HSBC Saudi Arabia Limited

Pillar 3 Disclosures (31 December 2016)

HSBC

Cautionary statement regarding forward looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2016 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.

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Pillar 3 Disclosures (31 December 2016)

1. 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. 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. Capital Structure

As at 31 December 2016, the Company is owned by the following shareholders in the proportion set out below:

Paid-up Capital

SAR '000	*Number of shares*	*% of contribution*	***As at 31 December 2016***	*As at 31 December 2015*
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

Capital Base

SAR '000	***2016***	*2015*
Tier-1 capital		
Paid-up capital	**500,000**	500,000
Audited retained earnings	**108,692**	227,600
Statutory Reserve	**137,405**	123,429
Total Tier-1 capital	**746,097**	851,029
Tier-2 capital		
Unrealised gain on investments - available for sale	**18,625**	14,431
Total Tier-2 capital	**18,625**	14,431
Total Capital Base	**764,722**	865,460

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 30% 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 2016 net of 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. Capital Adequacy

HSBC SA is well capitalised, as per regulatory capital requirement under Pillar 1. As at 31 Dec 2016, Pillar 1 capital requirement was SAR 228million, whilst total available capital was SAR 765million resulting in a capital ratio of 3.36.

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 business plan for 2017, taking the macroeconomic factors into consideration and how these will effect its business growth. The business plan 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 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. 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 Compliance and both 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 – Risk stewards and oversight of first line
- Third Line – Independent Audit Function

4. Risk Management *(continued)*

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, 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. These policies are subject to ongoing review and are benchmarked to best practice.

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.

4. Risk Management *(continued)*

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.

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.

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:

- Set the Operational Risk framework and policy and oversee their implementation across HSBC SA
- Provide quality assurance and challenge of risk and control assessments, internal control monitoring plans, the results of control monitoring activity conducted by the First Line and of the completeness of second line oversight of the business and functions
- Provide independent oversight of HSBC SA's operational risk profile, identify emerging risks and gaps and carry out specific reviews of key risk issues
- Flag breaches of risk appetite and unacceptable delays in resolving control issues to the appropriate governance committees

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

Internal Audit

The Third Line of Defence is Internal Audit which provides independent assurance to management and the Board over the design and operation of HSBC SA's risk management, governance and internal control processes.

Internal Audit is independent of the first and second lines of defence. Even where Internal Audit performs similar testing or monitoring activities to those undertaken by the first or second lines of defence, these are undertaken as part of Internal Audit's independent assurance role and are not to be relied upon by management as a substitute for or supplement to first or second line of defence activities.

Internal Audit assurance is based on a combination of risk management framework audits, business and functional governance audits, themed audits of key existing and emerging risks and project audits to assess major change initiatives.

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 80.4 million. In stress scenarios the total capital charge computed is - instantaneous shock scenario SAR 0.7 million and long term shock scenario SAR 151.4 million.

4. Risk Management *(continued)*

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 2016, is predominantly in Saudi Arabia, however, one of the local Funds invested in amounting to SAR 22.1 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*
15,488	1,313	823	-	1,711.88	19,334

	Amount
	SAR'000
Petrochemical	1,448
Telecommunication	118
Electricity	1,969
Food and Agriculture	675.00
Industrials	13,313
Cement	66
Building and construction	247
Materials Industry	750
Other	750
	19,334

4. Risk Management *(continued)*

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. The main source of funds for HSBC SA is its capital and undistributed profits. In the case of HSBC SA liquidity risk may arise by an inability to sell a financial instrument in the market on a timely basis. Given the nature of HSBC SA activities (i.e generally not direct lending) this risk is mitigated via deploying the Companies surplus capital mainly in HSBC SA Mutual Fund which can be liquidated in a few days. Within HSBC SA the main liquidity risk is of a fiduciary basis within Asset Management.

The liquidity reserve of HSBC SA as at 31 Dec 2016 is at SAR 719 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 3.80.

HSBC SA conducted stress test on liquidity risk given the current HSBA SA Mutual funds structure is around 83% deposits with banks (as at 31 December 2016) 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.

4. Risk Management *(continued)*

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 a consistent investment process is followed keeping in view the investment objectives of the products and mandates managed by HSBC SA.
Performance Review Committee	Ensure that all discretionary mandates managed by HSBC SA are managed in-line with their investment objectives and all clients in these mandates are treated fairly.
Product Approval Committee	Oversee initiatives to develop or distribute new products.

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.

Compliance Risk

The risk to HSBC SA in breaching Local Regulatory and International Best Standards in regard to Financial Crime Compliance and Regulatory Compliance. Within HSBC SA this risks exists throughout all areas of the Company.

The risks is primarily managed by the business and through an independent compliance function who is responsible for providing guidance and independent control and review of the compliance risks within the company.

4. Risk Management *(continued)*

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.

1. Table – Disclosure on Capital Base

Capital Base

SAR '000	**2016**	2015
Tier-1 capital		
Paid-up capital	**500,000**	500,000
Audited retained earnings	**108,692**	227,600
Share premium		
Reserves (other than revaluation reserves)	**137,405**	123,429
Tier-1 capital contribution		
Deductions from Tier-1 capital		
Total Tier-1 capital	**746,097**	851,029
Tier-2 capital		
Subordinated loans		
Cumulative preference shares		
Revaluation reserves	**18,625**	14,431
Other deductions from Tier-2 (-)		
Deduction to meet Tier-2 capital limit (-)		
Total Tier-2 capital	**18,625**	14,431
Total Capital Base	**764,722**	865,460

Pillar 3 Disclosures (31 December 2016) (continued)

2. Disclosure on Capital Adequacy

2016	*Exposures before CRM*	*Net Exposures after CRM*	*Risk Weighted Assets*	*Capital Requirement*
Exposure Class	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Credit Risk				
On-balance Sheet Exposures	-	-	-	-
Governments and Central Banks	11,513	-	2,303	322
Authorised Persons and Banks	312,632	-	62,526	8,754
Corporates	25,410	-	156,295	21,881
Retail	-	-	-	-
Investments	608,416	-	520,195	72,828
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	63,301	-	291,830	40,856
Total On-Balance sheet Exposures	**1,021,272**	**-**	**1,033,149**	**144,641**
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	**1,021,272**	**-**	**1,033,149**	**144,641**

Market Risk	*Long Position*	*Short Position*			
Interest rate risks	-	-	-	-	-
Equity price risks	-	-	-	-	-
Risks related to investment funds	6,409	-	-	-	1,025
Securitisation/resecuritisation positions	-	-	-	-	-
Excess exposure risks	-	-	-	-	-
Settlement risks and counterparty risks	-	-	-	-	-
Foreign exchange rate risks	82,828	(5,886)	-	-	1,693
Commodities risks.	-	-	-	-	-
Total Market Risk Exposures	**89,237**	**(5,886)**	**-**	**-**	**2,718**
Operational Risk					**80,462**
Minimum Capital Requirements					**227,821**
Surplus/(Deficit) in capital					**536,900**
Total Capital ratio (time)					**3.36**

2. Disclosure on Capital Adequacy *(continued)*

2015	*Exposures before CRM*		*Net Exposures after CRM*	*Risk Weighted Assets*	*Capital Requirement*
Exposure Class		**SAR'000**	**SAR'000**	**SAR'000**	**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**

3. Disclosure on Credit Risk Weight

2016

Exposures after netting and credit risk mitigation

Risk Weights	*Governments and central banks* SAR'000	*Administra-tive bodies and NPO* SAR'000	*Authorised persons and banks* SAR'000	*Margin Financing* SAR'000	*Corporates* SAR'000	*Retail* SAR'000	*Past due items* SAR'000	*Investments* SAR'000	*Securitisa-tion* SAR'000	*Other assets* SAR'000	*Off-balance sheet commitments* SAR'000	*Total Exposure after netting and Credit Risk Mitigation* SAR'000	*Total Weighted Weighted Assets* SAR'000
0%	-	-	-	-	-	-	-	-	-	-	-	-	**-**
20%	11,513	-	312,632	-	-	-	-	44,327	-	-	-	368,472	**73,694.40**
50%	-	-	-	-	2,398	-	-	452,926	-	-	-	455,324	**227,662.00**
100%	-	-	-	-	1,500	-	-	17,034	-	-	-	18,534	**18,534**
150%	-	-	-	-	-	-	-	71,675	-	-	-	71,675	**107,512.50**
200%	-	-	-	-	-	-	-	-	-	-	-	-	**-**
300%	-	-	-	-	-	-	-	-	-	38,680	-	38,680	**116,040**
400%	-	-	-	-	-	-	-	-	-	-	-	-	**-**
500%	-	-	-	-	-	-	-		-	-	-	-	**-**
714% (include prohibited exposure)	-	-	-	-	21,512	-	-	22,454	-	24,621	-	68,587	**489,711**
Average Risk Weight	-	-	-	-	-	-	-	-	-	-	-	-	**101%**
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	**144,641**

2015

Exposures after netting and credit risk mitigation

Risk Weights	*Governments and central banks* SAR'000	*Administra-tive bodies and NPO* SAR'000	*Authorised persons and banks* SAR'000	*Margin Financing* SAR'000	*Corporates* SAR'000	*Retail* SAR'000	*Past due items* SAR'000	*Investments* SAR'000	*Securitisa-tion* SAR'000	*Other assets* SAR'000	*Off-balance sheet commitments* SAR'000	*Total Exposure after netting and Credit Risk Mitigation* SAR'000	*Total Weighted Weighted Assets* SAR'000
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

Pillar 3 Disclosures (31 December 2016) (continued)

4. Disclosure on Credit Risk's Rated Exposure

2016

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	-	-	11,513	-	-	-	-	-
Authorised Persons and Banks	-	312,632	-	-	-	-	-	-
Corporates	-	-	2,398	1,500	-	-	-	21,512
Retail	-	-	-	-	-	-	-	-
Investments	-	44,327	452,926	17,034	-	-	-	94,129
Securitisation	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	63,301
Total	**-**	**356,959**	**466,837**	**18,534**	**-**	**-**	**-**	**178,942**

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**

** Short term rating of counter parties is not applicable.*

Pillar 3 Disclosures (31 December 2016) (continued)

5. Disclosure on Credit Risk Mitigation (CRM)

2016 Exposure Class	*Exposures before CRM* SAR'000	*Exposures covered by Guarantees/ Credit derivatives* SAR'000	*Exposures covered by Financial Collateral* SAR'000	*Exposures covered by Netting Agreement* SAR'000	*Exposures covered by other eligible collaterals* SAR'000	*Exposures after CRM* SAR'000
Credit Risk						
On-balance Sheet Exposures	-	-	-	-	-	-
Governments and Central Banks	11,513	-	-	-	-	11,513
Authorised Persons and Banks	312,632	-	-	-	-	312,632
Corporates	25,410	-	-	-	-	25,410
Retail	-	-	-	-	-	-
Investments	608,416	-	-	-	-	608,416
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	63,301	-	-	-	-	63,301
Total On-Balance sheet Exposures	**1,021,272**	**-**	**-**	**-**	**-**	**1,021,272**
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	**1,021,272**	**-**	**-**	**-**	**-**	**1,021,272**

5. **Disclosure on Credit Risk Mitigation (CRM)** *(continued)*

2015	*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*
Exposure Class	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
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	1,023,212	-	-	-	-	1,023,212
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	41,706	-	-	-	-	41,706
Total On-Balance sheet Exposures	**1,162,007**	**-**	**-**	**-**	**-**	**1,162,007**
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	**1,162,007**	**-**	**-**	**-**	**-**	**1,162,007**

Pillar 3 Disclosures (31 December 2016) (continued)

6. Contractual Maturity Breakdown

As at 31 December 2016

Market Risk	*0 - 30 Days*	*30 - 90 Days*	*90 - 180 Days*	*180 - 365 Days*	*No maturity*	*Total*
Cash and Cash Equivalents	200,000	-	-	-	52,555	**252,555**
Investments	-	-	-	-	614,822	**614,822**
Trade Receivables	-	116,335	-	-	-	**116,335**
Advances, Prepayments and others	462	392	32,190	79	5,724	**38,847**
Property and equipments	-	-	-	-	5,121	**5,121**
Total	**200,462**	**116,727**	**32,190**	**79**	**678,222**	**1,027,680**

As at 31 December 2015

Market Risk	*0 - 30 Days*	*30 - 90 Days*	*90 - 180 Days*	*180 - 365 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 equipments	-	-	-	-	2,807	2,807
Total	65,894	-	33,345	-	1,068,420	1,167,659

7. Glossary of Terms

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