The Saudi British Bank
Consolidated Financial Statements
For the year ended

31 December 2013

The Saudi British Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2013 SAR'000	2012 SAR'000
ASSETS			
Cash and balances with SAMA	3	**26,123,913**	20,403,864
Due from banks and other financial institutions	4	**3,286,053**	8,091,410
Investments, net	5	**37,399,559**	27,587,185
Loans and advances, net	6	**106,114,930**	96,098,306
Investment in associates	7	**647,057**	612,232
Property and equipment, net	8	**603,656**	604,509
Other assets	9	**3,127,032**	3,254,831
Total assets		**177,302,200**	156,652,337
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**3,769,640**	5,931,850
Customers' deposits	12	**138,961,470**	120,433,716
Debt securities in issue	13	**5,282,873**	4,505,780
Borrowings	14	**109,375**	140,625
Other liabilities	15	**6,346,043**	5,574,859
Total liabilities		**154,469,401**	136,586,830
Shareholders' equity			
Share capital	16	**10,000,000**	10,000,000
Statutory reserve	17	**7,934,504**	6,991,051
Other reserves	18	**(10,738)**	(4,220)
Retained earnings		**3,809,033**	2,078,676
Proposed dividends	26	**1,100,000**	1,000,000
Total shareholders' equity		**22,832,799**	20,065,507
Total liabilities and shareholders' equity		**177,302,200**	156,652,337

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

The Saudi British Bank

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December	Notes	2013 SAR'000	2012 SAR'000
Special commission income	20	**4,386,138**	3,999,985
Special commission expense	20	**666,842**	735,885
Net special commission income		**3,719,296**	3,264,100
Fees and commission income, net	21	**1,433,435**	1,321,600
Exchange income, net		**401,480**	232,208
Income from FVIS financial instruments		**11,250**	-
Trading income, net	22	**169,165**	295,457
Dividend income		**38,629**	35,638
Gains on non-trading investments, net	23	**40,251**	16,042
Other operating income		**1,878**	1,438
Total operating income		**5,815,384**	5,166,483
Salaries and employee related expenses	24	**1,090,597**	1,008,961
Rent and premises related expenses		**110,613**	95,434
Depreciation	8	**91,518**	112,113
General and administrative expenses		**428,265**	375,322
Provision for credit losses, net	6	**374,179**	440,544
Impairment (reversal of impairment) of other financial assets	5	**67,855**	(1,589)
Other operating expenses		**1,717**	6,612
Total operating expenses		**2,164,744**	2,037,397
Income from operating activities		**3,650,640**	3,129,086
Share in earnings of associates, net	7	**123,170**	111,230
Net income for the year		**3,773,810**	3,240,316
Basic and diluted earnings per share (in SAR)	25	**3.77**	3.24

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

The Saudi British Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December

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

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

The Saudi British Bank

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December

	Notes	Share capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividends SAR '000	Total SAR '000
2013							
Balance at beginning of the year		**10,000,000**	**6,991,051**	**(4,220)**	**2,078,676**	**1,000,000**	**20,065,507**
Total comprehensive income for the year							
Net income for the year		-	-	-	**3,773,810**	-	**3,773,810**
Net changes in fair value of cash flow hedges	18	-	-	**9,585**	-	-	**9,585**
Net changes in fair value of available for sale investments	18	-	-	**(45,061)**	-	-	**(45,061)**
Transfer to consolidated statement of income	18	-	-	**28,958**	-	-	**28,958**
				(6,518)	**3,773,810**		**3,767,292**
Transfer to statutory reserve	17	-	**943,453**	-	**(943,453)**	-	-
2012 final dividend paid		-	-	-	-	**(1,000,000)**	**(1,000,000)**
2013 final proposed dividend	26	-	-	-	**(1,100,000)**	**1,100,000**	-
Balance at end of the year		**10,000,000**	**7,934,504**	**(10,738)**	**3,809,033**	**1,100,000**	**22,832,799**
2012							
Balance at beginning of the year		7,500,000	6,180,972	(225,710)	3,148,439	562,500	17,166,201
Total comprehensive income for the year							
Net income for the year		-	-	-	3,240,316	-	3,240,316
Net changes in fair value of cash flow hedges	18	-	-	20,181	-	-	20,181
Net changes in fair value of available for sale investments	18	-	-	222,291	-	-	222,291
Transfer to consolidated statement of income	18		-	(20,982)	-	-	(20,982)
				221,490	3,240,316		3,461,806
Bonus shares issued		2,500,000	-	-	(2,500,000)	-	-
Transfer to statutory reserve	17	-	810,079	-	(810,079)	-	-
2011 final dividend paid		-	-	-	-	(562,500)	(562,500)
2012 final proposed dividend	26	-	-	-	(1,000,000)	1,000,000	-
Balance at end of the year		10,000,000	6,991,051	(4,220)	2,078,676	1,000,000	20,065,507

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

The Saudi British Bank

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

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

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

1. General

The Saudi British Bank ("SABB") is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 80 branches (2012: 79 branches) in the Kingdom of Saudi Arabia. SABB employed 3,158 staff as at 31 December 2013 (2012: 3,049). The address of SABB's head office is as follows:

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

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

SABB has 100% (2012:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2012:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2012:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

1.1. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of financial statements

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

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of SABB and its subsidiaries (collectively referred to as "the Bank"). The financial statements of the subsidiaries are prepared for the same reporting year as that of SABB, using consistent accounting policies.

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

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

f) Critical accounting judgements and estimates

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

(i) Impairment losses on loans and advances

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

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

(iii) Impairment of available for sale equity investments

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

(iv) Classification of held to maturity investments

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

(v) Classification of fair value through income statement

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

g) Going concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Changes in accounting policies

The accounting policies followed are consistent with those of the previous financial year except for the adoption of the following:

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

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

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

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

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

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

- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

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

- IAS 27 Separate Financial Statements (2011): now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

b) Trade date accounting

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

c) Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

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

d) Foreign currencies

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

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

e) Offsetting financial instruments

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

f) Revenue/expenses recognition

Special commission income and expense

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

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

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

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

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

Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

Fees and commission income and expenses

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

Dividend income

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

Net trading income

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

g) Sale and repurchase agreements

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

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

h) Investments

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

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

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

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

(i) Held as FVIS

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

- it is a financial instrument containing one or more embedded derivatives that significantly modify the cash flows resulting from the financial instrument, or

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

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

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

(ii) Available for sale

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

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

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

(iii) Held at amortised cost

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

(iv) Held to maturity

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

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

i) Investment in associates

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

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

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

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

j) Loans and advances

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

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

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

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

k) Due from banks and other financial institutions

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

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

l) Impairment of financial assets

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

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

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

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

i) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is objective evidence of credit related impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost, including those arising from sovereign risk exposures, is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

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

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

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

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

ii) Impairment of financial assets held at fair value

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

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

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

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

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

m) Property and equipment

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

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

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

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

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

n) Financial liabilities

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

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

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

o) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

p) Guarantees and loan commitments

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

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

q) Accounting for leases

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

r) Cash and cash equivalents

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

s) Derecognition of financial instruments

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

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

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

t) Assets held in trust or in fiduciary capacity

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

u) Zakat and income taxes

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

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

v) Shariah approved banking products

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

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

3. Cash and balances with SAMA

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

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

4. Due from banks and other financial institutions

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

5. Investments, net

a) Investment securities are classified as follows:

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

Investments classified under FVIS are all held for trading.

	Domestic		**International**		**Total**	
	2013 SAR'000	2012 SAR'000	**2013 SAR'000**	2012 SAR'000	**2013 SAR'000**	2012 SAR'000
ii) Available for sale						
Fixed rate securities	**25,968,132**	17,427,787	**6,323,185**	5,216,901	**32,291,317**	22,644,688
Floating rate securities	**3,696,472**	2,743,550	**77,745**	216,711	**3,774,217**	2,960,261
Equities	**952,850**	854,182	**80,196**	73,259	**1,033,046**	927,441
Available for sale investments ,net	**30,617,454**	21,025,519	**6,481,126**	5,506,871	**37,098,580**	26,532,390

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

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

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

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

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

	2013 SAR'000			2012 SAR'000		
	Carrying value	**Gross unrealised gain**	**Fair Value**	Carrying value	Gross unrealised gain	Fair value
i) Held at amortised cost						
Fixed rate securities	**299,972**	**5,024**	**304,996**	949,863	22,931	972,794
Total	**299,972**	**5,024**	**304,996**	949,863	22,931	972,794
(ii) Held to maturity						
Fixed rate securities	-	-	-	100,011	184	100,195
Total	-	-	-	100,011	184	100,195

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

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

Equities reported under available for sale investments include unquoted shares of SAR 8.4 million (2012: SAR 9.9 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include Saudi Government Bonds classified as available for sale amounting to SAR 189.1 million (2012: SAR 316.7 million) which have been pledged under repurchase agreement with customers. The market value of these investments is SAR 189.0 million (2012: SAR 316.5 million).

e) Credit quality of investments

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

The Saudi sovereign debt comprise of Saudi Government Development Bonds and treasury bills.

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Issuer ratings have been used for bonds amounting to SAR 297.8 million (2012: SAR nil) which have not been rated by any agency.

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

f) Movements of allowance for impairment of investments

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

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

6. Loans and advances, net

a) Loans and advances are classified as follows:

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

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

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

Loans and advances include loans amounting to SAR 568 million (2012: SAR 974 million) that have been fair value hedged through a fixed to floating interest rate swap. The positive mark to market on these loans was SAR 0.2 million as at the end of the current year (2012: SAR 1.7 million).

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

b) Movement in provision for credit losses

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

	2012			SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Balance at beginning of the year	52,492	171,942	1,856,289	2,080,723
Bad debts written off	(78,572)	(168,072)	(12,956)	(259,600)
Provided during the year, net of reversals	106,085	225,113	268,098	599,296
Recoveries of amounts previously provided	-	-	(7,035)	(7,035)
Balance at the end of the year	80,005	228,983	2,104,396	2,413,384

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

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

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

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

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

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

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

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

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

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

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

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

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

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

2012 SAR'000	Performing	Non performing, net	Provision for credit losses	Loans and advances, net
Government and quasi Government	6,009,501	-	-	6,009,501
Financial institution	10,354,144	-	-	10,354,144
Agriculture and fishing	739,133	-	-	739,133
Manufacturing	15,549,845	196,537	(65,404)	15,680,978
Mining and quarrying	212,675	-	-	212,675
Electricity, water, gas and health services	2,496,883	-	-	2,496,883
Building and construction	7,065,300	391,011	(104,588)	7,351,723
Commerce	20,257,225	312,795	(280,607)	20,289,413
Transportation and communication	4,379,350	-	-	4,379,350
Services	1,817,872	23,586	(22,737)	1,818,721
Consumer loans and credit cards	18,900,546	50,039	(308,988)	18,641,597
Other	9,130,661	624,587	(331,132)	9,424,116
Collective impairment provision	-	-	(1,299,928)	(1,299,928)
TOTAL	96,913,135	1,598,555	(2,413,384)	96,098,306

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

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

d) Collateral

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

7. Investment in associates

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

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

	2013			2012		
	HSBC Saudi Arabia Limited SAR' 000	**SABB Takaful SAR' 000**	**Total SAR' 000**	HSBC Saudi Arabia Limited SAR' 000	SABB Takaful SAR' 000	Total SAR' 000
Balance at beginning of the year	**496,237**	**115,995**	**612,232**	453,689	111,502	565,191
Share of undistributed profits	**118,410**	**4,760**	**123,170**	106,737	4,493	111,230
Dividend received	**(88,345)**	**-**	**(88,345)**	(62,395)	-	(62,395)
Adjustments	**-**	**-**	**-**	(1,794)	-	(1,794)
Balance at end of the year	**526,302**	**120,755**	**647,057**	496,237	115,995	612,232

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

8. Property and equipment, net

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

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

9. Other assets

	2013 SAR'000	2012 SAR'000
Accrued special commission receivable		
– banks and other financial institutions	**117**	166
– investments	**133,422**	131,683
– loans and advances	**406,811**	481,483
Total accrued special commission receivable	**540,350**	613,332
Accounts receivable	**843,927**	90,757
Positive fair value of derivatives (note10)	**951,314**	1,962,631
Advance tax	**191,302**	169,269
Others	**600,139**	418,842
Total	**3,127,032**	3,254,831

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

Cash flow hedges

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

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

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

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

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

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

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

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

2013 (SAR'000) **Description of the hedged items:**	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**1,023,920**	**1,008,445**	Fair value	Special commission rate swap	**4,827**	**(20,757)**
Fixed commission rate loans	**568,083**	**567,906**	Fair value	Special commission rate swap	**546**	**(695)**
Fixed commission rate debt securities in issue	**2,282,873**	**2,244,302**	Fair value	Special commission rate swap	**39,135**	**-**
Floating commission rate debt securities in issue	**-**	**-**	Cash flow	Special commission rate swap	**-**	**-**

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

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

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

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

11. Due to banks and other financial institutions

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

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

12. Customers' deposits

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

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

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

The above deposits include the following foreign currency deposits:

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

13. Debt securities in issue

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

USD 600 million 5 year fixed rate notes
These notes were issued during the year 2010 at a fixed rate of 3% and are due to mature on 12 Nov 2015.The notes are unsecured and carry an effective yield of 3.148% which includes a credit spread of 170 bps. The notes are non-convertible, are unsecured and are listed on the London Stock Exchange.

The special commission rate exposure on these notes has been hedged by a fixed to floating special commission rate swap. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a fair value hedge in these consolidated financial statements. The negative mark to market relating to these notes pertaining to the hedged portion is SAR 38.6 million as at the end of the current year (2012 : 35.5 million).

SAR 705 million 5 year floating rate notes
These notes were issued during 2008 and matured on 21 July 2013. During the prior year, these notes were partially exchanged to the extent of SAR 1,000 million for the SABB SAR subordinated Sukuk issuance. The notes carried effective special commission at three months' SIBOR plus 80 bps payable quarterly. The notes were unsecured, non convertible and were listed on Saudi Stock Exchange (Tadawul).

SAR 1,500 million 5 year SAR subordinated Sukuk - 2012
The Sukuk was issued by SABB on 28 March 2012 and matures in March 2017. The Sukuk was issued as a partial commercial exchange from senior to subordinated debt to the extent of SAR 1,000 million. The remaining portion of SAR 500 million was fully subscribed in cash.

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

SAR 1,500 million 7 year SAR subordinated Sukuk - 2013
The Sukuk was issued by SABB on 17 December 2013 and matures in December 2020. SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

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

14. Borrowings

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

15. Other liabilities

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

16. Share capital

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

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

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 943 million (2012: SAR 810 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

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

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

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 0.8 million (2012: SAR 4.9 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Commitments and contingencies

a) Legal proceedings

As at 31 December 2013 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) Capital commitments

As at 31 December 2013 the Bank has capital commitments of SAR 183.6 million (2012: SAR 108.9 million) in respect of land, buildings and equipment purchases.

c) Credit related commitments and contingencies

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

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

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

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

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

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

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

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

f) Operating lease commitments

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

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

20. Net special commission income

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

21. Fees and commission income, net

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

22. Trading income, net

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

23. Gains on non-trading investments, net

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

24. Salaries and employee related expenses

i) Quantitative Disclosure

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended 31 December 2013 and 31 December 2012, and the forms of such payments.

2013			**Variable compensation paid in 2013**		
Category	**Number of employees**	**Fixed compensation SAR'000**	**Cash SAR'000**	**Shares SAR'000**	**Total SAR'000**
Senior executives requiring SAMA no objection	**14**	**21,375**	**16,928**	**1,926**	**18,854**
Employees engaged in risk taking activities	**276**	**124,958**	**47,211**	**1,966**	**49,177**
Employees engaged in control functions	**126**	**53,028**	**11,673**	**396**	**12,069**
Other employees	**2,742**	**452,132**	**98,382**	**584**	**98,966**
Outsourced employees	**405**	**30,857**	**9,798**	**-**	**9,798**
Total	**3,563**	**682,350**	**183,992**	**4,872**	**188,864**

Variable compensation accrued or paid in 2013	**239,283**
Other employee related benefits	**168,964**
Total salaries and employee related expenses	**1,090,597**

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

Variable compensation accrued or paid in 2012	203,492
Other employee related benefits	157,154
Total salaries and employee related expenses	1,008,961

Senior executives (requiring SAMA no objection):

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

Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

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

Outsourced employees:

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

ii) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements

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

SABB Compensation Policy

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

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

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

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

d) Risk-adjustment for Variable Pay schemes

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

e) Bonus Deferral

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

f) Nomination and Remuneration Committee

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

25. Basic and diluted earnings per share

Basic earnings per share for the year ended 31 December 2013 and 2012 is calculated by dividing the net income for the year attributable to the equity holders by 1,000 million.

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

26. Gross dividend, zakat and income tax

The Board of Directors has proposed a gross dividend of SAR 1,100 million for the year 2013 (2012: SAR 1,000 million). Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Saudi shareholders:

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 55.7 million (2012: SAR 46.7 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 1.0 per share (2012: SAR 0.9 per share).

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 298.4 million (2012: SAR 253.6 million).

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

Status of final assessments

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

The Bank has filed its zakat returns for the years ended 31 December 2005 to 31 December 2012. However, the assessments have not been finalised by DZIT.

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

27. Cash and cash equivalents

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

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

28. Operating segments

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

Transactions between the operating segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

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

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

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

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

Others – includes activities of investment in associates.
Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2013 and 2012, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

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

2012 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	26,571,637	71,828,318	57,640,150	612,232	156,652,337
Investment in associates	-	-	-	612,232	612,232
Total liabilities	49,314,859	60,843,828	26,428,143	-	136,586,830
Net special commission income	1,187,238	1,393,477	683,385	-	3,264,100
Total operating income	1,604,708	2,468,852	1,092,923	-	5,166,483
Total operating expenses	1,094,978	833,025	109,394	-	2,037,397
Share in earnings of associates, net	-	-	-	111,230	111,230
Net income for the year	509,730	1,635,827	983,529	111,230	3,240,316
Fees and commission income, net	368,245	953,309	46	-	1,321,600
Trading income, net	710	5,934	288,813	-	295,457
Credit losses and impairment provision, net	151,829	288,715	(1,589)	-	438,955

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

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

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

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

29. Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2013 **SAR'000**	**Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**Other Countries**	**Total**
Non performing loans, net	**1,525,265**	**-**	**-**	**-**	**-**	**1,525,265**
Provision for credit loss	**2,258,669**	**-**	**-**	**-**	**-**	**2,258,669**

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

31. Market risk

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

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

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

a) Market risk-trading book

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

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

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

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

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

The Bank's VAR related information is as under.

			SAR'000
2013	**Foreign exchange**	**Special commission rate**	**Overall risk**
VAR as at 31December 2013	**347**	**160**	**337**
Average VAR for 2013	**358**	**1,121**	**1,245**

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

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2013, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets; including the effect of any associated hedges as at 31December 2013 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap.

			2013				**SAR' 000**
Currency	**Increase in basis points**	**Sensitivity of Special Commission Income**	**Sensitivity of Equity**				
			6months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**+ 100**	**40,746**	**(78,480)**	**(36,886)**	**(24,654)**	**(50,196)**	**(190,216)**
USD	**+ 100**	**(11,640)**	**(30,342)**	**(29,102)**	**(101,425)**	**(36,513)**	**(197,382)**
EUR	**+ 100**	**1,307**	**-**	**-**	**-**	**-**	**-**
Others	**+ 100**	**144**	**-**	**-**	**-**	**-**	**-**

			2013				**SAR '000**
Currency	**Decrease in basis points**	**Sensitivity of Special Commission Income**	**Sensitivity of Equity**				
			6months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**- 100**	**(40,746)**	**78,480**	**36,886**	**24,654**	**50,196**	**190,216**
USD	**- 100**	**11,640**	**30,342**	**29,102**	**101,425**	**36,513**	**197,382**
EUR	**- 100**	**(1,307)**	**-**	**-**	**-**	**-**	**-**
Others	**- 100**	**(144)**	**-**	**-**	**-**	**-**	**-**

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

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

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

2013 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	**17,026,883**	**-**	**-**	**-**	**9,097,030**	**26,123,913**
Due from banks and other financial institutions	**3,286,053**	**-**	**-**	**-**	**-**	**3,286,053**
Investments, net	**11,105,271**	**19,068,815**	**5,493,214**	**698,205**	**1,034,054**	**37,399,559**
Loans and advances, net	**65,163,919**	**14,565,333**	**17,508,416**	**8,877,262**	**-**	**106,114,930**
Investment in associates	**-**	**-**	**-**	**-**	**647,057**	**647,057**
Property and equipment, net	**-**	**-**	**-**	**-**	**603,656**	**603,656**
Other assets	**-**	**-**	**-**	**-**	**3,127,032**	**3,127,032**
Total assets	**96,582,126**	**33,634,148**	**23,001,630**	**9,575,467**	**14,508,829**	**177,302,200**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**3,769,640**	**-**	**-**	**-**	**-**	**3,769,640**
Customer deposits	**41,985,669**	**18,390,324**	**626,167**	**-**	**77,959,310**	**138,961,470**
Debt securities in issue	**1,500,000**	**1,500,000**	**2,282,873**	**-**	**-**	**5,282,873**
Borrowings	**-**	**31,250**	**78,125**	**-**	**-**	**109,375**
Other liabilities	**-**	**-**	**-**	**-**	**6,346,043**	**6,346,043**
Shareholders' equity	**-**	**-**	**-**	**-**	**22,832,799**	**22,832,799**
Total liabilities and shareholders' equity	**47,255,309**	**19,921,574**	**2,987,165**	**-**	**107,138,152**	**177,302,200**
Commission rate sensitivity on assets and liabilities	**49,326,817**	**13,712,574**	**20,014,465**	**9,575,467**	**(92,629,323)**	
Commission rate sensitivity on derivative financial instruments	**(823,649)**	**(339,146)**	**1,404,365**	**(241,570)**	**-**	
Total special commission rate sensitivity gap	**48,503,168**	**13,373,428**	**21,418,830**	**9,333,897**	**(92,629,323)**	
Cumulative special commission rate sensitivity gap	**48,503,168**	**61,876,596**	**83,295,426**	**92,629,323**	**-**	

2012 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	12,086,917	-	-	-	8,316,947	20,403,864
Due from banks and other financial institutions	8,091,410	-	-	-	-	8,091,410
Investments, net	7,261,074	12,118,861	5,075,127	2,204,682	927,441	27,587,185
Loans and advances, net	46,536,702	26,078,383	23,483,221	-	-	96,098,306
Investment in associates	-	-	-	-	612,232	612,232
Property and equipment, net	-	-	-	-	604,509	604,509
Other assets	-	-	-	-	3,254,831	3,254,831
Total assets	73,976,103	38,197,244	28,558,348	2,204,682	13,715,960	156,652,337
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,353,758	321,211	256,881	-	-	5,931,850
Customer deposits	51,073,868	3,814,146	725,782	10,025	64,809,895	120,433,716
Debt securities in issue	2,205,000	-	2,300,780	-	-	4,505,780
Borrowings	-	31,250	109,375	-	-	140,625
Other liabilities	-	-	-	-	5,574,859	5,574,859
Shareholders' equity	-	-	-	-	20,065,507	20,065,507
Total liabilities and shareholders' equity	58,632,626	4,166,607	3,392,818	10,025	90,450,261	156,652,337
Commission rate sensitivity on assets and liabilities	15,343,477	34,030,637	25,165,530	2,194,657	(76,734,301)	
Commission rate sensitivity on derivative financial instruments	4,875,610	(4,567,806)	(12,074)	(295,730)	-	
Total special commission rate sensitivity gap	20,219,087	29,462,831	25,153,456	1,898,927	(76,734,301)	
Cumulative special commission rate sensitivity gap	20,219,087	49,681,918	74,835,374	76,734,301	-	

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

ii) Currency risk

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

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

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

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non trading equity price risk exposure arises from equity securities classified as available for sale. A 10 per cent increase or decrease in the value of the bank's available for sale equities at 31 December 2013 would have correspondingly increase or decrease equity by SAR 102 million (2012: SAR 92 million).

32. Liquidity risk

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

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities :

The table below sets out Bank's contractual undiscounted financial liabilities.

2013 **SAR'000**	**Within 3 Months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Financial liabilities						
Due to banks and other financial institutions	**3,502,680**	**-**	**319,066**	**-**	**-**	**3,821,746**
Customer deposits	**131,198,920**	**6,444,945**	**1,443,177**	**152,420**	**-**	**139,239,462**
Debt securities in issue	**8,266**	**128,678**	**4,045,682**	**1,572,762**	**-**	**5,755,388**
Borrowings	**-**	**36,511**	**84,200**	**-**	**-**	**120,711**
Other liabilities	**-**	**-**	**-**	**-**	**6,093,166**	**6,093,166**
Derivatives :						
- Contractual amounts payable (receivable)	**5,250**	**(10,607)**	**(8,572)**	**(7,033)**	**-**	**(20,962)**
Total undiscounted financial liabilities	**134,715,116**	**6,599,527**	**5,883,553**	**1,718,149**	**6,093,166**	**155,009,511**

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

b) Maturity analysis of assets and liabilities :

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

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

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

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

33. Fair values of financial instruments

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

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

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

Determination of fair value and fair value hierarchy

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

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

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

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

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

SAR' 000	Level 1	Level 2	Level 3	Total
2012				
Financial assets				
Derivative financial instruments	-	1,962,631	-	1,962,631
Financial assets held as FVIS	4,921	-	-	4,921
Financial investments available for sale	9,621,411	16,828,356	72,733	26,522,500
Investments held at amortised cost	-	972,794	-	972,794
Investment held to maturity	-	100,195	-	100,195
Loans and advances – Fair value hedged	-	973,635	-	973,635
Total	9,626,332	20,837,611	72,733	30,536,676
Financial Liabilities				
Derivative financial instruments	-	1,848,015	-	1,848,015
Debt securities in issue- Fair value hedged	2,300,780	-	-	2,300,780
Total	2,300,780	1,848,015	-	4,148,795

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

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

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

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

34. Related party transactions

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

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

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

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

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

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

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

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

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

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

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

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

	2013 SAR'000	2012 SAR'000
Short-term employee benefits (salaries and allowances)	**41,053**	39,126
Employment termination benefits	**417**	5,968

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2013. The detail of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

35. Capital adequacy

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

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

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

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

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

36. Capital adequacy – Basel III

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

37. Basel III - Capital Structure

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

38. Prospective changes in accounting standards

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

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

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

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

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

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

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

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

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

39. Comparative figures

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

40. Board of Directors' approval

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