

**BASEL III – PILLAR 3 ANNUAL DISCLOSURES**  
**YEAR-2013**

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# 1. Scope of Application

## a) Scope

The Basel III disclosures contained herein relate to Saudi Hollandi Bank and its subsidiaries Saudi Hollandi Capital, Saudi Hollandi Real Estate Company and Saudi Hollandi Insurance, hereinafter collectively referred to as 'the Group', for the period ended December 31, 2013. These are compiled in accordance with 'the Saudi Arabian Monetary Agency (SAMA) regulations on Implementation of New Capital Adequacy Framework'

### **Pillar 1 – Minimum capital requirements**

Basel III requires risk-weighted assets (RWAs) to be calculated for credit, market and operational risk with various approaches available to banks, with differing levels of sophistication.

Minimum capital requirements are calculated as 8% of RWAs.

The Group applies the standardized approach for calculating RWAs.

The capital charge for market risk is based on a "building-block" approach. The capital charge for each risk category is determined separately. Within the commission rate and equity position risk categories, separate capital charges for specific risk and the general market risk arising from debt and equity positions are calculated.

The Group is also required to calculate a capital charge to cover operational risk, which is calculated by applying a beta by activity to the average income that was achieved in the previous three years by the Group.

### **Pillar 2 – Supervisory review process**

Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available. This risk and capital assessment is commonly referred to as the Internal Capital Adequacy Assessment Plan (ICAAP). The range of risks that are covered by the ICAAP is much broader than Pillar 1, which covers only credit, market and operational risk. The risks such as liquidity, concentration, strategic, reputational etc., are covered under Pillar 2.

The Group has developed an ICAAP framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group under stressed conditions.

The Group has formed various committees to oversee the various risks it is exposed to:

The Asset and Liability Management Committee is responsible for the establishment of and compliance with policies relating to the management of balance sheet risks.

The Board has delegated limits on credit and market risk to the Head Office Credit Committee (HOCC).

Operational Risk Management (ORM) is a unit within the risk function, which is responsible for identifying, assessing, monitoring and controlling/mitigating operational risk throughout the Bank in conjunction with all business units.

The ICAAP framework has been designed to be applied consistently across the organisation to meet the Pillar 1 and Pillar 2 requirements of the regulator.

The ICAAP is followed by in-depth discussions between the Group and SAMA on the appropriate capital levels (this second stage is called the Supervisory Review and Evaluation Process or SREP).

## Pillar 3 – Market discipline

Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices. The information provided here has been reviewed and validated by senior management and is in accordance with the rules in force at the time of publication, covering both the qualitative and quantitative items.

In accordance with SAMA regulation, the Group publishes the Pillar 3 disclosures on Capital structure and Capital adequacy ratios on a quarterly basis, Pillar 3 quantitative disclosures on a semi-annual basis and both qualitative & quantitative disclosures on an annual basis in its website [www.shb.com.sa](http://www.shb.com.sa) as soon as is practical after the Group announces its annual results.

### b) Basis of consolidation

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by SAMA and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group prepares its consolidated financial statements to comply with the Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

The basis of consolidation for accounting purposes is described in note 3(a) to the Notes to the consolidated financial statements of the Annual accounts 2013.

### c) Capital transferability between legal entities

#### Statutory restriction

SHB is required to transfer at least 25% of its net profit to statutory reserves before declaration of any dividend for the year until the amount of statutory reserves equals the paid up capital of the bank.

#### Regulatory prescription

SAMA has prescribed a minimum 8% Capital adequacy ratio which is in line with Basel III requirements.

## 2. Capital structure

The Group is well capitalised with a Tier 1 capital ratio of 11.8 percent (2012:12.4 percent) and a total capital ratio of 18.3 percent (2012: 17.6 percent).

For regulatory purposes, capital is categorised into two main classes. These are Tier 1 and Tier 2, which are described below.

#### Tier 1 capital

Tier 1 capital consists of ordinary share capital, statutory reserves, general reserves, retained earnings and fair value reserves.

The ordinary share capital is the authorised, issued and fully paid up share capital of the bank, which consists of 396.90 million shares of SAR 10 each (2012: 396.90 million shares of SAR 10 each). The local and foreign ownership structure of the Group's share capital has remained unchanged during 2013. It is as follows:

Saudi Shareholders	60%
ABN AMRO Bank N.V (The Netherlands)	40%

## Tier 2 capital

Tier 2 capital comprises the following:

- a) **Reserves** included under Tier 2 comprise balances that are available to meet unidentified impairments. These reserves are considered as Tier 2 capital up to a maximum of 1.25 per cent of the total risk-weighted assets as at December 31, 2013.

The Reserves also includes the staff share plan reserve elaborated in note 39 to the annual financial statements for the year ended 31 December 2013.

- b) **Subordinated debt** includes the following debt securities:

- (i) On 12 December 2013, the Group issued SAR 2,500 million unsecured subordinated Tier II Sukuk, which are due in 2023. The Group may at its option, but subject to the prior written approval of SAMA redeem these Sukuk at their redemption amount in December 2018 or in the event of certain changes affecting the taxation and regulatory capital treatment of the Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 155 basis points.
- (ii) On 26 November 2012, the Group issued SAR 1,400 million unsecured subordinated Tier II Sukuk, which are due in 2019. The Group may at its option, but subject to the prior written approval of SAMA redeem these Sukuk at their redemption amount in November 2017 or in the event of certain changes affecting the taxation and regulatory capital treatment of the Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 115 basis points.
- (iii) On 30 December 2009, the Group issued SAR 725 million unsecured subordinated Mudaraba Certificates (the Certificates), due in 2019, through public offer. The Group may at its option, but subject to the prior written approval of SAMA redeem the Certificates at their redemption amount at the end of 2014 or at the end of each calendar year thereafter until 2018, or in the event of certain changes affecting taxation and regulatory capital treatment of these Mudaraba Certificates. The commission rate paid on the above averaged 6 months SIBOR plus 190 basis points.

These borrowings are of initial maturity of not less than 5 years and are progressively discounted as per the SAMA guidelines, based on their residual maturity. The total amount of subordinated debts that can be considered for tier 2 cannot exceed 50% of tier 1.

The Group has not defaulted on any principal or commission repayments and there has been no breach to any of these liabilities during 2013 or 2012.

The following tables provided below shows the capital structure of the Group.

## TABLE 2: CAPITAL STRUCTURE - DECEMBER 2013

### Balance sheet - Step 1 (Table 2(b))

All figures are in SAR'000

	Balance sheet in Published financial statements ( C )	Adjustment of banking associates / other entities (*) ( D )	Under regulatory scope of consolidation ( E )
<b>Assets</b>			
Cash and balances at central banks	6,662,522	-	6,662,522
Due from banks and other financial institutions	1,751,367	-	1,751,367
Investments, net	16,849,162	-	16,849,162
Loans and advances, net	53,652,325	-	53,652,325
Debt securities	-	-	-
Trading assets	-	-	-
Investment in associates	17,233	-	17,233
Derivatives	-	-	-
Goodwill	-	-	-
Other intangible assets	-	-	-
Property and equipment, net	504,802	-	504,802
Other assets	1,030,850	-	1,030,850
<b>Total assets</b>	<b>80,468,261</b>	<b>-</b>	<b>80,468,261</b>
<b>Liabilities</b>			
Due to Banks and other financial institutions	2,494,278	-	2,494,278
Items in the course of collection due to other banks	-	-	-
Customer deposits	61,875,449	-	61,875,449
Trading liabilities	-	-	-
Debt securities in issue	4,625,000	-	4,625,000
Derivatives	-	-	-
Retirement benefit liabilities	-	-	-
Taxation liabilities	-	-	-
Accruals and deferred income	-	-	-
Borrowings	-	-	-
Other liabilities	2,072,106	-	2,072,106
<b>Subtotal</b>	<b>71,066,833</b>	<b>-</b>	<b>71,066,833</b>
Paid up share capital	3,969,000	-	3,969,000
Statutory reserves	3,081,128	-	3,081,128
Other reserves	173,810	-	173,810
Retained earnings	1,709,148	-	1,709,148
Minority Interest	-	-	-
Proposed dividends	468,342	-	468,342
<b>Total liabilities and equity</b>	<b>80,468,261</b>	<b>-</b>	<b>80,468,261</b>

## TABLE 2: CAPITAL STRUCTURE - DECEMBER 2013

Balance sheet - Step 2 (Table 2(c))

All figures are in SAR'000

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (D)	Under regulatory scope of consolidation (E)	Reference
<b>Assets</b>				
Cash and balances at central banks	6,662,522	-	6,662,522	
Due from banks and other financial institutions	1,751,367	-	1,751,367	
Investments, net	16,849,162	-	16,849,162	
Loans and advances, net	53,652,325	-	53,652,325	
of which Collective provisions	462,957	-	462,957	A
Debt securities	-	-	-	
Equity shares	-	-	-	
Investment in associates	17,233	-	17,233	
Derivatives	-	-	-	
Goodwill	-	-	-	
Other intangible assets	-	-	-	
Property and equipment, net	504,802	-	504,802	
Other assets	1,030,850	-	1,030,850	
<b>Total assets</b>	<b>80,468,261</b>	<b>-</b>	<b>80,468,261</b>	
<b>Liabilities</b>				
Due to Banks and other financial institutions	2,494,278	-	2,494,278	
Items in the course of collection due to other banks	-	-	-	
Customer deposits	61,875,449	-	61,875,449	
Trading liabilities	-	-	-	
Debt securities in issue	4,625,000	-	4,625,000	
of which Tier 2 capital instruments	4,625,000	-	4,625,000	B
Derivatives	-	-	-	
Retirement benefit liabilities	-	-	-	
Taxation liabilities	-	-	-	
Accruals and deferred income	-	-	-	
Borrowings	-	-	-	
Other liabilities	2,072,106	-	2,072,106	
<b>Subtotal</b>	<b>71,066,833</b>	<b>-</b>	<b>71,066,833</b>	
Paid up share capital	3,969,000	-	3,969,000	
of which amount eligible for CET1	3,969,000	-	3,969,000	H
of which amount eligible for AT1	-	-	-	I
Statutory reserves	3,081,128	-	3,081,128	
Other reserves	173,810	-	173,810	
Retained earnings	1,709,148	-	1,709,148	
Minority Interest	-	-	-	
Proposed dividends	468,342	-	468,342	
<b>Total liabilities and equity</b>	<b>80,468,261</b>	<b>-</b>	<b>80,468,261</b>	

**Note:** Items A B, H, I have been mapped as an example to Table 2d.

**TABLE 2: CAPITAL STRUCTURE - DECEMBER 2013**

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

All figures are in SAR'000

	Components <sup>1</sup> of regulatory capital reported by the bank	Amounts <sup>1</sup> 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
<b>Common Equity Tier 1 capital: Instruments and reserves</b>			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	3,969,000	H
2	Retained earnings	1,709,148	
3	Accumulated other comprehensive income (and other reserves)	3,211,127	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>8,889,276</b>	
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>			
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 / AFS reserve	21,690	
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)	-	(8,617)
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: ...	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>21,690</b>	
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>8,910,966</b>	
	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	<b>Additional Tier 1 capital before regulatory adjustments</b>	-	
	<b>Additional Tier 1 capital: regulatory adjustments</b>	-	
37	Investments in own Additional Tier 1 instruments	-	



**TABLE 2: CAPITAL STRUCTURE - DECEMBER 2013**

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

All figures are in SAR'000

	Components <sup>1</sup> of regulatory capital reported by the bank	Amounts <sup>1</sup> 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
<b>Tier 2 capital: instruments and provisions</b>			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	4,485,000	B
47	Directly issued capital instruments subject to phase out from Tier 2	-	
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	462,957	A
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>4,947,957</b>	
<b>Tier 2 capital: regulatory adjustments</b>			
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)	-	(8,617)
56	National specific regulatory adjustments	22,120	
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT			
	OF WHICH: [Staff Share Plan Reserve]	22,120	
	OF WHICH: ...	-	
57	Total regulatory adjustments to Tier 2 capital	<b>22,120</b>	
58	Tier 2 capital (T2)	<b>4,970,076</b>	
59	Total capital (TC = T1 + T2)	<b>13,881,042</b>	
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	75,790,255	
<b>Capital ratios</b>			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.76%	
62	Tier 1 (as a percentage of risk weighted assets)	11.76%	
63	Total capital (as a percentage of risk weighted assets)	18.32%	
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)	n/a	
65	of which: capital conservation buffer requirement	n/a	
66	of which: bank specific countercyclical buffer requirement	n/a	
67	of which: G-SIB buffer requirement	n/a	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	11.76%	
<b>National minima (if different from Basel 3)</b>			
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	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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)		
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	462,957	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	947,378	

**TABLE 2: CAPITAL STRUCTURE - DECEMBER 2013**

Main features template of regulatory capital instruments - (Table 2(e)) - 1		
1	Issuer	Saudi Hollandi Bank
2	Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	SA12GHIOGA31
3	Governing law(s) of the instrument	Public Offer under CMA regulations
	Regulatory treatment	
4	Transitional Basel III rules	NO
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/igroup/group&solo	GROUP
7	Instrument type	Mudaraba Sukuk
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	Saudi Riyals 725 million
9	Par value of instrument	Saudi Riyals 100,000
10	Accounting classification	Subordinated debt
11	Original date of issuance	December 30, 2009
12	Perpetual or dated	Dated
13	Original maturity date	December 30, 2019
14	Issuer call subject to prior supervisory approval	Yes
15	Option call date, contingent call dates and redemption amount	December 30, 2014
16	Subsequent call dates if applicable	December 31, 2015 December 31, 2016 December 31, 2017 December 31, 2018
	Coupons / dividends	
17	Fixed or Floating dividend/coupon	Floating
18	Coupon rate and any related index	6 months SIBOR Plus 190 basis points
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	Step-up Margin (year 6 onwards).
22	Non cumulative or cumulative	N/A
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)	Junior in right of payments to "claims of depositor's or any other unsubordinated payment obligations"
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A

**TABLE 2: CAPITAL STRUCTURE - DECEMBER 2013**

Main features template of regulatory capital instruments - (Table 2(e)) - 2		
1	Issuer	Saudi Hollandi Bank
2	Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	SA135VKOGAJ2
3	Governing law(s) of the instrument	Private Placement under CMA regulations
	Regulatory treatment	
4	Transitional Basel III rules	Yes
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/igroup/group&solo	GROUP
7	Instrument type	Sukuk
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	Saudi Riyals 1,400 million
9	Par value of instrument	Saudi Riyals 1 million
10	Accounting classification	Subordinated debt
11	Original date of issuance	November 26, 2012
12	Perpetual or dated	Dated
13	Original maturity date	November 30, 2019
14	Issuer call subject to prior supervisory approval	Yes
15	Option call date, contingent call dates and redemption amount	November 26, 2017
16	Subsequent call dates if applicable	NIL
	Coupons / dividends	
17	Fixed or Floating dividend/coupon	Floating
18	Coupon rate and any related index	6 months SIBOR Plus 115 basis points
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	N/A
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)	Junior in right of payments to "claims of depositor's or any other unsubordinated payment obligations"
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A

**TABLE 2: CAPITAL STRUCTURE - DECEMBER 2013**

Main features template of regulatory capital instruments - (Table 2(e)) - 3	
1 Issuer	Saudi Hollandi Bank
2 Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	SA13EFK0GBJ7
3 Governing law(s) of the instrument	Private Placement under CMA regulations
Regulatory treatment	
4 Transitional Basel III rules	N/A
5 Post-transitional Basel III rules	Yes
6 Eligible at solo/igroup/group&solo	GROUP
7 Instrument type	Sukuk
8 Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	Saudi Riyals 2,500 million
9 Par value of instrument	Saudi Riyals 1 million
10 Accounting classification	Subordinated debt
11 Original date of issuance	December 12, 2013
12 Perpetual or dated	Dated
13 Original maturity date	December 12, 2023
14 Issuer call subject to prior supervisory approval	Yes
15 Option call date, contingent call dates and redemption amount	December 12, 2018
16 Subsequent call dates if applicable	NIL
Coupons / dividends	
17 Fixed or Floating dividend/coupon	Floating
18 Coupon rate and any related index	6 months SIBOR Plus 155 basis points
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	N/A
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)	To be determined by SAMA
32 If write-down, full or partial	To be determined by SAMA
33 If write-down, permanent or temporary	To be determined by SAMA
34 If temporary writedown, description of the write-up mechansim	To be determined by SAMA
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Junior in right of payments to "claims of depositor's or any other unsubordinated payment obligations"
36 Non-compliant transitioned features	NO
37 If yes, specify non-compliant features	N/A

### 3. Capital adequacy

SHB determines an adequate level of capital to cover the risks it is exposed to and to support its current and forecast growth. Within SHB, capital adequacy is assessed in the ICAAP. The ICAAP is required as part of the Basel III Pillar II capital adequacy regime. It aligns capital levels to all risks (Pillar 1 & Pillar 2) that the Group is exposed to, and outlines processes by which the Group identifies, measures, monitors and manages risks, thereby ensuring that the Group's capitalization is appropriate.

#### Capital Planning and Targets

The ICAAP describes the Group's business strategy, its forecasts for risk weighted assets, its appetite and its assessment of the specific risks it is exposed to, how it intends to mitigate those risks and the capital it allocates to these risks. As such, the ICAAP is a crucial element of the Group's strategic decision making, and the strategy is continuously aligned with the ICAAP.

The ICAAP contains, in detail the following elements:

- a) The risks the Group is exposed to and how it measures, monitors and manages those risks;
- b) A calculation of internal capital requirements (including Pillar 1 and Pillar 2 risks) in light of the business plans and the risks the Group is exposed to;
- c) A calculation of the capital generated internally or externally and the assessment of the adequacy of the Group's capital and buffers vis-à-vis the capital requirements; and
- d) A stress test of the Group's capital buffer.

In addition to the annual ICAAP review, the bank has a capital management plan, updated monthly and monitored closely.

The following sections cover the Pillar 1 risks, which the Group is exposed to and the capital requirements for the same.

#### a) Risk Exposure and Risk Assessment under Pillar 1

The following table details the types of exposures in each asset class.

Basel Asset Class	Typical Types of Exposure
Corporate	Individually rated, un-rated and managed exposures not covered under other categories - mainly lending and off-balance sheet facilities provided to larger companies, partnerships and other legal entities
Sovereign	Exposures to sovereigns and central banks. Includes direct exposures e.g. bond holdings
Bank	Exposures to non-Group bank counterparties. Includes bond holdings and deposits with other banks, trade finance exposures, guarantees provided by other banks and derivatives
Residential Mortgage	Retail exposures secured by residential properties
Qualifying Revolving Retail	Retail managed consumer credit card exposures
Other Retail	Retail managed exposures other than mortgage and qualifying revolving - includes personal loans, consumer and small business leasing, retail small business lending
Equity	Holdings of third party equities where not consolidated or deducted from capital
Other Assets	Mainly fixed assets and prepayments

The Risk assessment process is elaborated under disclosure 4.

The Group applies the standardised approach for calculation of credit risk under Pillar 1.

The following table shows the amount of Risk weighted exposures by portfolio and the capital requirements for the same.

**TABLE 3: CAPITAL ADEQUACY - DECEMBER 2013****Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (TABLE 3, (b))**

Portfolios	Amount of exposures	Capital requirements
Sovereigns and central banks:	<b>19,856,667</b>	-
SAMA and Saudi Government	19,227,573	-
Others	629,094	-
Multilateral Development Banks (MDBs)	136,414	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	5,760,304	220,114
Corporates	58,910,633	4,659,298
Retail non-mortgages	<b>5,953,066</b>	<b>369,869</b>
Mortgages	<b>3,895,186</b>	<b>311,615</b>
Residential	3,895,186	311,615
Commercial	-	-
Securitized assets	-	-
Equity	328,978	28,387
Others	1,820,876	115,577
Credit Value Adjustment		30,804
<b>Total</b>	<b>96,662,124</b>	<b>5,735,664</b>

The Group applies the Standardised approach to calculate the capital charge to cover market risk, which uses a “building-block” approach. The capital charge for each risk category is determined separately. Within the commission rate and equity position risk categories, separate capital charges for specific risk and the general market risk arising from debt and equity positions are calculated. The following table shows the capital requirements for various risks.

**TABLE 3: CAPITAL ADEQUACY – DECEMBER 2013****Capital Requirements for Market Risk (822, Table 3, (d))  
(Figures in SAR 000's)**

Particulars	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Standardised approach	13,224	-	22,044	-	35,268

The Standardised Approach for operational risk capital calculation applies a beta to the average income that was achieved in the previous three years by the Group. The following table shows the capital requirements for operational risks.

**Capital Requirements for Operational Risk (Table 3, (e))  
(Figures in SAR 000's)**

Particulars	Capital requirements
Standardised approach	292,288
<b>Total</b>	<b>292,288</b>

<b>Capital Adequacy Ratios (TABLE 3,(f))</b>		
<b>Particulars</b>	<b>Total capital ratio</b>	<b>Tier 1 capital ratio</b>
Top consolidated level	18.3%	11.8%

## **4. Credit Risk**

Credit risk is the risk of financial loss from the failure of a customer to fully honour the terms of its contract with the Bank. Losses can arise from:

- Funded lending: i.e. providing loans, overdrafts, credit cards;
- Non-funded: contingent products such as Trade Finance facilities and FX products. Non-funded risk can also give rise to settlement risk which can occur from any transaction which requires assured payment of funds on a given date.

Credit risk responsibility is vested with the Board, delegated to the HOCC, an approval authority up to a certain limit fixed per obligor by the Board.

The granting of credit to customers is a core business of SHB and accounts for a major portion of the Bank's balance sheet and profitability and hence the major contributor to the Bank's risk assets.

### **Credit policies**

The Credit Policy and Procedures Manual is subject to annual review, endorsed by HOCC and approved by the Board.

### **Concentration risk**

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 the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

### **Credit monitoring**

Credit limits are monitored by the business and control functions. In addition, regular credit portfolio reports are prepared and presented to the Board covering the corporate, retail and financial institutions portfolios.

### **Credit risk exposures**

The following tables detail the Group's standardised credit risks by exposure class, geographic area, industry sector and residual maturity band.

**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES  
- DECEMBER 2013**

Credit Risk Exposure (Table 4, (b))		
Portfolios	Total gross credit risk exposure	Average gross credit risk exposure over the period
Sovereigns and central banks:	19,856,667	18,222,154
SAMA and Saudi Government	19,227,573	17,565,429
Others	629,094	656,726
Multilateral Development Banks (MDBs)	136,414	135,642
Public Sector Entities (PSEs)	-	-
Banks and securities firms	5,760,304	5,471,660
Corporates	58,910,633	57,448,479
Retail non-mortgages	5,953,066	5,611,011
Mortgages	3,895,186	2,943,974
Residential	3,895,186	2,943,974
Commercial	-	-
Securitized assets	-	-
Equity	328,978	242,568
Others	1,820,876	1,901,171
<b>Total</b>	<b>96,662,124</b>	<b>91,976,659</b>

\* Quarterly averages for the year 2013.



**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2013**

Geographic Breakdown (Table 4, (c))							
Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Others countries	Total
Sovereigns and central banks:	19,227,573	629,094	-	-	-	-	19,856,667
SAMA and Saudi Government	19,227,573	-	-	-	-	-	19,227,573
Others	-	629,094	-	-	-	-	629,094
Multilateral Development Banks (MDBs)	136,414	-	-	-	-	-	136,414
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	1,849,621	933,588	1,682,802	233,290	-	1,061,002	5,760,304
Corporates	58,036,790	871,672	2,170	-	-	-	58,910,633
Retail non-mortgages	5,953,066	-	-	-	-	-	5,953,066
Mortgages	3,895,186	-	-	-	-	-	3,895,186
Residential	3,895,186	-	-	-	-	-	3,895,186
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	328,978	-	-	-	-	-	328,978
Others	1,820,876	-	-	-	-	-	1,820,876
<b>Total</b>	<b>91,248,504</b>	<b>2,434,355</b>	<b>1,684,972</b>	<b>233,290</b>	<b>-</b>	<b>1,061,002</b>	<b>96,662,124</b>

Industry Sector Breakdown (Table 4, (d)) (Figures in SAR 000's)													
Portfolios	Industry sector												
	Govt and quasi govt.	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:	19,856,667	-	-	-	-	-	-	-	-	-	-	-	19,856,667
SAMA & Saudi Government	19,227,573	-	-	-	-	-	-	-	-	-	-	-	19,227,573
Others	629,094	-	-	-	-	-	-	-	-	-	-	-	629,094
Multilateral Development Banks (MDBs)	-	136,414	-	-	-	-	-	-	-	-	-	-	136,414
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and sec firms	-	5,760,304	-	-	-	-	-	-	-	-	-	-	5,760,304
Corporates	539,027	2,765,543	967,797	11,985,292	425,326	2,401,705	14,577,749	14,921,445	985,065	6,195,876	-	3,145,807	58,910,633
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	5,953,066	-	5,953,066
Mortgages	-	-	-	-	-	-	-	-	-	-	3,895,186	-	3,895,186
Residential	-	-	-	-	-	-	-	-	-	-	3,895,186	-	3,895,186
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	328,978	328,978
Others	-	-	-	-	-	-	-	-	-	-	-	1,820,876	1,820,876
<b>Total</b>	<b>20,395,694</b>	<b>8,662,260</b>	<b>967,797</b>	<b>11,985,292</b>	<b>425,326</b>	<b>2,401,705</b>	<b>14,577,749</b>	<b>14,921,445</b>	<b>985,065</b>	<b>6,195,876</b>	<b>9,848,253</b>	<b>5,295,661</b>	<b>96,662,124</b>

**TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2013**

Residual Contractual Maturity Breakdown (Table 4, (e))									
Portfolios	Maturity breakdown								
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	Total
<b>Sovereigns and central banks:</b>	6,345,545	1,001,777	2,218,541	2,928,655	5,530,926	391,263	40,232	1,399,729	19,856,667
SAMA and Saudi Government	6,345,545	1,001,777	2,218,541	2,510,811	5,530,926	333,987	2,633	1,283,355	19,227,573
Others	-	-	-	417,845	-	57,276	37,599	116,374	629,094
<b>Multilateral Development Banks (MDBs)</b>	-	-	-	-	136,414	-	-	-	136,414
<b>Public Sector Entities (PSEs)</b>	-	-	-	-	-	-	-	-	-
<b>Banks and securities firms</b>	1,378,489	241,750	1,504,265	413,051	131,363	1,138,773	407,026	545,588	5,760,304
<b>Corporates</b>	4,098,574	6,284,824	8,879,511	7,440,318	4,613,490	10,169,718	9,522,920	7,901,277	58,910,633
<b>Retail non-mortgages</b>	1,195,838	30,986	171,021	327,031	117,923	1,341,770	2,625,501	142,998	5,953,066
<b>Mortgages</b>	-	-	-	-	-	5,043	19,320	3,870,823	3,895,186
Residential	-	-	-	-	-	5,043	19,320	3,870,823	3,895,186
Commercial	-	-	-	-	-	-	-	-	-
<b>Securitized assets</b>	-	-	-	-	-	-	-	-	-
<b>Equity</b>	-	-	-	-	-	-	-	328,978	328,978
<b>Others</b>	857,949	-	-	-	-	-	-	962,927	1,820,876
<b>Total</b>	<b>13,876,394</b>	<b>7,559,336</b>	<b>12,773,337</b>	<b>11,109,055</b>	<b>10,530,115</b>	<b>13,046,567</b>	<b>12,614,999</b>	<b>15,152,320</b>	<b>96,662,124</b>

## Impairment assessment methodology

In determining whether an impairment loss should be recorded, the Bank makes judgements as to any collateral held and whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows.

This evidence may include observable data indicating there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans 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 the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The following tables sets out the details of impaired and defaulted loans and the provisions the Group is carrying as at the reporting date 31 December 2013.

<b>Impaired Loans, Past Due Loans and Allowances (Table 4, (f)) (Figures in SAR 000's)</b>											
Industry sector	Impaired loans	Defaulted	Ageing of Past Due Loans (days)				Specific allowances				General allowances
			Less than 90	90-180	180-360	Over 360	Balance at the beginning of the period	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	-	-	-
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	-	-	-	-	-	-	21,488	(13,868)	(7,620)	-	-
Manufacturing	99,701	78,848	78,848	-	-	-	72,228	27,473	-	99,701	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	8,300	29,418	2,836	-	26,582	-	8,300	-	-	8,300	-
Building and construction	231,321	95,563	91,033	4,530	-	-	129,487	101,834	-	231,321	-
Commerce	275,291	63,258	61,809	-	1,449	-	369,069	(19,508)	(74,270)	275,291	-
Transportation and communication	7,800	70	70	-	-	-	-	7,800	-	7,800	-
Services	2,495	12,956	12,956	-	-	-	7,787	(5,292)	-	2,495	-
Consumer loans and credit cards	51,715	54,412	54,412	-	-	-	54,280	35,028	(37,593)	51,715	39,760
Others	61,996	6,643	6,643	-	-	-	64,910	(1,928)	(9,999)	52,983	423,197
<b>Total</b>	<b>738,619</b>	<b>341,169</b>	<b>308,608</b>	<b>4,530</b>	<b>28,031</b>	<b>-</b>	<b>727,549</b>	<b>131,540</b>	<b>(129,483)</b>	<b>729,606</b>	<b>462,957</b>

The geographical distribution of impaired loans, past due loans and allowances as at 31 December 2013 are provided hereunder:

<b>Impaired Loans, Past Due Loans And Allowances (Table 4, (g)) (Figures in SAR 000's)</b>							
Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	738,619	308,608	4,530	28,031	-	729,606	462,957
<b>Total</b>	<b>738,619</b>	<b>308,608</b>	<b>4,530</b>	<b>28,031</b>	<b>-</b>	<b>729,606</b>	<b>462,957</b>

The following table sets out the movements in the Group's total individual and portfolio impairment provisions against loans and advances.

<b>Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h))</b> <b>(Figures in SAR 000's)</b>		
<b>Particulars</b>	<b>Specific allowances</b>	<b>General allowances</b>
Balance, beginning of the year	727,549	376,000
Charge-offs taken against the allowances during the period	(129,483)	-
Amounts set aside (or reversed) during the period	131,540	86,957
Transfers between allowances	-	-
<b>Balance, end of the year</b>	<b>729,606</b>	<b>462,957</b>

## 5. Standardized approach and supervisory risk weights

### Qualitative disclosures

For portfolios under the standardized approach, External Credit Assessment Institutions risk assessments are used by SHB as part of the determination of risk weightings:

Ratings for banks have been sourced from Standard and Poor's Ratings Group, the Fitch Group and Moody's.

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.

Where the obligors have not yet obtained such a rating, the exposure is taken as unrated and appropriate risk weights applied. The Group has not adopted any of the IRB approaches.

### *The alignment of alphanumeric scales of each agency to risk buckets:*

#### Alphanumeric scales:

<b>Moody's</b>	<b>Standard and Poor's</b>	<b>Fitch</b>
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-
	Ca	CC
	C	C
	WR	D
		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

SAMA requires banks operating in Saudi Arabia to use Option 2 for risk-weighting claims on banks and securities firms.

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

A 0% risk weight has been applied for the MDB's approved by SAMA.

#### Claims on public sector entities (PSEs)

As per Option 2.

#### Claims included in the regulatory non-mortgage retail portfolios

A 75% risk weight has been assigned to such exposures.

#### Claims on corporate

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

#### Claims secured by Residential Mortgages

A 100% risk weight has been applied to such claims.

## Claims secured by Commercial Real Estate

A 100% risk weight has been applied to such claims.

## Past due loans

The unsecured portion of any loan that is past due for more than 90 days or rescheduled, net of specific provisions (including partial write-offs), have been risk weighted as follows:

<u>Level of Provisioning</u>	<u>Risk weight%</u>
Upto 20%	150
above 20%	100

## Other assets

The standard risk weight for all other assets will be 100% except cash & cash equivalents which are risk weighted at 0%. Other assets include various transmission accounts, accrued receivables, cash and cash equivalents and fixed assets.

The allocation of credit risk exposures on the basis of risk buckets are provided hereunder:

TABLE 5 (STA): CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH - DECEMBER 2013										
Allocation Of Exposures To Risk Buckets (Table 5, (b))										
Particulars	Risk buckets									TOTAL
	0%	20%	35%	50%	75%	100%	150%	Other risk weights	Unrated	
Sovereigns and central banks:	19,856,667	-	-	-	-	-	-	-	-	19,856,667
SAMA and Saudi Government	19,227,573	-	-	-	-	-	-	-	-	19,227,573
Others	629,094	-	-	-	-	-	-	-	-	629,094
Multilateral Development Banks (MDBs)	136,414	-	-	-	-	-	-	-	-	136,414
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	881,416	-	4,607,459	-	271,428	-	-	-	5,760,304
Corporates	-	506,962	-	527,678	-	57,846,717	29,276	-	-	58,910,633
Retail non-mortgages	-	-	-	-	5,318,818	634,248	-	-	-	5,953,066
Mortgages	-	-	-	-	-	3,895,186	-	-	-	3,895,186
Residential	-	-	-	-	-	3,895,186	-	-	-	3,895,186
Commercial	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	311,745	-	17,233	-	328,978
Others	390,803	-	-	-	-	1,430,073	-	-	-	1,820,876
<b>TOTAL</b>	<b>20,383,884</b>	<b>1,388,379</b>	<b>-</b>	<b>5,135,136</b>	<b>5,318,818</b>	<b>64,389,397</b>	<b>29,276</b>	<b>17,233</b>	<b>-</b>	<b>96,662,124</b>

## 6. Credit Risk: Disclosures for portfolios subject to IRB approaches

*Not Applicable*

## 7. Credit Risk Mitigation

### The Main Types of Collateral Taken by SHB

Collateral is used to mitigate credit risk, as an alternative source of repayment in the event the counterparty cannot meet its contractual obligations through its operating cash flow or by refinancing.

Types of collateral typically accepted by SHB include, but are not limited to:

- Cash and lien over deposits;
- Real estate security over residential, commercial, industrial or rural property;
- Charges over specific plant and equipment;
- Charges over listed shares, bonds and securities; and
- Guarantees and pledges.

In some cases, such as where the customer risk profile is considered very sound (or by the nature of the product, for instance small limit products such as credit cards), a transaction may not be collateralized.

Credit policy sets out the acceptable types of collateral, and also has a process by which additional instruments and/or asset types can be considered for approval.

Besides tangible security and guarantee support as described above, credit risk is further mitigated by prudent transaction structuring and documentation. For example, in some transactions risk can be mitigated by lending covenants, or political risk insurance.

### **Policies and Processes for Collateral Valuation and Management**

SHB has established policies and processes around collateral valuation and management. The concepts of legal enforceability, certainty and accurate valuation are central to collateral management. In order to achieve legal enforceability and certainty, SHB has standard collateral instruments, and, where possible, security interests are registered.

In order to rely on the valuation of collateral assets, SHB has developed comprehensive rules around acceptable types of valuations (including who may value an asset), the frequency of revaluations and standard loan-to-value ratios for typical asset types. Upon receipt of a new valuation, the information is used to reassess the adequacy of the collateral. In the case of impaired assets, collateral valuations are considered when setting and reviewing provisions.

<b>Credit Risk Exposure Covered By CRM (Table 7, (b) and (c))</b>		
<b>(Figures in SAR 000's)</b>		
<b>Portfolios</b>	<b>Covered by</b>	
	<b>Eligible financial collateral</b>	<b>Guarantees / credit derivatives</b>
Corporates	449,143	-
<b>Total</b>	<b>449,143</b>	<b>-</b>

## **8. General disclosure for exposure related to counter-party credit risk**

Counterparty credit risk is the risk that the Group’s counterparty in a foreign exchange, commission rate, commodity, equity or credit derivative contract defaults prior to the maturity date of the contract and that the Group at the time has a claim on the counterparty.

The Group calculates its counterparty credit risk under both trading and banking book exposures by assigning risk weights to exposure types, which are as follows:

- a) Securities financing transactions (e.g. reverse repo) - trading and banking book
- b) Over the counter (OTC) derivatives – trading and banking book

Capital requirement is determined on above exposures based on the same methodology as credit risk and is reported separately for risk assessment.

## **9. Securitisation**

The Group is not involved in any securitisation deals, hence the requirement for qualitative and quantitative disclosures does not arise.



## 10. Market Risk: Disclosure for Banks using standardized approaches

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 commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

### 10.1 Risk identification

Since January 1, 2008, SHB, like all banks in the Kingdom, is Basel II Standardised Approach compliant with respect to market risk reporting and calculation of capital.

### 10.2 Risk measurement

The following table shows the capital requirements for various market risks as at 31 December 2013, based on the standardised approach.

Level Of Market Risks In Terms Of Capital Requirements (Table 10, (b)) (Figures in SAR 000's)					
	Commission rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Capital requirements	13,225	-	22,044	-	35,269

SHB uses a range of measures to manage market risk. These include a comprehensive framework of market risk limits by risk factor and business line, ranging from specific dealer stop loss limits, to sensitivity limits such as present value of a basis point movement of commission rates and open currency position limits as well as Value at Risk (VaR) limits. Market risk stress testing is also carried out in order that management is aware of and able to take any action necessary to mitigate, losses that could arise from extreme scenarios.

## 11. Market Risk: Disclosure for banks using internal models approach (IMA) for trading portfolios

Not applicable.

## 12. Operational Risk

Operational risk is defined as the risk of loss due to inadequate or failed internal processes, people and systems, or from external events. SHB's approach has been to adopt the Sound Practices for Operational Risk as a guideline and the Standardized Approach for capital calculation, as defined by the Basel II framework.

### 12.1 Objective

Operational risks are inherent to all business activities. It is the Group's objective to minimize the bank's exposure to such risks, subject to cost tradeoffs. This objective is met through a framework of policies and procedures that ensure risk identification, assessment, control and monitoring.

### 12.2 Governance Structure

The Operational Risk Management unit (ORM) reports to the CRO and is managed by the Head of Non-Financial Risk. ORM is guided and directed by the ORM committee, at the request of SHB's Board of Directors.

### 12.3 Risk identification

SHB follows a 'best practice' methodology of risk assessments and control evaluations for the identification of inherent operational risks. ORM manages operational risk for new or changed initiatives/products through the Operational Risk Assessment Procedure (ORAP) and the policy for this is set out in the ORAP Policy Manual. All operating losses and issues are recorded in the Bank's Operational Loss Database as part of the bank's system capturing the internal control framework: B Wise GRC. Operational risks are identified and assessed using the Risk and Control Self-Assessment and Key Risk Indicator tools

### 12.4 Risk Measurement

Measurement of operational risk is managed primarily through the bank's loss database and the register of deficiencies, both of which are maintained in GRC.

## 13. Equities: Disclosures for banking book positions

All Equity investments are classified as "Available for sale".

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 commission 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 recognized 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.

The following tables shows the equities investment in banking book as at 31 December 2013

<b>Value Of Investments (Table 13, (b)) Figures in SAR 000's</b>					
	<b>Un-quoted investments</b>		<b>Quoted investments</b>		
	<b>Value disclosed in Financial Statements</b>	<b>Fair value</b>	<b>Value disclosed in Financial Statements</b>	<b>Fair value</b>	<b>Publicly quoted share values (if materially different from fair value)</b>
Investments	3,438	3,438	325,540	325,540	-

<b>Types And Nature of Investments (Table 13, (c)) (Figures in SAR 000's)</b>		
<b>Investments</b>	<b>Publicly traded</b>	<b>Privately held</b>
Banks and other financial institutions	325,540	500
Manufacturing	-	-
Services	-	2,938
<b>Total</b>	<b>325,540</b>	<b>3,438</b>

<b>Gains / Losses Etc. (Table 13, (d) and (e)) (Figures in SAR 000's)</b>	
<b>Particulars</b>	<b>Amount</b>
Unrealized gains (losses) included in Capital	5,982
<b>Total unrealized gains (losses)</b>	<b>5,982</b>

<b>Capital Requirements (Table 13, (f)) (Figures in SAR 000's)</b>	
<b>Equity grouping</b>	<b>Capital requirements</b>
Banks and other financial institutions	28,152
Manufacturing	-
Services	235
<b>Total</b>	<b>28,387</b>

#### **14. Commission rate risk in the Banking book**

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 table shown under Note 31 b (i) to the financial statements 2013, depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2013 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 December 31, 2013 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or the hedging instrument.

<b>TABLE 14: INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) - DECEMBER 2013</b>	
<b>200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities (Table 14, (b))</b>	
<b>Rate Shocks</b>	<b>Change in earnings</b>
Upward rate shocks:	
SAR	258,865
USD	(42,444)
Downward rate shocks:	
SAR	(258,865)
USD	42,444

**Abbreviations used:**

- CRM: Corporate Risk Management
- CRO: Chief Risk Officer
- HOCC: Head Office Credit Committee
- ICAAP: Internal Capital Adequacy Assessment Plan
- ORAP: Operational Risk Assessment Procedure
- ORM: Operational Risk Management
- RWA: Risk Weighted Assets
- SAMA: Saudi Arabian Monetary Agency
- SHB: Saudi Hollandi Bank
- VaR: Value at risk