Pillar III Disclosures Dec 2015

HSBC Saudi Arabia Limited

HSBC

Cautionary statement regarding forward looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2015 contain certain forward looking statements with respect to the financial condition, results of operations and business of HSBC SA. These forward looking statements represent HSBC SA expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events.

Contents

1.0 Scope & background

HSBC Saudi Arabia Limited (HSBC SA) is a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010221555 dated 27/06/1427H (corresponding to 23/07/2006G) and Sagia Licence No. 102030104697 dated 17/12/1426H (corresponding to 17/01/2006G), organized and existing under the laws of Saudi Arabia with its principal place of business addressed as 7267 Olaya - Al Murooj, Riyadh 12283-2255, Kingdom of Saudi Arabia.

The main activities of the Company are to provide a full range of investment banking services including investment banking advisory, debt and project finance as well as Shariah compliant finance advisory. The company also manages mutual funds and discretionary portfolios as well as engage in the business of custody and dealing as an agent excluding the underwriting. The Company serves a wide range of clients including but not limited to corporates, non-bank financial institutions and individuals.

2.0 Capital Structure

As at 31 December 2015, the Company is owned by the following shareholders in the proportion set out below:

Paid-up Capital

	Number of shares	% of contribution	As at 31 December 2015	As at 31 December 2014
HSBC Asia Holdings BV	4,900	49%	245,000,000	245,000,000
The Saudi British Bank (‘SABB’)	5,100	51%	255,000,000	255,000,000
Total	**10,000**	**100%**	**500,000,000**	**500,000,000**

	SAR '000	
Capital Base	**2015**	**2014**
Tier-1 capital		
Paid-up capital	500,000	500,000
Audited retained earnings	227,600	173,768
Statutory Reserve	123,429	95,523
Total Tier-1 capital	**851,029**	**769,291**
Tier-2 capital		
Unrealised gain on investments - available for sale	14,431	15,274
Total Tier-2 capital	**14,431**	**15,274**
TOTAL CAPITAL BASE	**865,460**	**784,565**

Statutory Reserve
In accordance with Article 176 of the Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to a statutory reserve until such reserve equals 50% of the paid up capital as a minimum. This reserve is not available for distribution. The Company has transferred 10% of its net income for the year to statutory reserve.

Audited Retained Earnings
This constitutes undistributed profits relating to prior years as well as profit for the year 2014 net off zakat, income tax and statutory reserves.

Unrealised gain on investments - available for sale
This constitutes changes in fair value compared to average cost on the available for sale investments.

3.0 Capital Adequacy

HSBC SA is well capitalised, as per regulatory capital requirement under Pillar 1. As at 31 Dec 2015, Pillar 1 capital requirement was SAR 237million, whilst total available capital was SAR 865million resulting in a capital ratio of 3.65.

HSBC SA's Internal Capital Adequacy Assessment Process (ICAAP) indicates no additional capital charge needs to be considered for Pillar II (other than for stress test).

The company carried out stress testing to determine the adequacy of the capital based on stress tests scenarios. The stress tests results indicate that HSBC SA continues to fulfil the requirements for minimum level of capital in accordance with the Prudential Rules.

In accordance with Annex 9, Section 8 of the Prudential Rules, HSBC SA developed a Medium Term Outlook (MTO-strategic plan) for the years 2014-2016, taking the macroeconomic factors into consideration and how these will affect its business growth. The MTO was approved by the Board which also included the Capital Plan.

The Capital Plan of HSBC SA indicates that the risk profile of the company will remain the same while capital will continue to grow over the MTO period and beyond to 2018 with rising profits and higher statutory reserves. The company's capital ratio remains well above the minimum levels required including the stressed scenarios mentioned above, over the Plan period.

4.0 Risk Management

The Board of Directors is responsible for the overall risk management approach in HSBC SA and for reviewing its effectiveness.

The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Company's risk framework, plans and performance targets which include the establishment of risk appetite statements, risk management strategies, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

The Chief Risk Officer (CRO) is responsible for managing the Risks within the Company. In addition there is a separate Head of Regulatory and Financial Crime Compliance and both of these individuals report directly to the CEO. Their key functions are:

Chief Risk Officer

- Risk Management
- Operational Risk
- Security and Fraud Risk
- HSBC SA Standards

Compliance

- Financial Crime Compliance
- Regulatory Compliance

The Company's strategy, processes and policies are documented with regular reporting through Key Risk Indicator (KRI's) and Limits and escalation to Management and Governance Committees.

The Company operates a three lines of defence model to manage the risk within the business and monitor the effectiveness of controls.

- First Line – management responsibility is with the business and control functions for the risks they are managing – supplemented by Business Risk Control Managers.
- Second Line – Operational Risk
- Third Line – Independent Audit Function.

Through the ICAAP process the Board reviews the risks of the Company against the Capital availability. On an ongoing basis the risk profile of the Company is reviewed against the Risk Appetite Statement and also the ICAAP exposures to ensure that the risks remain appropriate.

Annual Review of the Effectiveness of Internal Control Procedures

HSBC SA's management is responsible for implementing and reviewing the effectiveness of the Company's internal control framework as approved by the Board of Directors.

HSBC SA has established clear standards that should be met by employees, departments and the Company as a whole. Systems and procedures are in place within HSBC SA to identify any deviations, control and report on major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, breaches of law or regulations, unauthorised activities and fraud. In addition to an on-going management review, exposure to these risks is subject to monitoring through various management committees that were established to ensure the effectiveness of the Company's control framework and to maintain specific oversight of key risks such as credit, operational, compliance and fraud.

Periodically, strategic plans are prepared for key customer and product groups and support functions. These are implemented and monitored through annual operating plans that are prepared and adopted by all business and support functions and that set out the key business initiatives and their likely financial effects.

Centralised functional control is exercised over all computer system developments and operations. Common systems are employed for similar business processes wherever practicable.

In addition, functional management is responsible for setting policies, procedures and standards across all areas of risk, including credit, market, liquidity, operational, IT, accounting, information, legal and regulatory compliance, human resources, reputational and purchasing risks. A detailed exercise to review the policy framework for all key functions has been completed during the year.

The Risk Management function serves as a secondary control maintaining oversight of Credit, Market and Operational risks, as well as other functions such as business continuity, security and fraud risks. The Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements. The risk management process is fully integrated with the strategic planning, annual operating plan and capital planning cycle. Furthermore, each employee is expected to be accountable for and to manage the risk within his or her assigned responsibilities based on the governance principles adopted by the Company and addressed during training programs.

The systems and procedures for the ongoing identification, evaluation and management of the significant risks faced by HSBC SA were in place throughout the year. These procedures enabled HSBC SA to discharge its obligations under the rules and regulations issued by CMA, the Capital Market Authority.

Operational Risk together with the Risk Management and Compliance functions, forms an integral part of the control environment of HSBC SA. Positioned as an independent control, Operational Risk provides management and, through the Board Risk Committee, Audit Committee and Board, with an independent and objective assessment on whether the framework of risk management, control and governance processes, as designed and represented by management, is adequate and functioning effectively.

Operational Risk accomplishes this by independently reviewing, through a risk-based approach, the design effectiveness and operating efficiency of internal control systems and policies prepared and implemented by business management. Operational Risk also reviews and reports on the adequacy and effectiveness of oversight maintained by support functions such as compliance and risk management departments, to ensure that the Company is operating within its stated risk appetite and in compliance with the regulatory framework.

In 2015 a dedicated audit team within HSBC SA was established and acts as a third line of defence through reviewing the business and control functions within the Company against local regulations and international best practices. The audit team reports directly into the Chairman of the Audit committee.

Material Risks

Operational Risk
Operational risk is defined as:

"The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk."

Operational risk is relevant to every aspect of the Company's business and covers a wide spectrum of risks.

It is HSBC SA's strategy to manage operational risks in a cost effective manner, within targeted levels consistent with the company's risk appetite as defined by the RAS.

The company's Operational Risk management framework ensures minimum standards of governance and organization over operational risk and internal control and covers all its businesses and operations. This includes :

- Dedicated Operational Risk Function
- Three Lines of Defence ensure clarity on the approach and responsibilities
- Segregation of duties between Front office and Support Functions

It should be noted that operational risk categories can be inter-related and operational risk incidents may impact the Company's customers, its regulatory profile and its reputation, as well as resulting in direct impacts.

Strong risk management and internal control are core elements of HSBC SA's strategy and all staff are responsible for managing and mitigating operational risks in their core operations.

Operational Risk has specific responsibilities in relation to the operational risk framework. These are:

- Clear Policies and Procedures help ensure staff are aware of the procedures to be followed
- Segregation of Duties between Front office and Support Functions both in terms of responsibilities and also within system.
- Where risks are higher the concept of maker and checker for dual control.
- Reporting Near Misses to Operational Risk to ensure the issue, lessons learnt and actions are addressed.
- RCA – Risk Control Assessment process annually to review the risks in the functions to risks, mitigating controls and actions required to mitigate the risk.
- The BRCM – Business Risk Control Managers to help the function understand, improve and test the risk controls.
- The three lines of Defence concept providing clarity of responsibilities.
- Reinforcing through new joiner training and other examples the importance of speaking up and escalation.

It is recognized that Operational Risk work closely with the BRCM's including a regular weekly meeting to track issues and ensure consistency.

HSBC SA assesses capital requirement for operational risk based on P&L in accordance with Pillar 1 charge. The Company also carries out stress test based on operational losses and takes the incremental charge where required over and above the Pillar 1 charge. The overall capital charge taken by the Company under Pillar I is SAR 85.5million. In stress scenarios the total capital charge computed is - instantaneous shock scenario no charge and long term shock scenario SAR 65.9 million.

Credit Risk

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 exposure within HSBC SA principally is from a fiduciary perspective within the Asset Management Business, Cash with Banks, Investment of the Company's capital, Receivable from customers and on Credit Commitments associated with the Companies brokerage and HSS activities.

The Company attempts to control credit risk by monitoring credit exposures, limit transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The

Companies risk management policies are designed to identify and set appropriate risk limits and to monitor the risks and adherence to limits.

The Company's credit exposure as at 31 December 2015, is predominantly in Saudi Arabia, however, one of the Funds investments in amounting to SAR 21.8 million takes exposure in GCC.

The concentration risk arises mainly in company's investments, bulk of which is in one mutual fund, however, the underlying risk itself is fairly diversified

Please refer Appendix VI for contractual maturity of the assets of HSBC SA.

HSBC SA defines "past due claims" as amounts that are not repaid by the customers within 90 days.

Any past due claim is classified as impaired when there is objective evidence of credit related impairment as a result of one or more loss events that occurred after the initial recognition of the claim and that a loss event(s) has an impact on the possible recoverability of the full amount of the claim which can be estimated reliably.

A specific provision for impairment is recorded against impaired claims if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount.

The Company has limited credit exposure against which no collateral has been taken nor any netting arrangements exist. The company has also not entered into credit derivatives to mitigate this exposure. Considering the nature of credit risk at present there is no wrong-way risk exposure.

The ageing of past due amounts and industry sector is as follows:

SAR '000

90-180 Days	180-365 Days	1-2 Years	2-3 Years	3-4 Years	Total
1,665	1,101	188		46	3,000

	SAR '000
Petrochemical	510
Telecommunication	512
Electricity	1,522
Food and Agriculture	131
Services	188
Cement	66
Building and construction	71
	3,000

Market Risk

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

The market risk taken by HSBC SA is limited and is operating under approved market risk limits

Market Risk Trading Book

The board has set limits for the acceptable level of risks in managing the trading book. Nominal limits have been established covering the product and the daily and monthly Mark to Market Loss referral limits.

Within the trading limits the Board has authorized Equity Underwriting limits to cover IPO's and Rights issues with nominal limits. The nature of the Saudi Market currently is focused on soft underwriting where the Company is not exposed to Equity Price risk, although certain transactions can have hard underwriting limits where the Company would be exposed.

Market Risk Non Trading Book

The Company has deployed its surplus capital in the Company's Asset Management Funds which provided exposure to Saudi and International Money Market and Fixed Income investments resulting in special commission and FX exposure. These operate under nominal limits approved by the Board including MTM Referral Limits.

Liquidity Risk

Liquidity Risk is the risk that HSBC SA may be unable to meet its liabilities when they fall due, or may only be able to do so at excessive cost. In the case of HSBC SA this can be caused by an inability to sell a financial instrument in the market on a timely basis. Within HSBC SA the main liquidity risk is of a fiduciary basis within Asset Management. Other than via Asset Management HSBC SA does not accept client deposits. The surplus funds / capital which HSBC SA has invested in HSBC SA Money Market Funds, and is available at short notice.
The liquidity reserve of HSBC SA as at 31 Dec 2015 is at SAR 841 million. The reserve has been computed as assets that may be converted into cash within 90 days (liquid assets) less current liabilities.

The liquidity ratio computed as liquid assets divided by liabilities works out to 3.63

HSBC SA conducted stress test on liquidity risk given the current HSBA SA Mutual funds structure is around 82 % deposits with banks (as at 31 December 2015). It is recognized that if we sought to redeem most of our capital in stress event the withdrawal could take longer. The following two scenarios were considered for stress testing. The stress test results did not result in a significant capital charge.

Instantaneous Shock	Maximum 5 day price move in the unit value during previous 2 years,
Longer Term stress Scenario	Maximum 90 day price move in the unit value during previous 5 years.

As evident from the above HSBC SA has a large capital base and with its liquidity management mentioned above provides more than adequate liquidity to its businesses even under stressed conditions.

Fiduciary Risk

The risk to HSBC SA of breaching its fiduciary duties where it acts in a fiduciary capacity as Trustee, Investment Manager, Broker (for cash balances maintained at SABB) as mandated by law or regulation. Within HSBC SA this risk is mainly within the Asset Management business where we are investing in funds on behalf of clients and in HSS where we are acting as custodian.

The risk within Asset Management is primarily managed by the business, with additional limits and controls established with the individual fund prospectus or client mandate – these limits are independently monitored by Risk. Within HSS the risks are managed through client mandates and internal controls by the business.

The fiduciary risk in asset management can arise from market risk, liquidity risk, credit risk, product design and product suitability amongst others. The risk is managed through internal controls exercised primarily through the following committees:

Committee	**Objective**
Investment Committee	Ensure that investment process followed by HSBC SA complies with the standards required by both CMA regulations and HSBC best practices.
Performance Review Committee line	Ensure that all the DPMs and Mutual Funds are managed in with the investment objective and local regulations.
Product Approval Committee products.	Oversee initiatives to develop or distribute new

In addition, a business risk control team is also part of the asset management business that keeps the business head apprised of any emerging risk and / or any issues that need to be addressed.

Control departments including compliance and risk management also oversee the operations of the business with the risk management committee. The risk department in particular monitors the management of all investment funds and portfolios with daily reports generated to identify any breaches against regulatory requirements, client imposed restrictions or Management Action Triggers (MAT) that generally specify the maximum deviation of a portfolio's performance compared to its benchmark. The risk to the Company of breaching its fiduciary duties where it acts in a fiduciary capacity as Trustee, Investment Manager or as mandated by law or regulation.

Compliance Risk

Compliance Risk is the risk leading to statutory, legal sanctions, material financial loss, or damage to the reputation of HSBC SA that may be suffered as a result of the failure to comply with all applicable laws, rules and regulations. The aim of compliance is to protect the reputation and credibility of HSBC SA and protect the interest of shareholders and customers, and safeguard the institution against legal consequences.

HSBC SA ensures full compliance with all directives issued by the CMA. In addition HSBC SA seeks to align with broader HSBC best practices to manage, monitor and control Financial Crime Compliance and Regulatory Compliance risks in respect of international sanctions.

Summary of HSBC SA's Governance and Control Infrastructure for Compliance Risk.

- Compliance Conduct Unit acts as the centralized unit and gatekeeper for all "Regulatory Communication" to coordinate the correspondences with all regulators and establish a nucleus for contact with CMA and TADAWUL.

- In 2014, in line with the CMA APR Regulation Article 58, HSBC SA Compliance Committee (ICC) was formed which reports to the Audit Committee.

- Compliance issues are escalated to and discussed at the monthly HSBC SA Risk Management Committee (RMC) and ICC meeting and quarterly in AUCOM.

- The Compliance Department was restructured and rebranded as the Financial Crime Compliance and Regulatory Compliance (FCC & RC). The new structure include four separate units :

    - The Advisory Unit: Responsible to enforce the Compliance and AML policies
    - The Monitoring Unit: Responsible to implement the compliance annual review plan to assess against the compliance policies and procedures.
    - The Anti-Money Laundering and Sanction unit established to manage AML & Sanction risks
    - Compliance Conduct Unit: Responsible for the FCC & RC policies,

HSBC SA has implemented a strong internal control structure to ensure full compliance with all directives issued by CMA. Frequent reviews are conducted and business owners certify on an annual basis their compliance with existing directives.

Other Risks

HSBC SA continues identifying risks that will adversely impact on present and future operations of the Company. Issues are addressed in a proactive manner with respect to risk assessment and management to ensure compliance with local regulatory requirements.

App 1: Disclosure on Capital Base	2015	2014
Capital Base	**SAR '000**	**SAR '000**
<u>Tier-1 capital</u>		
Paid-up capital	500,000	500,000
Audited retained earnings	227,600	173,768
Share premium		
Reserves (other than revaluation reserves)	123,429	95,523
Tier-1 capital contribution		
Deductions from Tier-1 capital		
Total Tier-1 capital	**851,029**	**769,291**
<u>Tier-2 capital</u>		
Subordinated loans		
Cumulative preference shares		
Revaluation reserves	14,431	15,274
Other deductions from Tier-2 (-)		
Deduction to meet Tier-2 capital limit (-)		
Total Tier-2 capital	**14,431**	**15,274**
TOTAL CAPITAL BASE	**865,460**	**784,565**

App II: Disclosure on Capital Adequacy - 2015

Exposure Class	Exposures before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks					
Authorised Persons and Banks	61,894			12,379	1,733
Corporates	35,195			251,292	35,181
Retail					
Investments	1,023,212			664,596	93,043
Securitisation					
Margin Financing					
Other Assets	41,706			137,538	19,256
Total On-Balance sheet Exposures	1,162,007			1,065,805	149,213
Off-balance Sheet Exposures					
OTC/Credit Derivatives					
Repurchase agreements					
Securities borrowing/lending					
Commitments					
Other off-balance sheet exposures					
Total Off-Balance sheet Exposures					
Total On and Off-Balance sheet Exposures					
Prohibited Exposure Risk Requirement					
Total Credit Risk Exposures	1,162,007			1,065,805	149,213
Market Risk	Long Position	Short Position			
Interest rate risks					
Equity price risks	5,652				904
Risks related to investment funds					
Securitisation/resecuritisation positions					
Excess exposure risks					
Settlement risks and counterparty risks					
Foreign exchange rate risks	57,271	(3,523)			1,462
Commodities risks.					
Total Market Risk Exposures	62,923	(3,523)			2,366
Operational Risk					85,484
Minimum Capital Requirements					237,063
Surplus/(Deficit) in capital					628,397
Total Capital ratio (time)					3.65

App II: Disclosure on Capital Adequacy - 2014

Exposure Class	Exposures before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks					
Authorised Persons and Banks	114,384			22,877	3,203
Corporates	129,024			921,231	128,972
Retail					
Investments	898,049			515,283	72,140
Securitisation					
Margin Financing					
Other Assets	2,052			6,156	862
Total On-Balance sheet Exposures	1,143,509		-	1,465,547	205,177
Off-balance Sheet Exposures					
OTC/Credit Derivatives					
Repurchase agreements					
Securities borrowing/lending					
Commitments					
Other off-balance sheet exposures					
Total Off-Balance sheet Exposures	-		-	-	-
Total On and Off-Balance sheet Exposures	1,143,509		-	1,465,547	205,177
Prohibited Exposure Risk Requirement					
Total Credit Risk Exposures	1,143,509		-	1,465,547	205,177
Market Risk	Long Position	Short Position			
Interest rate risks					
Equity price risks	3,859				617
Risks related to investment funds					
Securitisation/resecuritisation positions					
Excess exposure risks					
Settlement risks and counterparty risks					
Foreign exchange rate risks	72,366	(4,646)			1,990
Commodities risks.					
Total Market Risk Exposures	76,225	(4,646)			2,607
Operational Risk					105,426
Minimum Capital Requirements					313,210
Surplus/(Deficit) in capital					471,355
Total Capital ratio (time)					2.50

App III: Disclosure on Credit Risk's Risk Weight - 2015

Risk Weights	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%													
20%			61,894					795,900				857,794	171,559
50%								107,324				107,324	53,662.00
100%													
150%								71,801				71,801	107,702
200%													
300%										38,706		38,706	116,118
400%													
500%													
714% (include prohibited exposure)					35,195		3,000	48,187				86,382	616,767
Average Risk Weight													92%
Deduction from Capital Base													149,213

App III: Disclosure on Credit Risk's Risk Weight - 2014

Risk Weights	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%													
20%			114,384					787,012				901,396	180,279
50%													
100%													
150%								77,114				77,114	115,671
200%													
300%										2,052		2,052	6,156
400%													
500%													
714% (include prohibited exposure)					120,520		8,504	33,923				162,947	1,163,442
Average Risk Weight													128%
Deduction from Capital Base													205,177

App IV: Disclosure on Credit Risk's Rated Exposure - 2015

Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks								
Authorised Persons and Banks		61,894						
Corporates								35,195
Retail								
Investments		795,900	107,325					119,988
Securitisation								
Margin Financing								
Other Assets								41,706
Total		857,794	107,325					196,889

App IV: Disclosure on Credit Risk's Rated Exposure - 2014

Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks								
Authorised Persons and Banks		114384						
Corporates								129,024
Retail								
Investments		787012						111,037
Securitisation								
Margin Financing								
Other Assets								2,052
Total	-	901,396	-	-	-	-	-	242,113

*Short term rating of counterparties is not applicable

App V: Disclosure on Credit Risk Mitigation (CRM) - 2015

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks	61,894					61,894
Corporates	35,195					35,195
Retail						-
Investments	1,095,013					1,095,013
Securitisation						-
Margin Financing						-
Other Assets	41,706					41,706
Total On-Balance sheet Exposures	1,233,808					1,233,808
Off-balance Sheet Exposures						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments						
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	-	-	-	-	-	-
Total On and Off-Balance sheet Exposures	1,233,808	-	-	-	-	1,233,808

App V: Disclosure on Credit Risk Mitigation (CRM) - 2014

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks	114,384					114,384
Corporates	129,024					129,024
Retail						-
Investments	898,049					898,049
Securitisation						-
Margin Financing						-
Other Assets	2,052					2,052
Total On-Balance sheet Exposures	1,143,509					1,143,509
Off-balance Sheet Exposures						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments						
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	-	-	-	-	-	-
Total On and Off-Balance sheet Exposures	1,143,509	-	-	-	-	1,143,509

					SAR'000
App VI - Contractual Maturity Breakdown as at 31 Dec 2015					
Portfolio	**0 - 30 Days**	**30 - 90 Days**	**90-180 days**	**No maturity**	**Total**
Cash and Cash Equivalents				36,749	36,749
Investments				1,028,864	1,028,864
Trade Receivables	62,303				62,303
Advances, Prepayments and others	3,591		33,345		36,936
Property and equipment				2,807	2,807
Total	65,894	-	33,345	1,068,420	1,167,659

					SAR'000
App VI - Contractual Maturity Breakdown as at 31 Dec 2014					
Portfolio	**0 - 30 Days**	**30 - 90 Days**	**90-180 days**	**No maturity**	**Total**
Cash and Cash Equivalents				79,023	79,023
Investments				901,909	901,909
Trade Receivables	114,174				114,174
Advances, Prepayments and others	4,212	966	26,472		31,650
Property and equipment				2,052	2,052
Total	118,386	966	26,472	982,984	1,128,808

Glossary of Terms

Acronym	Definition	Acronym	Definition
AML	Anti –Money Laundering	**HSBC**	HSBC Group Plc
APR	Authorised Persons Regulation	**HSBC SA**	HSBC Saudi Arabia Limited
AUCOM	Audit Committee	**HSS**	Securities services
BOARD	HSBC SA Board of Directors	**ICAAP**	Internal Capital Adequacy Assessment Process
BRCM	Business Risk Control Manager	**ICC**	Internal Compliance Committee
CMA	Capital Markets Authority	**KRIs**	Key Risk Indicators
CEO	Chief Executive Officer	**MAT**	Management Attention Limits
CRO	Chief Risk Officer	**MTM**	Market to Market – Market Risk
DPM	Discretionary Portfolio Management	**MTO**	Medium Term Outlook- Strategic Plan
FCC	Financial Crime Compliance	**RAS**	Risk Appetite Statement
RWAs	Risk Weighted Assets	**RC**	Regulatory Compliance
SABB	The Saudi British Bank	**RMC**	Risk Management Committee