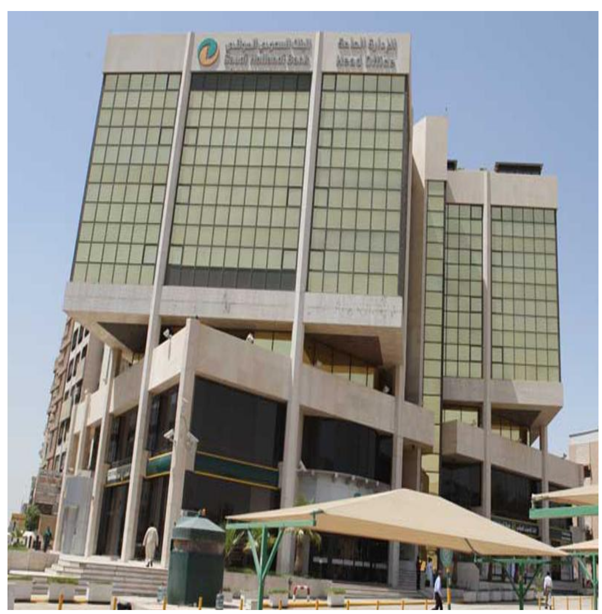
Saudi Hollandi Bank البنك السعودي الهولندي

BASEL III

PILLAR 3 ANNUAL DISCLOSURES

YEAR-2015



I. Executive Summary 2-6

II. Table of contents

III. List of tables

Executive Summary

During 2015, amidst a period of global and domestic economic downturn, Saudi Hollandi Bank recorded its strongest set of financial results, achieving a significant milestone in its 90 years of history by exceeding, for the first time, two billion Riyals in net profit.

The Bank's three core business segments delivered a solid performance in their markets and posted robust growth in their customer base, and, as a result, the Bank attained substantial increases in its deposits, assets, and non-funded income, 16%, 12% and 7% respectively. In the process, the Bank increased its net profit by 11% to a record of SAR 2,022 million. The Bank grew its balance sheet to SAR 108 billion, an increase of 12%, and did so whilst maintaining its conservative provisioning policy, which was reflected in a non-performing loan coverage ratio of 167%. The Bank's capital base was again strengthened through a high level of retained earnings.

Throughout 2015, the Bank's unrelenting efforts received recognition from a number of respected industry observers and regional and international organizations, winning 19 prestigious awards during the year, including "Bank of the Year in the Middle East" from the International Alternative Investment Review, one of the world's leading observers on the global economy and sustainability, "Best Commercial Bank" and "Best Corporate Bank in KSA" from Islamic Business & Finance Magazine, "Best Islamic Bank in the Kingdom" and "Banker of the Year" from World Finance Magazine, a prized addition to the Bank's rapidly growing list of honors and accomplishments.

The Bank's success and recognition is owed to its continued customer-focused strategy and the Bank's diversification of products and services including better and wider accessibility and functionality through its growing network of ATMs and branches nationwide and through the Bank's state-of the art electronic banking channels and digital applications. These initiatives supported the Bank's position as one of the strongest financial service providers in the Kingdom. More details on each of the business segments and their markets can be found in the Business Review section of this report.

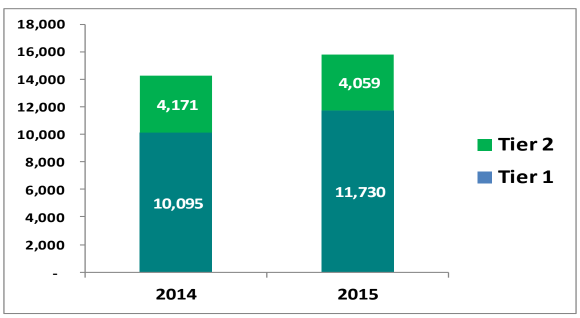
Capital and Capital Requirements

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA and to safeguard the Group's ability to continue as a going concern, and to support current and planned business activity by maintaining a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by management.

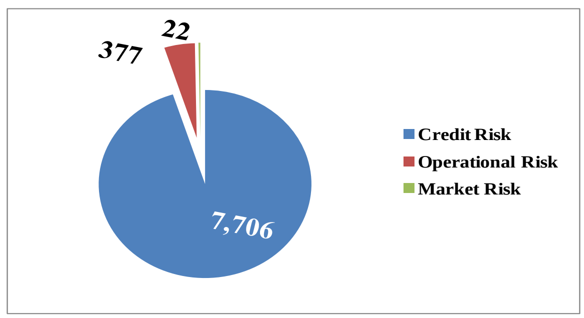
SAMA requires holding the minimum level of regulatory capital and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk. During the year, the Group has fully complied with regulatory capital requirements.

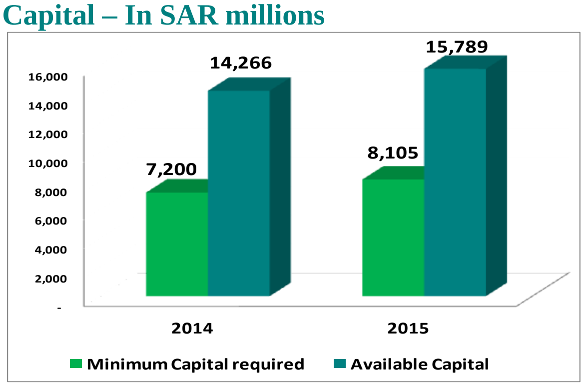
Capital Components (Tier one and two) – In SAR millions



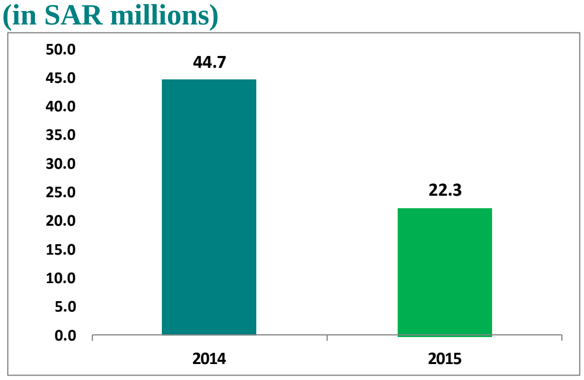
Capital Requirements by Risk type (In SAR millions)



Minimum Capital required and Available Capital – In SAR millions



Market Risk Capital Requirements 2015 (in SAR millions)



Risk Weighted Assets

Risk-weighted asset (also referred to as RWA) is a bank's assets or off-balance-sheet exposures, weighted according to risk. This sort of asset calculation is used in determining the capital requirement or Capital Adequacy Ratio (CAR) for a bank. In the Basel accord published by the Basel Committee on Banking Supervision, the Committee explains why using a risk-weight approach is the preferred methodology which banks should adopt for capital calculation.

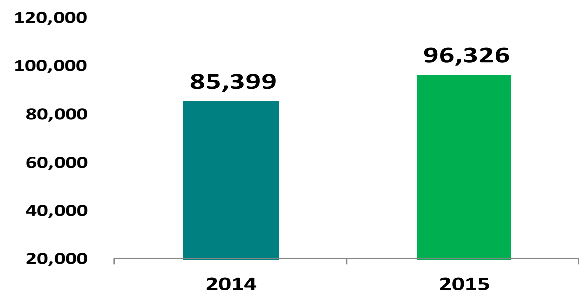
It provides an easier approach to compare banks across different geographies:

- off-balance-sheet exposures can be easily included in capital adequacy calculations.
- banks are not deterred from carrying low risk liquid assets in their books.

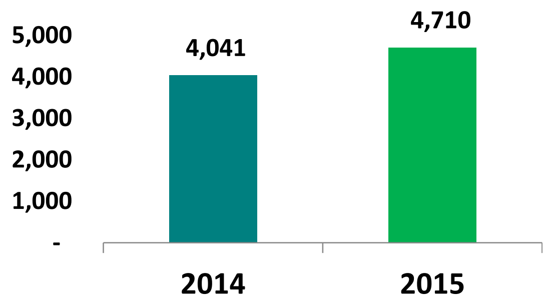
Usually, different classes of assets have different risk weights associated with them. The calculation of risk weights is dependent on whether the bank has adopted the standardized or IRB approach under the Basel framework.

Saudi Hollandi Bank has registered a risk weighted assets of SAR 101,315 million distributed across three categories as follows; Credit Risk of SAR 96,326 million, Operational Risk of SAR 4,710 million and Market Risk of SAR 278 million.

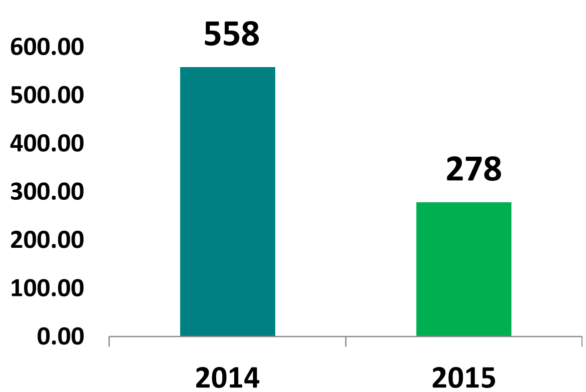
Credit Risk Weighted Assets (In SAR millions)



Operational Risk Weighted Assets (In SAR millions)



Market Risk Weighted Assets (in SAR millions)



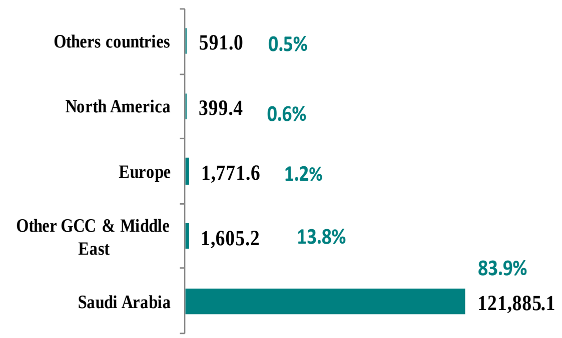
Credit risk Exposure

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also a credit risk on credit related commitments, contingencies and derivatives. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

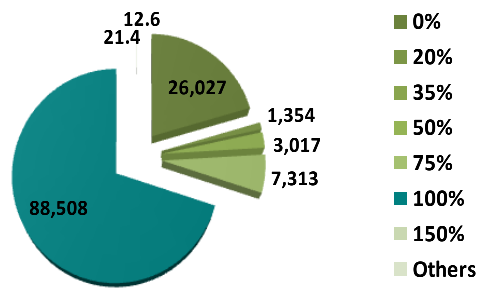
In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure.

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

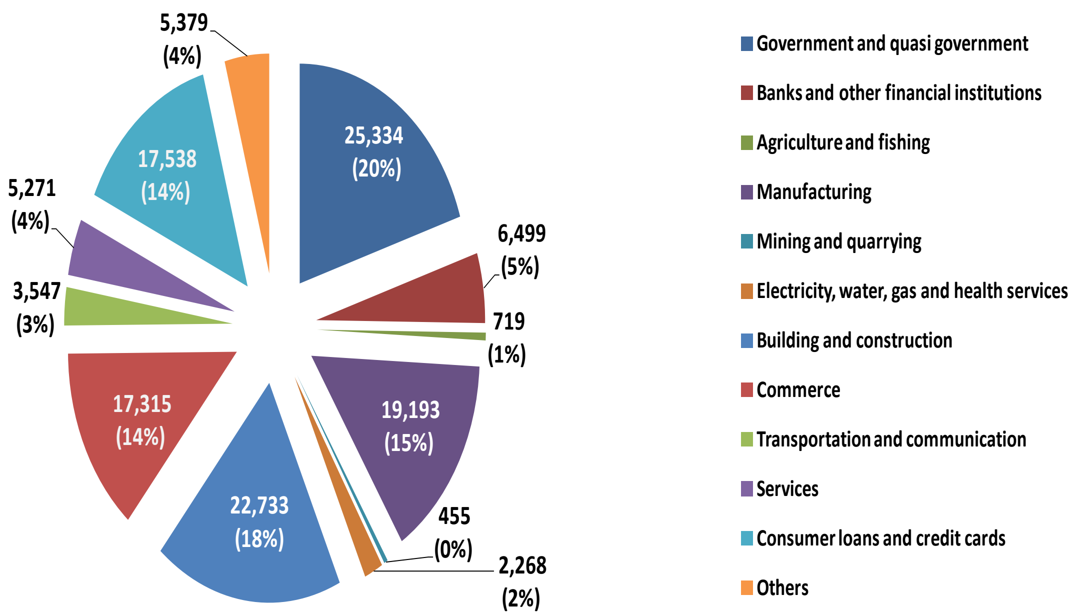
Distribution of Credit Risk Exposure by Geographical Regions – 2015 (SAR millions)



Distribution of Credit Risk Exposure by Risk Buckets – 2015 (SAR millions)



Distribution of Credit Risk Exposure by Sector – 2015
(in SAR millions)



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, 2015. 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 into 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 commission 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 ICAAP framework has been designed to be applied consistently across the organization 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).

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.

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 2015.

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 capitalized with a Tier 1 capital ratio of 11.6 percent (2014:11.2 percent) and a total capital ratio of 15.6 percent (2014: 15.9 percent).

For regulatory purposes, capital is categorized 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 Reserves also includes the staff share plan reserve elaborated in note 38 to the annual financial statements for the year ended 31 December 2015.

The ordinary share capital is the authorised, issued and fully paid up share capital of the bank, which consists of 571.54 million shares of SAR 10 each (2014: 476.28 million shares of SAR 10 each).

The local and foreign ownership structure of the Group's share capital has remained unchanged during 2015.
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, 2015.

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 2013 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 is 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 is 6 months SIBOR plus 115 basis points.

These borrowings are of initial maturity of not less than 5 years and are progressively discounted for capital adequacy purposes as per 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 payments and there has been no breach to any covenant of these liabilities during 2015 or 2014.

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2015

Balance sheet - Step 1 (Table 2(b)) - (Figures in SAR '000s)

All figures are in SAR'000

	Balance sheet in Published financial statements	Adjustment of banking associates / other entities (*)	Under regulatory scope of consolidation
	(C)	(D)	(E)
Assets			
Cash and balances at central banks	7,637,869	-	7,637,869
Due from banks and other financial institutions	734,583	-	734,583
Investments, net	21,226,485	-	21,226,485
Loans and advances, net	76,143,850	-	76,143,850
Debt securities	-	-	-
Trading assets	-	-	-
Investment in associates	12,567	-	12,567
Derivatives	-	-	-
Goodwill	-	-	-
Other intangible assets	-	-	-
Property and equipment, net	801,046	-	801,046
Other assets	1,513,934	-	1,513,934
Total assets	**108,070,334**	**-**	**108,070,334**
Liabilities			
Due to Banks and other financial institutions	1,356,874	-	1,356,874
Items in the course of collection due to other banks	-	-	-
Customer deposits	88,832,063	-	88,832,063
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	1,954,203	-	1,954,203
Subtotal	**96,043,140**	**-**	**96,043,140**
Paid up share capital	5,715,360	-	5,715,360
Statutory reserves	1	-	1
Other reserves	5,759,106	-	5,759,106
Retained earnings	255,528	-	255,528
Minority Interest	-	-	-
Proposed dividends	297,199	-	297,199
Total liabilities and equity	**108,070,334**	**-**	**108,070,334**

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2015

Balance sheet - Step 2 (Table 2(c)) - (Figures in SAR '000s)

All figures are in SAR'000

	Balance sheet in Published financial statements	Adjustment of banking associates / other entities	Under regulatory scope of consolidation	Reference
	(C)	(D)	(E)	
Assets				
Cash and balances at central banks	7,637,869	-	7,637,869	
Due from banks and other financial institutions	734,583	-	734,583	
Investments, net	21,226,485	-	21,226,485	
Loans and advances, net	76,143,850	-	76,143,850	
of which Collective provisions	**578,774**	**-**	**578,774**	A
Debt securities	-	-	-	
Equity shares	-	-	-	
Investment in associates	12,567	-	12,567	
Derivatives	-	-	-	
Goodwill	-	-	-	
Other intangible assets	-	-	-	
Property and equipment, net	801,046	-	801,046	
Other assets	1,513,934	-	1,513,934	
Total assets	**108,070,334**	**-**	**108,070,334**	
Liabilities				
Due to Banks and other financial institutions	1,356,874	-	1,356,874	
Items in the course of collection due to other banks	-	-	-	
Customer deposits	88,832,063	-	88,832,063	
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	1,954,203	-	1,954,203	
Subtotal	**96,043,140**	**-**	**96,043,140**	
Paid up share capital	5,715,360	-	5,715,360	
of which amount eligible for CET1	**5,715,360**		**5,715,360**	H
of which amount eligible for AT1	**-**		**-**	I
Statutory reserves	1	-	1	
Other reserves	5,759,106	-	5,759,106	
Retained earnings	255,528	-	255,528	
Minority Interest	-	-	-	
Proposed dividends	297,199	-	297,199	
Total liabilities and equity	**108,070,334**	**-**	**108,070,334**	

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

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2015

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	5,715,360		H
2	Retained earnings	5,970,887		
3	Accumulated other comprehensive income (and other reserves)	130,001		
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**	**11,816,248**		
	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	(37,691)	-	
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)	(48,563)	-	
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)	-	(6,283)	
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**	(86,254)		
29	**Common Equity Tier 1 capital (CET1)**	**11,729,995**		
	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)	**11,729,995**		

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2015

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	3,480,000		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	578,774		A
51	**Tier 2 capital before regulatory adjustments**	**4,058,774**		
	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)	-	(6,283)	
56	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-		
	OF WHICH: [Staff Share Plan Reserve]	-		
	OF WHICH: …	-		
57	Total regulatory adjustments to Tier 2 capital	-		
58	Tier 2 capital (T2)	**4,058,774**		
59	Total capital (TC = T1 + T2)	**15,788,769**		
	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	101,314,680		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.58%		
62	Tier 1 (as a percentage of risk weighted assets)	11.58%		
63	Total capital (as a percentage of risk weighted assets)	15.58%		
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)	11.58%		
	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)	578,774		
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,266,434		
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 2015		
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 2015

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 through the ICAAP process. The ICAAP is required as part of the Basel III Pillar II capital adequacy regime. It assigns capital 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 these risks and the capital it allocates to those risks. As such, the ICAAP is a crucial element of the Group's strategic decision making, and the strategy is aligned with the ICAAP.

The ICAAP contains 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 position.

In addition to the annual ICAAP review, the Bank prepares regular capital projections and monitors closely.

The following sections cover the Pillar 1 risks, to which the Group is exposed 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 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 and other qualifying revolving retail products
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 standardized approach for calculation of credit risk under Pillar 1.

b) Credit valuation adjustment risk

Basel III introduced a new regulatory capital charge designed to capture the risk associated with potential mark-to-market losses related to the deterioration in the creditworthiness of counterparties (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, but excluding those derivatives traded through central counterparties (CCP). Exposures arising from Securities Financing Transactions (SFT) are not 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, below.

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

TABLE 3: CAPITAL ADEQUACY - DECEMBER 2015		
Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (TABLE 3, (b)) - (Figures in SAR '000s)		
Portfolios	Amount of exposures	Capital requirements
Sovereigns and central banks:	**25,251,185**	**-**
SAMA and Saudi Government	25,094,940	-
Others	156,245	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	3,874,628	125,363
Corporates	76,408,564	6,089,987
Retail non-mortgages	**9,015,916**	**575,018**
Mortgages	**8,522,361**	**681,789**
Residential	8,522,361	681,789
Commercial	-	-
Securitized assets	-	-
Equity	502,422	41,702
Others	2,677,181	152,950
Credit Value Adjustment		39,270
Total	**126,252,257**	**7,706,079**

The Group applies the Standardized 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 and then aggregated. 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 2015					
Capital Requirements For Market Risk (822, Table 3, (d)) - (Figures in SAR '000s)					
	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Standardised approach	15,104	-	7,164	-	22,269

The Standardized 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.

TABLE 3: CAPITAL ADEQUACY - DECEMBER 2015	
Capital Requirements for Operational Risk (Table 3, (e)) - (Figures in SAR '000s)	
Particulars	Capital requirement
• Basic indicator approach;	
• Standardized approach;	376,827
• Alternate standardized approach;	
• Advanced measurement approach (AMA).	
Total	376,827

TABLE 3: CAPITAL ADEQUACY - DECEMBER 2015		
Capital Adequacy Ratios (TABLE 3, (f))		
Particulars	Total capital ratio	Tier 1 capital ratio
	%	
Top consolidated level	15.6%	11.6%

4. Credit Risk

Credit risk is the risk of financial loss from the failure of a customer to fully honor 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.

The Board has delegated certain authority to the "Head Office Credit Committee" (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. It is 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 periodic 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 are an indication of the likely 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 both the business and independent 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 2015		
Credit Risk Exposure (Table 4, (b)) - (Figures in SAR '000s)		
Portfolios	Total gross credit risk exposure	Average gross credit risk exposure over the period
Sovereigns and central banks:	25,251,185	23,349,443
SAMA and Saudi Government	*25,094,940*	*23,166,569*
Others	*156,245*	*182,875*
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	3,874,628	4,267,402
Corporates	76,408,564	70,814,333
Retail non-mortgages	9,015,916	7,614,466
Mortgages	8,522,361	6,834,272
Residential	8,522,361	6,834,272
Commercial	-	-
Securitized assets	-	-
Equity	502,422	401,267
Others	2,677,181	2,900,188
Total	**126,252,257**	**116,181,371**

* Quarterly averages for the year 2015.

Following table gives a geographic breakdown of exposures as of 31st of December 2015.

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2015							
Geographic Breakdown (Table 4, (c)) - (Figures in SAR '000s)							
Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Others countries	Total
Sovereigns and central banks:	25,094,940	156,245	-	-	-	-	25,251,185
SAMA and Saudi Government	25,094,940	-	-	-	-	-	25,094,940
Others	-	156,245	-	-	-	-	156,245
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	372,697	1,139,857	1,561,690	397,559	-	402,825	3,874,628
Corporates	76,188,544	253	-	-	-	219,767	76,408,564
Retail non-mortgages	9,015,916	-	-	-	-	-	9,015,916
Mortgages	8,522,361	-	-	-	-	-	8,522,361
Residential	*8,522,361*	-	-	-	-	-	8,522,361
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	502,422	-	-	-	-	-	502,422
Others	2,677,181	-	-	-	-	-	2,677,181
Total	**122,374,060**	**1,296,355**	**1,561,690**	**397,559**	**-**	**622,593**	**126,252,257**

Following table gives an economic sector breakdown of exposures as of 31st of December 2015.

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2015													
Industry Sector Breakdown (Table 4, (d)) - (Figures in SAR '000s)													
Portfolios	Industry sector												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:	25,251,185	-	-	-	-	-	-	-	-	-	-	-	25,251,185
SAMA and Saudi Government	25,094,940	-	-	-	-	-	-	-	-	-	-	-	25,094,940
Others	156,245	-	-	-	-	-	-	-	-	-	-	-	156,245
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	3,874,628	-	-	-	-	-	-	-	-	-	-	3,874,628
Corporates	82,613	2,624,694	718,905	19,192,895	454,875	2,268,388	22,733,112	17,315,463	3,546,549	5,271,303	-	2,199,767	76,408,564
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	9,015,916	-	9,015,916
Mortgages	-	-	-	-	-	-	-	-	-	-	8,522,361	-	8,522,361
Residential	-	-	-	-	-	-	-	-	-	-	8,522,361	-	8,522,361
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	502,422	502,422
Others	-	-	-	-	-	-	-	-	-	-	-	2,677,181	2,677,181
Total	25,333,798	6,499,322	718,905	19,192,895	454,875	2,268,388	22,733,112	17,315,463	3,546,549	5,271,303	17,538,277	5,379,370	126,252,257

Following table gives a residual maturity sector breakdown of exposures as of 31st of December 2015.

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2015									
Residual Contractual Maturity Breakdown (Table 4, (e)) - (Figures in SAR '000s)									
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:	8,710,825	1,008,091	3,962,071	2,862,420	2,204,209	537,082	3,604,613	2,361,874	25,251,185
SAMA and Saudi Government	8,710,825	1,008,091	3,962,071	2,862,420	2,204,209	499,039	3,564,536	2,283,750	25,094,940
Others	-	-	-	-	-	38,044	40,077	78,124	156,245
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-
Banks and securities firms	565,527	128,432	191,014	212,622	421,622	1,225,653	412,725	717,033	3,874,628
Corporates	5,741,017	9,189,771	11,142,299	9,318,272	7,552,224	14,464,052	10,061,478	8,939,452	76,408,564
Retail non-mortgages	1,059,298	31,392	125,797	91,719	132,708	1,440,446	5,775,198	359,358	9,015,916
Mortgages	-	-	-	-	-	220,849	515,582	7,785,930	8,522,361
Residential	-	-	-	-	-	220,849	515,582	7,785,930	8,522,361
Commercial	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	502,422	502,422
Others	1,272,247	-	-	-	-	-	-	1,404,934	2,677,181
Total	17,348,913	10,357,686	15,421,181	12,485,033	10,310,763	17,888,082	20,369,595	22,071,003	126,252,257

Impairment Assessment Methodology

In determining whether an impairment loss should be recorded, the Bank makes a judgment as to the value of any eligible 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 that 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 2015.

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2015											
Impaired Loans, Past Due Loans and Allowances (Table 4, (f)) - (Figures in SAR '000s)											
Industry sector	Impaired loans	Defaulted	Aging 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 (net of recoveries) 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	331	-	-	-	-	-	-	331	-	331	-
Manufacturing	265,411	20,024	18,901	1,123	-	-	39,372	226,039	-	265,411	-
Mining and quarrying	-	49	49	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	-	-	-	-	-	-	33,677	(33,677)	-	-	-
Building and construction	193,020	19,857	15,577	4,280	-	-	349,851	(49,484)	(107,347)	193,020	-
Commerce	285,437	22,828	22,692	136	-	-	298,674	64,642	(77,879)	285,437	-
Transportation and communication	6,907	2,141	1,714	428	-	-	-	6,907	-	6,907	-
Services	12,917	1,532	1,532	-	-	-	19,060	(5,222)	(921)	12,917	-
Consumer loans and credit cards	60,198	575,838	575,838	-	-	-	29,393	2,850	-	32,243	154,274
Others	-	10,871	10,817	54	-	-	58,996	149	(59,145)	-	424,500
Total	824,221	653,140	647,120	6,020	-	-	829,023	212,535	(245,292)	796,266	578,774

The geographical distribution of impaired loans, past due loans and allowances as at 31 December 2015 are provided hereunder:

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2015							
Impaired Loans, Past Due Loans And Allowances (Table 4, (g)) - (Figures in SAR '000s)							
Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-100	180-360	Over 360		
Saudi Arabia	824,221	647,120	6,020	-	-	796,266	578,774
Total	824,221	647,120	6,020	-	-	796,266	578,774

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

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES - DECEMBER 2015		
Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h)) - (Figures in SAR '000s)		
Particulars	Specific allowances	General allowances
Balance, beginning of the year	829,023	523,028
Charge-offs taken against the allowances during the period	(245,292)	-
Amounts set aside (or reversed) during the period	212,535	55,746
Transfers between allowances	-	-
Balance, end of the period	**796,266**	**578,774**

5. Standardized Approach and Supervisory Risk Weights

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

Ratings have been sourced from Standard and Poor's Ratings Group, 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 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:

<table>
<tr><th>Moody's</th><th>Standard and Poor's</th><th>Fitch</th></tr>
<tr><td>Aaa</td><td>AAA</td><td>AAA</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td>A+</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td>A-</td><td>A-</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td></tr>
<tr><td>Baa2</td><td>BBB</td><td>BBB</td></tr>
<tr><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>Ba1</td><td>BB+</td><td>BB+</td></tr>
<tr><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>B1</td><td>B+</td><td>B+</td></tr>
<tr><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td>Caa1</td><td>CCC+</td><td>CCC+</td></tr>
<tr><td>Caa2</td><td>CCC</td><td>CCC</td></tr>
<tr><td colspan="2">Caa3</td><td>CCC-</td></tr>
<tr><td colspan="2">Ca</td><td>CC</td></tr>
<tr><td colspan="2">C</td><td>C</td></tr>
<tr><td colspan="2">WR</td><td>D</td></tr>
<tr><td colspan="3">NR</td></tr>
</table>

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%
Up to 20%	150
Above 20%	100

Other assets

The standard risk weight for all other assets is 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 2015										
Allocation Of Exposures To Risk Buckets (Table 5, (b)) - (Figures in SAR '000s)										
Particulars	Risk buckets									
	0%	20%	35%	50%	75%	100%	150%	Other risk weights	Unrated	TOTAL
Sovereigns and central banks:	25,251,185	-	-	-	-	-	-			25,251,185
SAMA and Saudi Government	25,094,940	-	-	-	-	-	-			25,094,940
Others	156,245	-	-	-	-	-	-			156,245
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-			-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-			-
Banks and securities firms	-	1,313,065	-	2,514,529	-	46,784	250	-	-	3,874,628
Corporates	-	40,913	-	502,020	-	75,844,437	21,194	-	-	76,408,564
Retail non-mortgages	-	-	-	-	7,312,749	1,703,167	-			9,015,916
Mortgages	-	-	-	-	-	8,522,361	-	-	-	8,522,361
Residential	-	-	-	-	-	8,522,361	-			8,522,361
Commercial	-	-	-	-	-	-	-			-
Securitized assets	-	-	-	-	-	-	-			-
Equity	-	-	-	-	-	489,854	-	12,568		502,422
Others	775,894	-	-	-	-	1,901,287	-	-		2,677,181
TOTAL	26,027,079	1,353,978	-	3,016,549	7,312,749	88,507,891	21,444	12,568	-	126,252,257

6. Credit Risk: Disclosures for Portfolios subject to IRB approaches

Not Applicable

7. Credit Risk Mitigation

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 Bank's 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, credit risk is further mitigated by prudent transaction structuring and documentation. For example, in some transactions risk can be mitigated by lending covenants.

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 assets held as collateral. 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.

TABLE 7 (STA): CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDIZED APPROACH - DECEMBER 2015

Credit Risk Exposure Covered By CRM (Table 7, (b) and (c)) - (Figures in SAR '000s)

Portfolios	Covered by	
	Eligible financial collateral *	Guarantees / credit derivatives *
Corporates	406,800	333,164
Total	406,800	333,164

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 of SFT 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 by assigning risk weights to the following exposure types, Securities financing transactions (e.g. reverse repo) - trading and banking book over the counter (OTC) derivatives.

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

9. Securitization

The Group is not involved in any securitization 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, II.5 and III Standardized 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 2015, based on the standardized approach.

TABLE 10: MARKET RISK: DISCLOSURES FOR BANKS USING THE STANDARDIZED APPROACH - DECEMBER 2015					
Level Of Market Risks In Terms Of Capital Requirements (Table 10, (b)) - (Figures in SAR '000s)					
	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Capital requirements	15,104	-	7,164	-	22,269

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 BCBS's 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. 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 the system.

13. Equities: Disclosures for Banking Book Positions

The Board approves the accounting and disclosure policy which is followed by the Group. The policy covers the accounting and valuation techniques of financial instruments including equity holdings in the banking book and is summarized as below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The following hierarchy is applied for determining and disclosing the fair value of financial instruments:

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

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

Level 3: Valuation techniques for which significant inputs are not based on observable market data.

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 show the equities investment in banking book as at 31 December 2015.

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS - DECEMBER 2015					
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	498,984	498,984	-

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS - DECEMBER 2015		
Types And Nature of Investments (Table 13, (c)) (Figures in SAR 000's)		
Investments	Publicly traded	Privately held
Government and quasi government	-	-
Banks and other financial institutions	498,984	501
Services	-	2,938
Total	498,984	3,438

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS - DECEMBER 2015	
Gains / Losses Etc. (Table 13, (d) and (e)) (Figures in SAR '000s)	
Particulars	**Amount**
Cumulative realized gains (losses) arising from sales and liquidations in the reporting period	-
Total unrealized gains (losses)	(45,124)
Total latent revaluation gains (losses)*	-
Unrealized gains (losses) included in Capital	(45,124)
Latent revaluation gains (losses) included in Capital*	-

* Not applicable to KSA to date

Tier 1 capital includes Fair value reserves of unreaslised gains/(losses) on available for sale investments amounting to loss of SAR 37.7 million and retained earnings includes SAR 7.4 million loss on Investment in Associate.

Tier 2 capital does not include any unrealised gains/(losses).

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS - DECEMBER 2015	
Capital Requirements (Table 13, (f)) (Figures in SAR 000's)	
Equity grouping	**Capital requirements**
Banks and other financial institutions	41,468
Services	235
Total	**41,703**

14. Commission Rate Risk in the Banking Book (IRRBB)

Commission rate risk in the Banking book arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of 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.

Further, on a monthly basis, ALCO reviews an extended commission rate gap report containing the following buckets: 0-1 month, 1-3 months, 3-6 months, 7-12 months, 1-2 years, 2-3 years, 3-4 years, 4-5 years, 5 years onwards, and non-commission sensitive assets/liabilities.

As per the Bank's Risk Appetite statement, the Bank's management has set limits for Net Special Commission Income at Risk exposures (NII at Risk or NII@Risk) under two time-periods, vis. 1 year and 2 years using four different stress scenarios:

a) Parallel up: a 200 basis points increase of commission rates across the curve in year 1 with rates flat in year 2;

b) Parallel down: a 200 basis points decrease of commission rates across the curve in year 1 with rates flat in year 2;

c) Flattening: a reduction with 20 percent of the spread between 2 years and 1 month commission rates;

d) Steepening: an increase with 20 percent of the spread between 2 years and 1 month commission rates.

IRRBB is measured and controlled using both Earnings Perspective (Traditional Gap Analysis - impact on net special commission income) and Economic Value Perspective (Duration Gap Analysis - impact on market value of equity).

Earnings Perspective

Earnings Perspective measures the sensitivity of net special commission income to changes in commission rate over the next 12 months. It involves bucketing of rate sensitive assets, liabilities and off balance sheet items as per residual maturity/ re-pricing date in various time bands and computing change of income under 200 basis points upward and downward rate shocks over a one year horizon.

Non-maturity deposits:

These are liabilities that the depositor is free to withdraw at any time. Some of these will behave in practice as long-term commission rate-insensitive liabilities (core deposits), while others (non-core deposits) will be sensitive to commission rate sensitivities (and will therefore be subject to re-pricing or replacement as deposit rates increase). Core deposits can be allocated across maturity buckets up to a five years maturity, while non-core deposits are placed in the overnight maturity bucket. The Bank's Commission bearing non-maturity deposits are only 0.64% of total customer deposits as at the end of 31 December 2015, these are allocated between 0-1 months, 1-2 months and 2-3 months buckets based on behavioural assumptions.

Other behavioural assumptions:

As per Basel Banks are required to make some adjustments for customer behaviour in prepaying fixed rate loans, drawing down loan commitments, and early redemption of term deposits as commission rates change. This may be prescribed by the national supervisor; or supervisors may allow banks to make some use of internal estimates, subject to supervisory review and approval. The Bank considers this through its ALCO processes.

Economic Value Perspective

Economic Value Perspective calculates the change in the present value of the Bank's expected cash flows for a 25 basis points upward and downward rate shock, which is reported as part of the Annual Financial Statements.

Stress Testing

The Bank also undertakes periodic stress testing for its banking book. This provides a measure to assess the Bank's financial standing from commission rate fluctuations. The stress testing framework is approved by the Board. Periodic risk reports are sent to senior management for review. A risk summary is also presented at ALCO meetings.

Disclosure in Annual Financial Statements

The table shown under Note 31 b (i) to the financial statements 2015, 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, 2015 including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2015 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or the hedging instrument.

Quantification of IRRBB

The increase / decline in earnings perspective for an upward / downward rate shock of 200 basis points ('bps'), for each currency with material exposures, namely those accounting for more than 5 percent of either banking book liabilities or banking book assets are as follows:.

TABLE 14: INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) - DECEMBER 2015	
200bps 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	310,380
USD	(96,001)
Downward rate shocks:	
SAR	(310,380)
USD	96,001

16. Abbreviations used:

ACVA	:	Advanced Credit Value Adjustment
ALCO	:	Asset & Liability Management Committee
BCBS	:	Basel Committee for Banking Supervision
Bps	:	Basis points
CAR	:	Capital Adequacy Ratio
CCP	:	Central Counterparties
CRM	:	Corporate Risk Management
CRO	:	Chief Risk Officer
CVA	:	Credit Value Adjustment
HOCC	:	Head Office Credit Committee
ICAAP	:	Internal Capital Adequacy Assessment Plan
IRRBB	:	Commission Rate Risk on the Banking Book
ORAP	:	Operational Risk Assessment Procedure
ORM	:	Operational Risk Management
OTC	:	Over-the-counter
RWA	:	Risk Weighted Assets
SAMA	:	Saudi Arabian Monetary Agency
SAR	:	Saudi Arabian Riyals
SFT	:	Securities Financing Transactions
SHB	:	Saudi Hollandi Bank
SIBOR	:	Saudi Arabia Interbank offer rate
SREP	:	Supervisory Review and Evaluation Process
VaR	:	Value at risk