

2009

The Saudi British Bank

Annual Report and Accounts

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

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Custodian of The Two Holy Mosques
King Abdullah Bin Abdulaziz Al Saud



His Royal Highness
Prince Sultan Bin Abdulaziz Al Saud
The Crown Prince, Deputy Premier,
Minister of Defence and Aviation and Inspector General



His Royal Highness
Prince Nayef Bin Abdulaziz Al Saud,
Second Deputy Prime Minister,
Minister of Interior

Board of Directors



Chairman
Khaled Suliman Olayan



**Fouad Abdulwahab
Bahrawi**



**Sulaiman Abdulkader
Al Muhaidib**



Richard W L Groves



Mohammed Omran Al Omran



Simon Cooper



**Khalid Abdullah
Al Molhem**



David Dew



Ahmed Sulaiman Banaja



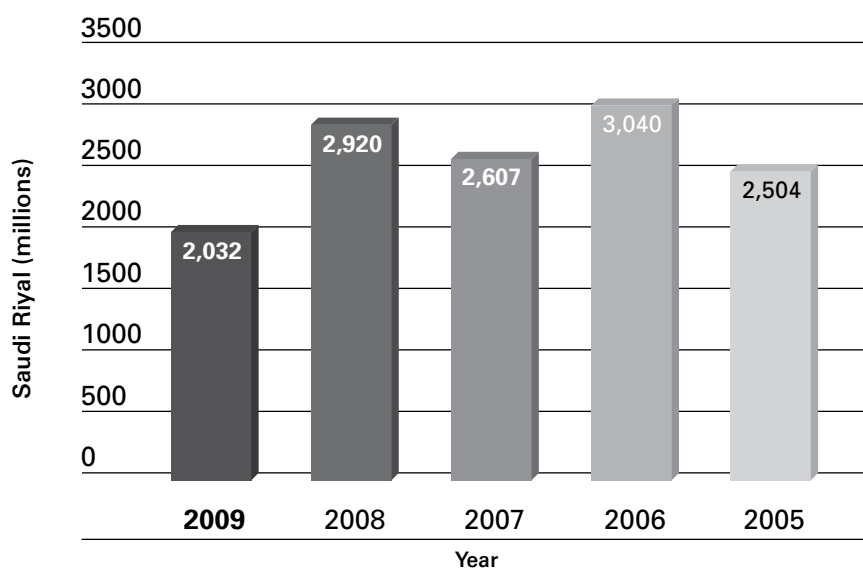
Robin Douglas Jones

Financial Highlights

Five-year financial highlights

Saudi Riyal (millions)	Year				
	2009	2008	2007	2006	2005
Customer Deposits	89,187	92,678	71,848	59,258	48,534
Shareholders' Equity	13,045	11,634	10,425	9,405	7,493
Investments, Net	23,818	29,604	14,859	21,702	16,373
Loans and Advances, Net	76,382	80,237	62,001	42,450	40,847
Total Assets	126,838	131,661	98,213	77,189	65,928
Net Income	2,032	2,920	2,607	3,040	2,504
Gross Dividend	660	660	1,500	1,500	813

Net income



Chairman's Statement

On behalf of the Board of Directors I am pleased to present the Annual Report of SABB for the financial year ending 31 December 2009.

2009 has been a difficult and challenging global economic and business environment, including for the financial sector in Saudi Arabia. Despite the Saudi government implementing the largest budget in its history during the year, overall growth was limited to lower rates yet higher than had been anticipated. In this environment, the Saudi private sector was very subdued recovering from the effects of the previous year's global financial crisis; this included shelving many projects that had earlier been mooted for implementation, whilst SABB pursued a conservative approach to the prevailing environment, containing lending whilst seeking to strengthen its balance sheet.

Net profits for the year amounted to SAR 2,032 million (USD 542 million), with a Return on Average Equity (RoAE) of 15.83%. The Bank has continued its efforts to strengthen its core businesses, introduce new products and invest in technology to improve services.

The gross dividend for the year is SAR 660 million (2008: SAR 660 million) and was paid as an interim dividend to shareholders on 27 July 2009. In order to further strengthen the capital position of the Bank, no final dividend has been recommended.

Despite operating in a constrained environment, SABB maintained its programme of branch and ATM network expansion to the benefit of customers across Saudi Arabia. Seven new branches were opened in 2009, bringing the Bank's branch total to 88 Kingdom-wide, of which 16 are solely for ladies; four more branches were under construction as the year came to an end. In addition, and for higher net worth customers, four new Premier Centres were opened during the year.

HSBC Saudi Arabia Limited, has maintained its leading role in the Kingdom during the year despite the growing level of competition. SABB Takaful, the publicly quoted Shariah-compliant insurance subsidiary, raised its capital to SAR 340 million during the year through what proved to be a most successful rights issue. This increase in capital enables the company to compete more effectively in what has become a highly competitive market and has helped ensure SABB Takaful a major role in the sector in terms of gross contribution written.

SABB Securities, a majority-owned subsidiary offering brokerage and securities services, was at the forefront of market developments in 2009 being among the first to offer Sukuk and bond trading through Tadawul (the Saudi stock market) whilst being placed fourth among 36 active competitors in terms of market turnover in equity brokerage.

Corporate and Commercial Banking continued to grow its business and a number of landmark deals were struck during the year, ensuring maintenance of its leadership position in this most competitive sector.

Personal Banking enjoyed a successful year, especially under the Shariah-compliant Amanah brand, but also through its SABB Premier activities, where the Bank succeeded in increasing the customer base by 28%, and in its card business where SABB continues to be the largest issuer in the Kingdom. Meanwhile, Private Banking maintained its leadership role in terms of both market share and the quality of investment solutions provided.

A clear reflection of SABB's profile in the Kingdom is the number of honours received from international organisations and publications during the year. These have included awards such as "Saudi Arabia's Strongest Bank" and "Bank of the Year in Saudi Arabia" amongst many other accolades for the Bank's activities.

This year's activities at SABB have ensured the Bank can look to the future with confidence, especially in the light of the strengthened balance sheet in preparation for what is anticipated to be a more active year for the Kingdom's private sector in 2010. Although questions remain about global economic recovery, the Saudi government has elected to drive forward the domestic economy in the coming year with a budget contemplating expenditure 14% higher than in the just concluded year, giving cause for confidence in the local economy over the year.

This leaves me, on behalf of the Board of Directors, with the pleasant task of expressing my thanks to all shareholders for their continued loyalty; my deep appreciation to all members of the Bank's staff, whose wholehearted effort ensures continued success; and my sincere gratitude to all our customers for their ongoing confidence and support. I express also my immense gratitude to the Saudi government, especially to the Ministries of Finance and Commerce & Industry and the Saudi Arabian Monetary Agency, as well as to the Capital Market Authority, for their continued guidance and help to the Saudi Arabian banking and financial community. On behalf of SABB, a leading member of that community, I reiterate our commitment to the growth and development of Saudi Arabia under the leadership of the Custodian of the Two Holy Mosques, the Crown Prince, and HH the Second Deputy Prime Minister.

A handwritten signature in black ink, consisting of a large, sweeping initial 'K' followed by a series of connected, wavy lines that form the rest of the name.

Khaled Suliman Olayan

Directors' Report

The Board of Directors is pleased to submit to shareholders the Annual Report of SABB for the financial year ending 31 December 2009.

Introduction

The Saudi British Bank (the 'Bank') is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978), and is an associate of the HSBC Group. The objectives of the Bank are to provide a range of banking services to both retail and corporate sectors. The Bank also provides non-interest bearing products, which are approved and supervised by an independent Shariah Board established by the Bank.

The Bank has 100% (2008: 100%) ownership interest in a subsidiary, SABB Securities Limited, a Limited Liability Company formed in accordance with the 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 Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The activities of the subsidiary are to engage in the business of custody and dealing as an agent excluding underwriting.

The Bank has 100% (2008: 100%) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activity is to act as a sole insurance agent for SABB Takaful Company within 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 for any other insurance company in the Kingdom of Saudi Arabia.

The Bank has 51% (2008: 51%) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

The Bank has no subsidiaries outside the Kingdom of Saudi Arabia.

Five-year financial highlights

Saudi Riyal (millions)	Year				
	2009	2008	2007	2006	2005
Customer Deposits	89,187	92,678	71,848	59,258	48,534
Shareholders' Equity	13,045	11,634	10,425	9,405	7,493
Investments, Net	23,818	29,604	14,859	21,702	16,373
Loans and Advances, Net	76,382	80,237	62,001	42,450	40,847
Total Assets	126,838	131,661	98,213	77,189	65,928
Net Income	2,032	2,920	2,607	3,040	2,504
Gross Dividend	660	660	1,500	1,500	813

Geographical Analysis of Income:

The Bank generates the majority of its operating income from its activities in the Kingdom of Saudi Arabia.

Year	Saudi Riyal millions		
	Central Province	Western Province	Eastern Province
2009	3,000	1,105	1,055

Five-year financial highlights *(continued)***Main Business Segments:**

The Bank is organised into the following main business segments:

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 statement of financial position.

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2009, its total operating income and expenses, and the results for the year then ended, by business segments, are as follows:

2009	Retail Banking	Corporate Banking	Treasury	Others	Total
SAR'000					
Total operating income	1,896,342	2,221,338	821,103	221,496	5,160,279
Total operating expenses	1,572,177	1,415,350	61,675	124,848	3,174,050
Share in earnings of associates, net	-	-	-	46,048	46,048
Net income	324,165	805,988	759,428	142,696	2,032,277

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

HSBC Saudi Arabia Limited

SABB holds a 40% equity share of the capital which is SAR 50 million. The company provides investment banking financing in the Kingdom of Saudi Arabia, in addition to investment financing services, Initial Public Offerings, mergers & acquisitions and Private Placements.

SABB Takaful

A Saudi joint-stock company listed in the Tadawul (Saudi Arabia's stock market) index. The Bank owns 32.5% of the company's capital, which consists of 34 million shares of SAR 10 each. The company offers Shariah-compliant insurance services, and offers family and general Takaful products.

Profits

The Bank's profit declined in the year 2009 to SAR 2,032 million, down SAR 888 million or 30.4 percent compared with SAR 2,920 million for the same period in 2008, due to the increase in the provision for credit losses by SAR 1,125 million compared with same period in 2008. Earnings per share amounted SAR 2.71 compared with SAR 3.89 per share in 2008.

Total assets during 2009 decreased to SAR 126,838 million down SAR 4,823 million or 3.7 percent compared with SAR 131,661 million for the same period in 2008. Customer deposits decreased to SAR 89,187 million or 3.8 percent compared with SAR 92,678 million for the same period in 2008. Loans and advances to customers decreased by 4.8% or SAR 3,855 million to SAR 76,382 million from SAR 80,237 million for the same period last year.

Directors' Report (continued)**Profits** (continued)**Cash Dividends and bonus share issue**

The annual net income of the Bank is distributed as follows:

1. The Bank deducts 25% of the net income for transfer to statutory reserves, until this reserve is equal to the paid up share capital of the Bank.
2. The Board of Directors can recommend to the Ordinary General Meeting for approval a dividend which is distributed to shareholders in proportion to the number of shares.
3. Undistributed net income is carried forward as retained earnings or transferred to statutory reserves.

	SAR '000
Net Income 2009	2,032,277
Retained earnings from the previous year	1,330,542
Total	3,362,819
Distributed as follows:	
Transferred to statutory reserves	508,070
Bonus Share issue	1,500,000
Zakat and income tax	214,259
Dividends distribution	445,741
Retained earnings for 2009	694,749

The Bank has distributed total interim dividends of SAR 660 million for the first half of the year representing SAR 0.83 per share, after deduction of Zakat, which were paid to shareholders on 05.08.1430H (27.07.2009). The Bank has also issued one bonus share for each four shares held as approved by the Extraordinary General Meeting held on 10 March 2009.

Statutory Payments

The statutory payments for the year were as follows:

	SAR '000
Shareholders for the year 2009	39,900
Income tax attributable to the share of the non-Saudi shareholders	174,359
GOSI payments	73,803
Other payments	1,077

Punishments, Penalties and Regulatory Restrictions

The Bank practices its business in line with regulatory requirements and has not been subjected to any punishment and penalties of importance or significant effect.

Notification relating to substantial shareholdings

During the year, the Bank received notifications from majority shareholders and relevant persons with regard to the change in the ownership of the Bank's capital shares, in accordance with article (30) of Listing Rules, issued by the Capital Market Authority. Below is a breakdown of percentage of shares ownership; in addition to SABB's directors, senior executive management, spouses and minor children:

Profits (continued)

Foreign Partner

Name	* Beginning of the year 01/01/2009		Variation during the year		At the end of the year 2009	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
HSBC Holding BV	300,000,000	40%	-	0%	300,000,000	40%

Board of Directors, Their Spouses and Minor Children

Name	* Beginning of the year 01/01/2009		Variation during the year		At the end of the year 2009	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Fouad Abdulwahab Mohammed						
Ali Bahrawi	151,250	0.0202%	-	0.0000%	151,250	0.0202%
Khalid Abdullah Abdulaziz						
Al Molhem	26,560	0.0035%	-	0.0000%	26,560	0.0035%
Sulaiman Abdulkader						
Abdulmohsen Al Muhaidib	3,750	0.0005%	-	0.0000%	3,750	0.0005%
Amrah Salih Sulaiman Al Medihem	58,120	0.0077%	-	0.0000%	58,120	0.0077%
Ahmed Sulaiman Abdulkader Banaja	23,805	0.0032%	10,000	0.0013%	33,805	0.0045%
Amal Ibrahim Mohammed Al Sultan	-	0.000%	14,000	0.0019%	14,000	0.0019%
Khaled Suliman Salih Olayan	3,750	0.0005%	-	0.0000%	3,750	0.0005%
Mohammed Omran Al Omran	30,270	0.0040%	-	0.0000%	30,270	0.0040%
Najla Abdulrahman Mohammed						
Al Omran	6,875,000	0.9167%	-	0.0000%	6,875,000	0.9167%

Bank's Senior Executives, Their Spouses and Minor Children

Name	* Beginning of the year 01/01/2009		Variation during the year		At the end of the year 2009	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Ibrahim Saad Ibrahim Abomouti	-	0.0000%	2,555	0.0003%	2,555	0.0003%
Salih Ibrahim Mohammed Al Motawa	2,143	0.0003%	-	0.0000%	2,143	0.0003%
Hamad Saud Hamad Al Omer	16,900	0.0023%	-	0.0000%	16,900	0.0023%
Abdulaziz Abdulrahman Salih Al Helaisi	4,312	0.0006%	2,188	0.0003%	6,500	0.0009%
Saeed Ali Ahmad Al Mahoudi	-	0.0000%	8,000	0.0011%	8,000	0.0011%
Mansour Abdulaziz Rashid Al Bosaily	22,907	0.0031%	-18,713	-0.0025%	4,194	0.0006%
Mohammed Abdullah Hamad Al Yahya	10,000	0.0013%	-10,000	-0.0013%	-	0.0000%
Nabeel Ali Hassan Shoaib	49,300	0.0066%	3,833	0.0005%	53,133	0.0071%
Majda Malik Abdulhameed Tahir	7,380	0.0010%	-	0.0000%	7,380	0.0010%

*The number of shares calculated on the basis of bonus shares resulted from capital increase from 600,000,000 to 750,000,000 shares at one share for every four shares approved by the Extraordinary General Meeting held on 10/3/2009.

Directors' Report (continued)**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 2007 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:

	2009
	SAR'000
The HSBC Group	
Due from banks and other financial institutions	1,604,704
Investments	674,459
Derivatives (at fair value)	(117,733)
Due to banks and other financial institutions	2,754,995
Commitments and contingencies	1,330,634
	2009
	SAR'000
Directors, audit committee, other major shareholders and their affiliates	
Loans and advances	3,065,140
Customers' deposits	8,196,270
Derivatives (at fair value)	7,045
Commitments and contingencies	195,482

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

	2009
	SAR'000
Bank's mutual funds	
Loans and advances	1,437
Customers' deposits	926,396

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

	2009
	SAR'000
Special commission income	48,036
Special commission expense	(111,693)
Fees and commission income	55,836
Profit share arrangement relating to investment banking activities	(12,225)
Share in earnings of associates	46,048
Directors' remuneration	2,647

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

	2009
	SAR'000
Short-term employee benefits (salaries and allowances)	48,222

Senior management staff 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 compensation scheme arrangements to certain senior management and employees. There were two such schemes outstanding at 31 December 2009.

Borrowings and debt securities in issue

	2009
	SAR'000
USD 600 million 5 year floating rate notes	2,249,867
EUR 325 million 5 year floating rate notes	1,754,620
SAR 1.705 million 5 year floating rate notes	1,705,000
Total	5,709,487

USD 600 million 5 year floating rate notes

These notes were issued during March 2005 under the Bank's Euro Medium Term Note programme and mature on 8 March 2010. The notes carry effective special commission at three months' LIBOR plus 40.76 bps payable quarterly. The notes are non-convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

The special commission rate exposure on these notes has been partially hedged by a floating to fixed special commission rate swap of USD 50 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in the consolidated financial statements.

EUR 325 million 5 year floating rate notes

These notes were issued during 2006 under the Bank's Euro Medium Term Note programme and mature on 13 April 2011. The notes carry effective special commission at three months' EURIBOR plus 34.68 bps which is payable on a quarterly basis. The notes are non-convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

The Bank has converted the foreign currency exposure on these notes into US Dollars by means of a cross currency swap. This swap does not form part of a designated hedging relationship and is therefore carried as a derivative in the trading book.

SAR 1,705 million 5 year floating rate notes

These notes were issued during 2008 and are due to mature on 21 July 2013. The notes carry special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are unsecured, non-convertible and are listed on Tadawul.

Borrowing

This item represents a loan amounting to SAR 187.5 million with a 12 year floating rate. The loan carries special commission rate of LIBOR plus 65 bps. This was taken on 7 July 2005 and is repayable by 15 June 2017. An amount of SAR 10.3 million has been paid as commissions during the year.

Directors' Report (continued)

Director's Remuneration

Directors' fees during 2009 amounted to SAR 2,646,500 including SAR 339,500 in attendance fees at Board of Directors, Executive Committee and Audit Committee meetings as well as the Nomination and Remuneration Committee.

Remuneration of Directors in their capacity as employees of the Bank during the year amounted to SAR 3,084,317.

	<i>Executive Board Members</i>	<i>Non-Executive/ Independent Board Members</i>	<i>Detailed remuneration elements for the top seven Executives who have received the highest compensation from the Company</i>
2009			
SAR'000			
Salaries and Remuneration	2,509	2,075	7,129
Allowances	467	-	2,315
Annual and periodic bonuses*	1,962	-	8,842
Incentive schemes**	1,995	-	8,511
Any remuneration or other benefits in kind paid monthly or annually	814	-	1,454

Note: values calculated on cost to Bank during 2009-excluding bonuses and shares where it is based on value delivered to employees within 2009.

* Bonuses received in 2009.

** Current board members.

Staff Benefits and Schemes

According to the Labour Law of The Kingdom of Saudi Arabia and to the Bank's internal policies, staff benefits are due for payment during or at the end of an employee's period of service. The end of service benefit outstanding at the end of December 2009 amounted to SAR 274.4 million.

The Bank operates two equity schemes for Saudi executive staff, where the book value for these two schemes amounted to SAR 51.3 million at the end of 2009.

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 has maintained accurate books of account
- The Bank has a sound financial system that has been audited by the Bank's Internal Audit Department, which submits its reports to the Bank's Audit Committee
- It has no evidence that might cast significant doubt on the Bank's ability to continue as a going concern

As indicated in their audit report, the Bank's auditors have for the purpose of their work on the financial statements, 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 work. In management's opinion these items do not constitute material weaknesses. The auditors have issued an unqualified audit report on the financial statements of the Bank.

Accounting Standards

The consolidated financial statements have been prepared in accordance with the accounting standards for financial institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS), and also comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association; there are no material departures from accounting standards issued by SOCPA.

Board of Directors and Subsidiary Committees

Directors

On 10 March 2009, Mr. Khaled Suliman Olayan was appointed as Chairman of the Board in succession to the late Abdullah Mohammed Al Hugail, and appointed Mr. Mohammed Omran Al-Omran as Director of the Board in the vacant position and his appointment was approved by the General Meeting held on 10 March 2009.

Mr. Richard W L Groves was appointed as Managing Director with effect from 16 March 2009 succeeding Mr. John Coverdale, and Mr. Robin Douglas Jones (Chief Operating Officer) was appointed as a Director of the Board with effect from 16 March 2009.

Mr. Simon Nigel Cooper was appointed a Director of the Board with effect from 21 October 2009 succeeding Mr. Yousef Nasr.

Mr. David Dew was appointed a Director of the Board with effect from 09 December 2009 succeeding Mr. Mukhtar Hussain.

In the light of these changes the Board of Directors as at 31 December 2009 comprised:

Mr. Khaled Suliman Olayan, CHAIRMAN, INDEPENDENT
Board Member, Al-Zamil Industrial Investment Company

Mr. Fouad Abdulwahab Bahrawi, BOARD MEMBER, INDEPENDENT
Board Member, SABB Takaful Co.

Engr. Khalid Abdullah Al Molhem, BOARD MEMBER, INDEPENDENT
Board Member, Aseer Company

Mr. Suliman Abdulkader Al Muhaidib, BOARD MEMBER, INDEPENDENT
Chairman, A. K. Al-Muhaidib & Sons Group of Companies, Chairman, Secorp Jusrer Co. Board Member, Arabian Pipes Co.

Mr. Ahmed Sulaiman Banaja, BOARD MEMBER, INDEPENDENT
Board Member, Saudi Economic and Development Co. (SEDCO), Board Member, Al Ahli Takaful, Board Member, Jeddah Urban Development and Regeneration Co., Board Member, Al Faisaliah Group, Board Member, King Abdullah Economic City, Board Member, SEDCO Capital.

Mr. Mohammed Omran Al-Omran, BOARD MEMBER, INDEPENDENT
Director, Credit Suisse (Saudi Arabia), Director, Saudi Telecommunications Co., Director, Saudi Orex Lease Finance Company, Member, Director, Al-Rajhi Insurance Co.

Mr. Richard W L Groves, EXECUTIVE MEMBER
Board Member, SABB Takaful Co.

Mr. David Dew, NON-EXECUTIVE MEMBER
Board Member, SABB Takaful Co.

Mr. Simon Cooper, NON-EXECUTIVE MEMBER

Mr. Robin D Jones, EXECUTIVE MEMBER

Directors' Report (continued)**Number of Meetings Attended by Each Director - 2009**

No.	Name	Audit	Executive Committee	Board	Nomination & Remuneration
1	Khaled Suliman Olayan	-	-	5	3
2	Fouad Abdulwahab Bahrawi	-	11	5	-
3	Khalid Abdullah Al Molhem	-	10	5	3
4	Sulaiman Abdulkader Al Muhaidib	-	-	5	-
5	Ahmed Sulaiman Banaja	4	3	5	-
6	Mohammed Omran Al Omran	-	8	5	-
7	John Coverdale	-	2	1	-
8	Richard W L Groves	-	11	5	3
9	Robin D Jones*	-	8	4	-
10	Yousef Asad Nasser	-	-	4	-
11	Mukhtar Malek Hussain	-	-	5	-
12	Simon Cooper*	-	-	1	-

* Has been appointed by the foreign partner in SABB's Board of Directors, to replace former members appointed by the foreign partner, who ended their terms of service in 2009.

Board Meetings

The Board of Directors held 5 meetings in 2009 as follows:

S. No.	Date of Meeting	No. of Attendees	Percentage of Attendance
1	10 March 2009	9 (Nine)	90%
2	24 May 2009	10 (Ten)	100%
3	22 July 2009	10 (Ten)	100%
4	20 October 2009	10 (Ten)	100%
5	8 December 2009	10 (Ten)	100%

Executive Committee

The Executive Committee is appointed by the Board in accordance with Article 26 of the Bank's Articles of Association and consists of the Managing Director (Chairman) and four other members selected from among the Directors. The main task is to assist the Managing Director within the powers determined by the Board to deal with matters referred by MGD or by the Board. The Executive Committee reviews and considers all monthly reports submitted by different Functional Heads, and shall meet twelve times during the year. The members of the Executive Committee as at 31 December 2009 were: Mr. Richard W L Groves, Chairman, Mr. Fouad Abdulwahab Bahrawi, Mr. Khalid Abdullah Al Molhem, Mr. Mohammed Omran Al Omran, Mr. Robin D. Jones.

The Executive Committee held 11 meetings during the year 2009.

Audit Committee

SABB's Audit Committee was formed in 1992 reporting directly to the Board of Directors, and shall meet four times during the year. The Committee monitors the Bank's internal and external audit functions and reviews control, weaknesses and system deficiencies. It is also responsible for ensuring that all financial information is of the highest quality, concentrating on critical business issues, which enable the Bank's external auditors and management to focus on those areas of greatest risk to the business. The members of the Audit Committee as at 31 December 2009 were: Mr. Ahmed Sulaiman Banaja (Chairman), Mr. Ian Stewart Martin and Mr. Mohammed Mutlaq Al Ammaj.

The Audit Committee held 4 meetings during the year 2009.

Property Committee

The Property Committee was formed comprising four members of the Board with a brief to consider and approve the Bank's expenditure and liabilities in respect of properties including rentals, project costs and related support expenditure in areas such as safety and security. Subjects for the Property Committee are considered by circulation unless the Chairman of the Committee requires a meeting. The members of the Property Committee as at 31 December 2009 were: Mr. Khaled Suliman Olayan (Chairman) with Mr. Sulaiman Abdulkader Al Muhaidib, Mr. Richard W L Groves, Mr. Adel Marzook Al Nasser and Mr. Robin D. Jones.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed by the Board and approved by the General Meeting held on 10 March 2009, and shall meet at least twice during the year. The committee consists of three members of the Board appointed by the Board and reports directly to the Board.

The committee recommends to the Board of Directors the nomination to the Board membership, annually reviews the required needs of skills and capabilities suitable for Board membership (including the time needed by the Board member for the Board business) and reviews the structure of the Board and submit the necessary recommendations. The members of the committee as at 31 December 2009 were: Mr. Khaled Suliman Olayan (Chairman), Mr. Richard W L Groves, and Mr. Khalid Abdullah Al Molhem.

The Nomination and Remuneration Committee held 3 meetings during the year 2009.

Corporate Governance

SABB complies with all Corporate Governance guidelines issued by the Capital Market Authority except the issue of Cumulative Voting which is under consideration. SABB also complies with SAMA guidelines while continuing to adhere to Basel II principles related to risk measurement, capital adequacy and disclosure. The Risk Committee formed by the Bank's management continues to ensure ongoing compliance with all the guidelines laid down in accordance with best international practice. SABB has prepared its own internal policy in line with the regulatory requirements. The SABB Policy takes into consideration the requirements provided for in the "Principal Concepts of Governance" for banks operating in the Kingdom which will be issued by SAMA soon.

Directors' Report (continued)

Corporate and Commercial Banking

This year has seen SABB Corporate Banking participate in the financing of some of the Saudi government's major educational projects, specifically the King Abdullah University for Science and Technology (KAUST) near Jeddah, which was inaugurated in September, and the Princess Noura bint Abdulrahman University in Riyadh.

In what has been a difficult and challenging global economic and business environment, Central Region Corporate Banking has been successful in growing by increasing the level of business from existing clients and by acquiring new clients. In the Western Region, further market penetration has been achieved; integral to which has been a number of landmark deals on behalf of global corporations including a SAR1,000 million inventory finance transaction, a first of its kind, and the provision of large value guarantees for those participating in government sponsored contracts. Additionally, the low interest rate environment has resulted in substantial hedging transactions being completed on behalf of local corporates whilst two prominent Saudi businesses have converted to HSBCnet for their transaction banking. In support of this increased activity, new Saudi staff have been employed and trained.

During the year, increased efforts were made to maximise the synergies within SABB with HSBC Group and to leverage the international reach of the Group as a whole. Integral to this was the segmentation of corporate banking teams and their alignment to the strategy of developing business segments based on the complexity of the underlying business.

With the need for the region to be closer to its corporate customer base, the decision was made to relocate Central Region Corporate Banking area management to a new location in North Riyadh at the intersection of Olaya Road and King Abdullah Road.

Amanah

During 2009, SABB Amanah sustained its growth momentum of previous years by developing and launching new non-interest bearing products and services; by increasing its network to 71 Amanah branches (81% of total SABB branches); and through active participation in the development of global business strategies for the Amanah brand. Integral to this further growth, Amanah made a significant contribution to SABB's performance during the year.

The highlight of 2009 has been the launch of high quality innovative Amanah products to cater to both personal and business customer demand. The products introduced include the "Amanah Overdraft Flexible Account", the non-interest bearing alternative to the conventional overdraft – SABB being the first bank to launch such a product in Saudi Arabia; the "Amanah Lending facility", that enables customers to obtain non-interest bearing finance against shares that they hold; the "Islamic Forex Rate Hedge" product that assists business customers in hedging potential currency fluctuations on their future trade payments; the "Amanah Local Murabaha" product that offers finance to customers, based on locally available products; the "Mudarabah Savings Account" that provides a return on customers' savings; the "Amanah Overnight Call Deposit Account", a specially structured account for both corporate and private banking customers; and an enhanced "Amanah Time Deposit" with an automatic renewal option. In addition, two new credit cards were launched, namely Amanah Premier and Amanah Platinum.

As a result of allying SABB with HSBC's global business strategies, Amanah was also able to introduce the "Global Amanah Premier" proposition to customers in Saudi Arabia in December and anticipates being in a position to launch "Amanah Advance" products early in 2010. Amanah's plans for the coming year also include a "Home Construction Finance" product that will offer customers progress payment finance when building their own homes.

In support of its activities, SABB Amanah has focussed on attracting well-qualified Saudi staff to its Shariah and product development teams, whilst ensuring the full compliance of all processes and unwavering attention to new and existing product offerings. Furthermore, through the provision of quality training, SABB has ensured better customer service as is evidenced by the marked increase in customer numbers and the level of Amanah business transacted.

In focussing its activities on Amanah, SABB has demonstrated its ability to better understand its customers' needs and so provide them with a wider range of innovative non-interest bearing financial solutions. This, allied to all the new products launched in 2009 and the ongoing expansion of the Amanah branch network, ensures the potential for considerable further growth in SABB Amanah's business in the Kingdom in the years to come.

Credit and Risk

SABB remains compliant with Basel II requirements and is committed to the progressive adoption of the more advanced approaches to risk assessment.

SABB continues to support the National Data Pooling initiative being undertaken by all banks in conjunction with SIMAH. This initiative seeks to create a consolidated Kingdom-wide database of local credit data that can be used to develop credit risk models meeting Basel II (IRB – internal-rating-based) capital adequacy guidelines associated with probability of default (PD), loss given default (LGD) and exposure at default (EAD) criteria.

Human Resources

SABB's people and human resource strategies aim to drive a high performing and engaged workforce that has the capability and tools to deliver sustained financial performance with integrity.

Global research clearly indicates that improved employee engagement is a key driver of improved business performance. In 2009 SABB again participated in the annual independent Global People Survey and recorded significant engagement scores well above the norm for the Middle East, surpassing the target that had been set within the Bank for the year. This increase in the employee engagement score is a direct result of the effort and steps taken by all employees in understanding the feedback received from the 2008 survey whilst also discussing, developing and implementing action plans to address the core issues and concerns that were identified.

SABB further pursued its efforts in improving the competence and capabilities of all staff through the provision of world-class training and the implementation of development solutions that enhance leadership capabilities, knowledge, expertise, service delivery and overall career progression.

SABB provides learning and development programmes to personnel at all levels of seniority across the Kingdom. Anti-money-laundering, Basel II compliance, corporate and commercial banking, credit and risk, English language, information technology, leadership, management, operation, sales and services and Takaful all formed the basis of key course deliveries in 2009.

Accreditation programmes for Branch Management, Cash Supervisors as well as for Amanah have been expanded. High performing and high potential executives continue to benefit from HSBC Group strategic leadership and graduate development programmes in the UK and other destinations outside Saudi Arabia.

Utilising the structurally improved performance management system allied to a structured role identification process, SABB actively pursues a performance-based, market-driven compensation strategy that includes participation in annual compensation and benefits surveys in the Kingdom that enable the Bank to keep abreast of ongoing market trends.

SABB remains fully committed to the Saudisation process, undertaking a number of local recruitment drives during the year. High-calibre candidates were identified and attracted from a variety of educational backgrounds through the Bank's participation in career day events and by offering attachments for quality undergraduates from co-operative programmes and providing summer internships to potential undergraduates. High-quality, mid-career executives were also recruited with considerable commercial and industrial experience and expertise of real benefit to the Bank.

At year end, SABB's staff complement totalled 3,504 of which 444 were ladies. The Saudisation ratio at 31 December was 87%. During 2009 a total of 48,664 training days were attended by 10,738 delegates.

Directors' Report (continued)

Annual review of internal control procedures effectiveness

SABB's internal control systems and policies were prepared on the basis of enhanced effectiveness which covered Internal Audit, Compliance and Risk functions.

Such functions are considered an essential part of the activities of effective control adopted by the Bank through the provision of independent and objective views of the Bank's various activities. These organisational functions exercise their roles through periodical internal review of the various sectors of the Bank in accordance with the requirements and supervisory controls, and according to annual work plans approved by the Audit Committee and the Compliance Committee which was formed in line with the requirements of SAMA Compliance Manual for Banks Operating in Saudi Arabia. Based on the above, the Bank's management extended all aspects of support to the units and functions involved in the internal control in order to ensure that audit and control procedures are carried out in line with the approved internal control policies and systems as well as to ensure the integrity of financial and non-financial procedures and transactions and that the Bank and its staff are in compliance with the rules and local regulations issued by the various competent government departments, supervisory authorities as well as with the policies and internal rules adopted by the Bank's senior management. The Bank's management has also effectively contributed to the various specialised committees to ensure development of business and ideal use of available resources supported by the quality and efficacy of central control for development of automated systems and the operation thereof.

In support of the effective control activities, the Bank's management - during 2009 - established units and internal control and audit committees of credit, operational risk and the committee on the continuous monitoring of branch operations; and has also established a higher committee to follow up the internal audit high-risk recommendations to ensure that they were dealt with in a timely manner. Furthermore, in line with the supervisory regulations a Compliance Committee has been established to oversee all aspects and activities of compliance and to closely monitor all the Bank's activities in order to measure and handle the risks of non-compliance.

The Risk Department which is managed through dedicated risk business units covering credit, market, operational and other risks together with separate functions manages business continuity, security and fraud risk and compliance. The risk management process is fully integrated with the strategic planning, annual operating and capital planning cycle. SABB's policies and procedures are formulated and regularly reviewed to establish compliant processes which have adequate segregation of duties, embedded systems controls, along with effective mechanisms for monitoring, controlling and timely reporting to management to mitigate risks.

To ensure highest levels of efficiency, the Bank appointed a Local Compliance Officer along with operational and information risk coordinators, within each business, who were assigned to ensure ongoing compliance with policies and regulations as well as to escalate procedural lapses. Furthermore each employee is expected to be accountable for and manage the risks within their assigned responsibilities, which is reinforced through SABB's governance framework and training programmes.

Future Risk the Bank May Face

SABB operates an autonomous risk function that operates within a well defined risk governance and control framework, which continues to be developed in line with industry best practices and Basel II compliance requirements.

The main risk to which SABB is exposed is credit and counterparty risk, emanating from its corporate and personal banking asset portfolios. Whilst opportunities to grow assets are expected to be driven by continued investment in infrastructure projects and population growth, the uncertainty around the sustainability of the global economic recovery may diminish demand for borrowing and cause financial pressure for companies or individuals exposed to these markets.

Operational risk is inherent in all of SABB's businesses and during 2009, work has been completed to strengthen capabilities in the areas of information and fraud risk as well as to raise awareness across the Bank regarding reputational risk and business continuity planning.

The level of market risk operated within SABB is low as the Bank focuses on supporting customer transactions with limited speculative trading activities. SABB is exposed to interest rate movements and the reduction in interest income on its surplus deposits which result from lower interest rates.

As the outcome of the financial crisis becomes clearer, there is an expectation that globally banks will face greater scrutiny and regulation, which is likely to require banks to improve transparency on the risks faced and the quality of capital retained to support business activities.

Property and Support Services

Expanding the branch and ATM networks has been a major feature of Property and Support Services' activities in 2009. Seven new branches were built at Al Quds, Rawabi, Khurais and Sinaiyah in Riyadh; on Prince Sultan Street (including a fully-fledged ladies section and a card centre) and Al Malik Road in Jeddah; and in Tabuk in the Western Province.

At the year end, four more branches were under construction for completion during the first half of 2010 in Hayel, Qatif, Dhahran and Dammam. Looking ahead, five new branches and two ladies sections are in the pipeline, for which premises have already been secured, with construction scheduled for completion in 2010.

In 2009, 40 new ATMs were constructed and began operation and another 21 were under construction and will come into use during the first quarter of 2010. In addition, four Premier Centres were built at Al Suwaidi in Riyadh; in Tahlia Superbranch and Al Zahra on Malik Road in Jeddah; and at Aziziah branch in Makkah.

Central Province Management was relocated in the course of the year to the SABB building at the intersection of King Abdullah and Olaya Roads, whilst Western Province Management was moved to the recently completed SABB Building on Al Malik Road in Jeddah. Additionally, Eastern Province Management's building was restructured as part of the Bank's open space policy.

As regards health, safety and the environment, and as part of SABB's contribution to promoting sustainability and reducing direct impact on the environment, a baseline figure was established in 2008 with a reduction target of 2% by 31 December 2009 in the consumption of electricity, water and paper, the emission of CO₂ and the level of waste. The Bank achieved a reduction of 8.4% in electricity consumption and 43.6% in CO₂ emissions whilst managing waste production and paper consumption tightly.

Security and fire safety measures continued to be addressed. A new state-of-the-art central monitoring station is now in place covering the branch and off-branch ATM network Kingdom-wide in order to improve vigilance and to protect SABB's staff, customers and assets.

Directors' Report (continued)

Personal Banking

During 2009 SABB retained its status as a leading provider in Saudi Arabia of Personal Banking products and services.

To better serve the Bank's valued customers, four new branches were opened across the Kingdom during the year thereby increasing SABB's retail branch network to 88; 72 for men and 16 for ladies. 71 branches out of 88 are Amanah while 17 are conventional branches. All the new locations were selected taking into consideration proximity and convenience for the Bank's customers.

Further attention has been 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. In order to enhance the customer experience for these customers, SABB opened four new Premier Centres; making a total of seven centres Kingdom-wide. These exclusive centres provide Premier customers with specially developed products and services as well as addressing their local and international needs through HSBC's global network. In addition, SABB has launched new Premier Family Services to extend the provision of non-interest bearing services to the families of Premier customers.

With the launch of the Amanah Premier proposition in six more countries, making the services available in 44 countries around the world, SABB and HSBC Premier customers now have access to a wider range of the very best international retail banking products and services through relationship managers dedicated to providing those financial management solutions best suited to each individual customer's needs.

To widen the availability of its wealth management offerings, SABB has increased its sales capability across the branch network by ensuring all Al-Imtiaz Business Officers and Premier Relationship Managers attain intermediate wealth management certification that allows them to sell selected SABB Takaful Family products.

Such expansion and increased activity, coupled with focused marketing and sales initiatives, contributed to a year-on-year increase of 28% in the SABB Premier customer base in 2009.

SABB installed a further 40 ATMs in 2009, increasing its network to 472, including 69 new generation Cash Deposit Machines. Moreover, SABB has made considerable progress in introducing chip and PIN technology that enhances security for card customers. SABB Debit (SPAN) chip and PIN cards are expected to be launched early in 2010, to be followed later in the year by chip and PIN credit cards.

SABB continues to be the largest issuer in the credit card business in Saudi Arabia, largely due to the introduction of new products and services as well as the extended distribution of service and support. Credit Card Service Centres in Riyadh, Jeddah and Dammam are part of this initiative, providing customers with immediate responses to their requests. The launch of e-statements on SABBNET, SMS alerts for card transactions made and the introduction of the Extended Payment Plan (AQSAT), that allows customers to spread their card repayments over a fixed period at preferential rates, were among the leading initiatives taken during 2009. The Bank also entered into strategic partnerships with leading retailers, hotels, airlines and other merchants in order to provide exclusive benefits and discounts to SABB credit card holders, whilst introducing Amanah Premier Mastercard and Platinum cards that offer high net worth customers a real choice between conventional and non-interest bearing financial services over a comprehensive range of premium products.

In Direct Banking SABB's capabilities were upgraded during the year with the introduction of paperless service activation for Online and Telephone Banking and transaction passwords for use with SMS that allow customers to create transfer payment instructions online swiftly and safely. An additional new feature is the provision of Ministry of Interior payment (MOI) services that enable customers to perform government-related payments online and via telephone banking.

Evidence of the success of SABB Direct Banking was the recognition received during the year from Global Finance magazine that honoured the Bank with two awards: "Best Consumer Internet Bank in Saudi Arabia" and "Best Online Consumer Credit Site in the Middle East and Africa".

Operations and Processing

Operations and Processing has been active throughout the year addressing those operations within the Bank that accelerate not only internal processing but also all customer-related activities. Integral to this has been considerable input to the comprehensive development of the core banking systems.

The pre-deployment of these systems benefits derived during 2009 included a considerable reduction in paper usage as a result of issuing only e-statements for all staff accounts, and by cancelling the provision of advices for loan interest payments, and significant savings on the cost of funds on cash balances held by rationalising and reducing the cash holding limits of branches and regional cash centres.

In compliance with SAMA's instructions, the Bank has successfully implemented the International Bank Account Number (IBAN) system for payments to local banks and SADAD for settlement of all government fees and penalties, resulting in enhanced efficiency and improved straight-through processing. Additionally, the updating of the Correspondent Bank Identification (CBID) file has ensured more rapid outward payment services for customers.

Private Banking

SABB Private Banking maintained its leading status in the Kingdom in 2009 in terms of both market share and the provision of quality investment solutions to wealthy individuals. This it has achieved by providing high-quality services across Saudi Arabia through dedicated offices in Jeddah / Makkah, Riyadh and Al Khobar; from the latter of which clients are also provided with a high level of service in Al Qatif and Al Hasa. Further dedicated Private Banking offices are under consideration for Al Madina, Buraidah and Al Hasa.

In Riyadh, Private Banking also has a dedicated ladies' team, with expansion to Jeddah and Al Khobar contemplated for 2010.

In addition to SABB Private Banking's services are those offered to high net worth individuals through HSBC Investment Bank, whilst close relationships have been established with HSBC Private Bank in London and Geneva. Furthermore, SABB relationship managers were seconded to a number of HSBC Group branches overseas during the summer months in order to provide client support. Arrangements were also made for SABB clients to benefit from the services offered by the HSBC Group in several other locations across the globe.

Integral to SABB Private Banking's undoubted success has been the level of expertise of the Bank's relationship managers, 90% of whom hold the Saudi Institute of Banking's Financial Planner certification and some of whom are also accredited to the Institute's Wealth Management Programme. Investment in high-quality staff is a prime consideration as is the provision of comprehensive training to enhance every team member's skills, thereby ensuring the provision of the highest standard of advice and level of service.

Recognition of SABB Private Banking's attainments was again received from Euromoney. Their publication honoured the Bank with its "Best Private Bank in Saudi Arabia" award in 2009, for the second year in succession.

Treasury

Treasury enjoyed a strong and profitable year despite the prevailing low interest rate environment and global economic slowdown. The deterioration of regional credit and market liquidity premiums presented Treasury with various challenges but nevertheless the balance sheet remained healthy with robust liquidity levels. Active interest rate risk management, as well as leading positions in foreign exchange, made a significant contribution to bottom line income and led to excellent results.

Treasury's focus on hedging and investment products through increased non-interest bearing and conventional product offerings further consolidated SABB's position among the top derivative houses in the Kingdom. The dedicated sales forces in the Central, Western and Eastern Provinces proved to be highly successful in terms of enhancing key customer coverage and service. A successful Treasury road show was undertaken for the third year running in the key centres of the Kingdom.

Directors' Report (continued)

SABB Securities Limited

Equity Brokerage

SABB Securities Limited provides customers with access to the Saudi and major international stock markets worldwide; offering a comprehensive variety of services via several different delivery channels, including fourteen investment centres located across the Kingdom, online services (SABB Tadawul & SABB Mubasher) and phone services via the Brokerage Call Centre.

At the end of 2009, SABB Securities was ranked fourth among 36 active competitors with a market share, in terms of total Saudi market turnover, in excess of 11.5%.

Securities Services

Securities Services offers custody and clearing, non-bank financial institutional services (NBFI), institutional funds services (IFS) and corporate trustee and loan agency (CTLA) services to its clients.

Despite difficult market conditions, which impacted on the level of assets under custody, the number of custody accounts continued to grow. Fund administration and corporate trustee services experienced an increase in revenue through the launch of new funds and the signing of major new client relationships.

SABB Securities has been at the forefront of local market developments and was one of the first to offer a Sukuk and bond trading service through the Saudi Stock Exchange (Tadawul).

During 2009, SABB Securities was honoured with Global Finance's "Best Sub-Custodian Bank in Saudi Arabia" award.

SABB Takaful Limited

SABB Takaful is a leading provider of Islamic insurance products in Saudi Arabia. Capitalised at SAR 340 million, SABB Takaful was the first Takaful company in the Kingdom to be listed on the Saudi Stock Exchange (Tadawul) and is 32.5% owned by SABB and 32.5% by subsidiaries of the HSBC Group, with the balance being held by the general public following an Initial Public Offering in July 2007. During 2009, SABB Takaful obtained approval from the Capital Market Authority to raise its capital by way of a rights issue. This was the first such issue by an insurance company in the Kingdom and raised SAR 240 million.

SABB Takaful offers a comprehensive range of Takaful plans to meet individual and corporate customers' protection needs in the Kingdom, including Shariah-compliant protection and savings schemes for individuals and families as well as property and marine plans for commercial customers. As at the year end, SABB Takaful was the sixth largest insurance company in the country, as per gross contribution written in 2009, which amounted to in excess of SAR 217 million. In attaining this milestone, SABB's Family Takaful business saw a rise year-on-year approaching 200%.

Several factors have contributed to the success of SABB Takaful: a compelling proposition, a comprehensive product range, practical use of technology, a successful Bank Takaful model focusing on customer service, innovative marketing campaigns and the high quality of the company's staff. The awards detailed below highlight the broad appeal of SABB Takaful's comprehensive range of General and Life products for both personal and corporate customers.

In July this year Philip Head, with more than 30 years experience in the global insurance industry, was appointed the Company's new Chief Executive Officer.

In pursuing its activities, SABB Takaful received three awards in 2009: Euromoney's "Best Global Takaful Provider" award and two International Takaful Awards; "Best Takaful Marketing", for formulating the best marketing campaign for promoting Takaful products and services, and "Best Takaful Product" for the Company's innovative Simple Savings Takaful Plan.

SABB Insurance Services Limited (SISL)

SABB Insurance Services Limited (SISL) provides high-end insurance brokerage services to Corporate, Commercial and Private Banking clients.

Having commenced business in 2008, SISL consolidated its market position this year recording 100% growth in its top line revenue base over that achieved a year earlier. Over thirty new accounts were acquired during the year whilst the company was continuing to build on its level of expertise and implementing best global practice.

HSBC Saudi Arabia Limited

HSBC Saudi Arabia Limited, SABB and the HSBC Group's joint venture investment banking arm in the Kingdom, was incorporated in 2006 and licensed by the Saudi Capital Market Authority for all five licensed activities (Dealing, Managing, Arranging, Advising and Custody). HSBC Saudi Arabia Limited is 40% owned by SABB and 60% by HSBC Holdings plc, through HSBC Asia Holdings BV.

The company's main services are as follows:

Asset Management

The Asset Management Division of HSBC Saudi Arabia maintained its market leadership in local equity funds with a market share of 10.8% as at the end December 2009 and was ranked fourth in terms of overall market share amongst asset managers in the Kingdom. The Division's investment products are now being marketed across the GCC in partnership with HSBC Bank Middle East. Of special note is HSBC Saudi Arabia's leading role in product innovation as exemplified by the launch of a capital protected fund linked to the performance of the Saudi equity market. This non-interest bearing fund was well received by clients as it offers the opportunity to participate in one of the Middle East's most promising equity markets whilst enjoying protection from downside risk.

HSBC Saudi Arabia continues to broaden the offering of Saudi Access Products to foreign investors through HSBC Bank plc, a process authorised in August 2008 when single stock access to foreign investors through swaps was first offered in addition to exposure to the Saudi market through mutual funds. The inflow of funds from foreign investors into the Saudi equity market through swaps with HSBC Saudi Arabia enjoying a preeminent position in this offering.

Investment Banking Advisory

HSBC Saudi Arabia sustained its prominent position among the Kingdom's banks in both equity capital markets and mergers and acquisitions. During the year, the Division led the IPO of Mouwasat Medical Services company, one of only two premium IPOs in KSA to have taken place in 2009. Since 2003, HSBC Saudi Arabia has led more equity issues in Saudi Arabia than any other financial adviser; 19 in total with a value in excess of SAR 24,000 million.

Investment Banking Finance – Debt Capital Markets and Syndicated Finance

HSBC Saudi Arabia Limited continued to lead the debt capital and syndicated finance markets in Saudi Arabia, a position it has held since inception. During the year, HSBC successfully led 4 local debt capital market issuances and actively distributed local and international offerings in Saudi Arabia, helping its clients locally and internationally to raise more than SAR 13,500 million from the local market. HSBC was a lead manager in 2009 in Saudi Electricity Company's second Sukuk offering, which resulted in the largest order book in the history of the Saudi market totalling in excess of SAR 20,000 million.

Also, despite the challenges in the loan market in 2009, HSBC in conjunction with SABB participated at a lead level in more than 3 syndicated loans as well as lead managing loan restructuring activities that helped clients to secure, refinance and reschedule more than SAR 9,000 million.

Project and Export Finance

HSBC Saudi Arabia maintained its leading project and export finance advisory and arranging roles in the Kingdom with activities covering a wide spectrum of industries from refining and petrochemicals to power generation and mineral extraction. A key role was played in the financing of the Rabigh IPP, a USD 24,000 million greenfield power project - the only major project financing to reach financial close in Saudi Arabia during 2009 - and was appointed during the fourth quarter of the year as financial advisor to the Sumitomo Corporation, Tenaga Nasional Berhad and Saudi Bin Laden consortium in their bid for the Riyadh IPP, a 2,000MW power plant being developed for Saudi Electricity Company.

International Recognition

During 2009, HSBC Saudi Arabia won Euromoney's "Best Investment Bank in Saudi Arabia" award for the second time in three years; was a major contributor to HSBC Bank Middle East's "Best Debt House in the Middle East" award; won the Lipper Fund Awards for the "Best Saudi Equity Fund" (over a 10 year period); and was the trophy winner for the "Best Gulf Islamic Equity Fund" over 3 years.

Directors' Report (continued)

Community Service and Sustainability

SABB is a dynamic participant in community and charitable activities. During 2009, the Bank carried out many initiatives under the umbrella of "SABB in the Community Programmes", which focuses on themes of education, environment and support of community needs. Key contributions by the Bank in 2009 included the following activities:

During the year, Sheikh Khaled Bin Suliman Olayan, Chairman of SABB and H.E. Dr. Yousef Bin Ahmed Al-Othaimeen, Minister of Social Affairs, signed a Memorandum of Understanding between SABB and the Ministry of Social Affairs, for support of the "Productive Families" scheme in Mahayel Aseer in the Southern Region under the supervision of the Ministry of Social Affairs. The scheme seeks to provide sesame oil pressing mills to needy families in Mahayel Aseer, assisting social security beneficiaries in earning a living and to support their other productive projects.

During the year SABB has maintained its support for many charitable societies including: the Blind Association Charity (Kafeef), the Anti-Smoking Charitable Association, and the Al-Nahda Schools for Down's syndrome, which was established by the Al-Nahda Philanthropic Society for Women and to which SABB has provided annual support since 1995. SABB also supports the Prince Salman Center for Disability Research which creates development projects for individuals with special needs and contributes to raising awareness of disability and enhancing the living standards of those with special needs whilst helping them to realise much of their potential.

The Bank maintained its support of the Riyadh Orphans Care Charitable Society (ENSAN) whose aim is to support orphans. Covered under this initiative is the KSA School Bag Programme which helps provide all the needs of students during the school year. The Bank also undertakes to assist orphans in performing Umrah during Ramadan and supports the Diploma Programme for a selected group of orphans to obtain qualifications in various fields, thereby enabling them to work and sustain their living.

SABB gives considerable attention to training and educational programmes through SABB's Cooperative Training Programme, which enables university and institute students to acquire the skills needed to support their university graduation requirements. In addition, the Bank supports summer student training programmes and as well as the educational initiatives of the Society of Chartered Public Accountants. SABB also contributes to the training programmes offered by SAMA to the judges of the Ministry of Justice and Bureau of Grievances.

On the environmental front, SABB sponsored the "Environment Awareness Programme" in coordination with the National Commission for Wildlife Conservation and Development, which aims at enhancing awareness of the importance of environment protection and preservation of wildlife, particularly among our younger generations. SABB also continued in 2009 to contribute to a number of environment initiatives in which SABB staff participated in cooperation with municipalities in different regions. These included the clearing of the Al-Washela Valley in Riyadh and of the Half Moon Beach in Al-Khobar.

In addition, the Bank maintained its numerous annual programmes, among them the SABB MBA Scholarship Programme and the blood donation initiative which is always willingly supported by many of the Bank's staff.

International Recognition

This year SABB won two major awards, the first being “Strongest Bank in the Kingdom of Saudi Arabia for 2009” and seventh strongest Bank among 92 banks in the Middle East by The Asian Banker Magazine. This evaluation is based on principal parameters such as growth of balance sheet, details of risks and liquidity in light of the recent international financial crisis.

The Bank received the second major award “Best Bank in the Kingdom of Saudi Arabia” by The Banker Magazine at the end of the year.

Other awards received by SABB which clearly reflect the strong position of the Bank across the different sectors were: “World’s Best Internet Banks in the Middle East and Africa” by Global Finance for the fourth year in a row, “Best Trade Finance Provider in KSA for 2009”, and “The Number 1 Cash Management Bank” by Euromoney, which was awarded subsequent to a survey of thousands of cash managers, treasury managers and financial officials on the global level.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Saudi British Bank (the "Bank") and its subsidiary, which comprise the consolidated statements of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41, other than note 38, and the information related to "Basel II disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies and the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiary as at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.



Consolidated Statement of Financial Position

As at 31 December

	Notes	2009 SAR'000	2008 SAR'000
ASSETS			
Cash and balances with SAMA	3	16,614,885	11,328,253
Due from banks and other financial institutions	4	6,004,593	6,200,466
Investments, net	5	23,817,550	29,604,346
Loans and advances, net	6	76,381,599	80,236,757
Investment in associates	7	180,458	148,356
Property and equipment, net	8	594,042	561,460
Other assets	9	3,244,835	3,581,055
Total assets		126,837,962	131,660,693
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	13,605,744	16,069,492
Customers' deposits	12	89,186,861	92,677,537
Debt securities in issue	13	5,709,487	5,656,800
Borrowings	14	187,500	187,500
Other liabilities	15	5,103,081	5,435,533
Total liabilities		113,792,673	120,026,862
SHAREHOLDERS' EQUITY			
Share capital	16	7,500,000	6,000,000
Statutory reserve	17	4,988,075	4,480,005
Other reserves	18	(137,535)	(176,716)
Retained earnings		694,749	1,330,542
Total shareholders' equity		13,045,289	11,633,831
Total liabilities and shareholders' equity		126,837,962	131,660,693

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the years ended 31 December

		2009	2008
	Notes	SAR'000	SAR'000
Special commission income	20	4,573,599	5,864,966
Special commission expense	20	1,136,857	2,657,922
Net special commission income		3,436,742	3,207,044
Fees and commission income, net	21	1,210,734	1,257,222
Exchange income, net		127,265	138,310
Income (losses) from FVIS financial instruments, net	22	6,567	(42,400)
Trading income, net	23	295,982	363,569
Dividend income		1,453	1,770
Gains (losses) on non-trading investments, net	24	48,828	(17,010)
Other operating income		32,708	3,023
Total operating income		5,160,279	4,911,528
Salaries and employee related expenses		919,395	898,078
Rent and premises related expenses		82,159	79,459
Depreciation	8	111,289	107,395
Other general and administrative expenses		564,706	556,612
Provision for credit losses, net	6	1,496,483	371,280
Impairment of other financial assets		-	86,929
Other operating expenses		18	77
Total operating expenses		3,174,050	2,099,830
Income from operating activities		1,986,229	2,811,698
Share in earnings of associates, net	7	46,048	108,321
Net income for the year		2,032,277	2,920,019
Basic and diluted earnings per share (in SAR)	25	2.71	3.89

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended 31 December

	2009	2008
	SAR'000	SAR'000
Net income for the year	2,032,277	2,920,019
Other comprehensive income:		
Available for sale financial assets		
- Net change in fair value	95,799	(206,002)
- Transfer to consolidated statement of income	(48,828)	17,010
Cash flow hedges		
- Net change in fair value	6,275	28,496
- Transfer to consolidated statement of income	(14,065)	-
	39,181	(160,496)
Total comprehensive income for the year	2,071,458	2,759,523

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the years ended 31 December

		<i>Share capital</i>	<i>Statutory reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Proposed dividend</i>	<i>Total</i>
2009	Notes	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance at beginning of the year		6,000,000	4,480,005	(176,716)	1,330,542	-	11,633,831
Total comprehensive income for the year		-	-	39,181	2,032,277	-	2,071,458
Bonus share issue	16	1,500,000	-	-	(1,500,000)	-	-
Transfer to statutory reserve	17	-	508,070	-	(508,070)	-	-
2009 interim dividend paid	26	-	-	-	(660,000)	-	(660,000)
Balance at end of the year		<u>7,500,000</u>	<u>4,988,075</u>	<u>(137,535)</u>	<u>694,749</u>	<u>-</u>	<u>13,045,289</u>
2008							
Balance at beginning of the year		3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933
Total comprehensive income for the year		-	-	(160,496)	2,920,019	-	2,759,523
Bonus share issue	16	2,250,000	-	-	(2,250,000)	-	-
Transfer to statutory reserve	17	-	730,005	-	(730,005)	-	-
2007 final dividend paid	26	-	-	-	-	(890,625)	(890,625)
2008 interim dividend paid	26	-	-	-	(660,000)	-	(660,000)
Balance at end of the year		<u>6,000,000</u>	<u>4,480,005</u>	<u>(176,716)</u>	<u>1,330,542</u>	<u>-</u>	<u>11,633,831</u>

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended 31 December

	Notes	2009 SAR'000	2008 SAR'000
OPERATING ACTIVITIES			
Net income for the year		2,032,277	2,920,019
Adjustments to reconcile net income to net cash from (used in) operating activities:			
(Accretion of discount) and amortisation of premiums on non-trading investments		(4,075)	1,067
(Income) losses from FVIS financial instruments, net	22	(5,883)	47,104
(Gains) losses on non-trading investments, net	24	(48,828)	17,010
Depreciation	8	111,289	107,395
Losses (gains) on disposal of property and equipment, net		14	(200)
Share in earnings of associates, net	7	(46,048)	(108,321)
Provision for credit losses, net	6	1,496,483	371,280
Impairment of other financial assets		-	86,929
Change in fair value		52,687	(88,819)
		3,587,916	3,353,464
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(335,074)	(1,506,225)
Investments held for trading		11,685	(181,449)
Loans and advances		2,358,675	(18,607,179)
Other assets		336,220	(1,257,359)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,463,748)	8,024,445
Customers' deposits		(3,490,676)	20,829,685
Other liabilities		(285,576)	1,600,749
Net cash (used in) from operating activities		(280,578)	12,256,131
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		19,549,679	43,571,660
Purchase of non-trading investments		(13,715,782)	(58,285,668)
Dividend received from associates		111,446	70,412
Purchase of property and equipment	8	(143,919)	(117,743)
Investment in associates		(97,500)	-
Proceeds from disposal of property and equipment		34	928
Net cash from (used in) investing activities		5,703,958	(14,760,411)
FINANCING ACTIVITIES			
Debt securities in issue		-	1,705,000
Dividends paid		(667,695)	(1,545,548)
Net cash (used in) from financing activities		(667,695)	159,452
Increase (Decrease) in cash and cash equivalents		4,755,685	(2,344,828)
Cash and cash equivalents at the beginning of the year		12,701,229	15,046,057
Cash and cash equivalents at the end of the year	27	17,456,914	12,701,229
Special commission received during the year		4,901,462	5,765,791
Special commission paid during the year		1,539,842	2,327,993
SUPPLEMENTAL NON-CASH INFORMATION			
Net changes in fair value and cash flow hedges		39,181	(160,496)

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements (31 December 2009)

1. General

The Saudi British Bank (the Bank) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank 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. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 72 branches (2008: 68) and 31 exclusive ladies' sections (2008: 31) in the Kingdom of Saudi Arabia. The Bank employed 3,504 staff members as at 31 December 2009 (2008: 3,395). The address of the Bank's head office is as follows:

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

The objectives of the Bank are to provide a range of banking services. The Bank also provides non-interest bearing products, which are approved and supervised by an independent Shariah Board established by the Bank.

The Bank has 100% (2008: 100%) ownership interest in a subsidiary, SABB Securities Limited, a Limited Liability Company formed in accordance with the Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jumada 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 Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The activities of the subsidiary are to engage in business of custody and dealing as an agent excluding underwriting.

The Bank has 100% (2008: 100%) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activity is to act as a sole insurance agent for SABB Takaful Company (an associate company – see note 7) within Kingdom of Saudi Arabia as per the agreement between them. However, the Article of Association does not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

The Bank has 51% (2008: 51%) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

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). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

b) *Basis of measurement*

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

c) *Functional and presentation currency*

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

Notes to the Consolidated Financial Statements (31 December 2009) (continued)

1.1. Basis of preparation (continued)

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, SABB Securities Limited. The financial statements of the subsidiary are prepared for the same reporting year as that of the Bank, using consistent accounting policies. The Bank has not consolidated SABB Insurance Agency Limited and SABB Insurance Services Limited as their total assets, liabilities and their income and expenses are not significant to the Bank's overall consolidated financial statements.

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

Intercompany transactions and balances have been eliminated upon consolidation.

e) Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates, and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. 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 portfolio provision on each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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.

1.1. Basis of preparation (continued)

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.

Due to current volatility in the market, 25% or more is used as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognised in the consolidated statement of income as provision for impairment for other financial assets.

Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognised in the consolidated statement of income as provision for impairment for other financial assets.

iv) Classification of held to maturity investments

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

f) Going concern

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

2. Summary of significant accounting policies

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

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2008, as described in the annual consolidated financial statements for the year ended 31 December 2008 except for the adoption of IFRS 8 Operating Segments and amendments to existing standards, as mentioned below. The Bank has adopted the standard and amendments with retrospective effect which had no impact on the financial position and financial performance of the Bank. The comparative information has been restated, where required, to conform to current year presentation.

- IFRS 8 Operating Segments, which supersedes IAS 14 Segment Reporting and requires disclosure of information about the Bank's operating segments;
- the revisions and amendments to IAS 1 Presentation of Financial statements; and
- amendments to IFRS 2 Share based payments – vesting conditions and cancellations and IAS 32 Financial Instruments Presentation

b) Trade date accounting

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

Notes to the Consolidated Financial Statements (31 December 2009) (continued)

2. Summary of significant accounting policies (continued)

c) *Derivative financial instruments and hedge accounting*

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

2. Summary of significant accounting policies (continued)

d) *Foreign currencies*

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 statement of financial position 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 taken to other non-operating income in the statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a 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 offset 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, except for those classified as held for trading or designated as at fair value through income statement (FVIS), are recognised in the consolidated statement of income on the effective yield basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate. 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.

Notes to the Consolidated Financial Statements (31 December 2009) (continued)

2. Summary of significant accounting policies (continued)

Fees and commission income

Fees and commission income are recognised on an accrual basis when the service 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 is 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 and are measured in accordance with related accounting policies for the underlying financial assets held as FVIS, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in “due to banks and other financial institutions” or “customers’ deposits”, as appropriate. The difference between sale and repurchase price is treated as special commission expense and amortised over the life of the repo agreement, using the effective yield method.

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

h) Investments

All investment securities are initially recognised at cost, being the fair value of consideration given, including acquisition charges associated with the investment except for investments held as FVIS, which 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.

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 consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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.

2. Summary of significant accounting policies (continued)

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 International Accounting Standard 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 International Accounting Standard 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.

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 "other reserves" under shareholders' equity. On derecognition, 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.

iii) Held to maturity

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

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

iv) Held at amortised cost

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

Notes to the Consolidated Financial Statements (31 December 2009) (continued)

2. Summary of significant accounting policies (continued)

i) *Investment in associates*

Investment in associates 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 associates is carried in the statement of financial position at cost plus post investment changes in the Bank's share of net assets of the associates. The investments in associates are carried in the statement of financial position at the lower of equity accounted or recoverable amount.

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

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

j) *Loans and advances*

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

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

Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible.

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

l) *Impairment of financial assets*

An assessment is made at each statement of financial position 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.

2. Summary of significant accounting policies (continued)

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.

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.

ii) Impairment of financial assets held at fair value

For financial assets held at fair value, where a loss has been recognised directly 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. For consumer loans, 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.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices is 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 commission rate.

Notes to the Consolidated Financial Statements (31 December 2009) (continued)

2. Summary of significant accounting policies (continued)

m) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. 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	20 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) Liabilities

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

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

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

o) Provisions

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

p) Guarantees

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

q) Accounting for leases

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

r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA, reverse repos with SAMA excluding the statutory deposit and due from banks and other financial institutions with original maturity of ninety days 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.

2. Summary of significant accounting policies (continued)

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) *Non-interest based banking products*

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

All non-interest based 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

	2009	2008
	SAR'000	SAR'000
Cash in hand	662,694	621,611
Statutory deposit	5,162,564	4,827,490
Reverse repos	10,787,850	5,540,769
Other balances	1,777	338,383
Total	16,614,885	11,328,253

In accordance with Banking Control Law and regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at stipulated percentages of its demand, time and savings calculated at the end of each month.

4. Due from banks and other financial institutions

	2009	2008
	SAR'000	SAR'000
Current accounts	1,091,225	2,722,368
Money market placements	4,913,368	3,478,098
Total	6,004,593	6,200,466

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**5. Investments, net****a) Investment securities are classified as follows:**

	Domestic		International		Total	
	2009	2008	2009	2008	2009	2008
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
i) Held as FVIS						
Fixed rate securities	-	-	18,673	17,822	18,673	17,822
Floating rate securities	327,530	323,016	-	60,457	327,530	383,473
Held as FVIS	327,530	323,016	18,673	78,279	346,203	401,295
ii) Available for sale						
Fixed rate securities	10,685,614	16,731,299	2,733,709	2,161,076	13,419,323	18,892,375
Floating rate securities	3,631,376	2,587,485	1,590,398	2,410,352	5,221,774	4,997,837
Equities	10,894	10,894	46,615	83,671	57,509	94,565
Available for sale investments, gross	14,327,884	19,329,678	4,370,722	4,655,099	18,698,606	23,984,777
Allowance for impairment	-	-	(21,679)	(77,929)	(21,679)	(77,929)
Available for sale investments	14,327,884	19,329,678	4,349,043	4,577,170	18,676,927	23,906,848
iii) Held at amortised cost						
Fixed rate securities	3,171,648	3,569,809	-	-	3,171,648	3,569,809
Floating rate securities	1,221,000	1,221,000	9,000	9,000	1,230,000	1,230,000
Held at amortised cost, gross	4,392,648	4,790,809	9,000	9,000	4,401,648	4,799,809
Allowance for impairment	-	-	(9,000)	(9,000)	(9,000)	(9,000)
Held at amortised cost	4,392,648	4,790,809	-	-	4,392,648	4,790,809
iv) Held to maturity						
Fixed rate securities	401,772	505,394	-	-	401,772	505,394
Held to maturity investments	401,772	505,394	-	-	401,772	505,394
Investments, net	19,449,834	24,948,897	4,367,716	4,655,449	23,817,550	29,604,346

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

	2009			2008		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Fixed rate securities	3,182,778	13,828,638	17,011,416	2,178,898	20,806,502	22,985,400
Floating rate securities	4,960,535	1,818,769	6,779,304	4,351,711	2,259,599	6,611,310
Equities	-	57,509	57,509	-	94,565	94,565
	8,143,313	15,704,916	23,848,229	6,530,609	23,160,666	29,691,275
Allowance for impairment	-	(30,679)	(30,679)	-	(86,929)	(86,929)
Investments	8,143,313	15,674,237	23,817,550	6,530,609	23,073,737	29,604,346

Unquoted investments include securities of SAR 15,180.0 million (2008: SAR 22,328.0 million) issued by the Saudi Arabian Government and its agencies.

5. Investments, net (continued)

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

	2009			2008		
	<i>Gross</i>			<i>Gross</i>		
	<i>Carrying value</i>	<i>unrealised gain</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>unrealised gain</i>	<i>Fair value</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
i) Held at amortised cost						
Fixed rate securities	3,171,648	172,061	3,343,709	3,569,809	233,852	3,803,661
Floating rate securities	1,221,000	1,282	1,222,282	1,221,000	3,491	1,224,491
Total	4,392,648	173,343	4,565,991	4,790,809	237,343	5,028,152
(ii) Held to maturity						
Fixed rate securities	401,772	12,939	414,711	505,394	26,482	531,876
Total	401,772	12,939	414,711	505,394	26,482	531,876

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

	2009	2008
	<u>SAR'000</u>	<u>SAR'000</u>
Government and quasi-government	20,348,115	26,769,715
Corporate	593,881	271,857
Banks and other financial institutions	2,864,155	2,518,478
Other	11,399	44,296
Total	23,817,550	29,604,346

Equities reported under available for sale investments include unquoted shares of SAR 11.4 million (2008: SAR 11.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR nil (2008: SAR 3,502.2 million) which have been pledged under repurchase agreements with banks and customers. The market value of such investments is SAR nil (2008: SAR 3,492.5 million).

e) Credit quality of investments

	2009	2008
	<u>SAR'000</u>	<u>SAR'000</u>
Saudi Government Bonds	15,180,032	22,328,041
Investment grade	8,540,236	7,011,599
Unrated	97,282	264,706
Total	23,817,550	29,604,346

The Saudi Government Bonds comprise of Saudi Government Development Bonds, Floating Rate Notes and Treasury Bills.

Investment Grade includes those investments with credit ratings equivalent to a Standard and Poor's Rating of AAA to BBB. Issuer ratings have been used for bonds which have not been rated by any agency amounting to SAR 311.2 million (2008: SAR 1,418.9 million).

The unrated category mainly comprises of private equities, hedge fund and quoted and unquoted equities.

f) Movements of allowance for impairment on investments

	2009	2008
	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year	86,929	-
Provided during the year	-	86,929
Amounts written off during the year	(56,250)	-
Balance at end of the year	30,679	86,929

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**6. Loans and advances, net***a) Loans and advances are classified as follows:*

	2009			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Performing loans and advances-gross	2,102,044	13,414,172	59,114,720	74,630,936
Non-performing loans and advances, net	-	118,890	3,407,117	3,526,007
Total loans and advances	2,102,044	13,533,062	62,521,837	78,156,943
Provision for credit losses (specific and collective)	(127,225)	(207,177)	(1,440,942)	(1,775,344)
Loans and advances, net	1,974,819	13,325,885	61,080,895	76,381,599

	2008			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Performing loans and advances-gross	2,152,004	12,950,878	65,569,723	80,672,605
Non-performing loans and advances, net	-	29,615	164,059	193,674
Total loans and advances	2,152,004	12,980,493	65,733,782	80,866,279
Provision for credit losses (specific and collective)	(114,456)	(134,272)	(380,794)	(629,522)
Loans and advances, net	2,037,548	12,846,221	65,352,988	80,236,757

Loans and advances, net include non-interest bearing products totalling SAR 38,568 million (2008: SAR 37,568 million) which are stated at cost less provision for credit losses, of SAR 723.0 million (2008: SAR 277.9 million).

Provision for credit losses charged to the consolidated statement of income related to non-interest bearing products is SAR 692.4 million (2008: SAR 111.5 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 256 million as at the beginning of the year. The hedge expired during the year and the negative mark to market of SAR 0.6 million on these loans as at the beginning of the year became nil as at the statement of financial position date.

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 277.5 million (2008: SAR 108.1 million).

b) Movement in provision for credit losses

	2009			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year	114,456	134,272	380,794	629,522
Bad debts written off	(107,398)	(206,647)	(36,616)	(350,661)
Provided during the year	159,120	310,131	1,119,689	1,588,940
Recoveries of amounts previously provided	(38,953)	(30,579)	(22,925)	(92,457)
Balance at the end of the year	127,225	207,177	1,440,942	1,775,344

6. Loans and advances, net (continued)

	2008			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	98,881	131,702	340,465	571,048
Bad debts written off	(110,994)	(171,693)	(30,119)	(312,806)
Provided during the year	158,499	203,401	98,392	460,292
Recoveries of amounts previously provided	(31,930)	(29,138)	(27,944)	(89,012)
Balance at the end of the year	<u>114,456</u>	<u>134,272</u>	<u>380,794</u>	<u>629,522</u>

The allowance for credit losses above includes a collective allowance amounting to SR 247.4 million (2008: SR 229.7 million) related to the performing portfolio.

The net charge to income on account of provision for credit losses is SAR 1,496.5 million (2008: SAR 371.2 million), which is net of recoveries of amounts previously provided as shown above.

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

	2009			
<u>Grades</u>	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Undoubted	-	-	706,388	706,388
Good	-	-	18,646,263	18,646,263
Satisfactory	1,752,814	12,525,598	37,545,680	51,824,092
Total	<u>1,752,814</u>	<u>12,525,598</u>	<u>56,898,331</u>	<u>71,176,743</u>

	2008			
<u>Grades</u>	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Undoubted	-	-	59,438	59,438
Good	-	-	9,032,034	9,032,034
Satisfactory	1,850,220	12,009,103	55,265,410	69,124,733
Total	<u>1,850,220</u>	<u>12,009,103</u>	<u>64,356,882</u>	<u>78,216,205</u>

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

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

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

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**6. Loans and advances, net** (continued)*ii) Ageing of loans and advances (past due but not impaired)*

	2009			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
From 1 day to 30 days	150,949	528,928	2,093,447	2,773,324
From 31 days to 90 days	107,817	234,113	112,148	454,078
From 91 days to 180 days	90,464	125,533	10,794	226,791
Total loans and advances	349,230	888,574	2,216,389	3,454,193

	2008			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
From 1 day to 30 days	131,558	641,696	1,166,339	1,939,593
From 31 days to 90 days	94,614	192,487	40,940	328,041
From 91 days to 180 days	75,612	107,592	5,562	188,766
Total loans and advances	301,784	941,775	1,212,841	2,456,400

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

	2009			
	<i>Performing</i>	<i>Non-performing, net</i>	<i>Credit loss provision</i>	<i>Loans and advances, net</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Government and quasi-government	2,667,097	-	-	2,667,097
Banks and other financial institutions	75,000	-	-	75,000
Agriculture and fishing	1,358,999	-	-	1,358,999
Manufacturing	8,188,313	180,771	(40,879)	8,328,205
Mining and quarrying	207,514	-	-	207,514
Electricity, water, gas and health services	257,584	7,128	(7,128)	257,584
Building and construction	1,734,999	892,390	(77,630)	2,549,759
Commerce	21,775,620	1,972,780	(940,164)	22,808,236
Transportation and communication	1,895,397	482	(1,482)	1,894,397
Services	5,112,675	6,120	(4,774)	5,114,021
Consumer loans and credit cards	15,441,216	118,890	(334,402)	15,225,704
Other	15,916,522	347,446	(121,531)	16,142,437
Collective impairment provision	-	-	(247,354)	(247,354)
Total	74,630,936	3,526,007	(1,775,344)	76,381,599

6. Loans and advances, net (continued)

	2008			
	<i>Performing</i>	<i>Non-performing, net</i>	<i>Credit loss provision</i>	<i>Loans and advances, net</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Government and quasi-government	2,678,754	-	-	2,678,754
Banks and other financial institutions	75,000	-	-	75,000
Agriculture and fishing	1,439,373	-	-	1,439,373
Manufacturing	8,605,006	59,418	(35,009)	8,629,415
Mining and quarrying	25,634	-	-	25,634
Electricity, water, gas and health services	263,674	7,128	(7,128)	263,674
Building and construction	3,113,829	33,039	(33,039)	3,113,829
Commerce	24,173,721	43,581	(24,967)	24,192,335
Transportation and communication	2,301,993	482	(1,482)	2,300,993
Services	4,752,142	18,377	(14,817)	4,755,702
Consumer loans and credit cards	15,027,882	29,615	(248,728)	14,808,769
Other	18,215,597	2,034	(34,662)	18,182,969
Collective impairment provision	-	-	(229,690)	(229,690)
Total	80,672,605	193,674	(629,522)	80,236,757

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

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

d) Collateral

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

7. Investments in associates

The Bank owns 40% of the equity shares of HSBC Saudi Arabia Limited, which is involved in investment banking services in the Kingdom of Saudi Arabia.

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

	2009			2008		
	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>Total</i>	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year	130,150	18,206	148,356	90,411	20,036	110,447
Cost of investment during the year	-	97,500	97,500	-	-	-
Dividend received	(111,446)	-	(111,446)	(70,412)	-	(70,412)
Share of undistributed profits (losses)	51,422	(5,374)	46,048	110,151	(1,830)	108,321
Total	70,126	110,332	180,458	130,150	18,206	148,356

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**7. Investments in associates (continued)****Share of the associates' financial statements:**

	2009		2008	
	<i>HSBC</i>		<i>HSBC</i>	
	<i>Saudi Arabia</i>	<i>SABB</i>	<i>Saudi Arabia</i>	<i>SABB</i>
	<i>Limited</i>	<i>Takaful</i>	<i>Limited</i>	<i>Takaful</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Total assets	130,950	257,745	186,823	60,429
Total liabilities	60,824	147,413	56,673	42,223
Total equity	70,126	110,332	130,150	18,206
Total income	88,438	13,606	167,759	15,096
Total expenses	37,016	18,980	57,608	16,926

8. Property and equipment, net

	<i>Land and buildings</i>	<i>Leasehold improvements</i>	<i>Equipment, furniture and vehicles</i>	2009 Total	2008 Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Cost					
As at 1 January	612,775	280,286	602,380	1,495,441	1,380,503
Additions	23,112	51,691	69,116	143,919	117,743
Disposals	-	-	(1,372)	(1,372)	(2,805)
As at 31 December	635,887	331,977	670,124	1,637,988	1,495,441
Accumulated depreciation					
As at 1 January	281,058	197,869	455,054	933,981	828,663
Charge for the year	25,766	22,672	62,851	111,289	107,395
Disposals	-	-	(1,324)	(1,324)	(2,077)
As at 31 December	306,824	220,541	516,581	1,043,946	933,981
Net book value					
As at 31 December 2009	329,063	111,436	153,543	594,042	
As at 31 December 2008	331,717	82,417	147,326		561,460

Land and buildings, leasehold improvements and equipment include work in progress as at 31 December 2009 amounting to SAR 24.7 million (2008: SAR 8.3 million), SAR 46.0 million (2008: SAR 10.8 million) and SAR 16.8 million (2008: SAR nil) respectively.

9. Other assets

	2009	2008
	SAR'000	SAR'000
Accrued special commission receivable		
– banks and other financial institutions	95	430
– investments	128,108	203,659
– loans and advances	445,371	697,348
Total accrued special commission receivable	573,574	901,437
Accounts receivable	63,134	107,922
Other real estate	4,277	4,277
Positive fair value of derivatives (note 10)	1,879,011	2,176,791
Advance tax	165,662	157,303
Other	559,177	233,325
Total	3,244,835	3,581,055

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 future contract values are settled daily.

b) *Options*

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

c) *Swaps*

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

d) *Forward rate agreements*

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

Derivatives held for trading

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.

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**10. Derivatives (continued)****Derivatives held for hedging**

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 34 - 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.

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 table indicating, as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	2009		
	<i>Within</i>		
	<i>1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>
	SAR'000	SAR'000	SAR'000
Cash inflows (assets)	3,264	16,143	-
Cash outflows (liabilities)	(6,671)	(41,949)	(24,283)
Net cash outflow	(3,407)	(25,806)	(24,283)
2008			
	<i>Within</i>		
	<i>1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>
	SAR'000	SAR'000	SAR'000
Cash inflows (assets)	9,021	11,276	8,131
Cash outflows (liabilities)	(2,098)	(120)	-
Net cash inflow	6,923	11,156	8,131

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 are, therefore, 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)

Notional amounts by term to maturity								
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Monthly average</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2009								
Derivatives held for trading:								
Special commission rate swaps	1,410,339	(1,318,875)	53,314,211	936,136	9,828,180	34,204,478	8,345,417	53,645,512
Special commission rate futures and options	34,021	(34,021)	2,887,500	-	-	2,887,500	-	2,867,500
Spot and forward foreign exchange contracts	39,918	(52,381)	17,026,881	7,656,198	8,991,599	379,084	-	14,068,421
Currency options	72,118	(72,118)	3,037,146	1,490,565	308,678	1,237,903	-	3,637,985
Currency swaps	284,116	-	1,475,297	-	-	1,475,297	-	1,475,297
Others	3,831	(3,831)	725,000	-	50,000	675,000	-	725,000
Derivatives held as fair value hedges:								
Special commission rate swaps	4,824	(29,539)	835,182	-	14,125	727,307	93,750	817,963
Derivatives held as cash flow hedges:								
Special commission rate swaps	29,844	(1,386)	1,381,250	187,500	-	1,193,750	-	789,583
Total	<u>1,879,011</u>	<u>(1,512,151)</u>	<u>80,682,467</u>	<u>10,270,399</u>	<u>19,192,582</u>	<u>42,780,319</u>	<u>8,439,167</u>	

Notes to the Consolidated Financial Statements (31 December 2009) (continued)

10. Derivatives (continued)

	Notional amounts by term to maturity							
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Monthly average</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2008								
Derivatives held for trading:								
Special commission rate swaps	1,650,294	(1,542,308)	54,598,298	2,985,212	5,635,396	36,587,791	9,389,899	47,939,486
Special commission rate futures and options	12,416	(12,416)	2,767,500	-	-	2,767,500	-	1,979,866
Spot and forward foreign exchange contracts	88,279	(147,072)	9,046,726	4,321,268	4,658,136	67,322	-	12,540,142
Currency options	142,941	(142,941)	3,045,939	580,704	1,340,235	1,125,000	-	3,732,399
Currency swaps	235,304	-	1,475,297	-	-	1,475,297	-	1,475,297
Others	6,337	(6,337)	725,000	-	-	725,000	-	475,000
Derivatives held as fair value hedges:								
Special commission rate swaps	851	(28,420)	1,319,505	600,000	253,088	325,163	141,254	1,806,926
Derivatives held as cash flow hedges:								
Special commission rate swaps	40,369	(4,632)	731,250	-	-	731,250	-	818,750
Total	<u>2,176,791</u>	<u>(1,884,126)</u>	<u>73,709,515</u>	<u>8,487,184</u>	<u>11,886,855</u>	<u>43,804,323</u>	<u>9,531,153</u>	

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

Description of the hedged items:	2009					
	<i>Fair value</i>	<i>Hedge inception value</i>	<i>Risk</i>	<i>Hedging instrument</i>	<i>Positive fair value</i>	<i>Negative fair value</i>
	<u>SAR'000</u>	<u>SAR'000</u>			<u>SAR'000</u>	<u>SAR'000</u>
Fixed commission rate investments	858,683	835,182	Fair value	Special commission rate swap	4,824	(29,539)
Floating commission rate investments	349,867	393,750	Cash flow	Special commission rate swap	23,116	-
Floating commission rate debt securities in issue	1,019,929	987,500	Cash flow	Special commission rate swap	6,728	(1,386)

10. Derivatives (continued)

Description of the hedged items:	2008					
	<i>Fair value</i>	<i>Hedge inception value</i>	<i>Risk</i>	<i>Hedging instrument</i>	<i>Positive fair value</i>	<i>Negative fair value</i>
	<i>SAR'000</i>	<i>SAR'000</i>			<i>SAR'000</i>	<i>SAR'000</i>
Fixed commission rate investments	494,211	465,170	Fair value	Special commission rate swap	-	(28,153)
Fixed commission rate loans	255,997	256,631	Fair value	Special commission rate swap	851	-
Fixed commission rate deposits	600,064	600,000	Fair value	Special commission rate swap	-	(267)
Floating commission rate investments	507,457	542,831	Cash flow	Special commission rate swap	40,369	-
Floating commission rate debt securities in issue	199,692	187,306	Cash flow	Special commission rate swap	-	(4,632)

The net gains on the hedging instruments for fair value hedges are SAR 2.9 million (2008: net losses of SAR 25.9 million). The net losses on the hedged item attributable to the hedged risk are SAR 4.2 million (2008: net gains of SAR 27.3 million). The net fair value of the derivatives is negative SAR 24.7 million (2008: negative SAR 27.6 million).

Approximately 27% (2008: 29%) of the positive fair value of the Bank's derivatives is entered into with financial institutions and less than 19% (2008: 18%) of the total of the positive fair value contracts is with any individual counterparty at the consolidated statement of financial position date.

11. Due to banks and other financial institutions

	2009	2008
	<u>SAR'000</u>	<u>SAR'000</u>
Current accounts	1,455,515	1,380,911
Money market deposits	12,150,229	14,688,581
Total	13,605,744	16,069,492

Money market deposits also include deposits placed by SAMA of SAR 276.9 million (2008: SAR 2,013.5 million).

12. Customers' deposits

	2009	2008
	<u>SAR'000</u>	<u>SAR'000</u>
Demand	38,073,079	28,569,398
Savings	3,877,905	3,174,064
Time	46,327,624	60,216,345
Other	908,253	717,730
Total	89,186,861	92,677,537

Customers' deposits include SAR 39,417.7 million (2008: SAR 39,577.5 million) deposits taken under non-interest bearing product contracts.

Other customers' deposits include SAR 905.6 million (2008: SAR 715.1 million) of margins held for irrevocable commitments.

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**12. Customers' deposits** (continued)

The above deposits include the following foreign currency deposits:

	2009	2008
	SAR'000	SAR'000
Demand	3,206,460	3,017,154
Savings	157,591	149,440
Time	8,780,380	7,509,247
Other	227,317	219,140
Total	<u>12,371,748</u>	<u>10,894,981</u>

13. Debt securities in issue

	2009	2008
	SAR'000	SAR'000
USD 600 million 5 year floating rate notes	2,249,867	2,249,134
EUR 325 million 5 year floating rate notes	1,754,620	1,702,666
SAR 1,705 million 5 year floating rate notes	1,705,000	1,705,000
Total	<u>5,709,487</u>	<u>5,656,800</u>

USD 600 million 5 year floating rate notes

These notes were issued during March 2005 under the Bank's Euro Medium Term Note programme and mature on 8 March 2010. The notes carry effective special commission at three months' LIBOR plus 40.76 BPS payable quarterly. The notes are non-convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

The special commission rate exposure on these notes has been partially hedged by a floating to fixed special commission rate swap to the extent of USD 50 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in these consolidated financial statements.

EUR 325 million 5 year floating rate notes

These notes were issued during 2006 under the Bank's Euro Medium Term Note programme and mature on 13 April 2011. The notes carry effective special commission at three months' Euribor plus 34.68 bps which is payable on a quarterly basis. The notes are non convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

The Bank has converted the foreign currency exposure on these notes into US Dollars by means of a cross currency swap. This swap does not form part of a designated hedging relationship and hence, is carried as a derivative in the trading book.

SAR 1,705 million 5 year floating rate notes

These notes were issued during 2008 and are due to mature on 21 July 2013. The notes carry special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are non-convertible, are unsecured and are listed on Tadawul.

14. Borrowings

This represents a 12 year floating rate loan. The loan carries special commission rate of LIBOR plus 65 BPS. This was taken on 7 July 2005 and is repayable by 15 June 2017.

15. Other liabilities

	2009	2008
	SAR'000	SAR'000
Accrued special commission payable		
– banks and other financial institutions	45,832	192,457
– customers' deposits	220,505	464,559
– debt securities in issue	10,289	22,127
– borrowings	452	920
Total accrued special commission payable	277,078	680,063
Accounts payable	854,951	575,886
Drawings payable	622,344	346,094
Negative fair value of derivatives (note 10)	1,512,151	1,884,126
Other	1,836,557	1,949,364
Total	5,103,081	5,435,533

16. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2008: 600 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2009	2008
Saudi shareholders	60%	60%
HSBC Holdings BV	40%	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

The shareholders of the Bank approved a bonus issue of one share for every four shares (2008: three shares for every five shares) in their Extraordinary General Meeting held on 10 March 2009 (2008: 27 April 2008). As a result 150 million shares (2008: 225 million shares) of SAR 10 each were issued by capitalising retained earnings.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 508 million (2008: SAR 730 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

	2009		
	<i>Cash Flow</i>	<i>Available</i>	<i>Total</i>
	<i>Hedges</i>	<i>for Sale</i>	
	<i>Investments</i>		
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	36,248	(212,964)	(176,716)
Net change in fair value	6,275	95,799	102,074
Transfer to consolidated statement of income	(14,065)	(48,828)	(62,893)
Net movement during the year	(7,790)	46,971	39,181
Balance at end of the year	28,458	(165,993)	(137,535)

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**18. Other reserves** (continued)

	2008		
	<i>Cash Flow Hedges</i>	<i>Available for Sale Investments</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	7,752	(23,972)	(16,220)
Net change in fair value	28,496	(206,002)	(177,506)
Transfer to consolidated statement of income	-	17,010	17,010
Net movement during the year	28,496	(188,992)	(160,496)
Balance at end of the year	36,248	(212,964)	(176,716)

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 14.1 million (2008: SAR nil) from equity to the consolidated statement of income.

19. Commitments and contingencies**a) Legal proceedings**

As at 31 December 2009 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b) Capital commitments

The Bank has capital commitments of SAR 67.9 million (2008: SAR 66.6 million) in respect of buildings and equipment purchases.

c) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on 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.

19. Commitments and contingencies (continued)

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

	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2009	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Letters of credit	4,374,045	2,686,950	680,637	-	7,741,632
Guarantees	8,116,621	8,736,248	10,816,018	72,037	27,740,924
Acceptances	1,917,970	433,151	116,890	-	2,468,011
Irrevocable commitments to extend credit	21,465	184,761	585,737	42,802	834,765
Total	14,430,101	12,041,110	12,199,282	114,839	38,785,332

	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2008	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Letters of credit	4,738,467	3,254,614	720,326	-	8,713,407
Guarantees	7,592,877	7,092,415	5,276,407	58,081	20,019,780
Acceptances	2,388,992	595,723	157,401	-	3,142,116
Irrevocable commitments to extend credit	2,154,062	753,937	1,662,380	-	4,570,379
Total	16,874,398	11,696,689	7,816,514	58,081	36,445,682

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 35,229.1 million (2008: SAR 40,667.8 million).

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

	2009	2008
	SAR'000	SAR'000
Government and quasi-government	267,144	1,322,016
Corporate	31,112,704	30,503,531
Banks and other financial institutions	7,269,803	4,464,166
Other	135,681	155,969
Total	38,785,332	36,445,682

f) *Operating lease commitments*

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

	2009	2008
	SAR'000	SAR'000
Less than 1 year	49,313	48,404
1 to 5 years	145,599	146,093
Over 5 years	149,606	151,137
Total	344,518	345,634

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**20. Net special commission income**

	2009	2008
	SAR'000	SAR'000
Special commission income		
Investments		
– available for sale investments	536,208	790,132
– held at amortised cost	203,728	256,092
– held to maturity investments	28,712	29,635
	<u>768,648</u>	<u>1,075,859</u>
Due from banks and other financial institutions	65,008	227,811
Loans and advances	3,739,943	4,561,296
Total	<u>4,573,599</u>	<u>5,864,966</u>
Special commission expense		
Due to banks and other financial institutions	189,096	369,302
Customers' deposits	831,003	2,049,333
Debt securities in issue	106,475	228,958
Borrowing	10,283	10,329
Total	<u>1,136,857</u>	<u>2,657,922</u>
Net special commission income	<u>3,436,742</u>	<u>3,207,044</u>

21. Fees and commission income, net

	2009	2008
	SAR'000	SAR'000
Fees income:		
- Share trading and fund management	232,281	354,209
- Trade finance	485,535	319,726
- Corporate finance and advisory	195,112	208,913
- Cards	319,427	307,800
- Other banking services	80,063	164,085
Total fees income	<u>1,312,418</u>	<u>1,354,733</u>
Fees expense:		
- Cards	(37,452)	(35,458)
- Custodial services	(852)	(628)
- Other banking services	(63,380)	(61,425)
Total fees expense	<u>(101,684)</u>	<u>(97,511)</u>
Fees and commission income, net	<u>1,210,734</u>	<u>1,257,222</u>

22. Income (losses) from FVIS financial instruments, net

	2009	2008
	SAR'000	SAR'000
Fair value change on investments held as FVIS	5,883	(47,104)
Special commission income on FVIS investments	684	4,704
Total	<u>6,567</u>	<u>(42,400)</u>

23. Trading income, net

	2009	2008
	SAR'000	SAR'000
Foreign exchange, net	253,551	239,323
Derivatives	41,807	127,672
Debt instruments	4,486	5,784
Others	(3,862)	(9,210)
Total	295,982	363,569

24. Gains (losses) on non-trading investments, net

	2009	2008
	SAR'000	SAR'000
Available for sale investments	48,828	(17,010)

25. Basic and diluted earnings per share

Basic earnings per share for the year ended 31 December 2009 and 2008 is calculated by dividing the net income for the year attributable to the equity holders by 750 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

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

26. Gross dividend, Zakat and income tax

The gross dividend for the year is SAR 660 million (2008: SAR 660 million) and was paid as an interim dividend to shareholders on 27 July 2009. Dividends are 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 39.9 million (2008: SAR 50.4 million).

Non-Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 174.4 million (2008: SAR 237.9 million).

27. Cash and cash equivalents

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

	2009	2008
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	11,452,321	6,500,763
Due from banks and other financial institutions with an original maturity of ninety days or less from date of the acquisition	6,004,593	6,200,466
Total	17,456,914	12,701,229

Notes to the Consolidated Financial Statements (31 December 2009) (continued)

28. Business segments

The Bank has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance. In contrast, the predecessor standard IAS 14 Segment Reporting required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as a starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Bank's reportable segments has not changed.

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

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

a) The Bank's reportable segments under IFRS 8 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 statement of financial position.

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2009 and 2008, its total operating income and expenses and the results for the years then ended (by business segment) are as follows:

	Retail Banking	Corporate Banking	Treasury	Others	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
2009					
Total assets	21,007,060	57,326,634	48,313,780	190,488	126,837,962
Total liabilities	36,360,818	39,664,579	37,732,187	35,089	113,792,673
Total operating income	1,896,342	2,221,338	821,103	221,496	5,160,279
Total operating expenses	1,572,177	1,415,350	61,675	124,848	3,174,050
Share in earnings of associates, net	-	-	-	46,048	46,048
Net income	324,165	805,988	759,428	142,696	2,032,277
Fees and commission income, net	507,889	691,507	11,659	(321)	1,210,734
Trading income, net	-	5,027	290,955	-	295,982
Credit losses and impairment provision, net	436,966	1,059,517	-	-	1,496,483
2008					
Total assets	24,032,842	58,450,117	49,026,870	150,864	131,660,693
Total liabilities	35,434,109	41,808,929	42,771,069	12,755	120,026,862
Total operating income	1,932,519	1,889,277	664,895	424,837	4,911,528
Total operating expenses	1,426,032	393,934	149,927	129,937	2,099,830
Share in earnings of associates, net	-	-	-	108,321	108,321
Net income	506,487	1,495,343	514,968	403,221	2,920,019
Fees and commission income, net	654,146	602,778	317	(19)	1,257,222
Trading income, net	3,190	-	360,379	-	363,569
Credit losses and impairment provision, net	304,450	66,830	86,929	-	458,209

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

	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Others</i>	<i>Total</i>
2009					
Assets	19,481,964	56,899,635	45,774,334	180,458	122,336,391
Commitments and contingencies	211,368	16,118,405	-	-	16,329,773
Derivatives	-	-	2,821,383	-	2,821,383
Total	19,693,332	73,018,040	48,595,717	180,458	141,487,547
2008					
Assets	22,345,009	57,891,748	46,511,454	148,356	126,896,567
Commitments and contingencies	174,607	14,491,577	-	-	14,666,184
Derivatives	-	-	3,195,209	-	3,195,209
Total	22,519,616	72,383,325	49,706,663	148,356	144,757,960

Credit exposure comprises the carrying value of assets excluding cash, property and equipment and other assets, and the credit equivalent value for commitments, contingencies and derivatives.

29. Credit risk

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

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses the external ratings, of the major rating agencies, 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 or assign them to other counterparties to 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, and to control the level of credit risk taken, The Bank assesses counterparties using the same techniques as for its lending activities.

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

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes 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 counterparty 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 business segment is given in note 28. The information on maximum credit risk exposure and its relative risk weights is also provided in note 37.

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**30. Geographical concentration of assets, liabilities, commitments and contingencies and credit exposure**

The Bank's main credit exposure by geographical region is as follows:

	2009					
	<i>Kingdom of Saudi Arabia</i>	<i>GCC and Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>Other countries</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
ASSETS						
Cash and balances with SAMA	16,614,885	-	-	-	-	16,614,885
Due from banks and other financial institutions	-	99,797	4,989,353	873,364	42,079	6,004,593
Investments, net	19,341,136	3,312,903	919,113	189,922	54,476	23,817,550
Loans and advances, net	74,869,569	1,248,143	213,446	39,202	11,239	76,381,599
Investment in associates	180,458	-	-	-	-	180,458
Total	111,006,048	4,660,843	6,121,912	1,102,488	107,794	122,999,085
LIABILITIES						
Due to banks and other financial institutions	9,387,411	2,175,996	1,738,322	175,041	128,974	13,605,744
Customer deposits	89,125,033	3,638	52,505	-	5,685	89,186,861
Debt securities in issue	1,705,000	-	4,004,487	-	-	5,709,487
Borrowings	-	-	187,500	-	-	187,500
Total	100,217,444	2,179,634	5,982,814	175,041	134,659	108,689,592
Commitments and contingencies	37,747,509	355,807	96,566	51,631	533,819	38,785,332
CREDIT EXPOSURE						
(Stated at credit equivalent amounts)						
Assets	110,343,354	4,660,843	6,121,912	1,102,488	107,794	122,336,391
Commitments and contingencies	16,060,521	74,148	46,350	16,176	132,578	16,329,773
Derivatives	1,438,277	155,211	1,218,865	9,028	2	2,821,383
Total credit exposure	127,842,152	4,890,202	7,387,127	1,127,692	240,374	141,487,547

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

	2008					
	<i>Kingdom of Saudi Arabia</i>	<i>GCC and Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>Other countries</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
ASSETS						
Cash and balances with SAMA	11,328,253	-	-	-	-	11,328,253
Due from banks and other financial institutions	1,572,177	156,626	1,846,856	2,618,795	6,012	6,200,466
Investments, net	25,519,336	1,347,712	965,494	1,670,322	101,482	29,604,346
Loans and advances, net	78,442,640	1,565,978	190,639	37,500	-	80,236,757
Investment in associates	148,356	-	-	-	-	148,356
Total	117,010,762	3,070,316	3,002,989	4,326,617	107,494	127,518,178
LIABILITIES						
Due to banks and other financial institutions	7,651,001	1,347,213	6,451,387	610,626	9,265	16,069,492
Customer deposits	92,648,672	5,999	17,000	-	5,866	92,677,537
Debt securities in issue	1,705,000	-	3,951,800	-	-	5,656,800
Borrowings	-	-	187,500	-	-	187,500
Total	102,004,673	1,353,212	10,607,687	610,626	15,131	114,591,329
Commitments and contingencies	35,486,924	319,533	153,138	22,161	463,926	36,445,682
CREDIT EXPOSURE (Stated at credit equivalent amounts)						
Assets	116,389,151	3,070,316	3,002,989	4,326,617	107,494	126,896,567
Commitments and contingencies	14,355,413	83,012	74,764	11,080	141,915	14,666,184
Derivatives	1,508,151	62,490	1,599,160	9,658	15,750	3,195,209
Total credit exposure	132,252,715	3,215,818	4,676,913	4,347,355	265,159	144,757,960

All non-performing loans and advances relate to customers in the Kingdom of Saudi Arabia.

31. Market risk

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

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

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank applies a VAR 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.

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**31. Market risk** (continued)

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 follows:

	<i>Foreign exchange</i>	<i>Special commission rate</i>	<i>Overall risk</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2009			
VAR as at 31 December 2009	1,688	874	1,905
Average VAR for 2009	2,095	930	2,393
	<i>Foreign exchange</i>	<i>Special commission rate</i>	<i>Overall risk</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2008			
VAR as at 31 December 2008	1,309	615	1,545
Average VAR for 2008	1,665	590	1,880

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 reasonable 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 2009, 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 2009, for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity of the asset or swap.

2009							
<i>Currency</i>	<i>Increase in basis points</i>	<i>Sensitivity of special commission income</i>	<i>Sensitivity of equity</i>				
			<i>6 months or less</i>	<i>1 year or less</i>	<i>1-5 years or less</i>	<i>Over 5 years</i>	<i>Total</i>
		<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
SAR	+ 100	21,014	(59,826)	3,106	47,791	-	(8,929)
USD	+ 100	2,380	(8,024)	(8,834)	(44,219)	(61)	(61,138)
EUR	+ 100	(13,860)	(641)	(704)	(2,830)	-	(4,175)
Others	+ 100	1,492	(428)	(468)	(831)	-	(1,727)

31. Market risk (continued)

2009							
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	- 100	(21,014)	59,826	(3,106)	(47,791)	-	8,929
USD	- 100	(2,380)	8,024	8,834	44,219	61	61,138
EUR	- 100	13,860	641	704	2,830	-	4,175
Others	- 100	(1,492)	428	468	831	-	1,727
2008							
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	+ 100	66,463	(45,546)	(25,309)	(18,023)	-	(88,878)
USD	+ 100	3,264	(7,451)	(7,442)	(64,975)	(624)	(80,492)
EUR	+ 100	(13,476)	-	-	-	-	-
Others	+ 100	1,871	-	-	-	-	-
2008							
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	- 100	(66,463)	45,546	25,309	18,023	-	88,878
USD	- 100	(3,264)	7,451	7,442	53,491	624	69,008
EUR	- 100	13,476	-	-	-	-	-
Others	- 100	(1,871)	-	-	-	-	-

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.

32. 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:

	2009	2008
	Long (short)	Long (short)
	SAR'000	SAR'000
US Dollar	188,485	(202,605)
Euro	165	(1,437)
Sterling Pounds	(544)	(1,062)
Other	6,004	3,016

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**33. Special commission rate risk**

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

	2009						Effective commission rate%
	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Non-special commission bearing</i>	<i>Total</i>	
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	
Assets							
Cash and balances with SAMA	10,787,850	-	-	-	5,827,035	16,614,885	0.3
Due from banks and other financial institutions	4,913,368	-	-	-	1,091,225	6,004,593	0.1
Investments, net	18,368,335	1,885,585	3,326,705	169,137	67,788	23,817,550	2.2
Loans and advances, net	43,783,937	12,737,753	19,859,909	-	-	76,381,599	2.5
Investment in associates	-	-	-	-	180,458	180,458	
Property and equipment, net	-	-	-	-	594,042	594,042	
Other assets	-	-	-	-	3,244,835	3,244,835	
Total assets	<u>77,853,490</u>	<u>14,623,338</u>	<u>23,186,614</u>	<u>169,137</u>	<u>11,005,383</u>	<u>126,837,962</u>	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	11,873,355	-	276,873	-	1,455,516	13,605,744	0.8
Customer deposits	41,272,756	2,648,013	7,193,012	-	38,073,080	89,186,861	0.1
Debt securities in issue	5,709,487	-	-	-	-	5,709,487	1.0
Borrowings	-	-	-	187,500	-	187,500	5.1
Other liabilities	-	-	-	-	5,103,081	5,103,081	
Shareholders' equity	-	-	-	-	13,045,289	13,045,289	
Total liabilities and shareholders' equity	<u>58,855,598</u>	<u>2,648,013</u>	<u>7,469,885</u>	<u>187,500</u>	<u>57,676,966</u>	<u>126,837,962</u>	
Net gap between assets and liabilities	18,997,892	11,975,325	15,716,729	(18,363)	(46,671,583)		
Net gap between derivative financial instrument	2,139,804	(463,426)	(1,582,629)	(93,749)	-		
Total special commission rate sensitivity gap	21,137,696	11,511,899	14,134,100	(112,112)	(46,671,583)		
Cumulative special commission rate sensitivity gap	<u>21,137,696</u>	<u>32,649,595</u>	<u>46,783,695</u>	<u>46,671,583</u>	<u>-</u>		

33. Special commission rate risk (continued)

	2008						
	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Non-special commission bearing</i>	<i>Total</i>	<i>Effective commission rate%</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	
Assets							
Cash and balances with SAMA	5,540,769	-	-	-	5,787,484	11,328,253	1.5
Due from banks and other financial institutions	3,478,098	-	-	-	2,722,368	6,200,466	3.5
Investments, net	16,067,254	7,955,528	4,071,055	1,415,944	94,565	29,604,346	4.0
Loans and advances, net	46,823,652	15,319,087	17,793,539	-	300,479	80,236,757	3.9
Investment in associates	-	-	-	-	148,356	148,356	
Property and equipment, net	-	-	-	-	561,460	561,460	
Other assets	-	-	-	-	3,581,055	3,581,055	
Total assets	<u>71,909,773</u>	<u>23,274,615</u>	<u>21,864,594</u>	<u>1,415,944</u>	<u>13,195,767</u>	<u>131,660,693</u>	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	10,819,778	3,417,793	451,010	-	1,380,911	16,069,492	1.6
Customer deposits	54,150,393	9,212,967	27,049	-	29,287,128	92,677,537	1.0
Debt securities in issue	5,656,800	-	-	-	-	5,656,800	4.1
Borrowings	-	-	-	187,500	-	187,500	5.1
Other liabilities	-	-	-	-	5,435,533	5,435,533	
Shareholders' equity	-	-	-	-	11,633,831	11,633,831	
Total liabilities and shareholders' equity	<u>70,626,971</u>	<u>12,630,760</u>	<u>478,059</u>	<u>187,500</u>	<u>47,737,403</u>	<u>131,660,693</u>	
Net gap between assets and liabilities	1,282,802	10,643,855	21,386,535	1,228,444	(34,541,636)		
Net gap between derivative financial instrument	817,433	(606,811)	(45,755)	(164,867)	-		
Total special commission rate sensitivity gap	2,100,235	10,037,044	21,340,780	1,063,577	(34,541,636)		
Cumulative special commission rate sensitivity gap	<u>2,100,235</u>	<u>12,137,279</u>	<u>33,478,059</u>	<u>34,541,636</u>	<u>-</u>		

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.

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**34. 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 and 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 Bonds up to 75% of the nominal value of bonds held.

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 consolidated statement of financial position 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.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily 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 The Bank's Assets and Liabilities Committee (ALCO). Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

a) Analysis of financial liabilities by remaining contractual maturities:

	2009				<i>Total</i> SAR'000
	<i>Within 3</i> <i>months</i>	<i>3 - 12</i> <i>months</i>	<i>1 - 5</i> <i>years</i>	<i>Over 5</i> <i>years</i>	
	SAR'000	SAR'000	SAR'000	SAR'000	
Financial liabilities					
Due to banks and other financial institutions	13,344,890	-	332,305	-	13,677,195
Customer deposits	79,221,880	2,980,775	7,632,815	7,984	89,843,454
Debt securities in issue	2,265,116	33,675	3,545,415	-	5,844,206
Borrowings	-	9,714	139,758	84,195	233,667
<u>Derivatives:</u>					
– Contractual amounts payable	8,811,909	9,301,035	3,120,984	-	21,233,928
– Contractual amounts receivable	(8,798,119)	(9,298,158)	(3,324,239)	(5,423)	(21,425,939)
Total undiscounted financial liabilities	94,845,676	3,027,041	11,447,038	86,756	109,406,511

34. Liquidity risk (continued)

	2008				Total
	<i>Within 3</i>	<i>3 - 12</i>	<i>1 - 5</i>	<i>Over 5</i>	
	<i>months</i>	<i>months</i>	<i>years</i>	<i>years</i>	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Financial liabilities					
Due to banks and other financial institutions	14,289,803	2,018,366	-	-	16,308,169
Customer deposits	83,254,162	10,039,746	159,542	4,809	93,458,259
Debt securities in issue	63,115	205,454	6,178,587	-	6,447,156
Borrowings	-	9,741	112,962	120,706	243,409
<u>Derivatives:</u>					
– Contractual amounts payable	4,685,897	5,307,824	2,648,203	-	12,641,924
– Contractual amounts receivable	(4,632,191)	(5,384,701)	(3,052,244)	(22,587)	(13,091,723)
Total undiscounted financial liabilities	<u>97,660,786</u>	<u>12,196,430</u>	<u>6,047,050</u>	<u>102,928</u>	<u>116,007,194</u>

b) Maturity analysis of assets and liabilities:

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

	2009					Total
	<i>Within 3</i>	<i>3 - 12</i>	<i>1 - 5</i>	<i>Over 5</i>	<i>No fixed</i>	
	<i>months</i>	<i>months</i>	<i>years</i>	<i>years</i>	<i>maturity</i>	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Assets						
Cash and balances with SAMA	11,452,321	-	-	-	5,162,564	16,614,885
Due from banks and other financial institutions	6,004,593	-	-	-	-	6,004,593
Investments, net	9,574,249	3,504,383	10,355,914	305,374	77,630	23,817,550
Loans and advances, net	35,375,478	12,594,329	20,354,079	8,057,713	-	76,381,599
Investment in associates	-	-	-	-	180,458	180,458
Property and equipment, net	-	-	-	-	594,042	594,042
Other assets	-	-	-	-	3,244,835	3,244,835
Total assets	<u>62,406,641</u>	<u>16,098,712</u>	<u>30,709,993</u>	<u>8,363,087</u>	<u>9,259,529</u>	<u>126,837,962</u>
Liabilities and shareholders' equity						
Due to banks and other financial institutions	13,328,871	-	276,873	-	-	13,605,744
Customer deposits	79,092,271	2,969,161	7,117,445	7,984	-	89,186,861
Debt securities in issue	2,249,867	-	3,459,620	-	-	5,709,487
Borrowings	-	-	-	187,500	-	187,500
Other liabilities	-	-	-	-	5,103,081	5,103,081
Shareholders' equity	-	-	-	-	13,045,289	13,045,289
Total liabilities and shareholders' equity	<u>94,671,009</u>	<u>2,969,161</u>	<u>10,853,938</u>	<u>195,484</u>	<u>18,148,370</u>	<u>126,837,962</u>

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**34. Liquidity risk** (continued)

	2008					<i>Total</i> SAR'000
	<i>Within 3</i>	<i>3 - 12</i>	<i>1 - 5</i>	<i>Over 5</i>	<i>No fixed</i>	
	<i>months</i>	<i>months</i>	<i>years</i>	<i>years</i>	<i>maturity</i>	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Assets						
Cash and balances with SAMA	6,500,763	-	-	-	4,827,490	11,328,253
Due from banks and other financial institutions	6,200,466	-	-	-	-	6,200,466
Investments, net	8,581,264	8,344,573	11,101,659	1,391,463	185,387	29,604,346
Loans and advances, net	37,245,324	15,829,110	19,253,135	7,909,188	-	80,236,757
Investment in associates	-	-	-	-	148,356	148,356
Property and equipment, net	-	-	-	-	561,460	561,460
Other assets	-	-	-	-	3,581,055	3,581,055
Total assets	58,527,817	24,173,683	30,354,794	9,300,651	9,303,748	131,660,693
Liabilities and shareholders' equity						
Due to banks and other financial institutions	13,888,189	1,917,793	263,510	-	-	16,069,492
Customer deposits	82,620,884	9,578,703	473,140	4,810	-	92,677,537
Debt securities in issue	-	-	5,656,800	-	-	5,656,800
Borrowings	-	-	-	187,500	-	187,500
Other liabilities	-	-	-	-	5,435,533	5,435,533
Shareholders' equity	-	-	-	-	11,633,831	11,633,831
Total liabilities and shareholders' equity	96,509,073	11,496,496	6,393,450	192,310	17,069,364	131,660,693

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.

35. Fair values of financial instruments

Determination of fair value and fair value hierarchy

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

- Level 1:** Quoted prices in active markets for the same instrument (i.e., without modification or repacking);
- Level 2:** Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3:** Valuation techniques for which any significant input is not based on observable market data.

	2009			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	SAR' 000	SAR' 000	SAR' 000	SAR' 000
<u>Financial assets</u>				
Derivative financial instruments	-	1,879,011	-	1,879,011
Financial assets designated at FVIS	327,530	18,673	-	346,203
Financial investments available for sale	7,268,609	11,330,688	66,231	18,665,528
Total	7,596,139	13,228,372	66,231	20,890,742
<u>Financial Liabilities</u>				
Derivative financial instruments	-	1,512,151	-	1,512,151
Total	-	1,512,151	-	1,512,151

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

The fair values of financial instruments (except for other investments held at amortised cost), held to maturity investments, loans and advances and customer deposits are not significantly different from the carrying values included in the financial statements.

The estimated fair values of held to maturity investments and other investments held at amortised cost are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5. It is not practicable to determine the fair value of loans, advances and customer deposits with sufficient reliability.

The fair values of derivatives are based on the quoted market prices or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is SAR 44.7 million (2008: SAR 95.7 million).

Notes to the Consolidated Financial Statements (31 December 2009) (continued)**36. 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 2007 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:

	2009	2008
	SAR'000	SAR'000
The HSBC Group:		
Due from banks and other financial institutions	1,604,704	4,323,321
Investments	674,459	835,220
Derivatives (at fair value)	(117,733)	(408,151)
Due to banks and other financial institutions	2,754,995	8,135,827
Other liabilities	-	4,619
Commitments and contingencies	1,330,634	997,114

The above investments include investments in associates, amounting to SAR 180.5 million (2008: SAR 148.3 million).

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

Loans and advances	3,065,140	2,168,348
Customers' deposits	8,196,270	4,000,924
Derivatives (at fair value)	7,045	12,137
Commitments and contingencies	195,482	242,057

Bank's mutual funds:

Loans and advances	1,437	1,002
Customers' deposits	926,396	384,839

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

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

	2009	2008
	SAR'000	SAR'000
Special commission income	48,036	34,449
Special commission expense	(111,693)	(295,379)
Fees and commission income	55,836	102,491
Profit share arrangement relating to investment banking activities	(12,225)	(18,643)
Share in earnings of associates	46,048	108,321
Directors' remuneration	2,647	2,828

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

	2009	2008
	SAR'000	SAR'000
Short-term employee benefits (salaries and allowances)	48,222	45,607
Employment termination benefits	-	1,029

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

The Bank offers share-based payment scheme arrangements to certain senior management and employees. There were two such schemes outstanding at 31 December 2009. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

37. 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.

	2009	2008
	SAR'000	SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	92,947,700	95,224,500
Operational Risk RWA	9,088,561	8,564,371
Market Risk RWA	672,013	509,500
Total RWA	102,708,274	104,298,371
Tier I Capital	10,423,435	8,645,646
Tier II Capital	2,683,537	3,072,693
Total I & II Capital	13,106,972	11,718,339
Capital Adequacy Ratio%		
Tier I ratio	10.15%	8.29%
Tier I + Tier II ratio	12.76%	11.24%

38. Basel II Pillar 3 Disclosures

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

39. Prospective changes in accounting standards

The Bank has chosen not to early adopt the amendments and the newly issued standards as follows:

Improvements to IFRSs 2009 – various standards	effective date 1 January 2010
Amendments to IAS 32 Financial Instruments: Presentation Classification of Rights Issues	effective date 1 February 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	effective date 1 July 2010
IAS 24 Related Party Disclosures (revised 2009)	effective date 1 January 2011
IFRS 9 Financial Instruments	effective date 1 January 2013

40. Comparative figures

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

41. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 6 Rabi Awal 1431H (20 February 2010).

**The Saudi British Bank
Basel II - Pillar 3
Annual Disclosures**

Basel II – Pillar 3 Annual Disclosures (31 December 2009)

Cautionary statement regarding forward-looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2009 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 SABB's 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 on page 8 of the Annual Report and Accounts 2009.

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

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

Entities that are fully consolidated:

SABB Securities Limited is a wholly owned subsidiary of SABB and its financial statements are consolidated with SABB. The Bank has 98% direct and 2% indirect ownership interest in its subsidiary.

Significant Minority agency:

Following Significant Minority investments are deducted from the capital:

- The Bank owns 40% of the equity shares of HSBC Saudi Arabia Limited, which is involved in Investment Banking services in the Kingdom of Saudi Arabia
- The Bank owns 32.5% of the equity shares of SABB Takaful. It carries out Shariah-compliant insurance activities and offers Family and General Takaful products

Equity investments which are risk weighted

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

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 a statutory reserve before declaration of dividend until the amount of statutory reserves is equal to the paid-up capital of the Bank.

1. Scope of Application *(continued)*

Regulatory restriction

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

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

2. Capital Structure

The authorised, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2008: 600 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2009	2008
Saudi shareholders	60%	60%
HSBC Holdings BV	40%	40%
<i>(a wholly owned subsidiary of HSBC Holdings plc)</i>		

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

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

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

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

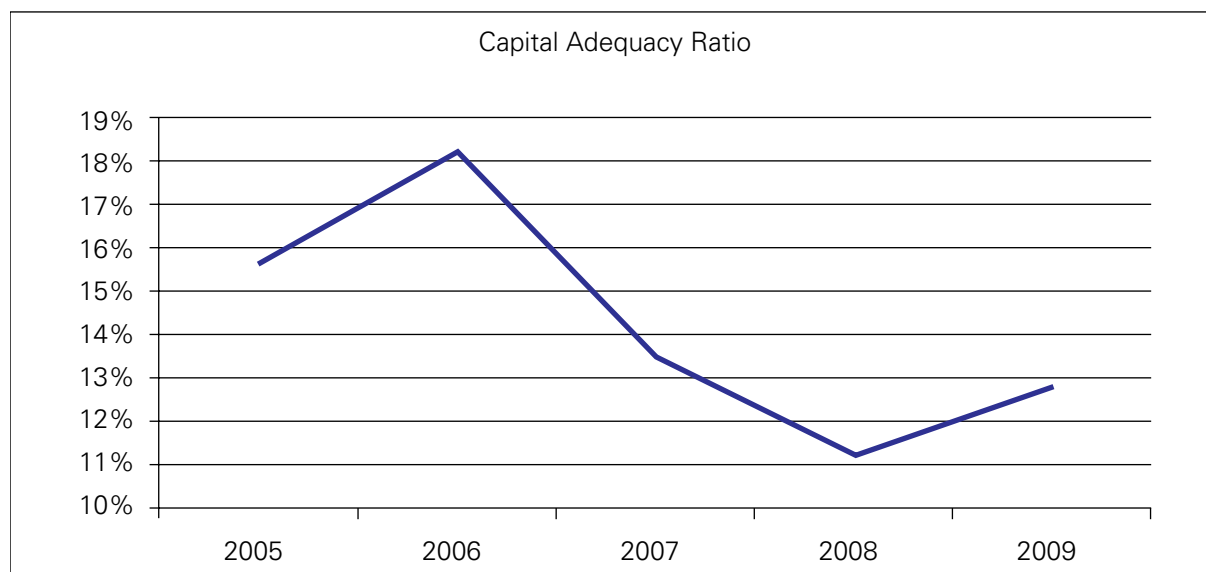
3. Capital Adequacy

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

- It has a process for assessing its overall capital adequacy in relation to its risk profile and a strategy for maintaining capital levels
- A review of SABB's 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 its risk profile

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**3. Capital Adequacy** (continued)

SABB Capital Adequacy Ratio in the last 5 years has been as follows:



2005-2007: Capital Adequacy Ratios are on Basel I basis

2008-2009: Capital Adequacy Ratios are on Basel II basis

Risk Exposure and Assessment – General Qualitative Disclosure Requirements**Credit Risk**

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

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

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

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

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

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

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

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

3. Capital Adequacy *(continued)*

SABB's association to the HSBC Group promotes the use of standard systems and methodologies for these purposes and employs common measurements of risk throughout the organisation. At SABB, consumer lending decisions are based on credit risk score models developed using internal data and embedded into an automated decision process. Corporate customers are evaluated using internal rating models which apply a 22-point rating scale and which are complemented by expert judgment from the credit approval teams.

In the event of customers facing difficulties with repayment, SABB operates dedicated collection and recoveries teams to manage non-performing loans and maximise recovery rates.

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

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

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

Market Risk

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

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

Operational Risk

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, system failure or from external events. These risks are inherent in every business and cover a wide range of issues including process failures, systems failures and human error.

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. Less liquid or structured investments account for less than 2% of the portfolio.

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.

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**3. Capital Adequacy** (continued)**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 for one of two reasons: a) relating to net investments in subsidiaries, branches or associated capital undertakings; b) Relating to the non-SAR denominated assets. The currencies where structural FX risk arises are those other than the designated reporting currency of the SABB, which is the Saudi Riyal (SAR).

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.

As a general policy SABB seeks to be self-sufficient with regards to funding its own operations through the use of a range of diverse funding sources.

The approach taken by SABB to managing liquidity risk has been aligned with the 17 principles issued by the BIS in their note titled 'Principles for Sound Liquidity Risk Management and Supervision' issued in September 2008.

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 The Assets and Liabilities Committee (ALCO) and The Executive Committee of the Board (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 Amanah liabilities are only invested in Amanah 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)

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 SABB's reputation among its various stakeholders in the various facets of its operations.

The safeguarding of SABB's reputation is of paramount importance and critical to its success. SABB's policies and procedures are regularly reviewed to ensure reputational factors covering environmental, social and governance risks are continually updated in light of relevant developments. All new products are reviewed by the reputational risk committee, which reviews key activities that give rise to material reputational risk sensitivities.

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 is robust. The impact of Shariah-compliance failures would impact SABB's reputation and as a result SABB operates a dedicated Amanah banking team who control Islamic product development and monitor ongoing compliance with Shariah requirements.

Macroeconomic and Business Cycle Risk

SABB assesses and manages macroeconomic and business cycle risk through clearly defined policies and procedures. Macroeconomic and business cycle risks are seen as the potential negative impacts on profits and capital as a result of SABB not meeting its goals and objectives caused by unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**3. Capital Adequacy** *(continued)*

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

- Price of oil per barrel in the world market
- Any significant reduction in public finances expenditure
- The TASI index
- Decline in rental yields
- Annual real GDP growth
- 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.

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, protect the interest of shareholders and depositors, and safeguard the institution against legal consequences.

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

Wrong-Way Risk

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

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

Other Risks

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

4. Credit Risk: General Disclosures for All Banks

Past due loans:

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

Impaired loan:

Individual Impairment Provisions:

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

Collective Impairment Provisions:

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

Credit Risk:

Standardised Approach

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

Advanced IRB Approach

SABB is developing its processes, in line with SAMA guidance notes, to enable it to move to the advanced approaches of Basel II for credit risk.

SABB has a set of independently validated corporate scorecards to calculate the PD for each exposure. Along with this, specific LGD & EAD engines are being developed to calculate the respective LGD & EAD for each client. The output from these engines, combined with additional appropriate data such as maturity, allow SABB to calculate RWA based on the IRB-A approach. It is important to note that each distinct portfolio has a dedicated PD scorecard to determine the appropriate credit risk rating. These scorecards are reviewed at least annually and approved by the RMM.

For retail portfolios SABB uses a wide range of application and behavioural models and has completed a risk segmentation process as well as having developed a full range of 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.

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**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:

<i>Moody's</i>	<i>Standard and Poor's</i>	<i>Fitch</i>
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

Claims on sovereigns and their central banks

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

Claims on Banks and Securities Firms (Under Option 2 as required by SAMA)

	<i>AAA to AA-</i>	<i>A+ to A-</i>	<i>BBB+ to BBB-</i>	<i>BB+ to B-</i>	<i>Below B-</i>	<i>Unrated</i>
Credit Assessment						
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 MDBs as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for option 2 for banks.

5. Standardised Approach and Supervisory Risk Weights in the IRB Approaches (continued)

Claims on public sector entities (PSEs)

As per Option 2

Claims on corporates

	<i>AAA to AA-</i>	<i>A+ to A-</i>	<i>BBB+ to BBB-</i>	<i>BB+ to B-</i>	<i>Unrated</i>
Credit Assessment					
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

<i>Risk Weight%</i>	<i>Level of Provisioning</i>
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 database 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 | - Government Bonds |
| - Listed Shares | - Mutual Funds Units |
| - Bank Guarantees | - Corporate / Individual Guarantees |
| - Title deeds of property | - 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 realise security. SABB monitors the concentration of risk mitigants and does not have any material concentrations in the risk mitigants currently held.

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**8. General Disclosure for Exposure Related to Counterparty Credit Risk**

Counterparty credit risk is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction.

The Bank calculates its counterparty credit risk for both trading and banking book exposures by assigning risk weights to exposure types:

- Securities financing transactions (e.g reverse repos) - trading and banking book
- Over the counter (OTC) derivatives – trading and banking book

The capital requirement is determined on above exposures based on same methodology as credit risk and is reported separately for risk assessment.

9. Securitisation

Currently there are no securitisation deals involving SABB. There is a prescribed process in SABB for managing securitisation transactions. This risk assessment and reporting process will be observed when the need to apply the same arises.

10. Market Risk: Disclosure for Banks Using Standardised Approaches

Market risk is identified by businesses and transferred into SABB Treasury who has the necessary expertise to manage the positions using risk limits approved by the executive committee of the Board (EXCOM). Exposures are separated into trading (market-making, proprietary trading, and mark to market positions) and non-trading (interest rate management, and financial investments either held to maturity or available for sale) portfolios.

The monitoring and control of market risk is handled by an independent market risk team which is responsible for ensuring market risk exposures are measured in accordance with defined policies and reported daily against prescribed control limits.

SABB uses a range of control measures to manage market risk ranging from specific stop loss control limits to sensitivity analysis limits including the present value of a basis point movement of interest rates, as well as VAR loss limits designed to estimate the potential loss from market movements across a specified time horizon and for a given level of confidence using a historical simulation approach. SABB recognises the limitations of VAR and complements its analysis with scenario stress testing to evaluate the impact of more extreme but plausible events or movements in market variables.

Stress testing is performed at a portfolio level covering the impacts of movements in any single risk factor, technical scenarios looking at the largest observed movements, hypothetical scenarios looking at potential macro-economic events and historical scenarios which incorporate observed market movements from periods not captured in the VAR. These scenarios are governed by an oversight committee and the results are reported to senior management together with an assessment of the impact such events would have on SABB together with proposals for mitigating actions.

The risk of credit spread movements or specific issuer risk which arises from the change in value of a bond due to perceived changes in the credit quality of an issuer is managed through credit VAR and stress testing limits and tolerance levels.

Whilst SABB uses both VAR and standard rules to manage market risk, capital requirements are assessed for all positions using the standard rules approaches prescribed by SAMA.

11. Market Risk: Disclosure for Banks Using Internal Models Approach (Ima) for Trading Portfolios

Not Applicable

12. Operational Risk

SABB manages operational risk by tracking actual and near miss operational losses. Historical loss experiences have been seen in the areas of fraudulent activities, breakdown in processes due to misjudgment or human error and systems failures.

Whilst operational risk is the responsibility of individual employees and businesses, it is organised as an independent risk discipline within SABB. The operational risk function seeks to manage and control risk in a cost-efficient manner within agreed risk tolerance levels. A formal governance structure is in place to provide oversight over the management of risk within which designated business coordinators feed into a committee structure and ultimately to the Risk Management Meeting and Board.

12. Operational Risk *(continued)*

Operational risk policies and procedures explain the requirements for identifying, assessing, monitoring reporting and controlling risk as well as providing guidance on the mitigation action to be taken when weaknesses are identified. Businesses are responsible for undertaking a self assessment, designing controls and reporting defined key risk indicators all of which are subject to an independent challenge and review process. Systems and centralised databases are in place to track and record actual as well as near miss loss events for collation, analysis and reporting to senior management.

Capital requirements are assessed using the Standardised Approach, which applies one of three fixed percentages to an average of the last three financial years gross revenues allocated across eight defined business lines.

13. Equities: Disclosures for Banking Book Positions

Equity Investments are either classified as “Available for sale” or as “Investments in Associate”.

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

Investments, which are classified as “available for sale”, are subsequently measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in “other reserves” under shareholders’ equity. On derecognition, any cumulative gain or loss previously 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 Excom. Where practical, risk monitoring takes place on a daily basis.

Stress testing and sensitivity analysis is also carried out and results are reported to ALCO on a monthly basis.

SABB Treasury seeks to manage the impact of interest rate risk on net interest income in so far as such hedging is possible and cost effective to undertake.

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**1. Table – Scope of Application****Capital Deficiencies (Table 1, (e))**

Particulars	<i>Amount</i> 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	70,127
2. Saudi Travellers Cheque Company	5,676
3. SABB Takaful	110,331

2. Table – Capital Structure**Capital Structure (Table 2, (b to e))**

Components of capital	<i>Amount</i> SAR'000
Core capital - Tier I:	
Eligible paid-up share capital	7,500,000
Shares premium accounts	-
Eligible reserves	4,850,540
Minority interests in the equity of subsidiaries	-
Retained earnings	(1,834,038)
IAS type adjustments	-
Deductions from Tier I:	
Interim losses during the year	-
Intangible assets (including goodwill)	-
Other country specific deductions from Tier I at 50%	-
Regulatory calculation differences deduction from Tier I at 50%	-
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction:	
Banking and securities entities not fully consolidated	35,064
Insurance organisations	55,166
Commercial organisations	2,837
Total Tier I	10,423,435
Supplementary capital - Tier II:	
Revaluation gains/reserves	-
Subordinated loan capital	-
Qualifying general provisions	744,327
Interim profits	2,032,277
Deductions from Tier II:	
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction	-
Banking and securities entities not fully consolidated	35,064
Insurance organisations	55,166
Commercial organisations	2,837
Other country specific deductions from Tier II at 50%	-
Regulatory calculation differences deduction from Tier II at 50%	-
Total Tier II	2,683,537
Capital to cover market risks - Tier III	
Short Term Subordinated Debt	-
Tier I and Tier II Capital Available for Market Risk	-
Total eligible capital	13,106,972

3. Table – Capital Adequacy

Amount of Exposures Subject to Standardised Approach of Credit Risk and related Capital Requirements (Table 3, (b))

Portfolios	<i>Amount of exposure</i>	<i>Capital requirement</i>
	SAR'000	SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	31,277,265	-
Others	1,891,429	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	6,032,651	96,522
Corporates	69,750,789	4,934,808
Retail non-mortgages	12,242,849	712,333
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	3,188,159	255,053
Commercial	-	-
Securitised assets	-	-
Equity	51,833	4,147
Others	2,036,090	109,837
Total	126,471,065	6,122,700

Capital Requirements for Market Risk* (822, Table 3, (d))

<i>Interest rate risk</i>	<i>Equity position risk</i>	<i>Foreign exchange risk</i>	<i>Commodity risk</i>	<i>Total</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
38,110		15,651	-	53,761

Standardised Approach

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

Capital Requirements for Operational Risk* (Table 3, (e))

<i>Capital requirement</i>
SAR'000
727,085

Particulars

Standardised Approach

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

Capital Adequacy Ratios (TABLE 3,(f))

<i>Total capital ratio</i>	<i>Tier 1 capital ratio</i>
%	%
12.76	10.15

Particulars

Top consolidated level

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**4. Table (STA) – Credit Risk: General Disclosures****Credit Risk Exposure (Table 4, (b))**

	<i>Total gross credit risk exposure</i>	<i>Average gross credit risk exposure over the period*</i>
Portfolios	SAR'000	SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	31,304,265	-
Others	1,891,429	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	10,616,035	-
Corporates	84,515,510	-
Retail non-mortgages	11,641,226	-
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	3,188,159	-
Commercial	-	-
Securitised assets	-	-
Equity	51,833	-
Others	2,036,090	-
Total	145,244,547	-

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

Geographic Breakdown (Table 4, c))

Portfolios	<i>Saudi Arabia</i>	<i>Other GCC & Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>South East Asia</i>	<i>Other countries</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Sovereigns and central banks:							
SAMA and Saudi Government	31,304,265	-	-	-	-	-	31,304,265
Others	-	1,891,429	-	-	-	-	1,891,429
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	3,417,346	405,356	5,571,937	933,933	142,961	144,442	10,616,035
Corporates	80,283,296	2,697,718	1,258,331	229,124	-	47,042	84,515,510
Retail non-mortgages	11,641,226	-	-	-	-	-	11,641,226
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-
Mortgages Residential	3,188,159	-	-	-	-	-	3,188,159
Commercial	-	-	-	-	-	-	-
Securitised assets	-	-	-	-	-	-	-
Equity	5,218	-	46,615	-	-	-	51,833
Others	2,036,090	-	-	-	-	-	2,036,090
Total	<u>131,875,599</u>	<u>4,994,503</u>	<u>6,876,883</u>	<u>1,163,117</u>	<u>142,961</u>	<u>191,484</u>	<u>145,244,547</u>

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**4. Table (STA) – Credit Risk: General Disclosures** (continued)**Industry Sector Breakdown (Table 4, d))**

Portfolios	<i>Government and quasi government</i>	<i>Bank and other financial institutions</i>	<i>Agriculture and fishing</i>	<i>Manufactur- ing</i>	<i>Mining and quarrying</i>	<i>Electricity, water, gas and health services</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:						
SAMA and						
Saudi Government	31,304,265	-	-	-	-	-
Others	1,891,429	-	-	-	-	-
Multilateral Development						
Banks (MDBs)	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-
Banks and securities firms	-	10,616,035	-	-	-	-
Corporates	46,945	6,020,222	1,339,731	18,643,507	1,310,486	2,098,905
Retail non-mortgages	-	-	-	-	-	-
Small Business Facilities						
Enterprises (SBFE's)	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-
Residential	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Securitised assets	-	-	-	-	-	-
Equity	-	51,833	-	-	-	-
Others	-	-	-	-	-	-
Total	33,242,639	16,688,090	1,339,731	18,643,507	1,310,486	2,098,905

Residual Contractual Maturity Breakdown (Table 4, (e))

Portfolios	Maturity breakdown		
	<i>Less than 8 days</i>	<i>8 - 30 days</i>	<i>30 - 90 days</i>
	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:			
SAMA and Saudi Government	11,844,260	2,360,760	6,221,080
Others	-	-	376,752
Multilateral Development Banks	-	-	-
Public Sector Entities	-	-	-
Banks and Securities Firms	6,910,554	203,706	726,430
Corporates	10,340,468	14,552,419	16,827,850
Retail non-mortgages	1,876,897	175,303	141,064
Small Business Facilities Enterprises (SBFE's)	-	-	-
Mortgages	-	-	-
Residential	64	-	130
Commercial	-	-	-
Securitised assets	-	-	-
Equity	-	-	-
Others	-	-	-
Total	30,972,243	17,292,188	24,293,306

<i>Building and construction</i>	<i>Commerce</i>	<i>Transporta- tion and communica- tion</i>	<i>Services</i>	<i>Consumer loan and credit cards</i>	<i>Others</i>	<i>Total</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
-	-	-	-	-	-	31,304,265
-	-	-	-	-	-	1,891,429
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	10,616,035
12,475,570	23,195,538	6,519,478	1,236,216	-	11,628,912	84,515,510
-	-	-	-	11,641,226	-	11,641,226
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	3,188,159	-	3,188,159
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	51,833
-	-	-	-	-	2,036,090	2,036,090
12,475,570	23,195,538	6,519,478	1,236,216	14,829,385	13,665,002	145,244,547

Maturity breakdown

<i>90 - 180 days</i>	<i>180 - 360 days</i>	<i>1 - 3 years</i>	<i>3 - 5 years</i>	<i>Over 5 years</i>	<i>*No Maturity</i>	<i>Total</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
1,871,442	1,037,307	1,696,522	985,858	5,287,036	-	31,304,265
-	-	110,127	1,174,618	229,932	-	1,891,429
-	-	-	-	-	-	-
-	-	-	-	-	-	-
266,277	571,331	1,615,241	163,524	158,972	-	10,616,035
9,642,231	7,476,060	16,370,092	7,570,299	1,736,091	-	84,515,510
152,975	193,958	2,472,143	5,047,680	1,581,206	-	11,641,226
-	-	-	-	-	-	-
-	-	-	-	-	-	-
653	272	37,337	128,020	3,021,683	-	3,188,159
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	51,833	-	51,833
-	-	-	-	-	2,036,090	2,036,090
11,933,578	9,278,928	22,301,462	15,069,999	12,066,753	2,036,090	145,244,547

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**4. Table (STA) – Credit Risk: General Disclosures** (continued)**Impaired loans, Past Due Loans and Allowances** (Table 4, (f))

	<i>Impaired loans</i>	<i>Defaulted</i>	Aging of past due loans	
			<i>Less than 90 days</i>	<i>90 - 180 days</i>
Industry sector	SAR'000	SAR'000	SAR'000	SAR'000
Government and quasi-government	-	-	-	-
Banks and other financial institutions	-	-	171,563	-
Agriculture and fishing	-	-	-	-
Manufacturing	180,711	-	29,167	-
Mining and quarrying	-	-	-	-
Electricity, water, gas and health services	7,128	-	38,041	-
Building and construction	892,390	-	-	-
Commerce	1,972,780	-	105,938	-
Transportation and communication	482	-	-	-
Services	6,120	-	-	-
Consumer loans and credit cards	118,890	-	1,021,807	215,997
Others	347,506	-	1,860,886	10,794
Total	3,526,007	-	3,227,402	226,791

Reconciliation of Changes in the Allowances for Loan Impairment (Table 4, (h))

Particulars	<i>Specific allowances</i>	<i>General allowances</i>
	SAR'000	SAR'000
Balance, beginning of the year	399,832	229,690
Charge-offs taken against the allowances during the period	(92,457)	-
Amounts set aside (or reversed) during the period	1,220,615	17,664
Other adjustments:		
– exchange rate differences	-	-
– business combinations	-	-
– acquisitions and disposals of subsidiaries	-	-
– etc.	-	-
Transfers between allowances	-	-
Balance, end of the year	1,527,990	247,354

Aging of past due loans		Specific allowances				
<i>180 - 360 days</i>	<i>Over 360 days</i>	<i>Balance at beginning of the period</i>	<i>Charges during the period</i>	<i>Charge-offs during the period</i>	<i>Balance at the end of the period</i>	<i>General allowances</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	2,802
-	-	35,009	34,391	(28,521)	40,879	83,068
-	-	-	-	-	-	1,289
-	-	7,128	-	-	7,128	4,568
-	-	33,039	44,591	-	77,630	58,717
-	-	24,967	915,830	(633)	940,164	73,544
-	-	1,482	-	-	1,482	5,519
-	-	14,817	(10,043)	-	4,774	2,153
-	-	248,728	399,719	(314,045)	334,402	15,694
-	-	34,662	94,331	(7,462)	121,531	-
-	-	399,832	1,478,819	(350,661)	1,527,990	247,354

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**5. Table (STA) – Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach****Allocation of Exposures to Risk Buckets (Table 5, (b))**

Particulars	Risk buckets			
	0%	20%	35%	50%
	SAR'000	SAR'000	SAR'000	SAR'000
Sovereigns and central banks				
SAMA and Saudi Government	31,304,265	-	-	-
Others	1,891,429	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-
Banks and securities firms	-	8,031,833	-	2,578,015
Corporates	406,096	3,035,169	-	4,167,655
Retail non-mortgages	-	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-	-
Mortgages	-	-	-	-
Residential	-	-	-	-
Commercial	-	-	-	-
Securitised assets	-	-	-	-
Equity	-	-	-	-
Others	663,124	-	-	-
Total	34,264,914	11,067,002	-	6,745,670

7. Table (STA) – Credit Risk Mitigation (CRM); Disclosures for Standardised Approach**Credit Risk Exposure covered by CRM (Table 7, (b) and c))**

Portfolios	Covered by	
	Eligible financial collateral*	Guarantees/ credit derivatives
	SAR'000	SAR'000
Sovereigns and central banks		
SAMA and Saudi Government		
Others		
Multilateral Development Banks (MDBs)		
Public Sector Entities (PSEs)		
Banks and securities firms		
Corporates	1,682,532	386,655
Retail non-mortgages		
Small Business Facilities Enterprises (SBFE's)		
Mortgages		
Residential		
Commercial		
Securitised assets		
Equity		
Others		
Total	1,682,532	386,655

Risk buckets					Total	Deducted
<i>75%</i>	<i>100%</i>	<i>150%</i>	<i>Other risk weights</i>	<i>Unrated</i>		
<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
-	-	-	-	-	31,304,265	-
-	-	-	-	-	1,891,429	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	6,187	-	-	-	10,616,035	-
-	73,968,347	6,460	-	-	81,583,727	-
11,507,729	133,497	-	-	-	11,461,226	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	3,188,159	-	-	-	3,188,159	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	51,833	-	-	-	51,833	186,133
-	1,372,966	-	-	-	2,036,090	-
11,507,729	78,720,989	6,460	-	-	142,312,764	186,133

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**8. Table (STA) – Credit Derivative Transactions (Table 8, (c))**

	Proprietary activities intermediation activities			
	<i>Protection bought</i>	<i>Protection sold</i>	<i>Protection bought</i>	<i>Protection sold</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Credit derivative transactions				
Total return swaps				
Credit default swaps				
Credit options				
Credit linked notes				
Collateralised debt obligations				
Collateralised bond obligations				
Collateralised loan obligations				
Others				
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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9. Table (STA) – Securitisation: Disclosures for Standardised Approach**Outstanding Exposures Securitised by the Bank (Table 9,(d) to (f))**

Exposures Type	Outstanding exposures		<i>Impaired/ Past due assets securitised</i>	<i>Losses recognised by the Bank during the current period</i>	<i>Securitisa- tion exposures retained or purchased</i>
	<i>Traditional</i>	<i>Synthetic</i>			
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Credit cards					
Home equity loans					
Commercial loans					
Automobile loans					
Small business loans					
Equipment leases					
Others					

N I L

Exposures by Risk Weight Bands (Table 9, (g))

Risk Weight bands	<i>Securitisa- tion exposures retained or purchased</i>	<i>Associated capital charges</i>
	<u>SAR'000</u>	<u>SAR'000</u>
0% to 20%		
Above 20% to 40%		
Above 40% to 60%		
Above 60% to 80%		
Above 80% to 100%		
Above 100%		

N I L

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

Deductions from capital (Table 9, (g))

	<i>Exposures deducted from Tier 1 capital</i>	<i>Credit enhancing I/Os deducted from total capital</i>	<i>Other exposures deducted from total capital</i>
Type of underlying assets	SAR'000	SAR'000	SAR'000
Loans			
Commitments			
Asset-backed securities			
Mortgage-backed securities			
Corporate bonds			
Equity securities			
Private equity investments			
Others			

N I L

Securitisations Subject to Early Amortisation Treatment (Table 9, (h))

	Aggregate capital charges incurred by the Bank against		
Type of underlying assets	<i>Aggregate draw exposures attributed to the seller's and investor's interest</i>	<i>Its retained shares of the drawn balances and undrawn lines</i>	<i>The investor's shares of drawn balances and undrawn lines</i>
Loans	SAR'000	SAR'000	SAR'000
Commitments			
Asset-backed securities			
Mortgage-backed securities			
Corporate bonds			
Equity securities			
Private equity investments			
Others			

N I L

Summary of Current Year's Securitisation Activity (Table 9, (j))

Exposure types	<i>Amount of exposures securitised</i>	<i>Recognised gain or loss on sale</i>
Credit cards	SAR'000	SAR'000
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		

N I L

Basel II – Pillar 3 Annual Disclosures (31 December 2009) (continued)**10. Table (STA) – Market Risk: Disclosures for Banks using the Standardised Approach****Level of Market Risks in Terms of Capital Requirements (Table 10, (b))**

	<i>Interest rate risk</i>	<i>Equity position risk</i>	<i>Foreign exchange risk</i>	<i>Commodity risk</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Capital requirements	38,110	-	15,651	-	53,761

13. Table (STA) – Equities: Disclosures for Banking Book Positions**Value of Investments (Table 13, (b))**

	Unquoted investments		Quoted investments		
	<i>Value disclosed in financial statements</i>	<i>Fair value</i>	<i>Value disclosed in financial statements</i>	<i>Fair value</i>	<i>Publicly quoted share values (if materially different from fair value)*</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Investments	127,636	127,636	110,331	371,280	-

Type and Nature of Investments (Table 13, (c))

	<i>Publicly traded</i>	<i>Privately held</i>
	SAR'000	SAR'000
Investments	-	-
Government and quasi-government	-	-
Banks and other financial institutions	110,331	70,127
Agriculture and Fishing	-	-
Manufacturing	-	-
Mining and quarrying	-	-
Electricity, water, gas and health services	-	-
Building and construction	-	-
Commerce	-	-
Transportation and communication	-	-
Services	-	11,399
Others	-	46,110
Total	110,331	127,636

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	48,828
Total unrealised gains (losses)	12,814
Total latent revaluation gains (losses)*	N/A
Unrealised gains (losses) included in capital	12,814
Latent revaluation gains (losses) included in capital*	N/A

*Not applicable to KSA to date

13. Table (STA) – Equities: Disclosures for Banking Book Positions (continued)

Capital Requirements (Table 13, (f))

	<i>Capital requirements</i>
	SAR'000
Equity Grouping	
Government and quasi-government	-
Banks and other financial institutions	-
Agriculture and fishing	-
Manufacturing	-
Mining and quarrying	-
Electricity, water, gas and health services	-
Building and construction	-
Commerce	-
Transportation and communication	-
Services	458
Others	3,689
Total	4,147

Equity Investments Subject to Supervisory Transition of Grandfathering Provisions (Table 13, (f))

	SAR'000
Equity Grouping	
Government and quasi-government	Nil
Banks and other financial institutions	Nil
Agriculture and fishing	Nil
Manufacturing	Nil
Mining and quarrying	Nil
Electricity, water, gas and health services	Nil
Building and construction	Nil
Commerce	Nil
Transportation and communication	Nil
Services	Nil
Others	Nil
Total	Nil

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))

	<i>Change in earnings</i>
	SAR'000
Rate Shocks	
Upward rate shocks	
SAR	(377,803)
USD	(96,098)
Downward rate shocks	
SAR	377,803
USD	96,098

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