Samba Financial Group
Basel III - Pillar 3 Disclosure Report

December 2016

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Qualitative Disclosure

The list of disclosures not applicable to Samba Financial Group and hence not provided is given in the Appendix to this document.

1. Executive summary

This Basel III - Pillar 3 Report for Samba Financial Group ("SFG", "Samba" or "the bank") has been prepared in accordance with the public / market disclosure requirements and guidelines in respect of Pillar 3 of Basel III, as prescribed by the Saudi Arabian Monetary Authority (SAMA)[1] and other clarifications received from time to time.

The purpose of this report is to inform market participants of the key components, scope and effectiveness of Samba's risk measurement processes, risk profile and capital adequacy. This is accomplished by providing consistent and understandable disclosure of Samba's risk profile in a manner that enhances comparability with other institutions.

Samba Financial Group has been compliant with Basel requirements since 1st January 2008; and since then Samba has been publishing Pillar 3 Reports on bi-annual basis as of June and December each year as well as quarterly disclosures as of March and September as part of the Financial Statements.

Samba has adopted the Standardized Approach for Credit Risk, the Standardized Approach for Market Risk and the Standardized Approach for determining the capital requirements for Operational Risk. These approaches are discussed in detail in the following pages of this report.

This Pillar 3 Report provides details on Samba Financial Group's consolidated risk profile by risk asset class, which form the basis for the calculation of our capital requirement.

In accordance with the minimum capital requirement calculation methodology as prescribed under Basel III, Samba Financial Group's capital adequacy as at 31st December 2016 and a comparison thereof with the figures as of 30th June 2016 and 31st December 2015 is as follows:

	Dec 2016	Jun 2016	Dec 2015
Total Capital Adequacy Ratio	**22.5%**	**20.0%**	**20.1%**
Tier 1 Capital Adequacy Ratio	**21.8%**	**19.4%**	**19.5%**

As of 31st December 2016, Samba Financial Group's total Risk Weighted Assets (RWAs) amounted to SAR 196,082,355,000 which comprised of 87.5% Credit Risk; 5.8% Market Risk and 6.7% Operational Risk.

[1] Per SAMA circular 361000126572 'SAMA's Draft Implementation Framework for Banks Comments concerning Basel Committee on Banking Supervision (BCBS) Standards of January 2015 regarding Revised Pillar 3 Disclosure Requirements' dated June 2015

2. Introduction

Samba Financial Group is a Saudi Joint Stock company which has been in business in the Kingdom of Saudi Arabia since 1980 (more detailed information is available in the published Annual Financial Statements) and is listed on the Saudi Stock Exchange (Tadawul) under symbol 1090. As a commercial bank registered in the Kingdom of Saudi Arabia, Samba falls under the regulatory supervision of the Saudi Arabian Monetary Authority (SAMA).

Samba provides commercial banking services such as loans, trade finance, consumer finance, credit cards and treasury products to all customer segments including retail (individuals), corporates and government and semi-government institutions. Samba also provides a broad range of Shariah compliant banking products approved by Samba's Shariah Board, an independent body of Shariah Scholars.

Samba operates in overseas markets through branches in London, Dubai and Qatar.

Samba also owns an 84.51% stake in Samba Bank Limited incorporated in Pakistan. Samba Bank Limited is a banking company engaged in commercial banking and related services and is listed on the Pakistan Stock Exchange.

Information disclosed in this report is at the highest consolidated level i.e. Samba Financial Group including all branches and subsidiaries as at 31st December 2016.

The information provided in this document is not required to be subjected to external audit; however, reconciliation with the financial accounts has been performed.

2.1. Group structure

The group comprises of Samba Financial Group and the following significant entities.

Samba Bank Ltd: An 84.51% owned subsidiary incorporated as a banking company in Pakistan and engaged in commercial banking and related services. This entity is listed on the Pakistan Stock Exchange.

Samba Real Estate Company: A wholly owned subsidiary incorporated in Saudi Arabia under commercial registration number 1010234757 issued in Riyadh dated 9th Jumada II, 1428H (24th June 2007). The company has been formed as limited liability company with the approval of SAMA and is engaged in managing real estate projects on behalf of Samba Real Estate Fund and Samba Financial Group.

Samba Capital and Investment Management Company: A wholly owned subsidiary incorporated in Saudi Arabia under commercial registration number 1010237159. It was formed in accordance with the Securities Business Regulations issued by the Capital Market Authority (CMA), requiring banks in Saudi Arabia to transfer their dealing, arranging, managing, advising and custody businesses into a separate legal entity licensed with CMA. This is referred to as Samba Capital.

Co-Invest Offshore Capital Limited: A wholly owned company incorporated under the laws of Cayman Islands for the purpose of managing certain overseas investments.

Samba Global Markets Limited: A wholly owned company incorporated as limited liability company under the laws of Cayman Islands on February 1, 2016 with the objective of managing certain treasury related transactions. The company started its commercial operations during the fourth quarter of 2016.

The aggregation consolidation method is applied to subsidiaries reporting in other regulatory jurisdictions. To this end Samba Bank Limited calculates its Risk Weighted Assets according to the regulations defined by the State Bank of Pakistan.

2.2. Basel III components

In December 2012, SAMA issued a circular[2] requiring banks operating in the Kingdom of Saudi Arabia to report their capital adequacy requirements according to the Basel III guidelines. Basel III is an international initiative (adopted by SAMA) with a view to ensure adequate capitalization of banks on a

[2] SAMA Circular 15689 dated December 2012, titled 'SAMA's Final Guidance Document Concerning Implementation of Capital Reforms under Basel III Framework'

more robust risk-sensitive basis providing a framework for assessment of risk and calculation of regulatory capital requirement, i.e. the minimum capital that an institution must hold, given its risk profile. Basel III framework is intended to strengthen risk management practices and processes within financial institutions.

SAMA's Basel framework describe the following three pillars which are designed to be mutually re-enforcing and are meant to ensure an adequate capital base which corresponds to the overall risk profile of the bank:

- Pillar 1: Calculation of capital adequacy ratio based on charge for credit, market and operational risks stemming from business operations.
- Pillar 2: Supervisory review process which includes:
    - Internal Capital Adequacy Assessment Process (ICAAP) to assess incremental risk types not covered under Pillar 1;
    - Quantification of capital required for these identified risks;
    - The assurance that the bank has sufficient capital cushion (generated from internal / external sources) to cover these risks over and above the regulatory requirement under Pillar 1.
- Pillar 3: Market discipline through public disclosures that are designed to provide transparent information on capital structure, risk exposures, risk mitigation and the risk assessment process.

This report represents Samba's market disclosure, under the Pillar 3 requirements, of its risk profile and capital adequacy as at the end of 31st December 2016.

2.2.1. Pillar 1 - Minimum capital requirements

Basel III, as adopted and implemented by SAMA, covers the minimum regulatory capital requirement for banks for credit, market and operational risks stemming from its business operations. It also sets out the basis for consolidation of entities for capital adequacy reporting requirements, the definition and calculations of Risk Weighted Assets (RWAs) and the various options given to banks to calculate these Risk Weighted Assets.

The regulatory capital requirements are calculated according to the following formula (expressed as a percentage):

$$\text{Minimum Capital Requirements} = \frac{\text{Capital Base}}{\text{RWA}}$$

where the Minimum Capital Requirements are to be ≥ 8%

With effect from January 1, 2016, SAMA introduced additional minimum capital requirements in the form of a 0.625% Capital Conservation Buffer and a 1% Domestic Systemically Important Bank (D-SIB) requirement. This translates into an effective minimum total capital requirement of 9.625% for 2016.

The table below describes the approaches available for calculating the RWAs for each of the aforementioned risk types:

Credit Risk	Market Risk	Operational Risk
Standardized Approach	Standardized Approach	Basic Indicator Approach
Foundation - Internal Ratings Based Approach (F-IRB)	Internal Models Approach	Standardized Approach
Advanced - Internal Ratings Based Approach (A-IRB)		Advanced Measurement Approach (AMA)

2.2.2. Pillar 2 - Supervisory review process

The Supervisory Review Process (SRP) under Pillar 2 requires banks to employ an Internal Capital Adequacy Assessment Process (ICAAP) aimed at: a) quantifying bank's own internal assessment of the level of capital that it deems appropriate to adequately cover all material risks that it is exposed to; and b) instituting a comprehensive process for business and capital planning to ensure that adequate capital is always available to cover its risk exposures. Banks are also required to identify sources for raising additional capital in case of need and to provide documented plans thereof. As part of this process banks are required to ascertain whether credit, market and operational risk capital charges calculated under Pillar 1 are adequate to cover bank's internal assessment of these risks or not. Furthermore, banks are expected to ascertain additional capital requirements (over and above the Pillar 1 requirements, if any) for credit, market and operational and the Pillar 2 risks that the banks are exposed to (examples of some risks identified in this respect are interest rate risk in the banking book, strategic risk, legal risk, concentration risk, etc.). The ICAAP has to be designed to ensure that banks have sufficient capital cushion to meet regulatory and internal capital requirements during periods of systemic / cyclical economic downturns or during times of financial distress - which involves employing stress testing and scenario analysis techniques.

In compliance with the regulatory requirements, Samba has submitted its detailed ICAAP Plan for the period 2017-2019 to SAMA.

2.2.3. Pillar 3 - Market discipline

Under Pillar 3, SAMA prescribes the qualitative and quantitative disclosures which are required to be made to external stakeholders of the bank. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite, risk exposures and risk profile. It encourages the move towards more advanced forms of risk management.

A reporting calendar has also been provided by SAMA to indicate which disclosures are required at the defined intervals.

3. Overview of risk management and Risk Weighted Assets

3.1. OVA - Bank Risk Management Approach

Samba is exposed to a broad range of risks in the normal course of its business. The bank's risk and capital assessment policies are designed to identify and quantify these risks, set appropriate limits in line with defined risk appetite, ensuring control and monitoring adherence to the limits. The principal risks associated with Samba's business are credit risk, including cross-border and concentration risks, market risk, liquidity risk, operational risk and reputation / franchise risk.

The Executive Committee of the Samba Board formulates high level strategies and policies, approves specific transactions or programs that may pose material risks to the institution and monitors the bank's risk profile on an ongoing basis. This Committee has been appointed and empowered by the Samba Board of Directors.

The Risk Committee of the Board is chaired by a non-executive director and is comprised of a further two directors. Its main function is to assist the Board in overseeing the credit and other risk management processes, including the overall internal control framework and IT/IS related risks. The Committee is apprised on a regular basis of the bank's performance against Board approved limits covering credit quality, concentration, ratings migrations, risk weighted assets (credit, market and operational risks) and liquidity (LCR and NSFR). Updates are also provided on the activities of the senior management risk committees including the Credit Risk Policy Committee, Group Risk and Compliance Committee and Information Security Committee and any significant new regulatory changes are communicated to members during these meetings.

The process of risk management is supported by a set of independent control functions reporting to the Chief Risk Officer. Individual credit transactions are approved jointly by selected Credit Officers including both Business and independent Risk Management representatives. The Credit Risk Control department reviews approval levels and documentation prior to allowing the availment of facilities. Market Risk Management department reviews limits and provides independent reports about the bank's market risk exposures and liquidity positions, including measurement against stressed events. The Group Risk and Capital Strategy department manages the process of risk appetite definition, portfolio targets, risk measurement and overall limit setting.

In addition to the aforementioned Board committees, the risk governance structure includes the following management committees:

- Asset Liabilities Committee (ALCO), chaired by the CEO, is responsible for the monitoring and management of liquidity, the balance sheet and market risk resulting from the accrual portfolio.
- Market Risk Policy Committee (MRPC) is the management body within Samba for market and liquidity risk issues, including establishing and updating policies and guidelines, reviewing and approving market risk limits and exceptions.
- Credit Risk Policy Committee (CRPC) has Samba-wide responsibility for maintaining sound and effective credit risk management architecture and process.
- Capital Management Committee (CMC) examines components of the capital plan and proposes the internal capital adequacy targets for approval by the Executive Committee.
- Group Risk and Compliance Committee (GRCC) has the primary responsibility for ensuring that the operational and information security risks are adequately managed.
- The Information Security Committee (ISC) is an advisory business committee for all matters related to information security. It facilitates the implementation of all information security changes across Samba and reviews the related policies and procedures as part of the overall approval process. In addition the ISC is the business committee that hosts discussions on information security incidents, compliance and risk related matters related to information security and is responsible for updating the Group Risk and Compliance Committee on these matters.

Samba Audit Risk Review (ARR) reports functionally to the Audit Committee of the Samba Board and has responsibility for:

- Providing independent evaluation of Samba's risk portfolio and processes.
- Assessing the adequacy of Bank's policies, practices and procedures for risk management.

- Documenting its findings in action-oriented reports for the relevant Board / Management Committees and Senior Management.

In line with international best practices, SAMA and BIS guidelines, Samba has a comprehensive stress testing framework in place, which is governed by the Enterprise-wide Stress Testing Policy. The Enterprise-wide Stress Testing Policy defines Samba's stress testing principles, the process to be followed for conducting meaningful stress testing exercises, senior management actions required on the basis of the results of stress testing exercises, reporting and documentation requirements for the stress tests and the roles and responsibilities of all the stakeholders involved in the stress testing exercises. The policy also sets such parameters as coverage, frequency, scenario specification, etc. for the individual stress testing exercises.

Regular stress testing exercises are performed to assess Samba's resilience to exceptional but plausible stress scenarios, these exercises cover the most material risks faced by the bank. Regulatory stress testing defined under SAMA rules is conducted on a semi-annual basis, while annual stress testing is performed under Pillar 2 - ICAAP.

Monthly reporting is provided to senior management through a comprehensive suite of portfolio reports and quarterly reporting packs by business unit are prepared and circulated to senior management for review. The results of regulatory and ad hoc stress testing and rapid portfolio reviews are also presented and discussed in the senior management committee meetings.

Undertaking risk is a part of banking business; however, the quantum of risk must be contained within caps approved by the Board of Directors. Limits are set overall for credit risk by segments of correlated risks and industries as well as at customer level. There is a strong documentation and approval process in place that sets the approval level at comparatively higher levels of authority with the increase in magnitude of risk undertaken. For market risk, limits are set inter-alia for total positions, factor sensitivities and VaR. Adherence to limits is monitored continuously by the Market Risk Management department. Operational risk is managed through robust policies and procedures, monitoring of Key Risk Indicators (KRIs) and analysis of all operational risk events which includes the identification of root causes and recommendations for policy / process upgrades accordingly.

3.2. OV1 - Overview of Risk Weighted Assets

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B.2 - Template OV1: Overview of RWA				
		Risk Weighted Assets (RWA)		**Minimum capital requirements**
		Dec 2016	**Sep 2016**	**Dec 2016**
1	Credit risk (excluding counterparty credit risk) (CCR)	162,552,475	167,164,764	13,004,198
2	Of which standardised approach (SA)	162,552,475	167,164,764	13,004,198
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	9,082,002	10,444,792	726,560
5	Of which standardised approach for counterparty credit risk (SA-CCR)	9,082,002	10,444,792	726,560
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-		-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	11,325,363	10,149,800	906,029
17	Of which standardised approach (SA)	11,325,363	10,149,800	906,029
18	Of which internal model approaches (IMM)	-		-
19	Operational risk	13,122,515	13,122,515	1,049,801
20	Of which Basic Indicator Approach	-	-	-
21	Of which Standardised Approach	13,122,515	13,122,515	1,049,801
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% risk wei	-	-	-
24	Floor adjustment	-	-	-
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24)**	**196,082,355**	**200,881,871**	**15,686,588**

* Please note that the standardized approach for counterparty credit risk (SA-CCR) has been adopted effective January 1, 2017; as of December 31, 2016, the reported figures are based on the Current Exposure Method

B.2 - Template OV1: Overview of RWA is a quarterly disclosure; hence, for December 2016 comparative figures for the last quarter, i.e. September 2016, have been included.

4. Linkages between financial statements and regulatory exposures

4.1. LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories

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B.3 - Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with central banks	37,344,514	37,344,514	37,344,514	-	-	-	-
Due from banks and other financial instituti	9,599,656	9,599,656	9,599,656	-	-	-	-
Investments, net	51,392,810	51,392,810	45,845,033	-	-	5,547,777	-
Derivatives	4,442,059	4,442,059	-	4,442,059	-	-	-
Loans and advances, net	125,234,330	125,234,330	125,234,330	-	-	-	-
Property and equipment, net	2,510,180	2,510,180	2,510,180	-	-	-	-
Other assets	965,038	965,038	942,434	-	-	-	22,604
Total assets	**231,488,587**	**231,488,587**	**221,476,147**	**4,442,059**	**-**	**5,547,777**	**22,604**
Liabilities							
Due to banks and other financial institution	10,880,778	-	-	-	-	-	10,880,778
Customer deposits	172,075,716	-	-	-	-	-	172,075,716
Derivatives	1,485,629	-	-	-	-	-	1,485,629
Other liabilities	4,265,449	-	-	-	-	-	4,265,449
Total liabilities	**188,707,572**	**-**	**-**	**-**	**-**	**-**	**188,707,572**

Investments in the banking book attract credit risk capital charge while investments in the trading book attract market risk capital charge.

4.2. LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

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B.4 - Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI	231,488,587	221,476,147	0	4,442,059	5,547,777
2	Liabilities carrying value amount under regulatory scope of consolidation (as per templa	0	0	0	0	0
3	Total net amount under regulatory scope of consolidation	231,488,587	221,476,147	0	4,442,059	5,547,777
4	Off-balance sheet amounts	243,665,542	26,934,326	0	0	216,731,216
5	Potential future exposure	1,140,026	0	0	1,140,026	0
6	Differences due to different netting rules, other than those already included in row 2	0	0	0	0	0
7	Differences due to consideration of provisions	1,220,290	1,220,290	0	0	0
8	Differences due to prudential filters	0	0	0	0	0
9	Credit risk mitigation (On-balance sheet only)	-295,114	-295,114	0	0	0
10	**Exposure amounts considered for regulatory purposes**	**477,219,331**	**249,335,649**	**0**	**5,582,085**	**222,278,993**

The off-balance sheet amount under Credit risk framework is net of credit risk mitigation. The off-balance sheet amount under Market risk framework represents the notional amount of Derivatives.

4.3. LIA - Explanations of differences between accounting and regulatory exposure amounts

Financial statements carrying values and those under the scope of regulatory consolidation for the purposes of calculation of capital adequacy are the same.

For credit risk capital charge, the only differences between financial statements carrying values and those used for calculation of credit risk weighted assets are Off-balance sheet amounts (Letters of Credit and Guarantees issued by the bank on behalf of its customers, Acceptances and Credit related Commitments), Portfolio Loan Loss Reserves and Credit Risk Mitigation.

For counterparty credit risk capital charge, the only differences between financial statements carrying values and those used for calculation of counterparty credit risk weighted assets are the Potential future exposure add-on and Credit Risk Mitigation.

For market risk capital charge, the only difference between financial statements carrying values and those used for calculation of market risk weighted assets is the Off-balance sheet amount (Derivatives).

5. Credit risk

5.1. CRA - General information about credit risk

Samba Financial Group uses the Standardized Approach for credit risk at the consolidated level for regulatory reporting purposes. Under this approach, exposures are assigned to portfolio segments based on the type of counterparty and/or the nature of the underlying exposure. This approach allows the use of external ratings, where available, from accredited ratings agencies for the determination of appropriate risk weights, and also includes a wider range of eligible financial collaterals. The RWAs are then calculated according to the following formula:

RWA = ∑ Credit Equivalent Amount[3] for all asset classes x Regulatory Defined Risk Weight[4]

The major asset classes as defined by the Basel guidelines adopted by SAMA are sovereigns, public sector entities, multilateral development banks, banks, corporates, retail, securitized assets and VIP/HNI (high net-worth individuals). Each segment has a defined risk weight ranging from 0% to 150% depending on tenor, type of exposure, asset class, whether the counterparty has an external rating and whether the exposure is past due.

The Board is regularly updated by the Board Risk Committee on the following key areas of credit risk:

a) Performance against Board approved limits for risk weighted assets, capital adequacy and loans to deposit ratios.
b) An annual update is provided on the risk ratings migrations that have occurred in the lending portfolio.
c) The credit concentrations by industry, name, product (direct/contingent), geography and tenor are also provided.
d) Portfolio quality is measured based on the distribution of the lending book by risk rating and the coverage of non-performing loans by loan loss reserves.
e) Analysis of exposure by business segment is provided with comparatives for prior periods.

At SFG, the defined and approved risk appetite results in caps for each segment and the resulting Risk Weighted Assets composition between the retail and corporate segments flow from this strategy.

5.2. CR1 - Credit quality of assets

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B.7 - Template CR1: Credit quality of assets

		Gross carrying values of		Allowances/ impairments	Net values
		Defaulted exposures (a)	Non-defaulted exposures (b)	(c)	(a+b+c)
1	Loans	1,216,041	125,889,964	1,871,675	125,234,330
2	Debt Securities	-	45,787,989	-	45,787,989
3	Off-balance sheet exposures	-	46,775,328	-	46,775,328
4	**Total**	**1,216,041**	**218,453,281**	**1,871,675**	**217,797,647**

"Default" is broadly defined as either non-payment of a material financial obligation persisting for 90 days or occurrence of events that would lead the bank to consider that the Obligor is unlikely to service its credit obligations to the bank.

[3] Credit equivalent amount is determined as gross exposure less specific provisions less eligible credit risk mitigants. A credit conversion factor (CCF) or add-on percentage is then applied to off-balance sheet and derivative exposures respectively

[4] The regulatory defined risk weight is determined by the counterparty asset class and the external rating of the counterparty, where applicable

An assessment is made at each period end date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

Exposures past-due more than 90-days but not considered impaired for accounting purposes are disclosed in the quantitative disclosures of this section. For capital adequacy calculation purposes, all exposure past-due more than 90-days are considered Defaulted and are treated accordingly.

An exposure to a counterparty is deemed restructured when the counterparty is experiencing difficulty in meeting its financial commitments and the bank grants a material concession (e.g. tenor, interest rate, payment structure, etc.) that it would not otherwise consider under normal circumstances.

5.3. CR2 - Changes in stock of defaulted loans and debt securities

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B.8 - Template CR2: Changes in stock of defaulted loans and debt securities		
1	**Defaulted loans and debt securities at end of the previous reporting period - Jun 2016**	**1,359,778**
2	Add: Loans and debt securities that have defaulted since the last reporting period	56,620
3	Less: Returned to non-defaulted status	0
4	Less: Amounts written off	(203,739)
5	Add/Less: Other changes	3,382
6	**Defaulted loans and debt securities at end of the reporting period - Dec 2016**	**1,623,519**

5.4. CRB - Additional disclosure related to the credit quality of assets

Samba has a diversified credit portfolio, which is divided into the following asset classes as defined by SAMA[5]:

Sovereigns and Central Banks

Exposures to sovereigns and central banks carry a risk weight ranging between zero and 100 percent, depending on whether or not there is a valid external rating assigned by a recognised ECAI.

The average risk weight for this portfolio is 0.3%.

Public Sector Enterprises

SAMA has prescribed that exposures falling into this portfolio are to be treated according to Option 2 of the Basel II Accord, i.e. the risk weight is determined on the basis of whether or not there is a valid external rating assigned by a recognised ECAI.

The average risk weight for this portfolio is 50.0%.

[5] Per paragraph 4.1 of 'Basel II - SAMA's Detailed Guidance Document Consultative Draft No.2' issued 6th June 2006

Multilateral Development Banks

SAMA has prescribed zero percent risk weight for those Multilateral Development Banks that meet the qualifying criteria under Basel II. For other MDBs, the treatment is the same as Banks Option 2, i.e. the risk weight is determined on the basis of whether or not there is a valid external rating assigned by a recognised ECAI.

The average risk weight for this portfolio is 0%.

Banks and Securities Firms

SAMA has prescribed that exposures falling into this portfolio are to be treated according to Option 2 of the Basel II Accord, i.e. the risk weight is determined on the basis of whether or not there is a valid external rating assigned by a recognised ECAI. A preferential risk weight is assigned to short term exposures, defined as those exposures with a tenor of less than three months.

The average risk weight for this portfolio is 42.3%.

Corporates

This portfolio is assigned a risk weight based on the external rating of the counterparty, wherever available, with whom the exposure is held. Due to the fact that the majority of corporates in Saudi Arabia are not rated by ECAIs, a regulatory risk weight of 100% is applied to a large portion of this portfolio.

The average risk weight for this portfolio is 99.9%.

Retail Non-Mortgages

This portfolio consists of loans to individuals, leases, credit cards and other consumer loans. SAMA requires that exposures not meeting certain granularity criteria be assigned a 100% risk weight, whereas the balance of the exposure under this asset class is assigned a flat 75% risk weight.

Mortgages - Residential and Commercial

SAMA has prescribed a risk weight of 100% for this asset class.

Past Due Loans

Past due loans have been classified according to the regulatory definition, i.e. 90 days and above. These net exposures carry risk weights of either 100% or 150% depending on the level of specific provisions held thereagainst.

A specific provision (for accounting treatment of impairment in assets) is made for past due facilities in respect of individually assessed loans or claims. Samba calculates the specific provision according to the guidelines contained in IAS 39. These are calculated at counterparty level and the bank considers all the facilities for a counterparty to be defaulted if any one of the facilities of the counterparty is past due more than 90 days. The specific provisions are based on an assessment of impairment in realizable value of asset first at facility level and then aggregated at counterparty level.

The average risk weight for this portfolio is 137.9%.

Others

The standard risk weight for all other assets is prescribed at 100%. These typically include fixed assets, prepayments and sundry debtors. Cash and cash equivalents are assigned a risk weight of 0%.

The average risk weight for this portfolio is 96.9%.

5.4.1. Breakdown of exposures by geographical area

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Breakdown of Exposures by Geographic Area							
	Exposures (post-CCF and CRM) by Geographic Area						
	Saudi Arabia	**Other GCC**	**Europe**	**North America**	**South East Asia**	**Other Countries**	**Total**
On-balance sheet, of which	**188,958,044**	**13,713,026**	**6,657,750**	**10,506,928**	**73,734**	**2,491,840**	**222,401,324**
Sovereigns and their central banks	59,460,093	1,240,446	22,597	5,663,950	-	328,562	66,715,648
Non-central government public sector entities	3,629,974	2,086,202	-	-	-	153,773	5,869,949
Multilateral development banks	375,879	-	1,294,232	-	-	-	1,670,111
Banks	6,031,745	4,167,437	4,619,164	2,794,345	20,287	633,152	18,266,129
Securities firms	-	-	-	-	-	-	-
Corporates	86,316,251	5,775,552	719,436	2,048,633	53,448	1,083,650	95,996,970
Regulatory retail portfolios	14,501,556	342,811	-	-	-	7,849	14,852,216
Secured by residential property	5,050,516	-	-	-	-	15,462	5,065,978
Secured by commercial real estate	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Past-due loans	544,375	10,226	-	-	-	10,055	564,656
Higher-risk categories	-	-	-	-	-	-	-
Other assets	13,047,656	90,352	2,322	-	-	259,337	13,399,667
Off-balance sheet	**20,939,134**	**2,853,474**	**912,302**	**388,099**	**1,127,883**	**713,434**	**26,934,326**
Derivatives	**2,253,848**	**154,652**	**2,760,046**	**403,716**	**-**	**9,823**	**5,582,085**

5.4.2. Breakdown of exposure by residual maturity

SAR 000s

Breakdown of Exposures by Residual Maturity						
	Exposures (post-CCF and CRM) by Residual Maturity					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**No Fixed Maturity**	**Total**
On-balance sheet, of which	**52,632,636**	**23,310,641**	**47,467,123**	**75,466,382**	**23,524,542**	**222,401,324**
Sovereigns and their central banks	24,574,183	59,069	6,995,003	25,527,174	9,560,219	66,715,648
Non-central government public sector entities	-	-	4,156	5,865,792	-	5,869,949
Multilateral development banks	-	-	747,660	922,451	-	1,670,111
Banks	2,831,619	1,792,130	3,409,537	10,232,844	-	18,266,129
Securities firms	-	-	-	-	-	-
Corporates	22,788,827	17,756,948	24,984,801	30,466,394	-	95,996,970
Regulatory retail portfolios	2,288,237	3,259,326	9,190,088	114,565	-	14,852,216
Secured by residential property	149,770	443,168	2,135,878	2,337,161	-	5,065,978
Secured by commercial real estate	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Past-due loans	-	-	-	-	564,656	564,656
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	13,399,667	13,399,667
Off-balance sheet	**7,409,472**	**12,875,155**	**6,593,571**	**56,127**	**-**	**26,934,326**
Derivatives		**4,473,288**	**1,073,507**	**35,290**	**-**	**5,582,085**

The maturity profiles of credit exposures have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

5.4.3. Breakdown of exposure by industry

SAR 000s

Breakdown of Exposures by Industry	Exposures (post-CCF and CRM) by Industry												
	Govt and Quasi Govt	Banks and Other Financial Institutions	Agriculture and Fishing	Manufacturing	Mining and Quarrying	Electricity, Water, Gas and Health Services	Building and Construction	Commerce	Transportation and Communication	Services	Consumer Loans and Credit Cards	Others	Total
On-balance sheet, of which	**66,715,648**	**19,936,240**	**5,002,097**	**19,107,637**	**1,894,938**	**11,528,210**	**16,684,977**	**24,069,318**	**11,463,722**	**3,298,399**	**20,068,697**	**22,631,441**	**222,401,324**
Sovereigns and their central banks	66,715,648	-	-	-	-	-	-	-	-	-	-	-	66,715,648
Non-central government public sector entities	-	-	-	-	1,894,938	1,366,507	-	-	2,263,657	-	-	344,847	5,869,949
Multilateral development banks	-	1,670,111	-	-	-	-	-	-	-	-	-	-	1,670,111
Banks	-	18,266,129	-	-	-	-	-	-	-	-	-	-	18,266,129
Securities firms	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	5,002,097	19,070,299	-	10,161,703	16,420,580	23,956,900	9,200,065	3,298,399	-	8,886,927	95,996,970
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-	14,852,216	-	14,852,216
Secured by residential property	-	-	-	-	-	-	-	-	-	-	5,065,978	-	5,065,978
Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	0	37,338	-	-	264,397	112,418	-	-	150,503	-	564,656
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	13,399,667	13,399,667
Off-balance sheet	**877**	**2,546,746**	**186,754**	**2,737,475**	**481,222**	**530,438**	**12,180,430**	**2,140,392**	**1,721,468**	**801,964**	**-**	**3,606,560**	**26,934,326**
Derivatives	**53,685**	**1,278,944**	**59,614**	**-**	**10,358**	**901,596**	**135,249**	**316,347**	**115,210**	**13,749**	**-**	**2,697,333**	**5,582,085**

5.4.4. Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry

SAR 000s

Breakdown of Exposures by Industry

Industry Sector	Impaired loans	Past due > 90 days, not impaired	Defaulted	Specific and portfolio allowances
Government and quasi government	-	-	-	-
Banks and financial institutions	-	-	-	22,422
Agriculture and fishing	318	-	318	13,733
Manufacturing	102,842	-	102,842	288,997
Mining and quarrying	-	-	-	6,874
Electricity, water, gas and health services	21,172	-	21,172	47,187
Building and construction	734,208	-	734,208	769,644
Commerce	175,890	-	175,890	187,153
Transportation and communication	1,402	-	1,402	55,743
Services	2,481	-	2,481	45,786
Consumer loans and credit cards	14,565	139,850	154,415	268,365
Others	23,313	-	23,313	165,773
Total	**1,076,191**	**139,850**	**1,216,041**	**1,871,675**

SAR 000s

Breakdown of Exposures by Geographic Area

Geographic area	Impaired loans	Specific and portfolio allowances
Saudi Arabia	991,605	1,761,998
Other GCC and Middle East	-	30,989
Europe	-	-
Other Countries	84,586	78,688
Total	**1,076,191**	**1,871,675**

5.4.5. Ageing analysis of accounting past-due exposures

SAR 000s

Age analysis of accounting past-due loans				
Industry Sector	**Ageing of Past Due Loans**			
	Less than 90 days	**90-180 days**	**180-360 days**	**Over 360 days**
Government and quasi government	-	-	-	-
Banks and financial institutions	3,933	-	-	-
Agriculture and fishing	1,540	-	-	318
Manufacturing	5,434	46,952	10,348	45,542
Mining and quarrying	-	-	-	-
Electricity, water, gas and health services	101	-	-	21,172
Building and construction	389,975	65,608	26,719	641,881
Commerce	156,402	5,160	24,502	146,228
Transportation and communication	2,882	-	-	1,402
Services	130,977	-	-	2,481
Consumer loans and credit cards	869,797	34,670	96,501	23,244
Others	342,070	7,946	-	15,367
Total	**1,903,110**	**160,336**	**158,070**	**897,635**

5.4.6. Breakdown of restructured exposures between impaired and not impaired

SAR 000s

Breakdown of restructured exposures			
	Impaired	**Not impaired**	**Total**
Restructured exposures	84,470	3,663,451	3,747,921

5.5. CRC - Qualitative disclosure requirements related to credit risk mitigation techniques

In terms of the regulatory guidelines, not all forms of collateral currently used by Samba are recognized for the purposes of calculation of credit risk capital requirement. These ineligible collaterals include inter alia, real estate, corporate and personal guarantees and equity shares.

The bank uses the comprehensive method for the treatment of financial collaterals which requires a standard supervisory haircut to be applied to the acceptable collateral to account for currency and maturity mismatches between the underlying exposure and the collateral applied.

Eligible financial collaterals under the Standardized Approach include:

a) Cash (as well as certificates of deposit or comparable instruments issued by the lending bank),
b) Bank Guarantees,
c) Gold, and
d) Debt securities.

SFG only nets positive and negative contracts from professional counterparties in jurisdictions that allow netting and are supported by CSA's (Credit Support Annex) under ISDA (International Swaps and Derivatives Association); other exposures are reported gross.

Real estate collaterals are evaluated (for our internal risk management purposes) by at-least two independent appraisers with the lowest value taken into consideration. For marketable securities an evaluation is conducted on a daily basis per the reported closing prices. An independent Credit

Control Division compares the actual market value with pre-agreed values with clients and reports discrepancies to the management.

Cash is the only form of collateral accepted for Treasury ISDA agreements.

5.6. CR3 - Credit risk mitigation techniques - overview

SAR 000s

B.11 - Template CR3: Credit risk mitigation techniques – overview

		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	120,012,168	5,222,162	295,114	-	-	-	-
2	Debt securities	45,787,989	-	-	-	-	-	-
3	**Total**	**165,800,157**	**5,222,162**	**295,114**	**-**	**-**	**-**	**-**
4	Of which defaulted	1,216,041	-	-	-	-	-	-

5.7. CRD - Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

In accordance with SAMA Basel II guidelines[6], Samba uses Credit Ratings assigned by Moody's and Standard and Poor's (S&P) for determining the risk weights of Sovereigns, Public Sector Entities, Multilateral Development Banks, Banks and Securities Firms and Corporate exposures.

Standardised approach risk weights corresponding to the Credit Ratings assigned by these ECAIs have been prescribed by SAMA for different asset classes as follows.

Sovereigns:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

Banks and Securities Firms (SAMA has prescribed Option 2):

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	20%	50%	50%	100%	150%	50%
Risk Weight for short-term claims	20%	20%	20%	50%	150%	20%

For Multilateral Development Banks (MDBs), SAMA has adopted 0% risk weight option for MDBs that meet the qualifying criteria under Basel II; for other MDBs, SAMA has adopted Banks Option 2 (mentioned above) without an preferential treatment for short-term claims.

For eligible Public Sector Entities, which have been specifically identified by SAMA, SAMA has adopted Banks Option 2 (mentioned above).

Corporates:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk Weight	20%	50%	100%	150%	100%

6 SAMA circular BCS 290 'Basel II - SAMA's Detailed Guidance Document relating to Pillar 1' issued 12 June 2006

5.8. CR4 - Standardised approach - credit risk exposure and Credit Risk Mitigation effects

SAR 000s

B.13 - Template CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

	Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	68,675,344	-	66,715,648	-	224,047	0.3%
2	Non-central government public sector	5,869,949	80	5,869,949	80	2,935,014	50.0%
3	Multilateral development banks	1,670,111	-	1,670,111	-	-	0.0%
4	Banks	18,266,129	4,295,571	18,266,129	1,916,146	8,535,745	42.3%
5	Securities firms	-	-	-	-	-	0.0%
6	Corporates	96,262,535	42,324,883	95,996,970	24,914,458	120,790,708	99.9%
7	Regulatory retail portfolios	14,852,216	-	14,852,216	-	11,139,162	75.0%
8	Secured by residential property	5,065,978	-	5,065,978	-	5,065,978	100.0%
9	Secured by commercial real estate	-	-	-	-	-	0.0%
10	Equity	-	-	-	-	-	0.0%
11	Past-due loans	564,656	-	564,656	-	778,833	137.9%
12	Higher-risk categories	-	-	-	-	-	0.0%
13	Other assets	11,469,520	154,793	13,399,667	103,642	13,082,988	96.9%
14	**Total**	**222,696,438**	**46,775,328**	**222,401,324**	**26,934,326**	**162,552,475**	**65.2%**

5.9. CR5 - Standardised approach - exposures by asset classes and risk weights

SAR 000s

B.14 - Template CR5: Standardised approach – exposures by asset class and risk weights

	Asset classes/ Risk weight*	0%	20%	50%	75%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	66,591,883	4,201	-	-	223,207	-	66,819,291
2	Non-central government public sector entities (PSEs)	-	-	5,870,029	-	-	-	5,870,029
3	Multilateral development banks (MDBs)	1,670,111	-	-	-	-	-	1,670,111
4	Banks	-	5,306,060	14,803,366	-	72,849	-	20,182,275
5	Securities firms	-	-	-	-	-	-	-
6	Corporates	-	-	241,438	-	120,669,989	-	120,911,427
7	Regulatory retail portfolios	-	-	-	14,852,216	-	-	14,852,216
8	Secured by residential property	-	-	-	-	5,065,978	-	5,065,978
9	Secured by commercial real estate	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	136,302	428,354	564,656
12	Higher-risk categories	-	-	-	-	-	-	-
13	Other assets	316,678	-	-	-	13,082,989	-	13,399,667
14	**Total**	**68,578,672**	**5,310,261**	**20,914,833**	**14,852,216**	**139,251,314**	**428,354**	**249,335,650**

6. Counterparty credit risk

6.1. CCRA - Qualitative disclosure related to counterparty credit risk

Counterparty credit risk is the likelihood that bank's counterparty in a foreign exchange, interest, commodity, equity or credit derivative contract will default prior to maturity of the contract and the bank at that time has a claim on the counterparty. Counterparty credit risk is subject to credit limits like other credit exposures and is treated accordingly. Counterparty credit risk mainly arises in the trading book.

Samba uses the current exposure method to assess the counterparty credit risk in accordance with the credit risk framework and it is measured as the positive mark-to-market value plus the notional principal amount multiplied by the regulatory defined add-on factor. The size of the add-on depends on the contract's remaining lifetime and the underlying asset.

To reduce the exposure towards single counterparties, risk mitigation techniques are widely used. In addition Samba also mitigates the exposures towards large banks and financial institutional counterparties by an increasing use of financial collateral agreements called margining agreements, whereby collateral is topped-up on a regular basis - collateral is placed or received to cover the current exposure beyond certain agreed threshold on either side.

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. In order to assess the potential exposure that the bank may have to wrong way risk we regularly assess whether the bank has exposures which are likely to lead to this risk. These include:

a) Credit default swaps i.e. buying credit protection from a party whose credit-worthiness is strongly correlated with the referenced entity such as a CDS purchased from a bank who is domiciled in the referenced country.
b) Share options i.e. hedging shares or options on shares of an issuer where the credit worthiness of the counterparty is correlated with the underlying shares. This would include an assessment of equity basket option trades where the counterparty's probability of default is correlated with the price of the underlying shares.

To ensure that sufficient capital is set aside, from Q1 2017 we have adopted the new standardized approach for counterparty credit risk (SA-CCR) which has been calibrated through the multiplier applied to accommodate potential wrong-way risk in this portfolio.

6.2. CCR1 - Analysis of counterparty credit risk (CCR) exposure by approach

SAR 000s

B.22 - Template CCR1: Analysis of counterparty credit risk (CCR)[1] exposure by approach

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	CEM (for derivatives)	4,442,059	1,140,026		N/A	5,582,085	4,082,704
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	VaR for SFTs					-	-
6	**Total**						**4,082,704**

Please note that SA-CCR has been adopted effective January 1, 2017; hence, the 1.4X alpha to be used for computing regulatory EAD under SA-CCR is not applicable as of December 31, 2016 and has been marked N/A accordingly.

6.3. CCR2 - Credit valuation adjustment (CVA) capital charge

SAR 000s

B.23 - Template CCR2: Credit valuation adjustment (CVA) capital charge			
		EAD post-CRM	**RWA**
	Total portfolios subject to the Advanced CVA capital charge	-	-
1	(i) VaR component (including the 3×multiplier)		-
2	(ii) Stressed VaR component (including the 3×multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	5,582,085	4,999,298
4	**Total subject to the CVA capital charge**	**5,582,085**	**4,999,298**

6.4. CCR3 - Standardised approach of CCR exposures by regulatory portfolio and risk weights

SAR 000s

B.24 - Template CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights					
Regulatory portfolio/ Risk weight	**0%**	**20%**	**50%**	**100%**	**Total credit exposures**
Sovereigns and their central banks	51,078	-	-	-	51,078
Non-central government public sector entities	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-
Banks	-	263,848	2,148,732	-	2,412,580
Securities firms	-	17,090	298,373	-	315,463
Corporates	-	-	-	2,797,831	2,797,831
Regulatory retail portfolios	-	-	-	-	-
Other assets	-	-	-	5,132	5,132
Total	**51,078**	**280,938**	**2,447,105**	**2,802,964**	**5,582,085**

6.5. CCR5 - Composition of collateral for CCR exposure

SAR 000s

B.26 - Template CCR5: Composition of collateral for CCR exposure						
	Collateral used in derivative transactions				**Collateral used in SFTs**	
	Fair value of collateral received		**Fair value of posted collateral**		**Fair value of collateral received**	**Fair value of posted collateral**
	Segregated	**Unsegregated**	**Segregated**	**Unsegregated**		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	149,453	-	2,845,491	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**149,453**	**-**	**2,845,491**	**-**	**-**	**-**

6.6. CCR6 - Credit derivatives exposures

SAR 000s

B.27 - Template CCR6: Credit derivatives exposures		
	Protection bought	**Protection sold**
Notionals		
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	-	-
Fair values	-	-
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

7. Securitisation

SFG does not use securitization to defease any of the risks on its books.

SFG, as part of investment portfolio, has a small trading-book securitisation exposure which attracts Market risk capital charge as disclosed in the Market risk section of this document.

7.1. SEC2 - Securitisation exposures in the trading book

SAR 000s

B.32 - Template SEC2: Securitisation exposures in the trading book

		Bank acts as originator			Bank acts as sponsor			Banks acts as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	**Retail (total) – of which**	-	-	-	-	-	-	-	-	-
2	residential mortgage									
3	credit card									
4	other retail exposures									
5	re-securitisation									
6	**Wholesale (total) – of which**	-	-	-	-	-	-	**56,947**	**34,255**	**91,202**
7	loans to corporates							56,947	34,255	91,202
8	commercial mortgage									
9	lease and receivables									
10	other wholesale									
11	re-securitisation									

8. Market risk

8.1. MRA - Qualitative disclosure requirements related to market risk

Market Risk is the risk that Samba's earnings or capital, or its ability to support its business strategy, will be impacted by changes in market rates or prices related to interest rates, equity prices, credit spreads, foreign exchange rates and commodity prices.

Samba has established risk management policies and has ExCom approved limits within which exposure to market risk is monitored, measured and controlled by the Market Risk Management (MRM) division, with strategic oversight exercised by the Asset Liabilities Committee (ALCO). MRM is responsible for developing and implementing market risk policy and risk measuring / monitoring methodologies and for reviewing all new trading and investment products and product limits prior to ALCO approval. The Market Risk Policy Committee (MRPC) is the management body within Samba responsible for market and liquidity risk issues. MRM is independent of Treasury business and reports into Risk Management.

Samba classifies market risk into the following categories:

Risk Item	Description
FX Risk	Foreign Exchange Risk is the risk arising from a change in exchange rate on bank's net asset / liability / derivatives and applicable off balance-sheet positions.
Interest Rate Risk (Trading Book)	Interest Rate Risk is the risk of holding or taking positions in interest rate related instruments in the trading book and is two-fold: Specific Risk: Risk of loss caused by an adverse price movement of a debt instrument or security principally due to factors related to the issuer. General Market Risk: Risk of loss arising from adverse changes in market conditions.
Interest Rate Risk (Banking Book)	Interest Rate Risk (Banking Book) is the current or prospective risk to both the earnings and capital arising from the impact of adverse movements in interest rates on mismatches in asset-liability structure.
Equity Risk	Equity Risk is the risk of losses arising from negative changes in the fair value of the bank's equity investments due to equity market dynamics.
Options Risk	Is the implicit risk from an open option position arising from the option's sensitivity to a number of factors (Delta, Gamma and Vega risks).
Commodity Risk	Is the uncertainty of future market values and of the size of the future income arising from commodity trading positions arising from price fluctuations.

MRM monitors and manages positions that are sensitive to market risk movements for the products that are subject to the risks outlined above. Data is collated from numerous risk management systems and various risk reports are generated and provided to senior management for review. These reports cover both trading and banking bank positions and also include liquidity risks. Value at Risk and stress testing reports are prepared on a periodic basis and the results are presented to ALCO/

MRPC for review. MRM escalates all trigger hits and limit breaches to senior management in line with the various policies and a risk summary report is also presented to the ExCom of the bank.

Samba has implemented its hedging policy in line with business and IFRS requirements. Interest rate swaps, financial futures and credit default swaps are used as hedging instruments to mitigate interest rate risk (both fair value and cash flow) and credit risk. The effectiveness of these hedges is monitored on a regular basis throughout the life thereof as per the policy requirements.

8.2. MR1 - Market risk under standardised approach

SAR 000s

B.37 - Template MR1: Market risk under standardised

		RWA
	Outright products	**10,686,324**
1	Interest rate risk (general and specific)	2,599,811
2	Equity risk (general and specific)	5,694,125
3	Foreign exchange risk	2,385,688
4	Commodity risk	6,700
	Options	**547,838**
5	Simplified approach	-
6	Delta-plus method	547,838
7	Scenario approach	-
8	**Securitisation**	**91,202**
9	**Total**	**11,325,363**

9. Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events. It is evident that operational risk is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties. Management of Operational Risk requires robust internal controls coupled with quality supervision and management.

In Samba, Operational Risk Management (ORM) is an integrated function with all the underlying Operational Risk elements like Anti-Fraud, Quality Assurance, Business Continuity and Policy & Procedure forming a part of the operational risk management chain. Operational risk is embedded in each business area and risk mitigation techniques are applied to each activity. All products / services are covered in Self-Assessment Grids which are independently tested periodically and monitored on a global basis. Any exceptions and quality deficiencies are documented and monitored for resolution on Samba-wide basis. These are complemented by comprehensive reviews by Internal Audit / Quality Assurance unit. The analysis of operational risk related events, potential risk indicators and other early-warning signals are in focus when developing the processes. The exceptions / issues are highlighted and resolved at the senior level in Group Risk & Compliance Committee (GRCC). The global Key Risk Indicators (KRIs) for the top ten components of Operational Risk are monitored and the exceptions along with the heat-map are escalated to the Senior Management for resolution.

Mitigating techniques include a robust Information Security framework, strong Anti-Fraud / Compliance regime, comprehensive Physical / Access security and Certified Business Continuity plans together with crisis management preparedness and a broad insurance coverage for handling major incidents.

Each business area in Samba is primarily responsible for managing its own operational risk. Operational Risk Management Division develops and maintains a framework for identifying, assessing, monitoring and controlling operational risk and supports the line organisation in implementing the framework. Automation for operational risk management includes Loss Database, Risk & Control Self-Assessment process, KRIs and Corrective Action tracking. The techniques and processes for managing operational risk are structured around the risk sources as described in the definition of operational risk. This approach improves the comparability of risk profiles throughout the organisation including Samba's branches and subsidiaries. It also supports the focus on limiting and mitigating measures in relation to the sources, rather than the symptoms.

The capital requirement for operational risk is calculated according to the Standardised approach, in which all of the institution's activities are divided into eight standardised business lines and the total capital requirement for operational risk is calculated as the sum of the capital requirements for each of the business lines. The risk for each business line is the beta coefficient multiplied by the average of the gross income from the preceding three financial years, where the beta coefficients differ between business lines and are in the range of 12% to 18%. Consequently, the operational risk capital charge is updated on an annual basis.

The Basic Indicator Approach is used in our subsidiary in Pakistan (for their standalone reporting to the State Bank of Pakistan). A fixed alpha coefficient of 15% is applied to the average gross income for the preceding three years to arrive at the operational risk capital charge.

The capital requirements (at consolidated SFG level, calculated according to the Standardised approach) are detailed in the table below.

Business line	Beta coefficient	Capital requirement - SAR 000s
Agency services	15%	1,049,801
Asset management	12%	
Commercial banking	15%	
Corporate finance	18%	
Payment and settlement	18%	
Retail banking	12%	
Retail brokerage	12%	
Trading and sales	18%	

10. Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB)is the risk on the bank's financial condition to adverse (or unexpected) movements in interest rates due to mismatches in its asset-liability structures. It comprises of re-pricing risk, basis risk, yield curve risk and option risk, which are defined as follows:

- Re-pricing: Risks related to the timing mismatch in the maturity and re-pricing of assets and liabilities and off-balance sheet positions,
- Yield curve: Risk arising from changes in the slope and shape of the yield curve,
- Basis: Risks arising from hedging the exposure to one interest rate with exposure to a rate which re-prices under slightly different conditions, and
- Options: Risks arising from options, including embedded options, e.g. consumers redeeming fixed rate products when market rates change (i.e. option risk). One needs to consider such options on both the assets and liabilities side. Options on the assets side could include prepayment options on loans, and interest rate caps & floors. Options on the liabilities side include withdrawal of current account balances by customers.

SAMBA uses +/-200bp interest rate shocks for currencies where the outstanding exposure is above 5% of assets or liabilities. Deposits with no fixed maturity are transfer priced to manage price risk and are allocated, based on their behavioral history, to the respective tenor buckets for liquidity risk. Within non-maturity deposits, core and volatile components are arrived at and considered accordingly for liquidity risk monitoring purposes. Loan prepayments are not significant within the total loan book. IRRBB is reported on a regular basis and the results are presented to senior management.

Sensitivity analysis of the Interest Rate Risk in the Banking Book (IRRBB) is presented in the table below.

SAR 000s

200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities	
Rate Shocks	**Change in earnings**
Upward rate shocks:	
SAR	(3,623,454)
USD	(322,668)
EUR	39,779
Downward rate shocks:	
SAR	3,623,454
USD	148,277
EUR	(2,847)

Appendix

List of disclosures not applicable to Samba Financial Group is as follows:

	Tables and templates	Ref #
Credit risk	CRE - Qualitative disclosures related to IRB models	B.15
	CR6 - IRB - Credit risk exposures by portfolio and PD range	B.16
	CR7 - IRB - Effect on RWA of credit derivatives used as CRM techniques	B.17
	CR8 - RWA flow statements of credit risk exposures under IRB	B.18
	CR9 - IRB - Back-testing of probability of default (PD) per portfolio	B.19
	CR10 - IRB (specialised lending and equities under the simple risk weight method)	B.20
Counterparty credit risk	CCR4 - IRB - CCR exposures by portfolio and PD scale	B.25
	CCR7 - RWA flow statements of CCR exposures under the Internal Model Method (IMM)	B.28
	CCR8 - Exposures to central counterparties	B.29
Securitisation	SECA - Qualitative disclosure requirements related to securitisation exposures	B.30
	SEC1 - Securitisation exposures in the banking book	B.31
	SEC3 - Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor	B.33
	SEC4 - Securitisation exposures in the banking book and associated capital requirements - bank acting as investor	B.34
Market risk	MRB - Qualitative disclosures for banks using the Internal Models Approach (IMA)	B.36
	MR2 - RWA flow statements of market risk exposures under an IMA	B.38
	MR3 - IMA values for trading portfolios	B.39
	MR4 - Comparison of VaR estimates with gains/losses	B.40