

2008

The Saudi British Bank
Annual Report and Accounts

SABB  ساب
Local vision, international expertise

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

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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



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

Board of Directors



Chairman
Abdullah Mohammad Al Hugail



Managing Director
John Edward Coverdale



Khaled Suliman Olayan



Fouad Abdulwahab Bahrawi



Khalid Abdullah Al Molhem



Youssef Assad Nasr



Richard W L Groves



**Sulaiman Abdulkader
Al Muhaidib**



Ahmed Sulaiman Banaja

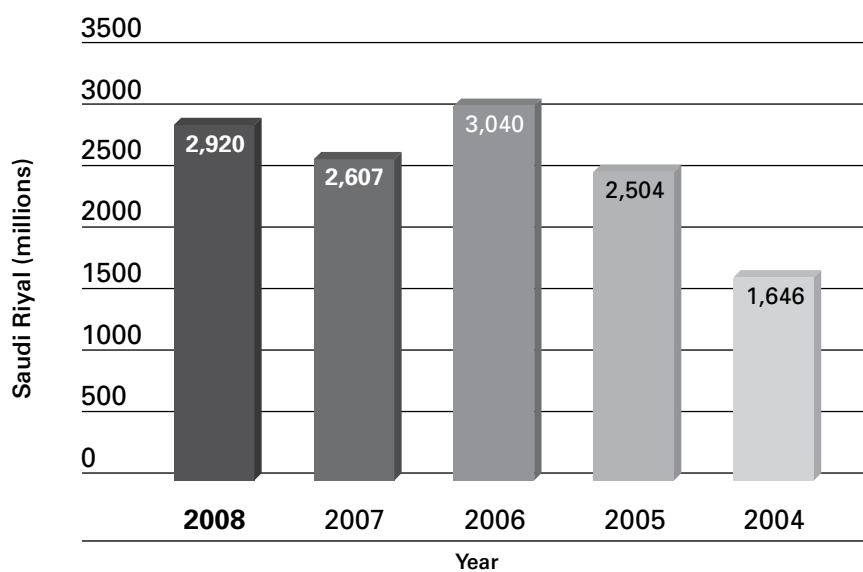


Mukhtar Malik Hussain

Financial Highlights

Saudi Riyal (millions)	Year				
	2008	2007	2006	2005	2004
Customer Deposits	92,678	71,848	59,258	48,534	44,666
Shareholders' Equity	11,634	10,425	9,405	7,493	5,917
Investments, net	29,604	14,859	21,702	16,373	14,676
Loans and Advances, net	80,237	62,001	42,450	40,847	31,627
Total Assets	131,661	98,213	77,189	65,928	57,938
Net Income	2,920	2,607	3,040	2,504	1,646
Gross Dividend	660	1,500	1,500	813	990

Net income



Chairman's Statement

On behalf of the Board of Directors I am pleased to present the Annual Report of SABB for the financial year ending 31 December 2008.

Saudi Arabia's economic performance in 2008 and budget for 2009 were the highest recorded. Over the past few years the strong growth witnessed in the Kingdom's economy has offered wide ranging opportunities. However, after a prolonged rise, oil prices peaked over the summer of 2008 and fell back significantly towards the end of the year. The Saudi economy has not been immune to the international economic slowdown; but despite this and increasing inflation, the government has continued a positive programme of development. Lower demand and output will no doubt present a year of challenges ahead, but SABB is well placed to take advantage of opportunities and face these challenges with confidence. In 2008, SABB has pursued its growth of innovative product development and quality service delivery and will continue to do so in the year ahead, reinforcing its commitment to offering the exceptional combination of local vision, with international expertise.

Net profits for the year amounted to SAR 2,920 million (USD 779 million), with a Return on Average Equity (RoAE) of 26%. The Bank's continued efforts to strengthen its core businesses, as well as introduce new products and services, resulted in the achievement of balanced growth - demonstrated by a significant rise in deposits, loans, advances and total assets, in addition to a substantial increase in our customer base.

The gross dividend for the year is SAR 660 million (2007: SAR 1,500 million) and was paid as an interim dividend to shareholders on 30 July 2008 (2007: SAR 609.4 million). The Bank's board has decided not to recommend a final dividend for 2008 (2007: SAR 890.6 million) and instead will recommend a 1 for 4 bonus issue to be ratified at an Extraordinary General Meeting to be held in the first half of 2009.

In 2008 SABB again fulfilled its pledge to provide customers with a market leading service by opening a further seven new branches, four Ladies sections, two new Investment Centres, and four Premier Centres for higher net worth customers. The Bank now has 68 branches and a further 14 dedicated ladies' sections, with more scheduled to open in 2009 in major cities and regions across the country. For those wishing to conduct their business without having to visit a branch; the Bank now has over 450 ATMs at branches and in various off-site locations around the Kingdom, whilst also providing remote services on the Internet (SABBNET) and over the telephone (SABB Direct).

Corporate and Commercial Banking has successfully retained a leading role in this very demanding sector. A major feature of 2008 has been the increased use of HSBC Group's Global Links Referral System, which has greatly enhanced the generation of business internationally. The Small and Medium Enterprise segment and Business Banking were combined into a single unit during the year, quickly attaining a higher level of business while reducing costs and enhancing service delivery.

In addition, the Bank has succeeded in maintaining its status as the leading provider of Personal Banking services in the Kingdom, including those offered under the Shariah compliant Amanah brand, and Private Banking also achieved strong growth in its activities during the year and won Euromoney's "Best Private Bank in Saudi Arabia" award.

SABB's diversification into investment banking has seen continued success as HSBC Saudi Arabia Limited, in which SABB has a 40% interest, has maintained its leading advantage in what has become an increasingly competitive environment. SABB Takaful, the publicly-quoted Shariah-compliant insurance company in which SABB has a 32.5% interest, has now completed 18 months of trading, establishing a strong presence in the marketplace and winning the Best Takaful Provider in the Euromoney Islamic Finance Awards 2009.

SABB Securities Services Limited, a wholly-owned subsidiary that provides brokerage and other securities services through the SABB branch network, has again had a good year and has succeeded in retaining its second place ranking amongst its brokerage competitors in the Kingdom, whilst being the acclaimed leader in securities custody.

As in previous years, SABB made a number of humanitarian gestures in 2008. Through Corporate Social Responsibility initiatives focusing on the country's enduring prospects, SABB redoubled its efforts on environmental matters, establishing an Environmental Management role within the Bank.

Looking ahead, the recent economic downturn has been global in reach, but the strongest are gaining an advantage and SABB maintains the sound position needed to derive maximum benefit from the many opportunities in Saudi Arabia. Whilst the recessionary global economy might adversely impact its immediate future, the long term prospects of the Kingdom remain positive, to the ultimate benefit of SABB and the wider Saudi banking community.

This leaves me, on behalf of the Board of Directors, with the pleasant task of expressing sincere thanks to all shareholders for their loyalty; my deep appreciation to every member of the Bank's staff, whose consistent and committed efforts have ensured continued success; and to our customers for their on-going confidence and support. I would also like to express my gratitude to the Saudi government, especially to the Ministries of Finance, Commerce & Industry and the Saudi Arabian Monetary Agency, as well as to the Capital Market Authority, for their continued guidance and help to the Saudi Arabian banking and financial community. As a leading member of that community, SABB reiterates its commitment to the growth and development of Saudi Arabia under the leadership of the Custodian of the Two Holy Mosques and the Crown Prince.

Chairman

Directors' Report

The Board of Directors is pleased to submit to shareholders the Annual Report of SABB, for the financial year ending 31 December 2008

Introduction

SABB was established as The Saudi British Bank by Royal Decree No. M/4 Dated 12 Safar 1398(H) (21 January 1978) and is an associate company of the HSBC Group. Its main objective is to provide a range of banking services to both the retail and corporate sectors. These include depository and lending services, import and export services, loans to corporate customers, investment solutions and financial advisory services to its personal customers.

The Bank has 100% (2007 : 100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi Limited Liability Company, authorised and regulated by the Capital Market Authority - licence number 07071-05 dated 2/7/2007G (17/6/1427H) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428 H (22 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in the Kingdom of Saudi Arabia). Activities of subsidiary are to engage in business of custody and dealing as an agent excluding underwriting.

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

Five-year financial highlights

Saudi Riyal (millions)	Year				
	2008	2007	2006	2005	2004
Customer Deposits	92,678	71,848	59,258	48,534	44,666
Shareholders' Equity	11,634	10,425	9,405	7,493	5,917
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Loans and Advances, net	80,237	62,001	42,450	40,847	31,627
Total Assets	131,661	98,213	77,189	65,928	57,938
Net Income	2,920	2,607	3,040	2,504	1,646
Gross Dividend	660	1,500	1,500	813	990

Geographical Analysis of income:

SABB generates most of its income from its activities in the Kingdom of Saudi Arabia

	Year	
	2008	2007
Central	2,911,706	2,520,913
Western	1,000,448	932,361
Eastern	999,374	920,678

Business Segments;

The Bank is organised into the following main business segments:

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

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

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

Securities – which caters mainly to activities related to dealing and custody of securities.

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

Five-year financial highlights *(continued)*

	2008					
	Retail	Corporate	Treasury	Securities	Others	Total
	Banking	Banking				
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Total operating income	1,932,519	1,889,277	664,895	424,837	-	4,911,528
Total operating expenses	1,426,032	393,934	149,927	129,937	-	2,099,830
Share in earnings of associates	-	-	-	-	108,321	108,321
Net income	506,487	1,495,343	514,968	294,900	108,321	2,920,019

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

HSBC Saudi Arabia Limited

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

SABB Takaful

SABB Takaful is a Saudi joint stock company listed in the Tadawul (Saudi Arabia's Stock Market) index. The Bank owns 32.5% of the company's capital, which is comprised of 10 million shares, with a nominal price of SAR 10 per share. The company offers Shariah – compliant insurance services, as well as Family and General Takaful products.

The Business Environment

For the sixth year in a row the Kingdom of Saudi Arabia carried a surplus in 2008 with a huge 234.18% increase on 2007. Government debt fell to 13.5% of GDP from 19% in 2007 (103.5% in 1999) and spending hit a record high. The Kingdom's foreign assets are considered likely to have increased by 52% by 31 December 2008. Per capita GDP rose to SAR 69,494 (\$18,531), the highest since 1981, when the country's population was 9.8 million compared with 25 million at present.

However 2008 was a challenging year for the international banking community, including financial institutions in Saudi Arabia. With the oil price rising to its highest ever level of USD 147 a barrel in July, the Saudi economy derived considerable benefit, although allied inflation and the concurrent demand for and increase in costs of raw materials such as cement, steel and aluminium did exert some downward pressure, especially on the construction sector. Rising costs during the year also impacted adversely on consumers. Mid-2008, the sub-prime mortgage crisis had a marked impact on world banking and ultimately on the global economy, which began to experience a recessionary environment during the latter two quarters of the year. This downturn resulted in a substantially reduced demand for oil on world markets, resulting in the price tumbling to nearer USD 40 a barrel, obliging the Kingdom and its peers in OPEC to reduce their production levels in an attempt to stall a yet further decline in price. Alongside this the Tadawul continued its substantial decline as shareholders observed from the sidelines. Towards year end there were signs of a slight recovery, but nevertheless transaction levels remained down.

Inflation, measured against the cost of living index, was one of the key factors to have negatively affected business confidence over the past few quarters, rising to a record high 11.1% mid-year, up from 4.2% in 2007. By the fourth quarter of 2008 inflation was thought to have peaked and, backed by empirical data, it is anticipated that from an overall average of 9.9%, the real cost of living will adjust closer to 7% in 2009, as slowing economic growth and decline in global commodity prices impacted the costs of goods.

The 2009 Government budget is nevertheless ambitious and will maintain a breadth of projects, the trickle-down effect from which should give renewed impetus to the private sector in the Kingdom. Integral to core businesses will be sustained participation in the extensive range of opportunities, from municipal expansion in infrastructure, transport (roads, ports and railways), water, agriculture and telecommunications to health and social welfare facilities, development funds and education & training.

Directors' Report (continued)

The Business Environment (continued)

Despite 2008 being a difficult year for the financial services industry, SABB delivered a 12% increase in net profit over 2007. The sustained performance was achieved by the Bank's continued focus on core banking activities, supported by the underlying fundamental strength of the Saudi economy. The quality of SABB's asset book remained strong, with loan growth being fully funded by increased customer deposits, the surplus deposits raised were invested in accordance with our conservative investment policy. Prime examples of growing business include the success of Takaful and the Amanah brand, with consolidation of new products and increased focus on service delivery. Continued focus on strategic training and development, with further integration of compliance and performance standards, support the drive to enhance professionalism among staff at all levels.

Profits

SABB saw increased profits in 2008, amounting to SAR 2,920 million (USD 779 million). This was a 12% increase or SAR 313 million (USD 84 million) on the SAR 2,607 million (USD 695 million) attained in 2007. The profits as declared equate to Earnings per Share of SAR 4.87 (USD 1.3). (2007: SAR 4.34 (USD 1.2) per share).

A strong rally in the retail and corporate sectors drew a healthy growth in assets in 2008. At year end customer deposits totalled SAR 92,678 million (USD 24,714 million) or 29.1% higher than the 2007 closing balance of SAR 71,848 million (USD 19,159 million). Loans and advances to customers also rose by 29.4% or SAR 18,236 million (USD 4,863 million) to SAR 80,237 million (USD 21,397 million), from SAR 62,001 million (USD 16,534 million) the previous year. Total assets in 2008 reached SAR 131,661 million (USD 35,110 million), an increase of SAR 33,448 million (USD 8,919 million) or 34.1% over the figure of SAR 98,213 million (USD 26,190 million) on the previous year end total.

Cash Dividends and bonus share issue

The gross dividend for the year is SAR 660 million (2007: SAR 1,500 million) and was paid as an interim dividend to shareholders on 30 July 2008 (2007: SAR 609.4 million). The Bank's board has decided not to recommend a final dividend for 2008 (2007: SAR 890.6 million) and instead will recommend a 1 for 4 bonus issue to be ratified at an EGM to be held in early 2009.

Zakat and income tax

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 50.4 million (2007: SAR 55.1 million), and is deducted from their share of the dividend. The net total dividend for the year to the Saudi shareholders is SAR 345.6 million (2007: SAR 844.9 million) representing SAR 0.96 per share (2007: SAR 3.76 per share) of which SAR 0.96 (2007: SAR 1.54) was paid on an interim basis.

Notification relating to substantial shareholdings:

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

Name	Number of shares at the beginning of the year	Percentage of ownership at the beginning of the year	Net variance in the number of shares during the year	Percentage of variance during the year	Total number of shares at year end	Total percentage of ownership at year end
Foreign partner	240,000,000	40%	0	0	240,000,000	40%
Major shareholders other than foreign partner	159,591,984	26.60%	271,660	0.05%	159,320,324	26.55%
Board members and senior executive management	3,526,278	0.59%	135,813	0.02%	3,662,091	0.61%

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

International Recognition

This year SABB again enjoyed international recognition of its reputation and standing. Global Finance magazine awarded SABB “Best Trade Finance Provider” in Saudi Arabia; SABB Securities Services the “Best Sub-custodian Bank in the Kingdom,” as well as best in “Investment Management Services”. In the 2008 Middle East and Africa IT campaign SABB was also nominated as the “World’s Best Internet Bank” and the “Best Online Consumer Credit Site”. Euromoney nominated SABB as “The Number 1 Cash Management Bank.”

Credit and Risk

In compliance with international regulatory requirements and guided by SAMA, SABB made a successful migration to BASEL II standards during the year. The Bank is now fully compliant with this global regulatory requirement, meeting all minimal capital obligations for credit, market, and operational risk. The Bank applies regular reviews of the capital plan and risk appetite to maintain capital adequacy and transparency, and building on Basel II disclosure requirements, introduced a dedicated Investor Relations function. The steps towards compliance have also seen the role of the Chief Risk Officer take on increased prominence within the organisation.

In line with these fulfillments, SABB has continued to focus on integrating sound risk management policies and responsible lending guidelines within the wider strategic framework along with developing Basel II advanced compliant credit models.

In September 2008, SABB elected not to take advantage of the IFRS 39 reporting standards reliefs offered, opting rather to encourage and maintain the highest possible standards of reporting.

Corporate, Commercial and Investment Banking

In 2008 Corporate and Commercial Banking sustained a high level of success in this highly competitive segment of the Saudi market. In fact, throughout SABB’s financial institutions business as a whole continued to grow. Notably the Bank’s prudent policies ensured protection from many of the impairments associated with the financial crisis that prevailed throughout much of the year.

An important element for growth was SABB’s introduction of the Group’s Global Links Referral Scheme that simplifies cross-border business by helping relationship managers identify their counterparts across the world, facilitating the creation of referrals and enabling the addition of suitably qualified Saudi-based nominees to the scheme.

The amalgamation of Business Banking with Small and Medium Enterprises, created a single Business Banking Unit in each region, streamlining SABB Business segments, greatly enhancing the Bank’s ability to generate new business opportunities. Other initiatives in 2008 included the intensive promotion of Trade Services, Treasury and Insurance products through remote channels, with increased control over lending growth through switching facilities into products requiring a smaller capital requirement.

SABB generated considerable business in Saudi Arabia from pursuit of both the investment and insurance industries and by year end the Bank had attracted 60% of business from the investment banking sector and 11 out of the 18 insurance companies licensed by SAMA.

Treasury

Treasury enjoyed a strong and profitable year despite a worsening financial environment in the latter half of 2008. The international credit crunch that evolved into a money market freeze and the crisis in the financial sector spilling over into the real economy, presented Treasury with many challenges. However, balance sheet optimisation and good interest rate management made a significant contribution to the bottom line. Furthermore, a leading position in Foreign Exchange led to excellent results.

Treasury’s focus on hedging and investment products, both Shariah-compliant and conventional, consolidated SABB’s positioning among the top derivatives houses in the Kingdom. The Bank’s strategy of maintaining close relationships with customers led Treasury to decentralise its sales force through the creation of dedicated sales desks in the Western region and Eastern Province. A successful Treasury Roadshow conducted for the second year running in all three regions of the Kingdom marked the significant relaunch of Treasury’s regional activities.

Directors' Report (continued)

Personal Banking

SABB maintained its position during the year as a leading provider of Personal Financial Services in the Kingdom. This was particularly evident in the credit card sector where the Bank was named the number one issuer in Saudi Arabia in 2008 by Visa International. Despite the prevailing global economic environment, the year also saw SABB launch Visa Platinum and Visa Amanah cards. In line with SAMA directives, and to bring the Kingdom up to global standards, considerable progress was made in the introduction of chip and pin cards - a system that aims to enhance card security to the direct benefit of cardholders, retailers and issuing banks.

During the year SABB introduced an e-Commerce gateway, signing up a number of merchants following the project launch in September, whilst the Bank's POS terminals saw the highest spend per terminal among domestic banks in the Kingdom, reflecting considerably on the high level of service provided to key retailers and SABB's strong presence in the marketplace.

2008 also saw the launch of SABB Premier Services in two major advertising campaigns. This unique international service was designed in coordination with the HSBC Group and is offered in 41 countries world-wide. There are currently five International Premier Centres in four key cities Kingdom-wide offering elite customer service, with more to open in 2009. Offering a world class range of wealth management and international banking services, SABB saw a significant increase in the number of Premier customers within the year.

To ensure all personal customers continue to receive the high level of attention and service they anticipate, SABB has opened further branches around the Kingdom, including more Ladies sections; installed further on and off-site ATMs and has introduced Quick Service Desks in most SABB branches. For those SABB retail customers preferring to handle their banking business from their homes or offices, online registration was introduced for both internet banking (SABBNET) and telephone banking (SABB Direct). A virtual call centre was also set up to enhance response times by automatically directing calls to any available SABB agent in the Riyadh or Al Khobar call centres. As part of the global strategy to implement best practice throughout the HSBC Group, a new regional call centre has been installed in Riyadh to improve the service for Arabic-speaking HSBC customers.

Private Banking

SABB Private Banking saw yet further growth in 2008 whilst maintaining its status as market leader in the Kingdom in terms of market share. Private Banking provides leading quality services Kingdom-wide, with dedicated offices in Jeddah, Riyadh and Al Khobar (which also serves clients in Al Qatif and Al Hasa), a Ladies branch in Riyadh, and a representative office in Mecca. In addition, professional investment solutions are also being offered to high net-worth individuals in conjunction with HSBC Investment Bank; close relationships have been established with HSBC Private Bank in London and Geneva; and relationship managers have been seconded to HSBC Group branches overseas during the summer holiday season to provide client support. Clients are also able to benefit from the services offered by HSBC Group in a number of locations worldwide.

SABB Private Banking's relationship managers offer a market leading standard, with over 90% being fully certified members of the Financial Planning Programme, and many accredited to the Wealth Management Programme. Looking ahead, a new dedicated Private Banking office is planned for Al Madinah and consideration is underway for wider expansion across the Kingdom. SABB Private Banking continues to invest in high quality staff, providing them with every opportunity to enhance their skills, to maintain the highest standards of advice and level of service.

Amanah

In 2008 Amanah sustained healthy growth in what has become a highly competitive segment of the Saudi marketplace. During the year, ten existing and six new branches became Amanah-compliant, with the result that 65 of the bank's 68 branches now operate on a Shariah-compliant basis. Plans are in hand for further branch conversions during the coming year.

The Amanah Visa card was launched in the course of the year, with settlement allowed on an installment basis, as was a Mudarabah Savings Account, a Shariah-compliant alternative to the existing offering. This latter concept is also being utilised to replace existing conventional overnight Call Accounts. Local Tawarruq transactions were further developed, authorised by the Shariah Committee, with refinements to trading processes that allow corporate customers to conduct Murabaha transactions telephonically rather than in person. Special emphasis was placed during the year on Shariah training for SABB staff, giving them detailed insight into Amanah products and services; 318 staff from all in-house business units were enrolled in one of the 31 training programmes offered during the year. In December, Amanah strengthened its relationship with SABB, emphasising the Bank's desire to understand fully its customers' needs and provide them with financial solutions that comply fully with Islamic Shariah.

HSBC Saudi Arabia Limited

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

The company's main services are as follows:

Asset Management

The Asset Management Division of HSBC Saudi Arabia Limited currently offers a wide variety of both local and international Mutual Funds in addition to discretionary portfolio management services for both local and international equities. HSBC continued to play a leading role in introducing the Saudi Equity market to international investors by launching specialised index funds including the HSBC Saudi Equity Index Fund, HSBC Saudi Equity Petrochemical Opportunities Fund and HSBC Saudi Construction and Cement Equity Fund, all of which were well received. In recent months, following the decision by the Capital Market Authority to further open the Saudi stock market to foreign investors, HSBC Saudi Arabia led the way in promoting access to stocks of individual companies listed in the Kingdom, through Swap Agreements. The Global Emerging Market Fund was also launched in early 2008, capitalising on the HSBC Group's expertise as one of the leading asset managers in emerging markets. However, the unprecedented decline in global stock market values coupled with the sharp decline in oil and other commodity prices, led to a broad sell-off in the local equity market towards the end of the year. The Asset Management Division continues to focus on delivering strong performance and as a result, contribute to the number of awards HSBC Saudi Arabia received during the year.

Corporate Finance

HSBC Saudi Arabia maintained its position as one of the Kingdom's most active institutions in financial advisory services, lead management arranging, and/or placing agent for equity and debt issues in 2008. The year also saw further consolidation of HSBC Saudi Arabia's position in Islamic Finance transactions, leveraging the Amanah brand, and leading in advising and arranging major Islamic Financings within the Kingdom, including prime domestic Sukuk issues. HSBC Saudi Arabia has expanded its capabilities over the past four years and has now established a market-leading position managing debt issues locally and internationally, both conventionally and under Shariah compliance, across all industries within the Kingdom.

Investment Banking Advisory

HSBC Saudi Arabia Limited continues to be one of the Kingdom's leading banks in equity capital markets and in mergers and acquisitions, handling deals in 2008 with a gross value of over SAR 9,000 million and participating in the underwriting of equity issues worth a further SAR 20,000 million. During the year HSBC Saudi Arabia led three IPOs and two rights issues, participating in the underwriting of two further IPOs and another rights issue. Since 2003, HSBC Saudi Arabia led more Saudi Arabian equity issues than any other financial adviser; with 18 in total.

Investment Banking Financing - Debt Capital Markets and Syndicated Finance

HSBC Saudi Arabia actively led the way in debt financing in Saudi Arabia during the year, leveraging their local relationships as well as their product expertise and HSBC Group's global presence. These attributes allied to a consistently high performance from within the Debt Capital Markets and Syndicated Finance unit have given HSBC Saudi Arabia unique strength within the Kingdom. Additionally, the Islamic finance franchise, Amanah, continued to strengthen over the course of the year, offering landmark deals and innovative solutions for clients. HSBC Saudi Arabia maintained its contribution to the development of the Kingdom's debt capital markets by providing ratings advisory services to key corporations, including the Saudi Electricity Company and Saudi Telecommunications Company, for which first-time ratings were obtained.

Project and Export Finance

HSBC Saudi Arabia won several major financial advisory mandates in project and export finance in 2008: appointed advisor on the development of utilities for "EMAAR The Economic City" and the King Abdullah Economic City seaport. This massive project is being undertaken north of Jeddah along the Red Sea coast, and the appointment is HSBC Group's largest ever financial advisory mandate in the Middle East and North Africa region. HSBC Saudi Arabia was also appointed financial advisor to the world's largest water desalination company, the Saline Water Conversion Company, for a major privatisation programme in the Kingdom, as well as to the MMC (Malaysia)/Chalco (China)/Saudi Bin Laden consortium on setting up a world-scale aluminium smelter in Jizan Economic City in the south west of Saudi Arabia.

Directors' Report (continued)

HSBC Saudi Arabia Limited (continued)

In international recognition, Euromoney recognised HSBC Saudi Arabia for the second year in succession for its contribution to debt financing, with the award for "Best Debt House in Saudi Arabia", reinforcing the Bank's leading position in the Kingdom for debt financing solutions. Further HSBC Saudi Arabia awards included the Failaka International Award for the "Best Islamic GCC Equity Fund", the Lippers Reuters Award for the "Best GCC Equity Fund" and Euromoney's "Project Finance Deal of the Year" award. HSBC Saudi Arabia also received the Saudi Investment Product Committee Award for the "Best Fund Manager of the Year" for SABB Private Banking in the "Private Banking and Wealth Management Survey 2008" - the benchmark for that sector.

Insurance and SABB Takaful Limited

Insurance

SABB in 2008 extended the range of services it offers to its clients by adding a wide-ranging suite of insurance offerings. Through SABB Takaful Limited it is able to offer customers a range of Shariah-compliant Takaful products which meet the needs of individual, commercial and corporate customers.

Takaful

In its first full year of operation SABB Takaful made substantial progress in delivering multi-product, multi-channel services, achieving a year of strong growth and winning the award for the "Worlds Best Takaful Provider" in the Euromoney Islamic Finance Awards. The company generated multiple business lines for both retail and commercial customers through SABB's branch network, the Internet, the direct sales force, telesales, worksite marketing and external brokers. SABB Takaful is now also delivering business through a number of external strategic partners in an effort to leverage its banking and product capabilities. Despite the slowdown in the wider economy, insurance growth is expected to be strong for the foreseeable future, notably with the expansion in the company's capabilities and distribution capacity.

SABB Insurance Services Limited

In 2008 SABB Insurance Services saw the commencement of SABB/HSBC's joint venture insurance broking operation that received its operating license in the first quarter of the year. The company provides high-end brokerage and insurance advisory services to Corporate, Commercial and Private Banking clients, and recorded a small profit by the end of the financial year - a significant achievement in its first year of operation.

SABB Securities Limited

Equity Brokerage

SABB Securities Limited provides clients with access to the Tadawul and major international stock markets worldwide, offering a completion service via a variety of delivery channels, including through sixteen investment centres located across the Kingdom, online services (SABB Tadawul & SABB Mubasher) and phone services via the Direct Investment Centre. During 2008, SABB Securities was ranked second locally with an average market share in excess of 14% of total market turnover. This figure shows steady growth from 2006 to 2007, when market share was 8.3% and 10.7% respectively.

Securities Services

Throughout the year specific attention was given to product consolidation, service enhancement, increasing the customer base and maintaining the Bank's leading position within the local market. As a result Securities Services has had another very successful year with revenues 30% higher than in 2007. This is the fourth year in succession with sustained growth of 25% and as a result attained a revenue milestone of SAR 100 million during 2008. Custody and Clearing business saw major revenue growth of more than 40% over the previous year. Meanwhile, Fund Administration grew rapidly and, with first-mover advantage, a number of significant mandates were won during the year. Over time such mandates are expected to generate sizeable revenue. Assets under Custody and Assets under Management have grown steadily despite difficult market conditions.

Also during 2008 SABB Securities acted as Flotation Manager to a number of major IPOs resulting in solid growth in the revenue stream from that activity.

Operations

Operations gave considerable attention to the simplification of internal processes and procedures while tightening controls, with the ultimate aim of enhancing customer services, improving efficiency and productivity. This led to and will continue to attain significant reductions in costs and subsequent increase in revenues. Specific accomplishments included: further compliance with a range of SAMA and Basel II directives; improved operations in suspense and general ledger accounting; enhancement of staff resource management and performance evaluation; raised service level standards throughout facility divisions and successful integration of HSBC Group's preferred purchase approval and invoice processing system, "BuySmart".

Property and Branches

Expansion of the branch network has been the major feature of 2008; Security strategies were renewed and expanded to maintain safe and protected locations for both customers and staff, and the introduction of a new Ecological Policy function saw SABB participate in environmental impact programmes and initiatives both in the Kingdom and overseas.

Six new branches were built and opened for business at Rayan, Ghadeer and Morooj in Riyadh, Ayah Mall in Jeddah, Rakah in Dammam and Fanateer in Jubail Industrial City. Additionally, Rawdha branch in Riyadh was relocated to newly-built, custom-designed premises. Four Ladies Sections were constructed in Ghadeer, Rawdha, Rabwa and Ayah Mall, and four new Premier Centres at Rawdha, Ayah Mall, Shatti and Sitteen Street, Mecca. Two further Premier Centres were under construction at the year end, at Swaidi in Riyadh and Tahliah in Jeddah. When centres still under construction come into use, there will be a total of seven Premier Centres, including the pilot branch in North Olaya, Riyadh, and a further two Investment Centres in Mecca and Riyadh. Of particular interest during the year was establishment of new Headquarters for HSBC Saudi Arabia and seamless integration of operational staff in the new offices. The expansion of the ATM network continued with a further 24 on-branch and 34 off-branch units installed during the year, bringing the total now in operation to over 450.

Looking ahead, 19 new branches are under detailed consideration. Premises for 11 of these have already been secured and negotiations are under way for the remaining eight.

IT - SABB Technology Services

2008 saw numerous IT accomplishments including the successful delivery of the first in class HSBC Group Shariah compliant (ISF) Amanah loans processing system, and the launch of a Regional Call Centre. Complete IT systems were mapped, created and introduced for the new HSBC Saudi Arabia headquarters building and new SABB branches. With the support of SABB's Board, SABB Technology Services (STS) launched Release 1 of the SABB's OneHSBC Program, which aims to meet the growing technology demands of all business units, as well as deliver standardised solutions for SABB's distribution channels, Internet, mobile, branch and call centres, for an improved and more consistent customer experience.

Human Resources

The continuous development of SABB's human resources is widely recognised as absolutely critical to the Bank's future success. Staff feedback is the basis for programmes of further improvement, and detailed action plans were formed to tackle key issues as a result of the 2007 Global People Survey. The independent Group Global People Survey for 2008 saw a marked increase in SABB's overall staff satisfaction index, achieving equal best in class in the region. 2008 also saw an increase in the provision of a wide range of training programmes for staff from all areas of the Bank, whatever their status, with the ultimate aim of building knowledge, improving professional skills, and the development of their careers.

To these ends training programmes are offered in English Language, Information Technology, Management, Statistics, Corporate & Commercial Banking, Credit, Takaful and Compliance & money-laundering. A number of accreditation programmes have also been held in the fields of Sales & Service, and Amanah, as well as Group Strategic Leadership and Graduate Development programmes for those rising through promotion. In addition, two new accreditation programmes for managers, on Branch Operations and Branch Management were developed and delivered. The programmes were designed to provide audiences with the necessary skills and knowledge to manage their branches effectively. The success of these activities has delivered proven improvements throughout SABB, especially where well-trained frontline staff interface with customers, but also internally within each and every department.

Directors' Report (continued)

Human Resources (continued)

Further integral elements of staff development are SABB's Executive Development Review, career enhancement and succession plans alongside performance management appraisal systems which, combined, ensure every staff member is able to attain his or her full potential within the Bank. Furthermore, and to ensure all staff are competitively remunerated, an annual compensation and benefits survey is undertaken and market adjustment and Super Performance bonus schemes are now in place.

In support of Saudisation, and to meet growing staffing needs as SABB expands its branch networks, a number of recruitment drives were undertaken throughout the year. High calibre recruits are sought from a variety of educational backgrounds; through university career days, where students can be selected to gain work experience as part of their degree courses under Co-operative Programmes, or encouraging others to join summer internships. Mid-career executives are also sought who can bring external commercial or industrial experience to the banking environment.

At year end SABB's staff complement totalled 3,395 of which 466 were ladies. The Saudisation ratio at 31 December was 87%. During 2008 a total of 47,866 training days were attended by 10,620 delegates.

Corporate Communications

SABB is an active and responsible corporate citizen. During 2008, the Bank continued its dynamic philanthropic activity. Many of the Bank's donations come under the umbrella of "SABB in the Community Programmes" - initiatives that denote the Bank's support and sponsorship of charitable and civic organisations or societies. This work highlights SABB's close relationship with local communities, and its enduring commitment to meet their needs and development. Key actions in 2008 included:

In line with its role as an active supporter of various charitable activities in the Kingdom, SABB donated 3000 school bags to the KSA School Bag Programme, supervised by the Riyadh Orphans Care Charitable Society (ENSAN) at the start of the new school year. The Bank also provided substantial support to the Prince Salman Centre for Disability Research, the Orphan Care Charitable Society (INSAN), and the Down Syndrome Charitable Association.

In the Autumn, the Bank initiated and carried out a blood donation campaign in collaboration with King Faisal Specialist Hospital & Research Centre. Priority of allocation of the donated blood was given to "Sanad Children's Cancer Support Society".

As part of a five year commitment, SABB contributed to the Centennial Foundation, which aims to help young Saudi entrepreneurs achieve economic independence through self employment and by mobilising support from the Saudi business community. SABB's Cooperative Training Programme, undertaken in coordination with a number of local universities and institutes, provides students with practical experience as part of their graduation requirements. This aims to assist Saudi graduates acquire the skills needed to perform effectively in the domestic banking sector.

In Education, SABB continued in 2008 to pursue long-term projects in support of local communities. Four more scholarships were again offered to the UK this scholastic year, bringing the number of MBA courses to the United Kingdom granted since the inception of this offer in 1997 to 45; and sponsorship of the Chair of Finance at King Fahd University of Petroleum and Minerals in Dhahran was renewed.

On the Environment, SABB continued its media campaign in 2008 to raise awareness of environmental issues, and in June the Bank participated in World Environment Day, under the vision "Be Part of the Solution". SABB's part in this initiative offered an environmental documentary on plasma displays in its branches and offices across the Kingdom and included the distribution of indoor plants and water preservation kits to its staff. In April, SABB employees participated in cleaning one million square meters in the Al-Thumamah district on the outskirts of the capital, as part of a wider long-term initiative to encourage preservation of a cleaner environment in Riyadh Municipality's "Clean a Million Square Metres" campaign.

SABB also participated in "Earth Hour 2008" – a global call by the World Wildlife Fund (WWF) for businesses, communities and individuals to work towards a sustainable future through initiatives that directly counter climate change.

Board of Directors and subsidiary committees

Directors

On 11 November 2008 Mr. Mukhtar Malik Hussain was appointed a director of the bank in place of Mr. David Hodgkinson. In light of these changes the Board of Directors as at 31 December 2008 comprised:

Mr. Abdullah Mohammad Al Hugail, CHAIRMAN, INDEPENDENT (SAUDI)

President, Trading & Development Partners Company; Member, Resources Development Committee, Prince Salman Centre for Disability Research; Board Member, Prince Fahd Bin Salman Charitable Society for the Care of Kidney Patients; Ex-member of the Shoura Council; Member, Saudi Association for Disabled Children.

Mr. Fouad Abdulwahab Bahrawi, BOARD MEMBER, INDEPENDENT (SAUDI)

Partner in The Bahrawi Trading Company; Chairman of Watani Trading Company; Board Member, SABB Takaful Co.

Engr. Khalid Abdullah Al Molhem, BOARD MEMBER, INDEPENDENT (SAUDI)

Member, Saudi Economic Committee; Board Member, Aseer Company; General Manager, Saudia Airlines; Board Member, Saudia Airlines; Board Member, King Khalid Economic City.

Mr Khaled Suliman Olayan, BOARD MEMBER, INDEPENDENT (SAUDI)

Board Member, Al-Zamil Industrial Investment Company; Chairman, Board of Olayan Financing Company; Chairman, Board of Managers, Olayan Real-Estate Company; Chairman, Board of Managers, The Coca-Cola Bottling Company of Saudi Arabia; Chairman, Board of Managers, Colgate-Palmolive Arabia; Chairman, Board of Managers, Colgate-Palmolive Co. (Gulf Countries); Chairman, Board of Managers, Olayan Kimberly-Clark Arabia; Chairman, Board of Managers, Olayan Kimberly-Clark (Bahrain); Chairman, Board of Managers, National Child Care Products Company; Chairman, Board of Managers, Olayan Descon Engineering Company; Chairman, Board of Managers, Olayan Descon Industrial Company; Chairman, Board of Managers, Nabisco Arabia Company Ltd; Chairman, Board of Managers, United Arab Can Manufacturing Company; Chairman, Board of Managers, Arabian Paper Products Company; Chairman, Board of Managers, Restaurant Franchise Service Company WLL, Bahrain; Chairman, Board of Managers, General Franchise Services Holding Company WLL, Bahrain; Chairman, Board of Managers, Olayan Investments Company Establishment, Vaduz, Liechtenstein.

Mr. Sulaiman Abdulkader Al Muhaidib, BOARD MEMBER, INDEPENDENT (SAUDI)

Chairman, A. K. Al-Muhaidib & Sons Group of Companies; Chairman, Communication Solutions Co; Chairman, Middle East Paper; Chairman, Amwal Al-Khaleej Commercial Investment Co; Chairman, Al Shamiyah Urban Development Co; Chairman, Al Hoshan Co. Ltd; Chairman, Secorp Jusrer Co; Board Member, Jazira Factory for Bakery and Food; Board Member, Integrated Transportation Company; Chairman, Al-Oula Development Co; Board Member, Riyadh Chamber of Commerce & Industry; Board Member, Riyadh Cables Group; Board Member, Yamamah Steel Co; Board Member, Arabian Pipes Co; Board Member, Al-Toukhi Co. for Industry & Trading; Board Member, Disabled Children Association; Board Member, Prince Salman Center for Disability Research; Board Member, Prince Fahd Bin Salman Charitable Society for the Care of Kidney Patients; Board Member, The Centennial Fund; Board Member, Arabian Water and Power Development Co. (Aqua); Board member, Competition Protection Department (Government appointee); Board Member, Social Responsibility Committee, Chamber of Commerce, Riyadh (Government Appointee).

Mr. Ahmed Sulaiman Banaja, BOARD MEMBER, INDEPENDENT (SAUDI)

Board Member, Chairman of Audit Committee, Emaar Economic City; CEO and Board Member, Saudi Economic and Development Co. (SEDCO); Board Member, Al Ahli Takaful; Board Member, Jeddah Urban Development and Urbanisation Co; Board Member, Al Faisaliah Group.

Mr. John Coverdale, MANAGING DIRECTOR, BOARD MEMBER (BRITISH)

HSBC Bank Middle East Limited; Board Member, HSBC Bank Egypt; Board Member, HSBC Saudi Arabia Limited; Board Member, SABB Takaful Company.

Directors' Report (continued)

Board of Directors and subsidiary committees (continued)

Mr. Mukhtar Hussain, NON-INDEPENDENT DIRECTOR, (*AMERICAN*)

HSBC Bank Middle East Limited; Board Member, HSBC Saudi Arabia Limited; Board Member, HSBC Specialist Investments Limited, London; Board Member, HSBC Private Equity Middle East Management BVI; Board Member, HSBC Private Equity Middle East, Dubai; Board Member, Greenwell Nominees Limited, London; Board Member, Shenfield Nominees Limited, London; Board Member, HSBC Securities (Egypt) SAE, Cairo; Board Member, HSBC Amanah Funds, Luxemburg; Board Member, HSBC Financial Services (Middle Est) Limited, Dubai.

Mr. Youssef Nasr, BOARD MEMBER, NON-INDEPENDENT (*AMERICAN*)

Chairman and CEO HSBC Bank Middle East Limited; Board Member, British Arab Commercial Bank, London; Board Member, HSBC Private Bank Holdings, Geneva, Switzerland; Deputy Chairman and Board Member, HSBC Bank Egypt SAE.

Mr. Richard Groves, CHIEF OPERATING OFFICER, NON-INDEPENDENT, (*BRITISH*)

Chairman, SABB Securities Limited.

Executive Committee

The Executive Committee formed by the Board of Directors in 2006 and comprising the Managing Director and four Board Members, met on twelve occasions during the year. The members of the Executive Committee as at 31 December 2008 were: Mr. John Coverdale, Chairman, Mr. Fouad Abdulwahab Bahrawi, Mr. Khalid Abdullah Al Molhem, Mr. Ahmed Sulaiman Banaja and Mr. Richard Groves.

Audit Committee

SABB's Audit Committee was formed in 1992. Reporting directly to the Board of Directors, the Committee monitors the Bank's internal and external audit functions and reviews control weaknesses and system deficiencies. It is also responsible for ensuring that all financial information is of the highest quality, concentrating on critical business issues, which enable the Bank's external auditors and management to focus on those areas of greatest risk to the business. Mr. Ahmed Sulaiman Banaja (Chairman), Mr. Ian Stewart Martin and Mr. Mohamed Omran Al Omran are members of the Committee.

Property Committee

In 2006 a Property Committee was formed comprising four members of the Board with a brief to consider and approve the Bank's expenditure and liabilities in respect of properties including rentals, project costs and related support expenditure in areas such as safety and security. As at 31 December 2008 the committee was presided over by Mr. Abdullah Mohammad Al Hugail (Chairman) with Mr. Sulaiman Abdulkader Al Muhaidib, Mr. John Coverdale, Mr Adel Marzook Al Nasser and Mr. Richard Groves as members.

Corporate Governance

SABB complies with corporate governance guidelines issued by the Capital Market Authority and the Saudi Arabian Monetary Authority while continuing to adhere to the new Basel II principles related to risk measurement, capital adequacy and disclosure. A risk committee has been formed by the Bank's management to ensure ongoing compliance with all the guidelines laid down in accordance with best international practice.

Related Party Transactions

Managerial and specialised expertise is provided under a technical services agreement with the parent company of one of the shareholders, HSBC Holdings BV. This agreement was renewed on 30 September 2007 for a period of five years.

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

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

	2008	2007
	SAR'000	SAR'000
The HSBC Group:		
Due from banks and other financial institutions	4,323,321	744,086
Investments	835,220	733,238
Derivatives (at fair value)	(408,151)	313,133
Due to banks and other financial institutions	8,135,827	3,792,098
Other liabilities	4,619	20,659
Commitments and contingencies	997,114	846,789

The above-mentioned include investment in associates, amounting to SAR 148.3 million (2007: SAR 110.4 million).

Directors' Report (continued)**Related Party Transactions** (continued)

	<u>2008</u>	<u>2007</u>
	<u>SAR'000</u>	<u>SAR'000</u>
Directors, audit committee, other major shareholders and their affiliates:		
Loans and advances	2,168,348	2,356,137
Customers' deposits	4,000,924	3,714,385
Derivatives (at fair value)	12,137	4,990
Commitments and contingencies	242,057	213,524

	<u>2008</u>	<u>2007</u>
	<u>SAR'000</u>	<u>SAR'000</u>
Bank's mutual funds:		
Loans and advances	1,002	43,494
Customers' deposits	384,839	607,314

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

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

	<u>2008</u>	<u>2007</u>
	<u>SAR'000</u>	<u>SAR'000</u>
Special commission income	34,449	68,170
Special commission expense	(295,379)	(425,923)
Fees from banking services	102,491	11,575
Profit share arrangement relating to investment banking activities	(18,643)	(17,886)
Share in earnings of associates	108,321	57,947
Directors' remuneration	2,828	2,829

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

	<u>2008</u>	<u>2007</u>
	<u>SAR'000</u>	<u>SAR'000</u>
Short-term employee benefits (Salaries and allowances)	35,401	35,935
Employment termination benefits (End of service indemnity and social security)	1,029	5,130

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 2008. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

Borrowings and debt securities in issue

	2008	2007
	SAR'000	SAR'000
USD 600 million 5 year floating rate notes	2,249,134	2,248,399
Euro 325 million 5 year floating rate notes	1,702,666	1,789,968
SAR 1,705 million 5 year floating rate notes	1,705,000	-
Borrowing	187,500	187,500
Total	5,844,300	4,225,867

USD 600 million 5 year floating rate notes

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

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

Euro 325 million 5 year floating rate notes

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

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

SAR 1,705 million 5 year floating rate notes

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

Borrowings

The Bank's borrowings comprise a 12 year floating rate loan. The loan carries special commission rate of Libor plus 65 bps. This was taken on 7 July 2005 and is repayable by 15 June 2017.

Directors' Report (continued)**Directors' remuneration and meetings**

Directors' fees during 2008 totalled SAR 2,828,000, including SAR 292,000 in attendance fees at Board of Directors' and Executive Committee meetings.

Remuneration of Directors in their capacity as employees of the Bank during the year amounted to SAR 3,864,000.

2008	<i>Executive Board Members</i>	<i>Non-Executive/ Independent Board Members</i>	<i>Detailed remuneration elements for the top six Executives who have received the highest compensation from the Company*</i>
	SAR'000	SAR'000	SAR'000
Salaries and Remuneration	4,429	2,263	10,025
Allowances	725	-	2,498
Annual & periodic bonuses	1,501	-	7,057
Incentive schemes	872	-	3,590
Any remuneration or other benefits in kind paid monthly or annually	884	-	885

*The CEO and CFO are included as per SAMA regulatory requirement.

The Board of Directors conducted five meetings during 2008 at which attendance was as follows:

First meeting - 11 March 2008 (Attendees)

Mr Abdullah Mohammad Al Hugail; Mr Fouad Abdulwahab Bahrawi; Mr Sulaiman Abdulkhader Al Muhaidib; Mr Ahmed Sulaiman Banaja; Mr David Hodgkinson; Mr Youssef A Nasr; Mr John Coverdale; Mr Richard Groves

Second meeting - 27 April 2008 (Attendees)

Mr Khaled Suliman Olayan; Mr Fouad Abdulwahab Bahrawi; Mr Khalid Abdullah Al Molhem; Mr Sulaiman Abdulkhader Al Muhaidib; Mr Ahmed Sulaiman Banaja; Mr Youssef A Nasr; Mr John Coverdale; Mr Richard Groves

Third meeting - 30 July 2008 (Attendees)

Mr Khaled Suliman Olayan; Mr Fouad Abdulwahab Bahrawi; Mr Khalid Abdullah Al Molhem; Mr Sulaiman Abdulkhader Al Muhaidib; Mr Ahmed Sulaiman Banaja; Mr David Hodgkinson; Mr Youssef A Nasr; Mr John Coverdale; Mr Richard Groves

Fourth meeting - 26 October 2008 (Attendees)

Mr Khaled Suliman Olayan; Mr Fouad Abdulwahab Bahrawi; Mr Khalid Abdullah Al Molhem; Mr Sulaiman Abdulkhader Al Muhaidib; Mr Ahmed Sulaiman Banaja; Mr David Hodgkinson; Mr Youssef A Nasr; Mr John Coverdale; Mr Richard Groves

Fifth meeting - 16 December 2008 (Attendees)

Mr Khaled Suliman Olayan; Mr Khalid Abdullah Al Molhem; Mr Sulaiman Abdulkhader Al Muhaidib; Mr Ahmed Sulaiman Banaja; Mr Mukhtar Malik Hussain; Mr John Coverdale; Mr Richard Groves.

Staff benefits and schemes

According to the Labour Law of The Kingdom of Saudi Arabia and to the Bank's internal policies, staff benefits are due for payment during or at the end of an employee's period of service. The end of service benefit outstanding at the end of December 2008 amounted to SAR 257.14 million.

The Bank operates three equity-settled, share-based plans that entitle eligible staff to purchase shares in the Bank at a pre-determined strike price that approximates the market price of the shares at the date of the grant, where the book value for these programmes amounted to SAR 66.1 million.

Board of Directors' assurance

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

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

Donations

During the year the Bank made a number of donations to authorised charitable societies and organisations. Given the Bank's continued commitment to philanthropic support of the wider Saudi community, the Board recommends an amount of SAR 6 million to be allocated for this purpose for the coming year.

Auditors

The Ordinary General Meeting held on 29 March 2008 reaffirmed the appointment of Messrs KPMG Al Fozan & Al Sadhan and Ernst & Young as the Bank's auditors.

Accounting Standards

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

Expressions of Gratitude

SABB's considerable achievements during 2008 were made possible through the unwavering support of many people and organisations in Saudi Arabia. This has been especially true of the Bank's loyal staff, whose commitment and professionalism are not only wholly appreciated but are fully recognised as vital in preparing the way for SABB's continued success and profitability in the years to come.

The Board of Directors also expresses its full appreciation and gratitude to the Bank's customers and shareholders for their continued confidence and support; to the members of the Amanah Shariah Supervisory Committee for their continued guidance and encouragement; to the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency and the Capital Market Authority, for their continued cooperation, encouragement and support of the banking sector in the Kingdom, and who together have enabled SABB, as a leading member of the local banking community, to make a major contribution to the Saudi economy under the direction of the Custodian of the Two Holy Mosques and the Crown Prince.

Auditors' Report

To: The shareholders of The Saudi British Bank (Saudi joint stock company)

We have audited the accompanying consolidated financial statements of The Saudi British Bank (the 'Bank') and its subsidiary, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, changes in shareholders' equity cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41, other than note 38 and information related to "Basel II disclosures" cross-referenced therein, which are not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' responsibility

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

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

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

To: The shareholders of The Saudi British Bank (Saudi joint stock company) *(continued)*

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiary as at 31 December 2008, and of their consolidated financial performance and their consolidated cash flows for the year then ended, in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

ERNST & YOUNG

Ernst & Young
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Abdulaziz A. Al-Sowailim
Certified Public Accountant
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KPMG

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Kingdom of Saudi Arabia



Abdullah H. Al Fozan
Certified Public Accountant
Licence No. 348



Riyadh: 27 Muharram 1430H
(24 January 2009)

Consolidated Balance Sheet

As at 31 December

	Notes	2008 SAR'000	2007 SAR'000
ASSETS			
Cash and balances with SAMA	3	11,328,253	16,643,746
Due from banks and other financial institutions	4	6,200,466	1,723,576
Investments, net	5	29,604,346	14,858,747
Loans and advances, net	6	80,236,757	62,000,858
Investment in associates	7	148,356	110,447
Property and equipment, net	8	561,460	551,840
Other assets	9	3,581,055	2,323,696
Total assets		131,660,693	98,212,910
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	16,069,492	8,045,047
Customers' deposits	12	92,677,537	71,847,852
Debt securities in issue	13	5,656,800	4,038,367
Borrowings	14	187,500	187,500
Other liabilities	15	5,435,533	3,669,211
Total liabilities		120,026,862	87,787,977
SHAREHOLDERS' EQUITY			
Share capital	16	6,000,000	3,750,000
Statutory reserve	17	4,480,005	3,750,000
Other reserves	18	(176,716)	(16,220)
Retained earnings		1,330,542	2,050,528
Proposed dividend	26	-	890,625
Total shareholders' equity		11,633,831	10,424,933
Total liabilities and shareholders' equity		131,660,693	98,212,910

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

Consolidated Statement of Income

For the years ended 31 December

		2008	2007
	Notes	SAR'000	SAR'000
Special commission income	20	5,864,966	5,219,955
Special commission expense	20	2,657,922	2,161,258
Net special commission income		3,207,044	3,058,697
Fees from banking services, net	21	1,257,222	861,924
Exchange income, net		138,310	107,236
(Losses) income from FVIS financial instruments, net	22	(42,400)	63,777
Trading income, net	23	363,569	189,968
Dividend income		1,770	4,433
(Losses) gains on non-trading investments, net	24	(17,010)	83,319
Other operating income		3,023	4,598
Operating income		4,911,528	4,373,952
Salaries and employee-related expenses		898,078	760,029
Rent and premises-related expenses		79,459	64,214
Depreciation	8	107,395	102,895
Other general and administrative expenses		556,612	500,045
Provision for credit losses, net	6	371,280	396,264
Impairment of other financial assets		86,929	-
Other operating expenses		77	1,513
Operating expenses		2,099,830	1,824,960
Income from operating activities		2,811,698	2,548,992
Share in earnings of associates, net	7	108,321	57,947
Net income for the year		2,920,019	2,606,939
Basic and fully diluted earnings per share (in SAR)	25	4.87	4.34

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

Consolidated Statement of Changes in Shareholders' Equity

For the years ended 31 December

		<i>Share capital</i>	<i>Statutory reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Proposed dividend</i>	<i>Total</i>
	Notes	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
2008							
Balance at beginning of the year		3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933
Net changes in fair value of cash flow hedges (note 10)		-	-	28,496	-	-	28,496
Net changes in fair value of available for sale investments		-	-	(206,002)	-	-	(206,002)
Transfer to consolidated statement of income:							
Cash flow hedge		-	-	-	-	-	-
Available for sale investments		-	-	17,010	-	-	17,010
Net expense recognised directly in equity		-	-	(160,496)	-	-	(160,496)
Net income for the year		-	-	-	2,920,019	-	2,920,019
Total recognised income and expense for the year		-	-	(160,496)	2,920,019	-	2,759,523
Bonus share issue	16	2,250,000	-	-	(2,250,000)	-	-
Transfer to statutory reserve	17	-	730,005	-	(730,005)	-	-
2007 final dividend paid		-	-	-	-	(890,625)	(890,625)
2008 interim dividend paid	26	-	-	-	(660,000)	-	(660,000)
Balance at end of the year		6,000,000	4,480,005	(176,716)	1,330,542	-	11,633,831
2007							
Balance at beginning of the year		3,750,000	3,750,000	70,385	943,589	890,625	9,404,599
Net changes in fair value of cash flow hedges (note 10)		-	-	4,349	-	-	4,349
Net changes in fair value of available for sale investments		-	-	(8,879)	-	-	(8,879)
Transfer to consolidated statement of income:							
Cash flow hedge		-	-	1,244	-	-	1,244
Available for sale investments		-	-	(83,319)	-	-	(83,319)
Net expense recognised directly in equity		-	-	(86,605)	-	-	(86,605)
Net income for the year		-	-	-	2,606,939	-	2,606,939
Total recognised income and expense for the year		-	-	(86,605)	2,606,939	-	2,520,334
2006 final dividend paid		-	-	-	-	(890,625)	(890,625)
2007 interim dividend paid	26	-	-	-	(609,375)	-	(609,375)
2007 final proposed dividend	26	-	-	-	(890,625)	890,625	-
Balance at end of the year		3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933

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

Consolidated Statement of Cash Flows

For the years ended 31 December

	Notes	2008 SAR'000	2007 SAR'000
OPERATING ACTIVITIES			
Net income for the year		2,920,019	2,606,939
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premiums and (accretion of discount) on non trading investments		1,067	(582)
Losses from FVIS financial instruments	22	47,104	11,523
Losses (gains) on non - trading investments		17,010	(83,319)
Depreciation	8	107,395	102,895
Gains on disposal of property and equipment, net		(200)	(4,598)
Share in earnings of associates, net	7	(37,909)	(38,238)
Provision for credit losses, net	6	371,280	396,264
Impairment of other financial assets		86,929	-
Change in fair value		(88,819)	238,101
		3,423,876	3,228,985
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(1,506,225)	(971,848)
Investments held for trading		(181,449)	114,622
Loans and advances		(18,607,179)	(19,946,879)
Other assets		(1,257,359)	(832,955)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		8,024,445	5,873,212
Customers' deposits		20,829,685	12,590,210
Other liabilities		1,600,749	1,339,354
Net cash from operating activities		12,326,543	1,394,701
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		43,571,660	11,976,616
Purchase of non-trading investments		(58,285,668)	(5,314,720)
Purchase of property and equipment	8	(117,743)	(113,682)
Proceeds from disposal of property and equipment		928	4,780
Net cash (used in) from investing activities		(14,830,823)	6,552,994
FINANCING ACTIVITIES			
Debt securities in issue		1,705,000	-
Dividends paid		(1,545,548)	(1,484,751)
Net cash from (used in) financing activities		159,452	(1,484,751)
(Decrease) increase in cash and cash equivalents		(2,344,828)	6,462,944
Cash and cash equivalents at the beginning of the year		15,046,057	8,583,113
Cash and cash equivalents at the end of the year	27	12,701,229	15,046,057
Special commission received during the year		5,765,791	5,201,815
Special commission paid during the year		2,327,993	2,137,319
SUPPLEMENTAL NON CASH INFORMATION			
Net changes in fair value and cash flow hedges		(160,496)	(86,605)

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

Notes to the consolidated Financial Statements (31 December 2008)

1. General

The Saudi British Bank (the Bank) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 68 branches (2007: 63) and 31 exclusive ladies' sections (2007: 12) in the Kingdom of Saudi Arabia. The Bank employed 3,395 staff as at 31 December 2008 (2007: 3,005). The address of the Bank's head office is as follows:

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

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

The Bank has 100% (2007 : 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 1428 H (25 June 2007) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428 H (22 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). Activities of the subsidiary are to engage in the business of custody and dealing as an agent excluding underwriting.

1.1. Basis of preparation

a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

b) *Basis of measurement*

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

c) *Functional and presentation currency*

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

d) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, SABB Securities Limited. The financial statements of the subsidiary are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

Intercompany transactions and balances have been eliminated upon consolidation.

1.1. Basis of preparation (continued)

e) *Critical accounting judgements and estimates*

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting 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 for future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment losses on loans and advances

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

The Bank reviews its loan portfolios to assess an additional portfolio provision on each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual 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 available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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

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

iv) Classification of held-to-maturity investments

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)

1.1. Basis of preparation (continued)

v) *Classification of Fair Value through income statement*

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

2. Summary of significant accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

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

a) *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.

b) *Derivative financial instruments and hedging*

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 is appropriate.

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

i) *Derivatives held for trading*

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

ii) *Embedded derivatives*

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

iii) *Hedging accounting*

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

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

2. Summary of accounting policies (continued)

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 statement of income.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. On discontinuation of hedge accounting on cash flow hedges, any cumulative gain or loss on 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.

c) *Foreign currencies*

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the 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 balance sheet date. 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 when deferred in equity as qualifying cash flow hedges.

d) *Offsetting*

Financial assets and liabilities are offset and are reported net in the consolidated balance sheet 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.

e) *Revenue recognition*

Special commission income and expense for all special commission-bearing financial instruments, except for Held as FVIS financial instruments, including fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated statement of income on the effective yield basis including premiums amortised and discounts accreted during the year.

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 interest rate and the change in carrying amount is recorded as special commission income or expense.

Once 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 interest rate applied to the new carrying amount.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

Exchange income is recognised when contractually earned. Dividend income is recognised when declared.

Fees and commission are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis.

Notes to the consolidated Financial Statements (31 December 2008) (continued)

2. Summary of accounting policies (continued)

Fee received on the asset management, wealth management, financial planning, custody services and other similar services that are provided in extended period of time are recognised rateably over the period when the service is being provided.

When the Bank enters into a 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.

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

f) *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 balance sheet and are measured in accordance with related accounting policies for the underlying financial assets held as FVIS, available for sale, held to maturity and other investments held at amortised cost. The counter-party 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 balance sheet, 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.

g) *Investments*

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

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

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

i) *Held as FVIS*

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

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

2. Summary of accounting policies (continued)

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

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from financial instruments designated as FVIS in the consolidated statement of income.

ii) *Available for sale*

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

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

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

iii) *Held to maturity*

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

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

iv) *Held at amortised cost*

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

h) *Investment in associates*

Investment in associates is accounted for using the equity method in accordance with International Accounting Standard 28 – Investment in Associates. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in associate is carried in the balance sheet at cost plus post investment changes in the Bank's share of net assets of the associate. The investments in associates are carried in balance sheet at the lower of equity accounted or recoverable amount.

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

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)

2. Summary of accounting policies (continued)

i) *Loans and advances*

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

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

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

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

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

j) *Due from banks and other financial institutions*

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

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

k) *Impairment of financial assets*

An assessment is made at each balance sheet 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 as follows:

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 income statement 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.

2. Summary of accounting policies (continued)

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 at fair value, where a loss has been recognised directly under consolidated shareholders' equity, the cumulative net loss recognised in consolidated 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 consolidated shareholders' equity is included in consolidated statement of income for the period.

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are then written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

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

1) *Property and equipment*

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

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

Buildings	20 years
Leasehold improvements	over the period of the lease contract
Furniture, equipment and vehicles	3 to 4 years

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

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)

2. Summary of accounting policies (continued)

m) 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, or 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 accredited 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.

n) Provisions

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

o) Guarantees

In the ordinary course of business, the Bank extends credit related commitments, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the 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 income statement in "credit loss expenses". The premium received is recognised in the income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

p) 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.

q) Cash and cash equivalents

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

r) 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.

2. Summary of accounting policies (continued)

s) *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.

t) *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.

u) *Non-interest-based banking products*

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

All non-interest based banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

3. Cash and balances with SAMA

	2008	2007
	SAR'000	SAR'000
Cash in hand	621,611	747,610
Statutory deposit	4,827,490	3,321,265
Reverse repos	5,540,769	12,356,627
Other balances	338,383	218,244
Total	11,328,253	16,643,746

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

4. Due from banks and other financial institutions

	2008	2007
	SAR'000	SAR'000
Current accounts	2,722,368	771,401
Money market placements	3,478,098	952,175
Total	6,200,466	1,723,576

Notes to the consolidated Financial Statements (31 December 2008) (continued)**5. Investments, net**

a) *Investment securities are classified as follows:*

	Domestic		International		Total	
	2008 SAR'000	2007 SAR'000	2008 SAR'000	2007 SAR'000	2008 SAR'000	2007 SAR'000
i) Held as FVIS						
Fixed rate securities	-	80,914	17,822	18,637	17,822	99,551
Floating rate securities	323,016	82,716	60,457	194,396	383,473	277,112
Held as FVIS	323,016	163,630	78,279	213,033	401,295	376,663
FVIS investments above includes investments held for trading of SAR 350.9 million (2007: SAR 211.9 million), and floating rate notes issued by banks and corporates designated as FVIS for reasons disclosed in the summary of significant accounting policies, amounting to SAR 50.4 million (2007 : SAR 164.8 million). The maximum credit exposure of investments designated as FVIS as at 31 December 2008 is SAR 56.75 million (2007: SAR 171.8 million).						
The changes in fair value are mainly attributable to the changes in credit risk during the year, as the impact of market risk is minimal.						
ii) Available for sale						
Fixed rate securities	16,731,299	973,925	2,161,076	2,586,360	18,892,375	3,560,285
Floating rate securities	2,587,485	2,014,750	2,410,352	2,553,873	4,997,837	4,568,623
Equities	10,894	99,798	83,671	31,249	94,565	131,047
Available for sale investments, gross	19,329,678	3,088,473	4,655,099	5,171,482	23,984,777	8,259,955
Allowance for impairment	-	-	(77,929)	-	(77,929)	-
Available for sale investments	19,329,678	3,088,473	4,577,170	5,171,482	23,906,848	8,259,955
iii) Held at amortised cost						
Fixed rate securities	3,569,809	4,492,077	-	-	3,569,809	4,492,077
Floating rate securities	1,221,000	1,221,000	9,000	-	1,230,000	1,221,000
Held at amortised cost, gross	4,790,809	5,713,077	9,000	-	4,799,809	5,713,077
Allowance for impairment	-	-	(9,000)	-	(9,000)	-
Held at amortised cost	4,790,809	5,713,077	-	-	4,790,809	5,713,077
iv) Held to maturity						
Fixed rate securities	505,394	509,052	-	-	505,394	509,052
Held to maturity investments	505,394	509,052	-	-	505,394	509,052
Investments, net	24,948,897	9,474,232	4,655,449	5,384,515	29,604,346	14,858,747

b) *The analysis of the composition of investment is as follows:*

	2008			2007		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	2,178,898	20,806,502	22,985,400	2,549,079	6,111,887	8,660,966
Floating rate securities	4,351,711	2,259,599	6,611,310	3,493,924	2,572,810	6,066,734
Equities	-	94,565	94,565	88,902	42,145	131,047
	6,530,609	23,160,666	29,691,275	6,131,905	8,726,842	14,858,747
Allowance for impairment	-	(86,929)	(86,929)	-	-	-
Investments	6,530,609	23,073,737	29,604,346	6,131,905	8,726,842	14,858,747

Unquoted investments include securities of SAR 22,328.0 million (2007: SAR 7,677.3 million) issued by the Saudi Arabian Government and its agencies.

5. Investments, net (continued)

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

	2008				2007			
	Gross		Gross		Gross		Gross	
	Carrying	unrealised	unrealised	Fair	Carrying	unrealised	unrealised	Fair
	value	gain	loss	value	value	gain	loss	value
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
i) Held at amortised cost								
Fixed rate securities	3,569,809	233,852	-	3,803,661	4,492,077	151,531	-	4,643,608
Floating rate securities	1,221,000	3,491	-	1,224,491	1,221,000	3,014	-	1,224,014
Total	4,790,809	237,343	-	5,028,152	5,713,077	154,545	-	5,867,622
ii) Held to maturity								
Fixed rate securities	505,394	26,482	-	531,876	509,052	22,077	-	531,129
Total	505,394	26,482	-	531,876	509,052	22,077	-	531,129

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

	2008	2007
	SAR'000	SAR'000
Government and quasi-Government	26,769,715	11,763,987
Corporate	271,857	454,667
Banks and other financial institutions	2,468,209	2,599,478
Other	94,565	40,615
Total	29,604,346	14,858,747

Equities reported under available for sale investments include unquoted shares of SAR 11.39 million (2007: SAR 11.41million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR 3,502.2 million (SAR 2007: SAR 4.0 million) which have been pledged under repurchase agreement with banks and customers. The market value of such investments is SAR 3,492.5 million (2007: SAR 4.0 million).

- e) Credit quality of investments

	2008	2007
	SAR'000	SAR'000
Saudi Government Bonds	22,328,041	7,595,366
Investment Grade	7,011,599	6,999,183
Non-investment Grade	-	20,763
Unrated	264,706	243,435
Total	29,604,346	14,858,747

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

Investments Grade includes those investments having credit exposure equivalent to Standard and Poor's Rating of AAA to BBB. Issuer ratings have been used for bonds which have not been rated by any agency amounting to SAR 1,418.9 million.

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)**6. Loans and advances, net**a) *Loans and advances are classified as follows:*

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

	2007			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Performing loans and advances, gross	1,852,463	11,063,570	49,458,783	62,374,816
Non-performing loans and advances, net	–	21,338	175,752	197,090
Total loans and advances	1,852,463	11,084,908	49,634,535	62,571,906
Provision for credit losses (specific and collective)	(98,881)	(131,702)	(340,465)	(571,048)
Loans and advances, net	1,753,582	10,953,206	49,294,070	62,000,858

Loans and advances, net include non-interest bearing products totalling SAR 37,568 million (2007 : SAR 27,530 million) which are stated at cost less provision for credit losses, of SAR 277.9 million (2007 : SAR 252.1 million).

Provision for credit losses charged to the consolidated statement of income related to non-interest bearing products is SAR 111.48 million (2007: SAR 119.4 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 256.0 million (2007 : SAR 743.0 million). The negative mark to market of these loans is SAR 0.6 million (2007 : positive SAR 3.4 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 108.1 million (2007 : SAR 126.0 million).

b) *Movement in provision for credit losses*

	2008			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year	98,881	131,702	340,465	571,048
Bad debts written off	(110,994)	(171,693)	(30,119)	(312,806)
Provided during the year	126,569	174,263	98,392	399,224
Recoveries of amounts previously provided	–	–	(27,944)	(29,944)
Balance at the end of the year	114,456	134,272	380,794	629,522

6. Loans and advances, net (continued)

	2007			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year	100,068	94,873	302,739	497,680
Bad debts written off	(122,909)	(195,391)	(4,596)	(322,896)
Provided during the year	121,722	232,220	64,483	418,425
Recoveries of amounts previously provided	—	—	(22,161)	(22,161)
Balance at the end of the year	<u>98,881</u>	<u>131,702</u>	<u>340,465</u>	<u>571,048</u>

The allowance for credit losses above includes a collective allowance amounting to SR 229.7 million (2007 : SR 150.5 million) related to the performing portfolio.

The net charge to income on account of provision for credit losses is SAR 371.2 million (2007: SAR 396.2 million), which is net of recoveries of amounts previously provided as shown above.

c) Credit quality of loans and advances

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

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

	2007			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
From 1 day to 30 days	160,310	753,055	342,286	1,255,651
From 31 day to 90 days	93,743	125,945	-	219,688
From 91 day to 180 days	60,549	91,031	9,696	161,276
Total loans and advances	<u>314,602</u>	<u>970,031</u>	<u>351,982</u>	<u>1,636,615</u>

Notes to the consolidated Financial Statements (31 December 2008) (continued)**6. Loans and advances, net** (continued)

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

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

	2007			
	Performing	Non-performing, net	Credit loss provision	Loans and advances, net
	SAR'000	SAR'000	SAR'000	SAR'000
Government and quasi Government	2,131,850	-	-	2,131,850
Banks and other financial institutions	56,250	-	-	56,250
Agriculture and fishing	918,859	-	-	918,859
Manufacturing	6,986,804	43,760	(41,132)	6,989,432
Mining and quarrying	22,926	-	-	22,926
Electricity, water, gas and health services	118,471	7,128	(7,128)	118,471
Building and construction	2,716,467	38,638	(38,715)	2,716,390
Commerce	15,844,081	56,667	(42,109)	15,858,639
Transportation and communication	1,215,596	1,729	(2,729)	1,214,596
Services	3,820,255	1,188	(1,190)	3,820,253
Consumer loans and credit cards	12,688,801	20,942	(230,583)	12,479,160
Other	15,854,456	27,038	(56,960)	15,824,534
Collective impairment provision	-	-	(150,502)	(150,502)
Total	62,374,816	197,090	(571,048)	62,000,858

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

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

d) Collateral

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

6. Loans and advances, net (continued)

e) Neither past due nor impaired loans

<u>Grades</u>	2008			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Low risk	-	-	59,438	59,438
Satisfactory risk	-	-	9,032,034	9,032,034
Fair risk	2,046,019	12,794,938	54,204,968	69,045,925
Watch list	59,085	95,702	1,176,718	1,331,505
Substandard risk	46,900	60,238	1,096,565	1,203,703
Total	2,152,004	12,950,878	65,569,723	80,672,605

<u>Grades</u>	2007			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Low risk	-	-	126,065	126,065
Satisfactory risk	-	-	5,037,935	5,037,935
Fair risk	1,756,256	10,927,203	42,329,883	55,013,342
Watch list	57,556	82,477	1,639,775	1,779,808
Substandard risk	38,651	53,890	325,125	417,666
Total	1,852,463	11,063,570	49,458,783	62,374,816

Low risk: Financial condition, liquidity, capitalisation, earnings, cash flow, management and capacity to repay are excellent.

Satisfactory risk: Financial condition, liquidity, capitalisation, earnings, cash flow, management and capacity to repay are good.

Fair risk: Facilities requiring more regular monitoring as a result of deterioration in earnings or cash flow, irregularities in the conduct of the accounts, announcement of litigation or some other untoward factor. Capacity to repay remains acceptable.

Watch list: Facilities will sustain or continued deterioration in financial condition, which require frequent monitoring. The capacity to repay remains satisfactory.

Substandard risk: Financial condition is assessed as weak and capacity or inclination to repay is in doubt. Readily encashable security is insufficient to repay amount outstanding, however it is still considered that full repayment will be received.

Notes to the consolidated Financial Statements (31 December 2008) (continued)**7. Investments in associates**

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

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

	2008			2007		
	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>Total</i>	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	90,411	20,036	110,447	72,209	-	72,209
Cost of investment during the year	-	-	-	-	32,500	32,500
Dividend received	(70,412)	-	(70,412)	(52,209)	-	(52,209)
Share of undistributed profit (loss)	110,151	(1,830)	108,321	70,411	(12,464)	57,947
Total	130,150	18,206	148,356	90,411	20,036	110,447

Share of the associate's financial statements:

	2008		2007	
	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Total assets	186,823	60,429	130,051	27,987
Total liabilities	56,673	42,223	39,640	7,951
Total equity	130,150	18,206	90,411	20,036
Total income	167,759	15,096	114,212	2,461
Total expenses	57,608	16,926	43,801	14,925

8. Property and equipment, net

	<i>Land and buildings</i>	<i>Leasehold improvements</i>	<i>Equipment, furniture and vehicles</i>	2008 <i>Total</i>	2007 <i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Cost					
As at 1 January	586,331	253,276	540,896	1,380,503	1,339,250
Additions	26,444	27,010	64,289	117,743	113,682
Disposals	-	-	(2,805)	(2,805)	(72,429)
As at 31 December	612,775	280,286	602,380	1,495,441	1,380,503
Accumulated depreciation					
As at 1 January	258,556	179,307	390,800	828,663	798,015
Charge for the year	22,502	18,562	66,331	107,395	102,895
Disposals	-	-	(2,077)	(2,077)	(72,247)
As at 31 December	281,058	197,869	455,054	933,981	828,663
Net book value					
As at 31 December 2008	331,717	82,417	147,326	561,460	
As at 31 December 2007	327,775	73,969	150,096		551,840

Land and buildings and leasehold improvements include work in progress as at 31 December 2008 amounting to SAR 8.3 million (2007: SAR 57.3 million) and SAR 10.8 million (2007: SAR 29.0 million) respectively.

9. Other assets

	2008	2007
	SAR'000	SAR'000
Accrued special commission receivable		
– banks and other financial institutions	430	1,477
– investments	203,659	220,787
– loans and advances	697,348	579,998
Total accrued special commission receivable	901,437	802,262
Accounts receivable	107,922	198,186
Other real estate	4,277	12,929
Positive fair value of derivatives (note 10)	2,176,791	983,432
Advance tax	157,303	184,451
Other	233,325	142,436
Total	3,581,055	2,323,696

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

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)**10. Derivatives** (continued)**Derivatives held for hedging**

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 29 - credit risk, note 31 - market risk and note 34 - liquidity risk). Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

As part of its asset and liability management process, the Bank uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against overall balance sheet 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.

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

10. Derivatives (continued)

	Notional amounts by term to maturity							
	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Within 3</i>	<i>3 - 12</i>	<i>1 - 5</i>	<i>Over 5</i>	<i>Monthly</i>
	<i>fair</i>	<i>fair</i>	<i>amount</i>	<i>months</i>	<i>months</i>	<i>years</i>	<i>years</i>	<i>average</i>
	<i>value</i>	<i>value</i>	<i>total</i>					
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
2007								
Derivatives held for trading:								
Special commission rate swaps	540,149	(456,580)	34,588,421	917,554	1,471,686	5,587,033	26,612,148	27,130,361
Special commission rate futures and options	8	(8)	400,000	-	400,000	-	-	400,000
Spot and forward foreign exchange contracts	85,574	(128,594)	11,624,530	7,092,407	4,478,532	53,591	-	14,757,459
Currency options	6,984	(6,828)	2,138,699	163,879	98,820	1,876,000	-	597,669
Currency swaps	322,790	-	1,475,297	-	-	1,475,297	-	1,475,297
Derivatives held as fair value hedges:								
Special commission rate swaps	17,696	(13,278)	1,524,591	224,000	74,327	743,014	483,250	2,153,311
Derivatives held as cash flow hedges:								
Special commission rate swaps	10,231	(2,990)	1,021,250	100,000	190,000	731,250	-	749,896
Total	983,432	(608,278)	52,772,788	8,497,840	6,713,365	10,466,185	27,095,398	

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

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)**10. Derivatives** (continued)

Description of the hedged items:	2007					
	<i>Fair</i>	<i>Hedge</i>	<i>Risk</i>	<i>Hedging instrument</i>	<i>Positive</i>	<i>Negative</i>
	<i>value</i>	<i>inception</i>			<i>fair</i>	<i>fair</i>
	<u>SAR'000</u>	<u>SAR'000</u>			<u>SAR'000</u>	<u>SAR'000</u>
Fixed commission rate investments	479,549	481,671	Fair value	Special commission rate swap	14,492	(13,278)
Fixed commission rate loans	742,971	739,550	Fair value	Special commission rate swap	2,614	-
Fixed commission rate deposits	297,704	298,327	Fair value	Special commission rate swap	590	-
Floating commission rate investments	830,602	832,760	Cash flow	Special commission rate swap	10,231	(1,805)
Floating commission rate debt securities in issue	187,149	187,306	Cash flow	Special commission rate swap	-	(1,185)

The net losses on the hedging instruments for fair value hedges are SAR 25.9 million (2007: SAR 3.4 million). The net gains on the hedged item attributable to the hedged risk are SAR 27.3 million (2007: SAR 9.2 million). The net fair value of the derivatives is negative SAR 27.6 million (2007: positive SAR 4.4 million).

Reconciliation of movements in the other reserve of cash flow hedges:

	2008	2007
	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year	7,752	2,159
Gains from changes in fair value recognised directly in equity	28,496	4,349
Losses removed from equity and included in Net special commission income	-	1,244
Balance at end of the year	36,248	7,752

Approximately 29% (2007: 54%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 18% (2007: 46%) of the total of the positive fair value contracts are with any single counterparty at the consolidated balance sheet date.

11. Due to banks and other financial institutions

	2008	2007
	<u>SAR'000</u>	<u>SAR'000</u>
Current accounts	1,380,911	2,161,736
Money market deposits	14,688,581	5,883,311
Total	16,069,492	8,045,047

Money market deposits also include deposits placed by SAMA of SAR 2,013.5 million (2007: SAR 420.0 million).

12. Customers' deposits

	2008	2007
	SAR'000	SAR'000
Demand	28,569,398	27,162,175
Savings	3,174,064	2,781,835
Time	60,216,345	41,287,322
Other	717,730	616,520
Total	92,677,537	71,847,852

Customer deposits include SAR 39,577.5 million (2007: SAR 26,490.6 million) deposits taken under non-interest bearing product contracts.

Other customer deposits include SAR 715.1 million (2007: SAR 613.8 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2008	2007
	SAR'000	SAR'000
Demand	3,017,154	2,208,386
Savings	149,440	155,568
Time	7,509,247	7,356,175
Other	219,140	247,966
Total	10,894,981	9,968,095

13. Debt securities in issue

	2008	2007
	SAR'000	SAR'000
USD 600 million 5 year floating rate notes	2,249,134	2,248,399
Euro 325 million 5 year floating rate notes	1,702,666	1,789,968
SAR 1,705 million 5 year floating rate notes	1,705,000	-
Total	5,656,800	4,038,367

USD 600 million 5-year floating rate notes

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

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

Euro 325 million 5-year floating rate notes

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

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

SAR 1,705 million 5 year floating rate notes

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)**14. Borrowings**

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

15. Other liabilities

	2008	2007
	SAR'000	SAR'000
Accrued special commission payable		
– banks and other financial institutions	192,457	43,934
– customers' deposits	464,559	278,611
– debt securities in issue	22,127	27,137
– borrowings	920	452
Total accrued special commission payable	680,063	350,134
Accounts payable	575,886	631,256
Drawings payable	346,094	745,981
Negative fair value of derivatives (note 10)	1,884,126	608,278
Other	1,949,364	1,333,562
Total	5,435,533	3,669,211

16. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 600 million shares of SAR 10 each (2007: 375 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2008	2007
Saudi shareholders	60%	60%
HSBC Holdings BV	40%	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

The shareholders' of the Bank approved a bonus issue of three shares for every five shares in their Extraordinary General Meeting held on 27 April 2008. As a result 225 million shares of SAR 10 each were issued by capitalising retained earnings.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 730 million (2007: SAR nil) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

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

	2007		
	<i>Cash Flow Hedges</i>	<i>Available for Sale Investments</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	2,159	68,226	70,385
Net change in fair value	4,349	(8,879)	(4,530)
Transfer to consolidated statement of income	1,244	(83,319)	(82,075)
Net movement during the year	5,593	(92,198)	(86,605)
Balance at end of the year	7,752	(23,972)	(16,220)

19. Commitments and contingencies

a) Legal proceedings

As at 31 December 2008 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b) Capital commitments

The Bank has capital commitments of SAR 66.6 million (2007: SAR 45.02 million) in respect of buildings and equipment purchases. In addition, the Bank has made a commitment for SAR 97.5 million (2007 : nil) in respect of the proposed right issue by one of its associates .

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 carry 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.

Notes to the consolidated Financial Statements (31 December 2008) (continued)**19. Commitments and contingencies** (continued)

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

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

	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2007	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Letters of credit	5,485,246	1,733,191	908,059	-	8,126,496
Guarantees	5,102,411	5,464,673	2,839,202	23,302	13,429,588
Acceptances	1,767,257	1,229,852	63,475	-	3,060,584
Irrevocable commitments to extend credit	7,260	1,706,896	3,308,468	-	5,022,624
Total	12,362,174	10,134,612	7,119,204	23,302	29,639,292

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the bank, is SAR 40,667.8 million (2007: SAR 35,019.4 million).

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

	2008	2007
	SAR'000	SAR'000
Government and quasi Government	1,322,016	146,948
Corporate	30,503,531	25,763,087
Banks and other financial institutions	4,464,166	3,639,020
Other	155,969	90,237
Total	36,445,682	29,639,292

f) *Operating lease commitments*

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

	2008	2007
	SAR'000	SAR'000
Less than 1 year	48,404	33,007
1 to 5 years	146,093	154,965
Over 5 years	151,137	70,356
Total	345,634	258,328

20. Net special commission income

	2008	2007
	SAR'000	SAR'000
Special commission income:		
Investments		
– available for sale investments	790,132	502,954
– held at amortised cost	256,092	322,211
– held to maturity investments	29,635	29,645
	1,075,859	854,810
Due from banks and other financial institutions	227,811	620,209
Loans and advances	4,561,296	3,744,936
Total	5,864,966	5,219,955
Special commission expense:		
Due to banks and other financial institutions	369,302	119,906
Customers' deposits	2,049,333	1,811,616
Debt securities in issue	228,958	219,453
Borrowing	10,329	10,283
Total	2,657,922	2,161,258
Net special commission income	3,207,044	3,058,697

21. Fees from banking services, net

	2008	2007
	SAR'000	SAR'000
Fees income:		
- Share trading and fund management	354,209	339,825
- Trade finance	319,726	215,688
- Corporate finance and advisory	208,913	99,106
- Other banking services	471,885	313,944
Total fees income	1,354,733	968,563
Fees expense:		
- Cards	(35,458)	(28,008)
- Custodial services	(628)	(840)
- Other banking services	(61,425)	(77,791)
Total fees expense	(97,511)	(106,639)
Fees from banking services, net	1,257,222	861,924

22. (Losses) income from FVIS financial instruments, net

	2008	2007
	SAR'000	SAR'000
Fair value change on investments held as FVIS	(47,104)	(11,523)
Special commission income on FVIS investments	4,704	75,300
Total	(42,400)	63,777

Notes to the consolidated Financial Statements (31 December 2008) (continued)**23. Trading income, net**

	2008	2007
	SAR'000	SAR'000
Foreign exchange, net	239,323	125,976
Derivatives	127,672	49,106
Debt instruments	5,784	17,839
Others	(9,210)	(2,953)
Total	363,569	189,968

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

	2008	2007
	SAR'000	SAR'000
Available for sale investments	(17,010)	83,319

25. Basic and fully diluted earnings per share

Basic earnings per share for the year ended 31 December 2008 and 2007 is calculated by dividing the net income for the year attributable to the equity holders by 600 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

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

26. Gross dividend, Zakat and income tax

The gross dividend for the year is SAR 660 million (2007: SAR 1,500 million) and was paid as an interim dividend to shareholders on 30 July 2008 (2007: SAR 609.4 million). The Bank's board has decided not to recommend a final dividend for 2008 (2007: SAR 890.6 million) and instead will recommend a 1 for 4 bonus issue to be ratified at an EGM to be held during the first half of 2009. This re-investment of SAR 1,500 million of shareholders funds will increase Bank's paid capital to SAR 7,500 million. Dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Saudi shareholders

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 50.4 million (2007: SAR 55.1 million), and is deducted from their share of the dividend. The net total dividend for the year to the Saudi shareholders is SAR 345.6 million (2007: SAR 844.9 million) representing SAR 0.96 per share (2007: SAR 3.76 per share) of which SAR 0.96 (2007: SAR 1.54) was paid on an interim basis.

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 237.9 million (2007: SAR 215.6 million), and is deducted from its share of the dividend. The net total dividend for the year to the foreign shareholder is SAR 26.1 million (2007: SAR 384.4 million) representing SAR 0.11 per share (2007: SAR 3.08 per share) of which SAR 0.11 per share (2007: SAR 1.12 per share) was paid on an interim basis.

27. Cash and cash equivalents

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

	2008	2007
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	6,500,763	13,322,481
Due from banks and other financial institutions with original maturity of ninety days or less from date of acquisition	6,200,466	1,723,576
Total	12,701,229	15,046,057

28. Business segments

The Bank's primary segment reporting format is determined to be the business segment. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are distinct from those of other business segments.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Special commission charged for these funds is based on inter-bank rates.

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

a) *The Bank is organised into the following main business segments:*

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

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

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

Securities - which caters mainly to activities related to dealing and custody of securities.

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2008 and 2007, its total operating income and expenses, and the results for the years then ended, by business segment, are as follows:

	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Securities</i>	<i>Others</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
2008						
Total assets	24,032,842	58,450,117	49,026,870	2,508	148,356	131,660,693
Total liabilities	35,434,109	41,808,929	42,771,069	12,755	-	120,026,862
Total operating income	1,932,519	1,889,277	664,895	424,837	-	4,911,528
Total operating expenses	1,426,032	393,934	149,927	129,937	-	2,099,830
Share in earnings of associates	-	-	-	-	108,321	108,321
Net income	506,487	1,495,343	514,968	294,900	108,321	2,920,019
	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Securities</i>	<i>Others</i>	<i>Total</i>
2007						
Total assets	21,525,884	42,043,291	34,533,288	-	110,447	98,212,910
Total liabilities	29,637,918	34,231,719	23,918,340	-	-	87,787,977
Total operating income	1,872,695	1,705,002	465,782	330,473	-	4,373,952
Total operating expenses	1,335,455	325,365	69,692	94,448	-	1,824,960
Share in earnings of associates	-	-	-	-	57,947	57,947
Net income	537,240	1,379,637	396,090	236,025	57,947	2,606,939

Notes to the consolidated Financial Statements (31 December 2008) (continued)**28. Business segments** (continued)

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

	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Others</i>	<i>Total</i>
2008					
Balance sheet assets	22,345,009	57,891,748	46,511,454	148,356	126,896,567
Commitments and contingencies	174,607	14,491,577	-	-	14,666,184
Derivatives	-	-	3,195,209	-	3,195,209
Total	22,519,616	72,383,325	49,706,663	148,356	144,757,960
	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Others</i>	<i>Total</i>
2007					
Balance sheet assets	20,495,700	41,505,158	32,478,459	110,447	94,589,764
Commitments and contingencies	125,428	10,481,018	-	-	10,606,446
Derivatives	-	-	2,481,164	-	2,481,164
Total	20,621,128	51,986,176	34,959,623	110,447	107,677,374

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

29. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

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 or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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

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

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

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

29. Credit risk (continued)

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 19. The information on Banks maximum credit exposure by business segment is given in note 28. The information on maximum credit risk exposure and their relative risk weights is also provided in note 37.

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

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

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)**30. Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure**
(continued)

	2007					
	<i>Kingdom of Saudi Arabia</i>	<i>GCC and Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>Other countries</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
ASSETS						
Cash and balances with SAMA	16,643,746	-	-	-	-	16,643,746
Due from banks and other financial institutions	2,676	151,435	925,115	614,347	30,003	1,723,576
Investments, net	9,752,571	1,211,740	1,632,573	2,025,404	236,459	14,858,747
Loans and advances, net	61,965,116	11,250	24,492	-	-	62,000,858
Investment in associates	110,447	-	-	-	-	110,447
Total	88,474,556	1,374,425	2,582,180	2,639,751	266,462	95,337,374
LIABILITIES						
Due to banks and other financial institutions	3,235,242	2,331,694	1,370,852	1,034,235	73,024	8,045,047
Customer deposits	71,823,487	1,691	4,400	-	18,274	71,847,852
Debt securities in issue	-	-	4,038,367	-	-	4,038,367
Borrowings	-	-	187,500	-	-	187,500
Total	75,058,729	2,333,385	5,601,119	1,034,235	91,298	84,118,766
Commitments and contingencies	28,167,099	370,946	347,001	27,662	726,584	29,639,292
CREDIT EXPOSURE (Stated at credit equivalent amounts)						
Balance sheet assets	87,726,946	1,374,425	2,582,180	2,639,751	266,462	94,589,764
Commitments and contingencies	10,166,900	97,978	129,317	13,448	198,803	10,606,446
Derivatives	1,347,399	4,295	773,395	308,558	47,517	2,481,164
Total credit exposure	99,241,245	1,476,698	3,484,892	2,961,757	512,782	107,677,374

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

31. Market risk

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

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

a) Market risk trading book

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

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

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

31. Market risk (continued)

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

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

The Bank's VAR related information is as stated below:

	<i>Foreign exchange</i>	<i>Special commission rate</i>	<i>Overall risk</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2008			
VAR as at 31 December 2008	1,309	615	1,545
Average VAR for 2008	1,665	590	1,880
	<i>Foreign exchange</i>	<i>Special commission rate</i>	<i>Overall risk</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2007			
VAR as at 31 December 2007	649	405	694
Average VAR for 2007	486	514	791

b) Market risk – non-trading or banking book

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

i) Special Commission Rate Risk

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2008, 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 December 31, 2008 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity of the asset or swap.

2008							
<i>Currency</i>	<i>Increase in basis</i>	<i>Sensitivity of income</i>	<i>Sensitivity of Equity</i>				<i>Total</i>
			<i>6 months or less</i>	<i>1 year or less</i>	<i>1-5 years or less</i>	<i>Over 5 years</i>	
		<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
SAR	+ 100	66,463	(45,546)	(25,309)	(18,023)	-	(88,878)
USD	+ 100	3,264	(7,451)	(7,442)	(64,975)	(624)	(80,492)
EUR	+ 100	(13,476)	-	-	-	-	-
Others	+ 100	1,871	-	-	-	-	-

Notes to the consolidated Financial Statements (31 December 2008) (continued)**31. Market risk** (continued)

2008							
Currency	Decrease in basis	Sensitivity of income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
			SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	- 100	(66,463)	45,546	25,309	18,023	-	88,878
USD	- 100	(3,264)	7,451	7,442	53,491	624	69,008
EUR	- 100	13,476	-	-	-	-	-
Others	- 100	(1,871)	-	-	-	-	-

2007							
Currency	Increase in basis	Sensitivity of income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
			SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	+ 100	85,505	(5,556)	(5,014)	(23,220)	(844)	(34,634)
USD	+ 100	7,915	(8,484)	(7,997)	(68,497)	(1,714)	(86,692)
EUR	+ 100	(13,735)	-	-	-	-	-
Others	+ 100	779	-	-	-	-	-

2007							
Currency	Decrease in basis	Sensitivity of income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
			SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	- 100	(85,505)	5,556	5,014	23,220	844	34,634
USD	- 100	(7,915)	8,484	7,997	55,072	1,714	73,267
EUR	- 100	13,735	-	-	-	-	-
Others	- 100	(779)	-	-	-	-	-

ii) Currency Risk

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

32. Currency risk

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

	2008	2007
	<i>Long (short)</i>	<i>Long (short)</i>
	SAR'000	SAR'000
US Dollar	(202,605)	135,444
Euro	(1,437)	6,154
Sterling Pounds	(1,062)	(728)
Other	3,016	14,751

33. Special commission rate risk

Special commission sensitivity of assets, liabilities and off balance sheet items

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 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 off balance sheet 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.

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)**33. Special commission rate risk** (continued)

	2007					Total SAR'000	Effective commission rate %
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-special- commission bearing		
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000		
Assets							
Cash and balances with SAMA	12,574,871	—	—	—	4,068,875	16,643,746	4.0
Due from banks and other financial institutions	952,175	—	—	—	771,401	1,723,576	4.2
Investments, net	6,968,072	1,226,301	4,405,038	1,735,138	524,198	14,858,747	5.3
Loans and advances, net	33,313,799	10,499,052	17,897,900	—	290,107	62,000,858	4.7
Investment in associates	—	—	—	—	110,447	110,447	
Property and equipment, net	—	—	—	—	551,840	551,840	
Other assets	—	—	—	—	2,323,696	2,323,696	
Total assets	53,808,917	11,725,353	22,302,938	1,735,138	8,640,564	98,212,910	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	5,445,683	—	437,628	—	2,161,736	8,045,047	4.2
Customer deposits	29,710,090	8,010,676	3,452,300	—	30,674,786	71,847,852	2.4
Debt Securities in issue	4,038,367	—	—	—	—	4,038,367	5.4
Borrowings	—	—	—	187,500	—	187,500	5.1
Other liabilities	—	—	—	—	3,669,211	3,669,211	
Shareholders' equity	—	—	—	—	10,424,933	10,424,933	
Total liabilities and shareholders' equity	39,194,140	8,010,676	3,889,928	187,500	46,930,666	98,212,910	
On-balance- sheet gap	14,614,777	3,714,677	18,413,010	1,547,638	(38,290,102)		
Off-balance- sheet gap	111,333	1,356,569	(238,478)	(1,229,424)	—		
Total special commission rate sensitivity gap	14,726,110	5,071,246	18,174,532	318,214	(38,290,102)		
Cumulative special commission rate sensitivity gap	14,726,110	19,797,356	37,971,888	38,290,102	—		

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

34. Liquidity risk

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

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities liabilities have been determined on the basis of the remaining period at the consolidated balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

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

a) Analysis of financial liabilities by remaining contractual maturities:

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

Notes to the consolidated Financial Statements (31 December 2008) (continued)**34. Liquidity risk** (continued)

	2007				Total
	Within 3	3 - 12	1 - 5	Over 5	
	months	months	years	years	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Financial liabilities					
Due to banks and					
other financial institutions	7,686,727	397,988	—	—	8,084,715
Customer deposits	60,216,455	8,669,621	3,694,086	5,772	72,585,934
Debt securities in issue	53,515	160,545	4,424,310	—	4,638,370
Borrowings	—	9,741	84,546	158,835	253,122
Derivatives:					
— Contractual					
amounts payable	7,397,902	4,615,101	2,867,620	—	14,880,623
— Contractual					
amounts receivable	(7,374,240)	(4,642,239)	(3,281,254)	(12,440)	(15,310,173)
Total undiscounted					
financial liabilities	<u>67,980,359</u>	<u>9,210,757</u>	<u>7,789,308</u>	<u>152,167</u>	<u>85,132,591</u>

b) Maturity analysis of assets and liabilities:

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

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

34. Liquidity risk (continued)

	2007					Total SAR'000
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	
Assets						
Cash and balances with SAMA	13,322,481	—	—	—	3,321,265	16,643,746
Due from banks and other financial institutions	1,723,576	—	—	—	—	1,723,576
Investments, net	559,943	1,352,761	9,403,722	3,298,888	243,433	14,858,747
Loans and advances, net	29,647,545	10,952,936	13,211,157	8,189,220	—	62,000,858
Investment in associates	—	—	—	—	110,447	110,447
Property and equipment, net	—	—	—	—	551,840	551,840
Other assets	—	—	—	—	2,323,696	2,323,696
Total assets	45,253,545	12,305,697	22,614,879	11,488,108	6,550,681	98,212,910
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,660,247	384,800	—	—	—	8,045,047
Customer deposits	59,973,183	8,335,257	3,533,628	5,784	—	71,847,852
Debt securities in issue	—	—	2,248,399	1,789,968	—	4,038,367
Borrowings	—	—	—	187,500	—	187,500
Other liabilities	—	—	—	—	3,669,211	3,669,211
Shareholders' equity	—	—	—	—	10,424,933	10,424,933
Total liabilities and shareholders' equity	67,633,430	8,720,057	5,782,027	1,983,252	14,094,144	98,212,910

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

35. Fair values of financial assets and liabilities

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

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

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

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is SAR 95.7 million (2007: SAR 39.4 million).

Notes to the consolidated Financial Statements (31 December 2008) (continued)**36. Related party transactions**

Managerial and specialised expertise is provided under a technical services agreement with the parent company of one of the shareholders, HSBC Holdings BV. This agreement was renewed on 30 September 2007 for a period of five years.

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

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

	2008	2007
	SAR'000	SAR'000
The HSBC Group:		
Due from banks and other financial institutions	4,323,321	744,086
Investments	835,220	733,238
Derivatives (at fair value)	(408,151)	313,133
Due to banks and other financial institutions	8,135,827	3,792,098
Other liabilities	4,619	20,659
Commitments and contingencies	997,114	846,789

Above investments include investment in associates, amounting to SAR 148.3 million (2007: SAR 110.4 million).

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

Loans and advances	2,168,348	2,356,137
Customers' deposits	4,000,924	3,714,385
Derivatives (at fair value)	12,137	4,990
Commitments and contingencies	242,057	213,524

Bank's mutual funds:

Loans and advances	1,002	43,494
Customers' deposits	384,839	607,314

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

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

Special commission income	34,449	68,170
Special commission expense	(295,379)	(425,923)
Fees from banking services	102,491	11,575
Profit share arrangement relating to investment banking activities	(18,643)	(17,886)
Share in earnings of associates	108,321	57,947
Directors' remuneration	2,828	2,829

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

Short-term employee benefits (Salaries and allowances)	35,401	35,935
Employment termination benefits (End of service indemnity and social security)	1,029	5,130

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 2008. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

37. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires to hold the minimum level of the regulatory capital of and maintain a ratio of total regulatory capital to the risk-weighted asset 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 On and Off balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

	2008
	SAR'000
Credit Risk RWA	94,224,500
Operational Risk RWA	8,564,371
Market Risk RWA	509,500
Total Pillar -I RWA	103,298,371
Pillar 2 RWA	1,000,000
Total RWA	104,298,371
Tier I Capital	8,645,646
Tier II Capital	3,072,693
Total I & II Capital	11,718,339
Capital Adequacy Ratio %	
Tier I ratio	8.29 %
Tier I + Tier II ratio	11.24%

38. Basel II Pillar 3 Disclosures

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

39. Prospective changes in accounting standards

The Bank has chosen not to adopt IFRS 8, Operating segments which have been published and is mandatory for compliance for the Bank's accounting year beginning 1 January 2009.

40. Comparative figures

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

41. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 27 Muharram 1430H (Corresponding to 24 January 2009).

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

Basel II – Pillar 3 Annual Disclosures (31 December 2008)**Cautionary statement regarding forward looking statements**

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2008 contain certain forward looking statements with respect to the financial condition, results of operations and business of SABB. These forward looking statements represent SABB expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

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

1. Scope of Application**a) Scope**

These qualitative disclosures set out The Saudi British Bank (SABB) approach to capital assessment.

b) Basis of consolidation

The basis of consolidation for accounting purposes is described on page 35 of the Annual Report and Accounts 2008.

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

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

Entities that are fully consolidated:

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

Significant Minority Investments:

The following significant minority investments are deducted from capital:

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

Equity Investments which are risk weighted

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

c) Capital transferability between legal entities***Restrictions by Memorandum and Articles of Association***

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

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

Statutory restriction

SABB is required to transfer at least 25% of its net profit to statutory reserves before declaration of dividends until the amount of statutory reserves is equal to the paid up capital of the Bank.

Regulatory restriction

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

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

2. Capital Structure

The authorized, issued and fully paid share capital of the Bank consists of 600 million shares of SAR 10 each (2007 : 375 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2008	2007
Saudi shareholders	60%	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	40%	40%

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

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

Category	Definition/meaning/significance	Implications for SABB capital management
Regulatory Capital	Proxy for Risk Capital, particularly under Basel II	Requirements must be met on a SAMA regulatory rules basis at all times
Accounting Capital	The capital recognised by accounting standards	Requirements must be met to achieve audited accounts
Invested Capital (Legal Capital)	The equity capital invested in SABB by its shareholders for which SABB is accountable	SABB must earn a return on its invested capital which is in excess of its cost of capital
Economic Capital	Capital actually held by SABB to bear risk, support growth etc. and upon which an 'economic' return is required	Allocated to businesses in proportion to risks run, and acts as basis to set economic profit targets and inform e.g. pricing decisions
Market value of equity	Market value of SABB's equity share capital arrived at by multiplying the outstanding number of shares by the current SABB share price	Total Shareholder Return benchmark, of which the MV of equity is a major element, as a key driver of managing and assessing group performance

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

3. Capital Adequacy

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

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

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

2008	: 11.2%
2007	: 13.5%
2006	: 18.2%
2005	: 15.6%
2004	: 14.2%

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**3. Capital Adequacy** (continued)**Risk Exposure and Assessment – General Qualitative Disclosure Requirements*****Credit Risk***

SABB's credit culture is dedicated to achieving and maintaining risk assets of high quality. This requires commitment to soundness, prudence, professionalism and discipline in applying a consistently high standard of credit management. A strong universal credit culture is essential to the successful control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns, thus contributing to the overall success of the Bank.

The following elements are fundamental to SABB's credit culture:

Clear Policy and Guidance

Credit manuals in various forms codify clear and consistent principles, lending guidelines, policies, and procedures.

Approval and Control

Credit risk management functions have an appropriate degree of independence and responsibility for key aspects of rating systems, including selection, implementation, performance, and oversight. Approval processes observe high standards of governance, efficiency and facilitate timely decision-making. Emphasis is placed on the individual's responsibility for making credit decisions. A key element in the Bank's credit culture is the proactive management of the portfolio through:

- The regular review of facilities by lending and credit officers;
- The central monitoring of credit concentrations and correlation risks in certain countries, specialized industries/sectors, products, customers and customer groups, at a macro level;
- The continual development of improved techniques for measuring and evaluating risk, and for optimizing risk-adjusted return on capital

Credit Discipline

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

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

Credit Systems and Methodologies

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

SABB's association to the HSBC Group promotes the use of standard systems and methodologies for these purposes and employs common measurements of risk throughout the Group's credit and product systems. Wherever practicable, SABB deploys such Group standard systems and methodologies. At SABB, currently all consumer lending decisions are based on Credit Risk Score Models developed using internal data.

Capital Discipline

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

Only two customers in the Bank's entire commercial/corporate credit portfolio have been rated by an acceptable External Credit Agency (ECA).

3. Capital Adequacy (continued)

Interest Rate Risk

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

Analysis of this risk is complicated by having to make assumptions on embedded optionality in products such as mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities, which are contractually repayable on demand.

The Governance process for Interest rate risk replicated the infrastructure and controls adopted for Market Risk.

In order to manage interest rate risk, the risk is transferred to Treasury by a series of internal deals between Treasury and the various business units. Treasury then evaluates the relative risk on the basis of applying Present Value Basis Point (PVBP) and VaR approaches and managing the resultant risk within approved limits assigned by Excom.

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

Liquidity Risk

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

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

SABB assesses and manages liquidity risk through clearly defined liquidity policies, which are in line with HSBC Group policies.

SABB uses cash-flow stress testing as part of its control processes to assess liquidity risk. The cash-flow stress testing process has been recently extended to estimate and consider the potential severe adverse P&L and capital impacts in a liquidity crisis, with a view to assessing the Group's ability to maintain an adequate capital position in such a scenario.

- SABB's Liquidity and Funding framework is established by ALCO and endorsed by HSBC Group ALM
- SABB has a Liquidity Management Committee, which monitors the Bank's liquidity position and proposes changes to ALCO on SABB's liquidity ratio limits and stress testing models
- Monthly reporting is done on the Bank's liquidity position to Group ALM and SABB ALCO
- SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities
- SABB has a comprehensive Liquidity Contingency Plan, which is updated and tested on an annual basis by the Liquidity Management Committee and approved by ALCO/SABB's Board. The plan identifies early indicators of stress conditions and describes actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business

Current accounts and savings deposits payable on demand or at short notice form a significant part of SABB's funding. SABB places considerable importance on maintaining the stability of these deposits.

The stability of deposits, which are a primary source of funding, depends upon maintaining depositor confidence in SABB, and on maintaining competitive and transparent deposit-pricing strategies.

SABB also accesses Global debt markets in order to source longer term funding for its balance sheet. This is done through maintaining an ongoing EMTN programme.

SABB would meet unexpected net cash outflows by selling securities and accessing additional funding sources through inter-bank markets. It is recognised that as a last resort contingency measure, consideration will have to be given to approaching HSBC Group or SAMA to obtain liquidity support.

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**3. Capital Adequacy** (continued)

For assessment of capital requirements the Liquidity Management Committee considers the SABB market wide stress test to be the appropriate benchmark.

SABB will continue to develop the liquidity scenario stress testing process in conjunction with the Group to assess the potential capital impact in a stress scenario.

As SABB's debt issuance grows in size it will need to establish a more formal debt investor relations programme to ensure that it keeps investors advised of developments and keeps itself aware of their changing requirements.

Investment Risk

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

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

- SABB's Excom has established clear investment objectives and for each investment portfolio and undertakes an annual review of the portfolio
- SABB has a clearly defined governance structure assigning oversight responsibility and for managing its investment portfolios
- Equity investment portfolios are managed on a discretionary basis by HSBC Saudi Arabia Investment Bank (IBSA) and monitored closely by ALCO
- Private Equity Investments are administered by the Chief Financial Officer and managed by ALCO
- All other investments, including investments in government bonds, corporate bonds, agency bonds, and Alternative investments are managed and administered within prescribed limits by Treasury and Finance and monitored weekly by ALCO
- SABB also seeks the endorsement of SAMA for its revised investment strategy on an annual basis in view of the cross border implications
- Investments are subject to defined due diligence policies, including the following management controls:
 - A detailed due diligence paper is required from the investment desk for all new asset classes as well as for all complex structures.
 - Clear Finance and/or Operations responsibility should be established for the independent valuation, administration and reporting of the investment portfolio.
 - Consistent and appropriate valuation processes are applied to all investments on a timely basis.
 - Treasury based investments are subject to Mark to Market loss control limits and PVBP limits to manage interest rate risk.
 - Alternative investments such as hedge funds are managed within VAR control limits.
 - Investment policies must comply with local regulatory requirements related to onshore and offshore investments.
 - All investments should be subject to an appropriate approval process

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

As part of the continuing development of the SABB Economic Capital Process, a distinct assessment of Private Equity and Investments capital allocation will be made.

Concentration Risk

- It is the Bank's policy to avoid undesired concentration of exposure in any single dimension of the entire credit portfolio (asset class, industry sector, geography, etc.). We aim to ensure that the Bank's exposure is well diversified across a broad mix of business sectors
- The Bank's ALCO and Excom regularly monitor adherence to the above policy for the total exposure book and the respective asset classes within the book

3. Capital Adequacy (continued)

Reputational Risk

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

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

Risk profiles for Islamic financial products (Shariah-compliant products) may be quite distinct and have not been addressed by Basel II. The new dimensions of risk emerge on both assets as well as liabilities sides of Islamic banks' balance sheet. The impact of Shariah compliance failures may be a potential reputational risk for SABB. This can be minimized through strict adherence to the standards and policies governing Shariah products and to implement a strong internal control structure at SABB.

SABB recognises that its implementation of a strong internal control structure, effective risk management, a strong financial position, maintenance of customer confidentiality and a sound corporate governance process to foster an ethical and value system are all ways to manage reputational risk. Our Group Policy Manuals are closely aligned to individual risk categories and the management of reputational risk is embedded in the Functional Instruction Manuals.

Macro Economic and Business Cycle Risk

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

As an intrinsic part of the process, SABB's in-house Chief Economist regularly monitors local key macroeconomic indicators, such as:

- Price of oil per barrel in the world market
- Any significant reduction in public finances expenditure
- The TASI index
- Decline in rental yields
- Annual real GDP growth
- Inflation rate
- Currency uncertainty that may be caused by USD weakness and real appreciation of the SAR

Strategic Risk

SABB prepares Strategic Plans over distinct three-year periods that establish common values, strategic goals and objectives, which should drive the Annual Operating Plan objectives in an aligned manner. In addition, there is an expectation that SABB's activities, as an associate of the HSBC Group, are aligned with the Group's "Global Pillars", which articulate the common principles and values that join up the company. The "Global Pillars" are: "Our Customers - Service Excellence", "Our Brand - The World's Local Bank", "Our Culture - The Best Place to Work", "Our Global Distribution - Our Global Advantage", "Our Businesses - Building for Sustained Growth", "Our Technology and Process - Joining Up the Company", and "Our Organization - Guidance and Wisdom and Delegation with Confidence".

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

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**3. Capital Adequacy** *(continued)***Market Risk**

Please refer to Table 10.

Any other Risks identified:

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

4. Credit Risk: General Disclosures for All Banks**Past due loans:**

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

Impaired loan:***Specific Provisions:***

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

Collective Impairment Provisions:

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

Credit Risk:**Standardised Approach**

Overall, SABB currently calculates its models and assessments based on the Basel II Standardised Approach, as dictated by the guidance notes issued by SAMA. Specifically, SABB is segmenting its asset portfolio and generating associated RWAs and capital support data in accordance with SAMA guidelines and Q17 reports and use the Standardised approach to calculate the minimum capital requirements.

Advanced IRB Approach

SABB is developing its processes to enable it to move to the advanced approaches of Basel II. The advanced approach is being developed using the SAMA guidance notes.

SABB will develop processes to calculate the "Probability of default (PD)", "Loss given default (LGD)" and "Exposure at default (EAD)" appropriate for each exposure. SABB will be utilising the expertise as provided by its associate, HSBC, specifically in the implementation of a risk engine and risk analyser. The risk analyser, Moody's Risk Advisor (MRA), will be able to calculate given a number of subjective and financial inputs, the overall credit risk rating for each client. Along with this, a specific LGD engine will be utilised to calculate the LGD for each client. These engines feed the risk engine with the appropriate data to calculate the RWAs for SABB. Retail Risk Management has achieved significant strides in the development of a scorecard that will feed into their own risk engine. This will enable further refinements in the determination of the RWA for retail exposures. All these are expected to be full operational in 2010, as originally planned.

5. Standardized Approach and Supervisory Risk Weights in the IRB Approaches

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

- SABB has nominated three SAMA recognized External Credit Assessment Institutions for this purpose – Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group
- Credit ratings of all exposures are individually determined from the above credit rating agencies and mapped to the exposures assigning a risk weight according to the supervisory tables
- *The alignment of alphanumeric scales of each agency to risk buckets:*

Alphanumeric scales:

<i>Moody's</i>	<i>Standard and Poor's</i>	<i>Fitch</i>
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
	Caa3	CCC-
	Ca	CC
	C	C
	WR	D
		NR

Claims on sovereigns and their central banks

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

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

	<i>AAA to AA-</i>	<i>A+ to A-</i>	<i>BBB+ to BBB-</i>	<i>BB+ to B-</i>	<i>Below B-</i>	<i>Unrated</i>
Credit Assessment						
Risk Weight under option 2	20%	50%	50%	100%	150%	50%
Risk Weight for short-term claims under Option - 2	20%	20%	20%	50%	150%	20%

Multilateral Development Banks

0% risk weight for qualifying MDB's as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for options #2 for banks.

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**5. Standardized Approach and Supervisory Risk Weights in the IRB Approaches** (continued)**Claims on public sector entities (PSEs)****As per Option – 2****Claims on corporates**

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

Claims included in the regulatory non-mortgage retail portfolios

A 75% risk weight to be assigned to such exposures.

Claims secured by residential mortgages

A 100% retail risk weight to be applied to such claims.

Claims secured by commercial real estate

A 100% retail risk weight to be applied to such claims.

Past due loans

<i>Risk Weight%</i>	<i>Level of Provisioning</i>
150	Upto 20%
100	20% to 50%
100	50% and above

Other assets

The standard risk weight for all other assets will be 100% except gold to be treated equivalent to cash and risk weighted at 0%.

6. Credit Risk: Disclosures for Portfolios Subject to IRB Approaches

Not Applicable.

7. Credit Risk Mitigation: Disclosures for Standardised and IRB Approaches

Mitigation of credit risk is an important aspect of its effective management and takes many forms.

Policies and processes for collateral valuation and management:

After receiving the final “Facility letter agreement” signed by the customer, and making sure that all the supporting documents in hand are completed, prior to loading the limit, Credit relationship officer checks if the facilities are secured by shares/funds. If so, as per approval, whether it is legal pledge over specific number of shares or simple deposit, an instruction is sent accordingly to the concerned function.

Pledge over shares --> Equity Brokerage Operations

Special Instructions --> Investment Operations

Pledge of funds unit --> Investment Operations

As per approval, the monitoring sheet is updated with the approved limit line(s) secured by collateral and Loan to Value.

Upon receiving any changes in Loan to Value, collateral, lines to be covered as pre-approved, the sheet gets updated accordingly.

The sheet is circulated on a daily basis, based on the closing market values.

7. Credit Risk Mitigation: Disclosures for Standardised and IRB Approaches *(continued)*

A description of the main types of collateral taken by the Bank:

- Time deposits
- Government Bonds
- Listed Shares
- Mutual Funds Units
- Bank Guarantees
- Title deeds of property

International and Local Banks Guarantees are referred to Institutional Banking for approval.

Within KSA, equity and collective investment schemes are not allowed for credit mitigation purposes.

Main types of guarantor counterparty and their creditworthiness

Preference is generally given to GCC/ OECD banks guarantees which are at least “A” rated.

8. General Disclosure for Exposure Related to Counterparty Credit Risk

The Bank calculates its counterparty credit risk under both trading and banking book exposures by assigning risk weights to exposure types, which are as follows:

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

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

9. Securitization

Not Applicable.

10. Market Risk: Disclosure for Banks Using Standardized Approaches

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

The principal tool used by SABB to monitor and limit market risk exposure is Value at Risk (“VaR”). The SABB model is fully aligned with the HSBC Group VaR model, which has been approved by the UK FSA for the calculation of regulatory capital requirement under Basel 2, Pillar 1 Advanced Approach.

Summary of Bank's Governance and Control Infrastructure for Market Risk.

For management purposes, SABB assesses the market risk in its trading portfolio on the basis of VaR. Regulatory Reporting continues to follow the Standardised Approach as prescribed by SAMA.

- SABB has an established risk management mandate that is reviewed and approved by Excom on an annual basis
- Stop loss referral limits and triggers are established on the various banking and investment portfolios
- Value at Risk (VaR) control levels have been established at a Bank level with sub limits placed on the banking and trading books. These limits are tracked by Risk Management on a daily basis with exceptions referred to senior management and Excom
- Back testing methodologies are applied to validate the VaR model calculations
- Investment portfolios managed by Treasury are managed within strict Mark to Market (MTM) limits
- Present Value Basis Point (PVBP) limits are established covering the total bank exposure as well as having sub limits placed on the banking and trading books
- FX exposures are controlled within specific limits
- Stress testing is undertaken twice a month covering a range of scenarios as defined in the stress testing section covering Treasury and Market Risk models
- ALCO reviews the market risk positions on a monthly basis

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**11. Market Risk: Disclosure for Banks Using Internal Models Approach (IMA) for Trading Portfolios**

Not Applicable.

12. Operational Risk**Strategies and processes**

SABB's Strategy has been to adopt the Standardised Approach requirements for Operational Risk as defined by the Basel II framework which states that Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This approach has been approved by the SABB Board of Directors and Senior Management is involved in delivering and promoting the strategy at every level of the organisation.

SABB ensures that the management of an operational risk management framework is closely integrated with the business and functional units who are the primary owners of operational risk. The objectives of the primary owners must therefore include an expression of operational risk appetite - the level of acceptable risk and what types of operational risk are not acceptable.

The strategic objectives for operational risk are supported by an effective strong governance model, policy manuals, systems, training and an environment that fosters the management of operational risk.

The structure and organisation of the relevant risk management function

SABB has established a centralised Operational Risk Management function, reporting to the Chief Risk Officer. The role is one of policy setting, implementation of operational risk management processes, coordination with business and functional units in respect of training, establishing mitigants, monitoring and producing reports to the Board of Directors and its major sub committees on an annual and quarterly basis. The Executive Committee (EXCOM), The Audit Committee (AUCOM) and the Risk Management Meeting (RMM) are the major sub committees.

The Operational Risk Management function is complimented by the line management who are responsible for the day-to-day activities and the Operational Risk Management Group (ORMG) whose members comprise of senior risk and business executives supported by an overall SABB entity - level Operational Risk Coordinator. This officer oversees the work of the Operational Risk Business Coordinators who are appointed for each key business and functions within the entity.

The Board of Directors and its sub committees provide oversight, through periodic Operational Risk Management's reports, on the level of operational risks faced by SABB.

The scope and nature of the risk reporting and/or measurement systems

Operational Risk reporting by SABB to the Board of Directors, Senior Management and their relevant sub committees involves the reporting of Operational Risk losses, the major risks identified by the business/functional units through their risk assessment programmes and the Key Risk Indicators that have breached established escalation triggers. Under the Standardised Approach these risk reports are qualitative but they trigger a programme for senior management action. Such programmes over time help SABB to continually manages its internal control environment and the level of operational risk.

Policies for hedging and mitigating risk and strategies and process for monitoring the continuing effectiveness of hedges and mitigants

SABB monitoring process of operational risk helps the Board of Directors and Senior Management to understand the current risk profile, how it is changing and which risks warrant attention. Where risks cannot be managed internally the risks are transferred externally through the purchase of Insurance policies.

SABB Policies ensure that the business and functional units identify operational risks and recommend/mitigants at least annually as part of their risk assessment process. These mitigants are challenged by an independent risk management committee. Risk assessments and action plans are consistently recorded in a centralised database. Business management and Operational Risk business coordinators monitor and follow up the progress of documented action plans.

12. Operational Risk *(continued)*

The operational risk management framework helps managers to fulfill these responsibilities by defining standard risk assessment methodology and providing a tool for systematic reporting of operational data. Appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment
- investigating whether cost effective insurance cover is available to mitigate the risk; and
- other means of protecting SABB from loss

Losses are entered in the SABB Operational Risk database and the business units are required to report individual losses when the net loss is expected to exceed USD 10,000 and aggregate all other losses on under USD 10,000. Losses are reviewed by the ORMG and EXCOM and mitigants reviewed to prevent recurrence or manage the potential exposure.

Approach for Operational Risk capital assessment for which SABB qualifies

Within the Basel 2 framework, SABB has adopted the Standardised Approach for Capital Assessment under Pillar 1 where SABB must hold a percentage, depending on the business line, of average annual gross income, where positive, over the previous three years.

Furthermore SABB makes an Internal Capital Adequacy Assessment Plan (ICAAP) for operational risk under Pillar 2 by reviewing whether the level of operational risks is acceptable and if it is not, what mitigating actions have been taken or are planned.

13. Equities: Disclosures for Banking Book Positions

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

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

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

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

Investment in associate is accounted for using the equity method in accordance with International Accounting Standard 28 – Investment in Associates. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in associate is carried in the balance sheet at cost plus post investment changes in the Bank’s share of net assets of the associate. The investments in associates are carried in balance sheet at the lower of equity accounted or recoverable amount.

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

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

14. Interest Rate Risk in the Banking Book (IRRBB)

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

Analysis of this risk is complicated by having to make assumptions on embedded optionality in products such as mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities, which are contractually repayable on demand.

The governance process for Interest Rate Risk replicated the infrastructure and controls adopted for Market Risk, which have already been highlighted within the Market Risk section.

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**1. Table – Scope of Application****Capital Deficiencies (Table 1, (e))**

Particulars	<i>Amount</i> SAR'000
The aggregate amount of capital deficiencies in subsidiaries not included in the consolidation i.e that are deducted	
1. HSBC Saudi Arabia Limited	130,151
2. Saudi Travellers Cheque Company	5,676
3. SABB Takaful	18,205

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

Components of capital	<i>Amount</i> SAR'000
Core capital - Tier I:	
Eligible paid-up share capital	6,000,000
Shares premium accounts	-
Eligible reserves	4,303,289
Minority interests in the equity of subsidiaries	
Retained earnings	(2,157,663)
IAS type adjustments	-
Deductions from Tier 1:	
Interim losses during the year	
Intangible assets (including goodwill)	
Other country specific deductions from Tier 1 at 50%	
Regulatory calculation differences deduction from Tier 1 at 50%	
Reciprocal holding of bank capital at 50% deduction	
Significant minority investments at 10% and above at 50% deduction:	
Banking and securities entities not fully consolidated	65,076
Insurance organizations	9,103
Commercial organizations	2,837
Total Tier I	8,068,610
Supplementary capital - Tier II:	
Revaluation gains/reserves	-
Subordinated loan capital	
Qualifying general provisions	806,726
Interim profits	2,920,019
Deductions from Tier II:	
Reciprocal holding of bank capital at 50% deduction	
Significant minority investments at 10% and above at 50% deduction	
Banking and securities entities not fully consolidated	65,076
Insurance organizations	9,103
Commercial organizations	2,837
Other country specific deductions from Tier 2 at 50%	
Regulatory calculation differences deduction from Tier 2 at 50%	
Total Tier II	3,649,729
Capital to cover market risks - Tier III	
Short Term Subordinated Debt	
Tier I and Tier II Capital Available for Market Risk	
Total eligible capital	11,718,339

3. Table – Capital Adequacy

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

	<i>Amount of exposure</i>	<i>Capital requirement</i>
	SAR'000	SAR'000
Portfolios		
Sovereigns and central banks:		
SAMA and Saudi Government	32,900,197	-
Others	2,475,144	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	6,246,597	99,946
Corporates	73,522,029	5,363,512
Retail non-mortgages	9,969,295	589,061
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages		
Residential	2,491,974	199,358
Commercial	-	-
Securitized assets	-	-
Equity	88,889	7,111
Others	2,002,291	83,532
Total	129,696,416	6,342,520

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

<i>Interest rate risk</i>	<i>Equity position risk</i>	<i>Foreign exchange risk</i>	<i>Commodity risk</i>	<i>Total</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
24,205		16,555	-	40,760

Standardised Approach

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

<i>Capital requirement</i>
SAR'000
685,150

Particulars

Standardized Approach

Capital Adequacy Ratios (TABLE 3,(f))

<i>Total capital ratio</i>	<i>Tier 1 capital ratio</i>
%	%
11.24	7.74

Particulars

Top consolidated level

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**4. Table (STA) – Credit Risk: General Disclosures****Credit Risk Exposure (Table 4. (b))**

	<i>Total gross credit risk exposure</i>	<i>Average gross risk exposure over the period*</i>
Portfolios	SAR'000	SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	32,927,197	
Others	2,475,144	
Multilateral Development Banks (MDBs)	-	
Public Sector Entities (PSEs)	-	
Banks and securities firms	9,305,896	
Corporates	87,632,626	
Retail non-mortgages	9,755,301	
Small Business Facilities Enterprises (SBFE's)		
Mortgages		
Residential	2,491,974	
Commercial	-	
Securitized assets	-	
Equity	88,889	
Others	2,002,291	
Total	146,679,318	-

*Not disclosed as period end position is representative of risk position of the bank during the period.

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

Geographic Breakdown (Table 4, c))

Portfolios	<i>Saudi Arabia</i>	<i>Other GCC & Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>South East Asia</i>	<i>Other countries</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:							
SAMA and Saudi Government	32,927,197	-	-	-	-	-	32,927,197
Others	-	972,793	-	1,502,351	-	-	2,475,144
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	3,542,418	396,950	2,423,553	2,676,810	66,478	199,687	9,305,896
Corporates	83,995,452	2,001,389	1,335,560	216,566	-	83,660	87,632,626
Retail							
non-mortgages	9,755,301	-	-	-	-	-	9,755,301
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-
Residential	2,491,974	-	-	-	-	-	2,491,974
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	5,218	-	50,760	32,911	-	-	88,889
Others	2,002,291	-	-	-	-	-	2,002,291
Total	134,719,851	3,371,132	3,809,872	4,428,638	66,478	283,347	146,679,318

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**4. Table (STA) – Credit Risk: General Disclosures** (continued)**Industry Sector Breakdown (Table 4, d))**

Portfolios	<i>Government and quasi government</i>	<i>Bank and other financial institutions</i>	<i>Agriculture and fishing</i>	<i>Manufactur- ing</i>	<i>Mining and quarrying</i>	<i>Electricity, water, gas and health services</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:						
SAMA and						
Saudi Government	32,927,197	-	-	-	-	-
Others	2,475,144	-	-	-	-	-
Multilateral Development						
Banks (MDBs)	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-
Banks and securities firms	-	9,305,896	-	-	-	-
Corporates	1,289,285	3,088,452	1,560,249	15,794,650	3,500	1,842,447
Retail non-mortgages	-	-	-	-	-	-
Small Business Facilities						
Enterprises (SBFE's)	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-
Residential	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-
Equity	-	88,889	-	-	-	-
Others	-	-	-	-	-	-
Total	36,691,626	12,483,237	1,560,249	15,794,650	3,500	1,842,447

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

Portfolios	Maturity breakdown		
	<i>Less than 8 days</i>	<i>8 - 30 days</i>	<i>30 - 90 days</i>
	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:			
SAMA and Saudi Government	5,576,868	5,127,352	3,506,937
Others	-	75,000	355,860
Multilateral Development Banks	-	-	-
Public Sector Entities	-	-	-
Banks and Securities Firms	6,883,307	154,466	454,651
Corporates	11,135,631	10,881,477	20,968,460
Retail non-mortgages	114,777	103,494	48,026
Small Business Facilities Enterprises (SBFE's)	-	-	-
Mortgages	-	-	-
Residential	-	-	40
Commercial	-	-	-
Securitized assets	-	-	-
Equity	-	-	-
Others	-	-	-
Total	23,710,582	16,341,790	25,333,974

<i>Building and construction</i>	<i>Commerce</i>	<i>Transporta- tion and communica- tion</i>	<i>Services</i>	<i>Consumer loan and credit cards</i>	<i>Others</i>	<i>Total</i>
<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
-	-	-	-	-	-	32,927,197
-	-	-	-	-	-	2,475,144
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	9,305,896
12,844,379	31,493,014	6,513,564	880,437	-	12,322,649	87,632,626
-	-	-	-	9,755,301	-	9,755,301
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	2,491,974	-	2,491,974
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	88,889
-	-	-	-	-	2,002,291	2,002,291
<u>12,844,379</u>	<u>31,493,014</u>	<u>6,513,564</u>	<u>880,437</u>	<u>12,247,275</u>	<u>14,324,940</u>	<u>146,679,318</u>

Maturity breakdown

<i>90 - 180 days</i>	<i>180 - 360 days</i>	<i>1 - 3 years</i>	<i>3 - 5 years</i>	<i>Over 5 years</i>	<i>*No Maturity</i>	<i>Total</i>
<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2,487,844	5,798,545	3,789,722	1,481,019	5,158,909	-	32,927,197
57,934	771	1,093,124	83,172	809,283	-	2,475,144
-	-	-	-	-	-	-
-	-	-	-	-	-	-
268,123	301,381	531,138	353,956	358,874	-	9,305,896
14,921,374	5,698,843	10,796,074	9,481,219	3,749,547	-	87,632,626
88,321	168,255	2,076,091	4,832,620	2,323,717	-	9,755,301
-	-	-	-	-	-	-
-	-	-	-	-	-	-
33	760	26,407	109,773	2,354,961	-	2,491,974
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	88,889	88,889
-	-	-	-	-	2,002,291	2,002,291
<u>17,823,629</u>	<u>11,968,555</u>	<u>18,312,557</u>	<u>16,341,760</u>	<u>14,755,291</u>	<u>2,091,180</u>	<u>146,679,318</u>

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**4. Table (STA) – Credit Risk: General Disclosures** (continued)**Impaired loans, Past Due Loans and Allowances** (Table 4, (f))

Industry sector	Aging of past due loans			
	<i>Impaired loans</i>	<i>Defaulted</i>	<i>Less than 90 days</i>	<i>90 - 180 days</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Government and quasi government				
Banks and other financial institutions	-			
Agriculture and fishing	-		1,604	
Manufacturing	35,009		51,380	
Mining and quarrying	24,443			
Electricity, water, Gas and health services	-			
Building and construction	41,487		1,956	
Commerce	39,249		102,549	
Transportation and communication	-		40,000	
Services	1,179		2,000	
Consumer loans and credit cards	29,615		1,060,355	183,204
Others	22,691		1,005,100	8,252
Total	193,674	-	2,264,944	191,456

Reconciliation of Changes In The Allowances For Loan Impairment (Table 4, (h))

Particulars	<i>Specific allowances</i>	<i>General allowances</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Balance, beginning of the year	420,546	150,502
Charge-offs taken against the allowances during the period	320,036	79,188
Amounts set aside (or reversed) during the period	(340,750)	
Other adjustments:		
– exchange rate differences		
– business combinations		
– acquisitions and disposals of subsidiaries		
– etc.		
Transfers between allowances		
Balance, end of the year	399,832	229,690

Aging of past due loans		Specific allowances				
<i>180 - 360 days</i>	<i>Over 360 days</i>	<i>Balance at beginning of the period</i>	<i>Charges during the period</i>	<i>Charge-offs during the period</i>	<i>Balance at the end of the period</i>	<i>General allowances</i>
<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
			-			
			-			
			-			4,536
		41,132	(6,123)		35,009	62,646
			-		-	-
		7,128	-		7,128	3,554
		38,715	(5,676)		33,039	65,026
		42,109	(17,142)		24,967	81,469
		2,729	(1,247)		1,482	4,937
		1,190	13,627		14,817	248
		230,583	18,145		248,728	7,273
		56,960	(22,298)		34,662	
<u>-</u>	<u>-</u>	<u>420,546</u>	<u>(20,714)</u>	<u>-</u>	<u>399,832</u>	<u>229,690</u>

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**5. Table (STA) – Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach****Allocation of Exposures to Risk Buckets (Table 5, (b))**

Particulars	Risk buckets			
	0%	20%	35%	50%
	SAR'000	SAR'000	SAR'000	SAR'000
Sovereigns and central banks				
SAMA and Saudi Government	32,927,197	-	-	-
Others	2,475,144	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-
Banks and securities firms	-	8,305,133	-	997,352
Corporates	-	2,473,973	-	3,044,142
Retail non-mortgages	-	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-	-
Mortgages	-	-	-	-
Residential	-	-	-	-
Commercial	-	-	-	-
Securitized assets	-	-	-	-
Equity	-	-	-	-
Others	958,144	-	-	-
Total	36,360,485	10,779,106	-	4,041,494

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

Portfolios	Covered by	
	Eligible financial collateral*	Guarantees/credit derivatives
	SAR'000	SAR'000
Sovereigns and central banks		
SAMA and Saudi Government		
Others		
Multilateral Development Banks (MDBs)		
Public Sector Entities (PSEs)		
Banks and securities firms		
Corporates	2,696,500	347,593
Retail non-mortgages		
Small Business Facilities Enterprises (SBFE's)		
Mortgages		
Residential		
Commercial		
Securitized assets		
Equity		
Others		
Total	2,696,500	347,593

Risk buckets					Total	Deducted
<i>75%</i>	<i>100%</i>	<i>150%</i>	<i>Other risk weights</i>	<i>Unrated</i>		
<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
-	-	-	-	-	32,927,197	-
-	-	-	-	-	2,475,144	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	3,411	-	-	-	9,305,896	-
-	79,064,871	5,547	-	-	84,588,533	-
9,636,005	119,296	-	-	-	9,755,301	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	2,491,974	-	-	-	2,491,974	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	88,889	-	-	-	88,889	154,032
-	1,044,147	-	-	-	2,002,291	-
<u>9,636,005</u>	<u>82,812,588</u>	<u>5,547</u>	<u>-</u>	<u>-</u>	<u>143,635,225</u>	<u>154,032</u>

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**8. Table (STA) – Credit Derivative Transactions (Table 8, (c))**

	Proprietary activities		Intermediation activities	
	<i>Protection bought</i>	<i>Protection sold</i>	<i>Protection bought</i>	<i>Protection sold</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Credit derivative transactions				
Total return swaps				
Credit default swaps				
Credit options				
Credit linked notes		56,250		
Collateralized debt obligations				
Collateralized bond obligations				
Collateralized loan obligations				
Others				
Total	-	56,250	-	-

9. Table (STA) – Securitization: Disclosures for Standardized Approach**Outstanding Exposures Securitized by the Bank (Table 9,(d) to (f))**

Exposures Type	Outstanding exposures		<i>Losses recognized by the Bank during the current period</i>	<i>Securitization exposures retained or purchased</i>
	<i>Traditional</i>	<i>Synthetic</i>	<i>Impaired/ Past due assets securitized</i>	
	SAR'000	SAR'000	SAR'000	SAR'000
Credit cards				
Home equity loans				
Commercial loans				
Automobile loans				
Small business loans				
Equipment leases				
Others				
			N I L	

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

Risk weight bands	<i>Securitization exposures retained or purchased</i>	<i>Associated capital charges</i>
	<i>SAR'000</i>	<i>SAR'000</i>
	SAR'000	SAR'000
0% to 20%		
Above 20% to 40%		
Above 40% to 60%		
Above 60% to 80%		
Above 80% to 100%		
Above 100%		
	N I L	

9. Table (STA) – Securitization: Disclosures for Standardized Approach (continued)

Deductions from capital (Table 9, (g))

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

N I L

Securitizations Subject To Early Amortization Treatment (Table 9, (h))

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

N I L

Summary Of Current Year's Securitization Activity (Table 9, (j))

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

N I L

Basel II – Pillar 3 Annual Disclosures (31 December 2008) (continued)**10. Table (STA) – Market Risk: Disclosures for Banks using the Standardized Approach****Level of Market Risks in Terms Of Capital Requirements (Table 10, (b))**

	<i>Interest rate risk</i>	<i>Equity position risk</i>	<i>Foreign exchange risk</i>	<i>Commodity risk</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Capital requirements	24,205	-	16,555	-	40,760

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

	Unquoted Investments		Quoted Investments		
	<i>Value disclosed in financial statements</i>	<i>Fair value</i>	<i>Value disclosed in financial statements</i>	<i>Fair value</i>	<i>Publicly quoted share values (if materially different from fair value)*</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Investments	224,716	224,716	18,205	108,225	-

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

	<i>Publicly traded</i>	<i>Privately held</i>
	SAR'000	SAR'000
Investments		
Government and Quasi-Government		
Banks and Other Financial Institutions	18,205	130,151
Agriculture and Fishing		
Manufacturing		
Mining and Quarrying		
Electricity, water, gas and health services		
Building and Construction		
Commerce		
Transportation and communication		
Services		94,565
Others		
Total	18,205	224,716

Gains and Losses etc. (Table 13, (d) and (e))

Particulars	SAR'000
Cummulative realised gains/(losses) arising from sales and liquidations in the reporting period	63,225
Total unrealised gains (losses)	-
Total latent revaluation gains (losses)*	N/A
Unrealised gains (losses) included in capital	20,097
Latent revaluation gains (losses) included in Capital*	N/A

*Not applicable to KSA to Date

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

Capital Requirements (Table 13, (f))

	<i>Capital requirements</i>
	SAR'000
Equity Grouping	
Government and Quasi-Government	-
Banks and Other Financial Institutions	-
Agriculture and Fishing	-
Manufacturing	-
Mining and Quarrying	-
Electricity, water, gas and health services	-
Building and Construction	-
Commerce	-
Transportation and communication	-
Services	-
Others	7,111
Total	7,111

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

	SAR'000
Equity Grouping	
Government and Quasi-Government	Nil
Banks and Other Financial Institutions	Nil
Agriculture and Fishing	Nil
Manufacturing	Nil
Mining and Quarrying	Nil
Electricity, water, gas and health services	Nil
Building and Construction	Nil
Commerce	Nil
Transportation and communication	Nil
Services	Nil
Others	Nil
Total	Nil

14. Table (STA) – Interest Rate Risk in the Banking Book (IRRBB)

200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities (Table 14, (b))

	<i>Change in earnings</i>
	SAR'000
Rate Shocks	
Upward Rate Shocks	
SAR	(208,368)
USD	(112,800)
Downward rate shocks	
SAR	208,368
USD	112,800

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