The Saudi British Bank

Annual Report and Accounts 2013

SABB ساب

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

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SABB

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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,

Deputy Crown Prince, Second Deputy Premier, and 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

David Dew

Mohammed Omran Al Omran

Mohammad Mazyed Al Tuwaijri

Khalid Abdullah Al Molhem

Simon Cooper

Mohammed Abdulrehman Al Samhan

Zarir J. Cama

Senior Management

David Dew
Managing Director

Mansour Al-Bosaily
General Manager,
Legal Affairs and
Company Secretary

Ian Macalester
Chief Operating Officer

Mohammed Bindawood
General Manager,
Commercial Banking

Majed Najm
General Manager,
Retail Banking and
Wealth Management

Saleh Al-Motawa
Treasurer

Ahmed Al-Sudais
General Manager,
Human Resources

Craig Bell
Chief Financial Officer

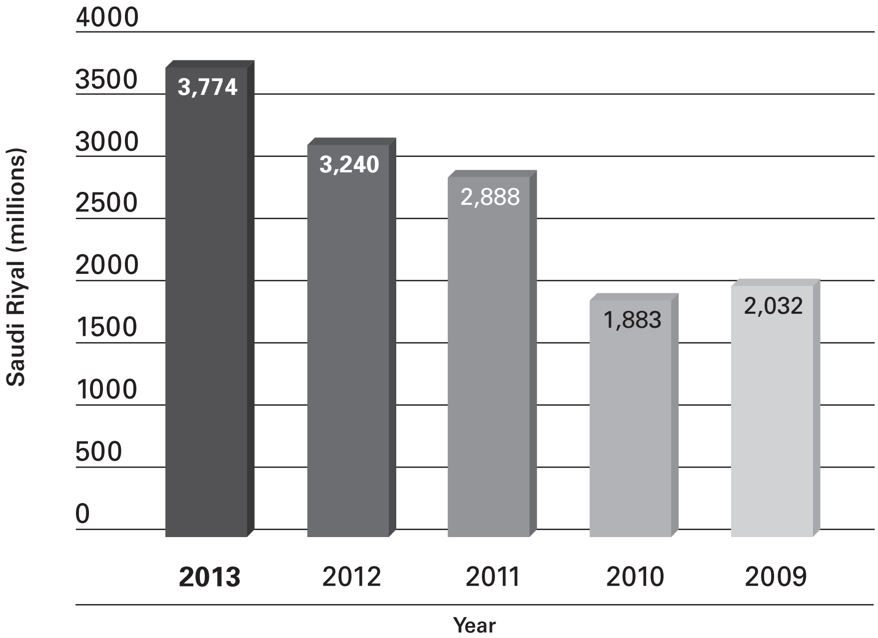
Naif Alabdulkareem
General Manager,
Branches and
Wealth Management

Financial Highlights

Five-year financial highlights

	Year				
Saudi Riyal (millions)	**2013**	2012	2011	2010	2009
Customer Deposits	**138,961**	120,434	105,577	94,673	89,187
Shareholders' Equity	**22,833**	20,066	17,166	15,172	13,045
Investments, Net	**37,400**	27,587	22,200	24,972	23,818
Loans and Advances, Net	**106,115**	96,098	84,811	74,248	76,382
Total Assets	**177,302**	156,652	138,658	125,373	126,838
Net Income	**3,774**	3,240	2,888	1,883	2,032
Gross Dividend	**1,100**	1,000	563	563	660

Net income



Chairman's Statement

On behalf of the Board of Directors, it gives me a great deal of pleasure to present the Annual Report of SABB covering the financial year ending 31 December 2013.

In 2013, SABB witnessed another excellent year with profits increasing yet again to 3,744 Million Saudi Riyals, in an increase of 16.5% over the same period the year before. The results reflects strong growth recorded across all income streams, which was achieved by implementing a clear vision and a high level of professional standards using international best practices. A customer-focused strategy leading all business performance processes and operations in a cohesive and streamlined manner, created a success story that earned global recognitions and acknowledgments from leading publications.

The positive results achieved by SABB in the year 2013 were a product of well-thought key focus areas of strategic importance. Investment in human capital offered us a valuable asset that was essential in reaching our objectives. By acquiring, and then retaining, some of the best talent available in the financial services industry, SABB possessed the strength needed to assume a pioneering place in an increasingly competitive market. An integral part of our plans was the attention offered to national talent and its career track in our Bank, in an aim to increase the level of occupation of Saudi men and women in senior positions.

Moreover, our financial performance was positively impacted by further developments in our methods and available channels in engaging the customer. Geographical coverage was expanded through increasing the numbers of branches and ATMs. Alternative electronic channels were further enhanced while maintain appropriate levels of IT security and personal identity protection.

Looking at the regulatory environment, SABB continues to be fully compliant with all rules and regulations enforced by the Saudi Arabian Monetary Agency (SAMA), as well as the Capital Market Authority. In addition, SABB is strongly committed to principles of corporate governance and the highest levels of ethical standards, including notions relating to transparency and full disclosure. The Bank is actively seeking compliance with Basel III capital adequacy requirements while coordinating such efforts with SAMA which facilitates the progress made in the financial services sector.

In a fine example of corporate citizenship, SABB community service programmes and events are fully aligned with organisational values and continue to be of added value to the environment in which the Bank operates. With community integration in mind, the Bank saw an increasing number of its own staff engaged in community initiatives. This is a trend that is encouraged and facilitated to bring a wider degree of social benefits to society at large, and deepen the sense of personal responsibility towards the community.

In closing, and on behalf of the Board of Directors, I would like to extend an expression of thanks and gratitude to the Custodian of the Two Holy Mosques, HRH The Crown Prince and HRH The Second Deputy Prime Minister for their support and encouragements to the financial sector and economic development plans for our Kingdom.

Special recognition is due as well to the Saudi government for their continued leadership and cooperation. In particular, Ministry of Finance, Ministry of Commerce and Industry, Saudi Arabian Monetary Agency, and the Capital Market Authority for working jointly and constructively with all Saudi banks to advance the best interests of the Kingdom.

I would like to also express my sincere thanks and appreciation to SABB's shareholders and customers for their confidence and support. Moreover, I want to thank our hard-working staff for their loyalty and spirit of achievement, in making SABB the pioneering institution that it is today.

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 31 December 2013.

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 Shariah-approved products, which are approved and supervised by an independent Shariah Board.

SABB has a 100% (2012: 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 2007G). 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% (2012: 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 2003G). 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.

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

Five-year financial highlights

	Year				
Saudi Riyal (millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Customer Deposits	**138,961**	120,434	105,577	94,673	89,187
Shareholders' Equity	**22,833**	20,066	17,166	15,172	13,045
Investments, Net	**37,400**	27,587	22,200	24,972	23,818
Loans and Advances, Net	**106,115**	96,098	84,811	74,248	76,382
Total Assets	**177,302**	156,652	138,658	125,373	126,838
Net Income	**3,774**	3,240	2,888	1,883	2,032
Gross Dividend	**1,100**	1,000	563	563	660

Five-year financial highlights *(continued)*

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
2013G	3,838	1,149	828

Main Business Segments/Sectors

The Bank is organised 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 for management of the Bank's liquidity, currency and special commission rate risks. It is 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 2013G, by business segments, are as follows:

SAR '000	Retail Banking and Wealth Management	Corporate Banking	Treasury	Other	Total
Total Operating Income	**1,930,506**	**2,711,442**	**1,173,436**	**-**	**5,815,384**
Total Operating Expenses	**1,216,048**	**819,835**	**128,861**	**-**	**2,164,744**
Share in Earnings of Associates, Net	**-**	**-**	**-**	**123,170**	**123,170**
Net Income	**714,458**	**1,891,607**	**1,044,575**	**123,170**	**3,773,810**

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, assets management 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.

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.

Directors' Report (continued)

Profits

SABB recorded a net profit of SAR 3,774 million for the year ended 31 December 2013G. This is an increase of SAR 534 million or 16.5% compared to SAR 3,240 million for the same period in 2012. The increase is due mainly to an increase in net special commission income of SAR 455 million and an increase in fee and commission income of SAR 112 million which is offset partially by an increase in the total operating expenses of SAR 127 million. Earnings per share was SAR 3.77 for the year ended 31 December 2013G against SAR 3.24 for the same period last year.

Total assets were SAR 177.3 billion at 31 December 2013G, compared with SAR 156.7 billion at 31 December 2012G, an increase of 13.2% or SAR 20.6 billion. Customer deposits totalled SAR 139.0 billion at 31 December 2013G – an increase of SAR 18.5 billion, or 15.4%, compared with SAR 120.4 billion at 31 December 2012G. Loans and advances to customers amounted to SAR 106.1 billion at 31 December 2013G – an increase of SAR 10.0 billion, or 10.4%, from SAR 96.1 billion at 31 December 2012G. The Bank's investment portfolio totalled SAR 37.4 billion at 31 December 2013G, an increase of SAR 9.8 billion or 35.6% compared with SAR 27.6 billion at 31 December 2012G.

Cash Dividends

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 17 March 2013G, approved the proposal of the Board of Directors to distribute a cash dividend for the financial year 2012 to all shareholders registered as at the end of trading on the day of holding the assembly. The dividend that has been paid to the shareholders on 24 March 2013G, amounts to 92 Halalas per share after deducting Zakat and Tax.

The distributable profits proposed for 2013G amounting to one Riyal per share after deducting Zakat will be presented to the Ordinary General Meeting, scheduled for 18 March 2014G, for endorsement and approval. However, the Board of Directors has recommended the distribution of profits as follows:

	SAR '000
Net Income 2013	3,773,810
Retained earnings from the previous year	2,078,676
Total	5,852,486
Distributed as follows:	
Transferred to statutory reserves	943,453
Zakat and income tax	354,100
Proposed dividend, net	745,900
Retained earnings for 2013	3,809,033

Statutory Payments

Statutory payments payable by the Bank during 2013 consist of Zakat payable by Saudi shareholders, tax payable by the foreign partner, and the amounts payable to GOSI, which represent staff insurance contributions.

Profits *(continued)*

The statutory payments for the year were as follows:

	SAR '000
Zakat attributable to the Saudi shareholders for the year 2013	**55,700**
Income tax attributable to the share of the non-Saudi shareholders for the year 2013	**298,400**
GOSI payments	**85,429**
Other payments	**4,295**

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:

The HSBC Group	**As at 31 December 2013 SAR '000**
Due from banks and other financial institutions	**2,286,715**
Investments	**862,442**
Other assets	**2,812**
Derivatives (at fair value)	**(140,917)**
Due to banks and other financial institutions	**1,816,640**
Commitments and contingencies	**2,472,937**

The above investments include investments in associates, amounting to SAR 647.1 million.

Directors, Audit Committee, Other Major Shareholders and their Affiliates:

	As at 31 December 2013 SAR '000
Loans and advances	**2,575,341**
Customers' deposits	**8,847,055**
Derivatives (at fair value)	**11,301**
Commitments and contingencies	**39,729**

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

Bank's Mutual Funds	**As at 31 December 2013 SAR '000**
Customers' deposits	**851,458**

Directors' Report (continued)

Profits *(continued)*

Related Party Transactions *(continued)*

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 2013 SAR '000
Special commission income	88,731
Special commission expense	(168,066)
Fees and commission income	61,597
Service charges paid to HSBC group	37,899
Profit share arrangement relating to investment banking activities	(2,906)
Share in earnings of associates	123,170
Directors' remuneration	2,993

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

	For the year ended 31 December 2013 SAR '000
Short-term employee benefits (Salaries and allowances)	41,053
Employment termination benefits	417

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 three such schemes outstanding at 31 December 2013G.

Borrowings and debt securities in issue

	As at 31 December 2013 SAR '000
USD 600 million 5-year fixed rate notes	2,282,873
SAR 1,500 million 5-year SAR subordinated Sukuk	1,500,000
SAR 1,500 million 7-year SAR subordinated Sukuk 2	1,500,000
Borrowings	109,375
Total	5,392,248

Profits *(continued)*

USD 600 million 5-year fixed rate notes

These notes were issued during the year 2010G at a fixed rate of 3% and are due to mature on 12 November 2015G. 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 38.6 million as at the end of the current year.

SAR 1,500 million 5-year SAR subordinated Sukuk

The Sukuk was issued by SABB on 28 March 2012G and matures in March 2017G. 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).

SAR 1,500 million 7-year SAR subordinated Sukuk 2

The Sukuk was issued by SABB on 17 December 2013G and matures in December 2020G. This is a Basel III-compliant issuance, and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SIBOR plus 140 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

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 2005G and is repayable by 15 June 2017G. The table below sets out the maturity profile.

Payment Date	Payment Amounts SAR '000	Outstanding Balance SAR '000
31 December 2013G	-	109,375
15 June 2014G	15,625	93,750
15 December 2014G	15,625	78,125
15 June 2015G	15,625	62,500
15 December 2015G	15,625	46,875
15 June 2016G	15,625	31,250
15 December 2016G	15,625	15,625
15 December 2017G	15,625	-

Directors' Report (continued)

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 2013 amounted to SAR 2,993,000 including SAR 273,000 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:

2013 SAR'000	*Executive/ Non-Executive Board Members*	*Detailed Remuneration elements 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	**5,081**	**8,428**	**15,005**
Allowances	**174**	**2,984**	**5,745**
Annual and Periodic Bonuses	**2,289**	**18,914**	**18,795**
Incentive Schemes	-	-	-
Any Remuneration or other benefits in kind paid monthly or annually	**419**	**626**	**934**

Note: values calculated on cost to bank during 2013G excluding bonuses and shares where they are based on value delivered to employees within 2013G.

Staff Benefits and Schemes

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

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 2013G amounted to SAR 333 million.

The Bank operates three equity schemes for certain employees. The scheme reflects number of committed shares for performance years 2010G, 2011G, 2012G with a total number of 568,411 shares as of end of December 2013G.

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 suggests 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

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 Board'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 2012G, except in the application of the international standards mentioned in the notes to the financial statements, in which case SABB has applied the subject standard with retrospective effect without an impact on the Bank's financial position or performance.

Appointment of External Auditors

During the Assembly General Meeting of the Bank held on 17 March 2013G, the Assembly General Meeting endorsed the approval of selection of both KPMG Al Fozan & 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 ended 31 December 2013G and determining their audit fees.

Basel III

Basel III 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.

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

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

The Basel 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

Directors' Report (continued)

Basel III *(continued)*

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 disclosures have been prepared in accordance with the Basel III rules issued by SAMA in December 2012G.

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 2016G to a maximum of 2.5%. In addition, all classes of capital instruments to be included in the regulatory capital from 1 January 2013G 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 2013G.

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

During 2014, 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.

Penalties and Regulatory Restrictions

The Bank practises its business in line with the banking laws, rules and regulations and in accordance with the regulatory directives issued by the supervisory and regulatory authorities in the Kingdom of Saudi Arabia and has not been subject to any fines or penalties of significant effect on its business. However, in 2013G SAMA inflicted fines of an operational nature totalling SAR 718,500. In addition, the Capital Market Authority had imposed a fine of SAR 10,000 for non-compliance with the independency requirements as outlined in the CMA Corporate Governance Regulations, where this was handled and rectified in due course.

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 of their rights to dividends.

Notification Relating to Substantial Shareholdings:
During the year 2013G, 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:

Penalties and Regulatory Restrictions *(continued)*

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

Major Shareholders **SAR'000** *Name of stakeholder*	*No. of Shares at the beginning of the year 01/01/2013*	*No. of Shares at year-end 31/12/2013*	*Net Change during the year* *No. of Shares*	*%*
HSBC Holdings BV	**400,000,000**	**400,000,000**	**0**	**0%**
Mr Olayan Saudi Investment Company Ltd.	**169,995,000**	**169,995,000**	**0**	**0%**
General Organization for Social Insurance	**95,325,000**	**97,416,959**	**2,091,959**	**0.21%**
Mr Abdulkader Al-Muhaidib and Sons Company	**50,024,093**	**50,009,026**	**-15,067**	**-0.0015%**

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 **SAR'000** *Name of stakeholder*	*No. of Shares at the beginning of the year 01/01/2013*	*No. of Shares at year-end 31/12/2013*	*Net Change during the year* *No. of Shares*	*%*
Mr Khaled Suliman Saleh Al-Olayan	**5,000**	**5,000**	**0**	**0%**
Mr Fouad Abdulwahab Mohammed Ali Bahrawi*	**35,413**	**35,413**	**0**	**0%**
Engr. Khalid Abdullah Abdulaziz Al-Molhem	**82,493**	**82,493**	**0**	**0%**
Mr Sulaiman Abdulkader Abdulmohsen Al-Muhaidib and family members	**9,373,693**	**9,373,693**	**0**	**0%**
Mr Mohammed Omran Mohammed Al Omran and family members	**1,000**	**1,000**	**0**	**0%**
Mr Mohammed Abdulrahman Sulaiman Al-Samhan (Representing GOSI)	**17,000**	**17,000**	**0**	**0%**
Mr David Robert Dew	**1,000**	**1,000**	**0**	**0%**
Mr Zarir J. Cama (Representing the foreign partner HSBC)	**0**	**1,000**	**1,000**	**0.0001%**
Mr Martin Spurling (Representing the foreign partner HSBC)	**1,000**	**1,000**	**0**	**0%**
Mr Mohammad Mazyed Mohammad Al-Tuwaijri (Representing the foreign partner HSBC)	**250,000**	**250,000**	**0**	**0%**
Mr Simon Nigel Cooper (Representing the foreign partner HSBC)**	**1,000**	**0**	**-1000**	**-0.0001%**

*Directorship of Sheikh Fouad Bahrawi lapsed on his death on 25 November 2013G.
**Simon Cooper's directorship lapsed on 30 September 2013G, and was replaced by Mr. Martin Spurling.

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 **SAR'000** *Name of stakeholder*	*No. of Shares at the beginning of the year 01/01/2013*	*No. of Shares at year-end 31/12/2013*	*Net Change during the year* *No. of Shares*	*%*
Mr David Robert Dew	**17,000**	**17,000**	**0**	**0%**
Mr Ian Macalester	**0**	**0**	**0**	**0%**
Mr Mansour Abdulaziz Rashid Al-Bosaily	**41,885**	**41,885**	**0**	**0%**
Mr Craig Bell	**0**	**0**	**0**	**0%**
Mr Rehan Ahmed Khan*	**0**	**0**	**0**	**0%**

*The employment of Mr Rehan Khan with the Bank ended on 31 August 2013G, and Mr Craig Bell replaced him.

Directors' Report (continued)

Board of Directors and its Committees

Directors

The Board of Directors of The Saudi British Bank comprises ten members, six of whom represent Saudi interests and are elected and appointed by the General Assembly 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 2010G, Directors of the Board were elected and appointed for a term of 3 years which commenced on 1 January 2011G and ended on 31 December 2013G. On 1 October 2013G, Mr Martin Spurling replaced Mr Simon Cooper as a Director of the Board representing the foreign partner HSBC. On 25 November 2013G the directorship of Fouad Bahrawi lapsed on his death. In the light of the above, the Board of Directors as at 31 December 2013G comprised the following members, whose membership was classified as per Article (2) of Corporate Governance Rules issued by CMA and SAMA Corporate Governance Principles Document:

Mr Khaled Suliman Saleh Al-Olayan, BOARD MEMBER, INDEPENDENT DIRECTOR (SAUDI)
Board Member, Al-Zamil Industrial Investment Company

Engr. Khalid Abdullah Al-Molhem, BOARD MEMBER, INDEPENDENT DIRECTOR (SAUDI)
Board Member, Economic City
Board Member, White Cement Co.
Board Member, Amlak Company
Board Member, Saudia Airlines Catering

Mr Mohammed Omran Mohammed Al-Omran, BOARD MEMBER, INDEPENDENT DIRECTOR (SAUDI)
Board Member, Credit Suisse (Saudi Arabia)
Board Member, Saudi Telecommunication Co.
Board Member, Saudi Orex Lease Finance Company
Board Member, Al-Rajhi Cooperative Insurance Co.

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

Mr Mohammed Abdulrahman Sulaiman Al-Samhan, NON-EXECUTIVE DIRECTOR (SAUDI)
Board Member, representing GOSI

Mr Zarir Cama, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (BRITISH)
Board Member, representing the foreign partner HSBC

Mr Martin Spurling, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (BRITISH)
Board Member, representing the foreign partner HSBC

Mr Simon Cooper, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (BRITISH)
Board Member, representing the foreign partner HSBC

Mr Mohammad Mazyed Mohammad Al-Tuwaijri, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (SAUDI)
Board Member, representing the foreign partner HSBC

Mr David Dew, EXECUTIVE DIRECTOR AND THE MANAGING DIRECTOR, BOARD MEMBER, NON-INDEPENDENT (BRITISH)
Board Member, SABB Takaful Company

Board of Directors and its Committees *(continued)*

On 15 December, the Ordinary General Assembly of the Bank convened to elect the Saudi directors for a period of three years commencing on 1 January 2014G and ending on 31 December 2016G. The Ordinary General Assembly under the accumulative voting method elected the following directors:

1. Mr Khaled Suliman Saleh Al-Olayan, Independent Director
2. Engr. Khalid Abdullah Al-Molhem, Independent Director
3. Mr Mohammed Omran Mohammed Al-Omran, Independent Director
4. Mr Ahmed Suliman Banajah, Independent Director
5. Mr Sulaiman Abdulkader Al-Muhaidib, Non-Executive Director
6. Mr Mohammed Abdulrahman Sulaiman Al-Samhan, Non-Executive, representing GOSI

Accordingly, the new Board of Directors of the Saudi British Bank (SABB) for the term commencing on 1 January 2014G and ending on 31 December 2016G consists of the following directors:

Director's Name	*Membership Classification*
Mr Khaled Suliman Saleh Al-Olayan,	Independent Director
Engr. Khalid Abdullah Al-Molhem	Independent Director
Mr Mohammed Omran Mohammed Al-Omran	Independent Director
Mr Ahmed Suliman Banajah	Independent Director
Mr Sulaiman Abdulkader Al-Muhaidib,	Non-Executive Director
Mr Mohammed Abdulrahman Sulaiman Al-Samhan	Non-Executive Director representing GOSI
Mr Zarir Cama	Non-Executive Director representing the foreign partner HSBC
Mr Martin Spurling	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 and the Managing Director

In line with the rules and regulations, the new Board of Directors selected Mr Khalid Suliman Saleh Al-Olayan, Chairman of the Board members and Chairmen of the Board's subcommittees, Executive Committee, Board Risk Committee, Audit Committee and Remuneration and Nomination Committee, were also selected.

Directors' Report (continued)

Board Meetings

In 2013G, 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*	*17 March 2013*	*21 May 2013*	*22 September 2013*	*15 December 2013*
1.	Mr Khaled Suliman Saleh Al-Olayan	✓	✓	✓	–
2.	Mr Fouad Abdulwahab Bahrawi (*)	✓	✓	–	–
3.	Engr. Khalid Abdullah Al-Molhem	✓	✓	✓	✓
4.	Mr Sulaiman Abdulkader Al-Muhaidib	✓	✓	✓	✓
5.	Mr Mohammed Abdulrahman Sulaiman Al-Samhan	✓	✓	✓	✓
6.	Mr Mohammed Omran Mohammed Al-Omran	✓	✓	✓	✓
7.	Mr Zarir Cama	✓	✓	✓	✓
8.	Mr Simon Cooper	✓	✓	✓	–
9.	Mr David Dew	✓	✓	✓	✓
10.	Mr Mohammed Mezyad Mohammed Al-Tuwaijri	✓	✓	✓	✓
11	Mr Martin Spurling (**)	–	–	✓	✓
	Number of Attendees	10	10	9	8
	Percentage of Attendees	100%	100%	90%	80%

*Directorship of Sheikh Fouad Bahrawi lapsed on his death on 25 November 2013G.
**Mr Simon Cooper's directorship lapsed on 30 September 2013G, and was replaced by Mr Martin Spurling.

The following table shows attendance at Board Committees during 2013.

No.	*Name*	*Board*	*Excom*	*Audit*	*Risk*	*Remco*
1.	Mr Khaled Suliman Saleh Al-Olayan	**3**	**–**	**–**	**1**	**3**
2.	Mr Fouad Abdulwahab Bahrawi	**2**	**6**	**3**	**–**	**–**
3.	Engr. Khalid Abdullah Al-Molhem	**4**	**9**	**–**	**1**	**2**
4.	Mr Sulaiman Abdulkader Al-Muhaidib	**4**	**–**	**–**	**–**	**–**
5.	Mr Mohammed Abdulrahman Sulaiman Al-Samhan	**4**	**–**	**4**	**–**	**2**
6.	Mr Mohammed Omran Mohammed Al-Omran	**4**	**11**	**–**	**1**	**4**
7.	Mr Zarir Cama	**4**	**–**	**–**	**3**	**–**
8.	Mr Simon Cooper	**3**	**–**	**–**	**4**	**–**
9.	Mr David Dew	**4**	**11**	**–**	**–**	**–**
10.	Mr Mohammed Mezyad Mohammed Al-Tuwaijri	**4**	**10**	**–**	**1**	**–**
11.	Mr Martin Spurling	**1**	**–**	**–**	**–**	**–**
12.	Mr Mohammed Mutlaq Al-Ammaj*	**–**	**–**	**4**	**–**	**–**
13.	Mr James Madsen*	**–**	**–**	**3**	**–**	**–**
14.	Mr Talal Ahmed Al-Zamel*	**–**	**–**	**3**	**–**	**–**

*The Audit Committee, as per its formation rules and terms of reference, consists of 5 members including 3 non-Board members.

Board Committees

In line with the regulatory requirements issued by the Supervisory Authorities and SABB's Articles of Association and SABB Governance Document, which provide for the formation of an appropriate number of committees, depending on the Bank size, needs and activity diversification, the Board of Directors formed four 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 of this committee 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 Board approved new terms of reference for the Committee in May 2013G. 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 during the year were Mr David Dew (Chairman); Mr Fouad Abdulwahab Bahrawi; Engr. Khalid Abdullah Al-Molhem; Mr Mohammed Omran Mohammed Al-Omran; and Mr Mohammad Mezyad Al-Tuwaijri.

With the exclusion of Mr Fouad Abdulwahab Bahrawi, who passed away on 25 November 2013G, the above members remained without any changes as at 31 December 2013G.

The Executive Committee held 11 meetings during 2013G.

Audit Committee

SABB's Audit Committee was formed in 1992G and as per the formation rules and terms of reference it consists of three to five members from within and outside 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 provides the Board with its comments and feedback. The Committee reviews the audit reports and gives its recommendations thereon, and also recommends to the Board the appointment of the Bank's auditors, fixes their fees, reviews the audit plan, follows up on the auditors' work and reviews the bank's auditors' comments, whilst also approving any work beyond normal audit business.

In line with the Bank's plan to comply with corporate governance requirements, the terms of reference of the Committee were reformed and approved by the Board in May 2013G, and the new terms will be submitted for endorsement by the AGM scheduled for 18 March 2014G.

The Committee members during the year were Mr Fouad Abdulwahab Bahrawi, Independent Board member (Chairman), and Mr Mohammed Abdulrahman Sulaiman Al-Samhan, non-Executive Board member, Mr James Madsen, Mr Mohammed Mutlaq Al-Ammaj and Mr Talal Ahmed Al-Zamel, who are non-Board members.

With the exclusion of Mr Fouad Abdulwahab Bahrawi, who passed away on 25 November 2013G, the above members remained without any changes as at 31 December 2013G.

The Audit Committee held 4 meetings during 2013G.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed by the Board of Directors. The Committee meets at least twice during the year. The committee consists of three independent or non-executive 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, evaluates the effectiveness thereof as well as of the members and committees and ensures the independence of independent members and the absence of potential conflicts of interest. It also draws up and approves the compensation and remuneration policies and schemes and submits the necessary recommendations in that regard.

The Committee members are Mr Mohammed Omran Mohammed Al-Omran, Chairman; Mr Khaled Suliman Saleh Al-Olayan, member and Mr Mohammed Abdulrahman Sulaiman Al-Samhan who replaced Engr. Khalid Abdullah Al-Molhem, who was entrusted the chairmanship of the Risk Committee, which was formed in the second half of the year.

The Nomination and Remuneration Committee held 4 meetings during 2013G. In line with the Bank's plan to comply with the corporate governance requirements, the terms of reference of the Committee were reformulated and approved by the Board in May 2013G, and the new terms will be submitted for endorsement by the AGM scheduled for 18 March 2014G.

Directors' Report (continued)

Board Risk Committee

The Board Risk Committee is formed by the Board of Directors and in line with the SAMA rules on Credit Risk Management, which required the formation of a committee to handle risk management affairs.

As per its terms of reference, the Board Risk Committee consists of five members including four non-executive members of the Board, to be selected from among the Board members, plus the Chief Risk Officer. The Committee reports directly to the Board of Directors.

The Committee meets four times a year and supervises and gives advice to the Board on all matters relating to high-level risks pertinent to the Bank's business in addition to strategic direction of risks across SABB including the drawing-up of a risk vision, prioritisation and supervision of principal initiatives and overseeing the execution of major transformational risk initiatives.

The Committee members are Engr. Khalid Abdullah Al-Molhem, Chairman; Mr Khaled Suliman Saleh Al-Olayan, member; Mr Mohammed Omran Mohammed Al-Omran, member; Mr Mohammed Mezyad Al-Tuwaijri, member; and the Chief Risk Officer. Having been recently formed, the Committee held one meeting in the fourth quarter of 2013G.

Corporate Governance

SABB is aware of the immense effects associated with the adoption of Prudent Corporate Governance Principles and Standards and that such adoption will lead to observance of professional and ethical standards in 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.

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 2012G. This approach was adopted in electing the Saudi directors on 15 December 2013G.

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. The Bank, in its endeavour to enhance communication with its shareholders, pursued its initiative to urge shareholders who did not receive their dividends in the past to communicate with the Bank to update their details and arrange for receipt of their rights.

The Bank's Articles of Association and SABB Governance Document as approved by the Board of Directors provide for a shareholder's right to dividends, attendance at General Meetings, discussion, voting and disposal of his shares. In line with SABB's disclosure policy, the information relating to General Meetings, balance sheets, profit and loss account and Board annual report are provided to shareholders and published in the newspapers and on the Tadawul and Bank websites. In its endeavours to enhance its shareholders' awareness, the Bank issued Guidelines for Shareholders Rights at General Meetings, which is distributed to shareholders at general meetings.

In 2012G, 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.

In its endeavour to meet the regulatory requirements stated in the Corporate Governance Regulations issued by the CMA, Principles of Governance issued by SAMA and best international and local practices, and to ensure fulfilment of such requirements in a documented frame and approach, the Bank has worked to conduct the internal revisions by the Company Secretary and Compliance Department to assess the Bank's compliance with Governance requirements and then to customise the governance frame adopted by the Bank to cope with the regulatory requirements in this regard.

As a result of such revisions, at the directions of the Board and Remuneration and Nomination Committee a number of governance policies and frameworks and terms of reference of Board committees were formulated and revised. Forms were also designed to evaluate the efficiency of the Board and its members as well as of the Board committees in line with the following details:

Corporate Governance *(continued)*

a) Policies and Procedures

In 2013G, the Bank's executive management laid down SABB Governance Policies, which were endorsed by the Board of Directors and which included the following:

1. To revise the SABB Disclosure Policy to cope with the SABB Governance Document endorsed by the Board of Directors in Q1-2013G.
2. To revise the SABB Conflict of Interests Policy, which was endorsed by the Board in the first quarter of 2013G.
3. A policy addressing Policies and Criteria for Selection of Board Directors and Committee and their Membership for executive and non-executive directors has been drafted. This document covers all requirements set by the Ministry of Commerce and Industry, SAMA and the CMA. The topics covered by this document include justifications, capabilities, qualifications, continuous training requirements, assessment of Directors' efficiency and Committee business and matters of succession. As per the Bank's plan, this policy was approved by the Board of Directors on 15 December 2013G and will be presented for the approval of the Bank's General Meeting scheduled for 18 March 2014G.
4. A general policy regulating the relationship with stakeholders has been drafted to regulate the relationship with shareholders, customers, staff and local community in a bid to preserve their rights. The policy includes all rules provided for in the Principles document and Corporate Governance Rules so as to establish and preserve the rights of stakeholders and to handle the Bank's policy towards community service. This policy was endorsed by the Board of Directors on 15 December 2013G and will be presented for the approval of the Bank's General Assembly Meeting scheduled for 18 March 2014G.
5. A policy to regulate Related Parties' transactions that enhances the Bank's keenness to be aware of, track and endorse such transactions in line with the role of the Audit Committee, provided such transactions are disclosed on a regular and transparent basis, was drafted and endorsed by the Board of Directors on 15 December 2013G.
6. The Policy for Directors' Remuneration & Compensation was laid down and endorsed by the Board of Directors on 15 December 2013G.
7. The SABB Corporate Governance Document, which had been endorsed by the Board of Directors in December 2011G, has been revised to cope with regulatory requirements and was endorsed by the Board of Directors on 15 December 2013G.

b) Terms of reference of Board Committees

In the first quarter of 2013G, the terms of reference of all Board committees (Executive Committee, Remuneration and Nomination Committee and Audit Committee) were revised so as to be in line with the Principles of Governance, Membership Criteria, Banking Control Law, Corporate Governance Rules and Companies Act. The Property Committee was annulled and its duties merged with those of the Executive Committee.

Additionally, in line with the regulatory requirements issued by SAMA for the formation of a Board Risk Committee, the terms of reference were drafted and the committee formed during 2013G.

SABB's Board of Directors endorsed the terms of reference of all Board committees in May 2013G. The General Assembly Meeting scheduled for 18 March 2014G will be approached for approval of the revised terms of reference of the Audit Committee and the Remuneration and Nomination Committee.

c) Assessment of the efficiency of the Board, Directors and Board Committees

In line with the regulatory requirements of the Governance Principles and Corporate Governance Rules which stipulate that the Board should, on an annual basis, assess the efficiency of its members and the size of their contribution to its business individually and as a group within Committees, frameworks for such assessments were designed and prepared in the fourth quarter of 2012G and first quarter of 2013G. Also a framework was designed to evaluate the efficiency of Board committees and the work they have undertaken measured against the scope of their responsibilities.

As per the Bank's plan, an external advisor was requested to review the evaluation frameworks (for the Board and Committees) in the second quarter of 2013G. These were approved by REMCO in September 2013G and by SABB on 15 December 2013G.

Directors' Report (continued)

Corporate Governance *(continued)*

c) Assessment of the efficiency of the Board, Directors and Board Committees *(continued)*

Generally, SABB complies in form and content with all Corporate Governance guidelines included in the Corporate Governance Regulations 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 purchase and own shares and to participate 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 the majority of the guidelines included in the Corporate Governance Regulations with the exception of the following:

Article	*Requirement*	*Reasons for Non-Compliance by the Bank*
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.
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.	During the year 2013, the Bank has laid down written general policies that govern the criteria of directors and members of the sub committees' selection. The policy included provisions that cover the regulatory requirements set for qualification and skills in addition to the continuous training and assessments. In line with the Bank's plan the policy was approved by the Board of Directors on 15 December 2013G while it will be presented for the approval of the Bank's General Meeting scheduled for 18 March 2014.

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 2013, 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 the 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 Board of Directors is responsible for internal control in SABB and for reviewing its effectiveness. The framework of standards, policies and key procedures that the Directors have established is designed to provide effective internal control within SABB for managing risks within the accepted risk appetite of the Bank; 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 ongoing 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 to the Board through internal management committees, such as Risk Management Committee, Operational Risk and Internal Control Committee, Compliance Committee, the Executive Committee and the Audit Committee. A separate Board Risk Committee has also been recently instituted and will operate from 2014G onwards.

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.

Directors' Report (continued)

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

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 the major risks including credit, market, liquidity, capital, financial management, model, reputation, strategy, 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 the Executive Committee (EXCOM), the Audit Committee (AUCOM) and the 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 2013 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 2013G, attention was focused on:

- Implementing the highest international standards across all SABB activities;
- Identifying and mitigating regulatory compliance, money laundering and financial crimes risks facing the businesses;
- Embedding 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, which prompted a number of reviews and special papers on key risks that were presented to the Risk Management Meeting and Board;
- Managing geopolitical risk and ongoing instability in the region; and
- The mitigation of information risks

Strategic plans:
A 3-year Medium Term Outlook (MTO) for the period 2014G – 2016G was approved by the Board in December. 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.

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 and 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 2013G, 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 2013G confirmed that systems and procedures for the ongoing 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.

During the year, 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 non-financial; contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports. The Board Risk Committee, a sub-committee of the Board of Directors, has been instituted to operate from 2014G and will, on behalf of the Board, monitor the status of key risks which impact SABB, and will consider 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.

Directors' Report (continued)

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 and Wealth Management, Global Banking, Corporate Banking, Private Banking and Treasury Services. SABB offers Islamic (Shariah) 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.

Key deliverables of the plan included the following aspects:

- SABB to be the best place to work by 2016G. Investing in people, developing robust Talent Management with a structured Learning and Development proposition
- Strict Adherence to SABB International Standards: Treating customers fairly, complying with laws and regulations, and protecting confidential information
- Invest in technology and digital channels for improved customer empowerment
- Increase investment in Global Transaction Banking
- Increase penetration in mid-market commercial segment and business banking upper segment
- Increase focus on Treasury business. Transformation from a trading-driven to a sales-led Treasury function with greater emphasis on non-Fund Income
- Continued focus on Premier and Advance segments as a priority
- Develop a robust Wealth Management proposition working closely with associate companies
- Continued focus on Islamic Banking propositions across all customer groups
- Continued focus on operational efficiencies and organisational effectiveness

Retail Banking and Wealth Management

In 2013G, 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 97 retail outlets (79 branches and 18 dedicated ladies sections). Out of the total, 81 exclusively offer Islamic financial solutions while 16 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 92% of the Bank's total Retail Banking assets and 82% of total Retail Banking deposits. Likewise, revenues account for 83.7% of total SABB Retail Banking revenues for 2013G.

Over the course of the year, further attention was given to internal restructuring and reorganisation to the benefit of high-net-worth customers, with specific focus on increasing the number of Premier Centres within the Kingdom, which now total 16 Kingdom-wide. These exclusive centres provide Premier customers with specially developed products and services as well as address 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 an increase of 10.8% in the SABB Premier Customer base over the previous year.

Retail Banking and Wealth Management *(continued)*

SABB installed further 97 ATMs in 2013G, increasing its network to 654. To enhance security, the Bank has introduced instant card issuance (ICI) for SABB Credit Card customers following its successful introduction for debit cards in 2011G.

During 2013, SABB's Credit Card business maintained its leadership position in the market. During the year, the business introduced e-redemption for its loyalty programme "ICSABB", a first for any bank in the Kingdom.

SABB continued to evaluate customer needs and introduce solutions during 2013G. The Bank continuously introduces new and enhanced services through its alternate channels such as Internet banking, Phone banking and Mobile banking applications, as well as the enhanced Queueing system and Self-Service machines to ensure customers are provided with the best customer experience.

SABB RBWM will be expanding into further 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.

SABB continues to adopt and implement the highest compliance standards throughout its business. This will require a change of mindset both within and across the Bank and therefore SABB International Standards will:

- Embed the highest international standards across SABB in a consistent manner
- Strengthen SABB's response to the ongoing potential threat of financial crime and information leakage
- Ensure that SABB consistently applies the highest values, ethically serves customers and creates a sustainable business for staff, shareholders and other stakeholders

Private Banking

SABB Private Banking provides dedicated services to high-net-worth individuals (HNWI) throughout the Kingdom, including tailored, customised and best-in-class banking services. Private Banking continues to thrive on the partnership with HSBC, the benefits of which include Global Network Resources, skills, specialist knowledge and expertise.

Private Banking revenues have grown significantly higher year on year, due in part to the streamlining of operations and to reduced risk in the business. Assets and Liabilities have also increased considerably over those in past years. The proposed integration of the Private Banking Unit into Wealth Management will result in greater synergy and improved banking experiences for clients, whilst also helping in the continuous achievement of outstanding quality of service, which is one of the Bank's top priorities.

Private Banking will continue to ensure a maximum level of Client Relationship Management by providing tailored products and fully personalised services to clients, who will continue to benefit from SABB's value-added services that include customised investment solutions and the asset management capabilities of HSBC Saudi Arabia Limited. Of particular note is that Private Banking clients were among the main contributors to the launch of what have proved to be successful investment products by HSBC Saudi Arabia Limited.

SABB Private Banking won the Euromoney Award for "Best Private Banking Services Overall" in the Kingdom of Saudi Arabia" for the third year in a row. (Euromoney Private Banking and Wealth Management Survey 2012G, 2013G & 2014G).

Directors' Report (continued)

Global Banking

Global Banking (GBB) operates as a standalone, 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 but headquartered overseas; and institutional clients such as ministries, government agencies and departments, banks and other financial institutions.

2013G 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, which have been long-term SABB clients.

The segment continued to leverage its connectivity with the HSBC Group, the support of SABB's sister company HSBC Saudi Arabia, the Investment Bank, and its relationship with 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 into liquidity through non-Saudi financial institutions by way of 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 the end of 2013G, GBB's activities had resulted in new approved facilities totalling in excess of SAR 10 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 Shariah-compliant product offerings to the local client base.

GBB continued to develop a portfolio of high-quality "wholesale" funded and off-balance sheet assets to the tune of SAR 57.6 billion, funded as to SAR 19.4 billion and non-funded as to SAR 38.2 billion, against total liabilities valued at SAR 26.2 billion by 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 60 billion, and revenues of SAR 1.9 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 12.4%, and is now considered to be the third-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 206 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 supports an "Islamic Financial Services" (IFS) 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 Shariah-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 Saudi Arabia, where only Shariah-compliant products are provided. Furthermore, SABB has a full suite of Shariah-compliant products covering all business requirements, and is a Shariah-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 Shariah-compliant solution for overdrafts.

Commercial Banking *(continued)*

SABB's Trade and Supply Chain team assists customers in implementing efficient and optimal financing structures to meet their trade and working capital requirements while minimising market risk. During 2013G, SABB launched its Receivable Finance proposition, the only bank in the Kingdom to have such a dedicated proposition. In addition, SABB has rolled out various initiatives aimed at enhancing client experience and risk mitigation. These include expansion of the Sales and Client Management team, further enhancement to structured Shariah-compliant trade solutions, continued investment in technology to improve the product offering and customer experience, facilitating trade with high-risk countries via risk distribution, introduction of new products and solutions from a supply chain perspective, and strengthening the customer training proposition under the SABB Trade Academy.

During 2013G, SABB has built on these activities having further strengthened its product capabilities, including increasing the workforce with key strategic hires; cemented strategic partnerships, such as that with the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), a member of the Islamic Development Bank Group (IDB), enabling the Bank to increase the breadth and depth of its product capabilities; hosted a number of key trade seminars, client engagement events and roadshows, both locally and internationally, assisting customers to go "international" whilst opening up opportunities to them; and conducted rigorous market and client feedback/satisfaction exercises to ensure full understanding of the needs of customers and their markets so as to remain relevant and in a position to meet their ever-changing and complex needs.

SABB retains its strong links with the HSBC Group, which provides SABB an unrivalled international access and connectivity for the benefit of its clients, and it remains the leading international trade bank in the Kingdom supporting and servicing both domestic and foreign companies as they expand both locally and across borders.

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 their complex and structured needs. 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 multi-faceted platforms to customers across all business lines, covering a wide variety of services in ways that can be packaged or personalised 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, SABB's online channels aim to provide a globally consistent client experience with robust local functionality. The Bank currently has four online banking channels serving the overall needs of business customers. SWIFTnet and SABB Connect, Host-to-Host channels being offered to top tier customers with sophisticated requirements; HSBCnet, mainly targeting corporates, mid-to-large commercial customers and financial institutions with a variety of financial needs; and Business SABBnet, an easy-to-use solution for small and medium enterprises with local in-country banking needs. 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 Internet Banking-based customers. In 2013G, SABB also introduced a Pay roll Card or SABB Salary Cards in order to cater to low salary groups; the Wage Protection System (WPS); and Virtual accounts for receivables. SABB Bulk Payments are also in the process of being commercialised.

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 launched a year earlier. 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 of such an initiative by a Saudi bank, to encourage bilateral trade flows.

A prime focus of SABB CMB has been on Small and Medium Enterprises (SMEs), and 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 the year, SABB has significantly strengthened its commitment towards supporting small businesses and now refers to this sector as SABB Business. 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 55 staff, now manages relationships with over 23,000 businesses, each of whose annual turnover is lower than SAR 100 million.

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 2013G, SABB Business launched business product packages to support the segment in all of its different life cycles.

SABB CMB was named "Best Commercial Bank, Saudi Arabia 2013" by the International Finance Magazine.

Directors' Report (continued)

Global Transaction Banking

Global Transaction Banking (GTB), comprising Trade and Supply Chain (TSC) and Payments and 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 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, supporting growing trade requirements and providing risk-mitigating tools to clients whilst developing and leveraging the current and emerging trade corridors of Saudi Arabia.

As a market leader in transaction banking and a business dedicated to client service, technology deployment and product innovation, GTB enjoys a healthy market share. SABB GTB has launched several initiatives not limited to Receivables Financing, Virtual Accounts and Mobile Banking to enable Saudi clients to manage their working capital in an optimal manner. Receivables financing solutions provide an additional source of funding for Saudi clients and help them manage their short-term liquidity needs.

SABB was one of the pilot banks to launch key regulatory initiatives such as Paycards and WPS, the Wage Protection System, in the Kingdom.

SABB GTB continued to be recognised by the market and industry alike, winning a number of significant awards including Euromoney's "Best Domestic Cash Manager in Saudi Arabia 2013" and Global Finance's "Best Trade Finance Bank Award 2013", which have now been won six and five consecutive times respectively.

Islamic Financial Services

IFS have seen continued growth in 2013G to reach around 65% of Bank TOI.

All RBWM activities offered to customers have now become Shariah-compliant, in accordance with SABB's strategy for retail banking of providing a full package of Islamic products and services. This has ensured continued growth in all retail segments. One new product developed for RBWM customers during the year was Murabaha Share, a variant of personal finance, allowing customers to obtain finance backed by local shares. This new product meets customers' needs and enhances SABB's personal finance product offering. Additionally, all new credit cards issued during 2013G were Shariah-compliant.

The home finance market remained strong during 2013G and SABB maintained its position as one of the major market players. During the year, the Bank launched a new home finance product based on a variable rental rate, which was well accepted by customers. Overall SABB's home finance products include ready-to-occupy properties, land and under-construction buildings with the added benefit of allowing customers to own the property at the end of the lease.

Considerable attention was paid also to the needs of corporate customers with the development of attractive Islamic corporate and commercial banking products and services. CMB IFS' product governance was completed and major enhancements were made to existing products. Customised solutions like securitisation, Ijarah, and inventory finance were enhanced and developed to meet increasing demand from corporate customers. All audit points on CMB IFS were tackled and closed.

CMB IFS organised two seminars on Corporate Islamic Banking Solutions in 2013G in Riyadh and Al Khobar that were attended by a number of prominent corporate customers. The aim was to promote SABB corporate Islamic financial services to existing and potential CMB customers; to reinforce SABB CMB IFS' image in the market; to raise customer awareness of Islamic banking in general; and to introduce customers to SABB's Shariah-compliant products and solutions that seek to address their needs.

During the year, IFS received a significant number of awards and acknowledgements in recognition of the Bank's ongoing success in meeting its clients' expectations. These included: "Best Islamic Deal of the Year", "Best Islamic Deal by Country", "Euromoney's Best Islamic Project Finance Deal, 2013" and "Best Islamic Trade Finance Deal 2013".

Treasury

Treasury enjoyed another strong and profitable year despite the continued low-interest-rate environment, tight credit markets, and increased interest-rate volatility. The Balance Sheet evidenced healthy and robust liquidity levels, supporting the Bank's overall growth. 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 by providing both Shariah-compliant and conventional hedging and investment solutions to its growing clientele. Specialised geographical coverage in all three major provinces (Central, Western and Eastern) and the introduction of its strategic client coverage model helped to further enhance SABB's relationships. Treasury continues to make good progress on its major systems implementation project which will further enhance its product capabilities, automate processes and 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 or its designated committee (BRCOM) 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 reviewed and approved by the BRCOM 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.

Following the issuance by SAMA of the Rules on Credit Risk Management in banks, a review has been completed and SABB's risk-management practices aligned with these rules. In particular, SABB has expanded the scope of its credit review team to provide an independent credit assessment on individual counterparty 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.

In line with the Guidelines on Internal Controls issued by SAMA during 2013G, SABB has engaged an external consultant to undertake an independent review of the Banks Internal Control Framework.

Looking ahead, key enhancements of the framework will include upgrading of the Operational risk management system to ensure that it supports businesses; and 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 regulatory proposals covering liquidity risk outlined within the Basel III framework.

Directors' Report (continued)

Human Resources

The quality and commitment of SABB's people is fundamental to its success. As trust and relationships are vital in the business, the Bank's goal is to attract, retain and motivate the very best people who are committed to making a long-term career with the organisation.

SABB's reward strategy supports this objective through balancing of both short-term and sustainable performance. The reward strategy aims to reward success, not failure, and to be properly aligned with the Bank's risk framework and related outcomes in line with SAMA regulations and Financial Stability Board (FSB) guidelines. In order to ensure alignment between remuneration and SABB's business strategy, individual remuneration is determined through assessment of performance delivered against both annual and long-term objectives summarised in performance scorecards as well as aligned to SABB's Values of being 'open, connected, dependable, and working together'. Performance is judged, not only on what is achieved over the short term and long term, but also how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual scorecards are carefully considered to ensure alignment with the long-term strategy of SABB. In addition, the material risk taking executives of the Bank are subject to a bonus deferral to ensure they focus on long-term interest rather than the short term. The Bank's approach to reward is meritocratic and market competitive, underpinned by an ethical and values-based performance culture which aligns the interests of employees, shareholders, regulators and customers.

SABB endeavours to achieve a standard of excellence focusing on leadership values and technical capability. The development of employees is essential to the future strength of the business.

In 2013G, SABB continued to build consistency across its learning curricula and to improve the quality of learning programmes. A new Learning and Development strategy was developed during the year. Several new training programmes were launched covering the BRCM/ORIC areas. Several members of senior management attended HSBC Group Strategic programmes, for example HSBC Values-led high-performance culture. Up-skilling of relationship managers was a focus this year and several programmes were introduced - Consultative Sales Skills for Relationship Managers (EDRAS), Sales Team Leadership Programmes, Creating an Exceptional Customer Experience and Corporate Client Relationship Management. The focus on e-learning continued with a 315% increase in e-learning usage registered compared to that in 2012G. The Bank launched its new SABB International Standards (SIS) programme this year, and this initiative was supported through a series of activities including launching the Intranet page and training sessions. Business and functional learning academies were also built during 2013G and, going forward, employees will be developed using competencies relevant to their respective areas.

During the year, a career development programme was implemented to identify, develop and deploy talented individuals to ensure an appropriate supply of high-calibre individuals with the values, skills and experience for current and future senior management positions. Employees' career development across SABB was therefore an area of focus. A comprehensive review of the succession plans for key roles was conducted to ensure their quality and consistency. A Talent Management Strategy was developed and a Career Progression Programme launched for key roles, their successors and employees in the talent pipeline to benchmark them for their next identified role in the succession plan. The SABB Leadership Capability framework and Technical competencies for all key roles were developed during the course of the year. The purpose of the framework is to clearly articulate the leadership capabilities and personal characteristics required of leaders in SABB, as the business evolves over the next 5 years. It will form the nucleus of all SABB's Leadership programmes in future. During 2014G all senior managers in SABB will be assessed against them in order to build robust career development plans.

SABB continued to make significant progress in its Saudisation initiatives. The Saudisation ratio increased to 88.5% with a significant increase in the number of females in all departments, whilst several development initiatives were rolled out for female development. 16.3% of our employees are now women. SABB has started to build a strong pipeline of female employees who can aspire to be future leaders at the Bank. Finally, SABB participated in major careers-day events in Saudi Arabia, the United Kingdom and the United States of America and recruited 144 young, high-potential Saudi graduates to join the Bank's development programmes.

SABB's vision as described in the 2014-2016 MTO that was approved by the Board in December is to be the best bank to work for, by 2016G.

Corporate Real Estate

Corporate Real Estate was re-organised during 2013G with the aim of streamlining the department to improve efficiency.

CRE has had a very busy year with eight branches around the Kingdom being either renovated or relocated with three new branches, Skaka, Tamimi Light and Jizan being opened. Furthermore, the new Jeddah Head Office project has moved forward as the design phase has been completed and tenders are now being sought for the construction of the new building. As the year ended, four further renovations were under way as well as the relocation of PJD. Concurrently, 112 new ATMs were installed in accordance with the 2013G target, and the new image for D/Us and mini ATMs has been agreed ready for implementation in 2014G.

Housekeeping and Hospitality Services for the Bank have been signed with a new company, whilst maintenance is working on the Tier III project alongside IT and, following approval of the design by SAMA, project implementation has commenced.

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

Operations

During 2013G, the Country Operations and Processing department implemented many centralisation and automation projects leading to cost savings, enhanced efficiency and improving the customer turnaround time.

Information Technology

2013G witnessed progressive and steady improvements in performance across SABB Technology Services. A healthy service availability of 99.67% was backed by around 10% reduction in cost per account across the year. This was made possible by leveraging the group and wider consultancy services with SABB Technology Services being able to offer a steady increase in the level of performance over the previous year. Over the same period, STS performed well and delivered handsomely, as also indicated by the annual customer survey. Looking at just some of the other Key Performance Indicators, our percentage of emergency changes has been controlled and minimised to less than 1%. This represents a very healthy drop of more than 5% over the previous year.

As part of SABB's commitment to Regulatory and Compliance initiatives, a prime focus for STS in 2013G has been to comply fully with the regulatory requirements. This materialised into the successful implementation of thirty seven new projects and enhancements as required by SAMA. These initiatives included projects such as localisation of the Active Directory and the implementation of the Wage Protection System (WPS), SAMA rules on narratives in account statements, and Objection slip enhancement for returned cheques. SABB achieved PCI re-certification for 2013G and successfully passed a SAMA IT Security audit without any major shortcomings. A successful Business Recovery Process exercise was an indicator of the Bank's readiness to meet unforeseen circumstances.

In pursuit of STS' vision to provide the best-in-class technology infrastructure, numerous projects and initiatives were undertaken in 2013G. Notable among these is the iHA implementation, which is a key to providing a highly available and resilient core banking system, the deployment of an IP telephony solution to the branch network and an upgrade of the voice recording system for the Treasury department. A renewed focus on security was a driver for the implementation of a Data Loss Prevention solution along with Guardium, which provides stricter control over data.

To enable more rapid facilitation of customer goals and objectives, a number of key projects were delivered this year, including Murex Phase II; Guarantees on the Hub Import and Export module, for processing trade finance guarantees; IFA Receivables, the credit factoring solution for trade services; Group Hub Securities System upgrade for processing securities; and numerous other projects that add significant value to running the Bank, like STP initiatives, were carried out in the year to provide customers with a more engaging and enhanced customer experience.

The Bank's customers now benefit from the automation of the ICSABB programme and the launch of the new mobile banking application. Launch of Yakeen, offered an online enquiry system for validation of Saudi national ID, Saudi national Hafiza Nafous ID, and Iqama ID for expatriate and local residents who do not hold a specific formal nationality, all part of "Know Your Customer (KYC)", an initiative to get to know customers and their behaviour. Another key project implemented this year was the FATCA phase 1, the purpose of which is to strengthen US tax compliance and counter tax evasion by US citizens.

As part of the Medium Term Outlook (MTO), projects to be deployed in 2014G include Digital Channels implementation; and a revamp of SABB Internet Banking and the public internet site, while continuing to focus on initiatives like FATCA. Other notable projects planned in the first part of the three-year window include Visa debit, Wealth Management – Relationship Management Dashboard and GPS for Internet banking. These initiatives aim to enhance the quality of service to our internal and external customers, catering for their current needs and providing a platform to meet future requirements.

Directors' Report (continued)

Community Service

SABB prides itself on its strong commitment to the betterment of the community and to fulfilling its obligations in the public interest. Such commitment is carried through the Bank's firmly established value system, being stressed internally as much as it is displayed externally. Under the banner of "SABB in the Community Programmes", SABB implements a set of high-impact activities that further the cause of the Kingdom's national development. Assuming a pioneering role within the private sector, SABB seeks and executes engagement opportunities that are broadly classified into three critical areas of human development – education, community service and the environment.

In a strong show of commitment to the community, SABB sponsored the "Rawaj Alheraf" programme for productive families, in cooperation with the Society of Majid Bin Abdulaziz for Development and Social Services. The programme was held in Jeddah and was designed to train 66 women to produce school uniforms for more than 3,000 orphans during the school year.

In the Eastern Province, SABB sponsored a special occupational skills programme, entitled "Develop a Skill in 30 Days" in coordination with a regional social development organisation in Dammam to equip jobseekers with critical skill sets. The programme succeeded in training 1800 participants of both genders during 35 educational sessions.

In respect of individuals with special needs, SABB and the Disabled Children Association jointly organised the 'SABB Employment Programme' for the fourth year in succession to facilitate the recruitment of individuals with special needs in several cities. The campaign has found employment opportunities for more than 2,850 beneficiaries in a wide spectrum of firms over the past three years. Moreover, SABB is taking part in an ambitious programme organised by King Saud University's Social Responsibility Club to ensure an improved level of physical mobility for physically challenged individuals as they go about their daily lives. The programme seeks to assist in the process of transforming buildings into friendly places where with individuals can move freely.

In the city of Al Qunfudah, SABB supported a special programme created by the Ministry of Social Affairs targeting productive families of limited income, which involved 15 families that work in selling flowers and other scented plants, by funding their projects under the supervision of the Ministry.

Furthermore, SABB sponsored a programme called "SABB Humanitarian Bed", in coordination with Sultan Bin Abdulaziz Humanitarian City for the fourth year in succession, which addresses the critical medical needs of disabled children. The programme benefits children under the age of 12 by providing them with proper, free medical care of the highest quality.

In response to community concerns, SABB launched a programme targeting the renovation needs of Mosques located on highways connecting cities within the Kingdom. The effort centered on upgrading the overall physical state of the Mosques to reach a safer and more comfortable environment. The renovation efforts sponsored by SABB were also extended to residences of limited-income families. In a socially conscious activity, SABB funded the renovation of a group of houses that belonged to needy families. The effort focused on steps to improve the living conditions within those buildings and addressed the critical needs of those families.

Maintaining a strong sense of responsibility and commitment to the community where SABB operates is a vital component of the organisational value system. SABB prides itself on the innovative engagement of its own staff members in its CSR programmes. The integration of our human capital in our outreach efforts affirms the unwavering belief we hold as we view ourselves as a positive contributor to the cause of social advancement and community development. The widening scope and increasing frequency of staff involvement have furthered the centrality of our organisational values to our activities inside of the workplace and outside of it. The coordinated efforts with the Social Responsibility Club at King Saud University in recognition of international days associated with children's cancer, Down's syndrome, orphans, health, the environment, the elderly and the physically challenged, have served as testament to our role as a model corporate citizenship.

International Recognition

On numerous occasions in 2013G, SABB was publicly recognised and awarded prestigious acknowledgements by national, regional and international publications. The awards were made in some cases in recognition of particular aspects of SABB's operations and in other cases on overall performance. Awards won include, among others, 'Bank of the Year' by The Banker Magazine, 'Best Private Bank' by Euromoney Magazine, and 'Best Trade Finance Provider' by Global Finance Magazine, 'Best Payment and' Cash Manager by Euromoney Magazine and 'Best Call Centre' by The Banker Middle East Magazine.

SABB Takaful Company

SABB Takaful Company is a Saudi Joint Stock Company established pursuant to Royal Decree No. M/60 dated 18 Ramadan 1427H (corresponding to 11 October 2006G). The Company commenced its first fiscal year subsequent to the issuance of Ministerial Resolution No. 108 dated 27 Rabi-II 1428H (corresponding to 15 May 2007G) declaring the incorporation of the Company. The Company operates under Commercial Registration No. 1010234032 issued in Riyadh on 20 Jamada-I 1428H (corresponding to 06 June 2007G) and the Saudi Arabian Monetary Agency Insurance License No. 5/20079 dated 29 Sha'ban 1428H (corresponding to 11 September 2007G). The licence authorises the Company to engage in protection and savings, general and miscellaneous Takaful activities and was renewed on 29 Sha'ban 1431H (corresponding to 10 August 2010G 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 Safar 1428H (corresponding to 17 March 2007G) until 08 Rabi-I 1428H (corresponding to 26 March 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 Sha'ban 1430H (corresponding to 8 August 2009G) at a price of SAR 12.50 during the period 24 Sha'ban 1430H (corresponding to 15 August 2009G) and 5 Ramadan 1430H (corresponding to 26 August 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 Shariah-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 Shariah-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 2013G, 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 2012G
- SABB Takaful applied important updates on the Straight Through Process (STP) system by increasing FT individual plan SI limits for the Takaful Advisors from SAR 250K to SAR 500K to enable the sales team to meet SABB customers' expectations in an efficient and flexible manner. By applying this system enhancement, 65% of the total Family Takaful policies can be issued in branches, up from 40% in 2012G. This system's controls were updated in order to improve risk mitigation
- SABB Takaful launched its online services gateway on the Internet. This digital tool will allow customers to buy General Takaful policies, renew policies, and modify policy details, in addition to making claims and monitoring their status online

Directors' Report (continued)

SABB Takaful Company *(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 around 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 dependants 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	

SABB Takaful Company *(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 Advisory

HSBC Saudi Arabia Limited maintained its position as a leading investment bank in Saudi Arabia in both Equity Capital Markets and Mergers and Acquisitions. During the year, the Division was involved in advising Saudi International Petrochemical Company (Sipchem) on a proposed merger with Sahara Petrochemicals Company (Sahara), for which the parties had signed a non-binding memorandum of understanding by the year-end. If eventually consummated, this merger would be the largest in the history of Saudi Arabia, thereby cementing HSBC's position as the M&A advisor of choice. In addition to the foregoing transaction, the Division also continues to work on several other market-defining M&A transactions. Additionally, the Division continues to work on several potential IPOs and equity rights issuance situations, although none of these have come to market during the year. Nonetheless, 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 under the CMA rules.

Investment Banking Finance – Debt Capital Markets and Syndicated Finance

HSBC Saudi Arabia Limited continued its dominance in the Debt Capital Markets and Syndicated Finance space in Saudi Arabia during the year, continuing to deliver results while establishing diversity in the deals executed. Total local Sukuk issuances lead managed by HSBC exceeded SAR 20 billion, with a number of landmark transactions. HSBC acted as the sole lead manager for the debut Sukuk issuances of both the Savola Group and the Power and Water Utility Company for Jubail and Yanbu (Marafiq). HSBC also jointly led (and held several roles in) the largest transaction ever in the history of the Saudi market, which was issued by the General Authority of Civil Aviation (GACA). The year was also witness to the issuance of the first-ever hybrid Sukuk in the market (an innovative perpetual structure with a call option), issued by Almarai and for which HSBC was a lead manager. HSBC was also active in the international market and played a key role in a number of issuances by Saudi groups, including as a lead manager in the Saudi Electricity Company (SEC)'s debut 144a/Reg. S issuance, which saw a global first in the longest-tenor Sukuk ever in the international market (30 years). Additionally, HSBC was a lead manager in SABIC Capital's issuance of its Reg. S USD-denominated bond.

Furthermore, the Division also played a key role in arranging a number of high-profile transactions in the club and syndicated loans market, with HSBC/SABB being a lead arranger in Tasnee's SAR 4 billion syndicated loan. The Division also structured the very successful leverage acquisition financing for Tarabut in relation to its purchase of 30% of Saudi Aerospace Engineering Company (SAEI), which used to be wholly owned by Saudi Arabian Airlines.

HSBC's continued innovation and market leadership has not gone unrecognised as evidenced by the receipt of numerous awards from respected third parties including Euromoney, The Asset Triple A Islamic Finance and The Banker.

Directors' Report (continued)

HSBC Saudi Arabia Limited *(continued)*

Project and Export Finance

2013G was an excellent year for the project and export finance business of HSBC Saudi Arabia Limited, during which the Bank maintained its position as the leading financial advisor and arranger for projects in the Kingdom. The Division achieved successful closing of two advisory mandates; Samapco (Ma'aden and Sahara JV) and Kemya (SABIC and ExxonMobil JV). HSBC/SABB acted as mandated lead arranger on these transactions. During the year, the team won high-profile advisory mandates including Saudi Aramco's Jazan IGCC and ASU projects and Saudi Electricity Company's (SEC) Duba 1 IPP project. The Division is currently executing a landmark project finance advisory mandate for Ma'aden in relation to their new USD 7 billion phosphate mining and fertiliser complex to be located in the north of Saudi Arabia.

On the arranging side, HSBC and SABB acted as mandated lead arranger and had various agency and security roles on Sadara, which is the largest project financing to date in KSA. HSBC Saudi Arabia Limited and SABB have also acted as structuring bank and mandated lead arranger on Polysilicon Technology Company, SEPC refinancing, and Sipchem's IDC refinancing and expansion. Furthermore, the Division is currently acting as structuring bank and mandated lead arranger on USD 2 billion Korea Eximbank, K-SURE, and JBIC facilities for SEC in relation to the construction of Jeddah South power plant. This follows the successful closing of similar financing for SEC in relation to Rabigh 6 and Shoiba power plants.

Asset Management

The Asset Management Division of HSBC Saudi Arabia Limited continued to be a leading player in the Kingdom's asset management industry, consolidating its position as the second largest player in terms of Saudi Equity Mutual Funds Assets Under Management (AUM). During the year, the Saudi Equity market witnessed a revival with the Tadawul All Share Index rising by 26% at end December, 2013G. However, net inflows in mutual funds remain limited and HSBC maintained its fifth position in terms of market share in the mutual fund industry in the Kingdom. HSBC is also a leading player in the discretionary portfolio management space in the Kingdom and maintained this position during the year. The division offers clients a diverse range of investment products including equity, fixed income, commodity and multi-asset and continued to invest in its research and investment management capabilities.

During the year, the division maintained its track record of providing excellent performance across the various asset classes, especially local and regional equities and currently manages around USD 7 billion of assets in both mutual funds and discretionary portfolios. The division won 9 awards in the 2014 MENA Fund Awards including the Asset Manager of the Year Award, in addition to the "Best Asset Manager of Saudi Arabia" award by Global ISF Middle East.

Equity 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 online 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. The research department covered 44 Saudi stocks through in-depth and thematic research that encompasses 90% of the Saudi Stock Exchange market capitalisation. In its continuous quest to provide innovative solutions to its customers, HSBC Saudi Arabia Limited signed an agreement during the year with National Technology Group (Mubasher) to provide a new generation of e-trading services in the regional and global markets. 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 *(continued)*

Equity Research

In less than four years, HSBC Saudi Arabia Limited has established an industry leading research platform catering to both local and leading international fund managers. The research team covers 44 Saudi stocks comprising more than 80% of the Tadawul market capitalisation and has consistently achieved top rankings in a number of industry surveys. More recently the team was ranked number one for equity research (Extel 2013) and three of its analysts achieved top rankings in their individual sectors. The annual equity investor conference organised by the department has consistently attracted top Saudi corporates and international clients like Blackrock and Fidelity.

Clients rate our research as insightful and actionable, whilst the Investment Bank's key overweight calls like Mobily, Mouwasat and Jabal Omar have significantly outperformed the market.

Securities Services

HSBC Securities Services (HSS) had another very successful year in terms of performance and maintained its market leading position. Assets under Custody reached a record high of SAR 51 billion as compared to SAR 37 billion in 2012G. During the year, Securities Services took over IBSA funds' operational support under its business proposition of "Fund Services" and is providing Custody, Fund Administration and Registrar Services. Custody products remained the key revenue driver while Loan Agency Services' contribution significantly improved as compared to last year. All products attained healthy growth in 2013G and a strong client base was maintained in the light of growing investor interest in the Saudi market. To meet future business challenges, Securities Services has been restructured with the creation of separate Service Delivery and Business Development units that will further boost the business. Our market-leading position has been recognised in the clients' survey, and once again Securities Services won the "Best Sub-Custodian Bank in Saudi Arabia" award in the Global Custodian's Emerging Markets Survey.

INDEPENDENT AUDITORS' REPORT

EY
Building a better working world

KPMG Al Fozan & Al Sadhan

Independent Auditors' report to the shareholders of The Saudi British Bank (a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statement of The Saudi British Bank (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40. We have not audited notes 36 and 37, nor the information related to "Basel III Pillar 3 disclosures" and "Basel III Capital Structure" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statement

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 provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Banks'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 statement 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 involved performing procedures to obtain audit evidence about the amounts and disclosure 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 policies 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 a basis for our audit opinion.

Building a better working world

KPMG Al Fozan & Al Sadhan

Opinion

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

- Present fairly, in all material respects, the financial position of the Bank and its subsidiaries as at 31 December 2013, 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 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 they affect the preparation and presentation of the consolidated financial statements

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5 Rabi Thani 1435H
(5 February 2013)

Consolidated Statement of Financial Position

As at 31 December

	Notes	2013 SAR'000	2012 SAR'000
ASSETS			
Cash and balances with SAMA	*3*	**26,123,913**	20,403,864
Due from banks and other financial institutions	*4*	**3,286,053**	8,091,410
Investments, net	*5*	**37,399,559**	27,587,185
Loans and advances, net	*6*	**106,114,930**	96,098,306
Investment in associates	*7*	**647,057**	612,232
Property and equipment, net	*8*	**603,656**	604,509
Other assets	*9*	**3,127,032**	3,254,831
Total assets		**177,302,200**	156,652,337
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	*11*	**3,769,640**	5,931,850
Customers' deposits	*12*	**138,961,470**	120,433,716
Debt securities in issue	*13*	**5,282,873**	4,505,780
Borrowings	*14*	**109,375**	140,625
Other liabilities	*15*	**6,346,043**	5,574,859
Total liabilities		**154,469,401**	136,586,830
SHAREHOLDERS' EQUITY			
Share capital	*16*	**10,000,000**	10,000,000
Statutory reserve	*17*	**7,934,504**	6,991,051
Other reserves	*18*	**(10,738)**	(4,220)
Retained earnings		**3,809,033**	2,078,676
Proposed dividends	*26*	**1,100,000**	1,000,000
Total shareholders' equity		**22,832,799**	20,065,507
Total liabilities and shareholders' equity		**177,302,200**	156,652,337

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December

	Notes	2013 SAR'000	2012 SAR'000
Special commission income	*20*	**4,386,138**	3,999,985
Special commission expense	*20*	**666,842**	735,885
Net special commission income		**3,719,296**	3,264,100
Fees and commission income, net	*21*	**1,433,435**	1,321,600
Exchange income, net		**401,480**	232,208
Income from FVIS financial instruments		**11,250**	-
Trading income, net	*22*	**169,165**	295,457
Dividend income		**38,629**	35,638
Gains on non-trading investments, net	*23*	**40,251**	16,042
Other operating income		**1,878**	1,438
Total operating income		**5,815,384**	5,166,483
Salaries and employee-related expenses	*24*	**1,090,597**	1,008,961
Rent and premises-related expenses		**110,613**	95,434
Depreciation	*8*	**91,518**	112,113
General and administrative expenses		**428,265**	375,322
Provision for credit losses, net	*6*	**374,179**	440,544
Impairment (reversal of impairment) of other financial assets	*5*	**67,855**	(1,589)
Other operating expenses		**1,717**	6,612
Total operating expenses		**2,164,744**	2,037,397
Income from operating activities		**3,650,640**	3,129,086
Share in earnings of associates, net	*7*	**123,170**	111,230
Net income for the year		**3,773,810**	3,240,316
Basic and diluted earnings per share (in SAR)	*25*	**3.77**	3.24

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Notes	**2013 SAR'000**	2012 SAR'000
Net income for the year		**3,773,810**	3,240,316
Other comprehensive income to be reclassified to statement of income in subsequent year			
Available for sale financial assets			
– Net change in fair value	*18*	**(45,061)**	222,291
– Transfer to consolidated statement of income	*18*	**29,749**	(16,042)
Cash flow hedges			
– Net change in fair value	*18*	**9,585**	20,181
– Transfer to consolidated statement of income	*18*	**(791)**	(4,940)
		(6,518)	221,490
Total comprehensive income for the year		**3,767,292**	3,461,806

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December

2013	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		**10,000,000**	**6,991,051**	**(4,220)**	**2,078,676**	**1,000,000**	**20,065,507**
Total comprehensive income for the year							
– Net income for the year		**-**	**-**	**-**	**3,773,810**	**-**	**3,773,810**
– Net changes in fair value of cash flow hedges	*18*	**-**	**-**	**9,585**	**-**	**-**	**9,585**
– Net changes in fair value of available for sale investments	*18*	**-**	**-**	**(45,061)**	**-**	**-**	**(45,061)**
– Transfer to consolidated statement of income	*18*	**-**	**-**	**28,958**	**-**	**-**	**28,958**
		-	**-**	**(6,518)**	**3,773,810**	**-**	**3,767,292**
Transfer to statutory reserve	*17*	**-**	**943,453**	**-**	**(943,453)**	**-**	**-**
2012 final dividend paid		**-**	**-**	**-**	**-**	**(1,000,000)**	**(1,000,000)**
2013 final proposed dividend	*26*	**-**	**-**	**-**	**(1,100,000)**	**1,100,000**	**-**
Balance at end of the year		**10,000,000**	**7,934,504**	**(10,738)**	**3,809,033**	**1,100,000**	**22,832,799**
2012							
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		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

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December

	Notes	2013 SAR'000	2012 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**3,773,810**	3,240,316
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments		**36,788**	17,889
Gains on non-trading investments, net	*23*	**(40,251)**	(16,042)
Depreciation	*8*	**91,518**	112,113
Income from FVIS financial instruments		**(11,250)**	-
Losses (gains) on disposal of property and equipment, net		**1,525**	(1,438)
Share in earnings of associates, net	*7*	**(123,170)**	(111,230)
Provision for credit losses, net of reversal	*6*	**627,891**	599,296
Impairment (reversal of impairment) of other financial assets		**67,855**	(1,589)
Change in carrying value of debt securities in issue		**(17,907)**	27,120
		4,406,809	3,866,435
Net (increase) decrease in operating assets:	*3*		
Statutory deposit with SAMA		**(824,773)**	(1,107,682)
Investments held for trading, net		**3,914**	8,551
Loans and advances		**(10,644,515)**	(11,886,315)
Other assets		**127,799**	561,509
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,162,210)**	37,794
Customers' deposits		**18,527,754**	14,857,174
Other liabilities		**772,723**	(292,644)
Net cash from operating activities		**10,207,501**	6,044,822
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**17,351,575**	14,221,064
Purchase of non-trading investments	*8*	**(27,227,523)**	(19,395,446)
Purchase of property and equipment	*7*	**(92,190)**	(180,545)
Investment in associates	*7*	**-**	1,794
Dividend from associates		**88,345**	62,395
Proceeds from disposal of property and equipment		**-**	2,283
Net cash used in investing activities		**(9,879,793)**	(5,288,455)
FINANCING ACTIVITIES			
Debt securities issued		**1,500,000**	500,000
Debt securities repaid/matured		**(705,000)**	-
Borrowings		**(31,250)**	(31,250)
Dividends paid		**(1,001,539)**	(565,168)
Net cash used in financing activities		**(237,789)**	(96,418)
Increase in cash and cash equivalents		**89,919**	659,949
Cash and cash equivalents at beginning of the year		**21,592,923**	20,932,974
Cash and cash equivalents at end of the year	*27*	**21,682,842**	21,592,923
Special commission received during the year		**4,459,121**	3,833,496
Special commission paid during the year		**644,980**	687,870
Supplemental non-cash information			
Other comprehensive income		**(6,518)**	221,490

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements (31 December 2013)

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 80 branches (2012: 79 branches) in the Kingdom of Saudi Arabia. SABB employed 3,158 staff as at 31 December 2013 (2012: 3,049). 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% (2012: 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). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2012: 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 a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2012: 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 subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

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 its articles of association.

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.

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

1.1. Basis of preparation *(continued)*

c) Functional and presentation currency

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

d) Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 32 (b).

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of SABB and its subsidiaries (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.

Subsidiaries are entities which are directly or indirectly controlled by SABB. SABB controls an entity (the "investee") over which it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to SABB and cease to be consolidated from the date on which the control is transferred from SABB.

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

f) 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 experienced.

1.1. Basis of preparation *(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.

g) 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 the following:

– 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.

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

– IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While SABB has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities.

– IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 33.

– IAS 1 - Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Bank's financial position or performance.

– IAS 1 - Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of consolidated financial position (as at 1 January 2012 in the case of the Bank), presented as a result of retrospective restatement or reclassification of items in consolidated financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Bank has not included comparative information in respect of the opening statement of consolidated financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Bank's consolidated financial position or performance.

- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32
- 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
- IAS 27 Separate Financial Statements (2011): now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements
- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed

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

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.

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.

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

c) Derivative financial instruments and hedge accounting *(continued)*

iii) Hedge accounting *(continued)*

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.

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 transferred to exchange income in the consolidated 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.

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

f) *Revenue/expenses recognition* *(continued)*

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.

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.

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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

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.

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.

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

h) Investments *(continued)*

iii) <u>Held at amortised cost</u>

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.

iv) <u>Held to maturity</u>

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.

i) Investment in associates

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

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

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

Unrealised profits and losses resulting from transactions between SABB and its associates are eliminated to the extent of SABB'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 (other than home 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.

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

l) Impairment of financial assets *(continued)*

ii) <u>Impairment of financial assets held at fair value</u>

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.

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.

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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

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. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

p) Guarantees and loan commitments

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.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

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.

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

	2013 SAR'000	2012 SAR'000
Cash in hand	**1,009,023**	966,179
Statutory deposit	**7,727,124**	6,902,351
Placements with SAMA	**17,026,883**	12,086,917
Other balances	**360,883**	448,417
Total	**26,123,913**	20,403,864

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 deposit with SAMA is not available to finance SABB's day-to-day operations and therefore are not part of cash and cash equivalents.

4. Due from banks and other financial institutions

	2013 SAR'000	2012 SAR'000
Current accounts	**3,286,053**	5,062,363
Money market placements	**-**	3,029,047
Total	**3,286,053**	8,091,410

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		**International**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
i) Held as FVIS						
Floating rate securities	**1,007**	4,921	**-**	-	**1,007**	4,921
Held as FVIS investments	**1,007**	4,921	**-**	-	**1,007**	4,921

Investments classified under FVIS are all held for trading.

	Domestic		**International**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
ii) Available for sale						
Fixed rate securities	**25,968,132**	17,427,787	**6,323,185**	5,216,901	**32,291,317**	22,644,688
Floating rate securities	**3,696,472**	2,743,550	**77,745**	216,711	**3,774,217**	2,960,261
Equities	**952,850**	854,182	**80,196**	73,259	**1,033,046**	927,441
Available for sale investments ,net	**30,617,454**	21,025,519	**6,481,126**	5,506,871	37,098,580	26,532,390

Available for sale investments, net includes impairment provision of SAR 70 million (2012: nil) for Domestic equities and SAR 19.8 million (2012: SAR 22.9 million) for International floating rate securities.

	Domestic		**International**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
iii) Held at amortised cost						
Fixed rate securities	**299,972**	949,863	**9,000**	9,000	**308,972**	958,863
Held at amortised cost, gross	**299,972**	949,863	**9,000**	9,000	**308,972**	958,863
Allowance for impairment	**-**	-	**(9,000)**	(9,000)	**(9,000)**	(9,000)
Held at amortised cost investment, net	**299,972**	949,863	**-**	-	**299,972**	949,863
iv) Held to maturity						
Fixed rate securities	**-**	100,011	**-**	-	**-**	100,011
Held to maturity investments	**-**	100,011	**-**	-	**-**	100,011
Investments, net	**30,918,433**	22,080,314	**6,481,126**	5,506,871	**37,399,559**	27,587,185

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

5. Investments, net *(continued)*

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

	2013			2012		
	Quoted	***Unquoted***	***Total***	*Quoted*	*Unquoted*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Fixed rate securities	**7,681,829**	**24,918,460**	**32,600,289**	6,652,437	17,051,125	23,703,562
Floating rate securities	**1,007**	**3,774,217**	**3,775,224**	2,129,077	836,105	2,965,182
Equities	**944,986**	**88,060**	**1,033,046**	844,818	82,623	927,441
	8,627,822	**28,780,737**	**37,408,559**	9,626,332	17,969,853	27,596,185
Allowance for impairment	**-**	**(9,000)**	**(9,000)**	-	(9,000)	(9,000)
Investments, net	**8,627,822**	**28,771,737**	**37,399,559**	9,626,332	17,960,853	27,587,185

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

	2013			2012		
	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	**299,972**	**5,024**	**304,996**	949,863	22,931	972,794
Total	**299,972**	**5,024**	**304,996**	949,863	22,931	972,794
ii) Held to maturity						
Fixed rate securities	**-**	**-**	**-**	100,011	184	100,195
Total	**-**	**-**	**-**	100,011	184	100,195

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

	2013	2012
	SAR'000	SAR'000
Government and quasi-government	**29,811,514**	21,938,813
Corporate	**2,493,818**	2,220,193
Banks and other financial institutions	**5,085,815**	3,418,289
Other	**8,412**	9,890
Total	**37,399,559**	27,587,185

Equities reported under available for sale investments include unquoted shares of SAR 8.4 million (2012: SAR 9.9 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 189.1 million (2012: SAR 316.7 million) which have been pledged under repurchase agreement with customers. The market value of these investments is SAR 189.0 million (2012: SAR 316.5 million).

5. Investments, net *(continued)*

e) *Credit quality of investments* (continued)

	2013	2012
	SAR'000	SAR'000
Saudi sovereign debt	**23,714,079**	15,998,363
Investment grade	**8,926,878**	8,288,696
Non-investment grade	**110,254**	237,041
Unrated	**4,648,348**	3,063,085
Total	**37,399,559**	27,587,185

The Saudi sovereign debt comprise of 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 amounting to SAR 297.8 million (2012: SAR nil) which have not been rated by any agency.

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

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

	2013	2012
	SAR'000	SAR'000
Balance at beginning of the year	**31,901**	33,490
Provided during the year	**70,000**	-
Amounts recovered during the year	**(3,145)**	(1,589)
Balance at end of the year	**98,756**	31,901

The net charge to statement of income on account of impairment (reversal of impairment) of other financial assets is SAR 67.9 million (2012: negative SAR 1.6 million), which is net of recoveries of amounts previously provided as shown above and directly written off investments amounting to SAR 1.0 million (2012: SAR nil).

6. Loans and advances, net

a) *Loans and advances are classified as follows:*

	2013			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Performing loans and advances - gross	**1,957,598**	**21,916,178**	**82,974,558**	**106,848,334**
Non-performing loans and advances, net	**1,572**	**46,237**	**1,477,456**	**1,525,265**
Total loans and advances	**1,959,170**	**21,962,415**	**84,452,014**	**108,373,599**
Provision for credit losses (specific and collective)	**(86,189)**	**(204,931)**	**(1,967,549)**	**(2,258,669)**
Loans and advances, net	**1,872,981**	**21,757,484**	**82,484,465**	**106,114,930**

	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

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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

a) *Loans and advances are classified as follows* (continued)

Loans and advances, net include Shariah-approved products totalling SAR 78,679 million (2012: SAR 64,510 million) which are stated at cost less provision for credit losses of SAR 1,356.4 million (2012: SAR 1,021.9 million).

Loans and advances include loans amounting to SAR 568 million (2012: SAR 974 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 0.2 million as at the end of the current year (2012: SAR 1.7 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 249.6 million (2012: SAR 270.6 million). SAR 249.6 million (2012: SAR 270.6 million).

b) *Movement in provision for credit losses*

	2013			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Balance at beginning of the year	**80,005**	**228,983**	**2,104,396**	**2,413,384**
Bad debts written off	**(80,552)**	**(239,525)**	**(422,322)**	**(742,399)**
Provided during the year, net of reversals	**86,736**	**215,473**	**325,682**	**627,891**
Recoveries of amounts previously provided	**-**	**-**	**(40,207)**	**(40,207)**
Balance at the end of the year	**86,189**	**204,931**	**1,967,549**	**2,258,669**

	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

The allowance for credit losses related to commercial loans and overdrafts as mentioned above includes a collective allowance amounting to SAR 1,092.4 million (2012: SAR 1,299.9 million) related to the performing portfolio.

Provision for credit losses charged to the consolidated statement of income related to Shariah-approved products is SAR 118.6 million (2012: SAR 253.7 million).

The net charge to statement of income on account of provision for credit losses is SAR 374.2 million (2012: SAR 440.5 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off of SAR 213.5 million (2012: SAR 151.7 million).

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

c) *Credit quality of loans and advances*

i) Neither past due nor impaired loans

	2013			
<u>**Grades**</u>	***Credit Cards***	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Undoubted	**-**	**-**	**1,425,640**	**1,425,640**
Good	**260,869**	**10,332,311**	**36,274,500**	**46,867,680**
Satisfactory	**1,543,481**	**10,430,329**	**44,374,796**	**56,348,606**
Total	**1,804,350**	**20,762,640**	**82,074,936**	**104,641,926**

	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

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.

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

	2013			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
From 1 day to 30 days	**66,559**	**931,593**	**877,251**	**1,875,403**
From 31 days to 90 days	**45,775**	**135,165**	**1,942**	**182,882**
From 91 days to 180 days	**40,914**	**86,780**	**20,429**	**148,123**
Total	**153,248**	**1,153,538**	**899,622**	**2,206,408**

	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

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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:

	2013			
	Performing	***Non-performing, net***	***Provision for credit losses***	***Loans and advances, net***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Government and quasi-Government	**6,372,452**	**-**	**-**	**6,372,452**
Financial institution	**11,637,049**	**-**	**-**	**11,637,049**
Agriculture and fishing	**898,190**	**-**	**-**	**898,190**
Manufacturing	**17,324,757**	**110,580**	**(7,478)**	**17,427,859**
Mining and quarrying	**997,153**	**-**	**-**	**997,153**
Electricity, water, gas and health services	**2,646,186**	**-**	**-**	**2,646,186**
Building and construction	**7,916,697**	**405,295**	**(101,320)**	**8,220,672**
Commerce	**20,889,164**	**498,824**	**(455,366)**	**20,932,622**
Transportation and communication	**4,395,818**	**-**	**-**	**4,395,818**
Services	**3,600,629**	**28,079**	**(22,879)**	**3,605,829**
Consumer loans and credit cards	**23,873,776**	**47,809**	**(291,120)**	**23,630,465**
Other	**6,296,463**	**434,678**	**(288,080)**	**6,443,061**
Collective impairment provision	**-**	**-**	**(1,092,426)**	**(1,092,426)**
Total	**106,848,334**	**1,525,265**	**(2,258,669)**	**106,114,930**

	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
Financial institution	10,354,144	-	-	10,354,144
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	1,817,872	23,586	(22,737)	1,818,721
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

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.

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

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 international equities, real estate and other fixed assets.

7. Investment in associates

SABB owns 51% of the shares of HSBC Saudi Arabia Limited. However, SABB does not consolidate the entity as it does not have management control, nor the power to govern the financial and operating policies of the entity. HSBC Group has direct management and governance responsibility for all the relevant activities of HSBC Saudi Arabia Limited. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

SABB owns 32.5% of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah-compliant insurance activities and offers family and general Takaful products. The market-value investment in SABB Takaful as of 3l December 2013 is SAR 381.2 million (2012: SAR 410.0 million).

	2013			2012		
	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	**496,237**	**115,995**	**612,232**	453,689	111,502	565,191
Share of undistributed profits	**118,410**	**4,760**	**123,170**	106,737	4,493	111,230
Dividend received	**(88,345)**	**-**	**(88,345)**	(62,395)	-	(62,395)
Adjustments	**-**	**-**	**-**	(1,794)	-	(1,794)
Balance at end of the year	**526,302**	**120,755**	**647,057**	496,237	115,995	612,232

Share of the associates' financial statements:

	2013		2012	
	HSBC Saudi Arabia Limited	***SABB Takaful***	*HSBC Saudi Arabia Limited*	*SABB Takaful*
	SAR' 000	**SAR' 000**	SAR' 000	SAR' 000
Total assets	**506,144**	**302,379**	496,201	314,544
Total liabilities	**97,735**	**181,624**	117,857	198,549
Total equity	**408,409**	**120,755**	378,344	115,995
Total income	**256,540**	**80,959**	232,178	17,750
Total expenses	**138,130**	**76,199**	125,441	13,257

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

8. Property and equipment, net

	Land and Buildings	*Leasehold improvements*	*Equipment, furniture and vehicles*	**2013** *Total*	2012 *Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	SAR'000
Cost					
As at 1 January	**683,870**	**449,858**	**761,436**	**1,895,164**	1,756,757
Additions	**22,046**	**20,769**	**49,375**	**92,190**	180,545
Disposals	**(5,995)**	**-**	**(306,605)**	**(312,600)**	(42,138)
As at 31 December	**699,921**	**470,627**	**504,206**	**1,674,754**	1,895,164
Accumulated depreciation					
As at 1 January	**347,087**	**299,605**	**643,963**	**1,290,655**	1,219,835
Charge for the year	**19,598**	**23,755**	**48,165**	**91,518**	112,113
Disposals	**(4,470)**	**-**	**(306,605)**	**(311,075)**	(41,293)
As at 31 December	**362,215**	**323,360**	**385,523**	**1,071,098**	1,290,655
Net book value					
As at 31 December 2013	**337,706**	**147,267**	**118,683**	**603,656**	
As at 31 December 2012	336,783	150,253	117,473		604,509

Land and buildings, leasehold improvements and equipment furniture and vehicles include work in progress as at 31 December 2013 amounting to SAR 0.1 million (2012: SAR 2.0 million), SAR 33.6 million (2012: SAR 37.5 million) and SAR 22.4 million (2012: SAR 31.7 million) respectively.

9. Other assets

	2013	2012
	SAR'000	SAR'000
Accrued special commission receivable		
– banks and other financial institutions	**117**	166
– investments	**133,422**	131,683
– loans and advances	**406,811**	481,483
Total accrued special commission receivable	**540,350**	613,332
Accounts receivable	**843,927**	90,757
Positive fair value of derivatives (note 10)	**951,314**	1,962,631
Advance tax	**191,302**	169,269
Others	**600,139**	418,842
Total	**3,127,032**	3,254,831

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.

10. Derivatives *(continued)*

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.

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.

10. Derivatives *(continued)*

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 consolidated statement of income:

	Within 1 year	*Within 1-3 years*
2013	**SAR'000**	SAR'000
Cash inflows (assets)		
Cash out flows (liabilities)	-	-
Net cash outflow	-	-
2012		
Cash inflows (assets)	-	-
Cash out flows (liabilities)	(17,356)	-
Net cash outflow	(17,356)	-

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.

10. Derivatives *(continued)*

2013	*Positive fair value*	*Negative fair value*	*Notional amount total*	*Within 3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Monthly average*
				Notional amounts by term to maturity				
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Derivatives held for trading:								
Special commission rate swaps	581,625	(438,305)	44,538,871	1,056,664	3,075,113	37,021,827	3,385,267	53,362,054
Special commission rate futures and options	51,535	(51,535)	2,645,997	300,001	21,067	1,312,429	1,012,500	3,792,236
Spot and forward foreign exchange contracts	56,691	(26,692)	23,927,549	16,105,899	7,821,650	-	-	24,514,155
Currency options	59,738	(52,923)	105,850,497	15,605,287	45,539,515	44,705,695	-	87,691,254
Currency swaps	27,358	(27,358)	475,473	-	-	475,473	-	481,599
Others	129,859	(129,998)	1,022,712	3,993	307,344	711,375	-	1,428,760
Derivatives held as fair value hedges:								
Special commission rate swaps	44,508	(21,452)	3,826,351	-	489,146	3,095,635	241,570	4,126,044
Derivatives held as cash flow hedges:								
Special commission rate swaps	-	-	-	-	-	-	-	-
Total	951,314	(748,263)	182,287,450	33,071,844	57,253,835	87,322,434	4,639,337	

2012	*Positive fair value*	*Negative fair value*	*Notional amount total*	*Within 3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Monthly average*
				Notional amounts by term to maturity				
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Derivatives held for trading:								
Special commission rate swaps	1,024,433	(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	

Notes to the Consolidated Financial Statements (31 December 2013) (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.

	2013					
	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	**1,023,920**	**1,008,445**	Fair value	Special commission rate swap	**4,827**	**(20,757)**
Fixed commission rate loans	**568,083**	**567,906**	Fair value	Special commission rate swap	**546**	**(695)**
Fixed commission rate debt securities in issue	**2,282,873**	**2,244,302**	Fair value	Special commission rate swap	**39,135**	**-**
Floating commission rate debt securities in issue	**-**	**-**	Cash flow	Special commission rate swap	**-**	**-**

	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 debt securities in issue	1,250,117	1,250,000	Cash flow	Special commission rate swap	-	(9,585)

The hedge inception value has been adjusted, where necessary, to reflect book values.

The net gains on the hedging instruments for fair value hedges are SAR 15.5 million (2012: SAR 27.2 million). The net losses on the hedged item attributable to the hedged risk are SAR 16.6 million (2012: SAR 27.4 million). The net fair value of the derivatives is positive SAR 23.1 million (2012: positive SAR 7.5 million).

Approximately 44% (2012: 20%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 13% (2012: 6%) of the positive fair value contracts are with any individual counterparty at the reporting date.

11. Due to banks and other financial institutions

	2013	2012
	SAR'000	SAR'000
Current accounts	**2,200,996**	2,375,109
Money market deposits	**1,568,644**	3,556,741
Total	**3,769,640**	5,931,850

Money market deposits also include deposits placed by SAMA amounting to SAR Nil (2012: SAR 578.1 million).

12. Customers' deposits

	2013	2012
	SAR'000	SAR'000
Demand	**74,717,693**	63,417,449
Savings	**6,686,175**	6,096,869
Time	**54,315,985**	49,526,952
Margin deposits	**3,241,617**	1,392,446
Total	**138,961,470**	120,433,716

Customers' deposits include SAR 75,126.7 million (2012: SAR 61,968.2 million) deposits under Shariah-approved product contracts.

Time deposits include deposits against sale and repurchase agreement amounting to SAR 189.1 million (2012: SAR 316.7 million).

The above deposits include the following foreign currency deposits:

	2013	2012
	SAR'000	SAR'000
Demand	**9,762,262**	7,626,153
Savings	**220,176**	224,264
Time	**6,017,900**	8,173,313
Margin deposits	**1,854,791**	359,893
Total	**17,855,129**	16,383,623

13. Debt securities in issue

	2013	2012
	SAR'000	SAR'000
USD 600 million 5-year fixed rate notes	**2,282,873**	2,300,780
SAR 705 million 5-year floating rate notes	**-**	705,000
SAR 1,500 million 5-year SAR subordinated Sukuk - 2012	**1,500,000**	1,500,000
SAR 1,500 million 7-year SAR subordinated Sukuk - 2013	**1,500,000**	-
Total	**5,282,873**	4,505,780

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 Nov 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 consolidated financial statements. The negative mark to market relating to these notes pertaining to the hedged portion is SAR 38.6 million as at the end of the current year (2012: 35.5 million).

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

13. Debt securities in issue *(continued)*

SAR 705 million 5-year floating rate notes

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

SAR 1,500 million 5-year SAR subordinated Sukuk – 2012

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).

SAR 1,500 million 7-year SAR subordinated Sukuk – 2013

The Sukuk was issued by SABB on 17 December 2013 and matures in December 2020. SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SIBOR plus 140 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

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

	2013	2012
	SAR'000	SAR'000
Accrued special commission payable		
– banks and other financial institutions	**64,521**	63,100
– customers' deposits	**170,936**	149,399
– debt securities in issue	**17,156**	18,177
– borrowings	**264**	339
Total accrued special commission payable	**252,877**	231,015
Accounts payable	**1,160,033**	816,005
Drawings payable	**1,237,022**	1,084,279
Negative fair value of derivatives (note 10)	**748,263**	1,848,015
Others	**2,947,848**	1,595,545
Total	**6,346,043**	5,574,859

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 1,000 million shares of SAR 10 each (2012: 1,000 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2013	2012
Saudi shareholders	60%	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	40%	40%

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 943 million (2012: SAR 810 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

	2013		
	Cash flow hedges	***Available for sale investments***	***Total***
	SAR'000	**SAR'000**	**SAR'000**
Balance at beginning of the year	**(6,138)**	**1,918**	**(4,220)**
Net change in fair value	**9,585**	**(45,061)**	**(35,476)**
Transfer to consolidated statement of income	**(791)**	**29,749**	**28,958**
Net movement during the year	**8,794**	**(15,312)**	**(6,518)**
Balance at end of the year	**2,656**	**(13,394)**	**(10,738)**

	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)

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 0.8 million (2012: SAR 4.9 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 2013, 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 2013, the Bank has capital commitments of SAR 183.6 million (2012: SAR 108.9 million) in respect of land, buildings and equipment purchases.

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

19. Commitments and contingencies *(continued)*

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 behalf 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.

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

	Within 3 months	***3-12 months***	***1-5 years***	***Over 5 years***	***Total***
2013	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Letters of credit	**10,579,988**	**4,654,050**	**1,103,815**	**-**	**16,337,853**
Guarantees	**10,899,217**	**19,127,641**	**21,469,459**	**4,824,758**	**56,321,075**
Acceptances	**1,955,464**	**404,299**	**44,022**	**485**	**2,404,270**
Irrevocable commitments to extend credit	**130,000**	**-**	**408,125**	**2,884,431**	**3,422,556**
Total	**23,564,669**	**24,185,990**	**23,025,421**	**7,709,674**	**78,485,754**

	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
2012	SAR'000	SAR'000	SAR'000	SAR'000	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

The outstanding unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank is SAR 60,846.4 million (2012: SAR 57,340.2 million).

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

	2013	2012
	SAR'000	SAR'000
Government and quasi-government	**421,837**	**378,545**
Corporate	**61,953,559**	**57,282,681**
Banks and other financial institutions	**15,903,721**	**13,740,570**
Other	**206,637**	**201,089**
Total	**78,485,754**	**71,602,885**

19. Commitments and contingencies *(continued)*

f) Operating lease commitments

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

	2013	2012
	SAR'000	SAR'000
Less than 1 year	**63,406**	**59,206**
1 to 5 years	**168,991**	**171,594**
Over 5 years	**93,357**	**100,898**
Total	**325,754**	**331,698**

20. Net special commission income

	2013	2012
	SAR'000	SAR'000
Special commission income		
Investments		
– available for sale investments	**463,286**	351,270
– held at amortised cost	**20,917**	53,458
– held to maturity investments	**197**	5,066
	484,400	409,794
Due from banks and other financial institutions	**23,103**	40,946
Loans and advances	**3,878,635**	3,549,245
Total	**4,386,138**	3,999,985
Special commission expense		
Due to banks and other financial institutions	**104,843**	157,692
Customers' deposits	**451,380**	473,560
Debt securities in issue	**103,815**	96,185
Borrowings	**6,804**	8,448
Total	**666,842**	735,885
Net special commission income	**3,719,296**	3,264,100

21. Fees and commission income, net

	2013	2012
	SAR'000	SAR'000
Fee and commission income:		
– Fund management fees	**55,218**	45,898
– Trade finance	**834,493**	736,034
– Corporate finance and advisory	**119,948**	130,767
– Cards	**305,798**	303,119
– Other banking services	**349,895**	324,702
Total fee and commission income	**1,665,352**	1,540,520
Fee and commission expense:		
– Cards	**(127,012)**	(115,152)
– Custodial services	**(818)**	(847)
– Other banking services	**(104,087)**	(102,921)
Total fee and commission expense	**(231,917)**	(218,920)
Fees and commission income, net	**1,433,435**	1,321,600

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

22. Trading income, net

	2013	2012
	SAR'000	SAR'000
Foreign exchange income, net	**114,590**	270,847
Derivatives	**55,195**	24,624
Debt securities	**383**	185
Others	**(1,003)**	(199)
Total	**169,165**	295,457

23. Gains on non-trading investments, net

	2013	2012
	SAR'000	SAR'000
Available-for-sale investments	**40,251**	16,042

24. Salaries and employee-related expenses

i) Quantitative Disclosure

The following table summarises 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 2013***		
			Cash	***Shares***	***Total***
2013 Category	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Senior executives requiring SAMA no objection	**14**	**21,375**	**16,928**	**1,926**	**18,854**
Employees engaged in risk-taking activities	**276**	**124,958**	**47,211**	**1,966**	**49,177**
Employees engaged in control functions	**126**	**53,028**	**11,673**	**396**	**12,069**
Other employees	**2,742**	**452,132**	**98,382**	**584**	**98,966**
Outsourced employees	**405**	**30,857**	**9,798**	**-**	**9,798**
Total	**3,563**	**682,350**	**183,992**	**4,872**	**188,864**
Variable compensation accrued or paid in 2013		**239,283**			
Other employee-related benefits		**168,964**			
Total salaries and employee-related expenses		**1,090,597**			

	Number of employees	*Fixed compensation*	*Variable compensation paid in 2012*		
			Cash	*Shares*	*Total*
2012 Category	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			

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

i) Quantitative Disclosure *(continued)*

Senior executives (requiring SAMA no objection):
This comprises senior management having responsibility and authority for formulating strategies, directing and controlling 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, undertaking 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 functions (Risk Management, Compliance, Internal Audit, Treasury Operation, Amanah Islamic Banking Services, Finance and Accounting). These functions are fully independent of risk-taking units.

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

Outsourced employees:
This includes 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. 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 covers 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, allowances; benefits; annual bonuses; short-term incentives; and long-term incentives.

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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

ii) Qualitative Disclosure *(continued)*

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 against 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 to 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 employees 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 2013 and 2012 is calculated by dividing the net income for the year attributable to the equity holders by 1,000 million.

Diluted earnings per share are 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 1,100 million for the year 2013 (2012: SAR 1,000 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 55.7 million (2012: SAR 46.7 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 1.0 per share (2012: SAR 0.9 per share).

Non-Saudi shareholders:
Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 298.4 million (2012: SAR 253.6 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 up to 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 2012. 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 long-term 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:

	2013	2012
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	**18,396,789**	13,501,513
Due from banks and other financial institutions with an original maturity of ninety days or less from date of the acquisition	**3,286,053**	8,091,410
Total	**21,682,842**	21,592,923

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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. 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 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 2013 and 2012, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

2013	***Retail Banking*** **SAR'000**	***Corporate Banking*** **SAR'000**	***Treasury*** **SAR'000**	***Others*** **SAR'000**	***Total*** **SAR'000**
Total assets	**33,585,039**	**76,688,800**	**66,381,304**	**647,057**	**177,302,200**
Investment in associates	**-**	**-**	**-**	**647,057**	**647,057**
Total liabilities	**57,072,930**	**70,046,474**	**27,349,997**	**-**	**154,469,401**
Net special commission income	**1,458,971**	**1,470,440**	**789,885**	**-**	**3,719,296**
Total operating income	**1,930,506**	**2,711,442**	**1,173,436**	**-**	**5,815,384**
Total operating expenses	**1,216,048**	**819,835**	**128,861**	**-**	**2,164,744**
Share in earnings of associates, net	**-**	**-**	**-**	**123,170**	**123,170**
Net income for the year	**714,458**	**1,891,607**	**1,044,575**	**123,170**	**3,773,810**
Fees and commission income, net	**381,934**	**1,052,357**	**(856)**	**-**	**1,433,435**
Trading income, net	**92**	**13,177**	**155,896**	**-**	**169,165**
Credit losses and impairment provision, net	**201,203**	**237,716**	**3,115**	**-**	**442,034**

2012	*Retail Banking* SAR'000	*Corporate Banking* SAR'000	*Treasury* SAR'000	*Others* SAR'000	*Total* SAR'000
Total assets	26,571,637	71,828,318	57,640,150	612,232	156,652,337
Investment in associates	-	-	-	612,232	612,232
Total liabilities	49,314,859	60,843,828	26,428,143	-	136,586,830
Net special commission income	1,187,238	1,393,477	683,385	-	3,264,100
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

28. Operating segments *(continued)*

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

2013	***Retail Banking*** **SAR'000**	***Corporate Banking*** **SAR'000**	***Treasury*** **SAR'000**	***Total*** **SAR'000**
Assets	**31,174,075**	**74,940,855**	**64,767,456**	**170,882,386**
Commitments and contingencies	**81,725**	**33,538,515**	**-**	**33,620,240**
Derivatives	**-**	**-**	**2,444,705**	**2,444,705**
Total	**31,255,800**	**108,479,370**	**67,212,161**	**206,947,331**

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

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.

29. Credit risk

The Board of Directors is responsible for the overall risk management approach within SABB and for reviewing its effectiveness.

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

The 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 transactions 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.

29. Credit risk *(continued)*

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 security 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 provision 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.

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

	2013					
	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	**26,123,913**	**-**	**-**	**-**	**-**	**26,123,913**
Due from banks and other financial institutions	**-**	**74,619**	**261,920**	**2,704,445**	**245,069**	**3,286,053**
Investments, net	**30,918,432**	**5,321,043**	**539,724**	**79,648**	**540,712**	**37,399,559**
Loans and advances, net	**104,962,509**	**471,429**	**192,520**	**37,500**	**450,972**	**106,114,930**
Investment in associates	**647,057**	**-**	**-**	**-**	**-**	**647,057**
Total	**162,651,911**	**5,867,091**	**994,164**	**2,821,593**	**1,236,753**	**173,571,512**
LIABILITIES						
Due to banks and other financial institutions	**270,058**	**1,234,497**	**1,620,891**	**633,693**	**10,501**	**3,769,640**
Customer deposits	**137,077,547**	**700,922**	**1,059,333**	**18,812**	**104,856**	**138,961,470**
Debt securities in issue	**3,000,000**	**-**	**2,282,873**	**-**	**-**	**5,282,873**
Borrowings	**-**	**-**	**109,375**	**-**	**-**	**109,375**
Total	**140,347,605**	**1,935,419**	**5,072,472**	**652,505**	**115,357**	**148,123,358**
Commitments and contingencies	**63,620,809**	**1,025,743**	**5,861,337**	**279,881**	**7,697,984**	**78,485,754**
Credit exposure (stated at credit equivalent amounts)						
Assets	**160,042,981**	**5,786,895**	**994,164**	**2,821,593**	**1,236,753**	**170,882,386**
Commitments and contingencies	**27,017,070**	**479,645**	**2,916,605**	**117,441**	**3,089,479**	**33,620,240**
Derivatives	**1,360,390**	**148,495**	**916,238**	**1,281**	**18,301**	**2,444,705**
Total credit exposure	**188,420,441**	**6,415,035**	**4,827,007**	**2,940,315**	**4,344,533**	**206,947,331**

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

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

	2013					
	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	**1,525,265**	**-**	**-**	**-**	**-**	**1,525,265**
Provision for credit loss	**2,258,669**	**-**	**-**	**-**	**-**	**2,258,669**

	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

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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.

Market Risk exposures in the trading book are restricted to derivatives classified as held for trading and investments held as FVIS as disclosed in these financial statements. Market Risk exposures in the non-trading or banking book arise on special commission rate risk and equity price risk as disclosed in part b) of this disclosure.

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 methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters 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 market 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 conditions.

To overcome the VAR limitations mentioned above, the Bank also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly 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***
2013	**SAR'000**	**SAR'000**	**SAR'000**
VAR as at 31 December 2013	**347**	**160**	**337**
Average VAR for 2013	**358**	**1,121**	**1,245**

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

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 non-trading financial assets and financial liabilities held as at 31 December 2013, 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 2013 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap.

2013

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**	**40,746**	**(78,480)**	**(36,886)**	**(24,654)**	**(50,196)**	**(190,216)**
USD	**+ 100**	**(11,640)**	**(30,342)**	**(29,102)**	**(101,425)**	**(36,513)**	**(197,382)**
EUR	**+ 100**	**1,307**	**-**	**-**	**-**	**-**	**-**
Others	**+ 100**	**144**	**-**	**-**	**-**	**-**	**-**

2013

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**	**(40,746)**	**78,480**	**36,886**	**24,654**	**50,196**	**190,216**
USD	**- 100**	**11,640**	**30,342**	**29,102**	**101,425**	**36,513**	**197,382**
EUR	**- 100**	**(1,307)**	**-**	**-**	**-**	**-**	**-**
Others	**- 100**	**(144)**	**-**	**-**	**-**	**-**	**-**

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

31. Market risk *(continued)*

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

i) Special commission rate risk *(continued)*

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)	-	-	-	-	-

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 re-price or mature in a given period. The Bank manages this risk by matching the re-pricing 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)*

	2013					
	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	**17,026,883**	**-**	**-**	**-**	**9,097,030**	**26,123,913**
Due from banks and other financial institutions	**3,286,053**	**-**	**-**	**-**	**-**	**3,286,053**
Investments, net	**11,105,271**	**19,068,815**	**5,493,214**	**698,205**	**1,034,054**	**37,399,559**
Loans and advances, net	**65,163,919**	**14,565,333**	**17,508,416**	**8,877,262**	**-**	**106,114,930**
Investment in associates	**-**	**-**	**-**	**-**	**647,057**	**647,057**
Property and equipment, net	**-**	**-**	**-**	**-**	**603,656**	**603,656**
Other assets	**-**	**-**	**-**	**-**	**3,127,032**	**3,127,032**
Total assets	**96,582,126**	**33,634,148**	**23,001,630**	**9,575,467**	**14,508,829**	**177,302,200**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**3,769,640**	**-**	**-**	**-**	**-**	**3,769,640**
Customer deposits	**41,985,669**	**18,390,324**	**626,167**	**-**	**77,959,310**	**138,961,470**
Debt securities in issue	**1,500,000**	**1,500,000**	**2,282,873**	**-**	**-**	**5,282,873**
Borrowings	**-**	**31,250**	**78,125**	**-**	**-**	**109,375**
Other liabilities	**-**	**-**	**-**	**-**	**6,346,043**	**6,346,043**
Shareholders' equity	**-**	**-**	**-**	**-**	**22,832,799**	**22,832,799**
Total liabilities and shareholders' equity	**47,255,309**	**19,921,574**	**2,987,165**	**-**	**107,138,152**	**177,302,200**
Commission rate sensitivity on assets and liabilities	**49,326,817**	**13,712,574**	**20,014,465**	**9,575,467**	**(92,629,323)**	
Commission rate sensitivity on derivative financial instruments	**(823,649)**	**(339,146)**	**1,404,365**	**(241,570)**	**-**	
Total special commission rate sensitivity gap	**48,503,168**	**13,373,428**	**21,418,830**	**9,333,897**	**(92,629,323)**	
Cumulative special commission rate sensitivity gap	**48,503,168**	**61,876,596**	**83,295,426**	**92,629,323**	**-**	

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

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	51,073,868	3,814,146	725,782	10,025	64,809,895	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	58,632,626	4,166,607	3,392,818	10,025	90,450,261	156,652,337
Commission rate sensitivity on assets and liabilities	15,343,477	34,030,637	25,165,530	2,194,657	(76,734,301)	
Commission rate sensitivity on derivative financial instruments	4,875,610	(4,567,806)	(12,074)	(295,730)	-	
Total special commission rate sensitivity gap	20,219,087	29,462,831	25,153,456	1,898,927	(76,734,301)	
Cumulative special commission rate sensitivity gap	20,219,087	49,681,918	74,835,374	76,734,301	-	

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:

	2013	2012
	Long (short)	*Long (short)*
	SAR'000	SAR'000
US Dollar	**(479,606)**	(279,733)
Euro	**(7,380)**	1,219
Sterling Pounds	**(12,154)**	(364)
Other	**(7,068)**	(77)

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 2013 would have correspondingly increase or decrease equity by SAR 102 million (2012: SAR 92 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.

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

32. Liquidity risk *(continued)*

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.

a) Analysis of financial liabilities by remaining contractual maturities:

	2013					
	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	**3,502,680**	**-**	**319,066**	**-**	**-**	**3,821,746**
Customer deposits	**131,198,920**	**6,444,945**	**1,443,177**	**152,420**	**-**	**139,239,462**
Debt securities in issue	**8,266**	**128,678**	**4,045,682**	**1,572,762**	**-**	**5,755,388**
Borrowings	**-**	**36,511**	**84,200**	**-**	**-**	**120,711**
Other liabilities	**-**	**-**	**-**	**-**	**6,093,166**	**6,093,166**
Derivatives:						
– Contractual amounts payable (receivable)	**5,250**	**(10,607)**	**(8,572)**	**(7,033)**	**-**	**(20,962)**
Total undiscounted financial liabilities	**134,715,116**	**6,599,527**	**5,883,553**	**1,718,149**	**6,093,166**	**155,009,511**

	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

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.

2013	***Within 3 months*** **SAR'000**	***3-12 months*** **SAR'000**	***1-5 years*** **SAR'000**	***Over 5 years*** **SAR'000**	***No fixed maturity*** **SAR'000**	***Total*** **SAR'000**
Assets						
Cash and balances with SAMA	**18,396,789**	**-**	**-**	**-**	**7,727,124**	**26,123,913**
Due from banks and other financial institutions	**3,286,053**	**-**	**-**	**-**	**-**	**3,286,053**
Investments, net	**8,336,840**	**17,674,340**	**7,059,263**	**3,296,070**	**1,033,046**	**37,399,559**
Loans and advances, net	**48,986,520**	**15,004,069**	**23,492,251**	**18,632,090**	**-**	**106,114,930**
Investment in associates	**-**	**-**	**-**	**-**	**647,057**	**647,057**
Property and equipment, net	**-**	**-**	**-**	**-**	**603,656**	**603,656**
Other assets	**-**	**-**	**-**	**-**	**3,127,032**	**3,127,032**
Total assets	**79,006,202**	**32,678,409**	**30,551,514**	**21,928,160**	**13,137,915**	**177,302,200**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**3,502,653**	**-**	**266,987**	**-**	**-**	**3,769,640**
Customer deposits	**130,990,943**	**6,407,013**	**1,433,767**	**129,747**	**-**	**138,961,470**
Debt securities in issue	**-**	**-**	**3,782,873**	**1,500,000**	**-**	**5,282,873**
Borrowings	**-**	**31,250**	**78,125**	**-**	**-**	**109,375**
Other liabilities	**-**	**-**	**-**	**-**	**6,346,043**	**6,346,043**
Shareholders' equity	**-**	**-**	**-**	**-**	**22,832,799**	**22,832,799**
Total liabilities and shareholders' equity	**134,493,596**	**6,438,263**	**5,561,752**	**1,629,747**	**29,178,842**	**177,302,200**

2012	*Within 3 months* SAR'000	*3-12 months* SAR'000	*1-5 years* SAR'000	*Over 5 years* SAR'000	*No fixed maturity* SAR'000	*Total* 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

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 2013) (continued)

33. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Consequently, differences can arise between the carrying values and fair value estimates.

The fair values of recognised financial instruments are not materially different from their carrying values, except for loans and advances and customer deposits.

It is not practicable to determine the fair value of loans and advances, customer deposits with sufficient reliability except as disclosed below.

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.

	2013			
	Level 1	***Level 2***	***Level 3***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Financial assets				
Derivative financial instruments	**-**	**951,314**	**-**	**951,314**
Financial assets held as FVIS	**1,007**	**-**	**-**	**1,007**
Financial investments available for sale	**8,626,815**	**28,383,707**	**79,648**	**37,090,170**
Investments held at amortised cost	**-**	**304,996**		**304,996**
Loans and advances - Fair value hedged	**-**	**568,083**	**-**	**568,083**
Total	**8,627,822**	**30,208,100**	**79,648**	**38,915,570**
Financial Liabilities				
Derivative financial instruments	**-**	**748,263**	**-**	**748,263**
Debt securities in issue - Fair value hedged	**2,282,873**	**-**	**-**	**2,282,873**
Total	**2,282,873**	**748,263**	**-**	**3,031,136**

	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
Investments held at amortised cost	-	972,794	-	972,794
Investment held to maturity	-	100,195	-	100,195
Loans and advances - Fair value hedged	-	973,635	-	973,635
Total	9,626,332	20,837,611	72,733	30,536,676
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

33. Fair values of financial instruments *(continued)*

Determination of fair value and fair value hierarchy *(continued)*

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate futures and options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads. The total fair value of investments reclassified from Level 1 to Level 2 was SAR 1,440.4 million (2012: nil) during the year. This reclassification was made due to the non-availability of active market quotes for the underlying investments during the year.

Available for sale investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net assets value (NAV) as at the balance sheet date. The movement in Level 3 financial instruments during the year relates to fair value adjustment only.

The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is positive SAR 70.7 million (2012: SAR 51.9 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:

	2013	2012
	SAR'000	SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**2,286,715**	3,991,636
Investments	**862,442**	914,264
Other assets	**2,812**	-
Derivatives (at fair value)	**(140,917)**	(407,273)
Due to banks and other financial institutions	**1,816,640**	3,574,821
Other liabilities	**-**	3,046
Commitments and contingencies	**2,472,937**	2,393,331

The above investments include investments in associates, amounting to SAR 647.1 million (2012: SAR 612.2 million).

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

	2013	2012
	SAR'000	SAR'000
Loans and advances	**2,575,341**	3,206,394
Customers' deposits	**8,847,055**	8,782,768
Derivatives (at fair value)	**11,301**	6,581
Commitments and contingencies	**39,729**	39,729

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

Notes to the Consolidated Financial Statements (31 December 2013) (continued)

34. Related party transactions *(continued)*

	2013	2012
	SAR'000	SAR'000
Bank's mutual funds:		
Loans and advances	**-**	532
Customers' deposits	**851,458**	782,871

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

	2013	2012
	SAR'000	SAR'000
Special commission income	**88,731**	106,110
Special commission expense	**(168,066)**	(240,194)
Fees and commission income	**61,597**	48,781
Services charges paid to HSBC group	**37,899**	44,992
Profit share arrangement relating to investment banking activities	**(2,906)**	(2,416)
Share in earnings of associates	**123,170**	111,230
Directors' remuneration	**2,993**	2,789

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

	2013	2012
	SAR'000	SAR'000
Short-term employee benefits (salaries and allowances)	41,053	39,126
Employment termination benefits	417	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 were three such schemes outstanding at 31 December 2013. The detail of these schemes have 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.

	2013	2012
	SAR'000	SAR'000
Risk-weighted Assets (RWA)		
Credit Risk RWA	**139,218,183**	126,036,229
Operational Risk RWA	**10,668,249**	10,004,373
Market Risk RWA	**1,600,088**	1,829,900
Total RWA	**151,486,520**	137,870,502
Tier I Capital	**22,832,799**	16,531,191
Tier II Capital	**3,402,426**	5,100,494
Total I & II Capital	**26,235,225**	21,631,685
Capital Adequacy Ratio %		
– **Tier I ratio**	**15.07%**	11.99%
– **Tier I + Tier II ratio**	**17.32%**	15.69%

The amounts and ratios disclosed above for the year ended 31 December 2013 have been calculated based on Basel III, whereas, comparative information has been calculated based on Basel II.

36. Capital adequacy – Basel III

Under Basel pillar 3, quantitative and qualitative disclosures of the Bank's exposures, risk-weighted assets and capitals 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. Basel III – Capital Structure

Certain disclosures on the Bank's capital structure are required to be published on Bank's website. These disclosures will be published on the Bank's website www.sabb.com as required by SAMA.

38. 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 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.

On 19 November 2013, the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). IFRS 9 (2013) which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novations. The standard does not have a mandatory effective date, but it is available for application now. A new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial statements. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of IFRS 9 at the same time. An accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 is available for of their hedging relationships. They may later change that policy and apply the hedge accounting requirements in IFRS 9 before they eventually become mandatory. This choice is intended to be removed when the IASB completes its project on accounting for macro hedging.

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 clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Bank.

***Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27)**
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank, since none of the entities in the Bank would qualify to be an investment entity under IFRS 10.

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

IFRIC Interpretation 21 *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.

IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

39. Comparative figures

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

40. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 5 Rabi Thani 1435H (corresponding 5 February 2014).

The Saudi British Bank
Basel - Pillar 3
Annual Disclosures
31 December 2013

Basel – Pillar 3 Annual Disclosures (31 December 2013)

Cautionary statement regarding forward-looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2013 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 2013.

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 has 100% (2012: 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). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2012: 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 a sole insurance agent for SABB Takaful Company (an associate company of SABB – see note 7 in the Annual accounts) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2012: 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 subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

Significant Minority Investments:
SABB owns 51% of the shares of HSBC Saudi Arabia Limited. However, SABB does not consolidate the entity as it does not have management control, nor the power to govern the financial and operating policies of the entity. HSBC Group has direct management and governance responsibility for all the relevant activities of HSBC Saudi Arabia Limited. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

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.

1. **Scope of Application** *(continued)*

b) **Basis of consolidation** *(continued)*

Equity Investments which are risk-weighted:
Equity investments are generally risk-weighted at 100%.

Under Basel III, significant minority investments in commercial entities and financial institutions below a defined Basel threshold which under Basel II were deducted 50% from Tier 1 and 50% from Tier 2 will receive the risk weight 1250% and 250% respectively.

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 III 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 authorised, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (2012: 1,000 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2013	2012
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 III.	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.
Economic Capital	Capital required by SABB businesses 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.

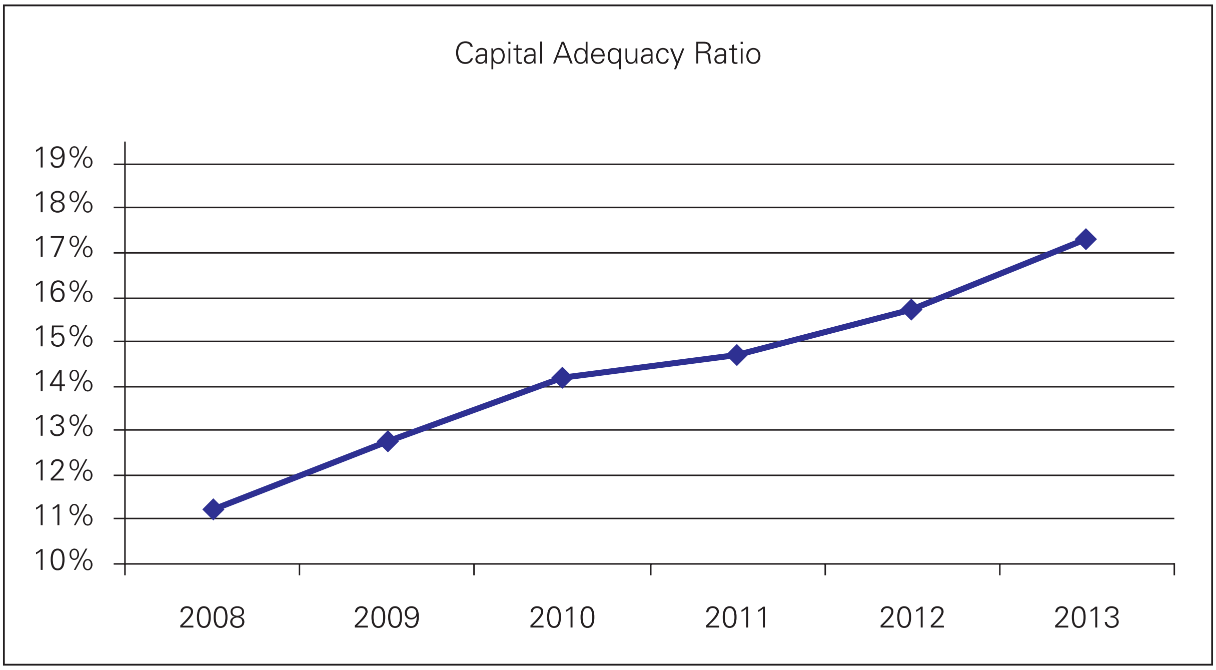
3. Capital Adequacy

SABB's approach in assessing adequacy of its capital to support current and future activities is envisaged 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:



2008 - 2012: Capital Adequacy Ratio's are on Basel II basis
2013: Capital Adequacy Ratio's are on Basel III 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 strong culture of prudent and responsible lending is a cornerstone of SABB's risk-management philosophy. This is attained through effective control and management of risk, seeking to minimise credit losses while enhancing risk-adjusted returns.

Credit manuals provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. These policy manuals are reviewed annually and approved by the Chief Risk Officer with material policy changes approved through the Risk Management Meeting (RMM).

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Credit Risk *(continued)*

Credit risk assessment forms part of the Risk management function which reports directly to the Managing Director through the CRO; hence ensuring that they have an appropriate degree of independence. The teams are responsible for credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.

The approval process is reviewed annually by Board Risk Committee (BRC) with limit delegations from the Board. Within SABB, emphasis is placed on the individual's responsibility for making credit decisions and as such there is a series of delegated approval limits agreed by Board.

A key element in the Bank's credit culture is the proactive management of the portfolio through:

- The regular review of facilities by lending and credit officers, at least annually
- The central monitoring of credit concentration in certain countries, specialised industries/sectors, products, customers and customer groups with monthly reports to the RMM, ALCO and quarterly to Board Risk Committee (BRC)
- The continual development of improved techniques for measuring and evaluating risk, and for optimising risk-adjusted return on capital
- The development and adoption of automated application processing and assessment systems, to enable consistency of decisions and an efficient framework for application processing
- A structured framework of credit training and accreditation to build risk awareness and credit assessment capabilities

Personal lending decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.

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

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 including the use of external and overseas recovery agencies.

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.

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.

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Operational Risk:
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, 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, unauthorised 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.

SABB continues to monitor liquidity risk based on projected cashflow scenarios referred to as the Operational Cashflow Projection (OCP). Its objective is to better reflect the likely behaviour of different customers and manage liquidity during crisis events or 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 and the 'International Framework for Liquidity Risk, Measurement, Standards and Monitoring' issued in December 2010 as part of the Basel III framework.

As a general policy, SABB seeks to be self-sufficient with regards to funding its own operations from 'core' deposits. 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 cashflow stress testing as part of its control processes to assess liquidity risk. The cashflow 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.

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 bank's 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 the 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.

SABB Board decided at the end of last year to adopt the highest International Standards in every aspect of our business in order to enhance our brand, protect our reputation and achieve competitive advantage. This decision is perfectly aligned with our values of complying with the law and regulations, treating customers fairly and protecting our information. The programme has been branded as the 'SABB International Standards' (SIS) and designed to complement SABB's core values.

A number of key components of our Reputational Risk Management are as follows:

- The oversight of reputational risk is undertaken by the BRC and integrated into the Risk Governance framework where it is reviewed at the Risk Management Meeting (RMM) and the Compliance Committee Meeting (CCM). The reputational risk heatmap is reviewed in the Compliance Risk Committee which reports issues into the Risk Management Meeting on a monthly basis
- The Risk Appetite Statements were enhanced to include reputational risk and performance measures and is reported to Risk Management Meeting
- Reputational Risk Standards Manual, approved by the Compliance Committee meeting (CCM) is a standard for each key area of operations where SABB is exposed to a Reputational Risk. Each standard provides information on policy and the management of the risk through effective reporting. Any lapses in these standards present a serious potential reputational risk
- Key issues with reputational risk implications are monitored by respective businesses and risk management teams and discussed at the appropriate committees

3. Capital Adequacy *(continued)*

Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Reputational Risk: *(continued)*

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 organisations, 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.

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 Islamic Financial Services (IFS) banking team who control Islamic product develop and monitor ongoing compliance with Shariah requirements.

Macro-economic and Business Cycle Risk:
Macroeconomic risk or business cycle risk is the non-diversifiable impact of the domestic and global economic cycles on SABB's businesses. Macro-economic risk can arise from changes in the regulatory environment, technological advances, or shocks to the economy such as deflation, recession or changes to government spending plans.

As an intrinsic part of the process, the RMM periodically monitors local key macro-economic indicators, such as:

- Price of oil per barrel in the world market
- Any significant reduction in public finances expenditure
- TASI Index
- 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 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
- 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 committees 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 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. These scorecards are reviewed periodically through the Risk governance process.

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 Basel 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. Standardised Approach and Supervisory Risk Weights in the IRB Approaches

For portfolios under the standardised approach, External Credit Assessment Institutions risk assessments are used by SABB as part of the determination of risk weightings:

- SABB has nominated three SAMA recognised 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 – Pillar 3 Annual Disclosures (31 December 2013) (continued)

5. Standardised 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% and 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 standardised 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 Board Risk Committee (BRC). 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 recognises 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

The operational risk governance framework is made up of a series of operational risk meetings and processes. An operational risk assessment process is undertaken periodically and at least annually by each line of business and support functions with the output challenged through the Operational Risk and Internal Control Committee (ORICC).

The operational risk taxonomy was expanded from the previous 4 major risk categories (people, process, systems, external) to a more granular 16 key Level 1 risk categories which include major areas that are currently a focus of regulatory/national bodies:

- People – Compliance – Business continuity – Tax
- Systems – Legal – Accounting – Shariah
- Operations – Internal fraud – Physical – Political
- Information – External fraud – Fiduciary – Project

A Bank-level Operational Risk dashboard is used by Senior Management to highlight the major risks and breaches; loss trends reports are circulated at BRC, as well as the RMM and ORIC Committees.

Systems established to record risks and losses by Basel II business lines, risk and loss event categories enable business units to manage their action plans and request for management information reports. Duties are segregated to ensure integrity of loss and risk data in the system. Data is captured and approved in the system by the business. The central Operational Risk department coordinates the recording process, reconciles to ensure only operational losses are captured and the data meets both SABB and regulatory guidelines in addition to ensuring the quality of the input data. Actual losses are further validated by the Finance Department.

12. Operational Risk *(continued)*

During 2013, the framework was impacted with a number of key changes:

- In response to the Rules on Credit Risk Management, a new Board Risk Committee (BRC) was formed under the chairmanship of a non-executive director. The credit review team was expanded to cater for the requirement to undertake an annual review of corporate credit approvals. The wider credit control framework was also reviewed to align with the new requirements relating to credit policy, credit operations, collateral management and credit governance processes
- The implementation of SAMA's Guidelines on Internal Control led to an independent Internal Control Review being conducted by PricewaterhouseCoopers (PWC)
- The Internal control operational risk framework was enhanced focusing on the "Three Lines of Defence", with an emphasis on the first line of defence with the deployment of 50 new Business Risk and Control Managers (BRCMs) within the business
- The establishment of the SABB International Standards has driven changes in Compliance, Information Risk, Transaction Monitoring, Customer Due Diligence and sales incentives and operating practices
- The ORION system was fully utilised by all businesses for recording their operational losses, with all major business/functions also adding their Risk and Control Assessment (RCA)

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 de-recognition, any cumulative gain or loss previously recognised 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 BRC. 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 and reviewed at the BRC.

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.

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	-
2. Saudi Travellers Cheque Company	-
3. SABB Takaful	-

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

2. Table – Capital Structure

Balance sheet – Step 1 (Table 2 (b))

Assets	*Balance sheet in Published financial statements (C)* SAR'000	*Adjustment of banking associates/ other entities (*) (D)* SAR'000	*Under regulatory scope of consolidation (E)* SAR'000
Cash and balances at central banks	26,123,913		26,123,913
Due from banks and other financial institutions	3,286,053		3,286,053
Investments, net	23,414,111		23,414,111
Loans and advances, net	106,114,930		106,114,930
Debt securities	12,951,394		12,951,394
Trading assets	1,007		1,007
Equity shares	1,033,047		1,033,047
Investment in associates	647,057		647,057
Derivatives	951,314		951,314
Goodwill	0		0
Other intangible assets	0		0
Property and equipment, net	603,656		603,656
Other assets	2,175,718		2,175,718
Total assets	**177,302,200**	**0**	**177,302,200**
Liabilities			
Due to banks and other financial institutions	3,769,640		3,769,640
Items in the course of collection due to other banks	0		0
Customer deposits	138,961,470		138,961,470
Trading liabilities	0		0
Debt securities in issue	5,282,873		5,282,873
Derivatives	748,263		748,263
Retirement benefit liabilities	333,372		333,372
Taxation liabilities	0		0
Accruals and deferred income	764,677		764,677
Borrowings	109,375		109,375
Other liabilities	4,499,731		4,499,731
Subtotal	**154,469,401**	**0**	**154,469,401**
Paid-up share capital	10,000,000		10,000,000
Statutory reserves	7,934,504		7,934,504
Other reserves	(10,738)		(10,738)
Retained earnings	3,809,033		3,809,033
Minority Interest	0		0
Proposed dividends	1,100,000		1,100,000
Total liabilities and equity	**177,302,200**	**0**	**177,302,200**

*For further details on column D please refer to step 1 on page 16 of the guidance notes.

Additional information:
List of entities (including disclosure of such entities balance sheet, balance sheet activity and principal activities).

2. Table – Capital Structure *(continued)*

Balance sheet – Step 2 (Table 2 (c))

	Balance sheet in Published financial statements (C)	*Adjustment of banking associates/ other entities (D)*	*Under regulatory scope of consolidation (E)*	*Reference*
Assets	**SAR'000**	**SAR'000**	**SAR'000**	
Cash and balances at central banks	26,123,913		26,123,913	
Due from banks and other financial institutions	3,286,053		3,286,053	
Investments, net	23,414,111		23,414,111	
Loans and advances, net	106,114,930		106,114,930	
of which Collective provisions	1,092,426		1,092,426	A
Debt securities	12,951,394		12,951,394	
Trading assets	1,007		1,007	
Equity shares	1,033,047		1,033,047	
Investment in associates	647,057		647,057	
Derivatives	951,314		951,314	
Goodwill	0		0	
Other intangible assets	0		0	
Property and equipment, net	603,656		603,656	
Other assets	2,175,718		2,175,718	
Total assets	**177,302,200**	**0**	**177,302,200**	
Liabilities				
Due to banks and other financial institutions	3,769,640		3,769,640	
Items in the course of collection due to other banks	0		0	
Customer deposits	138,961,470		138,961,470	
Trading liabilities	0		0	
Debt securities in issue	5,282,873		5,282,873	
of which Tier 2 capital instruments	3,000,000		3,000,000	B
Derivatives	748,263		748,263	
Retirement benefit liabilities	333,372		333,372	
Taxation liabilities	0		0	
Accruals and deferred income	764,677		764,677	
Borrowings	109,375		109,375	
Other liabilities	4,499,731		4,499,731	
Subtotal	**154,469,401**	**0**	**154,469,401**	
Paid-up share capital	10,000,000		10,000,000	
of which amount eligible for CET1	10,000,000		10,000,000	C
of which amount eligible for AT1	0		0	
Statutory reserves	7,934,504		7,934,504	D
Other reserves	(10,738)		(10,738)	E
Retained earnings	3,809,033		3,809,033	F
Minority Interest	0		0	
Proposed dividends	1,100,000		1,100,000	
Total liabilities and equity	**177,302,200**	**0**	**177,302,200**	

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

2. Table – Capital Structure *(continued)*

Common template (transition) – Step 3 (Table 2 (d)) I

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment

	Components[1] of regulatory capital reported by the Bank SAR'000	*Amounts[1] subject to Pre-Basel III treatment* SAR'000	*Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2*
Common Equity Tier 1 capital: Instruments and reserves			
1. Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	10,000,000		C
2. Retained earnings	4,909,033		F + G
3. Accumulated other comprehensive income (and other reserves)	7,923,766		D + E
4. Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
5. Common share capital isued by subsidiaries and held by third parties (amount allowed in group CET1)			
6. **Common Equity Tier 1 capital before regulatory adjustments**	**22,832,799**		
Common Equity Tier 1 capital: Regulatory adjustments			
7. Prudential valuation adjustments			
8. Goodwill (net of related tax liability)			
9. Other intangibles other than mortgage - servicing rights (net of related tax liability)			
10. Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
11. Cash-flow hedge reserve			
12. Shortfall of provisions to expected losses			
13. Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)			
14. Gains and losses due to changes in own credit risk on fair valued liabilities			
15. Defined-benefit pension fund net assets			
16. Investments in own shares (if not already netted off paid-in capital on reported balance sheet)			
17. Reciprocal cross-holdings in common equity			
18. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
19. Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)			
20. Mortgage servicing rights (amount above 10% threshold)			
21. Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
22. Amount exceeding the 15% threshold			
23. of which: significant investments in the common stock of financials			
24. of which: mortgage servicing rights			
25. of which: deferred tax assets arising from temporary differences			
26. National specific regulatory adjustments			
Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to Pre-Basel III treatment			
of which: [insert name of adjustment]			
of which: …			

2. **Table – Capital Structure** *(continued)*

Common template (transition) – Step 3 (Table 2 (d)) I *(continued)*
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment *(continued)*

	Components[1] of regulatory capital reported by the Bank	*Amounts[1] subject to Pre-Basel III treatment*	*Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2*
	SAR'000	**SAR'000**	
27. Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions			
28. **Total regulatory adjustments to Common equity Tier 1**			
29. **Common Equity Tier 1 capital (CET1)**	**22,832,799**		
Additional Tier 1 capital: instruments			
30. Directly issued qualifying Additional Tier 1 instruments plus related stock surplus			
31. of which: classified as equity under applicable accounting standards			
32. of which: classified as liabilities under applicable accounting standards			
33. Directly issued capital instruments subject to phase out from Additional Tier 1			
34. Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)			
35. of which: instruments issued by subsidiaries subject to phase out			
36. **Additional Tier 1 capital before regulatory adjustments**			
Additional Tier 1 capital: regulatory adjustments			
37. Investments in own Additional Tier 1 instruments			
38. Reciprocal cross-holdings in Additional Tier 1 instruments			
39. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40. Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		(326,367)	
41. National specific regulatory adjustments			
Regulatory adjustments applied to additional Tier 1 in respect of amounts subject to Pre-Basel III treatment			
of which: [insert name of adjustment]			
of which: …			
42. Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43. Total regulatory adjustments to Additional Tier 1 capital			
44. Additional Tier 1 capital (AT1)			
45. Tier 1 capital (T1 = CET1 + AT1)	22,832,799		

[1] For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements" issued by the BCBS in June 2012.

[2] All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches.

Note: Items which are not applicable are to be left blank.

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

2. Table – Capital Structure *(continued)*

Common template (transition) – Step 3 (Table 2 (d)) II
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment

	Components[1] of regulatory capital reported by the Bank SAR'000	*Amounts[1] subject to Pre-Basel III treatment* SAR'000	*Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2*
Tier 2 capital: instruments and provisions			
46. Directly issued qualifying Tier 2 instruments plus related stock surplus	1,500,000		B
47. Directly issued capital instruments subject to phase out from Tier 2	810,000		B
48. Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)			
49. of which: instruments issued by subsidiaries subject to phase out			
50. Provisions	1,092,426		A
51. **Tier 2 capital before regulatory adjustments**			
Tier 2 capital: regulatory adjustments	**3,402,426**		
52. Investments in own Tier 2 instruments			
53. Reciprocal cross-holdings in Tier 2 instruments			
54. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
55. Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		(326,367)	
56. National specific regulatory adjustments			
Regulatory adjustments applied to Tier 2 in respect of amounts subject to Pre-Basel III treatment			
of which: [insert name of adjustment]			
of which: …			
57. Total regulatory adjustments to Tier 2 capital			
58. Tier 2 capital (T2)	3,402,426		
59. Total capital (TC = T1 + T2)	26,235,225		
Risk weighted assets in repect of amounts subject to Pre-Basel III treatment			
of which: [insert name of adjustment]			
of which: …			
60. Total risk weighted assets	151,486,540		
Capital ratios			
61. Common Equity Tier 1 (as a percentage of risk-weighted assets)	15.07%		
62. Tier 1 (as a percentage of risk-weighted assets)	15.07%		
63. Total capital (as a percentage of risk-weighted assets)	17.32%		
64. Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk-weighted assets)			
65. of which: capital conservation buffer requirement			
66. of which: bank specific counter-cyclical buffer requirement			
67. of which: G-SIB buffer requirement			
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)			

2. Table – Capital Structure *(continued)*

Common template (transition) – Step 3 (Table 2 (d)) II *(continued)*
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment *(continued)*

	Components[1] of regulatory capital reported by the Bank	*Amounts[1] subject to Pre-Basel III treatment*	*Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2*
	SAR'000	**SAR'000**	
National minima (if different from Basel 3)			
69. National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	N/A		
70. National Tier 1 minimum ratio (if different from Basel 3 minimum)	N/A		
71. National total capital minimum ratio (if different from Basel 3 minimum)	N/A		
Amounts below the thresholds for deduction (before risk weighting)			
72. Non-significant investments in the capital of other financials			
73 Significant investments in the common stock of financials			
74 Mortgage servicing rights (net of related tax liability)			
75 Deferred tax assets arising from temporary differences (net of related tax liability)			
Applicable caps on the inclusion of provisions in Tier 2			
76. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,092,426		
77. Cap on inclusion of provisions in Tier 2 under standardised approach	1,794,764		
78. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79. Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80. Current cap on CET1 instruments subject to phase out arrangements			
81. Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82. Current cap on AT1 instruments subject to phase out arrangements			
83. Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84. Current cap on T2 instruments subject to phase out arrangements			
85. Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

[1] For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements" issued by the BCBS in June 2012.

[2] All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches.

Note: Items which are not applicable are to be left blank.

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

2. Table – Capital Structure *(continued)*

Main features template of regulatory capital instruments – (Table 2 (e))

1. Issuer	Saudi British Bank (SABB)
2. Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	ISIN No. SA131VK0GJ37
3. Governing law(s) of the instrument	The instrument is governed by the laws of the Kingdom of Saudi Arabia
Regulatory treatment	
4. Transitional Basel III rules	Tier 2
5. Post-transitional Basel III rules	Ineligible
6. Eligible at solo/lgroup/group&solo	Solo
7. Instrument type	Subordinated Sukuk
8. Amount recognied in regulatory capital (Currency in millions, as of most recent reporting date)	SAR 810m
9. Par value of instrument	SAR 1,500m
10. Accounting classification	Liability - amortised cost
11. Original date of issuance	28 March 2012
12. Perpetual or dated	Dated
13. Original maturity date	28 March 2017
14. Issuer call subject to prior supervisory approval	Yes
15. Option call date, contingent call dates and redemption amount	Call option only available for a regulatory or tax event. SABB will be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than (60) days' notice to the Sukukholders.
16. Subsequent call dates if applicable	As above
Coupons/dividends	
17. Fixed or Floating dividend/coupon	Floating
18. Coupon rate and any related index	3 month SIBOR + 120bps
19. Existence of a dividend stopper	No
20. Fully discretionary, partially discretionary or mandatory	Mandatory
21. Existence of step up or other incentive to redeem	No
22. Non-cumulative or cumulative	Non-cumulative
23. Convertible or non-convertible	Non-convertible
24. If convertible, conversion trigger (s)	N/A
25. If convertible, fully or partially	N/A
26. If convertible, conversion rate	N/A
27. If convertible, mandatory or optional conversion	N/A
28. If convertible, specify instrument type convertible into	N/A
29. If convertible, specify issuer of instrument it converts into	N/A
30. Write-down feature	No
31. If write-down, write-down trigger (s)	N/A
32. If write-down, full or partial	N/A
33. If write-down, permanent or temporary	N/A
34. If temporary write-down, description of the write-up mechansim	N/A
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated. Senior Bondholders are immediately senior to this instrument.
36. Non-compliant transitioned features	Yes
37. If yes, specify non-compliant features	No writedown or non-convertible feature

Note: Further explanation of rows (1-37) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements" issued by the BCBS in June 2012.

2. Table – Capital Structure *(continued)*

Main features template of regulatory capital instruments – (Table 2 (e))

1. Issuer	Saudi British Bank (SABB)
2. Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	ISIN No.SA13EFK0GJJ0
3. Governing law(s) of the instrument	The instrument is governed by the laws of the Kingdom of Saudi Arabia
Regulatory treatment	
4. Transitional Basel III rules	Tier 2
5. Post-transitional Basel III rules	Eligible
6. Eligible at solo/lgroup/group&solo	Solo
7. Instrument type	Subordinated Sukuk
8. Amount recognied in regulatory capital (Currency in millions, as of most recent reporting date)	SAR 1,500m
9. Par value of instrument	SAR 1,500m
10. Accounting classification	Liability - amortised cost
11. Original date of issuance	17 December 2013
12. Perpetual or dated	Dated
13. Original maturity date	17 December 2020
14. Issuer call subject to prior supervisory approval	Yes
15. Option call date, contingent call dates and redemption amount	Call option only available after 5 years or for a regulatory or tax event, 17th December 2018 as the date for redemption, SABB shall be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than sixty (60) days' notice to the Sukukholders
16. Subsequent call dates if applicable	As above
Coupons/dividends	
17. Fixed or Floating dividend/coupon	Floating
18. Coupon rate and any related index	6 months SIBOR + 140bps
19. Existence of a dividend stopper	No
20. Fully discretionary, partially discretionary or mandatory	Mandatory
21. Existence of step up or other incentive to redeem	No
22. Non-cumulative or cumulative	Non-cumulative
23. Convertible or non-convertible	Non-convertible
24. If convertible, conversion trigger (s)	N/A
25. If convertible, fully or partially	N/A
26. If convertible, conversion rate	N/A
27. If convertible, mandatory or optional conversion	N/A
28. If convertible, specify instrument type convertible into	N/A
29. If convertible, specify issuer of instrument it converts into	N/A
30. Write-down feature	Yes
31. If write-down, write-down trigger (s)	Terms of contract of the instrument provide the legal basis for SAMA to trigger write-down (a contractual approach)
32. If write-down, full or partial	Written down fully or partially
33. If write-down, permanent or temporary	Permanent
34. If temporary write-down, description of the write-up mechansim	
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated. Senior Bondholders are immediately senior to this instrument.
36. Non-compliant transitioned features	N/A
37. If yes, specify non-compliant features	N/A

Note: Further explanation of rows (1-37) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements" issued by the BCBS in June 2012.

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

3. Table – Capital Adequacy

Amount of exposures subject to standardised 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	49,695,031	-
– Others	2,278,842	12,801
Multilateral Development Banks (MDBs)	145,485	2,328
Public Sector Entities (PSEs)	-	-
Banks and securities firms	10,243,832	424,027
Corporates	86,819,385	6,237,635
Retail non-mortgages	15,148,505	914,259
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	9,250,693	742,028
– Commercial	-	-
Securitised assets	-	-
Equity	1,680,104	217,277
Others	2,236,366	75,878
Total	**177,498,243**	**8,626,233**

Capital requirements for market risk* (822, 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	85,943	-	42,064	-	**128,007**

**Capital requirements are to be disclosed only for the approaches used.*

Capital requirements for operational risk* (Table 3, (e))

Particulars	*Capital requirement* **SAR'000**
Standardised approach	853,460

**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	17.32	15.07

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	49,695,031	-
– Others	2,278,842	-
Multilateral Development Banks (MDBs)	272,394	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	18,815,701	-
Corporates	115,561,863	-
Retail non-mortgages	15,161,055	-
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	9,250,693	-
– Commercial	-	-
Securitised assets	-	-
Equity	1,680,104	-
Others	2,236,366	-
Total	**214,952,049**	**-**

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

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
Sovereigns and central banks:				
– SAMA and Saudi Government	49,695,031	-	-	-
– Others	-	1,923,291	296,322	-
Multilateral Development Banks (MDBs)	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-
Banks and securities firms	2,383,112	3,068,894	6,976,183	2,855,179
Corporates	111,972,592	2,628,828	240,398	117,148
Retail non-mortgages	15,161,055	-	-	-
– Small Business Facilities Enterprises (SBFE's)	-	-	-	-
Mortgages	-	-	-	-
– Residential	9,250,693	-	-	-
– Commercial	-	-	-	-
Securitised assets	-	-	-	-
Equity	1,680,104	-	-	-
Others	2,236,366	-	-	-
Total	**192,378,953**	**7,621,013**	**7,512,903**	**2,972,327**

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	49,695,031	-	-	-	-
– Others	2,278,842	-	-	-	-
Multilateral Development Banks (MDBs)	-	272,394	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-
Banks and securities firms	-	18,815,701	-	-	-
Corporates	-	11,658,049	1,112,366	22,226,225	653,318
Retail non-mortgages	-	-	-	-	-
– Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-
Mortgages	-	-	-	-	-
– Residential	-	-	-	-	-
– Commercial	-	-	-	-	-
Securitised assets	-	-	-	-	-
Equity	-	1,680,104	-	-	-
Others	-	-	-	-	-
Total	**51,973,873**	**32,426,248**	**1,112,366**	**22,226,225**	**653,318**

South East Asia	*Other countries*	*Total*
SAR’000	**SAR’000**	**SAR’000**
-	-	**49,695,031**
59,229	-	**2,278,842**
-	272,394	**272,394**
-	-	**-**
45,711	3,486,622	**18,815,701**
-	602,897	**115,561,863**
-	-	**15,161,055**
-	-	**-**
-	-	**-**
-	-	**9,250,693**
-	-	**-**
-	-	**-**
-	-	**1,680,104**
-	-	**2,236,366**
104,940	**4,361,913**	**214,952,049**

Electricity, water, gas and health services	*Building and construction*	*Commerce*	*Transporta-tion and communica-tion*	*Services*	*Consumer loans and credit cards*	*Others*	*Total*
SAR’000	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**
-	-	-	-	-	-	-	**49,695,031**
-	-	-	-	-	-	-	**2,278,842**
-	-	-	-	-	-	-	**272,394**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**18,815,701**
4,550,731	28,684,072	32,273,547	7,043,702	6,186,800	-	1,173,053	**115,561,863**
-	-	-	-	-	15,161,055	-	**15,161,055**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	9,250,693	-	**9,250,693**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**1,680,104**
-	-	-	-	-	-	2,236,366	**2,236,366**
4,550,731	**28,684,072**	**32,273,547**	**7,043,702**	**6,186,800**	**24,411,748**	**3,409,419**	**214,952,049**

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

4. Table (STA) – Credit Risk: General Disclosures *(continued)*

Residual contractual maturity breakdown (Table 4, (e))

	Maturity Breakdown	
	Less then 8 days	*8 - 30 days*
Portfolios	**SAR'000**	**SAR'000**
Sovereigns and central banks:		
– SAMA and Saudi Government	18,046,171	4,100,815
– Others	-	38,101
Multilateral Development Banks (MDBs)	126,858	116,288
Public Sector Entities (PSEs)	-	-
Banks and Securities Firms	4,743,270	418,932
Corporates	14,662,530	15,942,572
Retail non-mortgages	1,916,400	73,189
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	903	-
– Commercial	-	-
Securitised assets	-	-
Equity	-	-
Others	-	-
Total	**39,496,132**	**20,689,897**

Impaired loans, past due loans and allowances (Table 4, (f))

			Ageing of past due loans (days)
	Impaired loans	*Defaulted*	*Less than 90*
Industry sector	**SAR'000**	**SAR'000**	**SAR'000**
Government and quasi-government	-	-	-
Banks and other financial institutions	-	-	-
Agriculture and fishing	-	-	-
Manufacturing	110,580	110,580	45,019
Mining and quarrying	-	-	-
Electricity, water, gas and health services	-	32	80,119
Building and construction	405,295	405,295	24,364
Commerce	498,824	516,201	525
Transportation and communication	-	-	85,542
Services	28,079	28,079	6,758
Consumer loans and credit cards	47,809	175,503	1,179,092
Others	434,678	437,698	636,866
Total	**1,525,265**	**1,673,388**	**2,058,285**

			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**
2,988,150	6,585,110	7,956,091	1,092,729	-	1,195,843	7,730,122	**49,695,031**
-	240,793	873,281	342,243	534,519	249,905	-	**2,278,842**
-	29,198	50	-	-	-	-	**272,394**
-	-	-	-	-	-	-	**-**
1,261,960	6,046,538	1,462,684	1,795,062	2,567,677	519,578	-	**18,815,701**
25,780,487	11,878,263	10,935,140	13,638,971	9,369,313	13,354,587	-	**115,561,863**
214,299	126,103	202,987	3,472,013	9,073,826	82,238	-	**15,161,055**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
746	1,405	6,542	79,442	207,142	8,954,513	-	**9,250,693**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	1,680,104	**1,680,104**
-	-	-	-	-	-	2,236,366	**2,236,366**
30,245,642	**24,907,410**	**21,436,775**	**20,420,460**	**21,752,477**	**24,356,664**	**11,646,592**	**214,952,049**

Ageing of past due loans (days)			Specific allowances				
90 - 180	*180 - 360*	*Over 360*	*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**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	4,781
-	-	-	65,404	49,346	(107,272)	7,478	192,722
-	-	-	-	-	-	-	23,525
32	-	-	-	-	-	-	19,104
-	-	-	104,588	(3,268)	-	101,320	244,002
17,377	-	-	280,607	456,101	(281,342)	455,366	258,918
-	-	-	-	-	-	-	9,217
-	-	-	22,737	169	(27)	22,879	320,419
127,694	-	-	308,988	302,209	(320,077)	291,120	-
3,020	-	-	331,132	(9,371)	(33,681)	288,080	19,738
148,123	**-**	**-**	**1,113,456**	**795,186**	**(742,399)**	**1,166,243**	**1,092,426**

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

4. Table (STA) – Credit Risk: General Disclosures *(continued)*

Impaired loans, past due loans and allowances (Table 4, (g))

		Ageing of past due loans (days)			
	Impaired loans	*Less than 90*	*90 - 180*	*180 - 360*	*Over 360*
Geographic area	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Saudi Arabia	1,525,265	2,058,285	148,123	-	-
Other GCC and Middle East	-	-	-	-	-
Europe	-	-	-	-	-
North America	-	-	-	-	-
South East Asia	-	-	-	-	-
Others countries	-	-	-	-	-
Total	**1,525,265**	**2,058,285**	**148,123**	**-**	**-**

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	1,113,456	1,299,928
Charge-offs taken against the allowances during the period	(742,399)	-
Amounts set aside (or reversed) during the period	795,186	(207,502)
Other adjustments:	-	-
– exchange rate differences	-	-
– business combinations	-	-
– acquisitions and disposals of subsidiaries	-	-
– etc.	-	-
Transfers between allowances	-	-
Balance, end of the year	**1,166,243**	**1,092,426**

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	49,695,031	-	-
– Others	1,923,291	59,229	-
Multilateral Development Banks (MDBs)	-	272,394	-
Public Sector Entities (PSEs)	-	-	-
Banks and securities firms	-	3,975,448	-
Corporates	-	4,343,223	-
Retail non-mortgages	-	-	-
– Small Business Facilities Enterprises (SBFE's)	-	-	-
Mortgages	-	-	-
– Residential	-	-	-
– Commercial	-	-	-
Securitised assets	-	-	-
Equity	-	-	-
Others	1,009,023	348,592	-
Total	**52,627,345**	**8,998,886**	**-**

Specific allowances	General allowances
SAR'000	SAR'000
1,166,243	1,092,426
-	-
-	-
-	-
-	-
-	-
1,166,243	**1,092,426**

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**
-	-	-	-	-	-	**49,695,031**	-
296,322	-	-	-	-	-	**2,278,842**	-
-	-	-	-	-	-	**272,394**	-
-	-	-	-	-	-	**-**	-
13,707,693	-	1,861,971	-	-	-	**19,545,112**	-
2,496,535	-	101,666,622	431,740	-	-	**108,938,120**	-
-	15,052,873	-	96,151	-	-	**15,149,024**	-
-	-	-	-	-	-	**-**	-
-	-	-	-	-	-	**-**	-
-	-	9,250,693	-	-	-	**9,250,693**	-
-	-	-	-	-	-	**-**	-
-	-	-	-	-	-	**-**	-
-	-	1,027,371	-	652,733	-	**1,680,104**	-
-	-	878,751	-	-	-	**2,236,366**	-
16,500,550	**15,052,873**	**114,685,408**	**527,891**	**652,733**	**-**	**209,045,686**	**-**

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

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	5,939	-
Corporates	5,888,393	735,350
Retail non-mortgages	12,031	-
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	-	-
– Commercial	-	-
Securitised assets	-	-
Equity	-	-
Others	-	-
Total	**5,906,363**	**735,350**

8. Table (STA) – General Disclosures for Exposures Related to Counterparty Credit Risk (CCR)

General disclosures (Table 8, (b) and (d))

	Amount
Particulars	**SAR'000**
Gross positive fair value of contracts	1,093,697
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)	2,444,705
Notional value of credit derivative hedges	-
Current credit exposure (by type of credit exposure):	
– Interest rate contracts	950,905
– FX contracts	1,326,007
– Equity contracts	167,793
– 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) – General Disclosures for Exposures Related to Counterparty Credit Risk (CCR) *(continued)*

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 STA Approach

Outstanding exposures securitised by the Bank as an originator or purchaser (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 securitised 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		

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

Outstanding exposures securitised by the bank as an originator or purchaser (Table 9, (h))

Exposures Type	*Impaired/ past due assets securitised* SAR'000	*Losses recognised by the Bank during the current period* SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	N I L	
Small business loans		
Equipment leases		
Others		

Outstanding exposures securitised by the Bank as a sponsor (Table 9, (h))

Exposures Type	*Impaired/ past due assets securitised* SAR'000	*Losses recognised by the Bank during the current period* 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.

Outstanding exposures securitised by the Bank (Table 9, (i))

Exposures Type	*Securitisation exposures retained or purchased* 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 STA Approach *(continued)*

Summary of current year's securitisation activity of the Bank as an originator or purchaser (Table 9, (j))

Exposures Type	*Amount of exposures securitised* **SAR'000**	*Recognised gain or loss on sale* **SAR'000**
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	**N I L**	
Small business loans		
Equipment leases		
Others		

Summary of current year's securitisation activity of the Bank as a sponsor (Table 9, (j))

Exposures Type	*Amount of exposures securitised* **SAR'000**	*Recognised gain or loss on sale* **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.

Securitised exposures (Table 9, (k))

Exposures 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.

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

9. Table (STA) – Securitisation: Disclosures for STA 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%	**NIL**		**NIL**	
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 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		**NIL**	
Small business loans			
Equipment leases			
Others			

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Securitisations subject to early amortisation 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		**NIL**	
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 STA 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	**N I L**	
Corporate bonds		
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 securitised 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 securitised 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.

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

Outstanding exposures securitised by the Bank (Table 9, (p))

Exposure type	*Securitisation exposures retained or purchased* SAR'000
Credit cards	
Home equity loans	
Commercial loans	
Automobile loans	NIL
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 securitisation activity of the Bank as an originator or purchaser (Table 9, (q))

Exposure type	*Amount of exposures securitised* SAR'000	*Recognised gain or loss on sale* SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	NIL	
Small business loans		
Equipment leases		
Others		

Summary of current year's securitisation activity of the Bank as a sponsor (Table 9, (q))

Exposure type	*Amount of exposures securitised* SAR'000	*Recognised gain or loss on sale* SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans	NIL	
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 STA Approach** *(continued)*

Securitisation exposure retained subject to market risk approach where Bank is an originator or purchaser (Table 9, (r))

	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		

Securitisation exposure retained subject to market risk approach where Bank is a sponsor (Table 9, (r))

	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.

Securitised exposures (Table 9, (s))

	On balance sheet aggregate exposure retained or purchased	*Off balance sheet aggregate exposure*
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 STA Approach *(continued)*

Securitisation exposures retained or purchased (Table 9, (t))

Securitisation exposure	*Subject to comprehensive risk measure for specific risk* **SAR'000**
Loans	
Commitments	
Asset-backed securities	
Mortgage-backed securities	**N I L**
Corporate bonds	
Equity securities	
Private equity investments	
Others	

Exposures by risk-weight bands (Table 9, (t))

Risk-weight bands	*Securitisation 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 STA 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		N I L	
Corporate bonds			
Equity securities			
Private equity investments			
Others			

Capital requirement risk-weight bands (Table 9, (u))

	Capital charges	
	Securitisation	*Re-Securitisation*
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.

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

9. Table (STA) – Securitisation: Disclosures for STA Approach *(continued)*

Securitisations subject to early amortisation 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*
Type of underlying assets	**SAR'000**	**SAR'000**	**SAR'000**
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans		**NIL**	
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	**NIL**	
Corporate bonds		
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	**NIL**
Grade 5	
Grade 6	
Grade 7	

10. Table (STA) – Market Risk: Disclosures for Banks using the Standardised 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	85,943	-	42,064	-	**128,007**

13. Table (STA) – 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	614,363	614,363	1,065,741	1,326,211	-

Type and nature of investments (Table 13, (c))

	Publicly traded	*Privately held*
Investment	**SAR'000**	**SAR'000**
Government and quasi-government	-	-
Banks and other financial institutions	1,065,741	526,302
Agriculture and fishing	-	-
Manufacturing	-	-
Mining and quarrying	-	-
Electricity, water, gas and health services	-	-
Building and construction	-	-
Commerce	-	-
Transportation and communication	-	-
Services	-	8,413
Others	-	79,648
Total	**1,065,741**	**614,363**

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)	(73,240)
Total latent revaluation gains (losses)*	N/A
Unrealised gains (losses) included in capital	(73,240)
Latent revaluation gains (losses) included in Capital*	N/A

**Not applicable to KSA to Date.*

Basel – Pillar 3 Annual Disclosures (31 December 2013) (continued)

13. Table (STA) – 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	127,363
Agriculture and fishing	-
Manufacturing	-
Mining and quarrying	-
Electricity, water, gas and health services	-
Building and construction	-
Commerce	-
Transportation and communication	-
Services	673
Others	6,372
Total	**134,408**

Equity investments subject to supervisory transition or grandfathering provisions (Table 13, (f))

Equity grouping	*Aggregate amount* SAR'000
Government and quasi-government	
Banks and other financial institutions	
Agriculture and fishing	
Manufacturing	
Mining and quarrying	
Electricity, water, gas and health services	**N I L**
Building and construction	
Commerce	
Transportation and communication	
Services	
Others	
Total	

14. Table (STA) – 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	(1,050,224)
USD	(349,595)
Downward rate shocks:	
SAR	1,050,224
USD	349,595

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