HSBC Saudi Arabia

Pillar III Disclosures Dec 2017

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1. Introduction

HSBC Saudi Arabia (HSBC SA) is a Closed Joint Stock Company registered in the Kingdom of Saudi Arabia organized and existing under the laws of Saudi Arabia. On 28 March 2017, the Company was converted from a Limited Liability Company to a Closed Joint Stock Company under Royal Decree number M/3 dated 28/01/1437H. All the assets and liabilities of the Limited Liability Company have been brought forward to the Closed Joint Stock Company.

The main activities of the Company are to provide a full range of investment banking services including investment banking advisory, debt and project finance services, including both conventional and Shariah compliant finance. It also manages mutual funds and discretionary portfolios, and provides brokerage and securities services. The Company serves a wide range of clients including but not limited to corporates, non-bank financial institutions and individuals.

The report has been prepared in accordance to meet the minimum disclosure requirement as set out in Article 68 (Annex 10) of the CMA Prudential Rules relating to Pillar III Disclosure and Reporting requirements.

In accordance with the capital adequacy framework issued by CMA, the prudential rules comprises of three pillars as summarised below:

Pillar 1: Minimum capital requirements as per risk based approach;

- Credit Risk - HSBC SA has adopted the Standardised Approach in line with Capital Adequacy Model (CAM) of CMA. HSBC SA credit risk arises out of cash with banks, investment in mutual funds and margin financing and fee receivables from customers.
- Market Risk - HSBC SA takes minimal market risk and has adopted the Standardised Approach in line with CAM of CMA.
- Operational Risk – HSBC SA has adopted the Basic Indicator Approach in line with CAM of CMA.

Pillar 2: Internal Capital Adequacy Assessment Process (ICAAP)

- Evaluate whether the company meets the capital adequacy guidance as set by CMA under the Prudential rules

Pillar 3: Market Discipline

- Pillar III covers disclosure and reporting framework that enhances market discipline, transparency and enables comparability.

2. Capital Structure

On 29 March 2017, the legal formalities in respect of the incorporation were completed and the Company obtained its revised commercial registration certificate. The share capital of the Company was split from 10,000 shares of SAR 50,000 each into 50 million shares of SAR 10 each.

As at 31 December 2017, the Company is owned by the following shareholders in the proportion set out below: The shareholding is as follows:

Paid-up Capital

	Number of shares	% of contribution	As at 31 December 2017
HSBC Asia Holdings BV	24,500,000	49.000%	245,000,000
The Saudi British Bank (‘SABB’)	25,497,000	50.994%	254,970,000
Arabian Real Estate Company Limited	1,000	0.002%	10,000
SABB Insurance Agency Limited	1,000	0.002%	10,000
SABB Real Estate	1,000	0.002%	10,000
Total	**50,000,000**	**100%**	**500,000,000**

Tier 1 and Tier Capital

		SAR '000
Capital Base	**2017**	**2016**
Tier-1 capital		
Paid-up capital	500,000	500,000
Audited retained earnings	116,549	108,692
Statutory Reserve	150,000	137,405
Total Tier-1 capital	**766,549**	**746,097**
Tier-2 capital		
Unrealised gain on investments - available for sale	6,366	18,625
Total Tier-2 capital	**6,366**	**18,625**
TOTAL CAPITAL BASE	**772,915**	**764,722**

Paid-up capital: The authorized, issued and fully paid share capital of the Company consists of 50 million shares of SAR 10 each.

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 2017 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 2017, Pillar 1 capital requirement was SAR 310.2 million, whilst total available capital was SAR 772.9 million resulting in a capital ratio of 2.49. HSBC SA is committed to maintain adequate levels of capital in line with the overall risks taken by the company. HSBC SA has always maintained capital levels above the levels required by the regulatory authority and is fully committed to meet the capital requirements as regulated by CMA going forward.

HSBC SA capital adequacy as of 31st December 2017 is as below

HSBC SA Capital Summary SAR 000	Dec'17
Total capital available HSBC SA	**772,915**
Capital Required - Market Risk	2,964
Capital Required - Credit Risk	243,500
Capital Required - Operational Risks	63,744
Total Minimum Capital Requirement	**310,208**
Surplus Capital	**462,707**
Capital Ratio (times)	**2.49**

HSBC SA's Internal Capital Adequacy Assessment Process (ICAAP): The objective of ICAAP is to:

- Evaluate whether HSBC SA meets the capital adequacy guidance as set by CMA under the Prudential rules,
- Evaluate HSBC SA's capital position and its ability to meet CMA's minimal capital ratio over the projected period applying scenarios of tress and shocks.
- Identify for senior management any material issues integral to evaluation of capital adequacy and mitigating action plans.

ICAAP framework underlines the foundation of its risk and capital management process. It has the following features:

- a defined governance framework;
- a risk appetite framework to ensure its business and risk governance are in accordance with the Board's expectations;
- a capital management, planning and forecasting process and framework;
- an internal risk assessment process and stress testing framework to monitor and ensure compliance with its capital adequacy targets

4. Risk Management

Through its risk management framework, the company strives to maintain and review the effectiveness of risk management and internal control systems, and determine the aggregate level and types of risks the company is willing to take in achieving its strategic objectives.

4.1 Risk Framework: The key risk management and internal control procedures include the following:

- HSBC SA standards outlines the core principles within which the Company and its employees must operate in conducting its business.
- Delegation of authority within the limits set by the Board. The Chief Executive has been delegated authority limits and powers within which to manage the day-to-day affairs of the company.
- Risk identification and monitoring. Systems and procedures are in place to identify, assess, control and monitor the material risk types facing HSBC SA. Our risk measurement and reporting systems are designed to help ensure that risks are captured with all the attributes necessary to support well-founded decisions,

- Changes in market conditions/practices: processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviors, which could expose HSBC SA to heightened risk of loss or reputational damage.
- Strategic plans: Through the business strategy, the company outlines the risk appetite of HSBC SA and sets out the key business initiatives and the likely financial effects of those initiatives.
- All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defense model.

HSBC SA has implemented a ‘Three Lines of Defence’ model for managing its risks.

First Line of Defence: Business management is responsible for setting policies, procedures and standards across all areas under their responsibility. Functional management is also responsible for implementing effective monitoring mechanisms to detect and prevent deviations or breaches from established policies and regulatory requirements.

Second Line of Defence: It comprises various risk management and control functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud. Risks are analysed qualitatively as well as by quantitative methods and reported to the Board and sub-committees through HSBC SA’s management committees.

Third Line of Defence: Internal Audit (INA) represents the independent and reviews the design and operating effectiveness of the HSBC SA internal control framework and policies established by business and functional Risk Owners to provide independent and objective assurance that HSBC SA is operating within its stated risk appetite and in compliance with the regulatory framework.

4.2 Risk Governance Model: Governance is in place to provide oversight of, and advice to the Board on material risk related matters effected through the Board sub-committees and management committees which oversee the effectiveness of risk management and report to the Board sub-committees.

Board Risk Committee: The Board Risk Committee (“BRC”) was formed by the Board to handle risk management affairs. As per its terms of reference, the BRC reports directly to the Board. The BRC gives advice to the Board on all matters relating to high level risks pertinent to the Company’s business in addition to strategic direction of risks across the Company including the drawing up of a risk vision, prioritization nd supervision of principal initiatives and overseeing the execution of major transformational risk initiatives.

Audit Committee: The Audit Committee reports directly to the Board of Directors, and meets minimum four times during the year. The Committee monitors the Company's internal and external audit functions and reviews control & compliance weaknesses and system deficiencies. It is also responsible for ensuring that all financial information is of the highest quality, concentrating on critical business issues, which enable the Company's external auditors and management to focus on those areas of greatest risk to the business.

Nomination and Remuneration Committee: The Nomination and Remuneration Committee meets at least once during the year reports directly to the Board. The Committee recommends to the Board of Directors nominations for Board membership, annually reviews the skills and capabilities required of those suitable for Board membership, including the time needed by a Board member for Board business, reviews the structure of the Board and submits the necessary recommendations.

Executive Committee: The Executive Committee (“EXCOM”) is appointed by the Board and reports directly to the Board. The main task of EXCOM is to assist the Company’s CEO, within the authorities entrusted to CEO by the Board, and in handling the matters referred to CEO by the Board. In addition, EXCOM review, inter alia, Business Performance Reports, Financial Markets Reports, Investment Banking Report, Monitoring of AOP Progress Reports and Human Resources Reports etc. and meets six times during the year.

HSBC SA's management is responsible for establishing and maintaining an adequate and effective framework of internal control which encompasses the policies as approved by the Board. As part of the risk governance and internal control framework, the management has established various committees such as Risk Management Committee. Internal Compliance Committee, Management Committee, Asset Liability Committee, Shariah Committee and Operations Risk to ensure compliance with applicable laws and regulations, internal policies, maintenance of proper records and processes and quality of external and internal reporting.

4.3 Risk Appetite Statement: HSBC SA Risk Appetite framework includes the following;

Risk Matric Category	Risk Components Monitored
Earnings	Focus on ROE, Dividend and cost efficiency
Capital	Capital Ratios and coverage
Risk Categories & Diversification	Limits set on level of Operations, Reputation, Credit, fiduciary and Information risk
Financial Crime Compliance	Oversees breaches relating to KYC, AML, Sanctions, Suspicious activity etc.
Regulatory compliance	Sets targets and limits covering customer conduct, sales quality, product due diligence and compliance conduct
FCC and RC Audit Issues	Sets limits on High risk audit points
Trainings	Monitors mandatory FCC and RC training of staff, other mandatory trainings of staff

4.4 Corporate governance: HSBC SA is aware of the positive impact associated with the adoption of prudent Corporate Governance Principles and Standards and that such adoption will lead to observance of professional and ethical standards in the company’s dealings as well as transparency and disclosure which will contribute to the furthering and improvement of its efficiency and relations with all interested parties. It is also believed that the adoption of this approach will enhance investors' confidence both in the HSBC SA and in the Saudi Securities Business in the Kingdom. HSBC SA’s Articles of Association and the HSBC SA Governance Document, provide for disclosure policies and procedures, formation of the Board and Sub-committees, responsibilities of the Board of Directors, policy regulating relationships with stakeholders, shareholders’ rights and attendance of meetings.

5. 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, margin lending, Investment of the Company's capital, Receivable from customers and on Credit Commitments associated with the Companies brokerage and HSS activities. The Company has no significant concentration of credit risks. Cash and cash equivalents in the form of bank balances in KSA are held with SABB whilst we deal with international banks with sound credit ratings for accounts outside KSA. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

The Company's credit exposure as at 31 December 2017, is predominantly in Saudi Arabia, however, one of the local Funds invested in amounting to SAR 19.8 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

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 provides margin lending against shares (ML) to its clients and the product is governed, closely monitored and controlled by Risk Management within parameters approved by the Margin lending credit policy. The policy considers all risk related issues covering credit approvals, limits and thresholds, concentration and margin calls and all other related operational, credit, compliance, reputational, market and investment risks associated with lending against tradable securities

The company had invested its surplus capital into HSBC Funds after performing due diligence on the investment and approvals of the Board.

Credit Risks	**243,500**
Exposures to government, central banks	*102*
Exposures to corporates, admin bodies, NPO	*17,718*
Exposures to APs, banks	*3,767*
Investment funds	*35,226*
Margin financing	*150,372*
Other on-balance sheet exposures	*28,318*
Off-balance sheet commitments	*7,997*

Impairments and Past Due claims

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 do 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.

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.

The ageing of past due amounts is as follows:

Number of days outstanding	Gross balance receivable	Provision	Net balance receivable
Upto-90	8,478,101	-	8,478,101
91-360	5,124,882	2,244,713	2,880,169
361 and above	115,625	115,625	-
Total	**13,718,608**	**2,360,338**	**11,358,270**

6. 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.

Foreign exchange rate risk

Foreign exchange rate risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liability in that currency. The Company's foreign currency transactions are primarily denominated in USD. The rate of exchange for conversion of the Saudi Riyal to the US Dollar is pegged, on the basis of which the Company is not significantly exposed to risk of fluctuation in foreign exchange rates.

Special commission rate risk

The Company has special commission rate risk with respect to the time deposits maintained with SABB which are carried at fixed special commission rate. Further, the Company has investments in units of mutual funds having underlying money market placements. Management monitors the changes in commission rates on regular basis and believes that the commission rate risk is not significant.

Capital requirements for market risk of the company as of 31st December 2017 are indicated below;

Market Risks	**2,964**
Fund Risk	*1,076*
FX Risk	*1,888*

7. 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.

Operations Risk capital requirements of the company as of 31st December 2017 are indicated below;

The company applied the Basic Indictor Approach as per which the income indicator consists of the average of operating income for the last three audited annual financial statements on which a risk charge of 15% is applied to arrive at the capital requirement.

Operational Risks	Year -3	Year -2	Year -1			
Basic Indicator Approach	**2015**	**2016**	**2017**	**Average**	**Risk charge (%)**	**Capital requirements (SAR '000)**
Operating income (SAR '000)	571,709	391,781	311,394	424,961	15	**63,744**
Expenditure-based approach			2017			
Overhead expenses (SAR '000)			176,854		25	**44,214**
Total Operational Risks						**63,744**

8. Liquidity Risk

Liquidity risk is the risk that the Company may be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions which may cause certain sources of funding to dry up immediately. To guard against this risk, management performs regular review of available funds and its present and future commitments

The main source of funds for HSBC SA is its capital and undistributed profits. In addition the Company has established a short term revolving loan facility from SABB to fund its business operations.

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. Within HSBC SA the main liquidity risk is of a fiduciary basis within Asset Management. With the advent of the market change to a two day settlement cycle, the company has set settlement limits for both its Custody and Brokerage activities on a per counterparty basis, these limits generate liquidity risk in the advent of client defaults or delayed trades. Such instances historically are very limited. HSBC SA has sufficient committed credit lines in place to match liquidity settlement risk on these lines. These are further ring fenced by our Settlement agent who guarantees to Tadawul all HSBC SA market trade settlements.

The company has established a liquidity management process for Margin lending product is to ensure that the company has access to adequate level of funding at all times to meet the cash flow requirements driven by changes in utilization levels and to fully mitigate any liquidity and reputation risks for the company.

The liquidity reserve of HSBC SA as at 31 Dec 2017 is at SAR 90 million. The reserve has been computed as assets that may be converted into cash within 90 days (liquid assets) less current liabilities.

9. 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. 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

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

Committee	Objective
Investment Committee	The primary objective of the Investment Committee is to govern and manage the investment strategies to ensure all strategies are aligned to the investment objective of the product/service. Additionally the committee ensures that investment process followed by HSBC SA complies with the standards required by both CMA regulations and HSBC best practices
Performance Review Committee	To review performance of Funds and Discretionary Portfolios and ensure consistency of performance across portfolios following similar strategies.
Product Approval Committee	Oversee initiatives to develop or distribute new products.
Fund Board	The fund board oversees the management and operations of the fund on behalf of the funds' unit holders. Among other things, the fund board oversees the performance of the fund, approve the fees paid to the service providers, and oversee the fund’s compliance to the regulations.
Wealth Management Oversight Committee	The committee oversee the wealth activities related to retail clients with the prime objective of ensuring the sales monitoring, sales quality control and Client servicing

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.

10. 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 which is responsible for providing guidance and independent control and review of the compliance risks within the company.

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.

11. 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	2017	2016
Capital Base	**SAR '000**	**SAR '000**
Tier-1 capital		
Paid-up capital	500,000	500,000
Audited retained earnings	116,549	108,692
Share premium		
Reserves (other than revaluation reserves)	137,405	137,405
Tier-1 capital contribution		
Deductions from Tier-1 capital		
Total Tier-1 capital	**766,549**	**746,097**
Tier-2 capital		
Subordinated loans		
Cumulative preference shares		
Revaluation reserves	6,366	18,625
Other deductions from Tier-2 (-)		
Deduction to meet Tier-2 capital limit (-)		
Total Tier-2 capital	**6,366**	**18,625**
TOTAL CAPITAL BASE	**772,915**	**764,722**

App II: Disclosure on Capital Adequacy - 2017

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	6,471		732	102
Authorised Persons and Banks	134,520		26,904	3,767
Corporates	19,549		126,560	17,718
Retail				
Investments	235,899		251,611	35,226
Securitisation				
Margin Financing	716,057		1,074,086	150,372
Other Assets	51,232		202,270	28,318
Total On-Balance sheet Exposures	1,163,728		1,682,163	235,503
Off-balance Sheet Exposures				
OTC/Credit Derivatives				
Repurchase agreements				
Securities borrowing/lending				
Commitments	8,000		57,120	7,997
Other off-balance sheet exposures				
Total Off-Balance sheet Exposures	8,000		57,120	7,997
Total On and Off-Balance sheet Exposures	1,171,728		1,739,283	243,500
Prohibited Exposure Risk Requirement				
Total Credit Risk Exposures	1,171,728		1,739,283	243,500

Market Risk	Long Position	Short Position	Capital Requirement SAR '000
Interest rate risks			
Equity price risks			
Risks related to investment funds	6,727		1,076
Securitisation/resecuritisation positions			
Excess exposure risks			
Settlement risks and counterparty risks			
Foreign exchange rate risks	91,797	(4,506)	1,888
Commodities risks.			
Total Market Risk Exposures	98,524	(4,506)	2,964
Operational Risk			63,744
Minimum Capital Requirements			310,209
Surplus/(Deficit) in capital			462,707
Total Capital ratio (time)			2.49

App II: Disclosure on Capital Adequacy - 2016

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	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

App III: Disclosure on Credit Risk's Risk Weight - 2017

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%	2,813									25		2,838	-
20%	3,658		134,520		169			1,233				139,580	27,916
50%					1,669			123,277				124,946	62,473
100%					125			35,391				35,516	35,516
150%				716,057				68,847				784,904	1,177,356
200%													
300%										39,456		39,456	118,368
400%													
500%													
714% (include prohibited exposure)					17,586		4,330	7,152		7,421	8,000	44,489	317,654
Average Risk Weight													148%
Deduction from Capital Base													243,500

App III: Disclosure on Credit Risk's Risk Weight - 2016

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%	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

App IV: Disclosure on Credit Risk's Rated Exposure - 2017

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		2,813	3,658					
Authorised Persons and Banks			134,520					
Corporates		168.75	1,669	125				17,586
Retail								
Investments		1,233	123,277	35,391				75,998
Securitisation								
Margin Financing								716,057
Other Assets								51,232
Total		4,214	263,124	35,516				860,874

App IV: 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

*Short term rating of counterparties is not applicable

App V: Disclosure on Credit Risk Mitigation (CRM) - 2017

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	6,471					6,471
Authorised Persons and Banks	134,520					134,520
Corporates	19,549					19,549
Retail						-
Investments	235,899					235,899
Securitisation						-
Margin Financing	716,057		(716,057)			-
Other Assets	51,232					51,232
Total On-Balance sheet Exposures	1,163,728		(716,057)			447,671
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	8,000					
*Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	8,000	-	-	-	-	-
Total On and Off-Balance sheet Exposures	1,171,728	-	(716,057)	-	-	447,671

App V: Disclosure on Credit Risk Mitigation (CRM) - 2016

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	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

SAR'000

App VI - Contractual Maturity Breakdown as at 31 Dec 2017

Portfolio	0 - 30 Days	30 - 90 Days	90-180 days	180-365 days	No maturity	Total
Cash and Cash Equivalents	16,875				98,565	115,440
Investments					242,624	242,624
Trade Receivables			49,454	716,057		765,511
Advances, Prepayments and others			31,019	4,754	1,642	37,415
Property and equipment					9,464	9,464
Total	16,875	-	80,473	-	352,295	1,170,454

SAR'000

App VI - Contractual Maturity Breakdown as at 31 Dec 2016

Portfolio	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 equipment					5,121	5,121
Total	200,462	116,727	32,190	79	678,222	1,027,680

Glossary of Terms

Acronym	Definition	Acronym	Definition
AML	Anti –Money Laundering	**HSBC**	HSBC Group Plc
APR	Authorised Persons Regulation	**HSBC SA**	HSBC Saudi Arabia
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	**AOP**	Annual operation 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