BASEL III – PILLAR 3 ANNUAL DISCLOSURES

YEAR-2014

Table of contents

List of tables

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, 2014. 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, with differing levels of sophistication available to banks..

Minimum capital requirements are calculated as 8% of RWAs.

The Group applies the standardized approach for calculating RWAs for credit, market and operational risk.

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’s operational risk capital charge is calculated by segregating the Group’s activities in to business lines and applying a factor (denoted beta) to the average income that was achieved in the previous three years by that business line.

Pillar 2 – Supervisory review process

Pillar 2 of the Basel and SAMA regulations 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 Process (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. Additional risks such as interest rate risk in the banking book, liquidity risk, concentration risk, strategic risk, macroeconomic and business cycle risk and reputational risk, 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 Board has formed a Board Risk Committee to assist and advise it in discharging its responsibilities. At a management level, the Group has established a number of committees to oversee the various risks it is exposed to:

The Board has vested in the Asset and Liability Committee responsibility for the establishment of policies relating to the management of balance sheet and market risks and ensuring compliance with those policies.

The Board has delegated approval limits for credit risk to the Head Office Credit Committee (HOCC).

An Operational Risk Management (ORM) unit operates within the risk function and is responsible for identifying, assessing, monitoring and controlling/mitigating operational risk throughout the Bank in conjunction with all business units. Its activities are overseen and supported by the Operational Risk Management Committee.

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

The ICAAP is documented and submitted to SAMA. This 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 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 2014.

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 11.2 percent (2013:11.8 percent) and a total capital ratio of 15.9 percent (2013: 18.3 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 476.28 million shares of SAR 10 each (2013: 396.90 million shares of SAR 10 each). The local and foreign ownership structure of the Group's share capital has remained unchanged during 2014. 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. 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, 2014.

The Reserves also includes the staff share plan reserve elaborated in note 38 to the annual financial statements for the year ended 31 December 2014.

b) Subordinated debt, which includes the following debt securities:

(i) SAR 2,500 million unsecured subordinated Tier II Sukuk, issued by the Group on 12 December 20123 and 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) SAR 1,400 million unsecured subordinated Tier II Sukuk, issued by the Group on 26 November 2012 and 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) SAR 725 million unsecured subordinated Mudaraba Certificates issued by the Group on 30 December 2009, due in 2019, through public offer, with an option to call at the end of five years (2014). The Group exercised the option of early redemption of these certificates at their redemption amount in December 2014. The commission rate paid on the above averaged 6 months SIBOR plus 190 basis points. All the required approvals from regulatory authorities were obtained for the purpose of redemptions.

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 2014 or 2013.

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

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2014

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)
Assets			
Cash and balances at central banks	9,523,463	-	9,523,463
Due from banks and other financial institutions	538,789	-	538,789
Investments, net	18,783,967	-	18,783,967
Loans and advances, net	65,147,828	-	65,147,828
Debt securities	-	-	-
Trading assets	-	-	-
Investment in associates	12,793	-	12,793
Derivatives	-	-	-
Goodwill	-	-	-
Other intangible assets	-	-	-
Property and equipment, net	526,388	-	526,388
Other assets	2,085,990	-	2,085,990
Total assets	96,619,218	-	96,619,218
Liabilities			
Due to Banks and other financial institutions	3,054,640	-	3,054,640
Items in the course of collection due to other banks	-	-	-
Customer deposits	76,813,865	-	76,813,865
Trading liabilities	-	-	-
Debt securities in issue	3,900,000	-	3,900,000
Derivatives	-	-	-
Retirement benefit liabilities	-	-	-
Taxation liabilities	-	-	-
Accruals and deferred income	-	-	-
Borrowings	-	-	-
Other liabilities	2,108,831	-	2,108,831
Subtotal	85,877,336	-	85,877,336
Paid up share capital	4,762,800	-	4,762,800
Statutory reserves	3,536,355	-	3,536,355
Other reserves	161,697	-	161,697
Retained earnings	1,661,866	-	1,661,866
Minority Interest	-	-	-
Proposed dividends	619,164	-	619,164
Total liabilities and equity	96,619,218	-	96,619,218

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2014

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
Assets				
Cash and balances at central banks	9,523,463	-	9,523,463	
Due from banks and other financial institutions	538,789	-	538,789	
Investments, net	18,783,967	-	18,783,967	
Loans and advances, net	65,147,828	-	65,147,828	
of which Collective provisions	523,028	-	523,028	A
Debt securities	-	-	-	
Equity shares	-	-	-	
Investment in associates	12,793	-	12,793	
Derivatives	-	-	-	
Goodwill	-	-	-	
Other intangible assets	-	-	-	
Property and equipment, net	526,388	-	526,388	
Other assets	2,085,990	-	2,085,990	
Total assets	96,619,218	-	96,619,218	
Liabilities				
Due to Banks and other financial institutions	3,054,640	-	3,054,640	
Items in the course of collection due to other banks	-	-	-	
Customer deposits	76,813,865	-	76,813,865	
Trading liabilities	-	-	-	
Debt securities in issue	3,900,000	-	3,900,000	
of which Tier 2 capital instruments	3,900,000	-	3,900,000	B
Derivatives	-	-	-	
Retirement benefit liabilities	-	-	-	
Taxation liabilities	-	-	-	
Accruals and deferred income	-	-	-	
Borrowings	-	-	-	
Other liabilities	2,108,831	-	2,108,831	
Subtotal	85,877,336	-	85,877,336	
Paid up share capital	4,762,800	-	4,762,800	
of which amount eligible for CET1	4,762,800		4,762,800	H
of which amount eligible for AT1	-		-	I
Statutory reserves	3,536,355	-	3,536,355	
Other reserves	161,697	-	161,697	
Retained earnings	1,661,866	-	1,661,866	
Minority Interest	-	-	-	
Proposed dividends	619,164	-	619,164	
Total liabilities and equity	96,619,218	-	96,619,218	

<u>Note:</u> Items A B, H, I have been mapped as an example to Table 2d.

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2014

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[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
	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	4,762,800		H
2	Retained earnings	1,661,866		
3	Accumulated other comprehensive income (and other reserves)	3,666,355		
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**	**10,091,021**		
	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 / AFS reserve	3,564	-	
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)	-	(6,397)	
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	**Total regulatory adjustments to Common equity Tier 1**	**3,564**		
29	**Common Equity Tier 1 capital (CET1)**	**10,094,585**		
	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)	-	-	
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)	**10,094,585**		

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2014

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[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
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	3,620,000		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	523,028		A
51	**Tier 2 capital before regulatory adjustments**	**4,143,028**		
	Tier 2 capital: regulatory adjustments			
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)	-	(6,397)	
56	National specific regulatory adjustments	28,132		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-		
	OF WHICH: [Staff Share Plan Reserve]	28,132		
	OF WHICH: …	-		
57	Total regulatory adjustments to Tier 2 capital	**28,132**		
58	Tier 2 capital (T2)	**4,171,160**		
59	Total capital (TC = T1 + T2)	**14,265,745**		
	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	89,998,940		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.22%		
62	Tier 1 (as a percentage of risk weighted assets)	11.22%		
63	Total capital (as a percentage of risk weighted assets)	15.85%		
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)	11.22%		
	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)	523,028		
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,124,987		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	n/a		
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	n/a		
	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)			

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2014		
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)	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/lgroup/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 2014		
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)	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/lgroup/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.

b) Credit valuation adjustment risk

Basel III introduces a new regulatory capital charge designed to capture the risk associated with potential mark-to-market losses associated with the deterioration in the creditworthiness of a counterparty (Credit Value Adjustment (CVA)). Under Basel III, banks are required to calculate capital charges for CVA under either the Standardized CVA approach or the Advanced CVA approach (ACVA). SHB follows Standardized approach for calculation of CVA capital charge.

The regulatory CVA capital charge applies to all counterparty exposures arising from over-the-counter (OTC) derivatives, excluding those with central counterparties (CCP). Exposures arising from Securities Financing Transactions (SFT) are not to be included in the CVA charge unless they could give rise to a material loss.

The capital requirement for CVA is reported as part of Table 3, which is provided below.

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

TABLE 3: CAPITAL ADEQUACY - DECEMBER 2014		
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:	**24,451,776**	**-**
SAMA and Saudi Government	24,241,018	-
Others	210,758	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	3,921,040	135,386
Corporates	68,915,686	5,469,305
Retail non-mortgages	**6,923,276**	**434,916**
Mortgages	**6,406,608**	**512,529**
Residential	6,406,608	512,529
Commercial	-	-
Securitized assets	-	-
Equity	378,664	31,829
Others	3,118,985	204,738
Credit Value Adjustment		43,232
Total	**114,116,034**	**6,831,935**

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 2014					
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	11,770	-	32,909	-	44,680

The Standardised Approach for operational risk capital calculation applies a beta to the average income that was achieved for each of the Group's business lines in the previous three years. 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	323,303
Total	**323,303**

Capital Adequacy Ratios (TABLE 3,(f))		
Particulars	**Total capital ratio**	**Tier 1 capital ratio**
Top consolidated level	15.9%	11.2%

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 products: including contingent products such as Trade Finance facilities and FX and other Treasury products.

Credit risk responsibility lies with the Board. The Board has delegated certain authority to the HOCC to approve credit limits for particular obligors and to oversee the credit portfolio.

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

As part of its overall Risk Governance Framework, the Bank maintains a Credit Policy and Procedures Manual. This 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 2014		
Credit Risk Exposure (Table 4, (b))		
Portfolios	Total gross credit risk exposure	Average gross credit risk exposure over the period
Sovereigns and central banks:	24,451,776	22,161,529
SAMA and Saudi Government	*24,241,018*	*21,846,327*
Others	*210,758*	*315,202*
Multilateral Development Banks (MDBs)	-	67,673
Public Sector Entities (PSEs)	-	-
Banks and securities firms	3,921,040	4,691,937
Corporates	68,915,686	65,722,423
Retail non-mortgages	6,923,276	6,766,935
Mortgages	6,406,608	5,298,364
Residential	6,406,608	5,298,364
Commercial	-	-
Securitized assets	-	-
Equity	378,664	353,696
Others	3,118,985	2,563,415
Total	**114,116,034**	**107,625,972**

* Quarterly averages for the year 2014.

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2014							
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:	24,241,018	210,758	-	-	-	-	24,451,776
SAMA and Saudi Government	24,241,018	-	-	-	-	-	24,241,018
Others	-	210,758	-	-	-	-	210,758
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	1,094,315	488,859	1,915,978	91,726	-	330,163	3,921,040
Corporates	68,361,643	307,854	14,419	3,106	-	228,665	68,915,686
Retail non-mortgages	6,923,276	-	-	-	-	-	6,923,276
Mortgages	6,406,608	-	-	-	-	-	6,406,608
Residential	*6,406,608*	-	-	-	-	-	6,406,608
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	378,664	-	-	-	-	-	378,664
Others	3,118,985	-	-	-	-	-	3,118,985
Total	**110,524,507**	**1,007,471**	**1,930,397**	**94,831**	**-**	**558,828**	**114,116,034**

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:	24,451,776	-	-	-	-	-	-	-	-	-	-	-	24,451,776
SAMA & Saudi Government	24,241,018	-	-	-	-	-	-	-	-	-	-	-	24,241,018
Others	210,758	-	-	-	-	-	-	-	-	-	-	-	210,758
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and sec firms	-	3,921,040	-	-	-	-	-	-	-	-	-	-	3,921,040
Corporates	231	2,550,514	1,165,494	13,412,990	342,803	3,292,548	18,552,558	18,553,684	1,079,813	7,221,249	-	2,743,802	68,915,686
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	6,923,276	-	6,923,276
Mortgages	-	-	-	-	-	-	-	-	-	-	6,406,608	-	6,406,608
Residential	-	-	-	-	-	-	-	-	-	-	6,406,608	-	6,406,608
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	378,664	378,664
Others	-	-	-	-	-	-	-	-	-	-	-	3,118,985	3,118,985
Total	**24,452,007**	**6,471,554**	**1,165,494**	**13,412,990**	**342,803**	**3,292,548**	**18,552,558**	**18,553,684**	**1,079,813**	**7,221,249**	**13,329,883**	**6,241,451**	**114,116,034**

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2014									
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
Sovereigns and central banks:	8,706,861	1,058,151	3,978,587	2,771,500	6,209,030	285,075	94,206	1,348,365	24,451,776
SAMA and Saudi Government	8,706,861	1,001,802	3,978,587	2,771,500	6,209,030	284,150	17,088	1,272,000	24,241,018
Others	-	56,350	-	-	-	925	77,118	76,365	210,758
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-
Banks and securities firms	1,293,083	42,564	423,185	234,824	365,651	775,827	188,128	597,778	3,921,040
Corporates	5,260,195	8,151,660	9,363,760	8,043,250	5,911,594	12,684,585	11,170,403	8,330,238	68,915,686
Retail non-mortgages	1,087,749	38,272	92,019	85,520	128,898	1,323,853	3,859,354	307,610	6,923,276
Mortgages	-	-	-	-	-	6,383	86,777	6,313,447	6,406,608
Residential	-	-	-	-	-	6,383	86,777	6,313,447	6,406,608
Commercial	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	378,664	378,664
Others	1,172,237	-	-	-	-	-	-	1,946,748	3,118,985
Total	**17,520,124**	**9,290,647**	**13,857,551**	**11,135,095**	**12,615,173**	**15,075,723**	**15,398,869**	**19,222,850**	**114,116,034**

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 2014.

Impaired Loans, Past Due Loans and Allowances (Table 4, (f)) (Figures in SAR 000's)

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	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	39,372	35,524	15,458	20,065	-	-	99,701	(7,669)	(52,660)	39,372	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	33,677	3,974	3,974	-	-	-	8,300	33,677	(8,300)	33,677	-
Building and construction	349,851	86,555	86,555	-	-	-	231,321	118,530	-	349,851	-
Commerce	298,674	63,134	63,134	-	-	-	275,291	71,590	(48,207)	298,674	-
Transportation and communication	-	225	225	-	-	-	7,800	(7,800)	-	-	-
Services	19,060	13,014	13,014	-	-	-	2,495	16,565	-	19,060	-
Consumer loans and credit cards	41,990	311,948	311,948	-	-	-	35,930	38,964	(45,503)	29,391	116,143
Others	58,998	10,137	10,137	-	-	-	68,768	21,679	(31,449)	58,998	406,885
Total	**841,622**	**524,510**	**504,445**	**20,065**	**-**	**-**	**729,606**	**285,536**	**(186,119)**	**829,023**	**523,028**

The geographical distribution of impaired loans, past due loans and allowances as at 31 December 2014 are provided hereunder:

Impaired Loans, Past Due Loans And Allowances (Table 4, (g)) (Figures in SAR 000's)

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	841,622	504,445	20,065	-	-	829,023	523,028
Total	**841,622**	**504,445**	**20,065**	**-**	**-**	**829,023**	**523,028**

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

Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h)) (Figures in SAR 000's)		
Particulars	**Specific allowances**	**General allowances**
Balance, beginning of the year	729,606	462,957
Charge-offs taken against the allowances during the period	(186,119)	-
Amounts set aside (or reversed) during the period	285,536	60,071
Transfers between allowances	-	-
Balance, end of the year	**829,023**	**523,028**

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:

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-
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:

Level of Provisioning	Risk weight%
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 2014

Allocation Of Exposures To Risk Buckets (Table 5, (b))

Particulars	Risk buckets									
	0%	20%	35%	50%	75%	100%	150%	Other risk weights	Unrated	TOTAL
Sovereigns and central banks:	24,451,776	-	-	-	-	-	-			**24,451,776**
SAMA and Saudi Government	24,241,018	-	-	-	-	-	-			**24,241,018**
Others	210,758	-	-	-	-	-	-			**210,758**
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-			**-**
Public Sector Entities (PSEs)	-	-	-	-	-	-	-			**-**
Banks and securities firms	-	1,082,841	-	2,724,907	-	113,292	-	-	-	**3,921,040**
Corporates	-	355,018	-	530,720	-	68,009,883	20,065	-	-	**68,915,686**
Retail non-mortgages	-	-	-	-	5,947,270	976,006	-			**6,923,276**
Mortgages	-	-	-	-	-	6,406,608	-	-	-	**6,406,608**
Residential	-	-	-	-	-	6,406,608	-			*6,406,608*
Commercial	-	-	-	-	-	-	-			**-**
Securitized assets	-	-	-	-	-	-	-			**-**
Equity	-	-	-	-	-	365,870	-	12,794		**378,664**
Others	569,803	-	-	-	-	2,549,182	-	-		**3,118,985**
TOTAL	**25,021,579**	**1,437,859**	**-**	**3,255,626**	**5,947,270**	**78,420,841**	**20,065**	**12,794**	**-**	**114,116,034**

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, and provides an alternative source of repayment in the event an obligor 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 other 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, a transaction may not be collateralized.

The Credit Policy and Procedures Manual sets out the types of collateral acceptable to the Bank, and also governs the 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.

Credit Risk Exposure Covered By CRM (Table 7, (b) and (c)) (Figures in SAR 000's)		
Portfolios	Covered by	
	Eligible financial collateral	Guarantees / credit derivatives
Corporates	453,307	-
Total	**453,307**	**-**

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 approach

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, has been 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 2014, 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	11,771	-	32,909	-	44,681

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 assessment and control evaluation 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 supporting its internal control framework: BWise 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 2014

Value Of Investments (Table 13, (b)) Figures in SAR 000's					
	Un-quoted 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)**
Investments	3,438	3,438	375,226	375,226	-

Types And Nature of Investments (Table 13, (c)) (Figures in SAR 000's)		
Investments	**Publicly traded**	**Privately held**
Banks and other financial institutions	375,226	500
Services	-	2,938
Total	**375,226**	**3,438**

Gains / Losses Etc. (Table 13, (d) and (e)) (Figures in SAR 000's)	
Particulars	**Amount**
Unrealized gains (losses) included in Capital	(13,986)
Total unrealized gains (losses)	**(13,986)**

Capital Requirements (Table 13, (f)) (Figures in SAR 000's)	
Equity grouping	**Capital requirements**
Banks and other financial institutions	31,594
Services	235
Total	**31,829**

14. Commission rate risk in the Banking book

Commission rate risk in the Banking Book 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 2014, 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, 2014 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, 2014 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or the hedging instrument.

TABLE 14: INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) - DECEMBER 2014	
200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities (Table 14, (b))	
Rate Shocks	**Change in earnings**
Upward rate shocks:	
SAR	391,629
USD	(12,156)
Downward rate shocks:	
SAR	(391,629)
USD	12,156

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