The Saudi British Bank

Annual Report and Accounts 2012

SABB ساب

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This report is issued by SABB (The Saudi British Bank)

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بسم الله الرحمن الرحيم

Custodian of The Two Holy Mosques

King Abdullah Bin Abdulaziz Al Saud

His Royal Highness

Prince Salman bin Abdulaziz Al Saud,

Crown Prince, Deputy Prime Minister and Minister of Defence

His Royal Highness

Prince Muqrin bin Abdulaziz Al Saud,

Second Deputy Premier
Advisor and Special Envoy of the Custodian of the Two Holy Mosques

Board of Directors

Chairman
Khaled Suliman Olayan

Fouad Abdulwahab
Bahrawi

Sulaiman Abdulkader
Al Muhaidib

Zarir J. Cama

Mohammed Omran
Al Omran

Simon Cooper

Khalid Abdullah
Al Molhem

David Dew

Mohammed Abdulrehman
Al Samhan

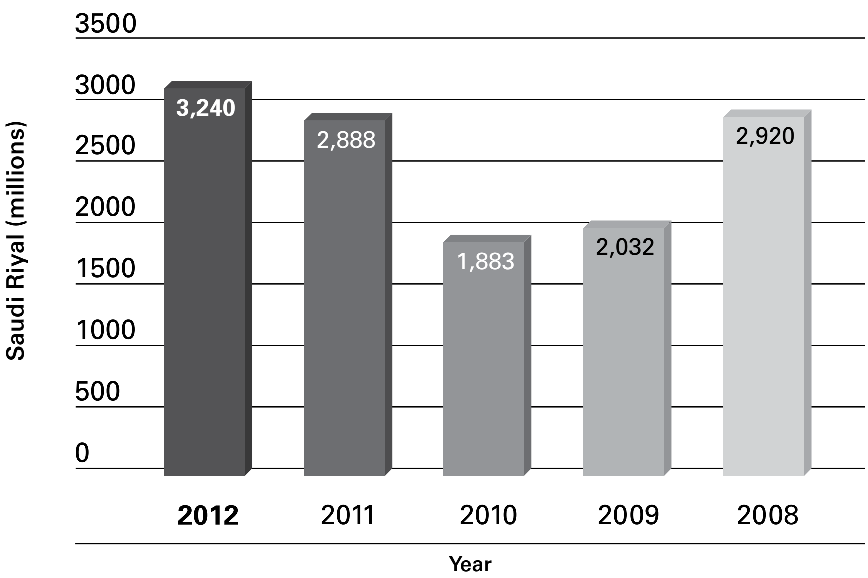
Mohammad Mazyed
Al Tuwaijri

Financial Highlights

Five-year financial highlights

	Year				
Saudi Riyal (millions)	**2012**	2011	2010	2009	2008
Customer Deposits	**120,434**	105,577	94,673	89,187	92,678
Shareholders' Equity	**20,066**	17,166	15,172	13,045	11,634
Investments, Net	**27,587**	22,200	24,972	23,818	29,604
Loans and Advances, Net	**96,098**	84,811	74,248	76,382	80,237
Total Assets	**156,652**	138,658	125,373	126,838	131,661
Net Income	**3,240**	2,888	1,883	2,032	2,920
Gross Dividend	**1,000**	563	563	660	660

Net income



Chairman's Statement

On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report of SABB for the financial year ending 31st December 2012.

In 2012 the bank witnessed another year of great success where total profits reached 3,240 million Saudi riyals, an increase of 12.2% over a year earlier. This is a clear reflection of the strength of the bank across all income streams, as well as its continued efforts to decrease general and administrative expenses in addition to containing the loan loss provisions. One of the main factors that enhanced this level of success was the bank's adoption of a culture of innovation and modernization when it comes to all of its primary businesses, as well as offering the latest in banking technology and new products in line with serving the best interest of the clients.

During 2012, SABB was able to increase its accessibility to its current clients and attract new ones; through the wide distribution of the Bank's branch and ATM networks whilst continuing to implement major renovations and the rebranding of existing branches across Saudi Arabia. As the year ended SABB had 104 retail outlets including 24 designated ladies sections. The total number of ATMs is now 548 and the number of Premier centres has grown to 12.

Retail Banking and Wealth Management retained its status as a leader in its field, especially in the provision of sharia-compliant financial solutions. Private Banking also continued to enjoy success in growing its assets and liabilities, as well as its profitability. Global Banking had a most rewarding year and Commercial Banking has now attained huge growth with a total operating income market share of 13%.

HSBC Saudi Arabia sustained its role as the leading investment bank in Saudi Arabia, continuing to dominate the Debt Capital and Syndicated Finance markets, and strengthened its market position in all its segments. SABB Takaful continues to experience strong growth across all areas of its business.

Throughout the year SABB has sought diligently to address the main provisions and principals of Corporate Governance as laid down by SAMA and those formulated by the Capital Market Authority. In so doing the Bank has sought to observe the highest ethical and professional standards in all its dealings whilst concurrently seeking full transparency and disclosure. The Bank has also complied fully with the accounting standards for financial institutions issued by SAMA and the International Financial Reporting Standards whilst seeking full compliance with the Basel II capital adequacy requirements as they relate to credit, operational and market risks. Further progress was made towards full compliance with the enhanced requirements of Basel III.

Exemplifying corporate citizenship the Bank further pursued its "SABB in the Community" activities by focusing on three areas deemed as priorities: education, environment and community service. In performing its role SABB funded the Prosthetic and Orthotics Centre expansion that bears the Bank's name, including a "Humanitarian Bed" at Sultan bin Abdulaziz Humanitarian City, for sick children from disadvantaged Saudi families. SABB staff has also volunteered in the one million square meters clean-up campaign, organized by the Municipality of Riyadh City. Additionally members of staff participated fully in a range of internationally recognised charity days such as World Down's Syndrome Day, International Day of Persons with Disabilities and World Blood Donor Day.

Recognition of SABB's leadership role in the Kingdom's banking sector was again received in 2012 from a number of international organisations and publications. A total of ten awards were received including those for "Excellence" from Euromoney; "Bank of the Year" from Arabian Business; and "Best Islamic Project Finance Provider" from Global Finance magazine. The Bank's subsidiary SABB Takaful was also recognised during the year as the "Life Insurer of the Year in the Middle East region".

SABB's 2012 results emphasise yet again the Bank's prominent role within the Saudi Arabian banking fraternity. As the Saudi government has again announced a record national budget the Bank looks forward with confidence to further participation in the development of the Kingdom and its businesses and people.

Finally, on behalf of the Board of Directors, it is my pleasure to extend our sincere thanks to the Bank's shareholders for their continued allegiance to the Bank; to offer considerable gratitude to all members of the Bank's staff for their diligent pursuit of business and their care and attention in dealing with customers; and to voice appreciation to all the Bank's customers for their trust and collaboration. Special recognition is due also to the Saudi government, specifically the Ministries of Finance and Commerce and Industry and the Saudi Arabian Monetary Agency, and to the Capital Market Authority, for their continued leadership and support of the Saudi banking and financial communities. As a leading member of the Kingdom's financial sector SABB confirms its dedication to on-going growth and development in Saudi Arabia under the leadership of the Custodian of the Two Holy Mosques, the Crown Prince and HRH the Second Deputy Prime Minister.

Khaled Suliman Olayan
Chairman

Directors' Report

The Board of Directors is pleased to submit to shareholders the Annual Report of the Saudi British Bank "SABB" for the financial year ending 31st December 2012.

Introduction

The Saudi British Bank (the 'Bank'), a Saudi Joint Stock Company, was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978G) and is an associate of the HSBC Group. The Bank's capital is SAR 10 billion divided into 1 billion shares with a nominal value of SAR 10. The main objectives of the Bank are to provide a complete range of integrated banking products and services to both retail and corporate sectors throughout its departments, business segments and its branches network across the Kingdom. The Bank has no subsidiaries established or operating outside the Kingdom of Saudi Arabia.

The Bank provides to its customers conventional banking products which include current accounts, savings, time deposits, corporate credit facilities, consumer and mortgage loans, trade finance, cash and payments management, treasury and credit cards. The Bank also provides non-interest bearing products, which are approved and supervised by an independent Shariah Board.

SABB has a 100% (2011:100%) ownership interest in a subsidiary, SABB Insurance Agency with a capital of SAR 500,000, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has a 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as sole insurance agent for SABB Takaful Company within the Kingdom of Saudi Arabia as per the agreement between them. However, the Articles of Association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2011:100 %) ownership interest in a subsidiary, Arabian Real Estate Company Limited with a capital of SAR 1 million, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has a 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The company is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB had a 51% ownership interest in a subsidiary, SABB Insurance Services Limited with a capital of SAR 3 million, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity of SABB Insurance Services Limited was to act as an insurance broker and consultant to consumers operating within the Kingdom of Saudi Arabia. During 2012, SABB sold its entire investment in SABB Insurance Services Limited to Marsh Saudi Arabia.

The Bank assures there are no shares or debt securities in issue for these two subsidiaries.

Five-year financial highlights

	Year				
Saudi Riyal (millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Customer Deposits	**120,434**	105,577	94,673	89,187	92,678
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Total Assets	**156,652**	138,658	125,373	126,838	131,661
Net Income	**3,240**	2,888	1,883	2,032	2,920
Gross Dividend	**1,000**	563	563	660	660

Geographical Analysis of Income

The Bank generates its operating income from its activities in the Kingdom of Saudi Arabia and has no branches, subsidiaries or associates established or operating outside the Kingdom of Saudi Arabia. The following table shows the distribution of operating income in accordance with the geographical classification of the Kingdom's regions.

Saudi Riyal millions

Year	Central Province	Western Province	Eastern Province
2012 G	3,371	1,030	765

Main Business Segments/Sectors

The Bank is organized into the following main business Sectors / Sections:

Retail Banking and Wealth Management - which caters mainly to the banking requirements of personal and private banking customers including deposits, current and savings accounts, personal finances and credit cards.

Corporate Banking - which caters mainly to the banking requirements of commercial and corporate banking customers including deposits, current accounts, loans, finances and other credit facilities.

Treasury - which caters mainly to capital markets, foreign currency transactions and trading in financial derivatives. It also caters to management of the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and managing the Bank's investment portfolio and statement of financial position.

Others - includes activities of its associates.

Transactions between the business sectors and sections are reported as recorded by the Bank's transfer pricing system. The Bank's total operating income and expenses and the results for the year ended 31 December 2012, by business segments, are as follows:

SAR '000	Retail Banking and Wealth Management	Corporate Banking	Treasury	Other	Total
Total Operating Income	1,604,708	2,468,852	1,092,923	-	5,166,483
Total Operating Expenses	1,094,978	833,025	109,394	-	2,037,397
Share in Earnings of Associates, Net	-	-	-	111,230	111,230
Net Income	509,730	1,635,827	983,529	111,230	3,240,316

The bank's share in earnings of associates represents shares in the profits of the following companies:

HSBC Saudi Arabia Limited

The company provides investment banking financing in the Kingdom of Saudi Arabia, in addition to investment financing services, IPOs (initial public offerings), mergers and acquisitions and private placements. SABB held 40% equity share of the Company's capital of SAR 50 million. However, after the merger of SABB Securities Limited with the Company, the capital of HSBC Saudi Arabia Limited was increased to SAR 500,000,000, and SABB holds 51% equity share of the capital.

Directors' Report (continued)

Five-year financial highlights *(continued)*

SABB Takaful

A Saudi joint-stock company listed on the Saudi Capital Market (Tadawul). The Bank owns 32.5% of the company's capital which amounts to SAR 340 million and comprises 34 million shares of SAR 10 each. The company offers Shariah-compliant insurance services including family and general Takaful products.

Profits

SABB recorded a net profit of SAR 3,240 million for the year ended 31 December 2012. This is an increase of SAR 352 million or 12.2% compared to SAR 2,888 million for the same period in 2011. The increase is due mainly to an increase in special commission income of SAR 242 million and a decrease in operating expenses. Earnings per share was SAR 3.24 for the year ended 31 December 2012 against SAR 2.89 (adjusted for the bonus share issue of 1 for 3 shares as a result of the Bank's capital increase to SAR 10.0 billion) for the same period last year.

Total assets were SAR 156.7 billion at 31 December 2012, compared with SAR 138.7 billion at 31 December 2011, an increase of 13.0 % or SAR 18.0 billion. Customer deposits totalled SAR 120.4 billion at 31 December 2012 – an increase of SAR 14.8 billion, or 14.1 %, compared with SAR 105.6 billion at 31 December 2011.Loans and advances to customers amounted to SAR 96.1 billion at 31 December 2012 – an increase of SAR 11.3 billion, or 13.3 %, from SAR 84.8 billion at 31 December 2011.The bank's investment portfolio totalled SAR 27.6 billion at 31 December 2012, an increase of SAR 5.4 billion or 24.3 % compared with SAR 22.2 billion at 31 December 2011.

Cash Dividends and Bonus Share Issue

In accordance with the Bank's Articles of Association, the Bank's dividend distribution policy is in compliance with the provisions of the Banking Control Law. The annual net income of the Bank is distributed as follows:

1. Amounts for payment of Zakat payable by Saudi shareholders and the tax payable by the non-Saudi partner, will be calculated and allocated in line with the rules and regulations in force in the Kingdom of Saudi Arabia. The Bank will pay such amounts from the net income distributed to these parties.
2. 25% of the net income is transferred to statutory reserves until this reserve equals at least the paid up share capital of the Bank.
3. Based on the recommendation of the Board of Directors dividends will be paid to shareholders in accordance with the number of shares held.
4. Undistributed net income is carried forward as retained earnings or transferred to statutory reserve.

The Extraordinary General Meeting of the bank, which was held on 13 March 2012 approved the proposal of the Board of Directors to distribute a cash dividend for the financial year 2011 to all shareholders registered as at the end of trading on the day of holding the Assembly amounting to 65 halalas per share after deducting zakat and tax, that has been paid to the shareholders on 20/03/2012.

In addition, the Extraordinary Assembly General Meeting approved the proposal of the Board of Directors to increase the Bank's capital from SAR 7.5 billion to SAR 10 billion distributed over 1 billion shares with a nominal value of SAR 10 per share, by granting shareholders registered as at the end of trading session of the Extraordinary General Meeting day, one bonus share for every three shares owned. The bonus share has been added to the portfolio attributable to shareholders on 14 March 2012. When the sale of fractional shares resulting from the capital increase was complete, the proceeds were deposited in the shareholders' bank accounts proportionally.

The distributable profits proposed for 2012 amounting to 92 halalas per share after deduction of Zakat and tax will be presented to the Ordinary General Meeting, scheduled for 17 March 2013, for endorsement and approval. However, the Board of Directors has recommended the distribution of profits as follows:

	SAR '000
Net Income 2012	**3,240,316**
Retained earnings from the previous year	**3,148,439**
Total	**6,388,755**
Distributed as follows:	
Bonus share issue	**2,500,000**
Transferred to statutory reserves	**810,079**
Zakat and Income Tax	**300,300**
Proposed dividend,net	**699,700**
Retained earnings for 2012	**2,078,676**

Profits *(continued)*

Statutory Payments

Statutory payments payable by the Bank during 2012 consist of Zakat payable by Saudi Shareholders, tax payable by the foreign partner, and the amounts payable to GOSI which represent staff insurance contributions.

The statutory payments for the year were as follows:

	SAR '000
■ Zakat attributable to the Saudi Shareholders for the year 2012	**46,700**
■ Income tax attributable to the share of the non-Saudi shareholders for the year 2012	**253,600**
■ GOSI payments	**80,182**
■ Other payments	**4,068**

Penalties and Regulatory Restrictions

The Bank practises its business in line with the banking systems and organisational rules as per the regulatory requirements issued by the supervisory and regulatory authorities in the Kingdom of Saudi Arabia and has not been subject to any fines or penalty of significant effect on its business. However, in 2012 SAMA inflicted fines of an operational nature totalling SAR 138,000 which were handled and rectified in due course. The details of such fines were as follows:

Serial	Reasons for imposition of a fine	Fine Amount (SAR)
1.	Operating an ATM before obtaining the required approvals.	**5,000**
1.	Comment of an operational nature relating to the requirements of opening and operating accounts.	**35,000**
4.	Comments relating to readiness of ATMs.	**20,000**
12.	Comments of an operational nature relating to the Bank's responses to enquiries from SAMA.	**60,000**
3.	Comments relating to testing the Saree system	**18,000**

Arrangements for Directors' or Senior Executives' waiver of salaries or remuneration:

The Bank is not aware of any information on any arrangements or agreements for the waiver by any director of the Board or any senior executive of any salaries, awards or remuneration.

Arrangements for Shareholders' waiver of rights to dividends

The Bank is not aware of any information on any arrangements or agreements for the waiver by any shareholder of the Bank of any their rights to dividends.

Notification Relating to Substantial Shareholdings:

During the year, the Bank did not receive any notification from shareholders or relevant persons with regard to the change in their ownership of the Bank's shares in accordance with the Disclosure requirements of the Listing Rules issued by the Capital Market Authority. Below are schedules of share ownership of major shareholders, directors of the Board and senior executives or their spouses and minor children in shares or equity:

1) Description of any interest, option rights and subscription rights of major shareholders

Major Shareholders:

Name of stakeholder	No. of Shares at the beginning of the year 01/01/2012	No. of Shares at year-end 31/12/2012	Net Change during the year No. of Shares	%
HSBC Holdings BV	300,000,000	400,000,000	100.000.000	33.33%
Olayan Saudi Investment Company Ltd.	127,496,250	169,970,851	42.474.601	33.33%
General Organization for Social Insurance	71,493,750	95,325,000	23.831.250	33.33%
Abdulkader Al-Muhaidib and Sons Company	36,488,570	50,024,093	13,535,523	37.10%

Directors' Report (continued)

Profits *(continued)*

2) Description of any interest, option rights and subscription rights of Directors of the Board and their wives and minor children:

Directors of the Board and their wives and minor children: Name of stakeholder	No. of Shares at the beginning of the year 01/01/2012	No. of shares at year-end 31/12/2012	Net change during the year No. of Shares	%
Khaled Suliman Saleh Al-Olayan	3,750	5,000	1,250	33.33%
Fouad Abdulwahab Mohammed Ali Bahrawi	176,000	250,000	74,000	42.05%
Khalid Abdullah Abdulaziz Al-Molhem	26,560	35,413	8,853	33.33%
Sulaiman Abdulkader Abdulmohsen Al-Muhaidib and family members	61,870	82,493	20,623	33.33%
Mohammed Omran Mohammed Al Omran and family members	7,030,270	9,373,693	2,343,423	33.33%
Mohammed Abdulrahman Sulaiman Al-Samhan (representing GOSI)	0	0	0	0%
David Robert Dew	12,000	16,000	4,000	33.33%
Zarir J. Cama (representing the foreign partner HSBC)	0	0	0	0%
Simon Nigel Cooper (representing the foreign partner HSBC)	0	0	0	0%
Mohammad Mazyed Mohammad Al-Tuwaijri (representing the foreign partner HSBC)	0	0	0	0%

3) Description of any interest, option rights and subscription rights of senior executives and their wives and minor children:

Bank's Senior Executives, their Spouses and Minor Children: Name of stakeholder	No. of shares at the beginning of the year 01/01/2012	No. of shares at year-end 31/12/2012	Net change during the year No. of Shares	%
David Robert Dew	12,000	16,000	4.000	33.33%
Mansour Abdulaziz Rashid Al-Bosaily	23,924	41,885	17,961	75.08%
Rehan Ahmed Khan	0	0	0	0%

Related Party Transactions

Managerial and specialised expertise is provided under a Technical Services Agreement with the parent company of one of the shareholders, HSBC Holdings BV. This agreement was renewed on 30 September 2012G for a period of five years.

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. Such related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

The year end balances included in the consolidated financial statements resulting from such transactions are as follows:

Related Party Transactions *(continued)*

The HSBC Group	As at 31 December 2012 SAR'000
Due from banks and other financial institutions	3,991,636
Investments	914,264
Derivatives (at fair value)	(407,273)
Due to banks and other financial institutions	3,574,821
Other liabilities	3,046
Commitments and contingencies	2,393,331

The above investments include investments in associates, amounting to SAR 612.2 million (2011: SAR 565.2 million).

Directors, Audit Committee, Other Major Shareholders and their Affiliates

Loans and advances	3,206,394
Customers' deposits	8,782,768
Derivatives (at fair value)	6,581
Commitments and contingencies	39,729

Note: Shareholders holding more than 5% of the Bank's capital are classified as major shareholders

Bank's Mutual Funds	As at 31 December 2012 SAR'000
Loans and advances	532
Customers' deposits	782,871

Following is the analysis of income and expenditure pertaining to transactions with related parties included in the consolidated financial statements

	For the year ended 31 December 2012 SAR'000
Special commission income	106,110
Special commission expense	(240,194)
Fees and commission income	48,781
Profit share arrangement relating to investment banking activities	(2,416)
Share in earnings of associates	111,230
Directors' remuneration	2,789

The total amount of compensation paid to key management personnel during the year is as follows:

	For the year ended 31 December 2012 SAR'000
Short-term employee benefits (Salaries and allowances)	39,126
Employment termination benefits	5,968

Key management personnel are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

The Bank offers share based payment scheme arrangements to certain senior management and employees. There was one such scheme outstanding at 31 December 2012.

Directors' Report (continued)

Borrowings and debt securities in issue

	As at 31 December 2012 SAR'000
USD 600 million 5 year fixed rate notes	2,300,780
SAR 705 million 5 year floating rate notes	705,000
SAR 1,500 million 5 year SAR subordinated Sukuk	1,500,000
Borrowings	140,625
Total	4,646,405

USD 600 million 5 year fixed rate notes

These notes were issued during the year 2010 at a fixed rate of 3% and are due to mature on 12 November 2015.The notes are unsecured and carry an effective yield of 3.148% which includes a credit spread of 170 bps. The notes are non-convertible, are unsecured and are listed on the London Stock Exchange.

The special commission rate exposure on these notes has been hedged by a fixed to floating special commission rate swap. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a fair value hedge in these financial statements. The negative mark to market on these notes pertaining to the hedged portion is SAR 35.5 million as at the end of the current year.

SAR 705 million 5 year floating rate notes

These notes were issued during 2008 and are due to mature on 21 July 2013. During the current year, these notes were partially exchanged to the extent of SAR 1,000 million for the SABB SAR subordinated Sukuk issuance. The notes carry effective special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are unsecured, non-convertible and are listed on Saudi Stock Exchange (Tadawul).

The special commission rate exposure on these notes has been partially hedged by a floating to fixed special commission rate swap to the extent of SAR 650 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in these financial statements.

SAR 1,500 million 5 year SAR Subordinated Sukuk (the "Sukuk")

The Sukuk was issued by SABB on 28 March 2012 and matures in March 2017. The Sukuk was issued as a partial commercial exchange from senior to subordinated debt to the extent of SAR 1,000 million. The remaining portion of SAR 500 million was fully subscribed in cash.

The Sukuk carries effective special commission income at three months' SIBOR plus 120 bps payable quarterly. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

The special commission rate exposure on the Sukuk has been partially hedged by a floating to fixed special commission rate swap to the extent of SAR 600 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in these financial statements.

Borrowing

This represents a 12 year amortising fixed rate loan that carries special commission at the rate of 5.11% payable semi annually. The loan was taken on 7 July 2005 and is repayable by 15 June 2017. An amount of SAR 31.3 million has been paid as commission during the year.

Directors' and Senior Executives' Remuneration

The compensation paid to members of the Board of Directors of the Bank or members from outside the Board are determined in accordance with the frameworks set by the instructions issued by the supervisory authorities, and governed by prime principles to governance of banks operating in the Kingdom and compensation regulations issued by the Saudi Arabian Monetary Agency and Corporate Governance Regulation issued by Capital Market Authority of Saudi Arabia, and the provisions of the Companies Law and the Article of Association of SABB and SABB Governance manual.

Directors' fees for their membership of the Board and participation in the Banks' operations, during 2012 amounted to SAR 2,788,500 including SAR 286,500 in attendance fees at Board of Directors', Executive Committee and Audit Committee meetings as well as at the Nomination and Remuneration Committee. The following table shows details of remuneration paid to Board and Committees members and senior executives of the Bank during the year:

2012 SAR'000	*Executive/ Non-Executive Board Members*	*Detailed remuneration elements for for the six executives who have received the highest compensation from the Bank. The MGD and CFO are included as required*	*Detailed remuneration elements for the senior executives whose appointment requires SAMA no objection*
Salaries and Remuneration	**4,291**	**8,259**	**12,674**
Allowances	**419**	**2,765**	**4,016**
Annual and Periodic Bonuses	**1,828**	**11,887**	**11,237**
Incentive Schemes	-	-	-
Any Remuneration or other benefits in kind paid monthly or annually	**392**	**805**	**1,016**

Note: values calculated on cost to bank during 2012-excluding bonuses and shares where they are based on value delivered to employees within 2012.

Staff Benefits and Schemes

In line with SAMA remuneration and compensation rules, best practices in terms of remuneration and compensation, and FSB policies, a compensation policy endorsed by the Nomination and Remuneration Committee and approved by the Board of Directors has been formulated and implemented since 2010.

The policy sets the guidelines as to how both fixed and variable pay (including incentive schemes) will be managed at SABB. The policy aligns the reward practices with the Bank's strategy and values to support the successful execution of the strategy in a risk compliant manner. Finally, it offers an attractive employee value proposition to attract, motivate and retain employees to ensure the financial sustainability of SABB.

According to the Labour Law of The Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefit is due for payment at the end of an employee's period of service. The end of service benefit outstanding at the end of December 2012 amounted to SAR 304 million.

The Bank operates one equity scheme for certain employees. The book value for this scheme amounted to SAR 10.7 million at the end of 2012.

Board of Directors' Assurance

The Board of Directors assures shareholders and other interested parties that to the best of its knowledge and in all material aspects:

- The Bank's books of account were properly prepared
- The Bank's internal control system is effective
- It has no evidence that suggest the Bank's inability to continue as a going concern
- There is no contract the Bank is part of, where or when there were substantial interests for one of the Board Members, Managing Director, Chief Financial Officer or any person who has a relationship with them, except for that which was mentioned in the Related Party Transactions in this report

Directors' Report (continued)

Board of Directors' Assurance *(continued)*

As indicated in their audit report, the Bank's auditors, for the purpose of their review of the financial statements, have considered internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to enable them to design audit procedures which are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. The auditors have reported to the Board certain deficiencies or recommendations arising from this exercise. In the management's opinion these items do not constitute material weaknesses. The auditors have issued an unqualified audit report on the financial statements of the Bank.

Accounting Standards

The consolidated financial statements have been prepared in accordance with the accounting standards for financial institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS) and also comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association. There has been no major deviation in the accounting standards being applied at SABB against SOCPA's accounting standards applied during the financial year ended 31 December 2012, except in the application of the international standards mentioned in the notes to the financial statements in which regard SABB has applied the subject standard with retroactive effect without an impact on the Bank's financial position or performance.

Appointment of External Auditors

During Assembly General Meeting of the Bank held on 13 March 2012, the Assembly General Meeting endorsed the approval of selection of both KPMG Al Fozan and Al Sadhan and Ernst & Young as external auditors among the candidates according to the recommendation of the Audit Committee, to audit the Bank's annual financial statements and quarterly interim condensed financial statements for the year 2012 and determining their audit fees.

Basel II

Basel II is an international business standard and is intended to strengthen risk management practices and processes within financial institutions stipulating a minimum regulatory capital requirement given the risk profile of the institution. The standards have been adopted by SAMA.

The Basel II framework consists of three mutually reinforcing pillars which, acting together, are intended to contribute to enforcing soundness in the financial systems:

- **Pillar 1:** refers to Minimum Capital Requirements relating to Credit risk, Operational risk and Market risk
- **Pillar 2:** refers to SAMA's supervisory review of SABB's Internal Capital Adequacy Assessment Process (ICAAP)
- **Pillar 3:** refers to Market discipline through public disclosures

ICAAP is designed to capture capital requirements under stressed scenarios as well as capital for Pillar 2 risks. Pillar 2 risks refer to risks not captured under Pillar 1, for example, Concentration risk.

SABB's ICAAP is a comprehensive document designed to evaluate the Bank's risk profile, the processes for identifying, measuring and controlling risk, and its capital requirements and resources. It reflects a conservative and realistic approach to the assessment of SABB's current and planned capital requirements on a fully consolidated basis, based on the Basel II Pillar II framework and the expected profile of the Bank.

SABB's ICAAP is in line with guidance issued by SAMA and is updated on an annual basis.

The Basel II disclosures have been prepared in accordance with the Basel II rules issued by SAMA in March 2008.

Basel III

Basel III build upon and enhances the regulatory framework adopted by Basel II and Basel II.5, which now form integral parts of the Basel III framework.

Much progress was made in 2012 in finalising the details of the Basel III capital requirements along with an implementation timetable stretching out to 2019 to allow time for the global financial industry to adjust progressively. An observation period commenced during 2012 where reporting was undertaken to assist in the calibration of minimum requirements.

Basel III *(continued)*

The final Basel III rules have been issued by SAMA with an implementation date effective from 1 January 2013.

The Basel III rules set out a minimum common equity Tier 1 ratio of 7%, including a capital conservation buffer, any additional countercyclical buffer requirements will be phased in starting in 2016 to a maximum of 2.5%. In addition, all classes of capital instruments to be included in the regulatory capital from 1 January 2013 must fully absorb losses at the point of non-viability before taxpayers are exposed to losses. The capital treatment of securities issued prior to this date will be phased over a 10 year period commencing from 1 January 2013.

SABB is well positioned to respond to the capital requirements imposed by Basel III.

During 2013, SABB will continue participating in SAMA working groups on the various aspects of Basel III to facilitate a smooth implementation of the rules within Saudi Arabia.

Compliance with Regulatory and International Requirements

SABB is in compliance with all regulatory instructions and guidelines issued by SAMA in respect of all banking activities. SABB also continues to be in compliance with Basel II requirements in respect of measurement of risks, capital adequacy and disclosure. The Risk committee formed by the Bank's management continues to ensure the continuous compliance with all guidelines and instructions made in accordance with best international practices. SABB has established its own internal policies in line with the different regulatory requirements.

Board of Directors and Subsidiary Committees

Directors

The Board of Directors of The Saudi British Bank comprises of ten members, six of whom represent Saudi interests who are elected and appointed by the General Meeting of the Bank for three Gregorian years with the possibility of re-election, and the other four members are appointed by the foreign partner.

On 14 December 2010, Directors of the Board were elected and appointed for a term of 3 years commencing on 01 January 2011 and ending on 31 December 2013. The Board of Directors as at 31 December 2012 comprised of the following members, whose membership was classified as per Article (2) of Corporate Governance Rules issued by CMA and SAMA Governance Principles Document:

Mr. Khaled Suliman Olayan, INDEPENDENT DIRECTOR
Al-Zamil Industrial Investment Company

Mr. Fouad Abdulwahab Bahrawi, INDEPENDENT DIRECTOR
SABB Takaful Co

Engr. Khalid Abdullah Al-Molhem, INDEPENDENT DIRECTOR
Economic City
White Cement Co.
Amlak Company
Saudia Airlines Catering

Mr. Mohammed Omran Al-Omran, INDEPENDENT DIRECTOR
Credit Suisse (Saudi Arabia)
Saudi Telecommunication Co.
Saudi Orex Lease Finance Company
Al-Rajhi Insurance Co.

Mr. Sulaiman Abdulkader Al Muhaidib, NON-EXECUTIVE DIRECTOR
A. K. Al-Muhaidib & Sons Company (representing Sulaiman Al Muhaidib & Partners Company)
Secorp Co.
First Real Estate Development Company (representing Abdulkadir Al Muhaidib & Sons Co.)
Savola Group Company (representing Abdulkadir Al Muhaidib & Sons Co.)
National Industries Company (representing Abdulkadir Al Muhaidib & Sons Co.)
Al-Marai Company (representing Savola Group Company)
Middle East Paper Company (representing Abdulkadir Al Muhaidib & Sons Co.)
Power & Water International Co.

Directors' Report (continued)

Board of Directors and Subsidiary Committees *(continued)*

Mr. Mohammed Abdulrahman Al Samhan, NON-EXECUTIVE DIRECTOR
Representing GOSI

Mr. Zarir Cama, NON-EXECUTIVE DIRECTOR
Representing the foreign partner HSBC

Mr. Simon Cooper, NON-EXECUTIVE DIRECTOR
Representing the foreign partner HSBC

Mr. Mohammad Mazyed Mohammad Al Tuwaijri, NON-EXECUTIVE DIRECTOR
Representing the foreign partner HSBC

Mr. David Dew, EXECUTIVE DIRECTOR MANAGING DIRECTOR
SABB Takaful Company

In its endeavours to fully comply with the regulatory requirements and consequently to enhance the principles of governance, the bank, after having obtained the necessary regulatory approvals, changed the method of selection and election of Saudi Board directors . Accordingly, the Extra-Ordinary General Meeting of the Bank held on 13 march 2012G, endorsed the amendment of the Bank's Articles of Association to provide for the adoption of Accumulative Voting method for election of Board directors.

Board Meetings

In 2012G, the Board of Directors of the Saudi British Bank ("SABB") held 4 meetings. The following table shows details of those meetings and the record of attendance of directors during the year:

No.	*Name*	*13 March 2012*	*21 May 2012*	*17 September 2012*	*11 December 2012*
1.	Mr. Khaled Suliman Olayan	✓	✓	✓	✓
2.	Mr. Fouad Abdulwahab Bahrawi	✓	✓	✓	✓
3.	Mr. Khalid Abdullah Al-Molhem	✓	✓	✓	✓
4.	Mr. Sulaiman Abdulkader Al-Muhaidib	✓	✓	✓	✓
5.	Mr. Mohammed Abdulrahman Al-Samhan	✓	✓	✓	✓
6.	Mr. Mohammed Omran Al Omran	✓	✓	✓	✓
7.	Mr. Zarir Cama		✓	✓	✓
8.	Mr. Simon Cooper	✓	✓	✓	✓
9.	Mr. David Dew	✓	✓	✓	✓
10.	Mr. Mohammed Mezyad Al Tuwaijri	✓	✓	✓	
	Number of Attendees	9	10	10	9
	Percentage of Attendees	90%	100%	100%	90%

Board Meetings *(continued)*

The following table shows attendance at Board Committees during 2012.

No.	*Name*	*Audit*	*EXCOM*	*Board*	*Nomination & Remuneration*
1.	Mr. Khaled Sulaiman Olayan	-	-	4	3
2.	Mr. Fouad Abdulwahab Bahrawi	4	11	4	-
3.	Mr. Khalid Abdullah Al-Molhem	-	9	4	3
4.	Mr. Sulaiman Abdulkader Al Muhaidib	-	-	4	-
5.	Mr. Mohammed Abdulrahman Al-Samhan	4	-	4	-
6.	Mr. Mohammed Omran Al-Omran	-	10	4	3
7.	Mr. Zarir Cama	-	-	3	-
8.	Mr. Simon Cooper	-	-	4	-
9.	Mr. David Dew	-	11	4	-
10.	Mr. Mohammed Mezyad Al Tuwaijri	-	11	3	-
11.	Mr. Mohammed M Al-Ammaj	4	-	-	-
12.	Mr. James Madsen	4	-	-	-
13.	Mr. Talal Al-Zamel	3	-	-	-

(1) The Audit Committee, as per formation rules and terms of reference, consists of 3 Non-Board members.

Board Committees

In line with the regulatory requirements issued by the regulatory Authorities, SABB Articles of Association and Governance Document, and which provide for the formation of an appropriate number of committees, depending on the bank size and need, the Board of Directors formed 4 Board committees, the membership and formation of which is described in the following sections:

Executive Committee

The Executive Committee is appointed by the Board in accordance with Article 26 of the Bank's Articles of Association and reports directly to the Board. The Committee consists of the Managing Director (Chairman) and four other members selected from among the Directors. The main task is to assist the Managing Director (MGD) within the powers determined by the Board to deal with matters referred by the MGD or by the Board. The Executive Committee reviews and considers all monthly reports submitted by different functional heads and business segments of the Bank and meets twelve times during the year. The Committee members are Mr. David Dew (Chairman); Mr. Fouad Abdulwahab Bahrawi; Mr. Khalid Abdullah Al Molhem; Mr. Mohamed Omran Al Omran; and Mr. Mohammad Al Tuwaijri.

The above members remained without any changes as at 31 December 2012.

The Executive Committee held 11 meetings during 2012G.

Audit Committee

SABB's Audit Committee was formed in 1992G and as per formation rules and terms of reference it consists of 3 – 5 members from within and out of the Board. The Committee reports directly to the Board of Directors, and meets four times during the year. The Committee supervises the Internal Audit Department and monitors the Bank's internal and external audit functions and reviews control weaknesses and system deficiencies. It is also responsible for review of provisional and annual financial statements and accounting policies followed, and recommends to the Board its comments and feedback. The Committee reviews the audit reports and give its recommendations thereon, and also recommends to the Board the appointment of the Bank's auditors, fixing their fees, reviewing the audit plan, following-up on the auditors' work and reviewing the bank's auditors' comments, approve any work beyond the normal audit business. The Committee members are Mr. Fouad Abdulwahab Bahrawi, Board member – Independent, (Chairman) and Mr. Mohammed Abdul Rahman Al Samhan, Board member – Non-Executive; Mr. James Madsen, Mr. Mohammed Mutlaq Al Ammaj and Mr. Talal Ahmed Al Zamel, who are Non-Board members.

The above members remained without any changes as at 31 December 2012.

The Audit Committee held 4 meetings during 2012G. As the Board of Directors wished that the terms of reference of the committee be in line with the regulatory guidelines, the organisational rules and the terms of reference of the committee approved by the General Meeting held on 13the March 2012.

Directors' Report (continued)

Property Committee

The Property Committee, which is a Board Committee, comprises 3 – 5 members and directly reports to the Board of Directors with a brief to consider and approve the Bank's expenditure and liabilities in respect of properties including rentals, project costs and related support expenditure in areas such as safety and security. Subjects referred to the Property Committee are considered by circulation unless the Chairman of the Committee requires a meeting. The Committee members are Mr. Khaled Suliman Olayan (Chairman); Mr. Sulaiman Abdulkhader Al Muhaidib; Mr. David Dew; and Mr. Mohammed Abdulrahman Al Samhan.

The above members remained without any changes as at 31 December 2012. The Committee did not hold any meetings in 2012G.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed by the Board and its organizational rules and terms of reference were approved by the General Meeting held on 15 March 2011 to be in line with the regulatory guidelines, and shall meet at least twice during the year. The committee consists of three independent Board members appointed by the Board and reports directly to the Board.

The committee recommends to the Board of Directors nominations for Board membership in line with SABB Board membership policies and criteria as approved by the Board, 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, evaluate the effectiveness thereof as well as of the members and committees and ensure the independence of independent members and the absence of potential conflict of interests. It also draws and approve the compensation and remuneration policies and schemes and submits the necessary recommendations in that regard.

The Committee members are Mr. Mohamed Omran Al-Omran, Chairman; Mr. Khaled Suliman Olayan, member; Mr. Khalid Abdullah Al-Molhem, member.

The Nomination and Remuneration Committee held 3 meetings during 2012.

Corporate Governance

SABB is aware of the immense effects associated with the adoption of Prudent Governance Principles and Standards and that such adoption will lead to observance of professional and ethical standards in all the Bank'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, be they staff, depositors or others. It is also believed that the adoption of this approach will enhance investors' confidence both in the Bank and in the Saudi banking industry, which in turn will reflect positively on the security, integrity and stability of the Banking Sector in the Kingdom of Saudi Arabia.

In its endeavour to meet the regulatory requirements stated in the corporate governance rules, and to ensure fulfilment of such requirements in a documented frame and approach, the Bank has laid down its own "SABB Governance Policy" which was endorsed by the Board of Directors in December 2011 and which included the principal provisions and principles of prudent governance in line with the instructions issued by the regulatory authorities and best local and global practices.

SABB has also adopted the Accumulative Voting principle for the election and selection of Board members. To this effect, the Bank's Articles of Association were amended at the Extra-Ordinary General Meeting held on 13 March 2012. In addition, the Bank issued a policy to regulate potential conflicts of interest of Board Directors and senior executives as well as a policy that handles the disclosure mechanism and its requirements. The two policies were implemented after the Board's approval in the first half of 2012.

In 2012, SAMA issued a document entitled "Principles of Governance at Banks operating in KSA" that included a general frame of governance which banks operating in the Kingdom have to observe. Subsequent to the Bank's intention to comply with all contents of the said document, a comprehensive revision of the compliance system and applications adopted by SABB was made. Consequently an action plan with a time frame was laid down and discussed with SAMA so as to lead to the full compliance of the Bank with all requirements included in the Principles document by the first half of 2014G. The Plan is based on the following basic points:

Corporate Governance *(continued)*

1. To customise the SABB Governance Document in accordance with the SAMA Principles of Governance document. It is planned that the document will be formulated, revised and endorsed by the Board of Directors in 2013G.

2. To revise the Terms of Reference of all Board committees. It is planned that these Terms of Reference will be revised and endorsed by the competent committees and the Board of Directors by the end of 2013G. The Terms of Reference of the Remuneration and Nomination and Audit Committees will be presented to the Bank's General Meeting scheduled for the first quarter of 2014 for endorsement.

3. A policy addressing "Board and Committees Membership Criteria" for executive and non-executive directors will be drafted. This document will cover all requirements set by the Ministry of Commerce and Industry, SAMA and the CMA. The topics covered by this document will include justifications, capabilities, qualification, continuous training requirements, assessment of Directors efficiency and Committees business and matters of substitution. It is planned that the drafting of this policy will be completed and approved by the Board of Directors in 2013 while it will be presented for the approval of the Bank's General Meeting scheduled for the first quarter of 2014G.

4. In its endeavours to regulate the relationship with stakeholders be it shareholders, employees or local community in a bid to preserve their rights, a general policy will be drafted to include all rules provided for in the Principles document issued by SAMA and Corporate Governance Rules issued by the CMA so as to establish and preserve the rights of stakeholders and to handle the Bank's policy towards community service. It is planned that this policy will be completed and endorsed by the Board of Directors in 2013, while it will be presented for the endorsement of the Bank's General Meeting scheduled for the first quarter of 2014.

5. In line with the Bank's Corporate Governance Rules, which provides for the laying down of a policy to regulate Related Parties' transactions, and with the Bank's keenness to be aware of, track and endorse such transactions in line with the role of the Audit Committee, the Bank is now in the process of drafting a general policy to regulate Related Parties' transactions and to specify the role of the Audit Committee in reviewing such transactions, which must be disclosed regularly with full transparency. This policy will be submitted for Board approval in 2013.

SABB complies in form and content with all Corporate Governance guidelines included in the Corporate Governance Rules issued by the Capital Market Authority. This commitment has resulted in the inclusion of the compulsory requirements in the Bank's Articles of Association and the Terms of Reference of Board Committees as well as in the Internal Policies and Guidelines regulating the work of the different Bank sectors. These include establishment of the rights of shareholders to the shares and to their participation in General Meetings; the provision of all information that ensures shareholders can exercise their rights; the disclosure of financial and non-financial information and the complete observance of transparency requirements in line with the regulatory limits; and the definition of the liabilities of the Board of Directors and formation of its various committees under Terms of Reference that are in line with the Regulatory Guidelines.

In addition, the Bank is committed to observing a majority of the guidelines included in the Corporate Governance Rules with the exception of the following:

Article	*Requirement*	*Reasons For Non-Compliance by the Bank*
Article 3	This Article provides for a number of requirements relating to shareholders' rights including the right to a share of the distributable profits and the right to a share of the company's assets upon liquidation.	There is no explicit text in the Bank's Articles of Association which provides for this requirement; however Article (52) of the Articles of Association handles matters relating to the liquidation of the company and the procedures as provided for in the Companies Act. In addition, the Governance Policy approved by the Board of Directors provides for the right of shareholders to a part of the Bank's assets upon liquidation.
Item (d) of Article 6	Investors who are judicial persons and who act on behalf of others - e.g. investment funds - shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of fundamental rights in relation to their investments.	The Bank is not entitled under any capacity to oblige any judicial investors who act on behalf of others to disclose their voting policies.

Directors' Report (continued)

Corporate Governance *(continued)*

Item (d) of Article 10	Laying down of specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Meeting.	The Bank has laid down written policies and Board membership standards and procedures which were approved by the Board of Directors on 20th October 2009G. A policy handling "Board and Committees Membership Criteria" for Executive and Non-Executive Directors was drafted in 2012. The policy responds to all requirements set by the regulatory authorities. The topics covered by this document will include justifications, capabilities, qualification, continuous training requirements, assessment of Directors efficiency and matters of substitution. It is planned that the drafting of this policy will be completed and approved by the Board of Directors in 2013 while it will presented for the approval of the Bank's General Meeting scheduled for the first quarter of 2014G.

Compliance with Regulatory and International Requirements:

SABB is in compliance with all regulatory instructions and guidelines issued by SAMA in respect of all banking activities. SABB also continues to be in compliance with Basel II requirements in respect of the measurement of risks, capital adequacy and disclosure. The Risk Committee formed by the Bank's management continues to ensure continuous compliance with all guidelines and instructions made in accordance with best international practices. SABB has established its own internal policies in line with the different regulatory requirements.

During the year 2012, SAMA, in view of its supervisory and controlling role and as part of the comprehensive inspection plans adopted thereby, carried out a comprehensive inspection of all Bank's activities and business sectors. The inspection reflected the strength of the Bank's financial standing and full compliance with the rules regulating the Banking business.

Annual Review of the Effectiveness of Internal Control Procedures

The Directors are responsible for internal control in SABB and for reviewing its effectiveness. The key procedures that the Directors have established are designed to provide effective internal control within SABB for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage and mitigate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. Such procedures for the on-going identification, evaluation and management of the significant risks faced by SABB have been in place throughout the year.

SABB's management is responsible for implementing and reviewing the effectiveness of the Bank's internal control framework as approved by the Board of Directors. SABB has implemented a 'Three Lines of Defence' model for managing risks facing the Bank and its subsidiaries. Business management, as the First Line of Defence, is responsible for setting policies, procedures and standards across all areas under their responsibility. Specific policies and manuals are established by functions covering all material risks including credit, market, liquidity, information technology and security, capital, financial management, model, reputational, strategic, sustainability, compliance and other operational risks. Functional management is also responsible for implementing effective monitoring mechanisms to detect and prevent deviations or breaches from established policies and regulatory requirements.

The second line of defence 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 through internal committees, such as Risk Management Committee, Operational Risks

Annual Review of the Effectiveness of Internal Control Procedures *(continued)*

Management Group and Compliance Committee. The Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements, particularly the Rules for Opening of Bank Accounts, Anti-Money Laundering and Terrorism Finance Fighting Rules and CMA Rules and Regulations. The risk management process is fully integrated with strategic planning, the annual operating plan and the capital planning cycle. Furthermore, each employee is expected to be accountable for and to manage the risk within his or her assigned responsibilities based on the governance principles adopted by the Bank and addressed during training programmes. Results are communicated for the information of the directors by means of periodical reports which are provided to Audit Committee and Executive Committee members.

Key internal control procedures include the following:

- **SABB standards.** SABB has established clear standards that should be met by employees, departments and the Bank as a whole. Functional, operating and financial reporting standards are established for application across the whole of SABB.

- **Delegation of authority within limits set by the Board.** Authority to carry out various activities and responsibilities for financial performance against plans are delegated to SABB management within limits set by the Board. Delegation of authority from the Board to individuals requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control appropriate to the business. Authorities to enter into credit and market risk exposures are delegated with limits to line management. The concurrence of the Executive Committee is required, however, for credit proposals with specified higher risk characteristics. Credit and market risks are measured and aggregated for review of risk concentrations. The appointment of executives to the most senior positions within SABB requires the approval of the Board.

- **Risk identification and monitoring.** Systems and procedures are in place in SABB to identify, control and report on the major risks including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability, compliance and other operational risks. Exposure to these risks is monitored by various management governance forums such as the Management Committee, the Asset and Liability Committee, the Risk Management Meeting, the Compliance Committee, the Audit Tracker Committee and their various sub-committees. Minutes of these meetings are submitted to Board Supervisory Committees comprising the Executive Committee (EXCOM), the Audit Committee (AUCOM) and Nominations and Remunerations Committee (NRC), and through these to the Board.

- **Financial reporting.** SABB's financial reporting process for preparing the consolidated Annual Report and Accounts 2012 is controlled using documented accounting policies and reporting formats. The submission of financial information is subject to certification by the SABB Chief Financial Officer.

- **Changes in market conditions/practices.** Processes are in place to identify new risks arising from changes in market conditions and practices and customer behaviour. During 2012, attention was focused on:
  - embedding further risk appetite and stress testing into the business of SABB through refining processes around risk identification and forward-looking risks;
  - the top and emerging risk process prompted a number of reviews and special papers on key risks, which were presented to the Risk Management Meeting and Board;
  - managing geopolitical risk and on-going instability in the region; and
  - the mitigation of information risks

- **Strategic plans.** Periodic strategic plans are prepared for businesses and support functions within the framework of SABB's strategy. Annual operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that we are prepared to take in executing our strategy, are prepared at business and functional levels and set out the key business initiatives and the likely financial effects of those initiatives.

- **Governance arrangements.** Governance arrangements are in place to provide oversight of, and advice to the Board on, material-risk-related matters including assurance that risk analytical models are fit for purpose, used accordingly and complemented by both model specific and enterprise-wide stress tests that evaluate the impact of severe yet plausible events and other unusual circumstances not fully captured by quantitative models.

Directors' Report (continued)

Annual Review of the Effectiveness of Internal Control Procedures *continued)*

Internal Audit (INA) represents the Third Line of Defence and monitors the effectiveness of internal control structures across the whole of SABB focusing on the areas of greatest risk to the Bank as determined by a risk-based grading approach. Internal Audit accomplishes this by independently reviewing the design effectiveness and operating efficiency of internal control systems and policies established by both business management ('First Line') and by risk management & control ('Second Line') functions to ensure that the Bank is operating within its stated risk appetite and in compliance with the regulatory framework. The General Manager Internal Audit reports to the Audit Committee on all audit related matters. The SABB Internal Audit Activity Charter sets out the accountability, independence, responsibility and authority of the Internal Audit function, while the SABB Audit Standards Manual prescribes the standards and procedures adhered to by the INA function. Both documents are reviewed and approved by the Audit Committee, acting on behalf of the Board of Directors on an annual basis. Executive management is responsible for ensuring that recommendations made by the Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Internal Audit.

During 2012, Internal Audit reviewed a number of activities and processes of SABB following a risk-based approach. Reports of these audits have been submitted to the SABB Audit Committee, highlighting areas where the effectiveness of controls or management's effectiveness in addressing control deficiencies was found to be less than satisfactory. On an overall basis, audits of the effectiveness of the internal control environment conducted during 2012 confirmed that systems and procedures for the on-going identification, evaluation and management of the significant risks faced by SABB were in place throughout the year. These procedures enabled SABB to discharge its obligations under the rules and regulations issued by SAMA and the standards established by SABB's Board of Directors.

The Executive Committee (EXCOM) and the Audit Committee (AUCOM) have kept under review the effectiveness of this system of internal control and have reported regularly to the Board of Directors. In carrying out their reviews the EXCOM and the AUCOM receive regular business and operational risk assessments; regular reports from SABB's Chief Risk Officer and General Manager Internal Audit; reports on reviews of the internal control framework, both financial and nonfinancial; contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports. The EXCOM monitors the status of top and emerging risks which impact SABB, and considers whether the mitigating actions put in place are appropriate.

The Directors, through the EXCOM and AUCOM, have conducted an annual review of the effectiveness of the Bank's system of internal control covering all material controls, including financial, operational and compliance controls, risk management systems, the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The EXCOM and the AUCOM have received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of our framework of controls.

Future Plans

SABB is a diversified financial services institution with a range of business activities and income streams. This has been achieved through continued investment in the core business infrastructure together with capital deployment into various strategic businesses. SABB's principal lines of business are Retail Banking & Wealth Management, Global Banking, Corporate Banking, Private Banking and Treasury Services. SABB offers Islamic (Sharia) compliant products across all principal business lines. SABB is continually evaluating new business opportunities to expand the range of banking and finance products and services which it offers customers. These offerings are complimented by our associate companies who offer Takaful, Investment Banking, Asset Management, Brokerage and Securities Services.

A new strategic plan (Medium Term Outlook – MTO) for the period 2011 – 2013 was approved by the SABB Board in December 2010, which focuses on our strategic goal of remaining a leading player in the financial services industry in Saudi Arabia by offering a comprehensive suite of banking propositions. In 2012, significant progress has been achieved against this plan.

Future Plans *(continued)*

Key deliverables of the plan included the following aspects:

1. Investment in People – Robust Talent Management and Succession Plan with a structured Learning and Development proposition.
2. Increased investment in Global Transaction Banking.
3. Transformation from a trading-driven to a sales-led Treasury function with greater emphasis on Non-Fund Income.
4. Consolidated Corporate/Commercial business focused on four key segments: Corporate, Middle Market, Business Banking and Institutional Banking.
5. Moves to a segment-based strategy in Retail Banking with the Premier and Advance segments being a priority.
6. Development of a robust Wealth Management proposition working closely with associate companies.
7. Continued focus on Islamic Banking propositions across all customer groups
8. Business Transformation - Continuous focus on operational efficiencies.
9. Close monitoring of marketing Strategy to improve the Brand Health Index.
10. Development of alternative channels and the reviewing of the current branch structure.

Retail Banking and Wealth Management

In 2012, SABB has continued as a leading provider in Saudi Arabia of Retail Banking and Wealth Management (RBWM) products and services.

The branch network is spread all around the kingdom with 103 retail outlets (79 branches and 24 dedicated ladies sections). Out of the total, 82 exclusively offer Islamic financial solutions while 21 outlets offer both Islamic and conventional financial solutions.

Branch locations are selected after considering their convenience for the Bank's valued customers.

SABB Islamic Financial Solutions (IFS) Retail Banking assets now amount to 86% of the Bank's total Retail Banking assets and 80% of total Retail Banking deposits. Likewise, revenues account for 79% of total SABB Retail Banking revenues for 2012.

Over the course of the year further attention was given to internal restructuring and reorganization to the benefit of high net worth customers, with specific focus on increasing the number of Premier Centres within the Kingdom, which now total 12 Kingdom-wide. These exclusive centres provide Premier customers with specially developed products and services as well as addressing their local and international needs through HSBC's global network.

Building on the success of the existing Premier offering through dedicated Premier Relationship Managers, SABB continues to expand its Advance proposition which is available in 33 other markets across the globe. This service, which serves as a second tier Premier proposition, allows the Bank's customers access to a high quality banking service in the Kingdom that has the added advantage of being available worldwide. SABB and HSBC Advance customers have access to a wider range of the very best international retail banking products allied to priority service. The service is provided by well-trained Advance Business Officers who are able to offer individual customers financial management solutions best suited to their specific needs. In addition, SABB "IFS" Advance harnesses new and multi-channel platforms so customers can manage their finances anytime, anywhere and in a manner that suits them best; provides access to knowledge and counsel that enables them to explore and broaden their financial horizons so as to achieve tomorrow's life goals; and acts as a facilitator for those who are internationally minded and informed. Such expansion and increased activity, coupled with focused marketing and sales initiatives, contributed to a year-on year increase of 17% in the SABB Premier Customer base.

SABB installed a further 71 ATMs in 2012 increasing its network to 568. To enhance security the bank has introduced instant card issuance ICI for SABB credit card customers following its successful introduction for debit cards in 2011.

During 2012 SABB's credit card business maintained its leadership position in terms of retail spends. Meanwhile, "IFS" credit cards continued to see considerable growth in sales transacted and now constitute all new sales executed each month.

SABB continued to evaluate customer needs and introduce solutions during 2012. SABB continuously introduces new and enhanced services through its alternate channels such as Internet banking, Phone banking and Mobile banking

Directors' Report (continued)

Retail Banking and Wealth Management *(continued)*

applications as well as enhanced Queuing system and Self Service machines to ensure customers are provided with the best customer experience.

SABB RBWM will be further expanding into more customer centric-solutions that will enhance overall customer experience and is now working primarily to give customers a straight through processing experience for all the services that are presently being offered by making them available through multiple channels thus expanding its distribution, reach and customer convenience factor

The issue of security codes and alerts by SMS has been complemented with the introduction of a "Token" security code option. This has helped SABB improve customer service as well as reduce losses resulting from fraud. SABB continues to roll out E-statements providing clients with quick and secure access to their financial data while improving efficiency and reducing paper usage.

Private Banking

The profitability of SABB Private Banking increased year-on- year as did assets and liabilities. In 2012 SABB Private Banking embarked on a reorganisation plan that resulted in improved operating efficiency and productivity. Continued cross referral activities with other SABB units resulted in greater synergy and improvement in clients' banking experiences. Outstanding quality of service remained one of the top priorities in providing dedicated and personalised banking services.

Clients continued to benefit from our focus on value added services such as the customised advisory investment solutions and asset management capabilities of HSBC Saudi Arabia Limited. Private Banking clients were among the main contributors to the launch of successful investment products by HSBC Saudi Arabia Limited.

SABB Private Banking was awarded the " Best Private Banking in Saudi Arabia" by Euromoney in their 2012 Survey, in recognition of its superior services and activities, and "Best Private Banking, Kingdom of Saudi Arabia - 2012" by World Finance Magazine.

Global Banking

Global Banking (GBB) operates as a stand-alone, centrally-managed business segment within SABB and is responsible for the relationship management of top-end Saudi companies that are globally managed by SABB; multinational companies operating in Saudi Arabia (headquartered overseas); and institutional clients (government and financial institutions) such as ministries, government agencies and departments as well as banks and other financial institutions.

2012 saw continued high levels of government-driven-spending again focused on utilities, transportation, health care, education and oil and gas. This resulted in a number of Engineering Procurement and Construction and Lump Sum Turnkey projects and contracts being awarded, mainly to Korean, Chinese, French, Spanish and Indian multinationals. Most of the international companies have been long-standing HSBC Group clients, with several of them being Fortune 500 companies, whilst the underlying project owners are Saudi corporates or their joint ventures, who have been long-term SABB clients.

The segment continued to leverage the connectivity to HSBC Group, support of sister company HSBC Saudi Arabia (Investment Bank) and SABB Takaful to provide niche financing solutions to multinational groups and the broader spectrum of Global Banking clients. Such support has included assistance in ensuring timely and quality execution of projects in the Kingdom whilst helping Saudi corporates internationally with their ambitious expansion and acquisition plans or in tapping-in to liquidity through non-Saudi financial institutions through ECA Finance and international bonds. In addition, the Bank has ventured into providing financing solutions to oil importers from Saudi Arabia thereby supplementing Saudi government support and the national economy.

At year end 2012 GBB's activities resulted in new approved facilities totalling in excess of SAR 15 billion. Such facilities included the provision of export finance and syndications, comprising non-recourse long-term loans, equity bridge loans, treasury solutions and Sukuks, the latter especially for Saudi clients; guarantees, working capital and treasury solutions for international companies implementing specific contracts; and the confirmation and discounting of export letters of credit specifically in support of oil exports. In addition, with the support of the SABB Islamic Financial Solutions team, GBB has provided a complete range of Sharia-compliant product offerings to the local client base.

Global Banking *(continued)*

GBB continued to develop the portfolio of high quality "wholesale" funded and off-balance sheet assets to the tune of SAR 50.0 billion (funded SAR 20bn, non-funded 30bn) against total liabilities valued at SAR 26.9 billion at the year end. Such achievements are a direct result of the core pursuit of customer loyalty and satisfaction through the provision of innovative solutions developed in close cooperation with other segments of SABB and the HSBC Group.

Commercial Banking

With over 26,000 customers, loans of over SAR 54 billion, and revenue of SAR 1.8 billion, SABB Commercial Banking (CMB) is a strong player in the commercial banking market in Saudi Arabia. SABB CMB has a total operating income market share of 13%, and is now considered to be the second largest bank in Saudi Arabia in the commercial banking segment.

As a full-service bank, SABB offers both conventional and Islamic banking solutions to meet the needs of commercial customers. A dedicated relationship and support team of 210 staff covers customers' corporate banking requirements and provides access to specialist teams in Treasury, Cash Management, Trade and Investment Banking. SABB is both a strong local partner for its customers in Saudi Arabia and the gateway to global financial markets and services through the HSBC Group.

CMB operates an " Islamic Financial Services (IFS) First" approach in providing financial services to corporate clients but maintains the flexibility of offering conventional products depending on clients' needs and requirements. In addition, and as part of SABB's commitment to grow Sharia-compliant banking, the management has decided to make SABB's Business Banking segment an "IFS Only" proposition, in line with the general theme for this business segment in KSA, where only Sharia-compliant products are provided. Furthermore, SABB has a full suite of Sharia-compliant products covering all business requirements, and is a Sharia-compliant product leader especially in the provision of international products and treasury solutions such as forex forward, options and interest rate swaps. Additionally, SABB was the first bank to introduce a Sharia-compliant solution for overdrafts.

In-house technology development combined with access to HSBC systems ensures that SABB offers state of the art banking channels to its clients including various payments and cash management solutions to meet the complex and structured needs of customers. Vigorous business continuity arrangements ensure that SABB's clients have reliable access to their finances. The Bank's corporate online banking strategy focuses on providing multifaceted platforms to customers across all business lines, covering a wide variety of services in ways that can be packaged or personalized to suit their unique needs. Cross-product integration is offered through a single window that serves diverse customers through one unified portal. A one-stop-shop for payments, receivables, financing, markets and foreign exchange functionality, SABB's online channels aim to provide a globally consistent client experience with robust local functionality. The Bank currently has five online banking channels serving the overall needs of business customers. SWIFTnet and SABB Connect, Host to Host channels being offered to our top tier customers with sophisticated requirements; HSBCnet, mainly targeting corporates, mid-to-large commercial customers and financial institutions with a variety of financial needs; Business SABBnet, an easy-to-use solution for small and medium enterprises with local in-country banking needs; and finally SABB Voltage, a simple flat file-based secured email solution. This multi-tiered e-channel solution offering ensures that SABB is able to cater to a large variety of requirements, from the most complex multi-banked customers, to the simplest secured email-based customers.

In pursuit of its strategic direction to deliver market-leading propositions, international connectivity and exceptional services to customers, SABB CMB has made excellent progress on several key initiatives in 2012. These include the leveraging of cross-border relationships with the HSBC Group in the 85 countries in which it operates, the net result of which has been the mutual referral of substantial levels of business, and the strengthening of SABB's links with China through the China Desk, the first such initiative by a Saudi bank, to encourage bilateral trade flows.

A prime focus of SABB CMB has been on Small and Medium Enterprises (SMEs). SABB has a history of commitment to the small business customer and was the first bank in Saudi Arabia to participate in the Kafalah Programme, a government Guarantee programme to encourage banks to lend to small businesses. Throughout a year of heightened economic uncertainty, SABB has significantly strengthened its commitment to supporting small businesses. SABB Business was consolidated as an independent, functionally-managed segment within CMB, to ensure increased focus on SMEs by separating its management from that of the Bank's large corporate customers. SABB Business, with a team of 50 staff, now manages relationships with over 24,000 businesses, each of whose annual turnover is lower than SAR100 million.

Directors' Report (continued)

Commercial Banking *(continued)*

SABB believes in delivering best-in-class customer experience to its small business customers. Customers have free access to direct channels 24/7, and dedicated business centres operate in each region to meet any customer requirement. SABB has also launched the Business Banking Academy to upgrade staff skills, and looks to grow the business banking segment while working on providing tailored customer solutions. In 2012 SABB Business launched business product packages to support the segment in all of its different life cycles.

SABB CMB was awarded the "Best Commercial Bank in Saudi Arabia" for 2012, by Global Banking & Finance Review.

Global Transaction Banking

Global Transaction Banking (GTB), comprising Trade & Supply Chain (TSC) and Payments & Cash Management (PCM) remains a core business of SABB. Despite a tough macro-economic environment and a reduction in activity in some sectors, GTB continued to demonstrate strong performance and remained ahead of plan. As a key product partner to both Global Banking and Commercial Banking, GTB played a critical role in serving the trade and supply chain, as well as the payments and cash management needs of our clients through deployment of innovative and customised solutions. Furthermore, the business maintained a proactive and leading role, particularly in shaping the trade landscape in the Kingdom, driving non-oil export growth, a key aim of the government, by facilitating exports to certain countries with higher credit risks whilst developing and leveraging current and emerging trade corridors of Saudi Arabia.

As a market leader in transaction banking, GTB enjoys a healthy market share. Throughout the year, as a business dedicated to client service, technology deployment and product innovation, SABB GTB enhanced and streamlined its processes and simplified its documentation whilst improving client service, efficiency and customer experience; formed strategic partnerships with various institutions such as the Islamic Corporation for Insurance of Investments and Exports Credit (ICIEC), a member of the Islamic Development Bank Group (IDB) to help Saudi clients grow their exports and foster trade-related business development; launched a number of new PCM products including but not limited to Virtual Accounts and Paycards as well as further enhancing SABB's market leading Receivables Management proposition; and deployed and commercialized a number of innovate trade solutions.

SABB GTB continued to be recognized by the market and industry alike, winning a number of significant awards including Euromoney's "Best Domestic Cash Manager in Saudi Arabia 2012" and Global Finance's "Best Trade Finance Bank Award 2012" and "Best Internet Bank Award 2012".

Islamic Financial Services

IFS have seen continued growth at the retail level. The majority of RBWM activities have now become Sharia-compliant. SABB's strategy for retail banking is to provide a full base of products and services limited to the Islamic offering. One new product developed for RBWM customers is Murabaha Share which will be the second option for Tawaruq finance for retail clients. Additionally, all new credit cards for retail customers will be issued as Islamic cards.

Home finance remains in great demand in the market and SABB is offering various options for personal customers. These include rental of ready-to-occupy properties, land, under-construction buildings and the sale and lease-back of property, with all product offerings allowing customers to own the property at the end of the lease. During the year a new home finance solution with a variable rental rate has been approved for launch.

Considerable attention has been paid also to the needs of corporate customers with the development of attractive Islamic corporate and commercial banking products and services. A first in the Kingdom for SABB is the introduction of new Islamic cash line accounts.

Corporate Banking organised five seminars on Corporate Islamic Banking Solutions in 2012 in Riyadh, Jeddah and Alkhobar that were attended by a number of prominent corporate customers. The aim was to raise customer-awareness of Islamic banking in general and to introduce customers to SABB's Sharia-compliant products and solutions that seek to address their needs. Treasury also added to SABB IFS' product offering with new products and solutions that address Corporate and Commercial clients' needs.

A prime element of IFS' success in 2012 has been the provision of appropriate Sharia training to 470 SABB staff. The programmes provided product knowledge for RBWM and Corporate Trade Finance. Also more than 2800 staff have

Islamic Financial Services *(continued)*

completed IFS Fundamental Islamic Models that cover Retail and Corporate E-learning courses. The training plan for 2013 will be more sophisticated and increasingly business-oriented to cover the real need of raising and enhancing staff awareness.

Throughout 2012, IFS won a significant number of awards and acknowledgements in recognition of the Bank's ongoing success in meeting its client expectations. These included: four awards from "Asset Triple A" magazine, namely "Best Islamic Deal of the Year", "Best Islamic Deal by Country", "Best Islamic Structured Financing" and the "Best Islamic Project Finance Deal".

Treasury

Treasury has enjoyed another strong and profitable year despite the challenging combination of a low interest rate environment and tighter credit markets. The market liquidity premiums presented various challenges in managing liquidity but nevertheless the Balance Sheet maintained healthy and robust liquidity levels. Active interest rate risk management, as well as leading positions in foreign exchange, made a significant contribution to the Bank's operating income.

Treasury continued to increase its market share of hedging and investment activities, by providing increasingly bespoke onshore and cross-border solutions to both Sharia-compliant and conventional customers. The model of specialised coverage for the Central, Western and Eastern Provinces combined with diversified products has continued to enhance SABB's relationships. Treasury continues to make good progress on its major systems implementation project that will further enhance its product capabilities, automate processes, improve efficiency and enhance customer service.

Credit and Risk

All SABB's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are Credit risk (including counterparty and cross-border country risk), Market risk (including foreign exchange, interest rate and equity price risks), Operational risks in various forms, Liquidity risk, Reputational risk and Sustainability (environmental and social) risks.

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. The Board approves the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

SABB's risk appetite framework was enhanced during the year and describes the quantum and types of risk that SABB is prepared to take in executing its strategy. It is central to an integrated approach to risk, capital and business management and supports the Bank in achieving its return on equity objectives, as well as being a key element in meeting the Bank's obligations under Pillar 2 of Basel II.

The Bank continued to operate an independent Credit risk function which provides high-level oversight and management of Credit and Market risk for SABB. Its responsibilities include: formulating SABB's credit policy in compliance with local regulations; guiding business segments on the Bank's appetite for Credit and Market risk exposure to specified market sectors, activities and banking products; controlling exposures to sovereign entities, banks and other financial institutions; and undertaking an independent review and objective assessment of risk.

The Operational risk management framework covers identification and assessment of material risks, identification and monitoring of key controls and identification and management of the Bank's major risks. In order to increase Operational risk awareness SABB has developed a risk-based approach comprising increased integration between all functions and businesses and the development of appropriate training.

Looking ahead, key enhancements of the framework will include up-grading of the Operational risk management system to ensure that it supports businesses; managing and controlling their material risks whilst also encouraging a forward looking approach to operational risk by identifying areas of potential risk.

SABB has adapted its robust liquidity and funding risk management framework in response to changes in the mix of business that it undertakes and the impact of global events on its liquidity positions. The liquidity and funding risk management framework will continue to evolve as the Bank assimilates knowledge from market events, and recent regulatory proposals covering liquidity risk outlined within the Basel III framework.

Directors' Report (continued)

Human Resources

During 2012 HR focused on initiatives geared towards the professional development of employees across SABB businesses and departments. Several new tangible solutions and programmes were developed to address the needs of employees by promoting an increased focus on their career and professional development. With access to a tailored curriculum and a focus on improving technical skills and increasing industry knowledge the Bank's employees are now better placed to offer more strategic insight to customers and help them meet the current and future challenges faced by their businesses. New programmes launched covered technical training across business lines and departments, coaching for sales & performance and leadership, amongst other development areas. Several members of senior management attended HSBC Group Strategic programmes, as well as those conducted by Harvard Business School. An area of increased focus was e-learning with a significant usage increase over 2011. Islamic Financial Solutions training was enhanced for front office departments. Along with these learning initiatives and in line with SABB's efforts of pursuing a sustainable growth strategy, succession plans were finalized for all key roles and career development plans have been developed accordingly. During the year, a total of 9,781 trainee days were attended by SABB employees with an additional 264% increase in e-learning usage when compared to that in 2011.

SABB continued to invest in a robust performance management programme to ensure the delivery of strong business results. This included institutionalising the Performance Calibration process. SABB pursued a performance-based, market-driven rewards strategy that included participation in annual compensation and benefits surveys in the Kingdom that enabled the Bank to keep abreast of on-going market trends. Revised incentive schemes were developed in line with the business initiatives. These schemes were assessed by a leading reward consultancy firm to be in line with local and international best practice. SABB's compensation programmes were enhanced to be fully aligned with prudent risk management and regulatory guidelines.

In 2012 SABB launched its Core Values Programme that remains a vital component in the way employees interact with each other and with our customers. As a socially-responsible employer in the community, the bank took the lead in advancing several social causes. A good example of this was SABB's sponsorship of a major event focusing on increasing the employment opportunities for Saudi women to leverage the wealth of human capital that exists in the Kingdom. The event was inaugurated by the Minister of Labour and the Head of the Saudi Human Resources Development Fund. An employer tool kit that details the steps to be taken by the private sector to help increase the employment of females was launched at the event.

SABB has always striven to maintain the highest ethical standards in all of its dealings by encouraging the highest personal standards of integrity at all levels and a commitment to truth and fair dealing in all of our activities.

SABB continued to make significant progress in its Saudisation initiatives. A comprehensive policy and plan were introduced during the year. The Saudisation ratio increased to 86.9% with a significant increase in the number of women in all departments and in senior management whilst several development initiatives were rolled out for female development. SABB participated in major career day events in Saudi Arabia, the United Kingdom and the United States of America and recruited 158 young high-potential Saudi graduates to join SABB's development programmes.

Corporate Real Estate, Security and Safety

Corporate Real Estate, Security and Safety was re-organised during 2012 with the aim of streamlining and rationalising the department to improve efficiency and to enhance centralisation. CRE's former geographical structure has been converted into a functionally-based structure that sees every field of activity having one manager who will oversee closely all his assigned tasks in order to ensure their rapid implementation and so enhance the utilisation of available skills and capabilities of the team.

CRE has had a very busy year with ten branches around the Kingdom being renovated or relocated and one new branch, STC Light, opened in Riyadh. Furthermore, land was acquired for the new Jeddah Head Office and for a new branch in Skaka. As the year ended four further renovations were under way as was construction of new branches in Jizan and Skaka. Concurrently 71 new ATMs were installed and 130 ATMs were replaced.

Looking ahead eleven renovation and relocation projects were being planned whilst either construction or site identification was in hand for six new branches in all of Riyadh, Jeddah and the Eastern Province.

Integral to the Bank's drive to maximize space utilisation staff are now designated just $8M^2$ as compared to the earlier $9M^2$. Furthermore, overall freehold vacancy has also been reduced and now stands at just 7%.

Corporate Real Estate, Security and Safety *(continued)*

Security and Fire Safety remained vigilant and employed all physical and electronic security measures to ensure provision of a safe and secure working environment. In the event a zero accident record was recorded during the year. The upgrading of the CCTV and Security System is complete and the new Central Monitoring System is now in place and functioning covering all ATMs and Branches Kingdom-wide. Fire drills have been conducted twice a year for all SABB main buildings in collaboration with Civil Defence and training has been conducted on the proper use of fire extinguishers. All security guards have undergone security and safety training and evacuation training on BMGs and DMGs has been undertaken Kingdom-wide. Importantly, the Bank issued safety guide books for maintenance and for the branches approved by the Saudi Civil Defence.

Operations

Operations maintained its vital role in providing support to all areas of the Bank. Integral to this was helping further with reducing operational costs and enhancing staff performance by increasing the level of automation and enhancing all internal processes so as to improve Customer Experience and accelerate all transactional activities.

Information Technology

The regulatory programme of eleven projects, was successfully completed in 2012 as planned, culminating in the implementation of FERMAT-Gleam localization, GMG Migration to SWIFT Gateway and GHRS implementation to local data centre. The MasterCard Internet Gateway (MiGS) and secure mail were launched, helping in enhancing overall security.

Certifications attained during the year included SABB achieving PCI re-certification and, a first in the Kingdom, Tier III certification in design document production areas. Among many flagship releases, SABB Treasury benefited from the launch of Murex phase 1 and the introduction of a new Voice Trading System, whilst the first phase of Mobile banking was successfully launched. Other flagship releases included ATM Prepaid Debit Card in line with SAMA's prepaid cards in Saudi Arabia requirement; a web-based solution to resolve the e-register issue, with the rollout of the Currency Management System; Credit Card Activation that enabled credit cards to be activated over SABBnet; and the launch of Virtual (Collections) Account – 1st phase to facilitate the Payments and Cash Management (PCM) process.

The significant infrastructure enhancements programme carried out in 2011 was continued into 2012 with the release of SABB Telecommunication Encryption (encrypted, secured, authenticated and confidentially transmitted) for data being exchanged among SABB Head Offices, branches and ATMs. The latest leading- edge technology was introduced for SABB Treasury Dealing Room.

Key performance indicators such as service availability, percentage of emergency changes and IT cost reduction performed well. IT spend was kept low, better than the target and lower than the industry benchmark.

A SAMA inspection was successfully carried out, with IT controls and the governance review not evidencing any major issues. On the Disaster Recovery (DR) simulation, two major exercises were carried out during the year, when all business critical services were successfully switched to and tested from the contingency site. A number of new service application and service specific DR simulations were successfully carried out including ATM/Open2, SARIE, GWIS and eCRM.

Overall, other than helping to enhance customer experience, reducing complexity and helping to implement straight-thru processing, IT played a pro-active role in facilitating business, whilst undergoing an internal reorganisation to ensure operational efficiency and introducing a formal Relationship and Portfolio Management function working between IT and the business.

Directors' Report (continued)

Community Service

Due to its firm belief in corporate social responsibility and the essential role played by the active participation of the private sector in national development initiatives, SABB is a prominent leader in community service in the Kingdom through the implementation of a group of charitable and humanitarian activities under the umbrella of "SABB in the Community Programme". The primary focus of the Bank's efforts is centred on three areas deemed of priority as they relate to societal needs: education, environment and community service.

SABB is distinguished for building strategic relationships with many of the active charity institutions in the Kingdom that are playing vital roles in the community services offered to the needy, such as the strategic relationship that joins SABB and Sultan Bin Abdulaziz Humanitarian City in Riyadh (SBAHC), where the Bank continued to support the "SABB Humanitarian Bed", an initiative that aims to provide medical treatment and rehabilitation services to children from needy families from all over the Kingdom. SABB also financed the expansion of the orthopaedic and prosthetic centre, a drive that increases its capacity from 3000 to 12,000 patients.

In the same context SABB is strategically associated with the Disabled Children Association (DCA) where the Bank has contributed to many humanitarian projects aimed at serving the community at large as well as people with special needs. To the fore is the "SABB Disabled Employment Programme."

The Bank provided support for many of the humanitarian activities for orphans carried out by Dar Al-Tarbeyah Al-Ejtemaeyah in Riyadh, including the funding of the "SABB Dental Clinic" and the sponsorship of the "Umrah Programme" during the holy month of Ramadan. This is in addition to the Bank's close relationship with the Orphans' Charitable Organisation (Ensan) through the financing of projects such as the "SABB Recreational Club for Orphans".

In collaboration with the Saudi Establishment for Education and Training, the Bank supported several programmes to empower needy individuals and families by providing them with adequate training in many professions that will enable them to be economically sufficient and self-reliant.

In the framework of joint cooperation between SABB and the Blind Charity Association, "Kafeef", the Bank continued to support the "SABB Training and Rehabilitation Centre", an initiative intended to provide training and rehabilitation programmes for the blind and vision-impaired. The workshops included cell-phone-use training for the blind to enhance their communication abilities and ease their interaction with other members of the community. Other workshops focused on the acquisition by blind people of the necessary learning skills for using computers specially-configured for such purposes.

In the educational arena, the Bank continued its efforts in enhancing the role of the "SABB Investment Research Centre" at Al-Yamamah University in Riyadh that contributes to advancing education and to offering students the necessary practical training to prepare them for the job market.

Additionally, and in order to spread the culture of individual responsibility towards the community, the Bank is keen to have SABB staff participate in various initiatives and drives related to community service such as the annual "One Million Clean-up Campaign", organised by the Municipality of Riyadh region, and in distributing Eftar Ramadan (breakfast) to needy individuals organised by the Al-Birr Charitable Organization.

On the occasion of World Disability Day and in collaboration with the Disabled Children Association the Bank sponsored a forum entitled "Social Responsibility and its Impact in Supporting Charities." Also, in coordination with the Prince Fahad bin Salman Charity Association for Renal Failure Patients Care, "Kellana", the Bank sponsored the International Conference on Kidney Diseases and Transplantation in Saudi Arabia, which was organized by the Saudi Society of Nephrology and Transplantation.

Moreover, and under the auspices of the Minister of Labour, the Bank sponsored a forum entitled "Maximizing Employment Opportunities for Saudi Females", to help in raising the employment level of Saudi females.

In order to enhance SABB's role in community service the Bank is participating, on a regular basis, in the most important events of global awareness such as: World Down Syndrome Day, Earth Hour, World Environment Day, World Blood Donor Day, World Autism Awareness Day, World Health Day, the International Day for People with Disabilities and the World Day for the Elderly.

International Recognition

Throughout 2012, SABB again won a significant number of prestigious awards and acknowledgements in recognition of the Bank's ongoing success in meeting its client expectations and its pioneering role in the Saudi financial services industry. These included: three awards from Global Finance magazine, namely "Best Islamic Project Finance Provider 2012", "World's Best Sub-Custodian Bank" and "Best Trade Finance Bank"; the "Deal of the Year 2012 – Islamic Finance" from The Banker magazine; awards for "Excellence", "Best Private Banking in Saudi Arabia" and "Best Domestic Cash Manager" from Euromoney; "Bank of the Year" from Arabian Business; "Best Domestic Retail Bank" from Banker Middle East; and "Best Private Banking, Kingdom of Saudi Arabia -2012" from World Finance Magazine.

SABB Takaful Company

SABB Takaful Company is a Saudi Joint Stock Company established pursuant to Royal Decree No. M/60 dated 18/09/1427H (corresponding to 11/10/2006G). The Company commenced its first fiscal year subsequent to the issuance of Ministerial Resolution No. 108 dated 27/04/1428H (corresponding to 15/05/2007G) declaring the incorporation of the Company. The Company operates under Commercial Registration No. 1010234032 issued in Riyadh on 20/05/1428H (corresponding to 06/06/2007G) and the Saudi Arabian Monetary Agency Insurance License No. 5/20079 dated 29/08/1428H (corresponding to 11/09/2007G). The licence authorises the Company to engage in protection and savings, general and miscellaneous Takaful activities and has been renewed on 29/08/1431 H (corresponding to 10/08/2010 for three years).

The paid-up share capital of the Company is SAR 340,000,000 comprising 34,000,000 shares with a nominal value of SAR 10 each of which 22,100,000 shares were issued against equal cash contributions by the Founding Shareholders, SABB and HSBC, representing 65% of the Company's share capital. The balance of 11,900,000 shares (35%) was issued to the public firstly via an initial public offering held from 27/02/1428H (corresponding to 17/03/2007G) until 08/03/1428H (corresponding to 26/03/2007G), at an offer price of SAR 10 per share, and subsequently by way of a rights issue to shareholders on the record at 17/08/1430H (corresponding to 08/08/2009G) at a price of SAR12.50 during the period 24/08/1430H (corresponding to 15/08/2009G) and 05/09/1430H (corresponding to 26/08/2009G). This was the first capital increase by way of a rights issue made by an insurance company in Saudi Arabia.

SABB Takaful provides a range of Sharia-compliant Family and General Takaful products to meet the protection needs of both individual and corporate customers.

As one of the first licensed Takaful companies in Saudi Arabia, SABB Takaful has experienced strong growth since commencement of operations and is poised to continue its growth capitalising on the favourable long-term prospects of the insurance industry. With increasing growth in the market and growing awareness of Sharia-compliant insurance solutions, the Company is very well placed to benefit from its competitive advantages for increasing market presence and expansion of its business and activities.

Major Developments

As at 31 December 2012, SABB Takaful was the only insurance company in Saudi Arabia to record profits over the last nine continuous quarters compared to competitors operating under the bancassurance model. Total annual profits amounted to SAR 13.79 Million which is considered to be the highest among its peer group in 2012. In addition, SABB Takaful achieved the highest Net Earned Contributions ratio amounting to 98% compared to its peer group.

SABB Takaful Company was awarded the "Life Insurer of the Year 2012 in the Middle East region" by a committee that was composed of world-wide insurance industry experts at the INSUREX conference which was held on 9th of October 2012 in Dubai in recognition of SABB Takaful's extraordinary performance in the field of life insurance (Takaful protection and savings), The award reflects the Company's introduction of multiple innovative packages of Takaful programmes tailored to both individual and commercial sectors.

SABB Takaful has launched the Money Takaful Plan and the Fidelity Takaful Plan aimed at enhancing the business protection solutions offered to the corporate sector.

The extraordinary general assembly held on 22nd April 2012 approved the company's governance manual and the modification applied to article 22 of the company statement.

Directors' Report (continued)

Business Strategy

The Company adopts the pure 'banctakaful' (bancassurance) as its operational model whereby sales are made by SABB Insurance Agency Company Limited ("Agent") through the existing branch distribution network of SABB. The Bank has a wide network of branches in addition to corporate servicing centres. Call Centres operating round the clock every day of the year as well as advanced online banking are other servicing channels offered. To satisfy demand SABB Takaful has developed world class, relevant and targeted solutions that enhance the proposition of its partner through differentiated products and services. The Company plans to open more service channels based on its successful experience in the application of the bancassurance model with a number of potential local partners subject to obtaining the necessary regulatory approvals.

Additionally, SABB Takaful aims to continue to introduce the latest innovative technology and best global market practices to ensure the provision of an unsurpassed level of service to all its customers. These include leveraging mobile phone and Internet technology and applying the best Takaful practices throughout the wider HSBC Group.

Major Business Segments

The major business segments to which the company offers its proposition and services are:

Individuals
SABB Takaful focuses on the provision of Family Takaful products that are tailored to meet customer needs including saving for their children's education, their retirement and their investment. These wealth management programmes incorporate savings and investment as well as a protection element for dependents of a plan holder in the unfortunate event of death or permanent disability.

The General Takaful proposition offers coverage for home and contents, personal accident, travel and Schengen travel.

Corporate
For companies and commercial customers, the Company offers a wide range of business protection solutions including marine cargo, fire, property all risks, business interruption, public liability and a business banking package designed for small and medium enterprises. Employee benefits schemes under the Family Takaful proposition are also provided.

Plan Types

Family Takaful
The Company's portfolio of Family Takaful Plans provides financial security in the unfortunate event of death or total and permanent disability of a plan holder to a designated beneficiary. Family Takaful products are available for both individual and commercial customers.

Individual Lines	*Commercial Lines*
Care Takaful	Group Care Takaful
Education Takaful	Group Creditor Takaful
Investment Takaful	
Retirement Takaful	
Savings Takaful	
Simple Savings Takaful	

Major Business Segments *(continued)*

General Takaful

The Company's General Takaful products provide both individuals and companies with protection against unpredictable events.

Individual Lines	*Commercial Lines*
Home and Contents Takaful	Marine Cargo Takaful
Personal Accident Takaful	Fire Takaful
Travel Takaful	Business Interruption Takaful
Schengen Takaful	Third Party Liability Takaful
	SME (Business Services) Takaful
	Money (Cash) Takaful
	Fidelity Guarantee Takaful
	Group Personal Accidents Takaful
	Credit Card Purchases Takaful
	Travel Risks Protection Plan (Credit Card users)
	Ersal Takaful Plan
	Property Protection Takaful Plan

HSBC Saudi Arabia Limited

Investment Banking

Investment Banking Advisory

HSBC Saudi Arabia Limited maintained its prominent position as the leading investment bank in Saudi Arabia in both Equity Capital Markets and Mergers and Acquisitions. During the year, the Division advised on the landmark SAR 4.9 billion (USD 1.3 billion) sale and merger of the fleet and commercial operations of Vela International Marine Limited, a wholly owned subsidiary of Saudi Aramco, with The National Shipping Company of Saudi Arabia (Bahri), representing the largest M&A deal in Saudi Arabia. In addition, HSBC Saudi Arabia Limited acted as Financial Advisor to NBK Capital Private Equity on the sale of their 40% stake in Hanco (Al Tala'a International Transportation Co. Limited) to Bin Sulaiman Holdings Ltd., selected M&A Deal of the Year 2012 by The Banker (part of Financial Times Group) for the Middle East region. HSBC also acted as Financial Advisor to Almarai on their SAR 312 million (USD 83 million) acquisition of Fondomonte S.A. The Division continues to work on several potential IPOs and equity rights issuance situations; although none of these came to market in 2012. HSBC Saudi Arabia Limited continues to lead the market in terms of having advised on more IPOs and equity rights issues since the IPO market commenced in Saudi Arabia in 2003 under the CMA rules.

Investment Banking Finance – Debt Capital Markets and Syndicated Finance

HSBC Saudi Arabia Limited continued to dominate the Debt Capital Markets and Syndicated Finance space in Saudi Arabia, since inception continuously ranking number one for both local and international issuances by Saudi issuers. During the year the Division successfully led seven local debt capital market issuances for key clients, helping them issue more than SAR 22,000 million of debt securities in the local market. In addition, it actively distributed international offerings into Saudi Arabia, helping issuer and investor clients locally and internationally. The issuances included the General Authority of Civil Aviation government-guaranteed Sukuk offering (this issuance is the largest ever single-tranche Sukuk issued globally and the largest sovereign-guaranteed issuance in EEMEA during the last 10 years), as well as Saudi Electricity Company's international Sukuk (the largest international debt capital markets issuance from Saudi Arabia, and the largest order book for any Islamic or USD Reg S transaction to date). The foregoing were in addition to a lead level involvement in all significant syndicated loans in the Kingdom during the year, including book runner positions (for both HSBC Saudi Arabia Limited and SABB) in syndicated loans for Marafiq and Ma'aden. The Division's professionalism was highlighted when Euromoney – a leading global financial publication - again selected HSBC Saudi Arabia Limited's Debt Capital Markets as the "Best Debt House in Saudi Arabia 2012". Euromoney acknowledged "HSBC's dominant position in and contribution to the debt markets in the Kingdom", mentioning HSBC's market share in debt capital markets "was almost three times as large as its nearest rival."

Directors' Report (continued)

Project and Export Finance

2012 was a remarkable year for the project and export finance business of HSBC Saudi Arabia Limited during which the Bank strengthened its position as the leading financial advisor and arranger for projects in the Kingdom. The Division achieved successful closing of four advisory mandates; Acrylates Complex (Tasnee, Sahara, Dow and Evonik), International Polymers Company (Sipchem and Hanwha), Samapco (Ma'aden and Sahara), and Tihama Expansion (Saudi Aramco). SABB acted as mandated lead arranger on all these transactions. On the arranging side, HSBC Saudi Arabia Limited and SABB acted as mandated lead arranger on Madinah Airport which is the first full airport concession offered by General Authority Civil Aviation on a PPP basis. Furthermore, the Division acted as structuring bank and mandated lead arranger for a USD1.4 billion Korea Eximbank and K-SURE supported facility to Saudi Electricity Company in relation to the construction of Rabigh VI power plant. To date, this is the largest corporate Export Credit Agency financing in Saudi Arabia. The Division is currently advising on a number of projects across several sectors including power, petrochemicals, and metals and mining and for blue-chip clients including Saudi Aramco, SABIC and Ma'aden. In June 2012, the Division was awarded by Ma'aden a landmark project finance advisory mandate for their new USD multi-billion phosphate mining and fertiliser complex to be located in the north of Saudi Arabia.

Asset Management

The Asset Management Division of HSBC Saudi Arabia Limited holds a leading position in the Kingdom's asset management industry. HSBC Saudi Arabia Limited is the second largest player in terms of Saudi Equity Mutual Funds Assets Under Management (AUM) and fifth largest in terms of overall AUM. HSBC Saudi Arabia Limited is also a leading player in the discretionary portfolio management space in the Kingdom. The division offers clients a diverse range of investment products including equity, fixed income, liquidity and alternative strategies.

During the year, the division maintained its track record of providing excellent performance across the various asset classes, especially local and regional equities. With the backdrop of a challenging macro-economic environment globally and the focus on low volatility and income products, the divisions launched three new Funds during the year, namely HSBC Amanah Freestyle Saudi Equity Fund, HSBC Amanah Sukuk Fund and the HSBC Amanah GCC Equity Income Fund.

Equity Brokerage

During the year, the Bank's equity brokerage business was restructured with three main front lines of businesses; Wholesale Brokerage, Institutional & International Brokerage and Electronic Trading Brokerage. The brokerage division offers a comprehensive range of services including cash equity and equity financing through different delivery channels, including eleven Investment Centres across the Kingdom in addition to on-line services such as HSBC Tadawul and HSBC Mubasher and phone services via the Brokerage Call Centre. These services are supported by a dedicated research team that provides timely and comprehensive sector and company research. HSBC Saudi Arabia Limited also continues to be one of the top providers of Access products to international institutional investors. HSBC's swaps offering enables international institutional investors to participate in the growth of Saudi single-listed stocks indirectly, an offering in which HSBC enjoys a pre-eminent position. HSBC Saudi Arabia Limited also received "the Best Broker" award by the EMEA Finance Magazine in November 2012.

Equity Research

In less than four years, HSBC Saudi Arabia Limited has established a significant local presence and provides research to companies on Tadawul. The research provided is best in class and is setting the standard for the region.

Securities Services

HSBC Securities Services remained the premier service provider in Saudi Arabia and the preferred choice for foreign institutional investors, government, semi-government and family offices. This was recognised again this year as the Bank was awarded “Best Sub-Custodian Bank in Saudi Arabia” in the Global Finance World’s best Sub-Custodian Bank award 2012 for the third consecutive time since 2008. The prime focus during 2012 was to consolidate the Bank’s product offering, pro-actively marketing such products, which resulted in major growth in the client base and 92% growth in assets under custody to SAR 37bn. Custody and Clearing as well as Agency Services witnessed significant growth while newly launched product Global Custody has been well received in the market with important mandates signed.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

KPMG Al Fozan & Al Sadhan

To the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of The Saudi British Bank (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year the ended, and a summary of significant accounting policies and other explanatory notes from 1 to 39. We have not audited note 36, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provision of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Bank and its subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and
- Comply with the requirements of the Regulations for Companies the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation of the consolidated financial statements

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Certified Public Accountant
Registration No.352

6 Rabi Thani 1434H
(16 February 2013)

Consolidated Statement of Financial Position

As at 31 December

	Notes	2012 SAR'000	2011 SAR'000
ASSETS			
Cash and balances with SAMA	*3*	**20,403,864**	22,380,625
Due from banks and other financial institutions	*4*	**8,091,410**	4,347,018
Investments, net	*5*	**27,587,185**	22,200,122
Loans and advances, net	*6*	**96,098,306**	84,811,287
Investment in associates	*7*	**612,232**	565,191
Property and equipment, net	*8*	**604,509**	536,922
Other assets	*9*	**3,254,831**	3,816,340
Total assets		**156,652,337**	138,657,505
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	*11*	**5,931,850**	5,894,056
Customers' deposits	*12*	**120,433,716**	105,576,542
Debt securities in issue	*13*	**4,505,780**	3,978,660
Borrowings	*14*	**140,625**	171,875
Other liabilities	*15*	**5,574,859**	5,870,171
Total liabilities		**136,586,830**	121,491,304
SHAREHOLDERS' EQUITY			
Share capital	*16*	**10,000,000**	7,500,000
Statutory reserve	*17*	**6,991,051**	6,180,972
Other reserves	*18*	**(4,220)**	(225,710)
Retained earnings		**2,078,676**	3,148,439
Proposed dividends	*26*	**1,000,000**	562,500
Total shareholders' equity		**20,065,507**	17,166,201
Total liabilities and shareholders' equity		**156,652,337**	138,657,505

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December

	Notes	2012 SAR'000	2011 SAR'000
Special commission income	*20*	**3,999,985**	3,515,880
Special commission expense	*20*	**735,885**	493,905
Net special commission income		**3,264,100**	3,021,975
Fees and commission income, net	*21*	**1,321,600**	1,215,004
Exchange income, net		**232,208**	265,095
Trading income, net	*22*	**295,457**	307,860
Dividend income		**35,638**	51,474
Gains on non-trading investments, net	*23*	**16,042**	4,192
Other operating income		**1,438**	32,991
Total operating income		**5,166,483**	4,898,591
Salaries and employee related expenses	*24*	**1,008,961**	996,169
Rent and premises related expenses		**95,434**	96,246
Depreciation	*8*	**112,113**	94,995
General and administrative expenses		**375,322**	417,762
Provision for credit losses, net	*6*	**440,544**	475,530
Reversal of impairment of other financial assets	*5*	**(1,589)**	(6,742)
Other operating expenses		**6,612**	361
Total operating expenses		**2,037,397**	2,074,321
Income from operating activities		**3,129,086**	2,824,270
Share in earnings of associates, net	*7*	**111,230**	64,165
Net income for the year		**3,240,316**	2,888,435
Basic and diluted earnings per share (in SAR)	*25*	**3.24**	2.89

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Notes	2011 SAR'000	2010 SAR'000
Net income for the year		**3,240,316**	2,888,435
Other comprehensive income:			
Available for sale financial assets			
- Net change in fair value	*18*	**222,291**	(315,714)
- Transfer to consolidated statement of income	*18*	**(16,042)**	(4,192)
Cash flow hedges			
- Net change in fair value	*18*	**20,181**	(3,190)
- Transfer to consolidated statement of income	*18*	**(4,940)**	(8,585)
		221,490	(331,681)
Total comprehensive income for the year		**3,461,806**	2,556,754

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December

2012	Notes	*Share capital* SAR'000	*Statutory reserve* SAR'000	*Other reserves* SAR'000	*Retained earnings* SAR'000	*Proposed dividend* SAR'000	*Total* SAR'000
Balance at beginning of the year		**7,500,000**	**6,180,972**	**(225,710)**	**3,148,439**	**562,500**	**17,166,201**
Total comprehensive income for the year							
- Net income for the year		**-**	**-**	**-**	**3,240,316**	**-**	**3,240,316**
- Net changes in fair value of cash flow hedges	*18*	**-**	**-**	**20,181**	**-**	**-**	**20,181**
- Net changes in fair value of available for sale investments	*18*	**-**	**-**	**222,291**	**-**	**-**	**222,291**
- Transfer to consolidated statement of income	*18*	**-**	**-**	**(20,982)**	**-**	**-**	**(20,982)**
				221,490	**3,240,316**	**-**	**3,461,806**
Bonus shares issued	*16*	**2,500,000**	**-**	**-**	**(2,500,000)**	**-**	**-**
Transfer to statutory reserve	*17*	**-**	**810,079**	**-**	**(810,079)**	**-**	**-**
2011 final dividend paid		**-**	**-**	**-**	**-**	**(562,500)**	**(562,500)**
2012 final proposed dividend	*26*	**-**	**-**	**-**	**(1,000,000)**	**1,000,000**	**-**
Balance at end of the year		**10,000,000**	**6,991,051**	**(4,220)**	**2,078,676**	**1,000,000**	**20,065,507**
2011							
Balance at beginning of the year		7,500,000	5,458,863	105,971	1,544,613	562,500	15,171,947
Total comprehensive income for the year							
- Net income for the year		-	-	-	2,888,435	-	2,888,435
- Net changes in fair value of cash flow hedges	*18*	-	-	(3,190)	-	-	(3,190)
- Net changes in fair value of available for sale investments	*18*	-	-	(315,714)	-	-	(315,714)
- Transfer to consolidated statement of income	*18*	-	-	(12,777)	-	-	(12,777)
		-	-	(331,681)	2,888,435	-	2,556,754
Transfer to statutory reserve	*17*	-	722,109	-	(722,109)	-	-
2010 final dividend paid		-	-	-	-	(562,500)	(562,500)
2011 final proposed dividend	*26*	-	-	-	(562,500)	562,500	-
Balance at end of the year		7,500,000	6,180,972	(225,710)	3,148,439	562,500	17,166,201

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended 31 December

	Notes	**2011 SAR'000**	2010 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**3,240,316**	2,888,435
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium (accretion of discounts) on non-trading investments		**17,889**	(6,638)
Gains on non-trading investments, net	*23*	**(16,042)**	(4,192)
Depreciation	*8*	**112,113**	94,995
Gains on disposal of property and equipment, net		**(1,438)**	(3,362)
Share in earnings of associates, net	*7*	**(111,230)**	(64,165)
Provision for credit losses, net	*6*	**440,544**	475,530
Reversal of impairment of other financial assets		**(1,589)**	(6,742)
Change in carrying value of debt securities in issue		**27,120**	(21,797)
		3,707,683	3,352,064
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	*3*	**(1,107,682)**	(555,871)
Investments held for trading, net		**8,551**	18,786
Loans and advances		**(11,727,563)**	(11,038,331)
Other assets		**561,509**	(630,941)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**37,794**	1,232,878
Customers' deposits		**14,857,174**	10,903,687
Other liabilities		**(292,644)**	670,185
Net cash from operating activities		**6,044,822**	3,952,457
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**14,221,064**	24,706,666
Purchase of non-trading investments		**(19,395,446)**	(22,267,241)
Purchase of property and equipment	*8*	**(180,545)**	(79,238)
Investment in associates	*7*	**1,794**	(279,494)
Dividend from associates	*7*	**62,395**	-
Proceeds from disposal of property and equipment		**2,283**	9,292
Net cash (used in) from investing activities		**(5,288,455)**	2,089,985
FINANCING ACTIVITIES			
Debt securities in issue		**500,000**	(1,475,297)
Borrowings		**(31,250)**	(15,625)
Dividends paid		**(565,168)**	(566,146)
Net cash used in financing activities		**(96,418)**	(2,057,068)
Increase in cash and cash equivalents		**659,949**	3,985,374
Cash and cash equivalents at beginning of year		**20,932,974**	16,947,600
Cash and cash equivalents at end of year	*27*	**21,592,923**	20,932,974
Special commission received during the year		**3,833,496**	3,637,285
Special commission paid during the year		**687,870**	511,660
Supplemental non cash information			
Other comprehensive income		**221,490**	(331,681)

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements (31 December 2012)

1. General

The Saudi British Bank (SABB) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 79 branches (2011: 80 branches) in the Kingdom of Saudi Arabia. SABB employed 3,049 staff as at 31 December 2012 (2011: 3,123). The address of SABB's head office is as follows:

The Saudi British Bank
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia

The objectives of SABB are to provide a range of banking services. SABB also provides Shariah approved products, which are approved and supervised by an independent Shariah Board established by SABB.

SABB has 100% (2011:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). Effective 1 July 2011 the assets and liabilities of the Company have been transferred to HSBC Saudi Arabia Limited, an associate company of SABB in lieu of additional shares (see note 7). The Company is in the process of being liquidated. The principal activities of the subsidiary were to engage in the business of custody and dealing as an agent excluding underwriting.

SABB has 100% (2011:100%) ownership interest in a subsidiary, SABB Insurance Agency, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as sole insurance agent for SABB Takaful Company (an associate company- see note 7) within the Kingdom of Saudi Arabia as per the agreement between them. However, the Articles of Association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2011:100 %) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The company is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB had 51% ownership interest in a subsidiary, SABB Insurance Services Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). During 2012, SABB sold its entire investment in SABB Insurance Services Limited to Marsh Saudi Arabia. The principal activity of SABB Insurance Services Limited was to act as an insurance broker and consultant to consumers operating within the Kingdom of Saudi Arabia.

1.1. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). SABB prepares its consolidated financial statements to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and SABB's articles of association.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

1.1. Basis of preparation *(continued)*

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held at fair value through income statement (FVIS) and available for sale. In addition, assets and liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risks that are being hedged.

c) Functional and presentation currency

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR), rounded off to the nearest thousands, which is the functional currency of SABB and its subsidiaries.

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of SABB and its subsidiaries, SABB Securities Limited and Arabian Real Estate Company Limited (collectively referred to as “the Bank”). The financial statements of the subsidiaries are prepared for the same reporting year as that of SABB, using consistent accounting policies.The Bank has not consolidated SABB Insurance Agency as its total assets, liabilities and its income and expenses are not significant to the Bank’s overall consolidated financial statements.

A subsidiary is an entity over which SABB has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than half of the voting rights. A subsidiary is consolidated from the date on which control is transferred to SABB and ceases to be consolidated from the date on which the control is transferred from SABB.

Intra- group transactions and balances have been eliminated upon consolidation.

e) Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates, and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment losses on loans and advances

The Bank reviews its non performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Bank reviews its loan portfolios to assess an additional collective impairment provision on each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

1.1. Basis of preparation *(continued)*

e) Critical accounting judgements and estimates *(continued)*

ii) Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

iii) Impairment of available for sale equity investments

The Bank exercises judgement to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

iv) Classification of held to maturity investments

The Bank follows the guidance of IAS 39 when classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

v) Classification of fair value through income statement

The Bank follows criteria set in IAS 39 when classifying financial assets and liabilities to fair value through income statement. In making this judgement, the Bank evaluates its compliance with the conditions as prescribed in IAS 39.

f) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

a) Changes in accounting policies

The accounting policies followed are consistent with those of the previous financial year except for the adoption of -IFRS 7 Financial Instruments: Disclosures (amendment) which has had no financial impact on the consolidated financial statements of the Bank.

b) Trade date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date i.e. the date on which the Bank commits to purchase or sell the assets. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

2. Summary of significant accounting policies *(continued)*

c) Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, currency and special commission rate options (both written and purchased), are measured at fair value (premium received for written options). All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting.

ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading derivatives portfolio with changes in fair value recognised in the consolidated statement of income.

iii) Hedge accounting

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships.

For the purpose of hedge accounting, hedges are classified into two categories; (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the effectiveness of the hedge is assessed on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is recognised in the consolidated statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

In relation to cash flow hedges, which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the consolidated statement of comprehensive income. The ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. On discontinuation of hedge accounting on cash flow hedges any cumulative gain or loss that was recognised in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other reserves is transferred to the consolidated statement of income for the year.

2. Summary of significant accounting policies *(continued)*

d) *Foreign currencies*

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are transfered to exchange income in the statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

e) *Offsetting financial instruments*

Financial assets and liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

f) *Revenue/ expenses recognition*

Special commission income and expense

Special commission income and expense for all commission-bearing financial instruments is recognised in the consolidated statement of income on an effective yield basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective commission rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or received related transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Bank enters into special commission rate swap to change special commission from fixed to floating (or vice versa) the amount of special commission income or expense is adjusted by the net special commission on the swap.

2. Summary of significant accounting policies *(continued)*

f) *Revenue/ expenses recognition* (continued)

Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

Fees and commission income and expenses

Fees and commission income are recognised on an accrual basis when the related services has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time are recognised rateably over the period when the service is being provided. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service is received.

Dividend income

Dividend income is recognised when the right to receive income is established.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense, dividends from financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

g) *Sale and repurchase agreements*

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Bank retains substantially all the risks and reward of ownership and are continued to be measured in accordance with related accounting policies for the underlying financial assets held as FVIS, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in “due to banks and other financial institutions” or “customers’ deposits”, as appropriate. The difference between sale and repurchase price is treated as special commission expense and amortised over the life of the repo agreement, using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”, “Due from banks and other financial institutions” or “Loans and advances”, as appropriate. The difference between purchase and resale price is treated as special commission income and amortised over the life of the reverse repo agreement, using the effective yield method.

h) *Investments*

All investment securities are initially recognised at their fair value which represents the consideration given, including acquisition charges associated with the investment (except for investments held as FVIS, where acquisition charges are not added to the cost at initial recognition and are charged to the consolidated statement of income). Premiums are amortised and discounts accreted using the effective yield method and are taken to special commission income.

Following initial recognition, for securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Investments in listed equity instruments are valued at the exchange quoted prices as of day close. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

2. **Summary of significant accounting policies** *(continued)*

h) Investments *(continued)*

Following initial recognition, for securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS at inception or on adoption of the revised IAS 39. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term. An investment may be designated as FVIS by the management if it satisfies the criteria set out below (except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured):

- it is a financial instrument containing one or more embedded derivatives that significantly modify the cash flows resulting from the financial instrument, or
- it is a financial instrument with an embedded derivative that is required to be separated from the host contract under IAS 39, but the Bank is unable to measure reliably the embedded derivative separately either at acquisition or at a subsequent reporting date

The fair value designation is made in accordance with the Risk Management Strategy approved by the Bank's Assets and Liabilities Committee (ALCO) and is irrevocable. Designated financial assets are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties on trade date and derecognised when sold.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from financial instruments designated as FVIS in the consolidated statement of income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments.

ii) Available for sale

Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices.

Investments, which are classified as "available for sale, are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in the consolidated statement of comprehensive income. On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

iii) Held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Investments in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised and is disclosed as gains/ (losses) on non-trading investments. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

2. Summary of significant accounting policies *(continued)*

h) Investments *(continued)*

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of “held at amortised cost” are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank’s ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

v) Investment in associates

Investment in associates is accounted for using the equity method. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in associates is carried in the statement of financial position at cost plus post acquisition changes in the Bank’s share of net assets of the associates, less any impairment.

The reporting dates of the associates and the Bank are identical and the associate’s accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associates are eliminated to the extent of the Bank’s interest in the associates.

j) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at cost, being the fair value of consideration given, including acquisition charges associated with the loans and advances.

The Bank’s loans and advances are classified as held at amortised cost less any amount written off and provisions for impairment.

For loans and advances, which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

k) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, due from banks and other financial institutions are stated at cost less any amount written off and provisions for impairment, if any.

2. Summary of significant accounting policies *(continued)*

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss on investments other than available for sale equity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in provision for credit losses.

i) Impairment of financial assets held at amortised cost

A financial asset 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 asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost, including those arising from sovereign risk exposures, is established if there is objective evidence that the Bank 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 estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. Renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 100% for such non-performing loans which reach the "write-off point" (write-off points which are set at 180 days past due). Write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated statement of income.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

2. Summary of significant accounting policies *(continued)*

l) Impairment of financial assets *(continued)*

ii) Impairment of financial assets held at fair value

For financial assets held at fair value, where a loss has been recognised directly through the consolidated statement of comprehensive income under shareholders' equity, the cumulative net loss recognised in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. Unlike debt securities, the previously recognised impairment loss cannot be reversed through the consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in consolidated statement of income for the period.

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

m) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and impairment loss. Freehold land is not depreciated.

The cost of other property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	over the period of the lease contract
Furniture, equipment and vehicles	3 to 4 years

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

The assets' residual values and useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2. Summary of significant accounting policies *(continued)*

n) Financial liabilities

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

o) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

p) Guarantees

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "provision for credit losses". The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

q) Accounting for leases

Leases entered into by the Bank as a lessee are all operating leases. Payments made under these operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA and placements with SAMA excluding the statutory deposit, and due from banks and other financial institutions with an original maturity of three months or less from date of acquisition.

s) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

t) Assets held in trust or in fiduciary capacity

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the accompanying consolidated financial statements.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

2. Summary of significant accounting policies *(continued)*

u) Zakat and income taxes

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Zakat and income taxes are not charged to the Bank's consolidated statement of income as they are the liabilities of the shareholders and therefore are deducted from the dividends paid to the shareholders.

v) Shariah approved banking products

In addition to conventional banking, the Bank offers its customers certain Shariah approved banking products, which are approved by its Shariah Board.

All Shariah approved banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

3. Cash and balances with SAMA

	2012	2011
	SAR'000	SAR'000
Cash in hand	**966,179**	821,743
Statutory deposit	**6,902,351**	5,794,669
Placements with SAMA	**12,086,917**	15,208,895
Other balances	**448,417**	555,318
Total	**20,403,864**	22,380,625

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposits with SAMA are not available to finance the SABB's day-to-day operations and therefore are not part of cash and cash equivalents.

4. Due from banks and other financial institutions

	2012	2011
	SAR'000	SAR'000
Current accounts	**5,062,363**	3,298,863
Money market placements	**3,029,047**	1,048,155
Total	**8,091,410**	4,347,018

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2012	2011	**2012**	2011	**2012**	2011
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
i) Held as FVIS						
Floating rate securities	**4,921**	13,472	**-**	-	**4,921**	13,472
Held as FVIS investments	**4,921**	13,472	**-**	-	**4,921**	13,472

Investments classified under FVIS are all held for trading amounting to SAR 4.9 million (2011: SAR 13.5 million).

	Domestic		International		Total	
	2012	2011	**2012**	2011	**2012**	2011
ii) Available for sale						
Fixed rate securities	**17,427,787**	10,627,077	**5,216,901**	3,975,463	**22,644,688**	14,602,540
Floating rate securities	**2,743,550**	4,221,234	**239,612**	758,102	**2,983,162**	4,979,336
Equities	**854,182**	984,171	**73,259**	55,622	**927,441**	1,039,793
Available for sale investments, gross	**21,025,519**	15,832,482	**5,529,772**	4,789,187	**26,555,291**	20,621,669
Allowance for impairment	**-**	-	**(22,901)**	(24,490)	**(22,901)**	(24,490)
Available for sale investments ,net	**21,025,519**	15,832,482	**5,506,871**	4,764,697	**26,532,390**	20,597,179
iii) Held at amortised cost						
Fixed rate securities	**949,863**	1,351,172	**9,000**	9,000	**958,863**	1,360,172
Floating rate securities	**-**	138,000	**-**	-	-	138,000
Held at amortised cost, gross	**949,863**	1,489,172	**9,000**	9,000	**958,863**	1,498,172
Allowance for impairment	**-**	-	**(9,000)**	(9,000)	**(9,000)**	(9,000)
Held at amortised cost investment, net	**949,863**	**1,489,172**	**-**	-	**949,863**	1,489,172
iv) Held to maturity						
Fixed rate securities	**100,011**	**100,299**	**-**	-	**100,011**	100,299
Held to maturity investments	**100,011**	**100,299**	**-**	-	**100,011**	100,299
Investments, net	**22,080,314**	**17,435,425**	**5,506,871**	4,764,697	**27,587,185**	22,200,122

b) The analysis of the composition of investments is as follows:

	2012			2011		
	Quoted	***Unquoted***	***Total***	*Quoted*	*Unquoted*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Fixed rate securities	**6,652,437**	**17,051,125**	**23,703,562**	3,975,462	12,087,549	16,063,011
Floating rate securities	**2,129,077**	**859,006**	**2,988,083**	3,709,013	1,421,795	5,130,808
Equities	**844,818**	**82,623**	**927,441**	984,171	55,622	1,039,793
	9,626,332	**17,992,754**	**27,619,086**	8,668,646	13,564,966	22,233,612
Allowance for impairment	**-**	**(31,901)**	**(31,901)**	-	(33,490)	(33,490)
Investments, net	**9,626,332**	**17,960,853**	**27,587,185**	8,668,646	13,531,476	22,200,122

Unquoted investments include securities of SAR 15,998.0 million (2011: SAR 12,195.6 million) issued by the Saudi Arabian Government and its agencies.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

5. Investments, net *(continued)*

c) *The analysis of unrealised gains and the fair values of held at amortised cost and held to maturity investments, are as follows:*

	2012			2011		
	Carrying value	***Gross unrealised gain***	***Fair value***	*Carrying value*	*Gross unrealised gain*	*Fair value*
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
i) Held at amortised cost						
Fixed rate securities	**949,863**	**22,931**	**972,794**	1,351,172	68,093	1,419,265
Floating rate securities	**-**	**-**	**-**	138,000	88	138,088
Total	**949,863**	**22,931**	**972,794**	1,489,172	68,181	1,557,353
ii) Held to maturity						
Fixed rate securities	**100,011**	**184**	**100,195**	100,299	4,627	104,926
Total	**100,011**	**184**	**100,195**	100,299	4,627	104,926

d) *The analysis of investments by counterparty is as follows:*

	2012	2011
	SAR'000	SAR'000
Government and quasi government	**21,938,813**	17,345,151
Corporate	**2,220,193**	1,902,219
Banks and other financial institutions	**3,418,289**	2,941,340
Other	**9,890**	11,412
Total	**27,587,185**	22,200,122

Equities reported under available for sale investments include unquoted shares of SAR 9.9 million (2011: SAR 11.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include Saudi Government Bonds classified as available for sale amounting to SAR 316.7 million (2011: SAR nil) which have been pledged under repurchase agreement with customers. The market value of these investments is SAR 316.5 million (2011: SAR nil).

e) *Credit quality of investments*

	2012	2011
	SAR'000	SAR'000
Saudi Government bonds	**15,998,363**	12,195,596
Investment grade	**8,288,696**	8,311,319
Non investment grade	**237,041**	174,658
Unrated	**3,063,085**	1,518,549
Total	**27,587,185**	22,200,122

The Saudi Government Bonds comprise Saudi Government Development Bonds and treasury Bills.

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Issuer ratings have been used for bonds which have not been rated by any agency amounting to SAR nil (2011: SAR 99.3 million).

The unrated category mainly comprises of Saudi corporate Bonds, quasi government bonds, private equities, quoted and unquoted equities.

f) *Movements of allowance for impairment of investments:*

	2012	2011
	SAR'000	SAR'000
Balance at beginning of the year	**33,490**	40,232
Amounts recovered during the year	**(1,589)**	(6,742)
Balance at end of the year	**31,901**	33,490

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2012			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Performing loans and advances-gross	**1,767,124**	**17,133,422**	**78,012,589**	**96,913,135**
Non performing loans and advances, net	**1,033**	**49,006**	**1,548,516**	**1,598,555**
Total loans and advances	**1,768,157**	**17,182,428**	**79,561,105**	**98,511,690**
Provision for credit losses (specific and collective)	**(80,005)**	**(228,983)**	**(2,104,396)**	**(2,413,384)**
Loans and advances, net	**1,688,152**	**16,953,445**	**77,456,709**	**96,098,306**

	2011			
	Credit Cards	*Consumer Loans*	*Commercial Loans and Overdrafts*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000
Performing loans and advances-gross	1,694,441	14,538,498	68,981,007	85,213,946
Non performing loans and advances, net	5,934	36,192	1,635,938	1,678,064
Total loans and advances	1,700,375	14,574,690	70,616,945	86,892,010
Provision for credit losses (specific and collective)	(52,492)	(171,942)	(1,856,289)	(2,080,723)
Loans and advances, net	1,647,883	14,402,748	68,760,656	84,811,287

Loans and advances, net include Shariah approved products totalling SAR 64,510 million (2011: SAR 55,207 million) which are stated at cost less provision for credit losses of SAR 1,021.9 million (2011: SAR 839.7 million).

Provision for credit losses charged to the consolidated statement of income related to Shariah approved products is SAR 253.7 million (2011: SAR 255.2 million).

Loans and advances include loans amounting to SAR 974 million (2011: SAR 1,400 million) that have been fair value hedged through a fixed to floating interest rate swap. The positive mark to market on these loans was SAR 1.7 million as at the end of the current year (2011: SAR 1.4 million).

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 270.6 million (2011: SAR 208.2 million).

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

6. Loans and advances, net *(continued)*

b) Movement in provision for credit losses:

2012

	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Balance at beginning of the year	**52,492**	**171,942**	**1,856,289**	**2,080,723**
Bad debts written off	**(78,572)**	**(168,072)**	**(12,956)**	**(259,600)**
Provided during the year, net of reversals	**106,085**	**225,113**	**268,098**	**599,296**
Recoveries of amounts previously provided	**-**	**-**	**(7,035)**	**(7,035)**
Balance at the end of the year	**80,005**	**228,983**	**2,104,396**	**2,413,384**

2011

	Credit Cards	*Consumer Loans*	*Commercial Loans and Overdrafts*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	146,817	236,370	2,231,285	2,614,472
Bad debts written off	(121,311)	(180,315)	(820,046)	(1,121,672)
Provided during the year, net of reversals	26,986	115,887	472,562	615,435
Recoveries of amounts previously provided	-	-	(27,512)	(27,512)
Balance at the end of the year	52,492	171,942	1,856,289	2,080,723

The allowance for credit losses above includes a collective allowance amounting to SAR 1,299.9 million (2011: SAR 1,044.5 million) related to the performing portfolio.

The net charge to income on account of provision for credit losses is SAR 440.5 million (2011: SAR 475.5 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off of SAR 151.7 million (2011 : SAR 112.4 million).

6. **Loans and advances, net** *(continued)*

c) Credit quality of loans and advances:

i) Neither past due nor impaired loans

	2012			
<u>**Grades**</u>	***Credit Cards***	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Undoubted	**-**	**-**	**993,575**	**993,575**
Good	**-**	**-**	**30,431,857**	**30,431,857**
Satisfactory	**1,625,033**	**16,013,500**	**45,607,660**	**63,246,193**
Total	**1,625,033**	**16,013,500**	**77,033,092**	**94,671,625**

	2011			
<u>Grades</u>	*Credit Cards*	*Consumer Loans*	*Commercial Loans and Overdrafts*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000
Undoubted	-	-	84,738	84,738
Good	-	-	24,499,148	24,499,148
Satisfactory	1,544,210	13,776,603	42,977,162	58,297,975
Total	1,544,210	13,776,603	67,561,048	82,881,861

Undoubted: The strongest credit risk with a negligible probability of default. Such entities would have an extremely strong capacity to meet long term commitments in adverse market conditions.

Good: A strong credit risk with a low probability of default. These entities have a strong capacity to meet long term commitments but some sensitivity to market events.

Satisfactory: A satisfactory credit risk with a moderate probability of default. These entities have the capacity to meet medium term and short term commitments however there is likely to be a need for periodic monitoring due to a higher sensitivity to market events.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

6. Loans and advances, net *(continued)*

c) Credit quality of loans and advances: *(continued)*

ii) Ageing of loans and advances (past due but not impaired)

	2012			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
From 1 day to 30 days	**66,205**	**883,531**	**884,014**	**1,833,750**
From 31 days to 90 days	**38,587**	**154,865**	**29,115**	**222,567**
From 91 days to 180 days	**37,299**	**81,526**	**66,368**	**185,193**
Total	**142,091**	**1,119,922**	**979,497**	**2,241,510**

	2011			
	Credit Cards	*Consumer Loans*	*Commercial Loans and Overdrafts*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000
From 1 day to 30 days	63,453	552,934	1,260,044	1,876,431
From 31 days to 90 days	40,884	123,108	14	164,006
From 91 days to 180 days	45,894	85,853	159,901	291,648
Total	150,231	761,895	1,419,959	2,332,085

6. Loans and advances, net *(continued)*

c) *Credit quality of loans and advances: (continued)*

iii) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows

	2012			
	Performing	***Non performing, net***	***Provision for credit losses***	***Loans and advances, net***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Government and quasi Government	**6,009,501**	**-**	**-**	**6,009,501**
Agriculture and fishing	**739,133**	**-**	**-**	**739,133**
Manufacturing	**15,549,845**	**196,537**	**(65,404)**	**15,680,978**
Mining and quarrying	**212,675**	**-**	**-**	**212,675**
Electricity, water, gas and health services	**2,496,883**	**-**	**-**	**2,496,883**
Building and construction	**7,065,300**	**391,011**	**(104,588)**	**7,351,723**
Commerce	**20,257,225**	**312,795**	**(280,607)**	**20,289,413**
Transportation and communication	**4,379,350**	**-**	**-**	**4,379,350**
Services	**12,172,016**	**23,586**	**(22,737)**	**12,172,865**
Consumer loans and credit cards	**18,900,546**	**50,039**	**(308,988)**	**18,641,597**
Other	**9,130,661**	**624,587**	**(331,132)**	**9,424,116**
Collective impairment provision	**-**	**-**	**(1,299,928)**	**(1,299,928)**
Total	**96,913,135**	**1,598,555**	**(2,413,384)**	**96,098,306**

	2011			
	Performing	*Non performing, net*	*Provision for credit losses*	*Loans and advances, net*
	SAR'000	SAR'000	SAR'000	SAR'000
Government and quasi Government	2,239,257	-	-	2,239,257
Agriculture and fishing	414,810	495	-	415,305
Manufacturing	17,870,727	164,235	(62,262)	17,972,700
Mining and quarrying	1,447	-	-	1,447
Electricity, water, gas and health services	1,293,552	-	-	1,293,552
Building and construction	5,860,156	436,546	(110,661)	6,186,041
Commerce	19,950,790	305,426	(277,171)	19,979,045
Transportation and communication	6,589,376	918	(602)	6,589,692
Services	6,964,571	26,045	(24,502)	6,966,114
Consumer loans and credit cards	16,232,939	42,126	(224,434)	16,050,631
Other	7,796,321	702,273	(336,635)	8,161,959
Collective impairment provision	-	-	(1,044,456)	(1,044,456)
Total	85,213,946	1,678,064	(2,080,723)	84,811,287

The provision for credit losses on the consumer loans and advances is calculated on a collective basis.

The collective impairment provision is based on an asset quality matrix, which includes the grading structure in respect of the credit risk of the customers as well as general economic outlook.

d) *Collateral:*

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and in-ternational equities, real estate and other fixed assets.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

7. Investment in associates

SABB Securities Limited, a subsidiary of SABB, is in the process of being liquidated by SABB. During 2011, the as-sets and liabilities of SABB Securities Limited have been transferred to HSBC Saudi Arabia Limited effective 1 July 2011, resulting in an increased shareholding of SABB in HSBC Saudi Arabia Limited from 40% to 51%. The Bank is not consolidating HSBC Saudi Arabia Limited as it does not have the power to govern the financial and operating poli-cies of HSBC Saudi Arabia Limited.

HSBC Saudi Arabia Limited is involved in investment banking services in addition to being engaged in the business of custody and dealing as an agent excluding underwriting in the Kingdom of Saudi Arabia.

SABB owns 32.5% of the equity shares of SABB Takaful which carries out Shariah compliant insurance activities and offers family and general takaful products.

	2012			2011		
	HSBC Saudi Arabia Limited	***SABB Takaful***	***Total***	*HSBC Saudi Arabia Limited*	*SABB Takaful*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	**453,689**	**111,502**	**565,191**	113,000	108,532	221,532
Additional investment during the year	**-**	**-**	**-**	279,494	-	279,494
Share of undistributed profits	**106,737**	**4,493**	**111,230**	61,195	2,970	64,165
Dividend received	**(62,395)**	**-**	**(62,395)**	-	-	-
Adjustments	**(1,794)**	**-**	**(1,794)**	-	-	-
Balance at end of the year	**496,237**	**115,995**	**612,232**	453,689	111,502	565,191

Share of the associates' financial statements:

	2012		2011	
	HSBC Saudi Arabia Limited	***SABB Takaful***	*HSBC Saudi Arabia Limited*	*SABB Takaful*
	SAR' 000	**SAR' 000**	SAR' 000	SAR' 000
Total assets	**496,201**	**314,544**	458,303	320,005
Total liabilities	**117,857**	**198,549**	93,208	208,503
Total equity	**378,344**	**115,995**	365,095	111,502
Total income	**232,178**	**17,750**	160,370	17,074
Total expenses	**125,441**	**13,257**	99,175	14,104

8. Property and equipment, net

	Land and Buildings	*Leasehold improvements*	*Equipment, furniture and vehicles*	**2012** *Total*	2011 *Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	SAR'000
Cost					
As at 1 January	**600,119**	**425,270**	**731,368**	**1,756,757**	1,713,627
Additions	**83,821**	**24,588**	**72,136**	**180,545**	79,238
Disposals	**(70)**	**-**	**(42,068)**	**(42,138)**	(36,108)
As at 31 December	**683,870**	**449,858**	**761,436**	**1,895,164**	1,756,757
Accumulated depreciation					
As at 1 January	**328,837**	**269,146**	**621,852**	**1,219,835**	1,155,018
Charge for the year	**18,250**	**30,459**	**63,404**	**112,113**	94,995
Disposals	**-**	**-**	**(41,293)**	**(41,293)**	(30,178)
As at 31 December	**347,087**	**299,605**	**643,963**	**1,290,655**	1,219,835
Net book value					
As at 31 December 2012	**336,783**	**150,253**	**117,473**	**604,509**	
As at 31 December 2011	271,282	156,124	109,516		536,922

Land and buildings, leasehold improvements and equipment furniture and vehicles include work in progress as at 31 December 2012 amounting to SAR 2.0 million (2011: SAR 8.6 million), SAR 37.5 million (2011: SAR 47.3 million) and SAR 31.7 million (2011 : SAR 15.4 million) respectively.

9. Other assets

	2012	2011
	SAR'000	SAR'000
Accrued special commission receivable		
– banks and other financial institutions	**166**	492
– investments	**131,683**	94,517
– loans and advances	**481,483**	351,834
Total accrued special commission receivable	**613,332**	446,843
Accounts receivable	**90,757**	48,416
Positive fair value of derivatives (note10)	**1,962,631**	1,959,762
Advance tax	**169,269**	114,157
Others	**418,842**	1,247,162
Total	**3,254,831**	3,816,340

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

10. Derivatives

In the ordinary course of business, the Bank utilises the following derivative financial instruments for both trading and hedging purposes:

a) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardised amounts on regulated exchanges, and changes in futures contract values are settled daily.

b) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a predetermined price.

c) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross currency special commission rate swaps, principal, fixed and floating special commission payments are exchanged in different currencies.

d) Forward rate agreements

Forward rate agreements are over-the-counter negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 29 - credit risk, note 31- market risk and note 32 - liquidity risk). Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

10. Derivatives *(continued)*

Derivatives held for hedging purposes *(continued)*

As part of its asset and liability management process, the Bank uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against overall statement of financial position exposures. Strategic hedging other than portfolio hedging does not qualify for hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission income at a variable rate. The Bank uses commission rate swaps as cash flow hedges of these special commission rate risks. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	2012	
	Within 1 year	***1-3 years***
	SAR'000	**SAR'000**
Cash inflows (assets)	**-**	**-**
Cash out flows (liabilities)	**(17,356)**	**-**
Net cash outflow	**(17,356)**	**-**

	2011	
	Within 1 year	*1-3 years*
	SAR'000	SAR'000
Cash inflows (assets)	437	-
Cash out flows (liabilities)	(18,805)	(14,065)
Net cash inflow	(18,368)	(14,065)

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity and the monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to market risk or credit risk, which is generally limited to the positive fair value of the derivatives.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

10. Derivatives *(continued)*

2012	*Positive fair value* SAR'000	*Negative fair value* SAR'000	*Notional amount total* SAR'000	Notional amounts by term to maturity: *Within 3 months* SAR'000	*3-12 months* SAR'000	*1-5 years* SAR'000	*Over 5 years* SAR'000	*Monthly average* SAR'000
Derivatives held for trading:								
Special commission rate swaps	**1,024,433**	**(916,708)**	**47,681,937**	**1,224,459**	**5,027,214**	**38,204,039**	**3,226,225**	**47,826,148**
Special commission rate futures and options	**35,381**	**(35,381)**	**5,495,972**	**-**	**2,869,552**	**713,920**	**1,912,500**	**4,995,202**
Spot and forward foreign exchange contracts	**32,419**	**(23,455)**	**24,692,588**	**15,964,530**	**8,703,187**	**24,871**	**-**	**29,253,078**
Currency options	**750,414**	**(750,414)**	**37,052,768**	**5,539,703**	**16,212,510**	**13,690,903**	**1,609,652**	**39,366,175**
Currency swaps	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Others	**57,368**	**(57,368)**	**1,388,576**	**-**	**698,576**	**690,000**	**-**	**1,379,465**
Derivatives held as fair value hedges:								
Special commission rate swaps	**62,616**	**(55,104)**	**4,407,851**	**65,752**	**629,509**	**3,600,090**	**112,500**	**4,587,803**
Derivatives held as cash flow hedges:								
Special commission rate swaps	**-**	**(9,585)**	**1,250,000**	**-**	**1,250,000**	**-**	**-**	**1,434,896**
Total	**1,962,631**	**(1,848,015)**	**121,969,692**	**22,794,444**	**35,390,548**	**56,923,823**	**6,860,877**	

10. Derivatives *(continued)*

				Notional amounts by term to maturity				
	Positive fair value	*Negative fair value*	*Notional amount total*	*Within 3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Monthly average*
2011	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Derivatives held for trading:								
Special commission rate swaps	1,199,241	(1,110,617)	47,494,269	3,797,479	15,709,125	24,416,371	3,571,294	49,297,807
Special commission rate futures and options	38,163	(38,163)	3,469,552	120,000	-	3,199,552	150,000	3,303,035
Spot and forward foreign exchange contracts	104,779	(107,555)	33,811,951	23,591,975	10,143,786	76,190	-	32,215,582
Currency options	537,050	(537,050)	15,417,386	1,451,830	5,234,052	4,590,084	4,141,420	12,982,737
Currency swaps	-	-	-	-	-	-	-	368,824
Others	35,688	(35,688)	1,440,000	-	-	1,440,000	-	1,332,500
Derivatives held as fair value hedges:								
Special commission rate swaps	43,266	(62,987)	4,773,276	69,136	336,722	4,311,168	56,250	4,248,641
Derivatives held as cash flow hedges:								
Special commission rate swaps	1,575	(27,564)	1,343,750	-	93,750	1,250,000	-	1,343,750
Total	1,959,762	(1,919,624)	107,750,184	29,030,420	31,517,435	39,283,365	7,918,964	

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

10. Derivatives *(continued)*

The tables below show a summary of the hedged items, the nature of the risk being hedged, the hedging instruments and their fair values.

	2012					
	Fair value	***Hedge inception value***	***Risk***	***Hedging instrument***	***Positive fair value***	***Negative fair value***
	SAR'000	**SAR'000**			**SAR'000**	**SAR'000**
Description of the hedged items:						
Fixed commission rate investments	**1,236,479**	**1,185,037**	Fair value	Special commission rate swap	**-**	**(51,803)**
Fixed commission rate loans	**973,635**	**971,902**	Fair value	Special commission rate swap	**1,606**	**(3,301)**
Fixed commission rate debt securities in issue	**2,300,780**	**2,241,244**	Fair value	Special commission rate swap	**61,011**	**-**
Floating commission rate investments	**-**	**-**	Cash flow	Special commission rate swap	**-**	**-**
Floating commission rate debt securities in issue	**1,250,117**	**1,250,000**	Cash flow	Special commission rate swap	**-**	**(9,585)**

	2011					
	Fair value	*Hedge inception value*	*Risk*	*Hedging instrument*	*Positive fair value*	*Negative fair value*
	SAR'000	SAR'000			SAR'000	SAR'000
Description of the hedged items:						
Fixed commission rate investments	1,178,251	1,123,122	Fair value	Special commission rate swap	-	(55,641)
Fixed commission rate loans	1,400,324	1,398,900	Fair value	Special commission rate swap	5,980	(7,346)
Fixed commission rate debt securities in issue	2,273,660	2,238,177	Fair value	Special commission rate swap	37,286	-
Floating commission rate investments	87,329	93,646	Cash flow	Special commission rate swap	1,575	-
Floating commission rate debt securities in issue	1,246,786	1,250,000	Cash flow	Special commission rate swap	-	(27,564)

The net gains on the hedging instruments for fair value hedges are SAR 27.2 million (2011: SAR 97.4 million). The net losses on the hedged item attributable to the hedged risk are SAR 27.4 million (2011: SAR 97.4 million). The net fair value of the derivatives is positive SAR 7.5 million (2011: negative SAR 19.7 million).

Approximately 20% (2011: 17%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 6% (2011: 4%) of the positive fair value contracts are with any individual counterparty at the reporting date.

11. Due to banks and other financial institutions

	2012 SAR'000	2011 SAR'000
Current accounts	**2,375,109**	1,943,322
Money market deposits	**3,556,741**	3,950,734
Total	**5,931,850**	5,894,056

Money market deposits also include deposits placed by SAMA amounting to SAR 578.1 million (2011: SAR 552.8 million).

12. Customers' deposits

	2012 SAR'000	2011 SAR'000
Demand	**63,417,449**	50,741,519
Savings	**6,096,869**	5,221,507
Time	**49,526,952**	48,284,323
Others	**1,392,446**	1,329,193
Total	**120,433,716**	105,576,542

Customers' deposits include SAR 61,968.2 million (2011: SAR 51,422.4 million) deposits under Shariah approved product contracts.

Time deposits include deposits against sale and repurchase agreement amounting to SAR 316.7 million (2011: SAR nil). Other customers' deposits include SAR 1,391.6 million (2011: SAR 1,328.2 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2012 SAR'000	2011 SAR'000
Demand	**7,626,153**	4,944,099
Savings	**224,264**	209,996
Time	**8,173,313**	10,269,408
Others	**359,893**	269,040
Total	**16,383,623**	15,692,543

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

13. Debt securities in issue

	2012	2011
	SAR'000	SAR'000
USD 600 million 5 year fixed rate notes	**2,300,780**	2,273,660
SAR 705 million 5 year floating rate notes	**705,000**	1,705,000
SAR 1,500 million 5 year SAR subordinated Sukuk	**1,500,000**	-
Total	**4,505,780**	3,978,660

USD 600 million 5 year fixed rate notes

These notes were issued during the year 2010 at a fixed rate of 3% and are due to mature on 12 November 2015. The notes are unsecured and carry an effective yield of 3.148% which includes a credit spread of 170 bps. The notes are nonconvertible, are unsecured and are listed on the London Stock Exchange.

The special commission rate exposure on these notes has been hedged by a fixed to floating special commission rate swap. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a fair value hedge in these financial statements. The negative mark to market on these notes pertaining to the hedged portion is SAR 35.5 million as at the end of the current year.

SAR 705 million 5 year floating rate notes

These notes were issued during 2008 and are due to mature on 21 July 2013. During the current year, these notes were partially exchanged to the extent of SAR 1,000 million for the SABB SAR subordinated Sukuk issuance. The notes carry effective special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are unsecured, non convertible and are listed on Saudi Stock Exchange (Tadawul).

The special commission rate exposure on these notes has been partially hedged by a floating to fixed special commission rate swap to the extent of SAR 650 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in these financial statements.

SAR 1,500 million 5 year SAR subordinated Sukuk

The Sukuk was issued by SABB on 28 March 2012 and matures in March 2017. The Sukuk was issued as a partial commercial exchange from senior to subordinated debt to the extent of SAR 1,000 million. The remaining portion of SAR 500 million was fully subscribed in cash.

The Sukuk carries effective special commission income at three months' SIBOR plus 120 bps payable quarterly. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

The special commission rate exposure on the Sukuk has been partially hedged by a floating to fixed special commission rate swap to the extent of SAR 600 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in these financial statements.

14. Borrowings

This represents a 12 year amortising fixed rate loan from a financial institution that carries special commission at the rate of 5.11% payable semi annually. The loan was taken on 7 July 2005 and is repayable by 15 June 2017.

15. Other liabilities

	2012	2011
	SAR'000	SAR'000
Accrued special commission payable		
– banks and other financial institutions	**63,100**	52,690
– customers' deposits	**149,399**	115,718
– debt securities in issue	**18,177**	14,177
– borrowings	**339**	415
Total accrued special commission payable	**231,015**	183,000
Accounts payable	**816,005**	1,385,444
Drawings payable	**1,084,279**	894,205
Negative fair value of derivatives (note 10)	**1,848,015**	1,919,624
Others	**1,595,545**	1,487,898
Total	**5,574,859**	5,870,171

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 1,000 million shares of SAR 10 each (2011: 750 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2012	2011
Saudi shareholders	60%	60%
HSBC Holdings BV	40%	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

The shareholders of SABB approved a bonus issue of one share for every three shares in their Extra Ordinary General Meeting held on 13 March 2012. As a result, 250 million shares of SAR 10 each were issued by capitalising retained earnings.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 810 million (2011: SAR 722 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

18. Other reserves

	2012		
	Cash flow hedges	***Available for sale investments***	***Total***
	SAR'000	**SAR'000**	**SAR'000**
Balance at beginning of the year	**(21,379)**	**(204,331)**	**(225,710)**
Net change in fair value	**20,181**	**222,291**	**242,472**
Transfer to consolidated statement of income	**(4,940)**	**(16,042)**	**(20,982)**
Net movement during the year	**15,241**	**206,249**	**221,490**
Balance at end of the year	**(6,138)**	**1,918**	**(4,220)**

	2011		
	Cash flow hedges	*Available for sale investments*	*Total*
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	(9,604)	115,575	105,971
Net change in fair value	(3,190)	(315,714)	(318,904)
Transfer to consolidated statement of income	(8,585)	(4,192)	(12,777)
Net movement during the year	(11,775)	(319,906)	(331,681)
Balance at end of the year	(21,379)	(204,331)	(225,710)

The discontinuation of hedge accounting during the year and prior years resulted in reclassification of the associated cumulative gains of SAR 4.9 million (2011: SAR 8.6 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Commitments and contingencies

a) *Legal proceedings*

As at 31 December 2012 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) *Capital commitments*

As at 31 December 2012 the Bank has capital commitments of SAR 108.9 million (2011: SAR 66.6 million) in respect of buildings and equipment purchases.

c) *Credit related commitments and contingencies*

Credit related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on be-half of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The cash requirement under these instruments is considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfil their primary obligation.

Commitments to extend credit represent the unutilised portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unutilised commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unutilised commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or be terminated without being funded.

19. Commitments and contingencies *(continued)*

d) *The contractual maturity structure of the Bank's credit related commitments and contingencies is as follows:*

2012	***Within 3 months*** **SAR'000**	***3-12 months*** **SAR'000**	***1-5 years*** **SAR'000**	***Over 5 years*** **SAR'000**	***Total*** **SAR'000**
Letters of credit	**9,804,879**	**4,125,883**	**1,883,126**	**-**	**15,813,888**
Guarantees	**14,873,046**	**16,064,400**	**19,646,215**	**68,220**	**50,651,881**
Acceptances	**2,879,366**	**463,390**	**3,869**	**-**	**3,346,625**
Irrevocable commitments to extend credit	**184,992**	**-**	**371,029**	**1,234,470**	**1,790,491**
Total	**27,742,283**	**20,653,673**	**21,904,239**	**1,302,690**	**71,602,885**

2011	*Within 3 months* SAR'000	*3-12 months* SAR'000	*1-5 years* SAR'000	*Over 5 years* SAR'000	*Total* SAR'000
Letters of credit	9,578,429	3,642,087	515,378	-	13,735,894
Guarantees	17,441,108	12,224,176	10,835,948	34,622	40,535,854
Acceptances	2,896,049	453,430	47,126	-	3,396,605
Irrevocable commitments to extend credit	1,849	457,909	1,495,052	-	1,954,810
Total	29,917,435	16,777,602	12,893,504	34,622	59,623,163

The outstanding unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank is SAR 57,340.2 million (2011: SAR 45,536.4 million).

e) *The analysis of credit related commitments and contingencies by counterparty is as follows:*

	2012 **SAR'000**	2011 SAR'000
Government and quasi government	**378,545**	947,153
Corporate	**57,282,681**	47,812,445
Banks and other financial institutions	**13,740,570**	10,639,597
Other	**201,089**	223,968
Total	**71,602,885**	59,623,163

f) *Operating lease commitments*

The future minimum lease payments under non-cancellable leases where the Bank is the lessee are as follows:

	2012 **SAR'000**	2011 SAR'000
Less than 1 year	**59,206**	55,599
1 to 5 years	**171,594**	163,239
Over 5 years	**100,898**	125,147
Total	**331,698**	343,985

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

20. Net special commission income

	2012 SAR'000	2011 SAR'000
Special commission income		
Investment		
– available for sale investments	**351,270**	282,383
– held at amortised cost	**53,458**	79,781
– held to maturity investments	**5,066**	5,066
	409,794	367,230
Due from banks and other financial institutions	**40,946**	33,771
Loans and advances	**3,549,245**	3,114,879
Total	**3,999,985**	3,515,880
Special commission expense		
Due to banks and other financial institutions	**157,692**	108,696
Customers' deposits	**473,560**	236,630
Debt securities in issue	**96,185**	138,570
Borrowings	**8,448**	10,009
Total	**735,885**	493,905
Net special commission income	**3,264,100**	3,021,975

21. Fees and commission income, net

	2012 SAR'000	2011 SAR'000
Fee and commission income:		
– Share trading and fund management	**45,898**	115,884
– Trade finance	**736,034**	646,780
– Corporate finance and advisory	**130,767**	117,042
– Cards	**303,119**	285,110
– Other banking services	**324,702**	238,047
Total fee and commission income	**1,540,520**	1,402,863
Fee and commission expense:		
– Cards	**(115,152)**	(99,392)
– Custodial services	**(847)**	(719)
– Other banking services	**(102,921)**	(87,748)
Total fee and commission expense	**(218,920)**	(187,859)
Fees and commission income, net	**1,321,600**	1,215,004

22. Trading income, net

	2012 SAR'000	2011 SAR'000
Foreign exchange income, net	**270,847**	254,465
Derivatives	**24,624**	55,721
Debt securities	**185**	162
Others	**(199)**	(2,488)
Total	**295,457**	307,860

23. Gains on non-trading investments, net

	2012 SAR'000	2011 SAR'000
Available for sale investments	**16,042**	4,192

24. Salaries and employee related expenses

i) Quantitative Disclosure

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended 31 December 2012 and 31 December 2011, and the forms of such payments.

	Number of employees	***Fixed compensation***	***Variable compensation paid in 2012***		
			Cash	***Shares***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Senior executives requiring SAMA no objection	**11**	**17,705**	**10,417**	**820**	**11,237**
Employees engaged in risk taking activities	**269**	**118,499**	**42,503**	**459**	**42,962**
Employees engaged in control functions	**89**	**36,023**	**9,548**	**288**	**9,836**
Other employees	**2,680**	**446,322**	**99,147**	**939**	**100,086**
Outsourced employees	**483**	**29,766**	**8,032**	**-**	**8,032**
Total	**3,532**	**648,315**	**169,647**	**2,506**	**172,153**
Variable compensation accrued or paid in 2012		**203,492**			
Other employee related benefits		**157,154**			
Total salaries and employee related expenses		**1,008,961**			

	Number of employees	*Fixed compensation*	*Variable compensation paid in 2011*		
			Cash	*Shares*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Senior executives requiring SAMA no objection	13	22,038	14,619	350	14,969
Employees engaged in risk taking activities	228	108,377	40,711	19	40,730
Employees engaged in control functions	80	30,065	6,483	27	6,510
Other employees	2,802	522,184	136,006	20	136,026
Outsourced employees	410	34,109	3,423	-	3,423
Total	3,533	716,773	201,242	416	201,658
Variable compensation accrued or paid in 2011		226,242			
Other employee related benefits		53,154			
Total salaries and employee related expenses		996,169			

Senior executives (requiring SAMA no objection):

This comprises senior management having responsibility and authority for formulating strategies, directing and control-ling the activities of the Bank whose appointment requires no objection from SAMA. This covers the Managing Director and other executives directly reporting to him.

Employees engaged in risk taking activities:

This comprises of management staff within the business lines (Corporate, Trade Services, Private Banking and Treasury employees), who are responsible for executing and implementing the business strategy on behalf of the Bank. This also includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertak-ing and executing business proposals and treasury dealing activities.

Employees engaged in control functions:

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review func-tions (Risk Management, Compliance, Internal Audit, Treasury Operation, Amanah Islamic Banking Services, Finance and Accounting). These functions are fully independent from risk taking units.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

24. Salaries and employee related expenses *(continued)*

i) Quantitative Disclosure *(continued)*

Other employees:
This includes all other employees of the Bank, excluding those already reported under categories mentioned above.

Outsourced employees:
Staff employed by various agencies who supply services to the Bank on a full-time basis in non-critical roles. None of these roles require risk undertaking or control.

ii) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements

SAMA being the Banking industry regulator for the Kingdom of Saudi Arabia, has issued its Rules on compensation practices, which is in line with Basel II and FSB Principles. In compliance with the SAMA Rules on compensation practices, a compensation policy endorsed by Nomination and Remuneration Committee and approved by the Board of Directors has been formulated and implemented.

SABB Compensation Policy

a) Policy Objectives
The policy sets the guidelines as to how both fixed and variable pay will be managed at SABB. The scope of policy co-vers the following: all categories of employees; its subsidiaries; all compensation elements; key determinants of compensation; approval process; reporting processes; bonus deferral process; share retention and relevant stakeholder's roles and responsibilities.

The objectives of the policy are to: align the reward practices with the Bank's strategy & values so as to support the successful execution of the strategy in a risk compliant manner; offer an attractive employee value proposition to attract, retain and motivate competent and committed people; and ensure the financial sustainability of SABB.

b) Compensation Structure
SABB's compensation operates on a Total Package basis that is benchmarked to market data from peers in the appropriate industry. Total Package comprises of the following blend of fixed and variable compensation elements: salaries, al-lowances; benefits; annual bonuses; short-term incentives; and long-term incentives.

c) Performance Management System
The performance of all employees is evaluated against agreed targets using a Performance Scorecard methodology, financial, customer, process and people. A calibration process is applied to ensure fair and equitable performance evaluation. The performance management methodology at SABB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance within a risk compliant manner.

d) Risk-adjustment for Variable Pay schemes
The Bank has reviewed all its variable pay schemes, with the assistance of external remuneration consultants, to ensure that any bonus pay pools have taken into account all relevant risks. The determination of bonus pools is based on appropriate performance factors adjusted for risk. The bonus pool for the Control functions have been ring fenced from short term profits in alignment with SAMA regulations.

e) Bonus Deferral
Bonus deferral in the form of equity applies to all employees who are either subject SAMA "No Objection" and/or undertake or control significant risk undertaking by the Bank. Bonuses of all these employees will be subject to deferral over a three year vesting period. The vesting will be subject to malus conditions.

f) Nomination and Remuneration Committee
The Nomination and Remuneration Committee has oversight of the remuneration structures and policies for all em-ployees to ensure that: all performance based bonuses are adjusted for risk; compensation structures are regulatory compliant; and effective in achieving its stated objectives.

25. Basic and diluted earnings per share

Basic earnings per share for the year ended 31 December 2012 and 2011 is calculated by dividing the net income for the year attributable to the equity holders by 1,000 million shares to give a retroactive effect of change in number of shares as a result of bonus shares issued (see note 16).

Diluted earnings per share is the same as basic earnings per share as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

26. Gross dividend, zakat and income tax

The Board of Directors has proposed a gross dividend of SAR 1,000 million for the year 2012 (2011: SAR 562.5 million). Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Saudi shareholders:
Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 46.7 million (2011: SAR 41.9 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 0.92 per share (2011: SAR 0.66 per share).

Non Saudi shareholders:
Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 253.6 million (2011: SAR 230.4 million).

The share of dividend of HSBC Holdings BV will be paid after deducting the related taxes due as described above.

Status of final assessments:
The Bank received the final assessments from the Department of Zakat and Income Tax (DZIT) for all years upto the year ended 31 December 2004. The Bank has filed an appeal for certain matters in respect of the years ended 31 December 2003 and 31 December 2004.

The Bank has filed its zakat returns for the years ended 31 December 2005 to 31 December 2011. However, the assessments have not been finalised by DZIT.

SABB has received the initial Zakat assessment in respect of the year ended 31 December 2010. The assessment is primarily due to the disallowance of certain longterm investments from the Zakat base of SABB. SABB has filed an appeal before the Preliminary Zakat and Tax Appeal Committee (PZTAC) which is yet to be taken up by the Appeal Committee.

27. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	2012	2011
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	**13,501,513**	16,585,956
Due from banks and other financial institutions with an original maturity of ninety days or less from date of the acquisition	**8,091,410**	4, 347, 018
Total	**21,592,923**	20, 932, 974

28. Operating segments

The Bank's primary business is conducted in Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. There are no material items of income or expense between the operating segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

a) The Bank's reportable segments are as follows:

Retail Banking – which caters mainly to the banking requirements of personal and private banking customers.

Corporate Banking – which caters mainly to the banking requirements of commercial and corporate banking customers.

Treasury – which manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and managing the Bank's investment portfolio and liquidity position.

Others – includes activities of SABB Securities Limited and investment in associates.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2012 and 2011, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

	Retail Banking	***Corporate Banking***	***Treasury***	***Others***	***Total***
2012	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Total assets	**26,571,637**	**71,828,318**	**57,640,150**	**612,232**	**156,652,337**
Total liabilities	**49,314,859**	**60,843,828**	**26,428,143**	**-**	**136,586,830**
Total operating income	**1,604,708**	**2,468,852**	**1,092,923**	**-**	**5,166,483**
Total operating expenses	**1,094,978**	**833,025**	**109,394**	**-**	**2,037,397**
Share in earnings of associates, net	**-**	**-**	**-**	**111,230**	**111,230**
Net income for the year	**509,730**	**1,635,827**	**983,529**	**111,230**	**3,240,316**
Fees and commission income, net	**368,245**	**953,309**	**46**	**-**	**1,321,600**
Trading income, net	**710**	**5,934**	**288,813**	**-**	**295,457**
Credit losses and impairment provision, net	**151,829**	**288,715**	**(1,589)**	**-**	**438,955**

	Retail Banking	*Corporate Banking*	*Treasury*	*Others*	*Total*
2011	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Total assets	21,521,146	65,234,092	51,337,076	565,191	138,657,505
Total liabilities	41,418,513	53,261,190	26,811,601	-	121,491,304
Total operating income	1,396,914	2,370,371	1,029,286	102,020	4,898,591
Total operating expenses	937,036	987,132	94,331	55,822	2,074,321
Share in earnings of associates, net	-	-	-	64,165	64,165
Net income for the year	459,878	1,383,239	934,955	110,363	2,888,435
Fees and commission income, net	351,231	865,744	(1,955)	(16)	1,215,004
Trading income, net	886	7,341	299,633	-	307,860
Credit losses and impairment provision, net	18,798	456,732	(6,742)	-	468,788

28. Operating segments *(continued)*

b) The Bank's credit exposure by operating segment is as follows:

2012	***Retail Banking*** **SAR'000**	***Corporate Banking*** **SAR'000**	***Treasury*** **SAR'000**	***Total*** **SAR'000**
Assets	**24,732,382**	**71,365,924**	**54,188,839**	**150,287,145**
Commitments and contingencies	**157,977**	**29,895,312**	**-**	**30,053,289**
Derivatives	**-**	**-**	**3,082,904**	**3,082,904**
Total	**24,890,359**	**101,261,236**	**57,271,743**	**183,423,338**

2011	*Retail Banking* SAR'000	*Corporate Banking* SAR'000	*Treasury* SAR'000	*Total* SAR'000
Assets	19,948,476	64,862,811	47,066,229	131,877,516
Commitments and contingencies	178,932	24,492,900	-	24,671,832
Derivatives	-	-	3,521,550	3,521,550
Total	20,127,408	89,355,711	50,587,779	160,070,898

Credit exposure comprises the carrying value of assets excluding cash, property and equipment, other assets, investment in associates and equity investments, and the credit equivalent value for commitments, contingencies and derivatives is based on the credit conversion factor as prescribed by the SAMA Basel II guidelines.

29. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk on credit related commitments and contingencies and derivatives.

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses the external ratings, of the major rating agency, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transac-tions mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes secu-rity when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provi-sion for credit losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in market's products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 19. The information on Bank's maximum credit exposure by operating segment is given in note 28. The information on maximum credit risk exposure and their relative risk weights is also provided in note 35.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

30 a). Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure

	2012					
	Kingdom of Saudi Arabia	*GCC and Middle East*	*Europe*	*North America*	*Other Countries*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
ASSETS						
Cash and balances with SAMA	**20,403,864**	**-**	**-**	**-**	**-**	**20,403,864**
Due from banks and other financial institutions	**599,835**	**1,345,279**	**2,085,997**	**3,985,410**	**74,889**	**8,091,410**
Investments, net	**22,080,314**	**4,673,455**	**286,157**	**-**	**547,259**	**27,587,185**
Loans and advances, net	**94,999,122**	**600,339**	**10,374**	**37,500**	**450,971**	**96,098,306**
Investment in associates	**612,232**	**-**	**-**	**-**	**-**	**612,232**
Total	**138,695,367**	**6,619,073**	**2,382,528**	**4,022,910**	**1,073,119**	**152,792,997**
LIABILITIES						
Due to banks and other financial institutions	**1,405,081**	**1,846,909**	**1,094,703**	**1,562,117**	**23,040**	**5,931,850**
Customer deposits	**118,886,265**	**697,026**	**833,816**	**-**	**16,609**	**120,433,716**
Debt securities in issue	**2,205,000**	**-**	**2,300,780**	**-**	**-**	**4,505,780**
Borrowings	**-**	**-**	**140,625**	**-**	**-**	**140,625**
Total	**122,496,346**	**2,543,935**	**4,369,924**	**1,562,117**	**39,649**	**131,011,971**
Commitments and contingencies	**58,034,687**	**807,401**	**5,671,400**	**356,362**	**6,733,035**	**71,602,885**
CREDIT EXPOSURE (stated at credit equivalent amounts)						
Assets	**136,262,774**	**6,545,814**	**2,382,528**	**4,022,910**	**1,073,119**	**150,287,145**
Commitments and contingencies	**24,098,239**	**379,934**	**2,831,588**	**121,890**	**2,621,638**	**30,053,289**
Derivatives	**1,423,526**	**85,261**	**1,250,596**	**3,699**	**319,822**	**3,082,904**
Total credit exposure	**161,784,539**	**7,011,009**	**6,464,712**	**4,148,499**	**4,014,579**	**183,423,338**

30 a). Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure *(continued)*

	2011					
	Kingdom of Saudi Arabia	*GCC and Middle East*	*Europe*	*North America*	*Other Countries*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
ASSETS						
Cash and balances with SAMA	22,380,625	-	-	-	-	22,380,625
Due from banks and other financial institutions	-	109,386	2,021,996	2,023,570	192,066	4,347,018
Investments, net	17,681,334	3,889,345	442,549	-	186,894	22,200,122
Loans and advances, net	83,156,480	605,289	15,728	37,500	996,290	84,811,287
Investment in associates	565,191	-	-	-	-	565,191
Total	123,783,630	4,604,020	2,480,273	2,061,070	1,375,250	134,304,243
LIABILITIES						
Due to banks and other financial institutions	487,414	523,168	4,039,400	826,585	17,489	5,894,056
Customer deposits	104,797,133	195,944	579,846	-	3,619	105,576,542
Debt securities in issue	1,705,000	-	2,273,660	-	-	3,978,660
Borrowings	-	-	171,875	-	-	171,875
Total	106,989,547	719,112	7,064,781	826,585	21,108	115,621,133
Commitments and contingencies	48,680,801	282,454	2,832,665	350,298	7,476,945	59,623,163
CREDIT EXPOSURE (stated at credit equivalent amounts)						
Assets	121,412,525	4,548,398	2,480,273	2,061,070	1,375,250	131,877,516
Commitments and contingencies	20,222,055	101,344	1,401,610	119,669	2,827,154	24,671,832
Derivatives	1,704,914	148,381	1,643,526	9,131	15,598	3,521,550
Total credit exposure	143,339,494	4,798,123	5,525,409	2,189,870	4,218,002	160,070,898

30 b). The distributions by geographical concentration of impaired loans and advances and impairment for credit losses are as follows:

	2012					
	Kingdom of Saudi Arabia	***GCC and Middle East***	***Europe***	***North America***	***Other Countries***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Non performing loans net	**1,515,725**	**82,830**	**-**	**-**	**-**	**1,598,555**
Provision for credit loss	**2,328,149**	**85,235**	**-**	**-**	**-**	**2,413,384**

	2011					
	Kingdom of Saudi Arabia	*GCC and Middle East*	*Europe*	*North America*	*Other Countries*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Non performing loans net	1,636,128	41,936	-	-	-	1,678,064
Provision for credit loss	2,037,753	42,970	-	-	-	2,080,723

31. Market risk

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

The market risk for the trading book is managed and monitored using Value at Risk (VAR) methodology. Market risk for non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank applies a VAR method-ology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parame-ters and assumptions for change in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal mar-ket environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market condi-tions.

To overcome the VAR limitations mentioned above, the Bank also carries out stress tests of its portfolio to simulate con-ditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regu-larly to the Bank's ALCO committee for their review.

The Bank's VAR related information is as under.

	Foreign exchange	***Special commission rate***	***Overall risk***
2012	**SAR'000**	**SAR'000**	**SAR'000**
VAR as at 31December 2012	**10**	**3,537**	**3,543**
Average VAR for 2012	**457**	**3,526**	**3,519**

	Foreign exchange	*Special commission rate*	*Overall risk*
2011	SAR'000	SAR'000	SAR'000
VAR as at 31December 2011	547	785	884
Average VAR for 2011	484	1,600	1,630

31. Market risk *(continued)*

b) Market risk – non trading or banking book

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate nontrading financial assets and financial liabilities held as at 31 December 2012, including the effect of hedging instruments The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets; including the effect of any associated hedges as at 31 December 2012 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap.

2012								
Currency	*Increase in basis points*	*Sensitivity of Special Commission Income*	*Sensitivity of Equity*					
			6 months or less	*1 year or less*	*1-5 years or less*	*Over 5 years*	*Total*
		SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
SAR	**+ 100**	**25,562**	**(46,982)**	**(6,155)**	**(20,552)**	**(48,115)**	**(121,804)**
USD	**+ 100**	**(10,710)**	**(26,198)**	**(27,558)**	**(92,319)**	**(67,801)**	**(213,876)**
EUR	**+ 100**	**3,162**	**(238)**	**(228)**	**-**	**-**	**(466)**
Others	**+ 100**	**1,545**	**-**	**-**	**-**	**-**	**-**

2012							
Currency	*Decrease in basis points*	*Sensitivity of Special Commission Income*	*Sensitivity of Equity*				
			6 months or less	*1 year or less*	*1-5 years or less*	*Over 5 years*	*Total*
		SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
SAR	**- 100**	**(25,562)**	**46,982**	**6,155**	**20,552**	**48,115**	**121,804**
USD	**- 100**	**10,710**	**26,198**	**27,558**	**92,319**	**67,801**	**213,876**
EUR	**- 100**	**(3,162)**	**238**	**228**	**-**	**-**	**466**
Others	**- 100**	**(1,545)**	**-**	**-**	**-**	**-**	**-**

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

31. Market risk *(continued)*

b) Market risk – non trading or banking book *(continued)*

i) Special commission rate risk *(continued)*

2011								
Currency	*Increase in basis points*	*Sensitivity of Special Commission Income*	*Sensitivity of Equity*					
			6 months or less	*1 year or less*	*1-5 years or less*	*Over 5 years*	*Total*
		SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	+ 100	59,986	(20,563)	(9,785)	7,123	-	(23,225)
USD	+ 100	(185)	(13,835)	(13,968)	(62,610)	(2,394)	(92,807)
EUR	+ 100	3,137	(362)	(383)	(697)	-	(1,442)
Others	+ 100	1,730	-	-	-	-	-

2011							
Currency	*Decrease in basis points*	*Sensitivity of Special Commission Income*	*Sensitivity of Equity*				
			6 months or less	*1 year or less*	*1-5 years or less*	*Over 5 years*	*Total*
		SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	- 100	(59,986)	20,563	9,785	(7,123)	-	23,225
USD	- 100	185	13,835	13,968	62,610	2,394	92,807
EUR	- 100	(3,137)	362	383	697	-	1,442
Others	- 100	(1,730)	-	-	-	-	-

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or the maturity dates. The Bank is exposed to special commission rate risks as a result of mismatches or gaps in the amounts of assets and liabilities and derivative financial instruments that reprice or mature in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

31. Market risk *(continued)*

b) Market risk – non trading or banking book *(continued)*

i) Special commission rate risk *(continued)*

	2012					
	Within 3 months	***3-12 months***	***1-5 years***	***Over 5 years***	***Non special commission bearing***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Assets						
Cash and balances with SAMA	**12,086,917**	**-**	**-**	**-**	**8,316,947**	**20,403,864**
Due from banks and other financial institutions	**8,091,410**	**-**	**-**	**-**	**-**	**8,091,410**
Investments, net	**7,261,074**	**12,118,861**	**5,075,127**	**2,204,682**	**927,441**	**27,587,185**
Loans and advances, net	**46,536,702**	**26,078,383**	**23,483,221**	**-**	**-**	**96,098,306**
Investment in associates	**-**	**-**	**-**	**-**	**612,232**	**612,232**
Property and equipment, net	**-**	**-**	**-**	**-**	**604,509**	**604,509**
Other assets	**-**	**-**	**-**	**-**	**3,254,831**	**3,254,831**
Total assets	**73,976,103**	**38,197,244**	**28,558,348**	**2,204,682**	**13,715,960**	**156,652,337**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**5,353,758**	**321,211**	**256,881**	**-**	**-**	**5,931,850**
Customer deposits	**52,466,314**	**3,814,146**	**725,782**	**10,025**	**63,417,449**	**120,433,716**
Debt securities in issue	**2,205,000**	**-**	**2,300,780**	**-**	**-**	**4,505,780**
Borrowings	**-**	**31,250**	**109,375**	**-**	**-**	**140,625**
Other liabilities	**-**	**-**	**-**	**-**	**5,574,859**	**5,574,859**
Shareholders' equity	**-**	**-**	**-**	**-**	**20,065,507**	**20,065,507**
Total liabilities and shareholders' equity	**60,025,072**	**4,166,607**	**3,392,818**	**10,025**	**89,057,815**	**156,652,337**
Commission rate sensitivity on assets and liabilities	**13,951,031**	**34,030,637**	**25,165,530**	**2,194,657**	**(75,341,855)**	
Commission rate sensitivity on derivative financial instruments	**4,875,610**	**(4,567,806)**	**(12,074)**	**(295,730)**	**-**	
Total special commission rate sensitivity gap	**18,826,641**	**29,462,831**	**25,153,456**	**1,898,927**	**(75,341,855)**	
Cumulative special commission rate sensitivity gap	**18,826,641**	**48,289,472**	**73,442,928**	**75,341,855**	**-**	

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

31. Market risk *(continued)*

b) Market risk – non trading or banking book *(continued)*

i) Special commission rate risk *(continued)*

	2011					
	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*Non special commission bearing*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Assets						
Cash and balances with SAMA	15,208,895	-	-	-	7,171,730	22,380,625
Due from banks and other financial institutions	4,347,018	-	-	-	-	4,347,018
Investments, net	9,832,745	6,485,161	4,320,683	521,742	1,039,791	22,200,122
Loans and advances, net	47,075,996	14,124,840	23,610,451	-	-	84,811,287
Investment in associates	-	-	-	-	565,191	565,191
Property and equipment, net	-	-	-	-	536,922	536,922
Other assets	-	-	-	-	3,816,340	3,816,340
Total assets	76,464,654	20,610,001	27,931,134	521,742	13,129,974	138,657,505
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,475,430	-	1,418,626	-	-	5,894,056
Customer deposits	45,144,393	1,950,793	7,721,693	18,144	50,741,519	105,576,542
Debt securities in issue	1,705,000	-	2,273,660	-	-	3,978,660
Borrowings	-	-	-	171,875	-	171,875
Other liabilities	-	-	-	-	5,870,171	5,870,171
Shareholders' equity	-	-	-	-	17,166,201	17,166,201
Total liabilities and shareholders' equity	51,324,823	1,950,793	11,413,979	190,019	73,777,891	138,657,505
Commission rate sensitivity on assets and liabilities	25,139,831	18,659,208	16,517,155	331,723	(60,647,917)	
Commission rate sensitivity on derivative financial instruments	2,459,994	805,783	(2,929,539)	(336,238)	-	
Total special commission rate sensitivity gap	27,599,825	19,464,991	13,587,616	(4,515)	(60,647,917)	
Cumulative special commission rate sensitivity gap	27,599,825	47,064,816	60,652,432	60,647,917	-	

The net gap between derivative financial instruments represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

31. Market risk *(continued)*

b) Market risk – non trading or banking book *(continued)*

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank does not maintain material non trading open currency positions. Foreign currency exposures that arise in the non trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 31(a) reflects the Bank's total exposure to currency risk.

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency, and in total for both overnight and intra day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2012	2011
	Long (short)	*Long (short)*
	SAR'000	SAR'000
US Dollar	**(279,733)**	(22,246)
Euro	**1,219**	4,793
Sterling Pounds	**(364)**	(1,935)
Other	**(77)**	(5,565)

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non trading equity price risk exposure arises from equity securities classified as available for sale. A 10 per cent increase or decrease in the value of the bank's available for sale equities at 31 December 2012 would have correspondingly increase or decrease equity by SAR 92 million (2011: SAR 103 million).

32. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development securities.

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and does not take account of effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. All derivatives used for hedging purposes are shown by maturity based on their contractual, undiscounted repayment obligations. As the major portion of the derivatives trading book comprises of back to back transactions and consequently the open derivatives trading exposures are small, the management believes that the inclusion of trading derivatives in the contractual maturity table is not relevant for an understanding of the timing of cash flows and hence these have been excluded.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The weekly liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. A summary report, covering the bank and operating subsidiaries, including any exceptions and remedial action taken, is submitted monthly to ALCO.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

32. Liquidity risk *(continued)*

a) Analysis of financial liabilities by remaining contractual maturities:

	2012					
	Within 3 months	***3-12 months***	***1-5 years***	***Over 5 years***	***No fixed maturity***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Financial liabilities:						
Due to banks and other financial institutions	**5,356,473**	**401,586**	**306,962**	**-**	**-**	**6,065,021**
Customer deposits	**115,590,089**	**4,369,817**	**895,033**	**21,439**	**-**	**120,876,378**
Debt securities in issue	**11,486**	**803,777**	**3,999,044**	**-**	**-**	**4,814,307**
Borrowings	**-**	**38,130**	**120,711**	**-**	**-**	**158,841**
Other liabilities	**-**	**-**	**-**	**-**	**5,336,257**	**5,336,257**
Derivatives:						
– Contractual amounts payable (receivable)	**10,442**	**14,614**	**(17,756)**	**287**	**-**	**7,587**
Total undiscounted financial liabilities	**120,968,490**	**5,627,924**	**5,303,994**	**21,726**	**5,336,257**	**137,258,391**

	2011					
	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*No fixed maturity*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Financial liabilities:						
Due to banks and other financial institutions	4,648,772	-	677,466	1,181,842	-	6,508,080
Customer deposits	95,711,875	2,161,374	8,154,907	21,641	-	106,049,797
Debt securities in issue	6,395	86,685	4,176,685	-	-	4,269,765
Borrowings	-	39,773	142,812	16,029	-	198,614
Other liabilities	-	-	-	-	5,654,926	5,654,926
Derivatives:						
– Contractual amounts payable (receivable)	12,288	15,961	(2,253)	6,249	-	32,245
Total undiscounted financial liabilities	100,379,330	2,303,793	13,149,617	1,225,761	5,654,926	122,713,427

32. Liquidity risk *(continued)*

b) Maturity analysis of assets and liabilities:

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Bank's contractual undiscounted financial liabilities.

	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*No fixed maturity*	*Total*
2012	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Assets						
Cash and balances with SAMA	**13,501,513**	**-**	**-**	**-**	**6,902,351**	**20,403,864**
Due from banks and other financial institutions	**8,091,410**	**-**	**-**	**-**	**-**	**8,091,410**
Investments, net	**4,497,741**	**12,310,965**	**7,185,164**	**2,665,874**	**927,441**	**27,587,185**
Loans and advances, net	**42,794,256**	**16,879,002**	**23,531,017**	**12,894,031**	**-**	**96,098,306**
Investment in associates	**-**	**-**	**-**	**-**	**612,232**	**612,232**
Property and equipment, net	**-**	**-**	**-**	**-**	**604,509**	**604,509**
Other assets	**-**	**-**	**-**	**-**	**3,254,831**	**3,254,831**
Total assets	**68,884,920**	**29,189,967**	**30,716,181**	**15,559,905**	**12,301,364**	**156,652,337**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**5,353,758**	**321,211**	**256,881**	**-**	**-**	**5,931,850**
Customer deposits	**115,219,243**	**4,335,289**	**857,745**	**21,439**	**-**	**120,433,716**
Debt securities in issue	**-**	**705,000**	**3,800,780**	**-**	**-**	**4,505,780**
Borrowings	**-**	**31,250**	**109,375**	**-**	**-**	**140,625**
Other liabilities	**-**	**-**	**-**	**-**	**5,574,859**	**5,574,859**
Shareholders' equity	**-**	**-**	**-**	**-**	**20,065,507**	**20,065,507**
Total liabilities and shareholders' equity	**120,573,001**	**5,392,750**	**5,024,781**	**21,439**	**25,640,366**	**156,652,337**

	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*No fixed maturity*	*Total*
2011	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Assets						
Cash and balances with SAMA	16,585,956	-	-	-	5,794,669	22,380,625
Due from banks and other financial institutions	4,347,018	-	-	-	-	4,347,018
Investments, net	5,127,226	8,373,946	6,539,085	1,120,073	1,039,792	22,200,122
Loans and advances, net	39,885,669	14,903,677	21,298,223	8,723,718	-	84,811,287
Investment in associates	-	-	-	-	565,191	565,191
Property and equipment, net	-	-	-	-	536,922	536,922
Other assets	-	-	-	-	3,816,340	3,816,340
Total assets	65,945,869	23,277,623	27,837,308	9,843,791	11,752,914	138,657,505
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,647,305	-	552,800	693,951	-	5,894,056
Customer deposits	95,646,451	2,131,522	7,780,425	18,144	-	105,576,542
Debt securities in issue	-	-	3,978,660	-	-	3,978,660
Borrowings	-	-	-	171,875	-	171,875
Other liabilities	-	-	-	-	5,870,171	5,870,171
Shareholders' equity	-		-	-	17,166,201	17,166,201
Total liabilities and shareholders' equity	100,293,756	2,131,522	12,311,885	883,970	23,036,372	138,657,505

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies is given in note 19(d) of the consolidated financial statements.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

33. Fair values of financial instruments

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

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

Level 3: valuation techniques for which any significant input is not based on observable market data.

	2012			
	Level 1	***Level 2***	***Level 3***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Financial assets				
Derivative financial instruments	**-**	**1,962,631**	**-**	**1,962,631**
Financial assets held as FVIS	**4,921**	**-**	**-**	**4,921**
Financial investments available for sale	**9,621,411**	**16,828,356**	**72,733**	**26,522,500**
Loans and advances – Fair value hedged	**-**	**973,635**	**-**	**973,635**
Total	**9,626,332**	**19,764,622**	**72,733**	**29,463,687**
Financial Liabilities				
Derivative financial instruments	**-**	**1,848,015**	**-**	**1,848,015**
Debt securities in issue – Fair value hedged	**2,300,780**	**-**	**-**	**2,300,780**
Total	**2,300,780**	**1,848,015**	**-**	**4,148,795**

	2011			
	Level 1	*Level 2*	*Level 3*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000
Financial assets				
Derivative financial instruments	-	1,959,762	-	1,959,762
Financial assets held as FVIS	13,472	-	-	13,472
Financial investments available for sale	8,644,282	11,886,381	55,104	20,585,767
Loans and advances – Fair value hedged	-	1,400,324	-	1,400,324
Total	8,657,754	15,246,467	55,104	23,959,325
Financial Liabilities				
Derivative financial instruments	-	1,919,624	-	1,919,624
Debt securities in issue – Fair value hedged	2,273,660	-	-	2,273,660
Total	2,273,660	1,919,624	-	4,193,284

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates.

The fair values of recognised financial instruments, except for other investments held at amortised cost, held-to-maturity investments, loans and advances and customer deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5. It is not practicable to determine the fair value of loans and advances and customer deposits with sufficient reliability except as disclosed above. The fair values of financial instruments that are part of a designated fair value hedge relationship but are not carried at fair value as a class of financial instruments have been disclosed in the note above. These include loans and advances and debt security in issue.

The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is positive SAR 51.9 million (2011: SAR 163.1 million).

34. Related party transactions

Managerial and specialised expertise is provided under a technical services agreement with HSBC Holdings plc, the parent company of HSBC Holdings BV. This agreement was renewed on 30 September 2012 for a period of five years.

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

The year end balances included in the consolidated financial statements resulting from such transactions are as follows:

	2012	2011
	SAR'000	SAR'000
The HSBC Group:		
Due from banks and other financial institutions	3,991,636	2,230,796
Investments	914,264	845,806
Other assets	-	3,410
Derivatives (at fair value)	(407,273)	(557,228)
Due to banks and other financial institutions	3,574,821	4,165,841
Other liabilities	3,046	-
Commitments and contingencies	2,393,331	2,068,672

The above investments include investments in associates, amounting to SAR 612.2 million (2011: SAR 565.2 million).

Directors, audit committee, other major shareholders and their affiliates:

	2012	2011
	SAR'000	SAR'000
Loans and advances	3,206,394	3,463,838
Customers' deposits	8,782,768	8,922,735
Derivatives (at fair value)	6,581	776
Commitments and contingencies	39,729	273,596
Bank's mutual funds:		
Loans and advances	532	31,064
Customers' deposits	782,871	1,406,178

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

Income and expense pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2012	2011
	SAR'000	SAR'000
Special commission income	106,110	50,932
Special commission expense	(240,194)	(197,639)
Fees and commission income	48,781	64,503
Profit share arrangement relating to investment banking activities	(2,416)	(6,099)
Share in earnings of associates	111,230	64,165
Directors' remuneration	2,789	2,720

The total amount of compensation paid to key management personnel during the year is as follows:

	2012	2011
	SAR'000	SAR'000
Short-term employee benefits (salaries and allowances)	39,126	48,089
Employment termination benefits	5,968	8,709

Key management personnel are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were two such schemes outstanding at 31 December 2012. The detail of this scheme has not been separately disclosed in these consolidated financial statements as amounts are not material.

35. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

The Bank monitors the adequacy of its capital using the methodology and ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

	2012	2011
	SAR'000	SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	**126,036,229**	109,505,348
Operational Risk RWA	**10,004,373**	9,864,886
Market Risk RWA	**1,829,900**	648,400
Total RWA	**137,870,502**	120,018,634
Tier I Capital	**16,531,191**	14,184,649
Tier II Capital	**5,100,494**	3,455,140
Total I & II Capital	**21,631,685**	17,639,789
Capital Adequacy Ratio %		
Tier I ratio	**11.99%**	11.82%
Tier I + Tier II ratio	**15.69%**	14.70%

36. Basel II Pillar 3 Disclosures

Under Basel II pillar 3, quantitative and qualitative disclosures of the Bank's exposures, risk weighted assets and capital are required, and these disclosures will be made available on Bank's website www.sabb.com and the annual report, respectively as required by SAMA.

37. Prospective changes in accounting standards

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 7 ***Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7***
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 ***Financial Instruments***
IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

37. Prospective changes in accounting standards *(continued)*

IFRS 10 – *Consolidated Financial Statements, IAS 27 Separate Financial Statements*
The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Bank is currently assessing the impact of adopting IFRS 10.

IFRS 12 – *Disclosure of Involvement with Other Entities*
The standard becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Bank concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Bank to reach a different conclusion regarding consolidation.

The Bank will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the Bank.

IFRS 13 – *Fair Value measurement*
The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the Bank.

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 *Employee Benefits – Amendments*
The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

The adoption of these amendments will require the Bank to recognise:

– A service cost and a net interest income or expense in profit or loss.
– The re-measurements of the pension assets and liabilities, i.e., actuarial gains and losses in the other comprehensive income.

Adoption of these amendments is not expected to have a material impact on the financial position or performance of the Bank.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

Notes to the Consolidated Financial Statements (31 December 2012) (continued)

37. Prospective changes in accounting standards *(continued)*

IAS 32 ***Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32***
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Bank as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements May 2012
These improvements will not have an impact on the Bank, but include:

IAS 1 ***Presentation of Financial Statements***
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 32 ***Financial Instruments Presentation***
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 ***Interim Financial Reporting***
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

38. Comparative figures

Certain prior year figures have been reclassified to conform with the current year's presentation.

39. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 6 Rabi' Al Thani 1434H (Corresponding 16 February 2013).

The Saudi British Bank
Basel II - Pillar 3
Annual Disclosures
31 December 2012

Cautionary statement regarding forward looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2012 contain certain forward looking statements with respect to the financial condition, results of operations and business of SABB. These forward looking statements represent SABB expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

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

1. Scope of Application

a) **Scope**

These qualitative disclosures set out The Saudi British Bank (SABB) approach to capital assessment and complement the minimum capital requirements and the supervisory review process.

b) **Basis of consolidation**

The basis of consolidation for accounting purposes is described in Note 1 of the Annual Report and Accounts 2012.

The basis of consolidation for regulatory purposes differs from that used for the financial consolidation in that holdings in insurance and financial entities are excluded if they qualify as significant minority investments i.e exceed 20% upto 50% of the investee company's paid up capital.

SABB uses regulatory capital as the basis for assessing its capital adequacy. Risk weighted assets driving regulatory capital requirements are forecast and monitored at customer group level or at a lower sub-unit level, as appropriate.

Entities that are fully consolidated:
SABB Securities Limited is a wholly owned subsidiary of SABB and its financial statements are consolidated with SABB. The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a limited liability company registered in the Kingdom of Saudi Arabia). The principal activities of the subsidiary were to engage in the business of custody and dealing as an agent excluding underwriting. However, effective 1 July 2011 the assets and liabilities of the Company have been transferred to HSBC Saudi Arabia Limited, an associate company of SABB in lieu of additional shares (see note 7 of the SABB Financial Accounts). The Company will be liquidated once the legal formalities for transfer of business have been completed.

Significant Minority Investments:
Following significant minority investments are deducted from the capital:

- The Bank owns 51% of the equity shares of HSBC Saudi Arabia Limited, which is involved in Investment Banking services in the Kingdom of Saudi Arabia. During the year the assets and liabilities of SABB Securities Limited have been transferred to HSBC Saudi Arabia Limited effective 1 July 2011, resulting in an increased shareholding of SABB in HSBC Saudi Arabia Limited from 40% to 51%
- The Bank owns 32.5% of the equity shares of SABB Takaful. It carries out Shariah-compliant insurance activities and offers Family and General Takaful products

Equity Investments which are risk weighted:
Equity investments are risk weighted at 100% where percentage of shareholding is less than 20%.

1. Scope of Application *(continued)*

c) Capital transferability between legal entities

Restrictions by Memorandum and Articles of Association:
Through Article 10 of Memorandum & Articles of Association SABB has restricted the transfer of shares held by Saudi Nationals to non Saudi Nationals and has empowered its Board of directors the right to either approve or refuse the transfer of shares.

Apart from the above, no other restrictions have been imposed by the management on transfer of shares.

Statutory restriction:
SABB is required to transfer at least 25% of its net profit to statutory reserves before declaration of dividend until the amount of statutory reserves is equal to the paid up capital of the bank.

Regulatory restriction:
SAMA has imposed a restriction of at least 8% of capital adequacy ratio which is in line with Basel II requirements.

The significant minority investments namely HSBC Saudi Arabia Limited and SABB Takaful's Articles of Association restrict the reduction in paid up capital below the current levels.

2. Capital Structure

The authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (2011: 750 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2012	2011
Saudi shareholders	**60%**	60%
HSBC Holdings BV	**40%**	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

The composition of shareholders' equity is available in the annual financial statements.

There are four different "types" of capital which SABB must manage. The distinctions between the different notions/definitions of capital, and the capital management principles which arise, are outlined below:

Category	Definition/meaning/significance	Implications for SABB capital management
Regulatory Capital	Proxy for Risk Capital, particularly under Basel II.	Requirements must be met on a SAMA regulatory rules basis at all times.
Accounting Capital	The capital recognised by accounting standards.	Requirements must be met to achieve audited accounts.
Invested Capital (legal capital)	The equity capital invested in SABB by its shareholders for which SABB is accountable.	SABB must earn a return on its invested capital which is in excess of its cost of capital.
Business Capital	Capital actually held by SABB to bear risk, support growth etc. and upon which an 'economic' return is required.	Allocated to businesses in line with risk appetite given the risks run and acts as basis to set economic profit targets.

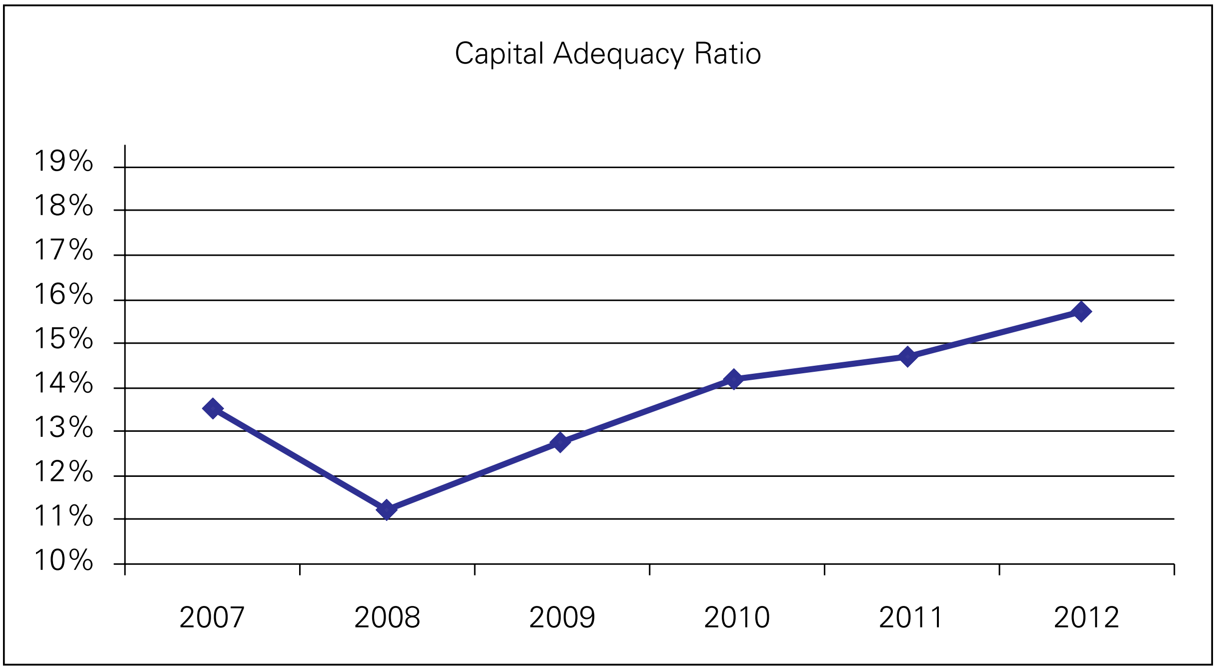
Along with these capital measures, SABB wishes to effectively manage its capital in order to support and improve its own external rating as calculated by risk rating agencies.

3. Capital Adequacy

SABB's approach in assessing adequacy of its capital to support current and future activities envisages around the following principles:

- It has a process for assessing its overall capital adequacy in relation to its risk profile and a strategy for maintaining capital levels
- A review of SABB's Internal Capital Adequacy Assessment Process (ICAAP) and capital strategies are undertaken by its management, as well as monitoring and ensuring compliance to SAMA regulations, with appropriate actions being taken when required
- It is operating above the minimum regulatory capital ratios, with the ability to hold capital in excess of the minimum
- The ability to intervene at an early stage to prevent capital from falling below the minimum levels as required according to it's risk profile

SABB Capital Adequacy Ratio in the last 6 years has been as follows:



2007: Capital Adequacy Ratio's are on Basel I basis
2008 - 2012: Capital Adequacy Ratio's are on Basel II basis

Risk Exposure and Assessment

General Qualitative Disclosure Requirements

Credit Risk

Credit risk is the risk of financial loss through the failure of a customer or counterparty to honour their commitments as they fall due. Credit risk arises principally in corporate and personal lending, trade finance, treasury and syndication underwriting. But credit risk also arises from off balance sheet products such as guarantees and derivatives or from SABB's holdings of debt securities.

A culture of prudent and responsible lending is supported by a strong risk policy and control framework which is managed by an independent credit function who both partner and challenge business proposals in line with the Board approved risk appetite levels.

SABB's credit culture is dedicated to achieving sustainable profitability through maintaining high quality risk assets. This is attained through effective control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns, thus contributing to the overall success of the Bank.

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Credit Risk *(continued)*

A strong risk governance framework has been established under the oversight of the Board designated committee the Risk Management Meeting. A number of sub committees have been established to focus on retail and corporate credit risk, Treasury market risk, Operational risk, security and fraud risk, reputational risk, capital planning, and stress testing.

Credit risk management functions have an appropriate degree of independence and responsibility for key aspects of rating systems, including selection, implementation, performance, and oversight. Approval processes observe high standards of governance, efficiency and facilitate timely decision-making through the use of delegated approval limits.

A strong risk governance framework has been established under the oversight of the Board designated committee the Risk Management Meeting. A number of sub committees have been established to focus on retail and corporate credit risk, Treasury market risk, Operational risk, security and fraud risk, reputational risk, capital planning, and stress testing.

Credit risk management functions have an appropriate degree of independence and responsibility for key aspects of rating systems, including selection, implementation, performance, and oversight. Approval processes observe high standards of governance, efficiency and facilitate timely decision-making through the use of delegated approval limits.

Credit discipline encompasses an attitude towards risk and risk management instilled in credit officers through experience and training as evidenced for example in:

- Being proactive rather than reactive;
- Knowing the customer;
- Recognizing strengths, weaknesses and competitive advantages;
- Understanding and employing constructively all appropriate techniques for the measurement and management of risk

Automated systems are a prerequisite for efficient credit application processes, for the proper recording, control and reporting of risk limits and exposures and for the calculation of internal risk scores and ratings as well as regulatory and economic capital.

SABB's association to the HSBC Group promotes the use of standard systems and methodologies for these purposes and employs common measurements of risk throughout the organisation. At SABB, consumer lending decisions are based on credit risk score models developed using internal data and embedded into an automated decision process. Corporate Customers are rated internally and mapped to a 23 point scale based on scorecards with financial and subjective inputs to determine the perceived quality of the company and probability of default (PD). The output is reviewed by expert credit approvers before capital is assigned. Retail customers are rated using a range of behavioural and application quantitative models which segment the customers into different risk bands.

SABB operates dedicated special assets and recoveries teams to manage companies in financial distress and non performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from the General Manager Legal. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency.

For defaulted customers, impairment provisions (collective and discounted cashflow basis) are maintained in accordance with established IFRS accounting practices.

In order to support and evaluate credit decisions SABB maintains an analytics capability to develop policy and systems, generate performance and management information and undertake stress testing and scenario analysis across SABB's various risk asset portfolios. The outcomes of any analysis are subject to a thorough management challenge to ensure any changes are fit for purpose.

Credit risk consumes the largest proportion of SABB's minimum capital requirement. Within the established principles and parameters SABB ensures that strict capital discipline is maintained through correct pricing and management of credit risks in relation to the regulatory and economic capital requirements.

Information on counterparty credit risk is provided in the table 8 commentary below.

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Market Risk

Market Risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices will reduce SABB's income or the value of its portfolios.

Further information on market risk is provided in the table 10 commentary below.

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, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Operational risk is relevant to every aspect of SABB's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

Further information on operational risk capital is provided in the table 12 commentary below.

Investment Risk

Investment risk is the risk of an adverse impact on P&L and capital due to an unexpected loss in value of the investment position held by SABB on a long term (non-trading basis). This can arise out of SABB's investment, private equity or equity investment portfolios.

As a general policy SABB seeks to focus investments around establishing a diversified portfolio of high quality and highly liquid securities.

SABB will continue to review its investment policy in line with market developments and opportunities as they arise. The risk mandate will however always maintain a focus on high quality, liquid investments with a preference for domestically issued debt and securities.

Whilst SABB does hold a nominal position in private equity investments it does not hold any direct equity investments. Further information on equities risk is provided in the table 13 commentary below.

Interest Rate Risk

Interest rate risk in the banking book is defined as the exposure of the non-trading products of the Bank to interest rates. Interest rate risk arises principally from mismatches between the future yield on assets and their funding costs, as a result of changes in interest rates.

Further information on interest risk is provided in the table 14 commentary below.

Foreign Exchange Risk

Currency or foreign exchange risk (FX) arises from an open position, either overbought (long) or oversold (short), in a foreign currency, creating exposure to a change in the relevant exchange rate.

SABB categorises foreign exchange risk as follows:

- Trading Book FX risk – arises from proprietary currency trading i.e. spot, forwards, futures, swaps and options. Trading exposures are controlled through assigning limits to each currency and aggregate exposure levels as well as through VAR and stress testing measures
- Banking Book FX risk – arises from a currency mismatch/revaluation between assets and liabilities, including accrued interest and accrued expenses. The mismatch is transferred to Treasury and managed on daily basis through the trading book
- Structural FX risk – arises due to two reasons

a) relates to net investments in subsidiaries, branches or associated capital undertakings.
b) Relates to the non-SAR denominated assets. The currencies where structural FX rise arises are those other than the designated reporting currency of the SABB, which is the Saudi Riyal (SAR).

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Liquidity Risk

Liquidity risk is the risk that SABB does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk (a particular form of liquidity risk) arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Since January 2010, SABB has introduced a new liquidity framework based on projected cashflow scenarios referred to as the Operational Cashflow Projection (OCP). The objective of the OCP is to better reflect the likely behaviour of different customers and manage liquidity during crisis events or a loss in confidence in SABB, resulting in deposit withdrawals by clients. The OCP policy aims to diversify SABB's liability base, and reduce concentration levels to any single customer.

The new framework is compliant with BIS guidelines 'Principles for Sound Liquidity Risk Management and Supervision' issued in September 2008.

As a general policy SABB seeks to be self-sufficient with regards to funding its own operations. Exceptions are permitted to facilitate the efficient funding of certain short-term treasury requirements and start-up ventures, which do not have access to deposit markets.

SABB uses cash-flow stress testing as part of its control processes to assess liquidity risk. The cash-flow stress testing process estimates and takes into consideration the potential severe adverse P&L and capital impacts in a liquidity crisis, with a view to assessing the bank's ability to maintain an adequate capital position in such a scenario.

SABB assesses and manages liquidity risk through clearly defined liquidity policies which form part of a boarder Liquidity and Funding framework and funding plan which is reviewed and approved by ALCO and EXCOM. There is a designated Liquidity Management Committee, which monitors the bank's current and projected liquidity position and proposes changes to ALCO on SABB's liquidity ratio limits, funding strategy and liquidity stress testing scenarios.

SABB manages and reports balance sheet liquidity against a range of internal and regulatory ratios which cover the proportion of net liquid assets to customer liabilities, the adequacy of assets to deposits, the proportion of customer deposits held in liquid assets and that Islamic Financial Services (IFS) liabilities are only invested in IFS assets and any excess needs to be invested in Shariah compliant assets.

The Financial Control Department prepares a bank-wide liquidity report, which is monitored daily against approved limits and regulatory requirements by Senior Management, along with a 1-year rolling forecast balance sheet on a quarterly basis showing expected loan and deposit growth including major currency breakdowns.

SABB seeks to maintain a cushion of unencumbered, high quality, liquid assets that can be liquidated or repoed in times of stressed liquidity. The asset tolerance limit is defined and monitored by ALCO on a monthly basis.

Operational Cashflow Projections are used to stress the liquidity position across a range of maturity bands and through the application of bank specific and market wide scenarios.

Current accounts and savings deposits payable on demand or at short notice form a significant part of SABB's funding and there is considerable focus on maintaining the stability of such deposits. SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities.

A comprehensive Liquidity Contingency Plan is in place and tested on an annual basis. The plan identifies early indicators of stress conditions and describes actions to be taken in the event of difficulties arising from systemic or other crises.

SABB has continued to expand its investor relations programme to ensure that it keeps investors advised of developments and kept itself aware of their changing requirements in readiness for any potential debt or equity issuances.

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Concentration Risk
Concentration in credit portfolios has been a cause for bank and banking system distress in the past. As a result, concentration risk forms an integral part of SABB's supervisory review and internal risk assessment process. There can also be benefits where a Banks portfolio can evidence diversification across asset classes, customer groups, industry sectors, business lines and geographic locations.

Concentration risk can manifest itself in three main forms where there is an imperfect diversification of credit risk.

- Single name concentration (Idiosyncratic risk)
- Sector concentration (Systematic risk)
- Contagion (Systemic failure)

It is the Bank's policy to avoid undesired concentration of exposure in any single dimension of the entire credit portfolio (asset class, industry sector, geography, etc.). We aim to ensure that the Bank's exposure is well diversified across a broad mix of business sectors. SABB has established exposure policies and lending risk tolerance limits for individual counterparties, industry sectors, country cross border risk, specific products or advance purposes and portfolio level controls.

SABB retains capital against the granularity of its lending portfolio and reviews the level of concentration within portfolios on a monthly basis through the senior risk management meeting (RMM) and EXCOM.

Reputational Risk
Reputational risk is the potential negative but unquantifiable current and future impact on profits and capital, which might arise from a changed and adverse perception of SABB's reputation among its various stakeholders in the various facets of its operations.

The reputation of SABB is critical to its success. Any financial services organisation stands or falls by its reputation and the confidence it can engender in its customers. The maintenance of customer confidence is a prime objective of management and can be achieved through a strong and healthy financial position and by exhibiting successful risk management, but can be severely damaged by non-compliance with relevant regulations or by inappropriate actions or comments to the media or in the public domain.

The oversight of reputational risk is integrated into the Risk Governance framework being championed by the Chief Operating Officer. The reputational risk heatmap is reviewed in the Compliance Risk Committee which reports issues into the Risk Management Meeting on a monthly basis.

The reputational risk heatmap was designed to focus on the key issues that could impact this type of risk: customer complaints handling, product appropriateness and advertising, new products and business initiatives, regulatory compliance, information risk, corporate communications and major staff issues.

Actions by employees can have an impact on the reputation of the bank and they are provided with awareness sessions to educate people on reputational risk and their personal responsibilities in upholding and enhancing the image and brand of SABB.

The range of stakeholders whose perception of SABB may give rise to a reputational impact include investors, customers, suppliers, employees, regulators, politicians, the media, non-governmental organizations, and the communities and societies in which SABB operates. The facets of SABB's activities that may influence a changed and adverse perception of its reputation include product quality and cost, corporate governance, employee relations, customer service, intellectual capital, financial performance, compliance or regulatory breaches, involvement in the financing of terrorist or major money laundering incidents, and the handling of environmental and social issues.

3. **Capital Adequacy** *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Reputational Risk *(continued)*

Sustainability risk sensitivities are also of high importance in managing reputational risk and SABB seeks to uphold the highest sustainability risk standards, including the equator principles for project finance lending, sector based sustainability guidelines covering sectors with high environmental, ethical or social impacts.

The unique structure of Islamic financial products (Shariah Compliant Products) is quite distinct and places increased requirements on the Bank to ensure that not only do they meet customer suitability standard but that the internal Shariah compliance process if robust. The impact of Shariah compliance failures would impact SABB's reputation and as a result SABB operates a dedicated IFS banking team who control Islamic product develop and monitor ongoing compliance with Shariah requirements.

Macro Economic and Business Cycle Risk

Macroeconomic and Business Cycle Risks are seen as the potential negative impacts on profits and capital as a result of SABB not meeting its goals and objectives caused by unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

SABB assesses and manages macroeconomic and business cycle risk through clearly defined policies and procedures.

As an intrinsic part of the process, SABB's Risk Management Meeting (RMM) regularly monitors local key macroeconomic indicators, such as:

- Price of oil per barrel in the world market
- Any significant reduction in public finances expenditure
- TASI index
- External Trade indicators
- Housing market trends
- Bank lending to private sector
- Annual real GDP growth
- Money Supply
- Inflation rate

Currency uncertainty that may be caused by USD weakness and real appreciation of the SAR.

Strategic Risk

Strategic Risk is the risk that the business will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years such as changing economic and political circumstances, customer requirements, demographic trends, regulatory developments or competitor action. Risk may be mitigated by consideration of the potential opportunities and challenges through the strategic planning process.

Strategic and Operating Plans are established against clearly defined guidelines and via a rigorous process that considers the wider business, regulatory and economic environment when preparing the plans. Plans are monitored on an ongoing basis to ensure that targets are being achieved and to proactively consider risks, which might arise to non-achievement of goals.

The strategic risks are monitored by the strategic planning function on a regular basis and variations, if any are reported to the Risk Management Meeting. Where necessary the Board holds strategic review meetings to refine the bank's strategy in light of market developments.

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

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

Compliance risk is managed by adhering to industry best practice and local regulator requirements for the management of Compliance in banks. A dedicated compliance manual, responsibilities assigned to business compliance officers, periodic risk based compliance risk assessments and quarterly meetings are methods used to manage compliance risk. Annual Compliance Risk Assessments (CRA) are required by every business and Business control heat maps monitor and report progress. In 2009 a Compliance Committee was formed based on the guidelines of the SAMA Compliance Manual issued during the year.

Wrong Way Risk
Wrong-way risk occurs when there is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. Wrong way risks arising from customer activity is managed under defined guidelines and limits on a regular basis. The following control infrastructure is in place and reported to senior management on monthly basis.

- Business referral process where Wrong-Way Risk transactions are passed for separate approval prior to execution
- A wrong way risk exposure report is tabled in the senior Risk Management Meeting
- Total exposure at counterparty level is maintained under predefined credit approved limits

Other Risks
SABB continues identifying risks that will adversely impact on the present and future operations of the Bank. The process flows in an interactive fashion among the bank's Board of Directors, executive committee and senior managers. This aims to address issues in a proactive manner with respect to risk assessment and management and to ensure continued compliance with HSBC Group and consistent with local regulatory requirements. Economic and regulatory capital issues, if any, shall be promptly addressed through the policies and procedures in place.

4. Credit Risk: General Disclosures for All Banks

Past due loans:
A loan is considered past due if it is not repaid on the payment due date or maturity date.

Impaired loan:

Individual Impairment Provisions
The Bank reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

Collective Impairment Provisions
The Bank reviews its loan portfolios to assess an additional portfolio provision on each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4. Credit Risk: General Disclosures for All Banks *(continued)*

Credit Risk:

Standardised Approach

Overall, SABB currently calculates its models and assessments based on the Basel II Standardised Approach, in line with the approval granted by SAMA. Specifically, SABB is segmenting its asset portfolio and generating associated RWAs and capital support data in accordance with SAMA guidelines and uses the Standardised approach to calculate the minimum capital requirements.

Advanced IRB Approach

SABB is developing its processes, in line with SAMA guidance notes, to enable it to move to the advanced approaches of Basel II for credit risk.

SABB has a set of independently validated corporate scorecards to calculate the PD for each exposure. Along with this, specific LGD & EAD engines are being developed to calculate the respective LGD & EAD for each client. The output from these engines, combined with additional appropriate data such as maturity, allow SABB to calculate RWA based on the IRB-A approach. It is important to note that each distinct portfolio has a dedicated PD scorecard to determine the appropriate credit risk rating. These scorecards are reviewed at least annually and approved by the RMM.

For retail portfolios SABB uses a wide range of application and behavioural models and has completed a risk segmentation process as well as having developed a full range of Basle II IRB-A compliant scorecards to calculate expected and unexpected losses for each retail portfolio. SABB is currently in the process of embedding these models into its capital generation system.

5. Standardized Approach and Supervisory Risk Weights in the IRB Approaches

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

- SABB has nominated three SAMA recognized External Credit Assessment Institutions for this purpose – Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group
- Credit ratings of all exposures are individually determined from the above credit rating agencies and mapped to the exposures assigning a risk weight according to the supervisory tables

The alignment of alphanumeric scales of each agency to risk buckets is as follows:

Moody's	*Standard and Poor's*	*Fitch*
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
Caa3	CCC-	CCC-
Ca	CC	CC
C	C	C
WR	D	D
	NR	NR

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

5. Standardized Approach and Supervisory Risk Weights in the IRB Approaches *(continued)*

Claims on sovereigns and their central banks

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

Claims on Banks and Securities Firms (Under Option 2 as required by SAMA)

Credit Assessment	*AAA to AA-*	*A+ to A-*	*BBB+ to BBB-*	*BB+ to B-*	*Below B-*	*Unrated*
Risk Weight under option 2	20%	50%	50%	100%	150%	50%
Risk Weight for short-term claims under option 2	20%	20%	20%	50%	150%	20%

Multilateral Development Banks
0% risk weight for qualifying MDB's as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for option# 2 for banks.

Claims on public sector entities (PSEs)

As per Option 2

Claims on corporates

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

Claims included in the regulatory non-mortgage retail portfolios
A 75% risk weight to be assigned to such exposures.

Claims secured by residential mortgages
A 100% retail risk weight to be applied to such claims.

Claims secured by commercial real estate
A 100% retail risk weight to be applied to such claims.

Past due loans

Risk Weight%	*Level of Provisioning*
150	Up to 20%
100	20% to 50%
100	50% to above

Other assets
The standard risk weight for all other assets will be 100% except gold to be treated equivalent to cash and risk weighted at 0%.

When calculating the risk weighted value of any exposure under the standardized approach, look up function is applied to the central data base maintained in Excel and assigns to each individual exposures.

6. Credit Risk: Disclosures for Portfolios Subject to IRB Approaches

Not Applicable.

7. Credit Risk Mitigation: Disclosures for Standardised and IRB Approaches

The mitigation of credit risk is an important aspect of its effective management and takes many forms.

SABB grants facilities based on the borrower's ability to repay, rather than placing its reliance on credit risk mitigation. SABB nevertheless does hold a range of security to reduce the risk of loss and maximise the probability of facilities being repaid. A number of these risk mitigants have been applied under the Standardised approach in Pillar I, and there are other securities that cannot be assigned a value such as shares, land and local property.

The main types of collateral taken by the bank are as follows:

- Savings and Time deposits
- Listed Shares
- Bank Guarantees
- Title deeds of property
- Government Bonds
- Mutual Funds Units
- Corporate / Individual Guarantees
- Assignment of salary or contract proceeds

International and Local Banks Guarantees are referred to Institutional Banking for counterparty and cross border country risk approval.

The granting of facilities and taking of collateral as risk mitigants is governed by defined policies and procedures, as well as the use of bank standard documentation that cater for the offset of credit balances against facilities granted, the control over the integrity and valuation of collateral, and the rights required to enforce and realize security. SABB monitors the concentration of risk mitigants and does not have any material concentrations in the risk mitigants currently held.

8. General Disclosure for Exposure Related to Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction.

The Bank calculates its counterparty credit risk for both trading and banking book exposures by assigning risk weights to exposure types:

- Securities financing transactions (e.g reverse repos) - trading and banking book
- Over the counter (OTC) derivatives – trading and banking book

The capital requirement is determined on above exposures based on same methodology as credit risk and is reported separately for risk assessment.

9. Securitisation

Currently there are no securitisation deals involving SABB. There is a prescribed process in SABB for managing securitisation transactions. This risk assessment and reporting process will be observed when the need to apply the same arises.

10. Market Risk: Disclosure for Banks Using Standardised Approaches

Market risk is identified by businesses and transferred into SABB Treasury who has the necessary expertise to manage the positions using risk limits approved by the executive committee of the Board (EXCOM). Exposures are separated into trading (market-making, proprietary trading, and mark to market positions) and non-trading (interest rate management, and financial investments either held to maturity or available for sale) portfolios.

The monitoring and control of market risk is handled by an independent market risk team which is responsible for ensuring market risk exposures are measured in accordance with defined policies and reported daily against prescribed control limits.

SABB uses a range of control measures to manage market risk ranging from specific stop loss control limits, to sensitivity analysis limits including the present value of a basis point movement of interest rates, as well as VAR loss limits designed to estimate the potential loss from market movements across a specified time horizon and for a given level of confidence using a historical simulation approach. SABB recognizes the limitations of VAR and compliments its analysis with scenario stress testing to evaluate the impact of more extreme but plausible events or movements in market variables.

Stress testing is performed at a portfolio level covering the impacts of movements in any single risk factor, technical scenarios looking at the largest observed movements, hypothetical scenarios looking at potential macro-economic events and historical scenarios which incorporate observed market movements from periods not captured in the VAR. These scenarios are governed by an oversight committee and the results are reported to senior management together with an assessment of the impact such events would have on SABB together with proposals for mitigating actions.

The risk of credit spread movements or specific issuer risk which arises from the change in value of a bond due to perceived changes in the credit quality of an issuer is managed through credit VAR and stress testing limits and tolerance levels.

Whilst SABB uses both VAR and standard rules to manage market risk, capital requirements are assessed for all positions using the standard rules approaches prescribed by SAMA.

11. Market Risk: Disclosure for Banks Using Internal Models Approach (IMA) for Trading Portfolios

Not Applicable.

12. Operational Risk

SABB manages operational risk by tracking actual and near miss operational losses. Historical loss experiences have been seen in the areas of fraudulent activities, breakdown in processes due to misjudgment or human error and systems failures.

Whilst operational risk is the responsibility of individual employees and businesses it is organized as an independent risk discipline within SABB. The operational risk function seeks to manage and control risk in a cost efficient manner within agreed risk tolerance levels. A formal governance structure is in place to provide oversight over the management of risk within which designated business coordinators feed into a committee structure and ultimately to the Risk Management Meeting and Board.

Operational risk policies and procedures explain the requirements for identifying, assessing, monitoring reporting and controlling risk as well as providing guidance on the mitigation action to be taken when weaknesses are identified. Businesses are responsible for undertaking a self assessment, designing controls and reporting defined key risk indicators all of which are subject to an independent challenge and review process. Systems and centralised databases are in place to track and record actual as well as near miss loss events for collation, analysis and reporting to senior management.

Capital requirements are assessed using the standardised approach, which applies one of three fixed percentages to an average of the last three financial years gross revenues allocated across eight defined business lines.

13. Equities: Disclosures for Banking Book Positions

Equity Investments are either classified as “Available for sale” or as “Investments in Associate”.

Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investments, which are classified as “available for sale”, are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in “Other reserves” under Shareholders’ equity. On derecognition, any cumulative gain or loss previously recognized in shareholders’ equity is included in the consolidated statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

Investment in associate is accounted for using the equity method in accordance with International Accounting Standard 28 – Investment in Associates. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in associate is carried in the balance sheet at cost plus post investment changes in the Bank’s share of net assets of the associate. The investments in associates are carried in balance sheet at the lower of equity accounted or recoverable amount.

The reporting dates of the associate and the Bank are identical and the associate’s accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associate are eliminated to the extent of the Bank’s interest in the associate.

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

The analysis of Interest Rate risk is complicated by having to make assumptions on embedded optionality in products such as loan prepayments, and from behavioural assumptions regarding the economic duration of liabilities, which are contractually repayable on demand. Product reviews are undertaken annually to review and validate any behavioural assumptions.

In order to manage interest rate risk, the risk is transferred to Treasury by a series of internal deals between Treasury and the various business units. Treasury then evaluates the relative risk on the basis of applying Present Value Basis Point (PVBP) and VAR approaches and managing the resultant risk within approved limits assigned by EXCOM. Where practical, Risk monitoring takes place on a daily basis.

Stress testing and sensitivity analysis is also carried out and results reported to ALCO on a monthly basis.

SABB Treasury seeks to manage the impact of interest rate risk on net interest income in so far as such hedging is possible and cost effective to undertake.

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

1. Table – Scope of Application

Capital Deficiencies (Table 1, (e))

Particulars	*Amount* **SAR'000**
The aggregate amount of capital deficiencies in subsidiaries not included in the consolidation i.e that are deducted	
1. HSBC Saudi Arabia Limited	496,237
2. Saudi Travellers Cheque Company	5,676
3. SABB Takaful	115,995

2. Table – Capital Structure

Capital Structure (Table 2, (b to e))

Components of capital	*Amount* **SAR'000**
Core capital – Tier 1:	
Eligible paid-up share capital	10,000,000
Shares premium accounts	-
Eligible reserves	6,986,831
Minority interests in the equity of subsidiaries	-
Retained earnings	(146,686)
IAS type adjustments	-
Deductions from Tier 1:	
Interim losses during the year	-
Intangible assets (including goodwill)	-
Other country specific deductions from Tier 1 at 50%	-
Regulatory calculation differences deduction from Tier 1 at 50%	-
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction:	-
Banking and securities entities not fully consolidated	248,118
Insurance organizations	57,998
Commercial organizations	2,838
Total Tier I	**16,531,191**
Supplementary capital – Tier 2:	
Revaluation gains/reserves	-
Subordinated loan capital	1,200,000
Qualifying general provisions	969,132
Interim profits	3,240,316
Deductions from Tier 2:	
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction	-
Banking and securities entities not fully consolidated	248,117
Insurance organizations	57,998
Commercial Organizations	2,838
Other country specific deductions from Tier2 at 50%	-
Regulatory calculation differences deduction from Tier 2 at 50%	-
Total Tier II	**5,100,494**
Capital to cover market risks – Tier III	
Short Term Subordinated Debt	-
Tier I and Tier II Capital Available for Market Risk	-
Total eligible capital	**21,631,685**

3. Table – Capital Adequacy

Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (Table 3, (b))

Portfolios	*Amount of exposure* SAR'000	*Capital requirement* SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	36,165,925	-
Others	2,457,982	10,422
Multilateral Development Banks (MDBs)	121,106	4,844
Public Sector Entities (PSEs)	-	-
Banks and securities firms	14,664,079	485,375
Corporates	79,466,618	5,810,931
Retail non-mortgages	13,788,021	817,588
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	6,489,610	519,169
Commercial	-	-
Securitized assets	-	-
Equity	921,765	73,741
Others	2,313,440	79,860
Total	**156,388,546**	**7,801,930**

Capital requirements for Market Risk* (Table 3, (d))

	Interest rate risk SAR'000	*Equity position risk* SAR'000	*Foreign exchange risk* SAR'000	*Commodity risk* SAR'000	*Total* SAR'000
Standardised approach	123,529	-	22,863	-	**146,392**

**Capital requirements are to be disclosed only for the approaches used.*

Capital Requirements for Operational Risk* (Table 3, (e))

Particulars	*Capital requirement* SAR'000
Standardized approach	800,350

**Capital requirements are to be disclosed only for the approaches used.*

Capital Adequacy Ratios (Table 3, (f))

Particulars	*Total capital ratio* %	*Tier I capital ratio* %
Top consolidated level	15.69%	11.99%

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

4. Table (STA) – Credit Risk: General Disclosures

Credit Risk Exposure (Table 4, (b))

Portfolios	*Total gross credit risk exposure* SAR'000	*Average gross credit risk exposure over the period* SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	36,165,925	-
Others	2,457,982	-
Multilateral Development Banks (MDBs)	336,656	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	22,213,846	-
Corporates	106,523,544	-
Retail non-mortgages	13,614,240	-
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	6,489,610	-
Commercial	-	-
Securitized assets	-	-
Equity	921,765	-
Others	2,313,440	-
Total	**191,037,008**	**-**

4. Table (STA) – Credit Risk: General Disclosures *(continued)*

Geographic Breakdown (Table 4, (c))

Portfolios	*Saudi Arabia* SAR'000	*Other GCC & Middle East* SAR'000	*Europe* SAR'000	*North America* SAR'000	*South East Asia* SAR'000	*Other countries* SAR'000	*Total* SAR'000
Sovereigns and central banks:							
SAMA and Saudi Government	36,165,925	-	-	-	-	-	36,165,925
Others	-	2,160,965	238,010	-	59,007	-	2,457,982
Multilateral Development Banks (MDBs)	-	-	-	-	-	336,656	336,656
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	1,232,140	3,912,363	9,148,219	4,112,193	146,348	3,662,583	22,213,846
Corporates	103,463,331	2,291,723	58,964	37,500	146,043	525,983	106,523,544
Retail non-mortgages	13,614,240	-	-	-	-	-	13,614,240
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-
Residential	6,489,610	-	-	-	-	-	6,489,610
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	848,506	-	73,259	-	-	-	921,765
Others	2,313,440	-	-	-	-	-	2,313,440
Total	**164,127,192**	**8,365,051**	**9,518,452**	**4,149,693**	**351,398**	**4,525,222**	**191,037,008**

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

4. Table (STA) – Credit Risk: General Disclosures *(continued)*

Industry Sector Breakdown (Table 4, (d))

Portfolios	*Government and quasi-government* SAR'000	*Banks and other financial institutions* SAR'000	*Agriculture and fishing* SAR'000	*Manufacturing* SAR'000	*Mining and quarrying* SAR'000
Sovereigns and central banks:					
SAMA and Saudi Government	36,165,925	-	-	-	-
Others	2,457,982	-	-	-	-
Multilateral Development Banks (MDBs)	-	336,656	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-
Banks and securities firms	-	22,213,846	-	-	-
Corporates	-	15,045,765	862,157	19,778,946	652,284
Retail non-mortgages	-	-	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-
Mortgages	-	-	-	-	-
Residential	-	-	-	-	-
Commercial	-	-	-	-	-
Securitized assets	-	-	-	-	-
Equity	-	921,765	-	-	-
Others	-	-	-	-	-
Total	**38,623,907**	**38,518,032**	**862,157**	**19,778,946**	**652,284**

Residual Contractual Maturity Breakdown (Table 4, (e))

Portfolios	**Maturity Breakdown** *Less then 8 days* SAR'000	*8 - 30 days* SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	12,148,525	2,509,414
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and Securities Firms	9,312,553	791,897
Corporates	13,822,468	13,526,262
Retail non-mortgages	1,715,158	70,067
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	1,023	84
Commercial	-	-
Securitized assets	-	-
Equity	-	-
Others	-	-
Total	**36,999,727**	**16,897,724**

Electricity, water, gas and health services	*Building and construction*	*Commerce*	*Transportation and communication*	*Services*	*Consumer loans and credit cards*	*Others*	*Total*
SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
-	-	-	-	-	-	-	36,165,925
-	-	-	-	-	-	-	2,457,982
-	-	-	-	-	-	-	336,656
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	22,213,846
3,695,069	22,624,834	30,837,932	6,489,787	3,132,713	-	3,404,057	106,523,544
-	-	-	-	-	13,614,240	-	13,614,240
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	6,489,610	-	6,489,610
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	921,765
-	-	-	-	-	-	2,313,440	2,313,440
3,695,069	**22,624,834**	**30,837,932**	**6,489,787**	**3,132,713**	**20,103,850**	**5,717,497**	**191,037,008**

Maturity Breakdown

30 - 90 days	*90 - 180 days*	*180 - 360 days*	*1 - 3 years*	*3 - 5 years*	*Over 5 years*	**No Maturity*	*Total*
SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
2,006,711	8,129,779	3,144,909	301,150	-	1,023,087	6,902,350	36,165,925
-	-	-	1,338,887	779,556	339,539	-	2,457,982
-	-	121,106	215,550	-	-	-	336,656
-	-	-	-	-	-	-	-
1,187,346	3,138,480	1,986,491	3,002,855	2,195,403	598,821	-	22,213,846
24,584,257	13,074,118	9,931,311	14,402,325	8,386,744	8,796,059	-	106,523,544
129,922	119,310	259,405	3,397,701	7,818,796	103,881	-	13,614,240
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
880	1,241	4,813	74,203	183,179	6,224,187	-	6,489,610
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	921,765	921,765
-	-	-	-	-	-	2,313,440	2,313,440
27,909,116	**24,462,928**	**15,448,035**	**22,732,671**	**19,363,678**	**17,085,574**	**10,137,555**	**191,037,008**

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

4. Table (STA) – Credit Risk: General Disclosures *(continued)*

Impaired Loans, Past Due Loans and Allowances (Table 4, (f))

			Ageing of past due loans
	Impaired loans	*Defaulted*	*Less than 90 days*
Industry sector	**SAR'000**	**SAR'000**	**SAR'000**
Government and quasi government	-	-	-
Banks and other financial institutions	-	-	-
Agriculture and fishing	-	-	18,468
Manufacturing	196,537	196,537	26,078
Mining and quarrying	-	-	-
Electricity, water. Gas and health services	-	-	2,480
Building and construction	391,011	399,673	78,461
Commerce	312,795	322,282	46,005
Transportation and communication	-	2,773	29,660
Services	23,586	24,330	-
Consumer loans and credit cards	50,039	168,864	1,143,188
Others	624,587	669,289	711,977
Total	**1,598,555**	**1,783,748**	**2,056,317**

Impaired loans, Past Due Loans and Allowances (Table 4, (g))

		Ageing of past due loans			
	Impaired loans	*Less than 90 days*	*90 - 180 days*	*180 - 360 days*	*Over 360 days*
Geographic area	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Saudi Arabia	1,515,725	2,056,317	185,193	-	-
Other GCC and Middle East	82,830	-	-	-	-
Europe	-	-	-	-	-
North America	-	-	-	-	-
SouthEast Asia	-	-	-	-	-
Others countries	-	-	-	-	-
Total	**1,598,555**	**2,056,317**	**185,193**	**-**	**-**

Reconciliation of Changes in the Allowances for Loan Impairment (Table 4, (h))

	Specific allowances	*General allowances*
Particulars	**SAR'000**	**SAR'000**
Balance, beginning of the year	1,036,267	1,044,456
Charge-offs taken against the allowances during the period	(259,600)	-
Amounts set aside (or reversed) during the period	336,789	255,472
Other adjustments:	-	-
– exchange rate differences	-	-
– business combinations	-	-
– acquisitions and disposals of subsidiaries	-	-
– etc.	-	-
Transfers between allowances	-	-
Balance, end of the year	**1,113,456**	**1,299,928**

Ageing of past due loans			Specific allowances				
90 - 180 days	*180 - 360 days*	*Over 360 days*	*Balance at the beginning of the period*	*Charges during the period*	*Charge-offs during the period*	*Balance at the end of the period*	*General allowances*
SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	3,598
-	-	-	62,262	8,894	(5,752)	65,404	176,902
-	-	-	-	-	-	-	9,106
-	-	-	-	-	-	-	15,748
8,662	-	-	110,661	(481)	(5,592)	104,588	525,618
9,487	-	-	277,171	3,565	(129)	280,607	227,347
2,773	-	-	602	(602)	-	-	7,958
744	-	-	24,502	(1,068)	(697)	22,737	318,648
118,825	-	-	224,434	331,198	(246,644)	308,988	-
44,702	-	-	336,635	(4,717)	(786)	331,132	15,003
185,193	**-**	**-**	**1,036,267**	**336,789**	**(259,600)**	**1,113,456**	**1,299,928**

Specific allowances	*General allowances*
SAR'000	**SAR'000**
1,028,221	1,299,928
85,235	-
-	-
-	-
-	-
-	-
1,113,456	**1,299,928**

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

5. Table (STA) – Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

Allocation of Exposures to Risk Buckets (Table 5, (b))

	Risk buckets		
	0%	*20%*	*35%*
Particulars	**SAR'000**	**SAR'000**	**SAR'000**
Sovereigns and central banks			
SAMA and Saudi Government	36,165,925	-	-
Others	2,162,174	58,767	-
Multilateral Development Banks (MDBs)	-	50	-
Public Sector Entities (PSEs)	-	-	-
Banks and securities firms	-	7,123,477	-
Corporates	-	2,550,035	-
Retail non-mortgages	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-
Mortgages	-	-	-
Residential	-	-	-
Commercial	-	-	-
Securitized assets	-	-	-
Equity	-	-	-
Others	966,179	436,260	-
Total	**39,294,278**	**10,168,589**	**-**

7. Table (STA) – Credit Risk Mitigation (CRM); Disclosures for Standardised Approach

Credit Risk Exposure covered by CRM (Table 7, (b) and (c))

	Covered by	
	*Eligible financial collateral**	*Guarantees/ credit derivatives*
Portfolios	**SAR'000**	**SAR'000**
Sovereigns and central banks		
SAMA and Saudi Government	-	-
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	-	-
Corporates	4,042,012	468,516
Retail non-mortgages		
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	-	-
Commercial	-	-
Securitized assets	-	-
Equity	-	-
Others	-	-
Total	4,042,012	468,516

Risk buckets							
50%	*75%*	*100%*	*150%*	*Other risk weights*	*Unrated*	*Total*	*Deducted*
SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
-	-	-	-	-	-	36,165,925	-
237,041	-	-	-	-	-	2,457,982	-
336,606	-	-	-	-	-	336,656	-
-	-	-	-	-	-	-	-
14,248,230	-	842,139	-	-	-	22,213,846	-
4,953,470	-	94,059,654	449,857	-	-	102,013,016	-
-	13,575,859	38,381	-	-	-	13,614,240	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	6,489,610	-	-	-	6,489,610	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	921,765	-	-	-	921,765	617,908
-	-	911,001	-	-	-	2,313,440	-
19,775,347	**13,575,859**	**103,262,550**	**449,857**	**-**	**-**	**186,526,480**	**617,908**

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

8. Table (STA) – General Disclosures for Exposures Related to Counterparty Credit Risk (CCR)

General Disclosures (Table 8, (b) and (d))

Particulars	*Amount* **SAR'000**
Gross positive fair value of contracts	1,951,310
Netting Benefits*	-
Netted Current Credit Exposure*	-
Collateral held:	
– Cash	-
– Government securities	-
– Others	
Exposure amount (under the applicable method)	-
– Internal Models Method (IMM)	-
– Current Exposure Method (CEM)	3,082,902
Notional value of credit derivative hedges	-
Current credit exposure (by type of credit exposure):	
– Interest rate contracts	1,427,562
– FX contracts	1,552,827
– Equity contracts	102,513
– Credit derivatives	-
– Commodity/other contracts	-

**Bank's estimate of Alpha (if the bank has received supervisory approval) is: N/A*
**Currently, netting for credit exposure measurement purposes not permitted in KSA.*

8. Table (STA) – Credit Derivative Transactions (Table 8, (c))

	Proprietary activities		**Intermediation activities**	
	Protection bought	*Protection sold*	*Protection bought*	*Protection sold*
Credit derivative transactions	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Total return swaps				
Credit default swaps				
Credit options				
Credit linked notes			**N I L**	
Collateralised debt obligations				
Collateralised bond obligations				
Collateralised loan obligations				
Others				
Total	-	-	-	-

9. Table (STA) – Securitisation: Disclosures for Standardised Approach

Outstanding Exposures Securitised by the Bank (Table 9, (g))

	Outstanding exposures	
	Traditional	*Synthetic*
Exposures Type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Other		

Outstanding exposures securitized by the bank as a sponsor (Table 9, (g))

	Outstanding exposures	
	Traditional	*Synthetic*
Exposures Type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Outstanding exposures securitized by the bank as an originator or purchaser (Table 9, (h))

	Impaired/ Past due assets securitized	*Losses recognized by the bank during the current period*
Exposures Type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Outstanding exposures securitized by the bank as a sponsor (Table 9, (h))

	Impaired/ Past due assets securitized	*Losses recognized by the bank during the current period*
Exposures Type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

9. Table (STA) – Securitisation: Disclosures for Standardised Approach *(continued)*

Outstanding exposures securitized by the bank (Table 9, (i))

	Outstanding exposures	
	Traditional	*Securitization exposures retained or purchased*
Exposures Type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Summary of current year's securitization activity of the bank as an originator or purchaser (Table 9, (j))

	On balance sheet aggregate exposure retained or purchased	*Off balance sheet aggregate exposure*
Exposures Type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Summary of current year's securitization activity of the bank as a sponsor (Table 9, (j))

	Amount of exposures securitized	*Recognized gain or loss on sale*
Exposure type	**SAR'000**	**SAR'000**
Amount of exposures securitized		
Recognized gain or loss on sale		
Credit cards		
Home equity loans		
Commercial loans	**N I L**	
Automobile loans		
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Securitised Exposures (Table 9, (k))

	Amount of exposures securitized	*Recognized gain or loss on sale*
Exposures Type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

9. Table (STA) – Securitisation: Disclosures for Standardised Approach *(continued)*

Exposures By Risk Weight Bands (Table 9, (l))

	Securitisation		**Re-Securitisation**	
	Exposures retained or purchased	*Associated capital charges*	*Exposures retained or purchased*	*Associated capital charges*
Risk Weight bands	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
0% to 20%				
Above 20% to 40%				
Above 40% to 60%				
Above 60% to 80%	**N I L**		**N I L**	
Above 80% to 100%				
Above 100%				

Deductions from capital (Table 9, (l))

	Exposures deducted from Tier 1 capital	*Credit enhancing I/Os deducted from total*	*Other exposures deducted from total capital*
Type of underlying assets	**SAR'000**	**SAR'000**	**SAR'000**
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans			
Small business loans			
Equipment leases			
Others			

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Securitizations Subject To Early Amortization Treatment (Table 9, (m))

		Aggregate capital charges incurred by the bank against	
	Aggregate drawn exposures attributed to the seller's and investor's interests	*its retained shares of the drawn balances and undrawn lines*	*the investor's shares of drawn balances and undrawn lines*
Type of underlying assets	**SAR'000**	**SAR'000**	**SAR'000**
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans		**N I L**	
Small business loans			
Equipment leases			
Others			

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

9. Table (STA) – Securitisation: Disclosures for Standardised Approach *(continued)*

Re-Securitisation Exposures Retained or Purchased (Table 9, (n))

	Credit Risk Mitigation	
	Applied	*Not Applied*
Securitisation Exposure	**SAR'000**	**SAR'000**
Loans		
Commitments		
Asset-backed securities		
Mortgage-backed securities		
Corporate bonds	**N I L**	
Equity securities		
Private equity investments		
Others		

Re-Securitisation Exposures Retained or Purchased (Table 9, (n))

	Aggregate Exposure
Guarantor Credit Worthiness (Grade 1 being the highest)	**SAR'000**
Grade 1	
Grade 2	
Grade 3	
Grade 4	**N I L**
Grade 5	
Grade 6	
Grade 7	

Outstanding exposures securitized by the bank as an originator or purchaser (Table 9, (o))

	Outstanding exposures	
	Traditional	*Synthetic*
Exposure type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Outstanding exposures securitized by the bank as a sponsor (Table 9, (o))

	Outstanding exposures	
	Traditional	*Synthetic*
Exposure type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

9. Table (STA) – Securitisation: Disclosures for Standardised Approach *(continued)*

Outstanding exposures securitized by the bank (Table 9, (p))

	Securitization exposures retained or purchased
Exposure type	**SAR'000**
Credit cards	
Home equity loans	
Commercial loans	
Automobile loans	**N I L**
Small business loans	
Equipment leases	
Others	

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Summary of current year's securitization activity of the bank as an originator or purchaser (Table 9, (q))

	Amount of exposures securitized	*Recognized gain or loss on sale*
Exposure type	**SAR'000**	**SAR'000**
Amount of exposures securitized		
Recognized gain or loss on sale		
Credit cards		
Home equity loans		
Commercial loans	**N I L**	
Automobile loans		
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure..

Summary of current year's securitization activity of the bank as a sponsor (Table 9, (q))

	Amount of exposures securitized	*Recognized gain or loss on sale*
Exposure type	**SAR'000**	**SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Basel II – Pillar 3 Annual Disclosures (31 December 2012) (continued)

9. Table (STA) – Securitisation: Disclosures for Standardised Approach *(continued)*

Securitised Exposures (Table 9, (s))

Exposure type	*On balance sheet aggregate exposure retained or purchased* SAR'000	*Off Balance Sheet Aggregate Exposure* SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	N I L	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Securitization exposure retained subject to market risk approach where bank is an originator or purchaser (Table 9, (r))

Exposure type	*On balance sheet aggregate exposure retained or purchased* SAR'000	*Off Balance Sheet Aggregate Exposure* SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	N I L	
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Securitization exposure retained subject to market risk approach where bank is a sponsor (Table 9, (r))

Securitisation Exposure	*Subject to Comprehen -sive Risk Measure for specific risk* SAR'000
Loans	
Commitments	
Asset-backed securities	
Mortgage-backed securities	
Corporate bonds	N I L
Equity securities	
Private equity investments	
Others	

Exposures By Risk Weight Bands (Table 9, (t))

Risk weight bands	*Securitization exposures retained or purchased subject to specific risk* SAR'000
0% to 20%	
Above 20% to 40%	
Above 40% to 60%	
Above 60% to 80%	N I L
Above 80% to 100%	
Above 100%	

9. Table (STA) – Securitisation: Disclosures for Standardised Approach *(continued)*

Capital Requirements subject to Comprehensive Risk Measures (Table 9, (u))

	Risk Types		
	Default Risk	*Migration Risk*	*Correlation Risk*
Securitisation Exposure	**SAR'000**	**SAR'000**	**SAR'000**
Loans			
Commitments			
Asset-backed securities			
Mortgage-backed securities			
Corporate bonds		**N I L**	
Equity securities			
Private equity investments			
Others			

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Capital Requirement Risk Weight Bands (Table 9, (u))

	Capital Charges	
	Securiti -sation	*Re-Securiti -sation*
Risk weight bands	**SAR'000**	**SAR'000**
0% to 20%		
Above 20% to 40%		
Above 40% to 60%		
Above 60% to 80%	**N I L**	
Above 80% to 100%		
Above 100%		

Deductions from capital (Table 9, (u))

	Exposures deducted from Tier 1 capital	*Credit enhancing I/Os deducted from total capital*	*Other exposures deducted from total capital*
Type of underlying assets	**SAR'000**	**SAR'000**	**SAR'000**
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans		**N I L**	
Small business loans			
Equipment leases			
Others			

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

9. Table (STA) – Securitisation: Disclosures for Standardised Approach *(continued)*

Securitizations Subject to Early Amortization Treatment (Table 9, (v))

		Aggregate capital charges incurred by the bank against	
	Aggregate drawn exposures attributed to the seller's and investor's interests	*its retained shares of the drawn balances and undrawn lines*	*the investor's shares of drawn balances and undrawn lines*
Securitisation Exposure	**SAR'000**	**SAR'000**	**SAR'000**
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans		N I L	
Small business loans			
Equipment leases			
Others			

Please provide the type of securities (e.g. RMBS,CMBS,ABS,CDOs) for each securitised exposure.

Re-Securitisation Exposures Retained or Purchased (Table 9, (w))

	Credit Risk Mitigation	
	Applied	*Not Applied*
Securitisation Exposure	**SAR'000**	**SAR'000**
Loans		
Commitments		
Asset-backed securities		
Mortgage-backed securities		
Corporate bonds	N I L	
Equity securities		
Private equity investments		
Others		

Re-Securitisation Exposures Retained or Purchased (Table 9, (w))

	Aggregate Exposure
Guarantor Credit Worthiness (Grade 1 being the highest)	**SAR'000**
Grade 1	
Grade 2	
Grade 3	
Grade 4	N I L
Grade 5	
Grade 6	
Grade 7	

10. Table – Market Risk: Disclosures for Banks Using the Standardized Approach

Level of Market Risks in Terms of Capital Requirements (Table 10, (b))

	Interest rate risk	*Equity position risk*	*Foreign exchange risk*	*Commodity risk*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Capital requirements	123,529	-	22,863	-	**146,392**

13. Table – Equities: Disclosures for Banking Book Positions

Value of Investments (Table 13, (b))

	Unquoted Investments		**Quoted Investments**		
	Value disclosed in financial statements	*Fair value*	*Value disclosed in financial statements*	*Fair value*	*Publicly quoted share values (if materially different from fair value)*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Investments	578,860	578,860	960,813	1,254,773	-

Type and Nature of Investments (Table 13, (c))

	Publicly traded	*Privately held*
Investments	**SAR'000**	**SAR'000**
Government and Quasi-Government	-	-
Banks and Other Financial Institutions	960,813	496,737
Agriculture and Fishing	-	-
Manufacturing	-	-
Mining and Quarrying	-	-
Electricity, water, gas and health services	-	-
Building and Consruction	-	-
Commerce	-	-
Transportation and communication	-	-
Services	-	9,390
Others	-	72,733
Total	**960,813**	**578,860**

Gains and Losses etc. (Table 13, (d) and (e))

Particulars	**SAR'000**
Cummulative realised gains/(losses) arising from sales and liquidations in the reporting period	-
Total unrealised gains (losses)	(255,402)
Total latent revaluation gains (losses)*	N/A
Unrealised gains (losses) included in capital	(255,402)
Latent revaluation gains (losses) included in Capital*	N/A

**Not applicable to KSA to date.*

13. Table – Equities: Disclosures for Banking Book Positions *(continued)*

Capital Requirements (Table 13, (f))

Equity Grouping	*Capital requirements* **SAR'000**
Government and Quasi-Government	-
Banks and Other Financial Institutions	67,625
Agriculture and Fishing	-
Manufacturing	-
Mining and Quarrying	-
Electricity, water, gas and health services	-
Building and Consruction	-
Commerce	-
Transportation and communication	-
Services	297
Others	5,819
Total	**73,741**

Equity Investments Subject to Supervisory Transition or Grandfathering Provisions (Table 13, (f))

Equity Grouping	**SAR'000**
Government and quasi-government	
Banks and other financial institutions	
Agriculture and fishing	
Manufacturing	
Mining and quarrying	
Electricity, water, gas and health services	
Building and construction	
Commerce	
Transportation and communication	
Services	
Others	
Total	**Nil**

14. Table – Interest Rate Risk in the Banking Book (IRRBB)

200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities (Table 14, (b))

Rate Shocks	*Change in earnings* **SAR'000**
Upward Rate Shocks:	
SAR	(974,595)
USD	(378,333)
Downward rate shocks:	
SAR	974,595
USD	378,333

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Published by Corporate Communications,
The Saudi British Bank, Riyadh.

Cover designed by Addison Corporate Marketing Limited, London;
text pages designed by Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, Hong Kong.

Printed by
Al-Nasher Al-Arabi Printing Press
Riyadh, Saudi Arabia

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