend received | **(88,784)** | **-** | **(88,784)** | (104,836) | - | (104,836) |
| **Balance at end of the year** | **565,898** | **127,337** | **693,235** | 526,221 | 125,453 | 651,674 |

| **Share of joint venture and associate financial statements:** | **2015** | | 2014 | |
|---|---|---|---|---|
| | **HSBC Saudi Arabia Limited** | **SABB Takaful** | HSBC Saudi Arabia Limited | SABB Takaful |
| | **SAR' 000** | **SAR' 000** | SAR' 000 | SAR' 000 |
| Total assets | **595,506** | **277,124** | 583,020 | 289,414 |
| Total liabilities | **133,316** | **149,787** | 174,692 | 163,961 |
| Total equity | **462,190** | **127,337** | 408,328 | 125,453 |
| Total income | **294,907** | **13,546** | 331,860 | 17,523 |
| Total expenses | **166.446** | **11,662** | 227,105 | 12,825 |

## 8. Property and equipment, net

| | Land and buildings SAR'000 | Leasehold improvements SAR'000 | Equipment, furniture and vehicles SAR'000 | Software SAR'000 | 2015 Total SAR'000 | 2014 Total SAR'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 January | **693,213** | **500,350** | **459,991** | **66,992** | **1,720,546** | **1,674,754** |
| Additions | **204,627** | **87,509** | **117,880** | **14,615** | **424,631** | **151,491** |
| Disposals | **-** | **-** | **(4,143)** | **-** | **(4,143)** | **(105,699)** |
| **As at 31 December** | **897,840** | **587,859** | **573,728** | **81,607** | **2,141,034** | **1,720,546** |
| **Accumulated depreciation** | | | | | | |
| As at 1 January | **344,793** | **327,768** | **333,745** | **50,839** | **1,057,145** | **1,071,098** |
| Charge for the year | **13,056** | **31,516** | **41,297** | **10,688** | **96,557** | **86,425** |
| Disposals | **-** | **-** | **(4,123)** | **-** | **(4,123)** | **(100,378)** |
| **As at 31 December** | **357,849** | **359,284** | **370,919** | **61,527** | **1,149,579** | **1,057,145** |
| **Net book value** | | | | | | |
| **As at 31 December 2015** | **539,991** | **228,575** | **202,809** | **20,080** | **991,455** | |
| As at 31 December 2014 | 348,420 | 172,582 | 126,246 | 16,153 | | 663,401 |

Leasehold improvements and equipment, furniture, vehicles and software include work in progress as at 31 December 2015 amounting to SAR 81.6 million (2014: SAR 37.4 million) and SAR 100.8 million (2014 : SAR 53.8 million) respectively.

## 9. Other assets

| | 2015 SAR'000 | 2014 SAR'000 |
|---|---|---|
| Accrued special commission receivable | | |
| – banks and other financial institutions | **652** | 475 |
| – investments | **100,806** | 131,362 |
| – loans and advances | **522,331** | 385,707 |
| Total accrued special commission receivable | **623,789** | 517,544 |
| Accounts receivable | **147,386** | 161,555 |
| Positive fair value of derivatives (note 10) | **872,865** | 1,024,886 |
| Advance tax | **251,823** | 226,077 |
| Others | **924,732** | 2,079,881 |
| **Total** | **2,820,595** | 4,009,943 |

## 10. Derivatives

In the ordinary course of business, the Bank uses the following derivative financial instruments for both trading and hedging purposes:

***a) Forwards and futures***

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardised amounts on regulated exchanges, and changes in futures contract values are settled daily.

***b) Options***

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a predetermined price.

***c) Swaps***

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross currency special commission rate swaps, principal, fixed and floating special commission payments are exchanged in different currencies.

***d) Forward rate agreements***

Forward rate agreements are over-the-counter negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

***Risk-related adjustments***

*Bid-offer:*

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

*Credit valuation adjustment ('CVA'):*

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that SABB may not receive the full market value of the transactions.

*Debit valuation adjustment ('DVA'):*

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that SABB may default, and that SABB may not pay the full market value of the transactions.

*Credit valuation adjustment/debit valuation adjustment methodology:*

SABB calculates a separate CVA and DVA for each counterparty to which the entity has exposure. SABB calculates the CVA by applying the probability of default ('PD') of the counterparty conditional on the non default of SABB to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, SABB calculates the DVA by applying the PD of SABB, conditional on the non default of the counterparty, to the expected positive exposure of the counterparty to SABB and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

***Derivatives held for trading purposes***

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

***Derivatives held for hedging purposes***

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 29 - credit risk, note 31- market risk and note 32 - liquidity risk). Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

As part of its asset and liability management process, the Bank uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against overall statement of financial position exposures. Strategic hedging other than portfolio hedging does not qualify for hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

***Hedge effectiveness testing***

To qualify for hedge accounting, SABB requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by an entity to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined as 80% to 125%. Hedge ineffectiveness is recognised in the consolidated statement of income 'Net trading income'.

**Cash flow hedges**

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission income at a variable rate. The Bank uses commission rate swaps as cash flow hedges of these special commission rate risks. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

| **2015** | **Within 1 year** | **1-3 years** | **3-5 years** | **SAR' 000 Over 5 years** |
|---|---|---|---|---|
| Cash inflows (assets) | **5,963** | **48,771** | **129.322** | **199,969** |
| Cash out flows (liabilities) | **-** | **-** | **-** | |
| Net cash outflow | **5,963** | **48,771** | **129,322** | **199,969** |

| 2014 | Within 1 year | 1-3 years | 3-5 years |
|---|---|---|---|
| Cash inflows (assets) | - | - | - |
| Cash out flows (liabilities) | - | - | - |
| Net cash inflow | - | - | - |

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity and the monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to market risk nor credit risk, which is generally limited to the positive fair value of the derivatives.

**Notional amounts by term to maturity**

| **2015 SAR'000** | **Positive fair value** | **Negative fair value** | **Notional amount total** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|---|
| **Derivatives held for trading:** | | | | | | | |
| **Special commission rate swaps** | **332,167** | **(259,396)** | **45,436,530** | **1,510,432** | **5,617,498** | **35,862,449** | **2,446,151** |
| **Special commission rate futures and options** | **34,088** | **(34,088)** | **2,858,426** | **-** | **-** | **226,250** | **2,632,176** |
| **Spot and forward foreign exchange contracts** | **56,989** | **(52,287)** | **12,446,528** | **7,655,619** | **3,963,409** | **827,500** | **-** |
| **Currency options** | **364,518** | **(380,808)** | **290,984,536** | **44,900,089** | **122,574,007** | **123,510,440** | **-** |
| **Currency swaps** | **73,874** | **(74,049)** | **421,414** | **-** | **421,414** | **-** | **-** |
| **Others** | **8,455** | **(8,455)** | **435,573** | **3,994** | **5,794** | **425,785** | **-** |
| **Derivatives held as fair value hedges:** | | | | | | | |
| **Special commission rate swaps** | **-** | **(51,608)** | **1,452,467** | **3** | **243,750** | **571,214** | **637,500** |
| **Derivatives held as cash flow hedges:** | | | | | | | |
| **Special commission rate swaps** | **-** | **(33,474)** | **1,100,000** | **-** | **-** | **1,100,000** | **-** |
| **Currency swaps** | **2,774** | **(1,264)** | **585,938** | **-** | **-** | **585,938** | **-** |
| **Total** | **872,865** | **(895,429)** | **355,721,412** | **54,070,137** | **132,825,872** | **163,109,576** | **5,715,827** |

**Notional amounts by term to maturity**

| 2014<br>SAR'000 | Positive fair value | Negative fair value | Notional amount total | Within 3 months | 3-12 months | 1-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Derivatives held for trading: | | | | | | | |
| Special commission rate swaps | 548,911 | (465,354) | 51,325,703 | 2,885,252 | 7,671,072 | 32,900,408 | 7,868,971 |
| Special commission rate futures and options | 43,078 | (43,078) | 2,249,929 | 20,000 | 342,429 | 875,000 | 1,012,500 |
| Spot and forward foreign exchange contracts | 60,153 | (61,514) | 26,635,831 | 21,179,738 | 5,456,093 | - | - |
| Currency options | 151,473 | (154,264) | 193,156,074 | 32,001,173 | 95,215,955 | 65,938,946 | - |
| Currency swaps | 37,967 | (37,967) | 461,211 | - | - | 461,211 | - |
| Others | 166,038 | (166,038) | 833,565 | 126,183 | 7,594 | 699,788 | - |
| Derivatives held as fair value hedges: | | | | | | | |
| Special commission rate swaps | 17,266 | (48,199) | 4,121,257 | 206,250 | 2,365,254 | 442,261 | 1,107,492 |
| Total | 1,024,886 | (976,414) | 278,783,570 | 56,418,596 | 111,058,397 | 101,317,614 | 9,988,963 |

The Bank enters into structured currency option products with clients which involve one or more derivatives included in the structure. In such instances, the fair value of the individual structured product represents a net valuation of the underlying derivatives. The sum of all option notionals included in each structure as of the reporting date is disclosed in the table above.

The tables below show a summary of the hedged items, the nature of the risk being hedged, the hedging instruments and their fair values.

| 2014<br>SAR'000 | Fair value | Hedge inception value | Risk | Hedging instrument | Positive fair value | Negative fair value |
|---|---|---|---|---|---|---|
| Description of the hedged items: | | | | | | |
| Fixed commission rate investments | 1,523,484 | 1,470,671 | Fair value | Special commission rate swap | - | (51,608) |
| Fixed commission rate loans | 3 | 3 | Fair value | Special commission rate swap | - | - |
| Floating commission rate investments | 1,055,956 | 1,100,280 | Cash flow | Special commission rate swap | - | (33,474) |
| Floating commission rate investments | 594,434 | 596,759 | Cash flow | Currency rate swap | 2,774 | (1,264) |

| 2014<br>SAR'000 | Fair value | Hedge inception value | Risk | Hedging instrument | Positive fair value | Negative fair value |
|---|---|---|---|---|---|---|
| Description of the hedged items: | | | | | | |
| Fixed commission rate investments | 1,778,865 | 1,729,331 | Fair value | Special commission rate swap | 24 | (48,124) |
| Fixed commission rate loans | 163,762 | 163,765 | Fair value | Special commission rate swap | 87 | (75) |
| Fixed commission rate debt securities in issue | 2,264,678 | 2,247,361 | Fair value | Special commission rate swap | 17,155 | - |

The hedge inception value has been adjusted, where necessary, to reflect book values.

The net losses on the hedging instruments for fair value hedges are SAR 20.7 million (2014: net losses SAR 54.0 million). The net gains on the hedged item attributable to the hedged risk are SAR 20.6 million (2014: net gains SAR 55.1 million).

Approximately 26% (2014: 29%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 5% (2014: 15%) of the positive fair value contracts are with any individual counterparty at the reporting date.

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

### 11. Due to banks and other financial institutions

| | 2015 | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Current accounts | **1,284,625** | 1,702,884 |
| Money market deposits | **542,173** | 2,383,044 |
| **Total** | **1,826,798** | 4,085,928 |

Money market deposits also include deposits placed by SAMA amounting to SAR 288.4 million (2014: SAR 277.5 million).

### 12. Customers' deposits

| | 2015 | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Demand | **87,284,903** | 86,583,535 |
| Savings | **7,522,891** | 6,865,211 |
| Time | **51,568,935** | 50,235,555 |
| Margin deposits | **2,261,884** | 2,186,196 |
| **Total** | **148,638,613** | 145,870,497 |

Customers' deposits include SAR 84,628.0 million (2014: SAR 70,527.2 million) deposits under Shariah approved product contracts.

Time deposits include deposits against sale and repurchase agreement amounting to SAR Nil (2014: SAR 12.7 million).
The above deposits include the following foreign currency deposits:

| | 2015 | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Demand | **12,088,428** | 10,605,889 |
| Savings | **210,935** | 214,095 |
| Time | **6,172,869** | 8,693,171 |
| Margin deposits | **1,147,165** | 866,094 |
| **Total** | **19,619,397** | 20,379,249 |

### 13. Debt securities in issue

| | 2015 | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| USD 600 million 5 year fixed rate notes | **-** | 2,264,678 |
| SAR 1,500 million 5 year subordinated Sukuk - 2012 | **1,500,000** | 1,500,000 |
| SAR 1,500 million 7 year subordinated Sukuk - 2013 | **1,500,000** | 1,500,000 |
| SAR 1,500 million 10 year subordinated Sukuk- 2015 | **1,500,000** | - |
| **Total** | **4,500,000** | 5,264,678 |

***USD 600 million 5 year fixed rate notes***

These notes were issued during the year 2010 at a fixed rate of 3% and matured on 12 Nov 2015. The notes were unsecured and carried an effective yield of 3.148% which included a credit spread of 170 bps. The notes were non-convertible, unsecured and were listed on the London Stock Exchange.

***SAR 1,500 million 5 year subordinated Sukuk – 2012***

The Sukuk was issued by SABB on 28 March 2012 and matures in March 2017. The Sukuk was issued as a partial commercial exchange from senior to subordinated debt to the extent of SAR 1,000 million. The remaining portion of SAR 500 million was fully subscribed in cash.

The Sukuk carries effective special commission income at three months' SIBOR plus 120 bps payable quarterly. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

***SAR 1,500 million 7 year subordinated Sukuk – 2013***

The Sukuk was issued by SABB on 17 December 2013 and matures in December 2020. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SIBOR plus 140 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

***SAR 1,500 million 10 year subordinated Sukuk -2015***

The Sukuk was issued by SABB on 28 May 2015 and matures in May 2025. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

## 14. Borrowings

This represents a 12 year amortising fixed rate loan from a financial institution that carries special commission at the rate of 5.11% payable semi annually. The loan was taken on 7 July 2005 and is repayable by 15 June 2017.

## 15. Other liabilities

| | **2015** | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Accrued special commission payable | | |
| – banks and other financial institutions | **8,108** | 8,296 |
| – customers' deposits | **248,565** | 163,001 |
| – debt securities in issue | **12,938** | 17,009 |
| – borrowings | **113** | 189 |
| Total accrued special commission payable | **269,724** | 188,495 |
| Accounts payable | **592,537** | 1,843,423 |
| Drawings payable | **839,226** | 1,021,695 |
| Negative fair value of derivatives (note 10) | **895,429** | 976,414 |
| End of service benefits | **382,382** | 348,116 |
| Others | **1,584,302** | 1,860,685 |
| **Total** | **4,563,600** | 6,238,828 |

## 16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 1,500 million shares of SAR 10 each (2014: 1,000 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

| | **2015** | 2014 |
|---|---|---|
| Saudi shareholders | **60%** | 60% |
| HSBC Holdings BV | **40%** | 40% |
| (a wholly owned subsidiary of HSBC Holdings plc) | | |

During the year 2015, Bank issued bonus shares of 500 million with a nominal value of SAR 10 each on the basis of one bonus share for every two shares held through the capitalisation of retained earnings and statutory reserve account.

## 17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 1,083 million (2014: SAR 1,067 million) was transferred to statutory reserve.

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

The statutory reserve is not currently available for distribution.

### 18. Other reserves

***Cash flow and available for sale investments***

| 2015<br>SAR'000 | **Cash flow hedges** | **Available for sale investments** | **Total** |
|---|---|---|---|
| Balance at beginning of the year | **1,865** | **59,749** | **61,614** |
| Net change in fair value | **(31,964)** | **(295,809)** | **(327,773)** |
| Transfer to consolidated statement of income | **(791)** | **(66,635)** | **(67,426)** |
| Net movement during the year | **(32,755)** | **(362,444)** | **(395,199)** |
| Sub total | **(30,890)** | **(302,695)** | **(333,585)** |
| | | | |
| Treasury shares | | | **(25,792)** |
| Employee share plan reserve | | | **18,769** |
| **Sub total** | | | **(7,023)** |
| **Balance at end of the year** | | | **(340,608)** |

| 2014<br>SAR'000 | Cash flow Hedges | Available for sale investments | Total |
|---|---|---|---|
| Balance at beginning of the year | 2,656 | (13,394) | (10,738) |
| Net change in fair value | - | 80,339 | 80,339 |
| Transfer to consolidated statement of income | (791) | (7,196) | (7,987) |
| Net movement during the year | (791) | 73,143 | 72,352 |
| Balance at end of the year | 1,865 | 59,749 | 61,614 |

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 0.8 million (2014: SAR 0.8 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

### 19. Commitments and contingencies

***a) Legal proceedings***

As at 31 December 2015, there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

***b) Capital commitments***

As at 31 December 2015, the Bank has capital commitments of SAR 193.8 million (2014: SAR 228.9 million) in respect of land, buildings and equipment purchases.

***c) Credit related commitments and contingencies***

Credit related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers.

The cash requirement under these instruments is considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfil their primary obligation.

Commitments to extend credit represent the unutilised portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unutilised commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unutilised commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or be terminated without being funded.

***d) The contractual maturity structure of the Bank's credit related commitments and contingencies is as follows:***

| **2015 SAR'000** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Letters of credit | **8,158,313** | **3,692,441** | **380,103** | **1,122,511** | **13,353,368** |
| Guarantees | **10,138,625** | **22,721,667** | **24,265,160** | **6,345,628** | **63,471,080** |
| Acceptances | **2,403,501** | **1,194,445** | **15,158** | **-** | **3,613,104** |
| Irrevocable commitments to extend credit | **-** | **1,130,000** | **829,373** | **2,136,335** | **4,095,708** |
| **Total** | **20,700,439** | **28,738,553** | **25,489,794** | **9,604,474** | **84,533,260** |

| 2014 SAR'000 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Letters of credit | 7,807,909 | 6,361,435 | 962,243 | - | 15,131,587 |
| Guarantees | 9,131,576 | 21,306,928 | 23,926,067 | 7,093,607 | 61,458,178 |
| Acceptances | 2,718,790 | 465,653 | 5,664 | - | 3,190,107 |
| Irrevocable commitments to extend credit | 130,063 | - | 214,881 | 1,367,381 | 1,712,325 |
| Total | 19,788,338 | 28,134,016 | 25,108,855 | 8,460,988 | 81,492,197 |

The outstanding unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 75,252 million (2014: SAR 66,720 million).

***e) The analysis of credit related commitments and contingencies by counterparty is as follows:***

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| Government and quasi government | **2,532,751** | 552,636 |
| Corporate | **67,466,296** | 66,736,597 |
| Banks and other financial institutions | **14,462,283** | 14,111,367 |
| Other | **71,930** | 91,597 |
| **Total** | **84,533,260** | 81,492,197 |

***f) Operating lease commitments***

The future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows:

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| Less than 1 year | **81,577** | 79,806 |
| 1 to 5 years | **196,195** | 214,839 |
| Over 5 years | **128,877** | 145,359 |

# Notes to the Consolidated Financial Statements (31 December 2015) (continued)

| | | |
|---|---|---|
| **Total** | **406,649** | 440,004 |

## 20. Net special commission income

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| **Special commission income** | | |
| Investments | | |
| –available for sale investments | **509,648** | 547,525 |
| – held at amortised cost | **19,771** | 5,817 |
| | **529,419** | 553,342 |
| Due from banks and other financial institutions | **10,932** | 24,069 |
| Loans and advances | **4,273,070** | 4,048,540 |
| **Total** | **4,813,421** | 4,625,951 |
| Special commission expense | | |
| Due to banks and other financial institutions | **27,080** | 12,188 |
| Customers' deposits | **397,832** | 424,828 |
| Debt securities in issue | **131,065** | 121,138 |
| Borrowings | **3,566** | 5,190 |
| **Total** | **559,543** | 563,344 |
| **Net special commission income** | **4,253,878** | 4,062,607 |

## 21. Fees and commission income, net

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| **Fee and commission income:** | | |
| - Fund management fees | **44,467** | 88,900 |
| - Trade finance | **822,807** | 881,231 |
| - Corporate finance and advisory | **199,872** | 193,730 |
| - Cards | **387,828** | 334,131 |
| - Other banking services | **386,228** | 385,060 |
| **Total fee and commission income** | **1,841,202** | 1,883,052 |
| **Fee and commission expense:** | | |
| - Cards | **(182,688)** | (151,579) |
| - Custodial services | **(942)** | (843) |
| - Other banking services | **(107,301)** | (85,630) |
| **Total fee and commission expense** | **(290,931)** | (238,052) |
| **Fees and commission income, net** | **1,550,271** | 1,645,000 |

## 22. Trading income, net

| | **2015 SAR'000** | 2014 SAR'000 |
|---|---|---|
| Foreign exchange income, net | **186,040** | 221,998 |
| Derivatives | **66,679** | 46,896 |
| Debt securities | **(232)** | (7) |
| Others | **(105)** | 1,121 |
| **Total** | **252,382** | 270,008 |

## 23. Gains on non-trading investments, net

| | 2015 | 2014 |
|---|---|---|
| | SAR'000 | SAR'000 |
| Available for sale investments | **66,634** | 7,196 |

## 24. Salaries and employee related expenses

| | 2015 | 2014 |
|---|---|---|
| | SAR'000 | SAR'000 |
| Salaries and allowance | **717,890** | 662,584 |
| Housing allowance | **120,313** | 113,929 |
| End of service benefits | **66,390** | 44,227 |
| Others | **348,132** | 332,105 |
| **Total** | **1,252,725** | 1,152,845 |

### *a) Quantitative Disclosure*

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended 31 December 2015 and 31 December 2014, and the forms of such payments.

| **2015** | | **Fixed** | **Variable compensation paid in 2015** | | |
|---|---|---|---|---|---|
| **Category** | **Number of Employees** | **compensation SAR'000** | **Cash SAR'000** | **Shares SAR'000** | **Total SAR'000** |
| Senior executives requiring SAMA no objection | **16** | **26,155** | **14,561** | **6,685** | **21,246** |
| Employees engaged in risk taking activities | **547** | **176,207** | **59,980** | **4,872** | **64,852** |
| Employees engaged in control functions | **272** | **93,986** | **22,492** | **1,490** | **23,982** |
| Other employees | **2,616** | **474,502** | **82,587** | **300** | **82,887** |
| Outsourced employees | **404** | **29,998** | **8,364** | **-** | **8,364** |
| **Total** | **3,855** | **800,848** | **187,984** | **13,347** | **201,331** |

| | |
|---|---|
| Variable compensation accrued or paid in 2015 | **213,719** |
| Other employee related benefits | **238,158** |
| Total salaries and employee related expenses | **1,252,725** |

| 2014 | | Fixed | Variable compensation paid in 2014 | | |
|---|---|---|---|---|---|
| Category | Number of employees | compensation SAR'000 | Cash SAR'000 | Shares SAR'000 | Total SAR'000 |
| Senior executives requiring SAMA no objection | 16 | 28,220 | 17,146 | 8,654 | 25,800 |
| Employees engaged in risk taking activities | 433 | 137,292 | 51,761 | 3,357 | 55,118 |
| Employees engaged in control functions | 226 | 81,684 | 21,967 | 759 | 22,726 |
| Other employees | 2,639 | 475,599 | 112,653 | 386 | 113,039 |
| Outsourced employees | 399 | 29,258 | 9,696 | - | 9,696 |
| Total | 3,713 | 752,053 | 213,223 | 13,156 | 226,379 |

| | |
|---|---|
| Variable compensation accrued or paid in 2014 | 251,669 |
| Other employee related benefits | 149,123 |
| Total salaries and employee related expenses | 1,152,845 |

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

***Senior executives (requiring SAMA no objection):***

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank whose appointment requires no objection from SAMA. This covers the Managing Director and other executives directly reporting to him.

***Employees engaged in risk taking activities:***

This comprises of management staff within the business lines (Corporate, Trade Services, Private Banking and Treasury employees), who are responsible for executing and implementing the business strategy on behalf of the Bank. This also includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals and treasury dealing activities.

***Employees engaged in control functions:***

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Internal Audit, Treasury Operation, Amanah Islamic Banking Services, Finance and Accounting). These functions are fully independent from risk taking units.

***Other employees:***

This includes all other employees of the Bank, excluding those already reported under categories mentioned above.

***Outsourced employees:***

This includes staff employed by various agencies who supply services to the Bank on a full-time basis in non-critical roles. None of these roles require risk undertaking or control.

**b) Qualitative Disclosure**

***Compensation disclosure for the Annual Financial Statements***

SAMA being the Banking industry regulator for the Kingdom of Saudi Arabia has issued its Rules on compensation practices. In compliance with the SAMA Rules on compensation practices, a compensation policy endorsed by Nomination and Remuneration Committee and approved by the Board of Directors has been formulated and implemented.

***SABB Compensation Policy***

***i.Policy Objectives***

The policy sets the guidelines as to how both fixed and variable pay will be managed at SABB. The scope of policy covers the following: all categories of employees; its subsidiaries; all compensation elements; key determinants of compensation; approval process; reporting processes; bonus deferral process; share retention and relevant stakeholder's roles and responsibilities.

The objectives of the policy are to: align the reward practices with the Bank's strategy & values so as to support the successful execution of the strategy in a risk compliant manner; offer an attractive employee value proposition to attract, retain and motivate competent and committed people ; and ensure the financial sustainability of SABB.

***i i .Compensation Structure***

SABB's compensation operates on a Total Package basis that is benchmarked to market data from peers in the appropriate industry. Total Package comprises of the following blend of fixed and variable compensation elements: salaries, allowances; benefits; annual bonuses; short-term incentives; and long-term incentives.

***i i i .Performance Management System***

The performance of all employees is evaluated against agreed targets using a Performance Scorecard methodology, financial, customer, process and people. A calibration process is applied to ensure fair and equitable performance evaluation. The performance management methodology at SABB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance within a risk compliant manner.

***i v. Risk-adjustment for Variable Pay schemes***

The Bank has reviewed all its variable pay schemes, with the assistance of external remuneration consultants, to ensure that any bonus pay pools have taken into account all relevant risks. The determination of bonus pools is based on appropriate performance factors adjusted for risk. The bonus pool for the Control functions have been ring fenced from short term profits in alignment with SAMA regulations.

***v.Bonus Deferral***

Bonus deferral in the form of equity applies to all employees who are either subject to SAMA "No Objection" and /or undertake or control significant risk undertaking by the Bank. Bonuses of all these employees will be subject to deferral over a three year vesting period. The vesting will be subject to malus conditions.

***vi.Nomination and Remuneration Committee***

The Nomination and Remuneration Committee has oversight of the remuneration structures and policies for all employees to ensure that: all performance based bonuses are adjusted for risk, compensation structures are regulatory compliant, and effective in achieving its stated objectives.

**25. Basic and diluted earnings per share**

Basic and diluted earnings per share for the year ended 31 December 2015 and 2014 is calculated by dividing the net income for the year attributable to the equity holders by the weighted average number of issued shares. The weighted average number of shares have been retrospectively adjusted for the prior year to reflect the effect of the bonus share issue.

**26. Gross dividend, Zakat and income tax**

The Board of Directors has proposed a gross final dividend of SAR 570 million for the year 2015 (2014: SAR 1,150 million). During 2015, an interim dividend of SAR 675 million (2014: Nil) was also proposed and paid. Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

***Saudi shareholders:***

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 64.8 million (2014: SAR 62.7 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR
0.75 per share (2014: SAR 1.05 per share).

***Non Saudi shareholders***

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 340.4 million (2014: SAR 336.4 million).

The share of dividend of HSBC Holdings BV will be paid after deducting the related taxes due as described above.

***Status of Zakat and Income Tax assessments***

SABB has filed its Zakat and Income Tax returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax (the "DZIT"). SABB has received Zakat and Income Tax assessments for the years up to 2009 raising additional demands aggregating to SAR 487 million.

The above additional exposure is mainly on account of disallowance of certain long-term investments by the DZIT. The basis for the additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. SABB has also formally contested these assessments before the Preliminary Tax Appeal Committee. The revised zakat and tax assessments, after giving the effect to the appeal committee's decision, should raise demands aggregating to SAR 433 million for these years. The DZIT has yet to raise the revised assessments.

SABB has filed an appeal before the Appellate Committee for Tax Appeal for certain unfavourable rulings.

The Zakat and Income Tax assessments for the years 2010 to 2014 have not been finalized by the DZIT and SABB may not be able to determine reliably the impact of such assessments.

The DZIT has raised a withholding tax claim in relation to bonus shares issued and dividends paid to non-Saudi shareholders for the years 2005 to 2009 amounting to SAR 155 million. Subsequent to the reporting period, the Bank has settled the claim. In addition, the DZIT has raised a further withholding tax claim of SAR 150 million in relation to bonus shares issued in 2012 and 2015.

**27. Cash and cash equivalents**

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

| | **2015** | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| Cash and balances with SAMA excluding the statutory deposit amounting to SAR 9,056 million (2014: SAR 8,677 million) (note 3) | **1,885,901** | 10,636,920 |
| Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition | **11,452,236** | 2,375,121 |
| **Total** | **13,338,137** | 13,012,041 |

**28. Operating segments**

The Bank's primary business is conducted in Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

***a) The Bank's reportable segments are as follows:***

**Retail Banking** –caters mainly to the banking requirements of personal and private banking customers.
**Corporate Banking** –caters mainly to the banking requirements of commercial and corporate banking customers.
**Treasury** –manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for

funding the Bank's operations and managing the Bank's investment portfolio and liquidity position.
**Others** – includes activities of investment in a joint venture and an associate.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2015 and 2014, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

| **2015 SAR'000** | **Retail Banking** | **Corporate Banking** | **Treasury** | **Others** | **Total** |
|---|---|---|---|---|---|
| Total assets | **33,000,077** | **96,850,258** | **57,206,853** | **693,235** | **187,750,423** |
| Total liabilities | **61,345,170** | **75,311,894** | **22,918,822** | **-** | **159,575,886** |
| Investment in a joint venture and an associate | **-** | **-** | **-** | **693,235** | **693,235** |
| Total operating income | **2,311,689** | **2,970,362** | **1,348,576** | **-** | **6,630,627** |
| Total operating expenses | **1,465,074** | **829,361** | **135,990** | **-** | **2,430,425** |
| Share in earnings of joint venture and associate | **-** | **-** | **-** | **130,345** | **130,345** |
| Net income for the year | **846,615** | **2,141,001** | **1,212,586** | **130,345** | **4,330,547** |
| Net special commission income | **1,638,171** | **1,797,451** | **818,256** | **-** | **4,253,878** |
| Fees and commission income, net | **411,090** | **1,140,138** | **(957)** | **-** | **1,550,271** |
| Trading income, net | **-** | **30,337** | **222,045** | **-** | **252,382** |
| Credit losses and impairment provision, net | **269,144** | **160,572** | **(9,631)** | **-** | **420,085** |

| 2014 SAR'000 | Retai Banking | Corporate Banking | Treasury | Others | Total |
|---|---|---|---|---|---|
| Total assets | 35,455,551 | 84,313,335 | 67,188,708 | 651,674 | 187,609,268 |
| Total liabilities | 57,653,291 | 80,471,238 | 23,413,527 | - | 161,538,056 |
| Investment in a joint venture and an associate | - | - | - | 651,674 | 651,674 |
| Total operating income | 2,311,809 | 2,929,131 | 1,261,269 | - | 6,502,209 |
| Total operating expenses | 1,370,435 | 826,765 | 148,401 | - | 2,345,601 |
| Share in earnings of joint venture and associate | - | - | - | 109,453 | 109,453 |
| Net income for the year | 941,374 | 2,102,366 | 1,112,868 | 109,453 | 4,266,061 |
| Net special commission income | 1,749,653 | 1,503,716 | 809,238 | - | 4,062,607 |
| Fees and commission income, net | 445,336 | 1,200,807 | (1,143) | - | 1,645,000 |
| Trading income, net | - | 52,108 | 217,900 | - | 270,008 |
| Credit losses and impairment provision, net | 250,505 | 200,251 | (949) | - | 449,807 |

***b) The Bank's credit exposure by operating segment is as follows:***

| **2015 SAR'000** | **Retail Banking** | **Corporate Banking** | **Treasury** | **Total** |
|---|---|---|---|---|
| Assets | **30,270,243** | **95,154,062** | **56,300,561** | **181,724,866** |
| Commitments and contingencies | **85,321** | **39,642,851** | **-** | **39,728,172** |
| Derivatives | **-** | **-** | **2,303,539** | **2,303,539** |
| **Total** | **30,355,564** | **134,796,913** | **58,604,100** | **223,756,577** |

| 2014 SAR'000 | Retail Banking | Corporate Banking | Treasury | Total |
|---|---|---|---|---|
| Assets | 32,932,041 | 82,288,756 | 64,754,668 | 179,975,465 |
| Commitments and contingencies | 45,666 | 37,716,991 | - | 37,762,657 |
| Derivatives | - | - | 2,137,569 | 2,137,569 |
| Total | 32,977,707 | 120,005,747 | 66,892,237 | 219,875,691 |

Credit exposure comprises the carrying value of assets excluding cash, property and equipment, other assets, investment in joint venture and associate and equity investments, and the credit equivalent value for commitments, contingencies and derivatives is based on the credit conversion factor as prescribed by the SAMA.

**29. Credit risk**

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 manages exposure to credit risk, which 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 and contingencies and derivatives.

The Bank 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 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. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transactions to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank 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. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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 regularly reviews its risk management policies and systems to reflect changes in market's products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 19. The information on Bank's maximum credit exposure by operating segment is given in note 28.

**a) Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure**

| **2015** <br> **SAR'000** | **Kingdom of Saudi Arabia** | **GCC and Middle East** | **Europe** | **North America** | **Other Countries** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with SAMA | **10,942,268** | **-** | **-** | **-** | **-** | **10,942,268** |
| Due from banks and other financial institutions | **2,450,000** | **1,416,160** | **1,938,547** | **5,592,991** | **54,628** | **11,452,326** |
| Investments, net | **28,629,367** | **5,659,010** | **466,675** | **43,317** | **627,870** | **35,426,239** |
| Loans and advances, net | **124,710,007** | **375,000** | **318,750** | **20,548** | **-** | **125,424,305** |
| Investment in a joint venture and associate | **693,235** | **-** | **-** | **-** | **-** | **693,235** |
| **Total** | **167,424,877** | **7,450,170** | **2,723,972** | **5,656,856** | **682,498** | **183,938,373** |
| **Liabilities** | | | | | | |
| Due to banks and other financial institutions | **246,224** | **815,342** | **578,749** | **161,905** | **24,578** | **1,826,798** |
| Customer deposits | **147,593,882** | **6,218** | **925,696** | **24,805** | **88,012** | **148,638,613** |
| Debt securities in issue | **4,500,000** | **-** | **-** | **-** | **-** | **4,500,000** |
| Borrowings | **-** | **-** | **46,875** | **-** | **-** | **46,875** |
| **Total** | **152,340,106** | **821,560** | **1,551,320** | **186,710** | **112,590** | **155,012,286** |
| **Commitments and contingencies** | **71,464,891** | **1,361,117** | **4,703,690** | **1,510,942** | **5,492,620** | **84,533,260** |
| | | | | | | |
| **Credit exposure (stated at credit equivalent amounts)** | | | | | | |
| Assets | **164,223,678** | **7,405,968** | **2,723,972** | **5,656,856** | **682,498** | **180,692,972** |
| Commitments and contingencies | **29,813,723** | **660,126** | **2,321,538** | **500,320** | **2,689,290** | **35,984,997** |
| Derivatives | **1,641,852** | **136,423** | **514,748** | **-** | **10,516** | **2,303,539** |
| **Total credit exposure** | **195,679,253** | **8,202,517** | **5,560,258** | **6,157,176** | **3,382,304** | **218,981,508** |

| 2014 <br> SAR'000 | Kingdom of Saudi Arabia | GCC and Middle East | Europe | North America | Other Countries | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances with SAMA | 19,313,766 | - | - | - | - | 19,313,766 |
| Due from banks and other financial institutions | - | 306,019 | 497,144 | 1,551,527 | 114,181 | 2,468,871 |
| Investments, net | 38,164,171 | 5,796,696 | 367,742 | 49,262 | 902,945 | 45,280,816 |
| Loans and advances, net | 114,419,804 | 375,000 | 397,500 | 28,493 | - | 115,220,797 |
| Investment in a joint venture and associate | 651,674 | - | - | - | - | 651,674 |
| Total | 172,549,415 | 6,477,715 | 1,262,386 | 1,629,282 | 1,017,126 | 182,935,924 |
| Liabilities | | | | | | |
| Due to banks and other financial institutions | 282,004 | 2,659,203 | 477,665 | 651,414 | 15,642 | 4,085,928 |
| Customer deposits | 145,074,622 | 13,707 | 665,061 | 16,486 | 100,621 | 145,870,497 |
| Debt securities in issue | 3,000,000 | - | 2,264,678 | - | - | 5,264,678 |
| Borrowings | - | - | 78,125 | - | - | 78,125 |
| Total | 148,356,626 | 2,672,910 | 3,485,529 | 667,900 | 116,263 | 155,299,228 |
| Commitments and contingencies | 69,104,176 | 946,306 | 4,895,774 | 321,998 | 6,223,943 | 81,492,197 |
| | | | | | | |
| Credit exposure (stated at credit equivalent amounts) | | | | | | |
| Assets | 169,638,702 | 6,427,969 | 1,262,386 | 1,629,282 | 1,017,126 | 179,975,465 |
| Commitments and contingencies | 31,777,737 | 466,088 | 2,453,745 | 136,545 | 2,928,542 | 37,762,657 |
| Derivatives | 1,401,683 | 164,214 | 560,020 | 909 | 10,743 | 2,137,569 |
| Total credit exposure | 202,818,122 | 7,058,271 | 4,276,151 | 1,766,736 | 3,956,411 | 219,875,691 |

**a) The distributions by geographical concentration of impaired loans and advances and provision for credit losses are as follows:**

| **2015 SAR'000** | **Saudi Arabia** | **GCC and Middle East** | **Europe** | **North America** | **Other Countries** | **Total** |
|---|---|---|---|---|---|---|
| **Non performing loans, net** | **1,517,272** | **-** | **-** | **-** | **-** | **1,517,272** |
| **Provision for credit loss** | **2,486,546** | **-** | **-** | **-** | **-** | **2,486,54** |

| 2014 SAR'000 | Saudi Arabia | GCC and Middle East | Europe | North America | Other Countries | Total |
|---|---|---|---|---|---|---|
| Non performing loans, net | 1,494,932 | - | - | - | - | 1,492,932 |
| Provision for credit loss | 2,402,545 | - | - | - | - | 2,402,545 |

## 30. Market risk

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading and non-trading or banking-book.

Market Risk exposures in the trading book are restricted to derivatives classified as held for trading as disclosed in these financial statements. Market Risk exposures in the non-trading or banking book arise on special commission rate risk and equity price risk as disclosed in part b) of this disclosure.

The market risk for the trading book is managed and monitored using Value at Risk (VAR) methodology. Market risk for non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

***a) Market risk-trading book***

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank applies a VAR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for change in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, the Bank also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's ALCO committee for their review.

The Bank's VAR related information is as under.

| **2015**<br>**SAR'000** | **Foreign exchange** | **Special commission rate** | **Overall risk** |
|---|---|---|---|
| VAR as at 31December 2015 | **474** | **562** | **650** |
| Average VAR for 2015 | **300** | **444** | **607** |
| Minimum VAR for 2015 | **11** | **51** | **115** |
| Maximum VAR for 2015 | **1,966** | **1,062** | **2,437** |

| 2014<br>SAR'000 | Foreign exchange | Special commission rate | Overall risk |
|---|---|---|---|
| VAR as at 31December 2014 | 364 | 70 | 356 |
| Average VAR for 2014 | 1,571 | 291 | 1,672 |
| Minimum VAR for 2014 | 43 | (148) | 146 |
| Maximum VAR for 2014 | 11,460 | 1,122 | 11,485 |

***b) Market risk – non trading or banking book***

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

***i) Special commission rate risk***

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non- trading financial assets and financial liabilities repricing as at 31 December 2015, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets; including the effect of any associated hedges as at 31 December 2015 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represent only those exposures that directly impact OCI of the Bank.

| | | | **2015** | | | | **SAR'000** |
|---|---|---|---|---|---|---|---|
| **Currency** | **Increase in basis points** | **Sensitivity of Special Commission Income** | **Sensitivity of Equity** | | | | |
| | | | **6months or less** | **1 year or less** | **1-5 years or less** | **Over 5 years** | **Total** |
| **SAR** | **+ 100** | **(49,847)** | **(38,820)** | **(5,492)** | **(28,846)** | **-** | **(73,158)** |
| **USD** | **+ 100** | **13,783** | **(22,550)** | **(26,310)** | **(69,503)** | **(2,361)** | **(120,724)** |
| **EUR** | **+ 100** | **1,069** | **(1,815)** | **(1,659)** | **(11,613)** | **(416)** | **(15,503)** |
| **Others** | **+ 100** | **17** | **-** | **-** | **-** | **-** | **-** |

## Notes to the Consolidated Financial Statements (31 December 2015) (continued)

| | | | **2015** | | | | **SAR'000** |
|---|---|---|---|---|---|---|---|
| **Currency** | **Decrease in basis points** | **Sensitivity of Special Commission Income** | **Sensitivity of Equity** | | | | |
| | | | **6months or less** | **1 year or less** | **1-5 years or less** | **Over 5 years** | **Total** |
| **SAR** | **- 100** | **49,847** | **38,820** | **5,492** | **28,846** | **-** | **73,158** |
| **USD** | **- 100** | **(13,783)** | **22,550** | **26,310** | **69,503** | **2,361** | **120,724** |
| **EUR** | **- 100** | **(1,069)** | **1,815** | **1,659** | **11,613** | **416** | **15,503** |
| **Others** | **- 100** | **(17)** | **-** | **-** | **-** | **-** | **-** |

| | | | 2014 | | | | SAR'000 |
|---|---|---|---|---|---|---|---|
| Currency | Increase in basis points | Sensitivity of Special Commission Income | Sensitivity of Equity | | | | |
| | | | 6months or less | 1 year or less | 1-5 years or less | Over 5 years | Total |
| SAR | + 100 | (24,385) | (106,440) | (58,228) | (46,845) | (25,933) | (237,446) |
| USD | + 100 | (6,345) | (29,528) | (30,006) | (114,716) | (5,835) | (180,085) |
| EUR | + 100 | 1,327 | (1,809) | (1,942) | (14,699) | (3,999) | (22,449) |
| Others | + 100 | 12 | (137) | (148) | (1,026) | - | (1,311) |

| | | | 2014 | | | | SAR'000 |
|---|---|---|---|---|---|---|---|
| Currency | Decrease in basis points | Sensitivity of Special Commission Income | Sensitivity of Equity | | | | |
| | | | 6months or less | 1 year or less | 1-5 years or less | Over 5 years | Total |
| SAR | - 100 | 24,385 | 106,440 | 58,228 | 46,845 | 25,933 | 237,446 |
| USD | - 100 | 6,345 | 29,528 | 30,006 | 114,716 | 5,835 | 180,085 |
| EUR | - 100 | (1,327) | 1,809 | 1,942 | 14,699 | 3,999 | 22,449 |
| Others | - 100 | (12) | 137 | 148 | 1,026 | - | 1,311 |

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or the maturity dates. The Bank is exposed to special commission rate risks as a result of mismatches or gaps in the amounts of assets and liabilities and derivative financial instruments that reprice or mature in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

| 2015<br>SAR'000 | Within 3months | 3-12 months | 1-5 years | Over 5 years | Non special commission bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with SAMA | 365,649 | - | - | - | 10,576,619 | 10,942,268 |
| Due from banks and other financial institutions | 11,452,326 | - | - | - | - | 11,452,326 |
| Investments, net | 11,692,472 | 8,327,965 | 6,064,606 | 8,339,891 | 1,001,304 | 35,426,238 |
| Loans and advances, net | 74,017,804 | 20,372,104 | 19,407,463 | 11,626,935 | - | 125,424,306 |
| Investment in a joint venture and associate | - | - | - | - | 693,235 | 693,235 |
| Property and equipment, net | - | - | - | - | 991,455 | 991,455 |
| Other assets | 35,538 | 140,610 | 573,835 | 122,882 | 1,947,730 | 2,820,595 |
| **Total assets** | 97,563,789 | 28,840,679 | 26,045,904 | 20,089,708 | 15,210,343 | 187,750,423 |
| **Liabilities and shareholders' equity** | | | | | | |
| Due to banks and other financial institutions | 1,826,798 | - | - | - | - | 1,826,798 |
| Customer deposits | 38,480,928 | 13,092,679 | 3,473,199 | 301,303 | 93,290,504 | 148,638,613 |
| Debt securities in issue | 1,500,000 | 3,000,000 | - | - | - | 4,500,000 |
| Borrowings | - | 46,875 | - | - | - | 46,875 |
| Other liabilities | 39,785 | 142,218 | 583,769 | 129,657 | 3,668,171 | 4,563,600 |
| Shareholders' equity | - | - | - | - | 28,174,537 | 28,174,537 |
| **Total liabilities and shareholders' equity** | 41,847,511 | 16,281,772 | 4,056,968 | 430,960 | 125,133,212 | 187,750,423 |
| **Commission rate sensitivity on assets and liabilities** | 55,716,278 | 12,558,907 | 21,988,936 | 19,658,748 | (109,922,869) | |
| **Commission rate sensitivity on derivative financial instruments** | 1,158,402 | (463,750) | (57,152) | (637,500) | - | |
| **Total special commission rate sensitivity gap** | 56,874,680 | 12,095,157 | 21,931,784 | 19,021,248 | (109,922,869) | |
| **Cumulative special commission rate sensitivity gap** | 56,874,680 | 68,969,837 | 90,901,621 | 109,922,869 | - | |

# Notes to the Consolidated Financial Statements (31 December 2015) (continued)

| 2015 SAR'000 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non special commission bearing | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances with SAMA | **8,595,941** | **-** | **-** | **-** | **10,717,825** | **19,313,766** |
| Due from banks and other financial institutions | **2,375,121** | **93,750** | **-** | **-** | **-** | **2,468,871** |
| Investments, net | **13,270,871** | **22,199,685** | **5,662,296** | **3,117,648** | **1,030,316** | **45,280,816** |
| Loans and advances, net | **68,935,917** | **18,456,488** | **17,569,929** | **10,258,463** | **-** | **115,220,797** |
| Investment in a joint venture and associate | **-** | | **-** | **-** | **651,674** | **651,674** |
| Property and equipment, net | **-** | **-** | **-** | **-** | **663,401** | **663,401** |
| Other assets | **109,314** | **175,989** | **567,188** | **172,395** | **2,985,057** | **4,009,943** |
| **Total assets** | **93,287,164** | **40,925,912** | **23,799,413** | **13,548,506** | **16,048,273** | **187,609,268** |
| **Liabilities and shareholders' equity** | | | | | | |
| Due to banks and other financial institutions | **4,085,928** | **-** | **-** | **-** | **-** | **4,085,928** |
| Customer deposits | **44,347,300** | **10,889,172** | **1,864,294** | **-** | **88,769,731** | **145,870,497** |
| Debt securities in issue | **1,500,000** | **1,500,000** | **2,264,678** | **-** | **-** | **5,264,678** |
| Borrowings | **-** | **31,250** | **46,875** | **-** | **-** | **78,125** |
| Other liabilities | **114,655** | **156,848** | **550,524** | **154,387** | **5,262,414** | **6,238,828** |
| Shareholders' equity | **-** | **-** | **-** | **-** | **26,071,212** | **26,071,212** |
| **Total liabilities and shareholders' equity** | **50,047,883** | **12,577,270** | **4,726,371** | **154,387** | **120,103,357** | **187,609,268** |
| **Commission rate sensitivity on assets and liabilities** | **43,239,281** | **28,348,642** | **19,073,042** | **13,394,119** | **(104,055,084)** | |
| **Commission rate sensitivity on derivative financial instruments** | **(734,993)** | **2,284,746** | **(442,261)** | **(1,107,492)** | **-** | |
| **Total special commission rate sensitivity gap** | **42,504,288** | **30,633,388** | **18,630,781** | **12,286,627** | **(104,055,084)** | |
| **Cumulative special commission rate sensitivity gap** | **42,504,288** | **73,137,676** | **91,768,457** | **104,055,084** | **-** | |

***ii) Currency risk***

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank does not maintain material non trading open currency positions. Foreign currency exposures that arise in the non trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 31(a) reflects the Bank's total exposure to currency risk.

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency, and in total for both overnight and intraday positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

| | **2015 SAR'000 Long (short)** | 2014 SAR'000 Long (short) |
|---|---|---|
| US Dollar | **1,785,761** | (2,110,875) |
| Euro | **(8,933)** | (2,760) |
| Sterling Pounds | **(1,264)** | (555) |
| Other | **(12,612)** | 3,156 |

### iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non trading equity price risk exposure arises from equity securities classified as available for sale. A 10 per cent increase or decrease in the value of the bank's available for sale equities at 31 December 2015 would have correspondingly increase or decrease equity by SAR 102 million (2014: SAR 102 million).

## 31. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development securities.

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and does not take account of effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. All derivatives used for hedging purposes are shown by maturity based on their contractual, undiscounted repayment obligations. As the major portion of the derivatives trading book comprises of back to back transactions and consequently the open derivatives trading exposures are small, the management believes that the inclusion of trading derivatives in the contractual maturity table is not relevant for an understanding of the timing of cash flows and hence these have been excluded.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The weekly liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. A summary report, covering the bank and operating subsidiaries, including any exceptions and remedial action taken, is submitted monthly to ALCO.

### a) Analysis of financial liabilities by remaining contractual maturities :

The table below sets out Bank's contractual undiscounted financial liabilities.

| 2015<br>SAR'000 | Within 3<br>Months | 3-12<br>months | 1-5<br>years | Over 5<br>years | No fixed<br>maturity | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks and other financial institutions | - | **1,538,406** | **290,589** | - | - | **1,828,995** |
| Customer deposits | **127,008,688** | **15,527,593** | **6,093,078** | **301,303** | - | **148,930,662** |
| Debt securities in issue | **8,199** | **104,205** | **3,326,632** | **1,668,407** | - | **5,107,443** |
| Borrowings | - | **33,279** | **16,029** | - | - | **49,308** |
| Other liabilities | - | - | - | - | **3,398,448** | **3,398,448** |
| Derivatives : | | | | | | |
| - Contractual amounts payable (receivable) | **26,593** | **92,908** | **311,991** | **174,599** | - | **606,091** |
| **Total undiscounted financial liabilities** | **127,043,480** | **17,296,391** | **10,038,319** | **2,144,309** | **3,398,448** | **159,920,947** |

# Notes to the Consolidated Financial Statements (31 December 2015) (continued)

| 2014 SAR'000 | Within 3 Months | 3-12 months | 1-5 years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Due to banks and other financial institutions | 3,805,550 | - | 299,259 | - | - | 4,104,809 |
| Customer deposits | 136,886,875 | 3,287,793 | 5,870,790 | 218,168 | - | 146,263,626 |
| Debt securities in issue | 8,132 | 2,377,271 | 1,688,126 | 1,535,376 | - | 5,608,905 |
| Borrowings | - | 34,892 | 49,308 | - | - | 84,200 |
| Other liabilities | - | - | - | - | 5,073,919 | 5,073,919 |
| Derivatives : | | | | | | |
| - Contractual amounts payable (receivable) | 37,858 | 43,537 | (297) | - | - | 81,098 |
| Total undiscounted financial liabilities | 140,738,415 | 5,743,493 | 7,907,186 | 1,753,544 | 5,073,919 | 161,216,557 |

***a) Maturity analysis of assets and liabilities :***

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

| **2015 SAR'000** | **Within 3 months** | **3-12 Months** | **1-5 Years** | **Over 5 years** | **No fixed maturity** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with SAMA | **1,885,901** | **-** | **-** | **-** | **9,056,367** | **10,942,268** |
| Due from banks and other financial institutions | **11,452,326** | | **-** | **-** | **-** | **11,452,326** |
| Investments, net | **12,077,926** | **7,177,779** | **11,857,463** | **3,281,158** | **1,031,913** | **35,426,239** |
| Loans and advances, net | **51,864,487** | **24,137,292** | **25,742,228** | **23,680,298** | **-** | **125,424,305** |
| Investment in a joint venture and associate | **-** | **-** | **-** | **-** | **693,235** | **693,235** |
| Property and equipment, net | **-** | **-** | **-** | **-** | **991,455** | **991,455** |
| Other assets | **35,538** | **140,610** | **573,835** | **122,882** | **1,947,730** | **2,820,595** |
| **Total assets** | **77,316,178** | **31,455,681** | **38,173,526** | **27,084,338** | **13,720,700** | **187,750,423** |
| **Liabilities and shareholders' equity** | | | | | | |
| Due to banks and other financial institutions | **1,538,392** | **288,406** | **-** | **-** | **-** | **1,826,798** |
| Customer deposits | **132,567,690** | **10,293,951** | **5,583,762** | **193,210** | **-** | **148,638,613** |
| Debt securities in issue | **-** | | **4,500,000** | **-** | **-** | **4,500,000** |
| Borrowings | **-** | | **46,875** | **-** | **-** | **46,875** |
| Other liabilities | **39,785** | **142,218** | **583,768** | **129,658** | **3,668,171** | **4,563,600** |
| Shareholders' equity | **-** | **-** | **-** | **-** | **28,174,537** | **28,174,537** |
| **Total liabilities and shareholders' equity** | **134,145,867** | **10,724,575** | **10,714,405** | **322,868** | **31,842,708** | **187,750,423** |

| 2014 SAR'000 | Within 3 months | 3-12 Months | 1-5 Years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances with SAMA | 10,636,920 | - | - | - | 8,676,846 | 19,313,766 |
| Due from banks and other financial institutions | 2,375,121 | 93,750 | - | - | - | 2,468,871 |
| Investments, net | 8,772,598 | 22,776,704 | 7,673,573 | 5,027,625 | 1,030,316 | 45,280,816 |
| Loans and advances, net | 49,335,300 | 18,753,568 | 25,542,294 | 21,589,635 | - | 115,220,797 |
| Investment in a joint venture and associate | - | - | - | - | 651,674 | 651,674 |
| Property and equipment, net | - | - | - | - | 663,401 | 663,401 |
| Other assets | 109,314 | 175,989 | 567,188 | 172,395 | 2,985,057 | 4,009,943 |
| Total assets | 71,229,253 | 41,800,011 | 33,783,055 | 26,789,655 | 14,007,294 | 187,609,268 |
| Liabilities and shareholders' equity | | | | | | |
| Due to banks and other financial institutions | 3,808,438 | - | 277,490 | - | - | 4,085,928 |
| Customer deposits | 136,789,356 | 3,264,159 | 5,601,408 | 215,574 | - | 145,870,497 |
| Debt securities in issue | - | 2,264,678 | 1,500,000 | 1,500,000 | - | 5,264,678 |
| Borrowings | - | 31,250 | 46,875 | - | - | 78,125 |
| Other liabilities | 114,655 | 156,848 | 550,524 | 154,387 | 5,262,414 | 6,238,828 |
| Shareholders' equity | - | - | - | - | 26,071,212 | 26,071,212 |
| Total liabilities and shareholders' equity | 140,712,449 | 5,716,935 | 7,976,297 | 1,869,961 | 31,333,626 | 187,609,268 |

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies are given in note 19(d) of the consolidated financial statements.

# Notes to the Consolidated Financial Statements (31 December 2015) (continued)

## 32. Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

| SAR'000 | Gross amount of recognised financial assets | Gross amounts offset in the statement of financial position | Amounts presented in the statement of financial position | Amount not set off in the statement of financial position: Financial instruments | Cash collateral received | Net amount |
|---|---|---|---|---|---|---|
| **At 31 December 2015** | | | | | | |
| Due from banks and other financial institutions | 12,921,033 | (1,468,707) | 11,452,326 | - | - | 11,452,326 |
| Derivatives | 872,865 | - | 872,865 | - | - | 872,865 |
| At 31 December 2014 | | | | | | |
| Due from banks and other financial institutions | 11,609,473 | (9,140,602) | 2,468,871 | - | - | 2,468,871 |
| Derivatives | 1,024,886 | - | 1,024,886 | - | - | 1,024,886 |

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

| SAR'000 | Gross amount of recognised financial liabilities | Gross amounts offset in the statement of financial position | Amounts presented in the statement of financial position | Amount not set off in the statement of financial position: Financial instruments | Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|
| **At 31 December 2015** | | | | | | |
| Derivatives | **895,429** | **-** | **895,429** | **-** | **(814,125)** | **81,304** |
| Sale and repurchase arrangements | **-** | **-** | **-** | | **-** | **-** |
| At 31 December 2014 | | | | | | |
| Derivatives | 976,414 | - | 976,414 | - | (561,225) | 415,189 |
| Sale and repurchase arrangements | 12,747 | - | 12,747 | (12,747) | - | - |

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 33. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Consequently, differences can arise between the carrying values and fair value estimates.

The fair values of recognised financial instruments are not materially different from their carrying values.

***Determination of fair value and fair value hierarchy***

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

**Level 1:** quoted prices in active markets for the same instrument (i.e., without modification or repacking):

**Level 2:** quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and

**Level 3:** valuation techniques for which any significant input is not based on observable market data.

| 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| SAR' 000 | | | | |
| Financial assets: | | | | |
| Derivative financial instruments | - | 872,865 | - | 872,865 |
| Financial investments available for sale | 9,060,190 | 22,663,983 | 43,317 | 31,767,490 |
| Investments held at amortised cost | - | 3,649,661 | - | 3,649,661 |
| Total | 9,060,190 | 27,186,509 | 43,317 | 36,290,016 |
| Financial Liabilities: | | | | |
| Derivative financial instruments | - | 895,429 | - | 895,429 |
| Total | - | 895,429 | - | 895,429 |
| 2014 | Level 1 | Level 2 | Level 3 | Total |
| SAR' 000 | | | | |
| Financial assets: | | | | |
| Derivative financial instruments | - | 1,024,886 | - | 1,024,886 |
| Financial investments available for sale | 9,594,387 | 35,528,819 | 49,262 | 45,172,468 |
| Investments held at amortised cost | - | 100,169 | - | 100,169 |
| Loans and advances – Fair value hedged | - | 163,762 | - | 163,762 |
| Total | 9,594,387 | 36,817,636 | 49,262 | 46,461,285 |
| Financial Liabilities: | | | | |
| Derivative financial instruments | - | 976,414 | - | 976,414 |
| Debt securities in issue- Fair value hedged | 2,264,678 | - | - | 2,264,678 |
| Total | 2,264,678 | 976,414 | - | 3,241,092 |

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate futures and options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

Available for sale investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net assets value (NAV) as at the reporting date. The movement in Level 3 financial instruments during the year relates to fair value and capital repayment movement only.

There were no transfers between the levels of fair value hierarchies during the year.
The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is positive SAR 52.6 million (2014: SAR 39.2 million).

## 34. Related party transactions

Managerial and specialised expertise is provided under a technical services agreement with HSBC Holdings plc, the parent company of HSBC Holdings BV. This agreement was renewed on 30 September 2012 for a period of five years.

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

The year end balances included in the consolidated financial statements resulting from such transactions are as follows:

| | **2015** | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| **The HSBC Group:** | | |
| Due from banks and other financial institutions | **7,007,693** | 1,874,520 |
| Investments | **943,556** | 948,429 |
| Other assets | **13,468** | - |
| Derivatives (at fair value) | **(99,846)** | (236,724) |
| Due to banks and other financial institutions | **738,502** | 2,185,523 |
| Other liabilities | **8,355** | 28,118 |
| Commitments and contingencies | **1,673,929** | 2,047,214 |

The above investments include investments in a joint venture and associate, amounting to SAR 693.2 million (2014: SAR 651.7 million).

Directors, audit committee, other major shareholders and their affiliates:

| | | |
|---|---|---|
| Loans and advances | **3,009,582** | 3,087,237 |
| Customers' deposits | **8,802,798** | 10,240,067 |
| Derivatives (at fair value) | **23,474** | 20,329 |
| Commitments and contingencies | **224,345** | 85,736 |

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

| | | |
|---|---|---|
| **Related mutual funds:** | | |
| Loans and advances | **7,068** | 1,247 |
| Customers' deposits | **697,514** | 1,040,795 |

Income and expense pertaining to transactions with related parties included in the consolidated financial statements are as follows:

| | | |
|---|---|---|
| Special commission income | **94,372** | 92,749 |
| Special commission expense | **(148,660)** | (293,653) |
| Fees and commission income | **47,653** | 106,056 |
| Services charges paid to HSBC group | **39,384** | 41,366 |
| Profit share arrangement relating to investment banking activities | **(2,340)** | (4,679) |
| Share in earnings of a joint venture and an associate | **130,345** | 109,453 |
| Directors' remuneration | **2,995** | 3,001 |

The total amount of compensation paid to key management personnel during the year is as follows:

| | | |
|---|---|---|
| Short-term employee benefits (salaries and allowances) | **36,749** | 31,373 |
| Employment termination benefits | **687** | 6,592 |

Key management personnel are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2015. The detail of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

## 35. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

The Bank monitors the adequacy of its capital using the methodology and ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

| | **2015** | 2014 |
|---|---|---|
| | **SAR'000** | SAR'000 |
| **Risk Weighted Assets (RWA)** | | |
| Credit Risk RWA | **167,661,775** | 151,267,712 |
| Operational Risk RWA | **12,620,144** | 11,688,587 |
| Market Risk RWA | **2,844,213** | 3,841,275 |
| **Total RWA** | **183,126,132** | 166,797,574 |
| **Tier I Capital** | **28,174,537** | 26,071,212 |
| **Tier II Capital** | **4,082,996** | 3,128,106 |
| **Total I & II Capital** | **32,257,533** | 29,199,318 |
| **Capital Adequacy Ratio %** | | |
| **Tier I ratio** | **15.39%** | 15.63% |
| **Tier I + Tier II ratio** | **17.61%** | 17.51% |

## 36. Disclosures under Basel III framework

Certain additional disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website www.sabb.com within prescribed time as required by SAMA.

## 37. Prospective changes in accounting standards

The Bank has opted not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance for the Group's accounting year beginning after January 1, 2016.

- IFRS 9 - Financial Instruments - Classification and Measurement of Financial Assets & Financial Liabilities. Effective for annual periods beginning on or after 1 January 2018.

- IFRS 15 Revenue from Contracts with Customers - New revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Effective for annual periods beginning on or after 1 January 2018.

- IFRS 10, IFRS 12 and IAS 28 Investment Entities – Amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
- The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value

measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. Effective for annual periods beginning on or after 1 January 2016.

- IFRS 14 Regulatory Deferral Accounts. Effective for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 27: Equity Method in Separate Financial Statements - The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Effective for annual periods beginning on or after 1 January 2016.

- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests - Effective for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation - Effective prospectively for annual periods beginning on or after 1 January 2016.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. Effective for annual periods beginning on or after 1 January 2016.

- Annual improvements to International Financial Reporting Standards - 2012-2014 cycle. Effective for annual periods beginning on or after 1 January 2016. These include:

**- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
**- IFRS 7 Financial Instruments: Disclosures**
**- IAS 19 Employee Benefits**
**- IAS 1 Disclosure Initiative**

## 38. Comparative figures

Certain prior year figures have been reclassified to conform with the current year's presentation.

## 39. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 5 Jumaada Al-Awal 1437H (Corresponding 14 February 2016).

# The Saudi British Bank
# Basel - Pillar 3
# Annual Disclosures
# 31 December 2015

## Cautionary statement regarding forward looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2015 contain certain forward looking statements with respect to the financial condition, results of operations and business of SABB. These forward looking statements represent SABB expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events.

## 1. Scope of Application

### a) Scope

These qualitative disclosures set out The Saudi British Bank (SABB) approach to capital assessment and complement the minimum capital requirements and the supervisory review process.

### b) Basis of consolidation

The basis of consolidation for accounting purposes is described in Note 1 of the Annual Report and Accounts 2015.

SABB uses regulatory capital as the basis for assessing its capital adequacy. Risk weighted assets driving regulatory capital requirements are forecast and monitored at customer group level or at a lower sub-unit level, as appropriate.

***Entities that are fully consolidated:***

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2014:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB has 100% ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary main purpose is the registration of real estates.

***Significant Minority Investments:***

SABB owns 51% (2014:51%) of the shares of HSBC Saudi Arabia Limited, a joint venture with HSBC. SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

SABB owns 32.5% (2014: 32.5%) of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 31 December 2015 is SAR 363.4 million (2014: SAR 346.9 million).

***Equity Investments which are risk weighted***

Equity investments are generally risk weighted at 100%.

Under Basel III, significant minority investments in commercial entities and financial institutions below a defined Basel threshold which under Basel II were deducted 50% from Tier 1 and 50% from Tier 2 will receive the risk weight 1250% and 250% respectively.

**c) Capital transferability between legal entities**

***Restrictions by Memorandum and Articles of Association***

Through Article 10 of Memorandum & Articles of Association SABB has restricted the transfer of shares held by Saudi Nationals to non Saudi Nationals and has empowered its Board of directors the right to either approve or refuse the transfer of shares.

Apart from the above, no other restrictions have been imposed by the management on transfer of shares.

***Statutory restriction***

SABB is required to transfer at least 25% of its net profit to statutory reserves before declaration of dividend until the amount of statutory reserves is equal to the paid up capital of the bank.

***Regulatory restriction***

SAMA has imposed a restriction of at least 8% of capital adequacy ratio which is in line with Basel III requirements.

The significant minority investments namely HSBC Saudi Arabia Limited and SABB Takaful's Articles of Association restrict the reduction in paid up capital below the current levels.

## 2. Capital Structure

The authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (2014: 1,000 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

| | **2015** | 2014 |
|---|---|---|
| Saudi shareholders | **60%** | 60% |
| HSBC Holdings BV | **40%** | 40% |

(a wholly owned subsidiary of HSBC Holdings plc)

The composition of shareholders' equity is available in the annual financial statements.

## Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

There are four different "types" of capital which SABB must manage. The distinctions between the different notions / definitions of capital, and the capital management principles which arise, are outlined below:

| Category | Definition / meaning / significance | Implications for SABB capital management |
|---|---|---|
| Regulatory Capital | Proxy for Risk Capital, particularly under Basel. | Requirements must be met on a SAMA regulatory rules basis at all times. |
| Accounting Capital | The capital recognised by accounting standards. | Requirements must be met to achieve audited accounts. |
| Invested Capital (Legal capital) | The equity capital invested in SABB by its shareholders for which SABB is accountable. | SABB must earn a return on its invested capital which is in excess of its cost of capital. |
| Economic Capital | Capital required by SABB businesses to bear risk, support growth etc. and upon which an 'economic' return is required. | Allocated to businesses in line with risk appetite given the risks run, and acts as basis to set economic profit targets. |

Along with these capital measures, SABB wishes to effectively manage its capital in order to support and improve its own external rating as calculated by risk rating agencies.

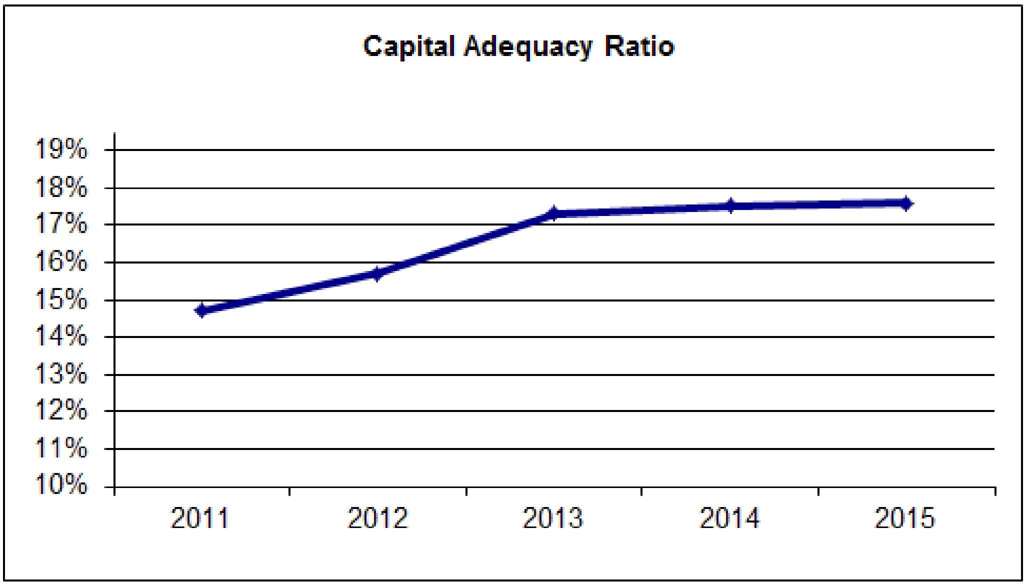
### 3. Capital Adequacy

SABB's approach in assessing adequacy of its capital to support current and future activities envisages around the following principles:

- It has a process for assessing its overall capital adequacy in relation to its risk profile and a strategy for maintaining capital levels
- A review of SABB's Internal Capital Adequacy Assessment Process (ICAAP) and capital strategies are undertaken by its management, as well as monitoring and ensuring compliance to SAMA regulations, with appropriate actions being taken when required
- It is operating above the minimum regulatory capital ratios, with the ability to hold capital in excess of the minimum

The ability to intervene at an early stage to prevent capital from falling below the minimum levels as required according to it's risk profile

SABB Capital Adequacy Ratio in the last 5 years has been as follows:




2013-2015: Capital Adequacy Ratio's are on Basel III basis

## Risk Exposure and Assessment

### General Qualitative Disclosure Requirements

***Credit Risk***

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 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 2015.

Credit risk assessment is undertaken by the credit approval function which reports directly 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 Board Risk Committee 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

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

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.

Information on counterparty credit risk is provided in the table 8 commentary below.

***Market Risk***

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.

Further information on market risk is provided in the table 10 commentary below.

***Operational Risk***

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Operational risk is relevant to every aspect of SABB's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

Further information on operational risk capital is provided in the table 12 commentary below.

***Investment Risk***

Investment risk is the risk of an adverse impact on P&L and capital due to an unexpected loss in value of the investment position held by SABB on a long term (non-trading basis). This can arise out of SABB's investment, private equity or equity investment portfolios.

As a general policy SABB seeks to focus investments around establishing a diversified portfolio of high quality and highly liquid securities.

SABB will continue to review its investment policy in line with market developments and opportunities as they arise. The risk mandate will however always maintain a focus on high quality, liquid investments with a preference for domestically issued debt and securities.

Whilst SABB does hold a nominal position in private equity investments it does not hold any direct equity investments. Further information on equities risk is provided in the table 13 commentary below.

***Interest Rate Risk***

Interest rate risk in the banking book 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.

Further information on interest risk is provided in the table 14 commentary below.

***Foreign Exchange Risk***

Currency or 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).

***Liquidity Risk***

Liquidity risk is the risk that SABB does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk (a particular form of liquidity risk) arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

SABB continued to monitor liquidity risk during 2015 based on projected cashflow scenarios referred to as the Operational Cashflow Projection (OCP). Its objective is to better reflect the likely behaviour of different customers and manage liquidity during crisis events or loss in confidence in SABB, resulting in deposit withdrawals by customers. The OCP policy aims to diversify SABB's liability base, and reduce concentration levels to any single customer.

The framework is compliant with BIS guidelines 'Principles for Sound Liquidity Risk Management and Supervision' issued in September 2008 and the 'International Framework for Liquidity Risk, Measurement, Standards and Monitoring' issued in December 2010 and subsequent revisions and updates issued as part of the Basel III framework.

As a general policy, SABB seeks to be self-sufficient with regards to funding its own operations from 'core' deposits. Exceptions are permitted to facilitate the efficient funding of certain short-term treasury requirements and start-up ventures, which do not have access to deposit markets.

SABB uses cashflow stress testing as part of its control processes to assess liquidity risk. The cashflow stress testing process estimates and takes into consideration the potential severe adverse P&L and capital impacts in a liquidity crisis, with a view to assessing the bank's ability to maintain an adequate capital position in such a scenario.

SABB has established Risk Appetite Statements covering liquidity risk that are approved by the Board Risk Committee annually and reviewed monthly through ALCO and RMC with quarterly reports provided to the BRC.

SABB managed and reported balance sheet liquidity during 2015 against the following internal and regulatory ratios:

- **Operational Cashflow Projection** – The OCP is a cashflow based model for management of liquidity risks, taking into account the Bank's total cash inflow (assets) and total cash outflow (liabilities) under stress scenario. The objective is to increase the core funds and decrease non-core-funds.
- **SABB Internal Asset to Deposit Ratio (ADR)** – Monitors the extent to which customer advances are covered by core deposits.
- **Asset to Deposit Ratio (ADR)** – Monitors the extent to which customer advances are covered by customer deposits.
- **SAMA Liquid Reserve Requirement** – Minimum 20% of deposit liabilities to be held in liquid assets maturing in less than 1 month, treasury bills and government bonds in accordance with Article 7 of the Banking Control Law.
- **Liquidity Coverage Ratio (LCR)** – Minimum requirement of 100% requiring SABB to hold enough liquid assets which can, if needed, be converted easily into cash in private markets to survive a 30 day stress scenario.
- **Net Stable Funding Ratio (NSFR)** – Minimum requirement of 100% requiring SABB to hold a minimum amount of stable funding relative to the liquidity profiles of asset activities over one year horizon

SABB assesses and manages liquidity risk through clearly defined liquidity policies which form part of a boarder Liquidity and Funding framework and funding plan which is reviewed and approved by ALCO and BRC. There is a designated Liquidity Management Committee, which monitors the bank's current and projected liquidity position and proposes changes to ALCO on SABB's liquidity ratio limits, funding strategy and liquidity stress testing scenarios.

The Finance Department prepares a bank-wide liquidity report, which is monitored daily against approved limits and regulatory requirements by Senior Management, along with a 1-year rolling forecast balance sheet on a quarterly basis showing expected loan and deposit growth including major currency breakdowns.

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

SABB seeks to maintain a cushion of unencumbered, high quality, liquid assets that can be liquidated or repoed in times of stressed liquidity.

Operational Cashflow Projections are used to stress the liquidity position across a range of maturity bands and through the application of bank specific and market wide scenarios.

Current accounts and savings deposits payable on demand or at short notice form a significant part of SABB's funding and there is considerable focus on maintaining the stability of such deposits. SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities.

A comprehensive Contingency Funding Plan is in place and tested on an annual basis. The plan identifies early indicators of stress conditions and describes actions to be taken in the event of difficulties arising from systemic or other crises.

The maturity profile of the Bank's assets and liabilities is monitored to ensure that sufficient liquidity is maintained at all times. The table below shows the analysis of assets and liabilities maturity as at 31 December 2015 as per annual financial statement:

| ASSETS & LIABILITIES MATURITY PROFILE (SAR '000) | Within 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with SAMA | 1,885,901 | - | - | - | 9,056,367 | 10,942,268 |
| Due from banks and other financial institutions | 11,452,326 | - | - | - | - | 11,452,326 |
| Investments, net | 12,077,926 | 7,177,779 | 11,857,463 | 3,281,158 | 1,031,913 | 35,426,239 |
| Loans and advances, net | 51,864,487 | 24,137,292 | 25,742,228 | 23,680,298 | - | 125,424,305 |
| Investment in associates | - | - | - | - | 693,235 | 693,235 |
| Property and equipment, net | - | - | - | - | 991,455 | 991,455 |
| Other assets | 35,538 | 140,610 | 573,835 | 122,882 | 1,947,730 | 2,820,595 |
| **Total assets** | 77,316,178 | 31,455,681 | 38,173,526 | 27,084,338 | 13,720,700 | 187,750,423 |
| **LIABILITIES** | | | | | | |
| Due to banks and other financial institutions | 1,538,392 | 288,406 | - | - | - | 1,826,798 |
| Customers' deposits | 132,567,690 | 10,293,951 | 5,583,762 | 193,210 | - | 148,638,613 |
| Debt securities in issue | - | - | 3,000,000 | 1,500,000 | - | 4,500,000 |
| Borrowings | - | - | 46,875 | - | - | 46,875 |
| Other liabilities | 39,785 | 142,218 | 583,769 | 129,659 | 3,668,169 | 4,563,600 |
| Shareholders' equity | - | - | - | - | 28,174,537 | 28,174,537 |
| **Total liabilities & shareholders' equity** | 134,145,867 | 10,724,575 | 9,214,406 | 1,822,869 | 31,842,706 | 187,750,423 |
| **GAP** | (56,829,689) | 20,731,106 | 28,959,120 | 25,261,469 | (18,122,006) | - |

SABB also accesses global debt markets in order to source longer term funding for its balance sheet.

SABB would meet unexpected net cash outflows by selling securities and accessing additional funding sources through inter-bank markets.

***Concentration Risk***

Concentration in credit portfolios has been a cause for bank and banking system distress in the past. As a result, concentration risk forms an integral part of SABB's supervisory review and internal risk assessment process. There can also be benefits where a Banks portfolio can evidence diversification across asset classes, customer groups, industry sectors, business lines and geographic locations.

Concentration risk can manifest itself in three main forms where there is an imperfect diversification of credit risk.

- Single name concentration (Idiosyncratic risk)
- Sector concentration (Systematic risk)
- Contagion (Systemic failure)

It is the Bank's policy to avoid undesired concentration of exposure in any single dimension of the entire credit portfolio (asset class, industry sector, geography, etc.). We aim to ensure that the Bank's exposure is well diversified across a broad mix of business sectors. SABB has established exposure policies and lending risk tolerance limits for individual counterparties, industry sectors, country cross border risk, specific products or advance purposes and portfolio level controls.

SABB retains capital against the granularity of its lending portfolio and reviews the level of concentration within portfolios on a monthly basis through the RMC.

***Reputational Risk***

Reputational risk is the potential negative but unquantifiable current and future impact on profits and capital, which might arise from a changed and adverse perception of the SABB's reputation among its various stakeholders in the various facets of its operations. SABB has built a strong image and reputation within the Saudi market.

A focus on Community Service programs resulted in SABB being awarded the "Best Commercial Establishment in Community Service in KSA" by the Ministers of Social Affairs of the GCC Council.

The reputation of SABB is critical to its success. Any financial services organisation stands or falls by its reputation and the confidence it can engender in its customers. The maintenance of customer confidence is a prime objective of management and can be achieved through a strong and healthy financial position and by exhibiting successful risk management, but can be severely damaged by non-compliance with relevant regulations or by inappropriate actions or comments to the media or in the public domain.

SABB Board decided in 2013 to adopt the highest International Standards in every aspect of our business in order to enhance our brand, protect our reputation and achieve competitive advantage. The programme has been branded as the 'SABB International Standards' (SIS) and is designed to complement SABB's core values.

The SABB International Standards focus on three core themes:

1. Treating Customers Fairly
2. Protecting Customer Information
3. Comply with Laws and Regulations

SABB has initiated four programmes to address the International Standards:

- Customer Due Diligence (CDD)
- Transactions Monitoring Workstream
- Information Protection Programme (IPP)
- Treating Customers Fairly Programme (TCF)

These standards are intended to ensure that SABB is upholding the highest International Standards, which in conjunction with its Values will act not only to protect SABB's reputation in the local market but also build a clear comparative advantage when compared to its competitors.

Macroeconomic risk or business cycle risk is the non-diversifiable impact of the domestic and global economic cycles on SABB's businesses. Macroeconomic risk can arise from changes in the regulatory environment, technological advances, or shocks to the economy such as deflation, recession or changes to government spending plans.

In line with international best practices, SABB assesses and manages macroeconomic and business cycle risk through clearly defined policies and procedures. Macroeconomic and business cycle risks are seen as the potential negative impacts on profits and capital as a result of SABB not meeting its goals and objectives caused by unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

## Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

As an intrinsic part of the process, the management monitors local key macroeconomic indicators, with quarterly reporting to RMC. These indicators include:

- Price of oil per barrel in the world market
- Any significant reduction in public finances expenditure
- TASI Index
- Housing market trends
- Bank lending to private sector
- Annual real GDP growth
- Money supply
- Inflation rate
- Currency uncertainty that may be caused by USD weakness and real appreciation of the SAR

The BRC also reviews regional indicators, such as the HSBC Group Purchasing Managers Index (PMI) which acts as an indicator of changes in market sentiment. Business Heads use the macroeconomic data as part of their business forecasting and to assess risk impacts. Similarly a review is undertaken on the annual Government expenditure budget to identify strategic policy shifts for SABB and its risk appetite framework.

***Strategic Risk***

Strategic Risk is the risk that the business will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years such as changing economic and political circumstances, customer requirements, demographic trends, regulatory developments or competitor action. Risk may be mitigated by consideration of the potential opportunities and challenges through the strategic planning process.

Strategic and Operating Plans are established against clearly defined guidelines and via a rigorous process that considers the wider business, regulatory and economic environment when preparing the plans. Plans are monitored on an ongoing basis to ensure that targets are being achieved and to proactively consider risks, which might arise to non-achievement of goals.

The strategic risks are monitored by the strategic planning function on a regular basis and variations, if any are reported to the Risk Management Committee. Where necessary the Board holds strategic review meetings to refine the bank's strategy in light of market developments.

***Compliance Risk***

Compliance Risk is the risk leading to statutory, legal sanctions, material financial loss, or damage to the reputation of SABB that may be suffered as a result of the failure to comply with all applicable laws, rules and regulations. The aim of compliance is to protect the reputation and credibility of SABB and protect the interest of shareholders and depositors, and safeguard the institution against legal consequences.

Compliance is a specialised activity with a great degree of complexity managing the risks of financial crime and regulatory compliance capturing Sanctions, Money Laundering, Fraud, Anti-Bribery and Corruption and alike. There have been significant investments in people and compliance infrastructure over the last three years, from a base of 18 staff to over 100 and expanding. In view of the growing focus on financial crime activity in the industry in general, during 2Q14 the compliance function was re-organised to establish two streams of Financial Crime Compliance and Regulatory Compliance. Several additional resources were added to the team in order to better monitor the transactions and customer activity. The function has also added roles to manage the risk of Bribery and Corruption.

SABB ensures full compliance with all directives issued by SAMA, the CMA and other such regulatory bodies in addition to local legal requirements. SABB also seeks to align with broader HSBC best practices to manage, monitor and control compliance risks in respect of international sanctions.

***Wrong Way Risk***

Wrong-way risk occurs when there is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. Wrong way risks arising from customer activity is managed under defined guidelines and limits on a regular basis. The following control infrastructure is in place and reported to senior management on monthly basis.

- Business referral process where Wrong-Way Risk transactions are passed for separate approval prior to execution.
- A wrong way risk exposure report is tabled in the RMC.
- Total exposure at counterparty level is maintained under predefined credit approved limits.

***Other Risks***

SABB continues identifying risks that will adversely impact on the present and future operations of the Bank. Issues are addressed in a proactive manner with respect to risk assessment and management to ensure continued compliance with local regulatory requirements. Economic and regulatory capital issues, if any, are promptly addressed through the relevant policies and procedures.

## 4. Credit Risk: General Disclosures for All Banks

**Past due loans:**

A loan is considered past due if it is not repaid on the payment due date or maturity date.

**Impaired loan:**

***Individual Impairment Provisions:***

The Bank reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

***Collective Impairment Provisions:***

The Bank reviews its loan portfolios to assess an additional portfolio provision on each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Credit Risk:**

***Standardised Approach***

Overall, SABB currently calculates its models and assessments based on the Basel Standardised Approach, in line with the approval granted by SAMA. Specifically, SABB is segmenting its asset portfolio and generating associated RWAs and capital support data in accordance with SAMA guidelines and uses the Standardised approach to calculate the minimum capital requirements.

***Advanced IRB Approach***

SABB is developing its processes, in line with SAMA guidance notes, to enable it to move to the advanced approaches of Basel for credit risk.

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

SABB has established a comprehensive framework for the Model Governance of its Internal Risk-Based (IRB) models and methodologies used in credit risk evaluation, which sets out standards for development, monitoring and validation of IRB models and methodologies. It also clearly defines roles and responsibilities in the IRB models' development, monitoring and validation. The Model Governance framework has been approved by the Chief Risk Officer.

SABB Risk Strategy produces a quarterly monitoring report of its IRB models and frameworks which assesses a performance of IRB models. The results of the monitoring report are brought to the attention of SABB senior management.

SABB has a set of independently validated corporate scorecards to calculate the PD for each exposure. Along with this, specific LGD & EAD engines are being developed to calculate the respective LGD & EAD for each client. The output from these engines, combined with additional appropriate data such as maturity, allow SABB to calculate RWA based on the IRB-A approach. It is important to note that each distinct portfolio has a dedicated PD scorecard to determine the appropriate credit risk rating. These scorecards are reviewed at least annually and approved by the RMC or designated committee.

For retail portfolios SABB uses a wide range of application and behavioural models and has completed a risk segmentation process as well as having developed a full range of Basel IRB-A compliant scorecards to calculate expected and unexpected losses for each retail portfolio.

## 5. Standardized Approach and Supervisory Risk Weights in the IRB Approaches

For portfolios under the standardized approach, External Credit Assessment Institutions risk assessments are used by SABB as part of the determination of risk weightings:

- SABB has nominated three SAMA recognized External Credit Assessment Institutions for this purpose – Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group.
- Credit ratings of all exposures are individually determined from the above credit rating agencies 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% |

**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 public sector entities (PSEs)**

**As per Option – 2**

**Claims on corporates**

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

**Claims included in the regulatory non-mortgage retail portfolios**

A 75% risk weight to be assigned to such exposures.

**Claims secured by residential mortgages**

A 100% retail risk weight to be applied to such claims.

**Claims secured by commercial real estate**

A 100% retail risk weight to be applied to such claims.

| Risk weight% | Level of Provisioning |
|---|---|
| 150 | Upto 20% |
| 100 | 20% to 50% |
| 100 | 50% and above |

**Other assets**

The standard risk weight for all other assets will be 100% except gold to be treated equivalent to cash and risk weighted at 0%.

When calculating the risk weighted value of any exposure under the standardized approach, look up function is applied to the central data base maintained in Excel and assigns to each individual exposures.

## 6. Credit Risk: Disclosures for Portfolios Subject to IRB Approaches

Not Applicable

## 7. Credit Risk Mitigation: Disclosures for Standardised and IRB Approaches

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.

The main types of collateral taken by the bank are as follows:

- Savings and Time deposits
- Listed Shares
- Bank Guarantees
- Title deeds of property
- Government Bonds
- Mutual Funds Units
- Corporate/Individual Guarantees
- Assignment of salary or contract proceeds

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.

## 8. General Disclosure for Exposure Related to Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction.

The Bank calculates its counterparty credit risk for both trading and banking book exposures by assigning risk weights to exposure types:

- Securities financing transactions (e.g reverse repos) – trading and banking book
- Over the counter (OTC) derivatives – trading and banking book

The capital requirement is determined on above exposures based on same methodology as credit risk and is reported separately for risk assessment.

## 9. Securitization

Currently there are no securitisation deals involving SABB. There is a prescribed process in SABB for managing securitisation transactions. This risk assessment and reporting process will be observed when the need to apply the same arises.

## 10. Market Risk: Disclosure for Banks Using Standardized Approaches

Market risk is identified by businesses and transferred into SABB Treasury who has the necessary expertise to manage the positions using risk limits approved by the Board Risk Committee. Exposures are separated into trading (market-making, proprietary trading, and mark to market positions) and non-trading (interest rate management, and financial investments either held to maturity or available for sale) portfolios.

The monitoring and control of market risk is handled by an independent market risk team which is responsible for ensuring market risk exposures are measured in accordance with defined policies and reported daily against prescribed control limits.

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.

Stress testing is performed at a portfolio level covering the impacts of movements in any single risk factor, technical scenarios looking at the largest observed movements, hypothetical scenarios looking at potential macro-economic events and historical scenarios which incorporate observed market movements from periods not captured in the VAR. These scenarios are governed by an oversight committee and the results are reported to senior management together with an assessment of the impact such events would have on SABB together with proposals for mitigating actions.

The risk of credit spread movements or specific issuer risk which arises from the change in value of a bond due to perceived changes in the credit quality of an issuer is managed through credit VAR and stress testing limits and tolerance levels.

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.

## 11. Market Risk: Disclosure for Banks Using Internal Models Approach (IMA) for Trading Portfolios

Not Applicable.

## 12. Operational Risk

The 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, 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
- Systems
- Operations
- Information
- Compliance
- Legal
- Internal fraud
- External fraud
- Business continuity
- Accounting
- Physical
- Fiduciary
- Tax
- Shariah
- Political
- 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 ORIC Committees 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 2015, SABB continued the consolidation/strengthening of its Operational Risk Management and Governance processes:

- The Risk Governance Framework was reviewed by the Board Risk Committee.
- Effectiveness reviews continued to be undertaken by the Board Risk Committee 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 SABB International Standards 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 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 (ORION) to verify timely close of item with updates submitted monthly to RMC and quarterly to the BRC and AUCOM.

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.

## 13. Equities: Disclosures For Banking Book Positions

E quity Investments are either classified as "Available for sale" or as "Investments in Associate".

Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investments, which are classified as "available for sale", are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in "Other reserves" under Shareholders' equity. On derecognition, any cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

Investment in associate is accounted for using the equity method in accordance with International Accounting Standard 28 – Investment in Associates. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in associate is carried in the balance sheet at cost plus post investment changes in the Bank's share of net assets of the associate. The investments in associates are carried in balance sheet at the lower of equity accounted or recoverable amount.

The reporting dates of the associate and the Bank are identical and the associate's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associate are eliminated to the extent of the Bank's interest in the associate.

## 14. Interest Rate Risk in the Banking Book (IRRBB)

The analysis of Interest Rate risk is complicated by having to make assumptions on embedded optionality in products such as loan prepayments, and from behavioural assumptions regarding the economic duration of liabilities, which are contractually repayable on demand. Product reviews are undertaken annually to review and validate any behavioural assumptions.

In order to manage interest rate risk, the risk is transferred to Treasury by a series of internal deals between Treasury and the various business units. Treasury then evaluates the relative risk on the basis of applying Present Value Basis Point (PVBP) and VAR approaches and managing the resultant risk within approved limits assigned by BRC. Where practical, Risk monitoring takes place on a daily basis.

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.

**1. Table – Scope of Application**

**Capital Deficiencies (Table 1, (e))**

| **Particulars** | *Amount* **SAR'000** |
|---|---|
| The aggregate amount of capital deficiencies in subsidiaries not included in the consolidation i.e that are deducted | |
| 1. Subsidiary 1 | - |
| 2. Subsidiary 2 | - |
| 3. Subsidiary 3 | - |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 2. Table – Capital Structure

### Balance sheet – Step 1 (Table 2 (b))

| | Balance sheet in Published financial statements | Adjustment of banking associates / other entities (*) | Under regulatory scope of consolidation |
|---|---|---|---|
| | ( C ) | ( D ) | ( E ) |
| **Assets** | **SAR'000** | **SAR'000** | **SAR'000** |
| Cash and balances at central banks | 10,942,268 | | 10,942,268 |
| Due from banks and other financial institutions | 11,452,326 | | 11,452,326 |
| Investments, net | 18,054,020 | | 18,054,020 |
| Loans and advances, net | 125,424,305 | | 125,424,305 |
| Debt securities | 16,340,306 | | 16,340,306 |
| Trading assets | 0 | | 0 |
| Equity shares | 1,031,913 | | 1,031,913 |
| Investment in associates | 693,235 | | 693,235 |
| Derivatives | 872,865 | | 872,865 |
| Goodwill | 0 | | 0 |
| Other intangible assets | 0 | | 0 |
| Property and equipment, net | 991,455 | | 991,455 |
| Other assets | 1,947,730 | | 1,947,730 |
| **Total assets** | **187,750,423** | **0** | **187,750,423** |
| | | | |
| **Liabilities** | | | |
| Due to Banks and other financial institutions | 1,826,798 | | 1,826,798 |
| Items in the course of collection due to other banks | 0 | | 0 |
| Customer deposits | 148,638,613 | | 148,638,613 |
| Trading liabilities | 0 | | 0 |
| Debt securities in issue | 4,500,000 | | 4,500,000 |
| Derivatives | 895,429 | | 895,429 |
| Retirement benefit liabilities | 382,382 | | 382,382 |
| Taxation liabilities | 0 | | 0 |
| Accruals and deferred income | 584,289 | | 584,289 |
| Borrowings | 46,875 | | 46,875 |
| Other liabilities | 2,701,500 | | 2,701,500 |
| **Subtotal** | 159,575,886 | 0 | 159,575,886 |
| | | | |
| Paid up share capital | 15,000,000 | | 15,000,000 |
| Statutory reserves | 7,583,656 | | 7,583,656 |
| Other reserves | (340,608) | | (340,608) |
| Retained earnings | 5,361,489 | | 5,361,489 |
| Minority Interest | 0 | | 0 |
| Proposed dividends | 570,000 | | 570,000 |
| **Total liabilities and equity** | 187,750,423 | 0 | 187,750,423 |

*For further details on column D please refer to step 1 on page 16 of the guidance notes.

**Additional information:**

List of entities (including disclosure of such entities balance sheet, balance sheet activity and principal activities).

## 2. Table – Capital Structure *(continued)*

### Balance sheet – Step 2 (Table 2 (c))

| | Balance sheet in Published financial statements | Adjustment of banking associates / other entities | Under regulatory scope of consolidation | Reference |
|---|---|---|---|---|
| | ( C ) | ( D ) | ( E ) | |
| **Assets** | **SAR'000** | **SAR'000** | **SAR'000** | |
| Cash and balances at central banks | 10,942,268 | | 10,942,268 | |
| Due from banks and other financial institutions | 11,452,326 | | 11,452,326 | |
| Investments, net | 18,054,020 | | 18,054,020 | |
| Loans and advances, net | 125,424,305 | | 125,424,305 | |
| of which Collective provisions | 1,172,996 | | 1,172,996 | A |
| Debt securities | 16,340,306 | | 16,340,306 | |
| Trading assets | 0 | | 0 | |
| Equity shares | 1,031,913 | | 1,031,913 | |
| Investment in associates | 693,235 | | 693,235 | |
| Derivatives | 872,865 | | 872,865 | |
| Goodwill | 0 | | 0 | |
| Other intangible assets | 0 | | 0 | |
| Property and equipment, net | 991,455 | | 991,455 | |
| Other assets | 1,947,730 | | 1,947,730 | |
| **Total assets** | 187,750,423 | 0 | 187,750,423 | |
| | | | | |
| **Liabilities** | | | | |
| Due to Banks and other financial institutions | 1,826,798 | | 1,826,798 | |
| Items in the course of collection due to other banks | 0 | | 0 | |
| Customer deposits | 148,638,613 | | 148,638,613 | |
| Trading liabilities | 0 | | 0 | |
| Debt securities in issue | 4,500,000 | | 4,500,000 | |
| of which Tier 2 capital instruments | 4,500,000 | | 4,500,000 | B |
| Derivatives | 895,429 | | 895,429 | |
| Retirement benefit liabilities | 382,382 | | 382,382 | |
| Taxation liabilities | 0 | | 0 | |
| Accruals and deferred income | 584,289 | | 584,289 | |
| Borrowings | 46,875 | | 46,875 | |
| Other liabilities | 2,701,500 | | 2,701,500 | |
| **Subtotal** | 159,575,886 | 0 | 159,575,886 | |
| | | | | |
| Paid up share capital | 15,000,000 | | 15,000,000 | |
| of which amount eligible for CET1 | 15,000,000 | | 15,000,000 | C |
| of which amount eligible for AT1 | 0 | | 0 | |
| Statutory reserves | 7,583,656 | | 7,583,656 | D |
| Other reserves | (340,608) | | (340,608) | E |
| Retained earnings | 5,361,489 | | 5,361,489 | F |
| Minority Interest | 0 | | 0 | |
| Proposed dividends | 570,000 | | 570,000 | G |
| **Total liabilities and equity** | 187,750,423 | 0 | 187,750,423 | |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 2. Table – Capital Structure *(continued)*

**Common template (transition) – Step 3 (Table 2 (d)) I**

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre - Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | | SAR'000 | SAR'000 | SAR'000 |
| | **Common Equity Tier 1 capital: Instruments and reserves** | | | |
| 1 | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | 15,000,000 | | C |
| 2 | Retained earnings | 5,931,489 | | F + G |
| 3 | Accumulated other comprehensive income (and other reserves) | 7,243,048 | | D + E |
| 4 | Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies) | | | |
| 5 | Common share capital isued by subsidiaries and held by third parties (amount allowed in group CET1) | | | |
| **6** | **Common Equity Tier 1 capital before regulatory adjustments** | **28,174,537** | | |
| | **Common Equity Tier 1 capital: Regulatory adjustments** | | | |
| 7 | Prudential valuation adjustments | | | |
| 8 | Goodwill (net of related tax liability) | | | |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | | | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | | | |
| 11 | Cash-flow hedge reserve | | | |
| 12 | Shortfall of provisions to expected losses | | | |
| 13 | Securitisation gain on sale (as set out in paragraph 562 of Basel II framework) | | | |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | | | |
| 15 | Defined-benefit pension fund net assets | | | |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | | | |
| 17 | Reciprocal cross-holdings in common equity | | | |
| 18 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) | | | |
| 19 | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) | | | |
| 20 | Mortgage servicing rights (amount above 10% threshold) | | | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | | | |
| 22 | Amount exceeding the 15% threshold | | | |
| 23 | of which: significant investments in the common stock of financials | | | |
| 24 | of which: mortgage servicing rights | | | |
| 25 | of which: deferred tax assets arising from temporary differences | | | |
| 26 | National specific regulatory adjustments | | | |
| | REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH:… | | | |

## 2. Table – Capital Structure *(continued)*

**Common template (transition) – Step 3 (Table 2 (d)) I** *(continued)*
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment *(continued)*

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre - Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | | SAR'000 | SAR'000 | SAR'000 |
| 27 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions | | | |
| 28 | **Total regulatory adjustments to Common equity Tier 1** | | | |
| 29 | **Common Equity Tier 1 capital (CET1)** | 28,174,537 | | |
| | Additional Tier 1 capital: instruments | | | |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | | | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Directly issued capital instruments subject to phase out from Additional Tier 1 | | | |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | | | |
| 35 | of which: instruments issued by subsidiaries subject to phase out | | | |
| 36 | **Additional Tier 1 capital before regulatory adjustments** | | | |
| | **Additional Tier 1 capital: regulatory adjustments** | | | |
| 37 | Investments in own Additional Tier 1 instruments | | | |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments | | | |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold) | | | |
| 40 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | | **(349,456)** | |
| 41 | National specific regulatory adjustments | | | |
| | REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH: … | | | |
| 42 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions | | | |
| 43 | Total regulatory adjustments to Additional Tier 1 capital | | | |
| 44 | Additional Tier 1 capital (AT1) | | | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 28,174,537 | | |

[1]For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.
[(2)] All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches

Note: Items which are not applicable are to be left blank.

## 2. Table – Capital Structure *(continued)*

**Common template (transition) – Step 3 (Table 2 (d)) II**

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre - Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | | SAR'000 | SAR'000 | SAR'000 |
| | **Tier 2 capital: instruments and provisions** | | | |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus | 2,700,000 | | B |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 | 210,000 | | B |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | | | |
| 49 | of which: instruments issued by subsidiaries subject to phase out | | | |
| 50 | Provisions | 1,172,996 | | A |
| **51** | **Tier 2 capital before regulatory adjustments** | | | |
| | **Tier 2 capital: regulatory adjustments** | **4,082,996** | | |
| 52 | Investments in own Tier 2 instruments | | | |
| 53 | Reciprocal cross-holdings in Tier 2 instruments | | | |
| 54 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) | | | |
| 55 | Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | | (349,456) | |
| 56 | National specific regulatory adjustments | | | |
| | REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH: … | | | |
| 57 | Total regulatory adjustments to Tier 2 capital | | | |
| 58 | Tier 2 capital (T2) | 4,082,996 | | |
| 59 | Total capital (TC = T1 + T2) | 32,257,533 | | |
| | RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH: … | | | |
| 60 | Total risk weighted assets | 183,126,132 | | |
| | Capital ratios | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | %15.39 | | |
| 62 | Tier 1 (as a percentage of risk weighted assets) | %15.39 | | |
| 63 | Total capital (as a percentage of risk weighted assets) | %17.61 | | |
| 64 | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets) | | | |
| 65 | of which: capital conservation buffer requirement | | | |
| 66 | of which: bank specific countercyclical buffer requirement | | | |
| 67 | of which: G-SIB buffer requirement | | | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) | | | |

## 2. Table – Capital Structure *(continued)*

**Common template (transition) – Step 3 (Table 2 (d)) II** *(continued)*

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment *(continued)*

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre - Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | | SAR'000 | SAR'000 | SAR'000 |
| | National minima (if different from Basel 3) | | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum) | n/a | | |
| 70 | National Tier 1 minimum ratio (if different from Basel 3 minimum) | n/a | | |
| 71 | National total capital minimum ratio (if different from Basel 3 minimum) | n/a | | |
| | Amounts below the thresholds for deduction (before risk weighting) | | | |
| 72 | Non-significant investments in the capital of other financials | | | |
| 73 | Significant investments in the common stock of financials | | | |
| 74 | Mortgage servicing rights (net of related tax liability) | | | |
| 75 | Deferred tax assets arising from temporary differences (net of related tax liability) | | | |
| | Applicable caps on the inclusion of provisions in Tier 2 | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap) | 1,172,996 | | |
| 77 | Cap on inclusion of provisions in Tier 2 under standardised approach | 2,095,772 | | |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) | | | |
| 79 | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach | | | |
| | Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022) | | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | | | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | | |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | | | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | | |
| 84 | Current cap on T2 instruments subject to phase out arrangements | | | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | | |

1For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.

(2) All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches

Note: Items which are not applicable are to be left blank.

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 2. Table – Capital Structure *(continued)*

### Main features template of regulatory capital instruments – (Table 2 (e))

| | | |
|---|---|---|
| 1 | Issuer | Saudi British Bank (SABB) |
| 2 | Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement) | ISIN No. SA131VK0GJ37 |
| 3 | Governing law(s) of the instrument | The instrument is governed by the laws of the Kingdom of Saudi Arabia |
| | **Regulatory treatment** | |
| 4 | Transitional Basel III rules | Tier 2 |
| 5 | Post-transitional Basel III rules | Ineligible |
| 6 | Eligible at solo/lgroup/group&solo | Solo |
| 7 | Instrument type | Subordinated Sukuk |
| 8 | Amount recognied in regulatory capital (Currency in mil, as of most recent reporting date) | SAR 210mil |
| 9 | Par value of instrument | SAR 1,500mil |
| 10 | Accounting classification | Liability - amortised cost |
| 11 | Original date of issuance | 28th March 2012 |
| 12 | Perpetual or dated | Dated |
| 13 | Original maturity date | 28th March 2017 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Option call date, contingent call dates and redemption amount | Call option only available for a regulatory or tax event. SABB will be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than (60) days' notice to the sukukholders. |
| 16 | Subsequent call dates if applicable | As above |
| | **Coupons / dividends** | |
| 17 | Fixed or Floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | 3 month SIBOR + 120bps |
| 19 | Existence of a dividend stopper | No |
| 20 | Fully discretionary, partially discretionary or mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non cumulative or cumulative | Non cumulative |
| 23 | Convertible or non-convertible | Non - convertible |
| 24 | If convertible, conversion trigger (s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down feature | No |
| 31 | If write-down, write-down trigger (s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary writedown, description of the write-up mechansim | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated. Senior bondholders are immediately senior to this instrument. |
| 36 | Non-compliant transitioned features | Yes |
| 37 | If yes, specify non-compliant features | No writedown or non convertible feature |

**Note:** Further explanation of rows (37-1) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled «Composition of Capital Disclosure Requirements issued by the BCBS in June 2012».

**2. Table – Capital Structure** *(continued)*

**Main features template of regulatory capital instruments – (Table 2 (e))**

| | | |
|---|---|---|
| 1 | Issuer | Saudi British Bank (SABB) |
| 2 | Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement) | ISIN No.SA13EFK0GJJ0 |
| 3 | Governing law(s) of the instrument | The instrument is governed by the laws of the Kingdom of Saudi Arabia |
| | **Regulatory treatment** | |
| 4 | Transitional Basel III rules | Tier 2 |
| 5 | Post-transitional Basel III rules | Eligible |
| 6 | Eligible at solo/lgroup/group&solo | Solo |
| 7 | Instrument type | Subordinated Sukuk |
| 8 | Amount recognied in regulatory capital (Currency in mil, as of most recent reporting date) | SAR 1,200mil |
| 9 | Par value of instrument | SAR 1,500mil |
| 10 | Accounting classification | Liability - amortised cost |
| 11 | Original date of issuance | 17th December 2013 |
| 12 | Perpetual or dated | Dated |
| 13 | Original maturity date | 17th December 2020 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Option call date, contingent call dates and redemption amount | Call option only available after 5 years or for a regulatory or tax event, 17th December 2018 as the date for redemption, SABB shall be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than sixty (60) days' notice to the Sukukholders |
| 16 | Subsequent call dates if applicable | As above |
| | **Coupons / dividends** | |
| 17 | Fixed or Floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | 6 months SIBOR + 140bps |
| 19 | Existence of a dividend stopper | No |
| 20 | Fully discretionary, partially discretionary or mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non cumulative or cumulative | Non cumulative |
| 23 | Convertible or non-convertible | Non - convertible |
| 24 | If convertible, conversion trigger (s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down feature | Yes |
| 31 | If write-down, write-down trigger (s) | Terms of contract of the instrument provide the legal basis for SAMA to trigger write-down (a contractual approach) |
| 32 | If write-down, full or partial | Written down fully or partial |
| 33 | If write-down, permanent or temporary | Permanent |
| 34 | If temporary writedown, description of the write-up mechansim | |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated. Senior bondholders are immediately senior to this instrument. |
| 36 | Non-compliant transitioned features | N/A |
| 37 | If yes, specify non-compliant features | N/A |

**Note:** Further explanation of rows (37-1) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled «Composition of Capital Disclosure Requirements issued by the BCBS in June 2012».

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 2. Table – Capital Structure *(continued)*

### Main features template of regulatory capital instruments – (Table 2 (e))

| | | |
|---|---|---|
| 1 | Issuer | Saudi British Bank (SABB) |
| 2 | Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement) | ISIN No.SA13QVK0GK33 |
| 3 | Governing law(s) of the instrument | The instrument is governed by the laws of the Kingdom of Saudi Arabia |
| | **Regulatory treatment** | |
| 4 | Transitional Basel III rules | Tier 2 |
| 5 | Post-transitional Basel III rules | Eligible |
| 6 | Eligible at solo/lgroup/group&solo | Solo |
| 7 | Instrument type | Subordinated Sukuk |
| 8 | Amount recognied in regulatory capital (Currency in mil, as of most recent reporting date) | SAR 1,500mil |
| 9 | Par value of instrument | SAR 1,500mil |
| 10 | Accounting classification | Liability - amortised cost |
| 11 | Original date of issuance | 28th May 2015 |
| 12 | Perpetual or dated | Dated |
| 13 | Original maturity date | 28th May 2025 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Option call date, contingent call dates and redemption amount | Call option only available after 5 years or for a regulatory or tax event, 28th May 2020 as the date for redemption, SABB shall be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than sixty (60) days' notice to the Sukukholders |
| 16 | Subsequent call dates if applicable | As above |
| | **Coupons / dividends** | |
| 17 | Fixed or Floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | 6 months SIBOR + 130bps |
| 19 | Existence of a dividend stopper | No |
| 20 | Fully discretionary, partially discretionary or mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non cumulative or cumulative | Non cumulative |
| 23 | Convertible or non-convertible | Non - convertible |
| 24 | If convertible, conversion trigger (s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down feature | Yes |
| 31 | If write-down, write-down trigger (s) | Terms of contract of the instrument provide the legal basis for SAMA to trigger write-down (a contractual approach) |
| 32 | If write-down, full or partial | Written down fully or partial |
| 33 | If write-down, permanent or temporary | Permanent |
| 34 | If temporary writedown, description of the write-up mechansim | |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated. Senior bondholders are immediately senior to this instrument. |
| 36 | Non-compliant transitioned features | N/A |
| 37 | If yes, specify non-compliant features | N/A |

**Note:** Further explanation of rows (37-1) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled «Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.

## 3. Table – Capital Adequacy

### Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (Table 3, (b))

| **Portfolios** | **Amount of exposure** | **Capital requirement** |
|---|---|---|
| | **SAR'000** | **SAR'000** |
| Sovereigns and central banks: | | |
| SAMA and Saudi Government | 30,943,113 | - |
| Others | 1,385,334 | 20,912 |
| Multilateral Development Banks (MDBs) | - | - |
| Public Sector Entities (PSEs) | - | - |
| Banks and securities firms | 17,820,949 | 594,821 |
| Corporates | 106,183,991 | 7,806,102 |
| Retail non-mortgages | 16,703,417 | 1,007,845 |
| Small Business Facilities Enterprises (SBFE's) | - | - |
| Mortgages | - | - |
| Residential | 10,787,479 | 866,007 |
| Commercial | - | - |
| Securitized assets | - | - |
| Equity | 1,725,148 | 226,422 |
| Others | 3,057,793 | 110,036 |
| **Total** | **188,607,224** | **10,632,145** |

### Capital requirements for market risk* (Table 3, (d))

| | Interest rate risk | Equity position risk | Foreign exchange risk | Commodity risk | Total |
|---|---|---|---|---|---|
| | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** |
| Standardised approach | 83,510 | - | 144,027 | - | 227,537 |

**Capital requirements are to be disclosed only for the approaches used.*

### Capital requirements for operational risk* (Table 3, (e))

| **Particulars** | Total |
|---|---|
| | **SAR'000** |
| Standardized approach | 1,009,612 |

**Capital requirements are to be disclosed only for the approaches used.*

### Capital Adequacy Ratios (Table 3, (f))

| | Total capital ratio | Tier 1 capital ratio |
|---|---|---|
| **Particulars** | **%** | **%** |
| Top consolidated level | 17.61% | 15.39% |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 4. Table (STA) – Credit Risk: General Disclosures

### Credit risk exposure (Table 4, (b))

| Portfolios | Total gross credit risk exposure | Average gross credit risk exposure over the period |
|---|---|---|
| | SAR'000 | SAR'000 |
| Sovereigns and central banks: | | |
| SAMA and Saudi Government | 30,943,113 | - |
| Others | 1,385,334 | - |
| Multilateral Development Banks (MDBs) | 50 | - |
| Public Sector Entities (PSEs) | - | - |
| Banks and securities firms | 25,589,663 | - |
| Corporates | 140,554,196 | - |
| Retail non-mortgages | 16,702,638 | - |
| Small Business Facilities Enterprises (SBFE's) | - | - |
| Mortgages | - | - |
| Residential | 10,787,479 | - |
| Commercial | - | - |
| Securitized assets | - | - |
| Equity | 1,725,148 | - |
| Others | 3,057,793 | - |
| Total | 230,745,414 | - |

## 4. Table (STA) – Credit Risk: General Disclosures

### Geographic breakdown (Table 4, (c))

| Portfolios | Saudi Arabia | Other GCC & Middle East | Europe | North America |
|---|---|---|---|---|
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Sovereigns and central banks: | | | | |
| SAMA and Saudi Government | 30,943,113 | - | - | - |
| Others | - | 1,022,116 | 149,284 | - |
| Multilateral Development Banks (MDBs) | - | - | - | - |
| Public Sector Entities (PSEs) | - | - | - | - |
| Banks and securities firms | 8,856,577 | 4,241,813 | 3,852,008 | 5,408,246 |
| Corporates | 139,123,578 | 1,430,618 | - | - |
| Retail non-mortgages | 16,702,638 | - | - | - |
| Small Business Facilities Enterprises (SBFE's) | - | - | - | - |
| Mortgages | - | - | - | - |
| Residential | 10,787,479 | - | - | - |
| Commercial | - | - | - | - |
| Securitized assets | - | - | - | - |
| Equity | 1,725,148 | - | - | - |
| Others | 3,057,793 | - | - | - |
| Total | 211,196,326 | 6,694,547 | 4,001,292 | 5,408,246 |

| South East Asia | Other countries | Total |
|---|---|---|
| SAR'000 | SAR'000 | SAR'000 |
| - | - | 30,943,113 |
| 57,466 | 156,468 | 1,385,334 |
| - | 50 | 50 |
| - | - | - |
| 53,735 | 3,177,284 | 25,589,663 |
| - | - | 140,554,196 |
| - | - | 16,702,638 |
| - | - | - |
| - | - | - |
| - | - | 10,787,479 |
| - | - | - |
| - | - | - |
| - | - | 1,725,148 |
| - | - | 3,057,793 |
| 111,201 | 3,333,802 | 230,745,414 |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

### Industry sector breakdown (Table 4, (d))

| Portfolios | Government and quasi government | Banks and other financial institutions | Agriculture and fishing | Manufacturing | Mining and quarrying |
|---|---|---|---|---|---|
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Sovereigns and central banks: | | | | | |
| SAMA and Saudi Government | 30,943,113 | - | - | - | - |
| Others | 1,385,334 | - | - | - | - |
| Multilateral Development Banks (MDBs) | - | 50 | - | - | - |
| Public Sector Entities (PSEs) | - | - | - | - | - |
| Banks and securities firms | - | 25,589,663 | - | - | - |
| Corporates | - | 15,974,919 | 719,687 | 28,733,673 | 2,419,276 |
| Retail non-mortgages | - | - | - | - | - |
| Small Business Facilities Enterprises (SBFE's) | - | - | - | - | - |
| Mortgages | - | - | - | - | - |
| Residential | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| Securitized assets | - | - | - | - | - |
| Equity | - | 1,725,148 | - | - | - |
| Others | - | - | - | - | - |
| Total | 32,328,447 | 43,289,780 | 719,687 | 28,733,673 | 2,419,276 |

| Electricity, water. Gas and health services | Building and construction | Commerce | Transportation and communication | Services | Consumer loans and credit cards | Others | Total |
|---|---|---|---|---|---|---|---|
| SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| - | - | - | - | - | - | - | 30,943,113 |
| - | - | - | - | - | - | - | 1,385,334 |
| - | - | - | - | - | - | - | 50 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | 25,589,663 |
| 6,323,885 | 32,678,860 | 37,519,835 | 4,461,540 | 9,674,508 | - | 2,048,013 | 140,554,196 |
| - | - | - | - | - | 16,702,638 | - | 16,702,638 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 10,787,479 | - | 10,787,479 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | 1,725,148 |
| - | - | - | - | - | - | 3,057,793 | 3,057,793 |
| 6,323,885 | 32,678,860 | 37,519,835 | 4,461,540 | 9,674,508 | 27,490,117 | 5,105,806 | 230,745,414 |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 4. Table (STA) – Credit Risk: General Disclosures *(continued)*

### Residual contractual maturity breakdown (Table 4, (e))

| Portfolios | Maturity breakdown Less than 8 days | 8-30 days |
|---|---|---|
| | SAR'000 | SAR'000 |
| Sovereigns and central banks: | | |
| SAMA and Saudi Government | 1,162,924 | 999,730 |
| Others | - | - |
| Multilateral Development Banks (MDBs) | 50 | - |
| Public Sector Entities (PSEs) | - | - |
| Banks and Securities Firms | 12,055,112 | 314,166 |
| Corporates | 13,522,461 | 16,224,979 |
| Retail non-mortgages | 2,464,797 | 18,521 |
| Small Business Facilities Enterprises (SBFE's) | - | - |
| Mortgages | - | - |
| Residential | 2,609 | 50 |
| Commercial | - | - |
| Securitized assets | - | - |
| Equity | - | - |
| Others | - | - |
| Total | 29,207,953 | 17,557,446 |

### Impaired loans, past due loans and allowances (Table 4, (f))

Table 4 (STA) : CREDIT RISK : GENERAL DISCLOSURES

**Impaired loans, Past Due Loans and Allowances (Table 4, (f))**

| Industry sector | Impaired loans | Defaulted | Ageing of Past Due Loans (days) Less than 90 |
|---|---|---|---|
| | SAR'000 | SAR'000 | SAR'000 |
| Government and quasi government | - | - | - |
| Banks and other financial institutions | - | - | - |
| Agriculture and fishing | - | 639 | 9,262 |
| Manufacturing | 86,387 | 86,387 | 23,687 |
| Mining and quarrying | - | - | 2,773 |
| Electricity, water. Gas and health services | - | - | - |
| Building and construction | 375,004 | 394,964 | 241,601 |
| Commerce | 472,083 | 598,197 | 424,743 |
| Transportation and communication | 74,153 | 74,153 | - |
| Services | 9,564 | 9,564 | 6,532 |
| Consumer loans and credit cards | 93,545 | 222,898 | 1,457,990 |
| Others | 406,536 | 406,803 | 32,953 |
| Total | 1,517,272 | 1,793,605 | 2,199,541 |

| Maturity breakdown | | | | | | | |
|---|---|---|---|---|---|---|---|
| 30-90 days | 90-180 days | 180-360 days | 1-3 years | 3-5 years | Over 5 years | No Maturity | Total |
| SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| 10,078,309 | 5,976,095 | - | 46 | 3,164,825 | 504,817 | 9,056,367 | 30,943,113 |
| - | - | 57,466 | 509,337 | 605,185 | 213,346 | - | 1,385,334 |
| - | - | - | - | - | - | - | 50 |
| - | - | - | - | - | - | - | - |
| 1,040,359 | 1,399,806 | 1,452,559 | 6,059,839 | 2,640,308 | 627,514 | - | 25,589,663 |
| 29,026,865 | 18,369,113 | 17,202,294 | 17,459,897 | 8,670,784 | 20,077,803 | - | 140,554,196 |
| 52,169 | 95,704 | 271,764 | 4,793,344 | 8,993,279 | 13,060 | - | 16,702,638 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 553 | 6,227 | 6,054 | 89,851 | 209,429 | 10,472,706 | - | 10,787,479 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 1,725,148 | 1,725,148 |
| - | - | - | - | - | - | 3,057,793 | 3,057,793 |
| 40,198,255 | 25,846,945 | 18,990,137 | 28,912,314 | 24,283,810 | 31,909,246 | 13,839,308 | 230,745,414 |

| Ageing of Past Due Loans (days) | | | Specific allowances | | | | |
|---|---|---|---|---|---|---|---|
| 90-180 | 180-360 | Over 360 | Balance at the begaining of the period | Charges during the period | Charge-offs during the period | Balance at the end of the period | General allowances |
| SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | 704 |
| 639 | - | - | - | - | - | - | 2,700 |
| - | - | - | 37,478 | 28,082 | - | 65,560 | 253,233 |
| - | - | - | - | - | - | - | 27,356 |
| - | - | - | - | - | - | - | 38,895 |
| - | 19,960 | - | 171,400 | 82,162 | (22,078) | 231,484 | 216,724 |
| 1,114 | 125,000 | - | 471,621 | (42,028) | (91,339) | 338,254 | 319,061 |
| - | - | - | - | 77,966 | - | 77,966 | 6,856 |
| - | - | - | 25,244 | (5,071) | (6,350) | 13,823 | 260,776 |
| 129,353 | - | - | 321,148 | 429,980 | (392,610) | 358,518 | - |
| 60 | 207 | - | 227,548 | 2,097 | (1,700) | 227,945 | 46,691 |
| 131,166 | 145,167 | - | 1,254,439 | 573,188 | (514,077) | 1,313,550 | 1,172,996 |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 4. Table (STA) – Credit Risk: General Disclosures *(continued)*

### Impaired loans, past due loans and allowances (Table 4, (g))

| Geographic area | Impaired loans | Ageing of Past Due Loans (days) | | | |
|---|---|---|---|---|---|
| | | Less than 90 | 90-180 | 180-360 | Over 360 |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Saudi Arabia | 1,517,272 | 2,199,541 | 131,166 | 145,167 | - |
| Other GCC and Middle East | - | - | - | - | - |
| Europe | - | - | - | - | - |
| North America | - | - | - | - | - |
| SouthEast Asia | - | - | - | - | - |
| Others countries | - | - | - | - | - |
| **Total** | **1,517,272** | **2,199,541** | **131,166** | **145,167** | **-** |

### Reconciliation of changes in the allowances for loan impairment (Table 4, (h))

| Particulars | Specific allowances | General allowances |
|---|---|---|
| | SAR'000 | SAR'000 |
| Balance, beginning of the year | 1,254,439 | 1,148,106 |
| Charge-offs taken against the allowances during the period | (514,077) | - |
| Amounts set aside (or reversed) during the period | 573,188 | 24,890 |
| Other adjustments: | - | - |
| - exchange rate differences | - | - |
| - business combinations | - | - |
| - acquisitions and disposals of subsidiaries | - | - |
| - etc. | - | - |
| Transfers between allowances | - | - |
| **Balance, end of the year** | **1,313,550** | **1,172,996** |

## 5. Table (STA) – Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

### Allocation of exposures to risk buckets (Table 5, (b))

| Particulars | Risk buckets | | |
|---|---|---|---|
| | 0% | 20% | 35% |
| | SAR'000 | SAR'000 | SAR'000 |
| **Sovereigns and central banks** | | | |
| SAMA and Saudi Government | 30,943,113 | - | - |
| Others | 925,099 | 57,466 | - |
| Multilateral Development Banks (MDBs) | - | - | - |
| Public Sector Entities (PSEs) | - | - | - |
| Banks and securities firms | - | 7,176,374 | - |
| Corporates | - | 1,811,358 | - |
| Retail non-mortgages | - | - | - |
| Small Business Facilities Enterprises (SBFE's) | - | - | - |
| Mortgages | - | - | - |
| Residential | - | - | - |
| Commercial | - | - | - |
| Securitized assets | - | - | - |
| Equity | - | - | - |
| Others | 1,520,252 | 202,615 | - |
| **TOTAL** | **33,388,464** | **9,247,813** | **-** |

| Specific allowances | General allowances |
|---|---|
| SAR'000 | SAR'000 |
| 1,313,550 | 1,172,996 |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| **1,313,550** | **1,172,996** |

| Risk buckets | | | | | | | |
|---|---|---|---|---|---|---|---|
| **50%** | **75%** | **100%** | **150%** | **Other risk weights** | **Unrated** | **TOTAL** | **Deducted** |
| **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** | **SAR'000** |
| - | - | - | - | - | - | 30,943,113 | - |
| 305,752 | - | 97,017 | - | - | - | 1,385,334 | - |
| 50 | - | - | - | - | - | 50 | - |
| - | - | - | - | - | - | - | - |
| 18,888,949 | - | 112,353 | - | - | - | 26,177,676 | - |
| 8,807,783 | - | 123,223,845 | 302,656 | - | - | 134,145,642 | - |
| - | 16,599,351 | 595 | 99,665 | - | - | 16,699,611 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 10,712,251 | 75,228 | - | - | 10,787,479 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 1,026,237 | - | 698,911 | - | 1,725,148 | - |
| - | - | 1,334,926 | - | - | - | 3,057,793 | - |
| **28,002,534** | **16,599,351** | **136,507,224** | **477,549** | **698,911** | **-** | **224,921,846** | **-** |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 7. Table (STA) – Credit Risk Mitigation (CRM): Disclosures for Standardised Approach

### Credit Risk Exposure covered by CRM (Table 7, (b) and (c))

| Portfolios | Covered by | |
|---|---|---|
| | **Eligible financial collateral** | **Guarantees/ credit derivatives** |
| | **SAR'000** | **SAR'000** |
| Sovereigns and central banks | | |
| SAMA and Saudi Government | | |
| Others | | |
| Multilateral Development Banks (MDBs) | | |
| Public Sector Entities (PSEs) | | |
| Banks and securities firms | 11,219 | |
| Corporates | 5,809,322 | 599,232 |
| Retail non-mortgages | 3,027 | |
| Small Business Facilities Enterprises (SBFE's) | | |
| Mortgages | | |
| Residential | | |
| Commercial | | |
| Securitized assets | | |
| Equity | | |
| Others | | |
| **Total** | **5,823,568** | **599,232** |

## 8. Table (STA) – General Disclosures for Exposures Related to Counterparty Credit Risk (CCR)

### General disclosures (Table 8, (b) and (d))

| Particulars | Amount |
|---|---|
| | **SAR'000** |
| Gross positive fair value of contracts | 872,865 |
| Netting Benefits* | |
| Netted Current Credit Exposure* | |
| Collateral held: | |
| -Cash | |
| -Government securities | |
| -Others | |
| Exposure amount (under the applicable method) | |
| -Internal Models Method (IMM) | |
| -Current Exposure Method (CEM) | 2,264,333 |
| Notional value of credit derivative hedges | |
| Current credit exposure (by type of credit exposure): | |
| -Interest rate contracts | 695,186 |
| -FX contracts | 1,539,336 |
| -Equity contracts | 29,811 |
| -Credit derivatives | |
| -Commodity/other contracts | |

**Bank's estimate of Alpha (if the bank has received supervisory approval) is: N/A*

**Currently, netting for credit exposure measurement purposes not permitted in KSA.*

## 8. Table (STA) – General Disclosures for Exposures Related to Counterparty Credit Risk (CCR) *(continued)*

### Credit derivative transactions (Table 8, (c))

| Credit derivative transactions | Proprietary activities | | Intermediation Activities | |
|---|---|---|---|---|
| | Protection bought | Protection sold | Protection bought | Protection sold |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Total return swaps | | | | |
| Credit default swaps | | | | |
| Credit options | | | | |
| Credit linked notes | | NIL | | |
| Collateralized debt obligations | | | | |
| Collateralized bond obligations | | | | |
| Collateralized loan obligations | | | | |
| Others | | | | |
| **Total** | | | | |

## 9. Table (STA) – Securitisation: Disclosures for STA Approach

### Outstanding exposures securitised by the Bank as an originator or purchaser (Table 9, (g))

| Exposure type | Outstanding exposures | |
|---|---|---|
| | Traditional | Synthetic |
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

### Outstanding exposures securitised by the Bank as a sponsor (Table 9, (g))

| Exposure type | Outstanding exposures | |
|---|---|---|
| | Traditional | Synthetic |
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

**Outstanding exposures securitised by the bank as an originator or purchaser (Table 9, (h))**

| Exposure type | Impaired / Past due assets securitized | Losses recognized by the bank during the current period |
|---|---|---|
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

**Outstanding exposures securitised by the Bank as a sponsor (Table 9, (h))**

| Exposure type | Impaired / Past due assets securitized | Losses recognized by the bank during the current period |
|---|---|---|
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

**Outstanding exposures securitised by the Bank (Table 9, (i))**

| Exposure type | Securitization exposures retained or purchased | |
|---|---|---|
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

### Summary of current year's securitisation activity of the Bank as an originator or purchaser (Table 9, (j))

| Exposure type | Amount of exposures securitized | Recognized gain or loss on sale |
|---|---|---|
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

### Summary of current year's securitisation activity of the Bank as a sponsor (Table 9, (j))

| Exposure type | Amount of exposures securitized | Recognized gain or loss on sale |
|---|---|---|
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

### Securitised exposures (Table 9, (k))

| Exposure type | On balance sheet aggregate exposure retained or purchased | Off balance sheet aggregate exposure |
|---|---|---|
| | SAR'000 | SAR'000 |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | NIL | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

### Exposures by risk-weight bands (Table 9, (l))

| Risk weight bands | Securitisation | | Re-Securitisation | |
|---|---|---|---|---|
| | Exposures retained or purchased | Associated capital charges | Exposures retained or purchased | Associated capital charges |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| %0 to %20 | | | | |
| Above 20% to 40% | | | | |
| Above 40% to 60% | | NIL | | |
| Above 60% to 80% | | | | |
| Above 80% to 100% | | | | |
| Above 100% | | | | |

### Deductions from capital (Table 9, (l))

| Type of underlying assets | Deductions from capital | | |
|---|---|---|---|
| | Exposures deducted from Tier 1 capital | Credit enhancing I/Os deducted from total capital | Other exposures deducted from total capital |
| | SAR'000 | SAR'000 | SAR'000 |
| Credit cards | | | |
| Home equity loans | | | |
| Commercial loans | | | |
| Automobile loans | | NIL | |
| Small business loans | | | |
| Equipment leases | | | |
| **Others** | | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

### Securitisations subject to early amortisation treatment (Table 9, (m))

| Type of underlying assets | Aggregate drawn exposures attributed to the seller's and investor's interests | Aggregate capital charges incurred by the bank against | |
|---|---|---|---|
| | | its retained shares of the drawn balances and undrawn lines | the investor's shares of drawn balances and undrawn lines |
| | SAR'000 | SAR'000 | SAR'000 |
| Credit cards | | | |
| Home equity loans | | | |
| Commercial loans | | | |
| Automobile loans | | NIL | |
| Small business loans | | | |
| Equipment leases | | | |
| **Others** | | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

### Re-Securitisation exposures retained or purchased (Table 9, (n))

| | Credit Risk Mitigation | |
|---|---|---|
| **Exposure type** | **Applied** | **Not Applied** |
| Loans | **SAR'000** | **SAR'000** |
| Commitments | | |
| Asset-backed securities | | |
| Mortgage-backed securities | **NIL** | |
| Corporate bonds | | |
| Equity securities | | |
| Private equity investments | | |
| **Others** | | |

### Re-Securitisation exposures retained or purchased (Table 9, (n))

| **Guarantor Credit Worthiness** | **Aggregate Exposure** | |
|---|---|---|
| **(Grade 1 being the highest)** | **SAR'000** | **SAR'000** |
| Grade 1 | | |
| Grade 2 | | |
| Grade 3 | | |
| Grade 4 | **NIL** | |
| Grade 5 | | |
| Grade 6 | | |
| Grade 7 | | |

### Outstanding exposures securitised by the Bank as an originator or purchaser (Table 9, (o))

| | Outstanding exposures | |
|---|---|---|
| **Exposure type** | **Traditional** | **Synthetic** |
| Credit cards | **SAR'000** | **SAR'000** |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | **NIL** | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

### Outstanding exposures securitised by the Bank as a sponsor (Table 9, (o))

| | Outstanding exposures | |
|---|---|---|
| **Exposure type** | **Traditional** | **Synthetic** |
| Credit cards | **SAR'000** | **SAR'000** |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | **NIL** | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

### Outstanding exposures securitised by the Bank (Table 9, (p))

| **Exposure type** | **Securitization exposures retained or purchased** |
|---|---|
| | **SAR'000** |
| Credit cards | |
| Home equity loans | |
| Commercial loans | |
| Automobile loans | **NIL** |
| Small business loans | |
| Equipment leases | |
| **Others** | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

### Summary of current year's securitisation activity of the Bank as an originator or purchaser (Table 9, (q))

| **Exposure type** | **Amount of exposures securitized** | **Recognized gain or loss on sale** |
|---|---|---|
| | **SAR'000** | **SAR'000** |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | **NIL** | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

### Summary of current year's securitisation activity of the Bank as a sponsor (Table 9, (q))

| **Exposure type** | **Amount of exposures securitized** | **Recognized gain or loss on sale** |
|---|---|---|
| | **SAR'000** | **SAR'000** |
| Credit cards | | |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | **NIL** | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

### Securitisation exposure retained subject to market risk approach where Bank is an originator or purchaser (Table 9, (r))

| | Outstanding exposures | |
|---|---|---|
| **Exposure type** | **Traditional** | **Synthetic** |
| Credit cards | **SAR'000** | **SAR'000** |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | **NIL** | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

### Securitisation exposure retained subject to market risk approach where Bank is a sponsor (Table 9, (r))

| | Outstanding exposures | |
|---|---|---|
| **Exposure type** | **Traditional** | **Synthetic** |
| Credit cards | **SAR'000** | **SAR'000** |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | **NIL** | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

### Securitised exposures (Table 9, (s))

| **Exposure type** | **On balance sheet aggregate exposure retained or purchased** | **Off Balance Sheet Aggregate Exposure** |
|---|---|---|
| Credit cards | **SAR'000** | **SAR'000** |
| Home equity loans | | |
| Commercial loans | | |
| Automobile loans | **NIL** | |
| Small business loans | | |
| Equipment leases | | |
| **Others** | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

### Securitisation exposures retained or purchased (Table 9, (t))

| Securitisation Exposure | Subject to Comprehensive Risk Measure for specific risk<br>SAR'000 |
|---|---|
| Loans | |
| Commitments | |
| Asset-backed securities | |
| Mortgage-backed securities | NIL |
| Corporate bonds | |
| Equity securities | |
| Private equity investments | |
| **Others** | |

### Exposures by risk-weight bands (Table 9, (t))

| Risk weight bands | Securitization exposures retained or purchased subject to specific risk<br>SAR'000 |
|---|---|
| 0% to 20% | |
| Above 20% to 40% | |
| Above 40% to 60% | |
| Above 60% to 80% | NIL |
| Above 80% to 100% | |

**9. Table (STA) – Securitisation: Disclosures for STA Approach** *(continued)*

**Capital requirements subject to comprehensive risk measures (Table 9, (u))**

| Securitisation Exposure | Risk Types | | |
|---|---|---|---|
| | Default Risk | Migration Risk | Correlation Risk |
| | SAR'000 | SAR'000 | SAR'000 |
| Loans | | | |
| Commitments | | | |
| Asset-backed securities | | NIL | |
| Mortgage-backed securities | | | |
| Corporate bonds | | | |
| Equity securities | | | |
| Private equity investments | | | |

**Capital requirement risk-weight bands (Table 9, (u))**

| Risk weight bands | Capital Charges | |
|---|---|---|
| | Securitisation | Re-Securitisation |
| | SAR'000 | SAR'000 |
| 0% to 20% | | |
| Above 20% to 40% | | |
| Above 40% to 60% | | |
| Above 60% to 80% | NIL | |
| Above 80% to 100% | | |
| Above 100% | | |

**Deductions from capital (Table 9, (u))**

| Type of underlying assets | Deductions from capital | | |
|---|---|---|---|
| | Exposures deducted from Tier 1 capital | Credit enhancing I/Os deducted from total capital | Other exposures deducted from total capital |
| | SAR'000 | SAR'000 | SAR'000 |
| Credit cards | | | |
| Home equity loans | | | |
| Commercial loans | | | |
| Automobile loans | | NIL | |
| Small business loans | | | |
| Equipment leases | | | |
| **Others** | | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

# Basel – Pillar 3 Annual Disclosures (31 December 2015) (continued)

## 9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

### Securitisations subject to early amortisation treatment (Table 9, (v))

| Type of underlying assets | Aggregate drawn exposures attributed to the seller's and investor's interests | Aggregate capital charges incurred by the bank against its retained shares of the drawn balances and undrawn lines | Aggregate capital charges incurred by the bank against the investor's shares of drawn balances and undrawn lines |
|---|---|---|---|
| | SAR'000 | SAR'000 | SAR'000 |
| Credit cards | | | |
| Home equity loans | | | |
| Commercial loans | | | |
| Automobile loans | | NIL | |
| Small business loans | | | |
| Equipment leases | | | |
| **Others** | | | |

*Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.*

### Re-Securitisation exposures retained or purchased (Table 9, (w))

| Securitisation Exposure | Credit Risk Mitigation Applied | Credit Risk Mitigation Not Applied |
|---|---|---|
| | SAR'000 | SAR'000 |
| Loans | | |
| Commitments | | |
| Asset-backed securities | | |
| Mortgage-backed securities | NIL | |
| Corporate bonds | | |
| Equity securities | | |
| Private equity investments | | |
| **Others** | | |

### Re-Securitisation exposures retained or purchased (Table 9, (w))

| Guarantor Credit Worthiness (Grade 1 being the highest) | Aggregate Exposure |
|---|---|
| | SAR'000 |
| Grade 1 | |
| Grade 2 | |
| Grade 3 | |
| Grade 4 | NIL |
| Grade 5 | |
| Grade 6 | |
| Grade 7 | |

## 10. Table (STA) – Market Risk: Disclosures for Banks using the Standardised Approach

### Level of market risks in terms of capital requirements (Table 10, (b))

| | Interest rate risk | Equity position risk | Foreign exchange risk | Commodity risk | Total |
|---|---|---|---|---|---|
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Capital requirements | 83,510 | - | 144,027 | - | 227,537 |

## 13. Table (STA) – Equities: Disclosures for Banking Book Positions

### Value of investments (Table 13, (b))

| | Unquoted Investments | | Quoted Investments | | |
|---|---|---|---|---|---|
| | Value disclosed in Financial Statements | Fair Value | Value disclosed in Financial Statements | Fair Value | Publicly quoted share values (if materially different from fair value |
| | SAR'000 | SAR'000 | SAR'000 | SAR'000 | SAR'000 |
| Investments | 617,965 | 617,965 | 1,107,183 | 1,253,333 | - |

### Type and nature of investments (Table 13, (c))

| | Publicly traded | Privately held |
|---|---|---|
| **Investments** | **SAR'000** | **SAR'000** |
| Government and Quasi-Government | - | - |
| Banks and Other Financial Institutions | 1,107,183 | 565,898 |
| Agriculture and Fishing | - | - |
| Manufacturing | - | - |
| Mining and Quarrying | - | - |
| Electricity, water, gas and health services | - | - |
| Building and Consruction | - | - |
| Commerce | - | - |
| Transportation and communication | - | - |
| Services | - | 8,750 |
| Others | - | 43,317 |
| **Total** | **1,107,183** | **617,965** |

### Gains and losses etc. (Table 13, (d) and (e))

| **Particulars** | **SAR'000** |
|---|---|
| Cummulative realised gains / (losses) arising from sales and liquidations in the reporting period | - |
| Total unrealised gains (losses) | (264,521) |
| Total latent revaluation gains (losses)* | N/A |
| Unrealised gains (losses) included in capital | (264,521) |
| Latent revaluation gains (losses) included in Capital * | N/A |

**Not applicable to KSA to Date.*

## 13. Table (STA) – Equities: Disclosures for Banking Book Positions *(continued)*

### Capital requirements (Table 13, (f))

| Equity Grouping | Capital Requirements SAR'000 |
|---|---|
| Government and Quasi-Government | - |
| Banks and Other Financial Institutions | 217,035 |
| Agriculture and Fishing | - |
| Manufacturing | - |
| Mining and Quarrying | - |
| Electricity, water, gas and health services | - |
| Building and Consruction | - |
| Commerce | - |
| Transportation and communication | - |
| Services | 5,922 |
| Others | 3,465 |
| **Total** | **226,422** |

### Equity investments subject to supervisory transition or grandfathering provisions (Table 13, (f))

| Equity Grouping | Aggregate Amount SAR'000 |
|---|---|
| Government and Quasi-Government | |
| Banks and Other Financial Institutions | |
| Agriculture and Fishing | |
| Manufacturing | **NIL** |
| Mining and Quarrying | |
| Electricity, water, gas and health services | |
| Building and Consruction | |
| Commerce | |
| Transportation and communication | |
| Services | |
| Others | |
| Total | |

## 14. Table (STA) – Interest Rate Risk in the Banking Book (IRRBB)

### 200bp interest rate shocks for currencies with more than 5% of assets or liabilities (Table 14, (b))

| Rate Shocks | Change in Earnings SAR'000 |
|---|---|
| Upward Rate Shocks: | |
| SAR | (810,261) |
| USD | (256,434) |
| | |
| Downward rate shocks: | |
| SAR | 810,261 |
| USD | 256,434 |

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