

25<sup>th</sup>  
Annual Report  
and Accounts  
2002



### **The Regional Architecture of Saudi Arabia**

The Saudi British Bank is pleased to highlight in this year's annual report the many styles of old architecture in the Kingdom of Saudi Arabia. The variety of architectural designs developed through the years reflects the differing environments of the regions of the Arabian Peninsular as well as the lifestyles of its people.

The photographs depicted have all been provided courtesy of Mr. Abdullah Al-Akeel and Mr. Ali Abdulla Al-Mubarak.

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Custodian of the Two Holy Mosques  
**King Fahd Bin Abdulaziz Al Saud**



**His Royal Highness**  
**Prince Abdullah Bin Abdulaziz Al Saud**  
The Crown Prince, Deputy Premier  
and Commander of the National Guard



**His Royal Highness**  
**Prince Sultan Bin Abdulaziz Al Saud**  
The Second Deputy Prime Minister,  
Minister of Defence and Aviation and Inspector General

## BOARD OF DIRECTORS



**Abdullah Mohamed Al Hugail**  
Chairman



**David Howard Hodgkinson**  
Managing Director



**Khalid Sulaiman Olayan**



**Khalid Abdullah Al Molhem**



**Andrew Dixon, OBE**



**David Dew**



**Fouad Abdulwahab Bahrawi**



**Sir David Gore-Booth**



**Sulaiman Abdulkader Al Muhaidib**

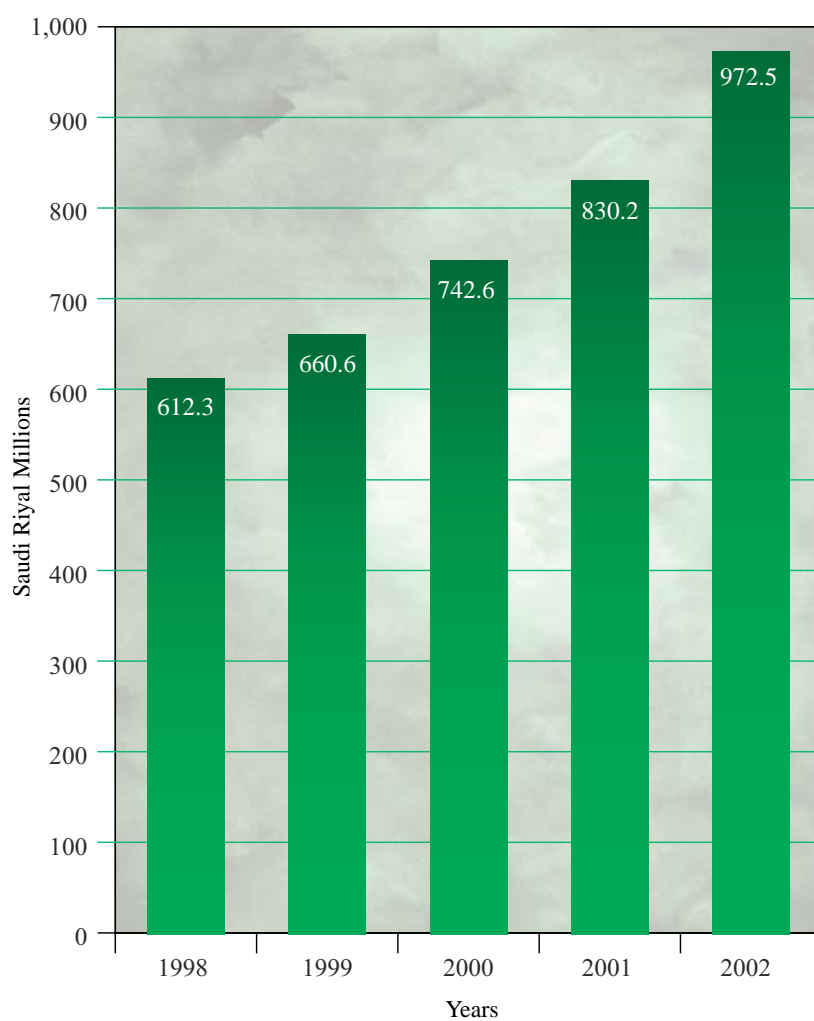


**Ahmed Sulaiman Banaja**



## FINANCIAL HIGHLIGHTS

Saudi Riyal Millions	1998	1999	2000	2001	2002
CUSTOMER DEPOSITS	23,728.5	25,697.2	28,361.7	31,538.8	34,980.1
SHAREHOLDERS' EQUITY	3,100.9	3,296.8	3,604.5	3,956.1	4,283.0
INVESTMENTS, NET	14,256.7	11,806.0	18,444.5	21,768.4	20,399.7
LOANS AND ADVANCES, NET	14,149.9	15,939.5	15,863.4	16,020.4	20,359.2
TOTAL ASSETS	38,226.5	37,227.3	43,338.9	41,920.7	46,226.5
NET INCOME	612.3	660.6	742.6	830.2	972.5
GROSS DIVIDEND	463.6	464.6	434.9	581.6	664.8

**NET INCOME**



## CHAIRMAN'S STATEMENT



**On behalf of the Board of Directors, I am pleased to present the Annual Report of The Saudi British Bank for the financial year ending 31<sup>st</sup> December 2002.**

Your bank has completed a further most successful year registering net profits of SAR 972 million, an increase of 17.1% over the previous year's figure of SAR 830 million.

Throughout 2002 your bank has continued to provide maximum possible care and attention in satisfying customer needs. The year witnessed a substantial increase in the number of customers benefiting from Internet banking (SABBNET), operating complementary to HEXAGON, which itself has continued to receive an excellent reception from customers.

SABB's Investment Banking services continued to be well-received, enabling the bank, despite the highly turbulent state of the markets, to attain its number one status in terms of both total value traded in local equities and increased turnover in international equities.

The year has been one of the most successful years ever for the Corporate Finance Department, which included the bank being mandated as Lead Arranger for a Euro 2.25 billion finance facility for the purchase of a European manufacturer of petrochemicals and for a USD 2 billion five year revolving facility.



**CENTRAL  
PROVINCE**



The programme of branch development has continued apace, whether through relocation or the renovation and refurbishment of existing branches. At the end of 2002 the number of SABB branches had reached 77 including 13 dedicated ladies' sections/branch and one in London.

The bank has introduced Cash Deposit machines, a first in the Kingdom for your bank, and has upgraded all telephone banking services offered to clients. Islamic Banking services, under the banner of Al Amanah, have seen markedly increased demand from customers, especially since the launch of the four dedicated Al Amanah branches. Such enhancements have ensured growth in excess of 60 % in this sector over that achieved a year earlier.

As a result of your bank's efforts to induct high calibre Saudis, the Saudisation ratio has increased to 77 % of the total staff complement as at the year end of 2003, of which Saudi nationals accounted for 1617 and the number of ladies, all of whom are Saudis, for 228 or 11 % of the total workforce. I am very proud of their achievements during the year which have been wholly integral to the bank's success.

Your bank continues its social role in supporting local charitable activities and has also sponsored many important events which either promote investment in Saudi Arabia or which highlight the Saudi commercial and industrial sectors.

In the light of the returns attained during the year your Board of Directors is pleased to recommend a final net dividend for the year of SAR 8 per share which, together with the interim net dividend of SAR 8 paid in August for the first half of the year, will make a total for the year of SAR 16, an increase of 14.3% over 2001. Payment of the final dividend will be made following the approval of the Annual General Meeting.

In conclusion, I take the opportunity to express, on behalf of the Board, my appreciation and gratitude to all customers and shareholders for their continued confidence and support and to the Saudi government, in particular the Ministry of Finance and National Economy, the Ministry of Commerce and the Saudi Arabian Monetary Agency, for their cooperation, encouragement and continuous support to the banking sector in Saudi Arabia, whose role has contributed so substantially to the growth of the Saudi economy under the directions of the Custodian of the Two Holy Mosques and the Crown Prince.



**Abdullah Mohamed Al Hugail**



## DIRECTOR'S REPORT

The Board of Directors is pleased to submit its Annual Report to the shareholders of The Saudi British Bank for the financial year ending 31<sup>st</sup> December 2002.

### BUSINESS ENVIRONMENT

At a time of great uncertainty worldwide, Saudi Arabia has seen a marked growth in revenues from its substantial petroleum resources in 2002 over a year earlier. This situation has impacted positively on the business environment in the Kingdom, with the private sector leading the way.

After a number of years of steady progress the private sector is now evolving and developing apace, driven by rapid population growth, an increased requirement for new housing, which itself inevitably leads to growth of the major cities and towns nationwide, and an ever rising demand for consumer products. An important part of these developments has been the growth of national industries which are today well able to satisfy increased national demand for a wealth of products including, but not confined to, petrochemicals, plastics, construction materials and food products.

Integral to this private sector growth has been increased consumer spending and a rising demand for credit to finance every sector of the economy, be it industry, tourism development, the building of private houses or the purchase of a new car. If the current pace of such demand continues unabated local banks will have to become financial intermediaries sourcing other forms of capital other than the deposits upon which they depend so much today. Such a development will be a major challenge for Saudi banks in seeking to attain their full potential, especially since they can anticipate new challenges and opportunities once the anticipated Capital Market Law is introduced.

Nevertheless, good progress is being made by your Bank with the introduction of many new products and services in recent years, including house purchase finance, long-term savings and investment plans, mutual funds and insurance according to both conventional and Islamic criteria, and advanced electronic services and facilities.

Despite the volatility of the world oil markets and their fluctuating impact on the Saudi Arabian economy, overall stability has been the hallmark of the Saudi marketplace with the domestic banking sector having proved yet again its marked resilience to external influences, such that today it enjoys a strong



**SOUTHERN  
PROVINCE**





base, of which your Bank is a cornerstone, well-placed to serve the Kingdom and its people well into the future.

## A HIGHLY SUCCESSFUL YEAR

2002 has been another highly successful year for SABB with end year figures registering yet another rise in net profits to SAR 972 million, a 17.1% increase from a year earlier, when they were SAR 830 million, a result which has been achieved at a time of great uncertainty in international financial markets and keen competition and greater liquidity in the domestic financial sector. Earnings per share also increased to SAR 24.31 from SAR 20.75 at the same time last year.

Despite the level of competition SABB has been able to grow its deposit base during the year such that as at 31<sup>st</sup> December 2002 deposits totalled SAR 34,980 million, a figure substantially higher than at the end of 2001 when they amounted to SAR 31,539 million. Given this high level of liquidity the Bank has also been able to grow its loan portfolio to a level of SAR 20,359 million, a rise of 27.1% over a year earlier. Given the uncertainty in international markets a year earlier your Bank had divested itself of elements of its investment portfolio which has, therefore, shown a marked decline as at 31<sup>st</sup> December 2002 to SAR 20,400 million from SAR 21,768 million twelve months earlier. Total assets at the year-end had grown from SAR 41,921 million to SAR 46,227 million, an increase of 10.3%.

Integral to the success of your Bank in 2002 has been:

- A comprehensive internal restructuring leading to the introduction of numerous product-focused, customer-oriented departments;
- The regular up-grading of staff capabilities through purpose-designed training programmes;
- The on-going development of both conventional and Islamic products and services for all customers, be they corporate or personal;
- A further strengthening of customer relationships through enhanced levels of direct and indirect contact by marketing teams working closely with product specialists;
- A growth in revenues during the year of 65% from AlAmanah Islamic banking services and 41% from the provision of investment services;
- An overall up-grading of the Bank's Information Technology capabilities creating an advanced platform on which to grow and develop SABB's activities both now and for some years to come;
- An enhancement of your Bank's risk management capabilities, thereby ensuring ever-greater control of all lending and a well-diversified asset portfolio across all economic sectors;
- The opening of well-located new branches and the relocation, refurbishment or renovation of others;
- The introduction of Cash Deposit machines, a first in the Kingdom, to the advantage of all customers.

As a result of these activities and achievements your Bank has raised its stature yet further as the bank of choice in the Kingdom for both corporate and personal customers whilst continuing to raise the productivity of the bank's staff, to the ultimate improvement of its financial position and profitability and thereby its value for you, our shareholders.

In the light of the returns attained in 2002 your Board of Directors is pleased to recommend a final net dividend for the year of SAR 8 per share which, together with the interim net dividend of SAR 8 paid in August for the first half of the year, will make a total for the year of SAR 16, an increase of 14.3% over 2001. Payment of the final dividend will be made following the approval of the Annual General Meeting.

## PROPERTY, INFORMATION TECHNOLOGY AND ELECTRONIC BANKING SERVICES

During the year your Bank has continued to focus on the enhancement of all services whilst making them more accessible to customers. To this end the Bank's programme of branch development has continued apace, whether through relocation or the renovation and refurbishment of existing branches; yet further automated teller machines (ATM) have been introduced; the ever wider availability of point-of-sale terminals (POS) at retail outlets across the Kingdom has been ensured; cash deposit machines have been introduced to the Kingdom for the very first time; all direct telephone services offered to clients have been up-graded; and rapid growth in Internet banking is being encouraged, including the provision of Internet access in branches.



## DIRECTORS' REPORT (Continuation)

At the end of 2002 the number of SABB branches had reached 77, including 13 dedicated ladies' sections/branch and one in London, providing a full range of banking services and finance for property purchase for SABB customers visiting the United Kingdom. Integral to these figures were 6 branch relocations, 4 branch expansions and renovations and 3 full refurbishments.

At the same date SABB had a total of 202 ATM machines, of which 141 were sited away from Bank branches, including several drive-up locations and three with full Braille facilities, and had 2,716 POS terminals installed countrywide. All ATM machines and many POS terminals are now inter-linked Gulf-wide through GCC Net, to the benefit of all travellers by providing access to their funds wherever they may be within the six states so enabling them to complete their purchases, and all ATM machines have now been up-graded to allow for the transfer of funds between demand deposit accounts at SABB branches.

A major SABB initiative during the year has been the introduction of Cash Deposit machines, providing an in-branch service to depositors, another first in Saudi Arabia for your Bank. Eight such machines had been installed by 31<sup>st</sup> December across the Kingdom, with further installations planned for the first half of 2003. The speed, efficiency and confidentiality of the machines, allied to the avoidance of extensive queuing, have ensured their rapid approval and acceptance as evidenced by the high usage rates recorded. The introduction of the machines is yet another example of your Bank's commitment to the introduction of the latest technology to Saudi Arabia to the ultimate convenience of Bank customers.

As to the branch network, the construction of the custom-designed Superbranch at Tahlia Street in Jeddah has been completed, as have the works on the Waly AlAhd Street project in the same city. The first of these now houses a full branch, a ladies branch, the Western Province Private Banking offices and the Western Province investment centre, whilst the second provides the premises for the Western Province main branch. In the Eastern Province a new investment centre and exclusively designed Premier Centre, another first for SABB, have



**EASTERN  
PROVINCE**



been opened and, in Riyadh, a new Superbranch is under construction, as are relocated branches in Makkah AlMukarramah and Takhassusi Street, Riyadh. Also during the year six branches were relocated to new sites; two branches were relocated and merged with existing branches; and the Dammam housing compound was sold. All new branches, those which have been renovated over the twelve months and all ATM locations now evidence SABB's new image.

The year under review has seen major infrastructural development of the Bank's in-house IT processes and systems with the replacement of all SABB's main computers, thereby enabling handling of increased business processing demands; the up-grading of Kingdom-wide networks; the implementation of the HSBC Group's new Core 7.02 banking system; and a new automated debt collection system utilising predictive dialling technology, which has already ensured an improved collection profile; and the improving of disaster recovery planning. Following implementation of these major up-gradings your Bank is now well to the fore in technological developments in the banking sector in Saudi Arabia as was recognised by SAMA when SABB was awarded the highest Tadawul Trading System rating. Due to its high technical capabilities SABB was awarded management of the Saudi Telecommunications Company Initial Public Offering by the Public Investment Fund.

The year has also seen important enhancements made to all of SABB's safety and security functions so ensuring maximum protection for both customers and staff.

## ADDRESSING CUSTOMER NEEDS

### Introduction

The success of any financial institution is allied closely to its recognition of the importance of customers and their specific needs. The major internal restructuring of your Bank undertaken during 2002, whereby many product-focussed but customer-oriented departments manned by knowledgeable staff were formed, is clear evidence of SABB's desire for professionalism and attention to its customers whilst ensuring the Bank's continued prosperity.

As at 31<sup>st</sup> December 2002 the success of this reorganisation was best evidenced by the enhanced efficiency and convenience of the quality services provided, the positive responses of customers and the higher levels of business recorded.

### Corporate Sector

Following the Bank's activities in 2001, when much attention was given to reviewing its activities and to broadening the market segments covered, specialist departments were introduced in 2002 proffering specific products and services to all corporate customers.

Commercial and Corporate Banking was divided into four market segments: Corporate Institutional Banking, National Corporate Accounts, Middle Market and Business Banking, each with relationship managers responsible for business development who work with product specialists to bring a wide range of banking services to customers.

SABB was mandated as floatation manager for the Initial Public Offering (IPO) of Saudi Telecommunications Company, a prime element of the Kingdom's privatisation programme. The public issue was valued at SAR 10.2 billion.

2002 has been one of the most successful years for the Corporate Finance Department. During the year SABB was mandated as Lead Arranger for a Euro 2.25 billion finance facility for the purchase of a European manufacturer of petrochemicals and for a US\$2 billion five year revolving facility. The number of debt arrangement transactions concluded in 2002 totaled six with a combined underwriting amount of SAR 2.2 billion. SABB also secured three financial advisory mandates.

Further progress has been made over the last twelve months in addressing the wishes of many corporate clients for a full suite of Islamic products to add to Murabaha, Musharaka and Ijara. The Bank has sought also to provide Islamically acceptable structured solutions for its business customers. Success in this regard is best seen in the broadening of the customer base, especially amongst trading entities and industries.

The year has seen also the merger within the Bank of the Trade Services and the Factoring Departments and the drawing in of Guarantees department under the same umbrella. This has enabled greater focus on





## DIRECTORS' REPORT (Continuation)

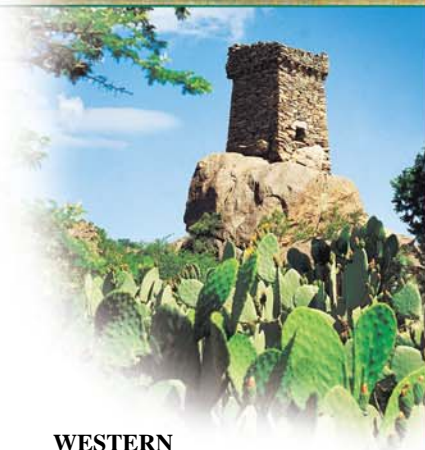
customer service and marketing initiatives, the success of which is well-reflected in the growth of import and export business volumes, a rise of 12% over the previous year, and higher overall fee income ensuring a continued contribution to your Bank's profits.

### Personal Sector

Over the years SABB has sought always to give maximum attention to the needs and demands of personal customers and in this regard 2002 has been no exception. Throughout the year under review the customer-relationship management system which had been enhanced during the previous financial year has ensured continued attention to personal customers, be they Saudi nationals, ladies or expatriates, and their demand for conventional and Islamic products and services.

The last twelve months have seen increasing numbers of personal customers responding positively to all of SABBNET, your Bank's Internet banking service which operates complementary to HEXAGON, which itself has continued to be well received; the increased numbers of ATM machines and POS terminals; and, most importantly, to the new Cash Deposit machines, which have been found by them to be highly convenient whilst minimising the time needed for depositing funds and paying bills. Customers have continued as well to respond positively to telephone banking as evidenced by the increasing number of customer calls received by the call centre, through which one third of all new direct sales of Bank products and services are generated.

Islamic Banking services, under the banner of AlAmanah, have again seen markedly increased demand from customers, especially since the launch of four dedicated AlAmanah branches, the introduction of specialised Islamic banking desks in a number of conventional branches and the appointment of banking and investment managers specialised in Islamically acceptable products and services. Such enhancements have ensured growth in excess of 60% in this sector over that achieved a year earlier.



**WESTERN  
PROVINCE**



Integral to such impressive growth has been increased demand for the Bank's comprehensive Islamic product range including AlAmanah Home Financing (Manazil), which was the first of its kind when introduced in 2001, the Murabaha Sale programme (Imtalik) and Islamically-managed current, savings and investment accounts. In the light of this SABB's Islamic Personal Banking services can be considered to have come of age due to their being highly regarded by customers and, thereby, a major contributor to your Bank. Given this situation allied to SABB's ability to build on AlAmanah through its association with the HSBC Group, yet further growth is foreseen in the future to the benefit of both customers and shareholders.

Personal loans, which are usually made available the same day, uniquely amongst Saudi banks, are now offered according to four schemes, including an innovative scheme for expatriates, another first for SABB. There has been a continuing high demand for such loans during the year and by 31<sup>st</sup> December the total outstanding had reached SAR 3,865 million, an increase of 27% over a year earlier.

Over the twelve months the Bank's Dial-a-Remittance service maintained its high demand among both Saudis and expatriates; SABB savings accounts were subjected to important enhancements ready for re-launch in 2003; and the number of conventional insurance policies written increased by 67%, whilst detailed consideration was given to the introduction of Takaful policies for those wishing to insure Islamically.

Private Banking enjoyed another successful year with encouraging results. Constant attention to offering high net worth customers specialised banking and investment products and services tailor-made to meet their exacting expectations has proved most rewarding, with the Bank's two relationship services, the Premier and Allmtiaz programmes, continuing to grow. During the year a specialised Premier Centre was opened in the Eastern Province, yet another first for SABB, providing a comfortable and confidential environment for the conduct of Premier customers' private financial business. New Allmtiaz officers were also appointed throughout the branch network to ensure wider availability of the highest quality services.

Card Products also enjoyed a profitable year with the Bank retaining its position among the leading credit card issuers in the Kingdom. The ICSABB loyalty programme continued to grow, as did the merchant acquiring business with yet further electronic terminals at points of sale. Looking to the future SABB participated with the Saudi Arabian Monetary Agency in its moves to enhance and secure the Kingdom's electronic network whilst moving to the introduction of smart cards.

SABB's Investment Banking services continued to be well received enabling the Bank to become number one in terms of both total value traded in local equities in 2002 and also on increased turnover in international equities, despite the highly turbulent state of the markets. The customer focussed policies offered by the Bank in earlier years worked well to protect customers from serious losses in 2002. Assets under management grew by 4.5% during the year, with the number of customers rising by 10%. Several Funds of Funds portfolios were launched during the year, as were several wealth management funds, by way of private placements in association with the HSBC Group to relationship managed customers, including an Islamically-structured Global Real Estate Fund.

The year also saw the announcement by independent analysts that SABB's mutual funds had been adjudged best in terms of overall performance in 2001. The track records of Saudi-based funds across thirteen categories over one and three years were analysed to attain the results and SABB was found not only to be best overall but also to have attained most first places across all categories. Such awards serve to ensure the Bank maintains its status as the preferred location for the conduct of investment business.

The growth in personal customer sophistication allied to the Bank's desire to ensure customers have a choice as to how they transact their business, twenty four hours a day, seven days a week, has led to marked business growth in 2002. To ensure continued success significant investment continues to be made, especially in the SABBNET infrastructure and the provision of a state-of-the-art call centre.

## THE ENVIRONMENT

SABB maintains a strong awareness at all times of the need to seek to protect the Kingdom's natural environment, which is so important to sustainable development and the future prosperity of the nation and its people.





## DIRECTORS' REPORT (Continuation)

### PUBLIC AFFAIRS

2002 has seen your Bank enter its 25<sup>th</sup> year of operation. A further milestone this year was the celebration of 50 years continued cooperation with the Ahmed Hamad AlGosaibi Company, one of the first customers of The British Bank of the Middle East which subsequently became The Saudi British Bank.

### COMMUNITY SUPPORT

As in previous years your Bank has been a major sponsor of important events which either promote investment in Saudi Arabia or which ensure enhanced awareness of technological advances of major benefit to government, industry and commerce. Thus sponsorship was provided for the 'Opportunities for Business and Investment in Saudi Arabia' conference in Malaysia, held under the patronage of the Saudi Arabian General Investment Authority with the aim of enhancing knowledge of the Kingdom's investment climate, and also for the Third e-Commerce Conference in Riyadh held with the theme of 'Going e-Government'.

Your Bank also maintained its role in supporting local charitable activities as part of its commitment to encouraging wider development of the Saudi community.

During the year further Saudi students have benefited from the SABB Scholarship Scheme and the Chair of Finance at the King Fahd University of Petroleum and Minerals has continued to be supported.

### HUMAN RESOURCES

As at the year-end SABB's staff complement had reached 2,093, a small increase over a year earlier. Of this figure Saudi nationals accounted for 1,617, or 77%, and ladies, all of whom are Saudis, for 228, or 11%, both of which are also increases in numerical terms over end 2001.



**SOUTHERN  
PROVINCE**



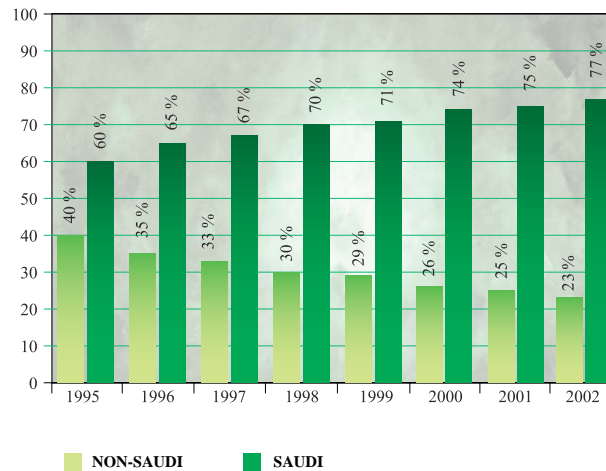
SABB recognises fully the importance of every member of its staff in furthering the business of your bank and in enhancing its status. Professionalism and dedication to the needs of customers are hallmarks of the Bank's employees and so attempts are made continuously to ensure enhancement of their capabilities through the provision of training, both in-house and outside the Bank, and educational courses at universities, colleges and schools, both in Saudi Arabia and overseas. Thus, in 2002, a total of 18,500 man-days training were fulfilled, inclusive of attachments outside the Bank.

As a professional financial institution such training opportunities are offered to all employees throughout their career with the Bank, thereby ensuring their ability to attain their own long-term aspirations whilst strengthening their position as integral members of the SABB team. To this end job profiling and career development and succession plans have been introduced and regular appraisals are undertaken using the balanced scorecard system. On-going improvements in these activities are integral to ensuring full recognition of all dedicated and well-qualified staff.

Recruitment drives, specifically of Saudi nationals, are also an important feature of the Bank's activities. Clerical staff are sought amongst secondary school and diploma students; some 200 university students join the Bank in the summer as part of their courses and participate fully in its activities, thus providing the opportunity for the Bank to select potential employees and for the students to recognise the opportunities provided by SABB; and each year a number of students are sponsored at local universities with the intention of seeking their recruitment on satisfactory completion of their studies. Mid-career executives are also sought with knowledge and experience gleaned in industry, commerce or other financial institutions in order to raise SABB's expertise and competence.

All ladies joining the Bank are also provided with high quality training, which addresses their specific needs.

**Saudisation Percentage and Growth**



## DIRECTORS

The Board of Directors of the Bank as at 31<sup>st</sup> December 2002 comprised:

- Mr. Abdullah Mohamed Al Hugail (Chairman)
- Mr. David Howard Hodgkinson (Managing Director)
- Mr. Khalid Sulaiman Olayan
- Mr. Fouad Abdulwahab Bahrawi
- Sir David Gore-Booth
- Mr. Khalid Abdullah Al Molhem
- Mr. Andrew Dixon, OBE
- Mr. David Dew
- Mr. Sulaiman Abdulkader Al Muhaidib
- Mr. Ahmed Sulaiman Banaja

The Saudi Directors, in their role as representatives of Saudi shareholders on the Board of Directors, commenced their three year terms of office on 1<sup>st</sup> January 2002.

## AUDIT COMMITTEE

The Saudi British Bank Audit Committee was formed in 1992. Reporting directly to the Board of Directors, the role of the Committee is to monitor the Bank's internal and external audit functions and to review control weaknesses and system deficiencies. It is responsible also for ensuring the highest quality of all financial information and concentrates on critical business issues to ensure that the Bank's external auditors and management focus on those areas of greatest risk to the business.



## DIRECTORS' REPORT (Continuation)

### DIRECTORS' REMUNERATION

Directors' fees for 2002 totalled SAR1,566,500, including SAR 306,500 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 2,453,112.

### DONATIONS

During the year the Bank made a number of donations to charitable societies and organisations. Given the Bank's continued commitment to charitable causes and the wider Saudi community, the Board recommends an amount of SAR 2,500,000 be allocated for this purpose for the coming year.

### AUDITORS

The Ordinary General Meeting held in March 2002 appointed Messrs. KPMG AlFozan & Banaga and Ernst & Young as the Bank's auditors.

### CONCLUSION

2002 proved to be another difficult year internationally although the economic situation in Saudi Arabia remained generally stable. In this environment your Bank has seen major developments to the ultimate benefit of customers and shareholders alike, a situation best expressed in the excellent results attained. Such achievements would not be possible, however, without the full support of numerous people and organisations within Saudi Arabia. The Board of Directors would, therefore, like to take this opportunity to express its appreciation and gratitude to the Bank's customers and shareholders for their continued confidence and support and to government departments, in particular the Ministry of Finance and National Economy, the Ministry of Commerce and the Saudi Arabian Monetary Agency, for their cooperation, encouragement and continuous support to the banking sector in Saudi Arabia and whose role has contributed so substantially to the growth of the Saudi economy under the direction of the Custodian of the Two Holy Mosques and the Crown Prince.

**NORTHERN  
PROVINCE**



## AUDITORS' REPORT

TO : THE SHAREHOLDERS OF THE SAUDI BRITISH BANK  
(SAUDI JOINT STOCK COMPANY)

We have audited the balance sheet of The Saudi British Bank as at 31 December 2002 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended including the related notes. These financial statements are the responsibility of the Bank's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

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

- present fairly, in all material respects, the financial position of The Saudi British Bank as of 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks 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 financial statements.

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Certified Public Accountant  
Registration No. 22



Riyadh: 15 Dhul Qadah 1423H  
18 January 2003

## BALANCE SHEET

As at 31 December	Notes	2002 SAR'000	2001 SAR'000
<b>ASSETS</b>			
Cash and balances with SAMA	3	3,124,005	1,710,181
Due from banks and other financial institutions	4	1,084,128	965,083
Investments, net	5	20,399,671	21,768,377
Loans and advances, net	6	20,359,184	16,020,421
Fixed assets, net	7	544,704	515,065
Other assets	8	714,817	941,618
<b>Total assets</b>		<b>46,226,509</b>	41,920,745
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	10	4,680,618	4,793,218
Customer deposits	11	34,980,134	31,538,793
Other liabilities	12	2,282,711	1,632,670
<b>Total liabilities</b>		<b>41,943,463</b>	37,964,681
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	2,000,000	2,000,000
Statutory reserve	14	2,000,000	1,807,541
Other reserves	15	126,380	71,911
Retained earnings		156,666	76,612
<b>Total shareholders' equity</b>		<b>4,283,046</b>	3,956,064
<b>Total liabilities and shareholders' equity</b>		<b>46,226,509</b>	41,920,745

The accompanying notes 1 to 38 form an integral part of these financial statements.

## STATEMENT OF INCOME

For the years ended 31 December	Notes	2002 SAR'000	2001 SAR'000
Special commission income	17	2,005,201	2,576,907
Special commission expense	17	559,261	1,228,819
<b>Net special commission income</b>		<b>1,445,940</b>	1,348,088
Fees from banking services, net	18	281,905	227,842
Exchange income		68,808	57,821
Trading income (loss)	19	3,525	(268)
Dividend income	20	2,471	7,398
Gains on investments, net	21	36,259	88,045
Other operating income	22	2,323	4,688
<b>Total operating income</b>		<b>1,841,231</b>	1,733,614
Salaries and employee related expenses		472,590	472,553
Rent and premises related expenses		43,694	41,348
Depreciation and amortisation	7	65,787	57,578
Other general and administrative expenses		158,911	151,507
Provision for possible credit losses	6	83,874	133,940
Impairment of other financial assets, net	5	27,695	44,200
Other operating expenses	23	16,219	2,323
<b>Total operating expenses</b>		<b>868,770</b>	903,449
<b>Net income</b>		<b>972,461</b>	830,165
<b>Earnings per share (in SAR)</b>	24	<b>24.31</b>	20.75

The accompanying notes 1 to 38 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Share capital SAR'000	Statutory reserve SAR'000	General reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Total SAR'000
<b>Year ended 31 December 2002</b>							
Balance as at 1 January 2002		2,000,000	1,807,541	-	71,911	76,612	3,956,064
Net income		-	-	-	-	972,461	972,461
Transfer to statutory reserve	14	-	192,459	-	-	(192,459)	-
Gross dividend	25	-	-	-	-	(664,800)	(664,800)
Net changes in fair value and cash flow hedges	15	-	-	-	54,469	(35,148)	19,321
<b>Balance as at 31 December 2002</b>		<b>2,000,000</b>	<b>2,000,000</b>	<b>-</b>	<b>126,380</b>	<b>156,666</b>	<b>4,283,046</b>
<b>Year ended 31 December 2001</b>							
Balance as at 1 January 2001		1,600,000	1,600,000	65,867	-	338,635	3,604,502
Effect of implementation of IAS 39 at 1 January 2001		-	-	-	1,046	96,626	97,672
Bonus share issue		400,000	-	(65,867)	-	(334,133)	-
Net income		-	-	-	-	830,165	830,165
Transfer to statutory reserve	14	-	207,541	-	-	(207,541)	-
Gross dividend	25	-	-	-	-	(581,600)	(581,600)
Net changes in fair value and cash flow hedges	15	-	-	-	70,865	(65,540)	5,325
<b>Balance as at 31 December 2001</b>		<b>2,000,000</b>	<b>1,807,541</b>	<b>-</b>	<b>71,911</b>	<b>76,612</b>	<b>3,956,064</b>

The accompanying notes 1 to 38 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

For the years ended 31 December	Note	2002 SAR'000	2001 SAR'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Net income</b>		<b>972,461</b>	830,165
<b>Adjustments to reconcile net income to net cash from used in operating activities:</b>			
Amortisation of premium and accretion of discounts on investments, net		<b>10,836</b>	(3,374)
Gains on investments		<b>(36,259)</b>	(88,045)
Depreciation and amortisation		<b>65,787</b>	57,578
Losses on disposal and impairment of fixed and other assets		<b>16,139</b>	2,323
Provision for possible credit losses		<b>83,874</b>	133,940
Impairment of other financial assets, net		<b>27,695</b>	44,200
		<b>1,140,533</b>	976,787
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposits with SAMA	3	<b>(154,881)</b>	(147,619)
Due from banks and other financial institutions after ninety days		<b>-</b>	286,380
Loans and advances		<b>(4,422,637)</b>	(290,965)
Other assets		<b>225,150</b>	212,900
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		<b>(112,600)</b>	(4,872,973)
Customer deposits		<b>3,441,341</b>	3,177,129
Other liabilities		<b>681,484</b>	(14,937)
<b>Net cash from (used in) operating activities</b>		<b>798,390</b>	(673,298)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of investments		<b>7,324,566</b>	4,955,387
Purchase of investments		<b>(5,938,811)</b>	(8,129,032)
Purchase of fixed assets		<b>(117,642)</b>	(80,609)
Proceeds from sale of fixed assets		<b>7,728</b>	7,258
<b>Net cash from (used in) investing activities</b>		<b>1,275,841</b>	(3,246,996)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividends paid		<b>(696,243)</b>	(640,488)
<b>Net cash used in financing activities</b>		<b>(696,243)</b>	(640,488)
<b>Increase (decrease) in cash and cash equivalents</b>		<b>1,377,988</b>	(4,560,782)
Cash and cash equivalents at the beginning of the year		<b>1,575,885</b>	6,136,667
<b>Cash and cash equivalents at the end of the year</b>	26	<b>2,953,873</b>	1,575,885
<b>Supplemental non-cash information</b>			
Net changes in fair value and cash flow hedges		<b>19,321</b>	102,997

The accompanying notes 1 to 38 form an integral part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

## 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 1398(H) (21 January 1978). The Bank formally commenced business on 26 Rajab 1398(H) (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 Dhuj Al Qidah 1399(H) (13 October 1979) as a commercial bank through a network of 64 branches (2001: 67 branches) in the Kingdom of Saudi Arabia and a branch in London (2001: 1). This excludes 12 (2001: 12) exclusive ladies sections. The Bank employed 2,093 staff as at 31 December 2002 (2001: 2,091). The Bank's Head Office is located at the following address:

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.

## 2. Significant Accounting Policies

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

### a) Basis of presentation

The Bank follows the accounting and reporting standards for commercial banks as prescribed by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards. The financial statements also comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, trading and available for sale investment securities. In addition, as explained fully in the related notes, assets and liabilities that are hedged (in a fair value hedging relationship) are carried at fair value to the extent of the risk being hedged.

The accounting policies are consistent with those used in the previous year.

### b) Trade date accounting

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

### c) Derivative financial instruments and 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 initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value in assets where the fair value is positive and in liabilities where the fair value is negative.

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

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to income for the period and are disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

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 forecasted transaction and firm commitment 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 hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognised in the 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 statement of income over the remaining life of the instrument.

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 initially in other reserves under shareholders' equity. The ineffective portion, if any, is recognised in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction or firm commitment results in the recognition of an asset or a liability, then at the time that the asset or liability is recognised, the associated gains or losses that had previously been recognised in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, gains or losses recognised initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument 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 statement of income for the period.

#### **d) Foreign currencies**

The financial statements are denominated in Saudi Riyals. Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing on the balance sheet date.

Realised and unrealised gains or losses on exchange are credited or charged to operating income.

#### **e) Offsetting**

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

#### **f) Revenue recognition**

Special commission income and expense are recognised in the income statement on an accrual basis and include the amortisation of premiums and discounts. Fees and exchange income from banking services are recognised when contractually earned. Dividend income is recognised when declared.

#### **g) Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with related accounting policies for trading securities, originated debt securities, available for sale and held to maturity investments. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customers deposits, as appropriate. The difference between the sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement. Assets purchased

# NOTES TO THE FINANCIAL STATEMENTS

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with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the 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 the purchase and resale prices is treated as special commission income and is accrued over the life of the reverse repo agreement.

## h) Investments

All investment securities are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. Premiums and discounts are amortised on an effective yield basis to their maturity and are taken to special commission income.

For securities that are traded in organised financial markets, fair value is determined by reference to exchange quoted market prices at the close of business on the balance sheet date.

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.

### i) Trading securities

Securities, which are held for trading, are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period in which it arises.

### ii) Available for sale

Investments, which are classified as “available for sale”, are subsequently measured at fair value. For available for sale investments where fair value has not been hedged, any gain or loss arising from a change in their fair value is recognised directly in other reserves under shareholders’ equity until the investments are derecognised or impaired, at which time the cumulative gain or loss previously recognised in shareholders’ equity is included in the statement of income for the period. Available for sale investments where fair value cannot be reliably measured are carried at amortised cost.

### iii) Originated debt securities

Securities, which are purchased directly from the issuer other than those purchased with the intent to be sold immediately or in the short term, are classified as originated debt securities. Originated debt securities where fair value has not been hedged are stated at amortised cost, less provision for impairment in their value. Any gain or loss is recognised in the statement of income when the investment is derecognised or impaired.

### iv) Held to maturity

Investments which have fixed or determinable payment dates and which are intended to be held to maturity, are subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

## i) Loans and advances

All loans and advances are initially measured at cost.

Loans and advances, which are held for trading, are subsequently measured at fair value, and gains or losses arising from changes in fair value are included in the statement of income in the period in which they arise.

Loans and advances originated by the bank for which fair value has not been hedged and acquired loans that are to be held to maturity are stated at cost less any amount written off and provisions for impairment.

Loans and advances, which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value, and gains or losses arising from changes in fair value are recognised directly in other reserves under shareholders’ equity until the loans or advances are de-recognised or impaired, at which time the cumulative gain or loss previously recognised in shareholders’ equity is included in the statement of income for the period.

A loan is classified as impaired when, in the management's opinion, there has been a deterioration in the credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of the principal and special commission. Provisions for possible credit losses are based upon the management's assessment of the adequacy of the provisions on a periodic basis. The assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectibility of the outstanding loans and advances.

For presentation purposes, provisions for possible credit losses are deducted from loans and advances to customers.

#### **j) 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 a 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 amount as follows:

- i) For financial assets at amortised cost - the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and
- ii) For financial assets at fair value - where a loss has been recognised directly under shareholders' equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised in shareholders' equity is transferred to the statement of income.

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.

Specific provisions are evaluated for all the different types of loans and advances, whereas additional provisions are evaluated on a group basis.

In addition to specific provisions for impaired loans and advances, an additional provision is created for probable losses where there is objective evidence that potential losses are present at the balance sheet date. These are estimated based upon credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate as the well as the experience and the historical default patterns that are embedded in the components of the credit portfolio.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

#### **k) Other real estate**

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is stated at the lower of net realisable value of due loans and advances or the current fair value of the related properties. Properties are revalued on a periodic basis and unrealised losses on revaluation and losses or gains on disposal are charged or credited to operating income.

#### **l) Fixed assets**

Fixed assets are stated at cost net of accumulated depreciation and amortisation. Freehold land is not depreciated. The cost of other fixed assets is depreciated and amortised using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the period of lease contracts
Equipment and furniture	6 to 10 years
Motor vehicles	4 years

#### **m) Deposits and money market placements**

All money market deposits and placements, and customer deposits, are initially recognised at cost, being the fair value of the consideration received. Subsequently all special commission bearing deposits, and money market placements other than those

# NOTES TO THE FINANCIAL STATEMENTS

(Continuation)

held for trading or where fair values have been hedged, are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Premiums and discounts are amortised on a systematic basis to maturity and are taken to special commission income or expense.

Deposits and money market placements, which are held for trading, are subsequently measured at fair value and any gain or loss from a change in fair value is included in the statement of income in the period in which it arises. Deposits and money market placements for which there is an associated fair value relationship are adjusted for fair value to the extent hedged, and the resultant gain or loss is recognised in the statement of income. For deposits and money market placements carried at amortised cost, any gain or loss is recognised in the statement of income when derecognised or impaired.

## n) Accounting for leases

### i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### ii) Where the Bank is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognised as receivables and is disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

## o) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash, balances with SAMA, excluding statutory deposits, and due from banks and financial institutions maturing within ninety days.

## 3. Cash and balances with SAMA

	2002 SAR'000	2001 SAR'000
Cash in hand	344,745	286,101
Statutory deposit	1,254,260	1,099,379
Reverse repos	1,164,951	-
Other balances	360,049	324,701
<b>Total</b>	<b>3,124,005</b>	<b>1,710,181</b>

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank maintains statutory deposit with the Saudi Arabian Monetary Agency (SAMA) at stipulated percentages of its demand, time and other deposits, calculated at the end of each month.

## 4. Due from banks and other financial institutions

	2002 SAR'000	2001 SAR'000
Current accounts	196,335	96,959
Money market placements	887,793	868,124
<b>Total</b>	<b>1,084,128</b>	<b>965,083</b>

## 5. Investments, net

### a) Available for sale

	Domestic		International		Total	
	2002 SAR'000	2001 SAR'000	2002 SAR'000	2001 SAR'000	2002 SAR'000	2001 SAR'000
Fixed rate securities	1,409,129	3,148,332	527,380	937,624	1,936,509	4,085,956
Floating rate notes	5,714,887	7,726,972	4,729,965	4,622,766	10,444,852	12,349,738
Equities	37,840	87,659	4,198	377	42,038	88,036
Other	55,413	53,999	-	-	55,413	53,999
Available for sale investments, gross	7,217,269	11,016,962	5,261,543	5,560,767	12,478,812	16,577,729
Accumulated provision for impairment	(985)	-	(70,910)	(44,200)	(71,895)	(44,200)
<b>Available for sale investments, net</b>	<b>7,216,284</b>	<b>11,016,962</b>	<b>5,190,633</b>	<b>5,516,567</b>	<b>12,406,917</b>	<b>16,533,529</b>

### b) Originated debt securities

	Domestic		International		Total	
	2002 SAR'000	2001 SAR'000	2002 SAR'000	2001 SAR'000	2002 SAR'000	2001 SAR'000
Fixed rate securities	5,958,606	5,234,848	97,553	-	6,056,159	5,234,848
Floating rate notes	-	-	1,199,958	-	1,199,958	-
<b>Originated debt securities</b>	<b>5,958,606</b>	<b>5,234,848</b>	<b>1,297,511</b>	<b>-</b>	<b>7,256,117</b>	<b>5,234,848</b>

### c) Held to maturity

	Domestic		International		Total	
	2002 SAR'000	2001 SAR'000	2002 SAR'000	2001 SAR'000	2002 SAR'000	2001 SAR'000
Fixed rate securities	736,637	-	-	-	736,637	-
<b>Held to maturity investments</b>	<b>736,637</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>736,637</b>	<b>-</b>
<b>Investments, net</b>	<b>13,911,527</b>	<b>16,251,810</b>	<b>6,488,144</b>	<b>5,516,567</b>	<b>20,399,671</b>	<b>21,768,377</b>

### d) The analysis of the composition of investment securities is as follows:

	2002		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	624,933	8,104,372	8,729,305
Floating rate notes	4,823,634	6,821,176	11,644,810
Equities	27,977	14,061	42,038
Other	55,413	-	55,413
Accumulated provision for impairment	(70,910)	(985)	(71,895)
<b>Investments, net</b>	<b>5,461,047</b>	<b>14,938,624</b>	<b>20,399,671</b>

Unquoted investments include securities of SAR 13,819.3 million issued by the Saudi Arabian Government and its agencies.

# NOTES TO THE FINANCIAL STATEMENTS

(Continuation)

e) The analysis of unrealised gains and losses and fair values of originated debt securities net of hedging, and held to maturity investments, is as follows:

	2002 SAR'000				2001 SAR'000			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
<b>Originated debt securities</b>								
Fixed rate securities	6,056,159	375,915	-	6,432,074	5,234,848	86,666	(2,221)	5,319,293
Floating rate notes	1,199,958	343	(1,053)	1,199,248	-	-	-	-
<b>Total</b>	<b>7,256,117</b>	<b>376,258</b>	<b>(1,053)</b>	<b>7,631,322</b>	<b>5,234,848</b>	<b>86,666</b>	<b>(2,221)</b>	<b>5,319,293</b>

	2002 SAR'000				2001 SAR'000			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
<b>Held to maturity investments</b>								
Fixed rate securities	736,637	53,179	-	789,816	-	-	-	-
<b>Total</b>	<b>736,637</b>	<b>53,179</b>	<b>-</b>	<b>789,816</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

	2002 SAR'000
Government and quasi Government	16,770,395
Corporate	1,507,226
Banks and other financial institutions	2,066,637
Other	55,413
<b>Total</b>	<b>20,399,671</b>

Equities reported under available for sale investments include unquoted shares at SAR 13.1 million (2001: SAR 10.2 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR 4,115.4 million (2001: SAR 3,425.7 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 4,132.3 million (2001: SAR 3,522.9 million). Retained earnings as at 31 December 2002 include SAR 28.2 million (2001: SAR 42.9 million) relating to available for sale investments due to the effect of the implementation of IAS 39, which will be transferred to the statement of income upon realisation.

## 6. Loans and advances, net

### a) Originated loans and advances

	2002 SAR'000	2001 SAR'000
These are comprised of the following:		
Performing:		
Overdrafts	2,853,636	1,740,725
Credit cards	413,220	461,034
Commercial loans	11,924,675	9,671,949
Consumer loans	3,877,260	3,042,634
Others	762,494	199,532
Performing loans and advances, gross	19,831,285	15,115,874
Non-performing loans and advances, net	424,545	525,045
	20,255,830	15,640,919
Provision for possible credit losses	(564,816)	(565,474)
<b>Originated loans and advances, net</b>	<b>19,691,014</b>	<b>15,075,445</b>

### b) Held to maturity loans and advances

	2002 SAR'000	2001 SAR'000
These are comprised of the following:		
Performing:		
Commercial loans	668,170	944,976
<b>Held to maturity loans and advances</b>	<b>668,170</b>	<b>944,976</b>
<b>Loans and advances, net</b>	<b>20,359,184</b>	<b>16,020,421</b>

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 198.2 million (2001: SAR 190.4 million).

### c) Movements in provision for possible credit losses are as follows:

	2002 SAR'000	2001 SAR'000
Balance, at the beginning of the year	565,474	534,788
Effect of implementation of IAS 39 at 1 January 2001	-	40,857
Provided during the year	118,304	158,998
Bad debts written off	(85,049)	(146,156)
Recoveries of amounts previously provided	(16,234)	(9,412)
Special commission income on impaired loans	(17,679)	(13,601)
<b>Balance, at the end of the year</b>	<b>564,816</b>	<b>565,474</b>

The net charge to income on account of provision for possible credit losses is SAR 83.9 million (2001: SAR 133.9 million), which includes recoveries of amounts previously provided as shown above and recoveries of debts previously written off of SAR 18.2 million (2001: SAR 15.6 million).



# NOTES TO THE FINANCIAL STATEMENTS

(Continuation)

d) Economic sector risk concentrations for the loans and advances and provision for possible credit losses, as at 31 December 2002, are as follows:

2002	Performing SAR'000	Non- performing, net SAR'000	Credit loss provision SAR'000	Loans and advances, net SAR'000
Government and quasi Government	157,007	-	-	157,007
Banks and financial institutions	318,439	-	-	318,439
Agriculture and fishing	309,780	1,714	(5,745)	305,749
Manufacturing	3,736,408	294,754	(336,323)	3,694,839
Mining and quarrying	54,141	-	-	54,141
Electricity, water, gas and health services	387,063	-	-	387,063
Building and construction	734,523	23,396	(35,880)	722,039
Commerce	4,427,802	52,050	(47,293)	4,432,559
Transportation and communication	586,448	9,435	(3,929)	591,954
Services	2,085,007	3,170	(3,171)	2,085,006
Consumer loans and credit cards	4,290,480	18,952	(42,633)	4,266,799
Others	3,412,357	21,074	(19,390)	3,414,041
General provision	-	-	(70,452)	(70,452)
<b>Loans and advances</b>	<b>20,499,455</b>	<b>424,545</b>	<b>(564,816)</b>	<b>20,359,184</b>

The credit loss provisions include provisions made against non-performing off-balance sheet facilities. The credit loss provision on the consumer loans and advances is calculated on a portfolio basis.

Economic sector risk concentrations for the loans and advances prior to provision for possible credit losses, as at 31 December 2001, are as follows:

2001	SAR'000
Government and quasi Government	292,548
Banks and financial institutions	502,258
Agriculture and fishing	288,514
Manufacturing	3,966,779
Mining and quarrying	56,825
Electricity, water, gas and health services	419,433
Building and construction	622,777
Commerce	4,026,472
Transportation and communication	459,887
Services	1,552,423
Consumer loans and credit cards	3,419,362
Others	1,169,030
<b>Loans and advances</b>	<b>16,776,308</b>

## 7. Fixed assets, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Equipment, furniture and vehicles SAR'000	Total SAR'000
<b>Cost</b>				
As at 1 January 2002	563,528	122,739	320,061	1,006,328
Additions	28,206	40,698	48,738	117,642
Disposals	(22,266)	(4)	(49,411)	(71,681)
<b>As at 31 December 2002</b>	<b>569,468</b>	<b>163,433</b>	<b>319,388</b>	<b>1,052,289</b>
<b>Accumulated depreciation</b>				
As at 1 January 2002	204,937	85,681	200,645	491,263
Charge for the year	13,909	17,901	33,977	65,787
Impairment charge	3,000	-	-	3,000
Disposals	(14,569)	(2)	(37,894)	(52,465)
<b>As at 31 December 2002</b>	<b>207,277</b>	<b>103,580</b>	<b>196,728</b>	<b>507,585</b>
<b>Net book value</b>				
<b>As at 31 December 2002</b>	<b>362,191</b>	<b>59,853</b>	<b>122,660</b>	<b>544,704</b>
As at 31 December 2001	358,591	37,058	119,416	515,065

Land and buildings and leasehold improvements include work in progress as at 31 December 2002 amounting to SAR 13.5 million (2001: SAR 2.1 million) and SAR 25.4 million (2001: SAR 2.0 million), respectively. Equipment, furniture and vehicles include information technology related assets.

## 8. Other assets

	2002 SAR'000	2001 SAR'000
Accrued special commission income - banks and other financial institutions	1,079	6,986
Accrued special commission income - investments	196,902	228,073
Accrued special commission income - loans and advances	122,559	123,714
<b>Total accrued special commission income</b>	<b>320,540</b>	<b>358,773</b>
Accounts receivable	44,664	82,234
Other real estate	128,613	130,213
Positive fair value of derivatives (Note 9)	163,217	298,552
Other	57,783	71,846
<b>Total</b>	<b>714,817</b>	<b>941,618</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Continuation)

## 9. Derivatives

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

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.

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.

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.

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 fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

### Derivatives held for trading purposes

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

### Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange 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 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 established 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 reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own 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 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 details of the hedged items and hedging instrument 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, together with the notional amounts as at 31 December, analysed by the term to maturity and 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 credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

## Notional amounts by term to maturity 2002 (SAR'000)

	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
<b>Derivatives held for trading:</b>								
Special commission rate swaps	90,632	(82,102)	2,952,500	1,305,000	1,347,500	300,000	-	3,830,626
Forward rate agreements	-	-	-	-	-	-	-	62,500
Special commission rate options	15,938	(15,938)	1,500,000	-	1,500,000	-	-	250,000
Spot and forward foreign exchange contracts	52,868	(98,570)	17,601,150	8,020,458	9,412,158	168,534	-	19,946,001
Currency options	3,779	(3,779)	360,276	360,276	-	-	-	350,376
<b>Derivatives held as fair value hedges:</b>								
Special commission rates swaps	-	(34,258)	742,389	400,000	167,500	-	174,889	852,871
<b>Derivatives held as cash flow hedges:</b>								
Currency swaps	-	(2,363)	15,809	-	-	15,809	-	67,775
<b>Total</b>	<b>163,217</b>	<b>(237,010)</b>	<b>23,172,124</b>	<b>10,085,734</b>	<b>12,427,158</b>	<b>484,343</b>	<b>174,889</b>	<b>25,360,149</b>

## Notional amounts by term to maturity 2001 (SAR'000)

	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years
<b>Derivatives held for trading:</b>							
Special commission rate swaps	181,907	(165,456)	4,956,250	100,000	2,016,250	2,840,000	-
Forward rate agreements	110	(125)	150,000	-	150,000	-	-
Special commission rate options	-	-	-	-	-	-	-
Spot and forward foreign exchange contracts	115,464	(43,270)	31,957,942	21,104,356	10,800,085	53,501	-
Currency options	314	(314)	52,422	41,212	11,210	-	-
<b>Derivatives held as fair value hedges:</b>							
Special commission rates swaps	491	(44,658)	1,899,546	906,250	100,000	710,000	183,296
<b>Derivatives held as cash flow hedges:</b>							
Currency swaps	266	(7,773)	156,627	-	116,671	39,956	-
<b>Total</b>	<b>298,552</b>	<b>(261,596)</b>	<b>39,172,787</b>	<b>22,151,818</b>	<b>13,194,216</b>	<b>3,643,457</b>	<b>183,296</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Continuation)

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

Description of hedged items	Fair Value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
<b>2002 (SAR'000)</b>						
Fixed special commission rate investments	17,746	15,809	Cash flow	Currency swap	-	(2,363)
Fixed special commission rate investments	768,421	742,309	Fair value	Special commission rate swap	-	(34,258)
<b>2001 (SAR'000)</b>						
Fixed special commission rate investments	164,917	156,442	Cash flow	Currency swap	266	(7,773)
Fixed special commission rate investments	1,496,496	1,427,801	Fair value	Special commission rate swap	491	(43,654)
Fixed special commission rate loans	470,324	468,750	Fair value	Special commission rate swap	-	(1,004)

Approximately 95% (2001: 95%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 31% (2001: 32%) of the total of the positive fair value contracts are with any single counterparty at the balance sheet date.

## 10. Due to banks and other financial institutions

	2002 SAR'000	2001 SAR'000
Current accounts	314,100	226,805
Money market deposits	4,366,518	4,566,413
<b>Total</b>	<b>4,680,618</b>	<b>4,793,218</b>

Money market deposits include deposits against sales of securities of SAR 1,295.3 million (2001: SAR 758.9 million) with agreement to repurchase the same at fixed future dates.

## 11. Customer deposits

	2002 SAR'000	2001 SAR'000
Demand	13,943,508	11,002,256
Savings	1,221,911	1,229,119
Time	19,511,820	19,034,746
Others	302,895	272,672
<b>Total</b>	<b>34,980,134</b>	<b>31,538,793</b>

Time deposits include deposits against sales of securities of SAR 2,820.1 million (2001: SAR 2,666.8 million) with agreement to repurchase the same at fixed future dates. Other customer deposits include SAR 295.9 million (2001: SAR 231.6 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2002 SAR'000	2001 SAR'000
Demand	1,365,202	1,422,098
Savings	131,967	140,595
Time	7,946,854	7,338,477
Other	100,737	53,364
<b>Total</b>	<b>9,544,760</b>	<b>8,954,534</b>

## 12. Other liabilities

	2002 SAR'000	2001 SAR'000
Accrued special commission expense - banks and other financial institutions	16,614	42,028
Accrued special commission expense - customer deposits	91,565	155,374
<b>Total accrued special commission expense</b>	<b>108,179</b>	<b>197,402</b>
Accounts payable	339,660	282,745
Negative fair value of derivatives (Note 9)	237,010	261,596
Proposed gross final dividend	332,400	370,800
Subscriptions received for the Saudi Telecom IPO	519,234	-
Other	746,228	520,127
<b>Total</b>	<b>2,282,711</b>	<b>1,632,670</b>

## 13. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 40 million shares of SAR 50 each (2001: 40 million shares of SAR 50 each). The ownership of the Bank's share capital is as follows:

	2002	2001
Saudi shareholders	60%	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	40%	40%

## 14. Statutory reserve

In accordance with 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, SAR 192.5 million has been transferred from 2002 net income (2001: SAR 207.5 million). The statutory reserve is not currently available for distribution.

# NOTES TO THE FINANCIAL STATEMENTS

(Continuation)

## 15. Other reserves

	Cash flow hedges SAR'000	Available for sale investments SAR'000	Total SAR'000
<b>2002</b>			
Balance as at 1 January 2002	968	70,943	71,911
Net change in fair value	(3,790)	77,985	74,195
Transfer to statement of income	4,759	(24,485)	(19,726)
Net movement during the year	969	53,500	54,469
<b>Balance as at 31 December 2002</b>	<b>1,937</b>	<b>124,443</b>	<b>126,380</b>

	Cash flow hedges SAR'000	Available for sale investments SAR'000	Total SAR'000
<b>2001</b>			
Balance as at 1 January 2001	-	-	-
Effect of implementation of IAS39 at 1 January 2001	1,046	-	1,046
	1,046	-	1,046
Net change in fair value	(78)	115,143	115,065
Transfer to statement of income	-	(44,200)	(44,200)
Net movement during the year	(78)	70,943	70,865
<b>Balance as at 31 December 2001</b>	<b>968</b>	<b>70,943</b>	<b>71,911</b>

## 16. Commitments and contingencies

### a) Legal proceedings

As at 31 December 2002 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

As at 31 December 2002 the Bank has capital commitments of SAR 51.6 million (2001: SAR 117.8 million) in respect of buildings and equipment purchases.

### c) Credit related commitments and contingencies

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

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

i) The maturity structure for the Bank's commitments and contingencies is as follows:

<b>2002 (SAR'000)</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Letters of credit	2,024,620	543,636	44,845	-	2,613,101
Guarantees	1,380,817	1,564,731	682,313	46,559	3,674,420
Acceptances	828,452	393,276	203,666	-	1,425,394
Firm commitments to extend credit	157,500	101,286	701,831	121,853	1,082,470
<b>Total</b>	<b>4,391,389</b>	<b>2,602,929</b>	<b>1,632,655</b>	<b>168,412</b>	<b>8,795,385</b>

<b>2001 (SAR'000)</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Letters of credit	1,902,726	613,259	44,122	-	2,560,107
Guarantees	918,414	1,909,272	638,236	-	3,465,922
Acceptances	674,275	176,263	23,849	-	874,387
Firm commitments to extend credit	15,880	410,000	342,204	103,904	871,988
<b>Total</b>	<b>3,511,295</b>	<b>3,108,794</b>	<b>1,048,411</b>	<b>103,904</b>	<b>7,772,404</b>

The unutilised portion of non-firm commitments, which can be revoked at any time, is SAR 15,580.3 million (2001: SAR 15,748.0 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

	<b>2002 SAR'000</b>
Government and quasi Government	1,561
Corporate	7,773,902
Banks and other financial institutions	911,073
Other	108,849
<b>Total</b>	<b>8,795,385</b>



# NOTES TO THE FINANCIAL STATEMENTS

(Continuation)

## d) Operating lease commitments

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

	2002 SAR'000	2001 SAR'000
Less than 1 year	20,438	22,206
1 to 5 years	46,005	45,769
Over 5 years	22,708	25,384
<b>Total</b>	<b>89,151</b>	<b>93,359</b>

## 17. Net special commission income

	2002 SAR'000	2001 SAR'000
<b>Special commission income</b>		
Trading securities	-	1,931
Available for sale investments	484,203	859,719
Originated debt securities	330,054	251,462
Held to maturity investments	33,521	-
Investments	847,778	1,113,112
Money market placements	45,279	197,476
Loans and advances	1,112,144	1,266,319
<b>Total</b>	<b>2,005,201</b>	<b>2,576,907</b>
<b>Special commission expense</b>		
Money market deposits	113,028	287,739
Customer deposits	446,233	941,080
<b>Total</b>	<b>559,261</b>	<b>1,228,819</b>
<b>Net special commission income</b>	<b>1,445,940</b>	<b>1,348,088</b>

## 18. Fees from banking services, net

	2002 SAR'000	2001 SAR'000
Fee income	346,095	267,345
Fee expenses	(64,190)	(39,503)
<b>Fees from banking services, net</b>	<b>281,905</b>	<b>227,842</b>

**19. Trading income (loss)**

	<b>2002 SAR'000</b>	2001 SAR'000
Debt instruments	<b>93</b>	3,970
Derivatives	<b>3,432</b>	(4,238)
<b>Total</b>	<b>3,525</b>	(268)

**20. Dividend income**

	<b>2002 SAR'000</b>	2001 SAR'000
Available for sale investments	<b>2,471</b>	7,398

**21. Gains on investments, net**

	<b>2002 SAR'000</b>	2001 SAR'000
Available for sale investments	<b>30,940</b>	65,396
Originated debt securities	<b>5,319</b>	22,649
<b>Total</b>	<b>36,259</b>	88,045

**22. Other operating income**

	<b>2002 SAR'000</b>	2001 SAR'000
Gains on disposal of fixed assets	<b>80</b>	-
Other	<b>2,243</b>	4,688
<b>Total</b>	<b>2,323</b>	4,688

**23. Other operating expenses**

	<b>2002 SAR'000</b>	2001 SAR'000
Loss on disposal of fixed assets	<b>11,568</b>	2,323
Impairment of fixed assets	<b>3,000</b>	-
Other	<b>1,651</b>	-
<b>Total</b>	<b>16,219</b>	2,323

# NOTES TO THE FINANCIAL STATEMENTS

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## 24. Earnings per share

Basic earnings per share are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year. A 1:4 share bonus issue was approved in the Annual General Meeting held on 13 March 2001. The calculation of basic earnings per share for 2001 has been retroactively adjusted to give effect to the issuance of bonus shares in 2001.

## 25. Gross dividend, zakat and income tax

	2002 SAR'000	2001 SAR'000
<b>Gross dividend</b>		
Interim	332,400	210,800
Final	332,400	370,800
<b>Total</b>	<b>664,800</b>	581,600

### Zakat

Zakat attributable to the Saudi shareholders for the year amounted to SAR 15.0 million (2001: SAR 13.0 million), which is deductible from their share of the dividend, resulting in a net dividend to the Saudi shareholders of SAR 16 per share (2001: SAR 14 per share).

### Income tax

Under the provision of the Ministry of Finance and National Economy Decree No. 3/918 dated 20/5/1412H (26/11/1991G) as subsequently amended by Decree No. 3/1399 dated 27/5/1413H (23/11/1992G), the income tax payable in respect of the liability of the non Saudi shareholder on their current year's share of income is SAR 121.7 million (2001: SAR 100.3 million), restricted to 75% of their share of the cash dividend for the year. Any income tax liability in excess of 75% of their share of the dividend will be carried forward and settled in the future in accordance with the applicable limit.

## 26. Cash and cash equivalents

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

	2002 SAR'000	2001 SAR'000
Cash and balances with SAMA excluding statutory deposits (Note 3)	1,869,745	610,802
Due from banks within ninety days	1,084,128	965,083
<b>Total</b>	<b>2,953,873</b>	1,575,885

## 27. Business segments

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

**Personal Banking** - which caters primarily to the personal banking requirements of individuals.

**Corporate Banking** - which is responsible for products and services required by corporate entities.

**Treasury** - which manages the Bank's trading and investment portfolios and the Bank's liquidity, currency and special commission rate risks.

**Other** - comprises investment banking and other residual business as well as central services and pool funds.

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 2002 and 2001, its total operating income and expenses, and the net income for the years then ended, by business segment, are as follows:

<b>2002</b> <b>SAR'000</b>	<b>Personal Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Others</b>	<b>Total</b>
<b>Total assets</b>	<b>6,072,971</b>	<b>14,067,907</b>	<b>20,005,850</b>	<b>6,079,781</b>	<b>46,226,509</b>
<b>Total liabilities</b>	<b>15,930,984</b>	<b>7,892,443</b>	<b>12,205,119</b>	<b>10,197,963</b>	<b>46,226,509</b>
<b>Total operating income</b>	<b>791,091</b>	<b>332,295</b>	<b>309,411</b>	<b>408,434</b>	<b>1,841,231</b>
<b>Total operating expenses</b>	<b>529,328</b>	<b>175,274</b>	<b>70,005</b>	<b>94,163</b>	<b>868,770</b>
<b>Net income</b>	<b>261,763</b>	<b>157,021</b>	<b>239,406</b>	<b>314,271</b>	<b>972,461</b>

<b>2001</b> <b>SAR'000</b>	<b>Personal Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Others</b>	<b>Total</b>
Total assets	4,705,165	11,826,779	21,108,131	4,280,670	41,920,745
Total liabilities	14,035,514	6,953,399	11,689,045	9,242,787	41,920,745
Total operating income	760,632	301,938	252,863	418,181	1,733,614
Total operating expenses	539,533	202,067	85,599	76,250	903,449
Net income	221,099	99,871	167,264	341,931	830,165

**b) The Bank's credit exposure by business segment, as at 31 December 2002, is as follows:**

	<b>Personal Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Others</b>	<b>Total</b>
Balance sheet assets	<b>5,502,159</b>	<b>14,030,457</b>	<b>20,005,705</b>	<b>5,798,739</b>	<b>45,337,060</b>
Commitments and contingencies	<b>27,408</b>	<b>3,029,342</b>	<b>-</b>	<b>-</b>	<b>3,056,750</b>
Derivatives	<b>-</b>	<b>-</b>	<b>335,169</b>	<b>-</b>	<b>335,169</b>
<b>Total</b>	<b>5,529,567</b>	<b>17,059,799</b>	<b>20,340,874</b>	<b>5,798,739</b>	<b>48,728,979</b>

Credit exposure comprises the carrying value of balance sheet assets excluding cash and fixed assets, and the credit equivalent value for commitments, contingencies and derivatives.

## 28. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation causing financial loss. The Bank controls credit risk by monitoring credit exposures, limiting the transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition, the Bank manages the credit exposure relating to its derivative activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate risk.

Concentrations of credit risk arise when a number of counter parties 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

## NOTES TO THE FINANCIAL STATEMENTS

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similarly affected by changes in economic, political or other conditions. The Bank manages its concentration of credit risk exposure through diversification of its lending portfolio in terms of country, industry sector, and single borrower exposures. The Bank also takes security when appropriate.

The Credit and Risk function is mandated to provide centralised management of credit risk. Credit and Risk is headed by a General Manager, and its responsibilities include the following:

- Establishment of credit policies and procedures which are embodied within standards, the compliance of which is monitored by Credit and Risk.
- Establishment and maintenance of a large credit exposures policy, which sets controls on the level of exposure to customers, customer groups, and other risk concentrations.
- An independent review and objective assessment of all credit facilities over designated limits.
- Maintenance of the grading process. The Bank's grading structure in respect of the credit risk of customers contains seven grades, of which the first three are applied to different levels of satisfactory risk, and the last two relate to non-performing loans and advances. In respect of bank counterparties, the grading structure has nine tiers, of which the first five cover satisfactory risk. Facility grades are subject to frequent review and, where considered necessary, amendments are required to be undertaken promptly.
- Reporting on aspects of the loan portfolio. Reports are produced for senior management, including the Executive Committee, the Audit Committee, and the Board of Directors.

The debt instruments included in the investment portfolio are mainly sovereign risk. An analysis of investments by counterparty is provided in note 5.

The composition of loans and advances is provided in note 6. Information on credit risk relating to derivative instruments is set out in note 9 and for commitments and contingencies is included in note 16.

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

- a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies, and credit exposure, is as follows:

2002 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
<b>Assets</b>						
Cash and balances with SAMA	3,104,407	-	6,280	13,318	-	3,124,005
Due from banks and other financial institutions	-	58,870	1,012,938	7,351	4,969	1,084,128
Investments, net	13,911,815	292,747	2,201,250	2,961,176	1,032,683	20,399,671
Loans and advances, net	19,211,423	475,911	635,514	-	36,336	20,359,184
<b>Total</b>	<b>36,227,645</b>	<b>827,528</b>	<b>3,855,982</b>	<b>2,981,845</b>	<b>1,073,988</b>	<b>44,966,988</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	1,590,700	711,396	1,940,470	430,888	7,164	4,680,618
Customer deposits	34,895,458	6,182	75,415	-	3,079	34,980,134
<b>Total</b>	<b>36,486,158</b>	<b>717,578</b>	<b>2,015,885</b>	<b>430,888</b>	<b>10,243</b>	<b>39,660,752</b>
<b>Commitments and contingencies</b>	<b>7,942,388</b>	<b>262,035</b>	<b>237,813</b>	<b>53,895</b>	<b>299,254</b>	<b>8,795,385</b>
<b>Credit exposure</b>						
Balance sheet assets	36,600,915	827,528	3,852,784	2,981,845	1,073,988	45,337,060
Commitments and contingencies	2,727,593	106,029	109,384	26,589	87,155	3,056,750
Derivatives	100,821	21,198	142,356	68,932	1,862	335,169
<b>Total</b>	<b>39,429,329</b>	<b>954,755</b>	<b>4,104,524</b>	<b>3,077,366</b>	<b>1,163,005</b>	<b>48,728,979</b>

2001 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
<b>Assets</b>						
Cash and balances with SAMA	1,698,378	-	3,262	8,541	-	1,710,181
Due from banks and other financial institutions	322,000	89,038	109,016	16,130	428,899	965,083
Investments, net	16,253,896	383,062	1,065,060	3,028,745	1,037,614	21,768,377
Loans and advances, net	14,935,076	652,648	432,697	-	-	16,020,421
<b>Total</b>	<b>33,209,350</b>	<b>1,124,748</b>	<b>1,610,035</b>	<b>3,053,416</b>	<b>1,466,513</b>	<b>40,464,062</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	2,299,047	372,406	1,914,291	129,685	77,789	4,793,218
Customer deposits	31,463,494	3,319	71,301	-	679	31,538,793
<b>Total</b>	<b>33,762,541</b>	<b>375,725</b>	<b>1,985,592</b>	<b>129,685</b>	<b>78,468</b>	<b>36,332,011</b>
<b>Commitments and contingencies</b>	<b>6,663,415</b>	<b>210,580</b>	<b>466,683</b>	<b>62,902</b>	<b>368,824</b>	<b>7,772,404</b>

Balances shown in due to banks and other financial institutions under the Kingdom of Saudi Arabia include money market deposits of SAR 150 million (2001: SAR 500 million) on account of the foreign branches of local banks.

- b) The distribution by geographical concentration of non-performing loans and advances and provision for possible credit losses is as follows:

	2002 (SAR'000)	
	Non-performing loans, net	Provision for possible credit losses
Kingdom of Saudi Arabia	424,545	564,816
<b>Total</b>	<b>424,545</b>	<b>564,816</b>

### 30. 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. The Bank had the following significant net exposures denominated in foreign currencies:

	2002 SAR'000 Long (short)	2001 SAR'000 Long (short)
US Dollar	(556,031)	(659,000)
Euro	3,649	567
Pounds Sterling	454	(1,058)
Other	1,750	131

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## 31. 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 of the contractual re-pricing 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 re-price or mature in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

2002 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total	Effective rate %
<b>Assets</b>							
Cash and balances with SAMA	1,164,951	-	-	-	1,959,054	3,124,005	0.6
Due from banks and other financial institutions	887,793	-	-	-	196,335	1,084,128	1.0
Investments, net	10,361,801	2,733,794	4,625,234	2,417,507	261,335	20,399,671	4.3
Loans and advances, net	12,135,662	3,407,088	4,816,434	-	-	20,359,184	5.6
Fixed assets, net	-	-	-	-	544,704	544,704	-
Other assets	-	-	-	-	714,817	714,817	-
<b>Total assets</b>	<b>24,550,207</b>	<b>6,140,882</b>	<b>9,441,668</b>	<b>2,417,507</b>	<b>3,676,245</b>	<b>46,226,509</b>	<b>-</b>
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions	2,786,546	1,579,972	-	-	314,100	4,680,618	2.0
Customer deposits	16,430,213	4,295,774	199,417	-	14,054,730	34,980,134	1.4
Other liabilities	-	-	-	-	2,282,711	2,282,711	-
Shareholders' equity	-	-	-	-	4,283,046	4,283,046	-
<b>Total liabilities and shareholders' equity</b>	<b>19,216,759</b>	<b>5,875,746</b>	<b>199,417</b>	<b>-</b>	<b>20,934,587</b>	<b>46,226,509</b>	<b>-</b>
<b>On balance sheet gap</b>	<b>5,333,448</b>	<b>265,136</b>	<b>9,242,251</b>	<b>2,417,507</b>	<b>(17,258,342)</b>	<b>-</b>	
<b>Off balance sheet gap</b>	<b>(165,000)</b>	<b>(9,889)</b>	<b>-</b>	<b>174,889</b>	<b>-</b>	<b>-</b>	
<b>Total special commission rate sensitivity gap</b>	<b>5,168,448</b>	<b>255,247</b>	<b>9,242,251</b>	<b>2,592,396</b>	<b>(17,258,342)</b>	<b>-</b>	
<b>Cumulative special commission rate sensitivity gap</b>	<b>5,168,448</b>	<b>5,423,695</b>	<b>14,665,946</b>	<b>17,258,342</b>	<b>-</b>	<b>-</b>	

2001 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total	Effective rate %
<b>Assets</b>							
Cash and balances with SAMA	-	-	-	-	1,710,181	1,710,181	-
Due from banks and other financial institutions	869,699	-	-	-	95,384	965,083	2.5
Investments, net	13,629,845	1,829,942	4,072,893	1,969,372	266,325	21,768,377	4.3
Loans and advances, net	9,246,081	3,066,015	3,708,325	-	-	16,020,421	6.5
Fixed assets, net	-	-	-	-	515,065	515,065	-
Other assets	-	-	-	-	941,618	941,618	-
<b>Total assets</b>	<b>23,745,625</b>	<b>4,895,957</b>	<b>7,781,218</b>	<b>1,969,372</b>	<b>3,528,573</b>	<b>41,920,745</b>	<b>-</b>
<b>Liabilities and shareholders' equity</b>							
Due to banks and other financial institutions	4,166,982	399,334	-	-	226,902	4,793,218	2.6
Customer deposits	14,540,857	4,492,463	-	-	12,505,473	31,538,793	1.7
Other liabilities	-	-	-	-	1,632,670	1,632,670	-
Shareholders' equity	-	-	-	-	3,956,064	3,956,064	-
<b>Total liabilities and shareholders' equity</b>	<b>18,707,839</b>	<b>4,891,797</b>	<b>-</b>	<b>-</b>	<b>18,321,109</b>	<b>41,920,745</b>	<b>-</b>
<b>On balance sheet gap</b>	<b>5,037,786</b>	<b>4,160</b>	<b>7,781,218</b>	<b>1,969,372</b>	<b>(14,792,536)</b>	<b>-</b>	
<b>Off balance sheet gap</b>	<b>(682,500)</b>	<b>(490,796)</b>	<b>907,500</b>	<b>265,796</b>	<b>-</b>	<b>-</b>	
<b>Total special commission rate sensitivity gap</b>	<b>4,355,286</b>	<b>(486,636)</b>	<b>8,688,718</b>	<b>2,235,168</b>	<b>(14,792,536)</b>	<b>-</b>	
<b>Cumulative special commission rate sensitivity gap</b>	<b>4,355,286</b>	<b>3,868,650</b>	<b>12,557,368</b>	<b>14,792,536</b>	<b>-</b>	<b>-</b>	

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.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or an instrument carried at fair value.

## 32. Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. The Bank monitors and manages the liquidity structure of its assets and liabilities so as to ensure that cash flows are sufficiently balanced and sufficient liquid funds are maintained to meet liquidity requirements.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 2% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds, or assets which can be converted into cash within a period not exceeding thirty days.

The Bank may also raise additional funds through repo facilities available with SAMA against its holdings of Saudi Government Development Bonds.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the 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 and the availability of liquid funds.



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The maturity profile of the assets and liabilities is as follows:

<b>2002 SAR'000</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No fixed maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with SAMA	1,869,745	-	-	-	1,254,260	3,124,005
Due from banks and other financial institutions	1,084,128	-	-	-	-	1,084,128
Investments, net	22,987	1,655,709	12,473,541	5,903,674	343,760	20,399,671
Loans and advances, net	9,416,677	3,100,152	7,176,713	665,642	-	20,359,184
Fixed assets, net	-	-	-	-	544,704	544,704
Other assets	-	-	-	-	714,817	714,817
<b>Total assets</b>	<b>12,393,537</b>	<b>4,755,861</b>	<b>19,650,254</b>	<b>6,569,316</b>	<b>2,857,541</b>	<b>46,226,509</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	3,100,646	1,579,972	-	-	-	4,680,618
Customer deposits	30,348,699	4,418,306	213,129	-	-	34,980,134
Other liabilities	519,234	-	-	-	1,763,477	2,282,711
Shareholders' equity	-	-	-	-	4,283,046	4,283,046
<b>Total liabilities and shareholders' equity</b>	<b>33,968,579</b>	<b>5,998,278</b>	<b>213,129</b>	<b>-</b>	<b>6,046,523</b>	<b>46,226,509</b>

<b>2001 SAR'000</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No fixed maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with SAMA	610,802	-	-	-	1,099,379	1,710,181
Due from banks and other financial institutions	965,083	-	-	-	-	965,083
Investments, net	1,709,240	2,765,948	7,858,787	9,051,492	382,910	21,768,377
Loans and advances, net	7,093,324	2,409,707	5,699,571	817,819	-	16,020,421
Fixed assets, net	-	-	-	-	515,065	515,065
Other assets	-	-	-	-	941,618	941,618
<b>Total assets</b>	<b>10,378,449</b>	<b>5,175,655</b>	<b>13,558,358</b>	<b>9,869,311</b>	<b>2,938,972</b>	<b>41,920,745</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	4,393,787	399,431	-	-	-	4,793,218
Customer deposits	26,900,195	4,606,062	32,536	-	-	31,538,793
Other liabilities	-	-	-	-	1,632,670	1,632,670
Shareholders' equity	-	-	-	-	3,956,064	3,956,064
<b>Total liabilities and shareholders' equity</b>	<b>31,293,982</b>	<b>5,005,493</b>	<b>32,536</b>	<b>-</b>	<b>5,588,734</b>	<b>41,920,745</b>

### 33. 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 carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for originated debt securities, 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 the originated debt securities and investments held to maturity are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair value of these investments is disclosed in note 5. It is not practical to determine the fair value of loans and advances and customer deposits with sufficient reliability.

### 34. 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 2002 for a period of five Gregorian 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 Laws and the regulations issued by SAMA. The year end balances included in the balance sheet resulting from such transactions are as follows:

	2002 SAR'000	2001 SAR'000
<b>HSBC Group:</b>		
Due from banks and other financial institutions	843,165	524,174
Investments	394,576	522,482
Derivatives - net positive fair value	16,161	54,483
Due to banks and other financial institutions	597,605	1,352,785
Commitments and contingencies	133,139	272,944
<b>Directors, audit committee, major shareholders and their affiliates:</b>		
Loans and advances	740,600	502,829
Deposits	3,222,832	3,502,607
Derivatives - net negative fair value	2,565	1,912
Commitments and contingencies	144,259	28,411
Directors' remuneration	1,567	1,524

Shareholders who hold more than 5% of the Bank's share capital are classified as major shareholders.

	2002 SAR'000	2001 SAR'000
<b>Bank's mutual funds:</b>		
Investments	43,760	53,999
Loans and advances	345	5,210
Demand and time deposits	3,230,325	3,200,789

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

	2002 SAR'000	2001 SAR'000
Special commission income	53,818	83,927
Special commission expense	(187,703)	(335,365)
Fees from banking services	34,187	22,225

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## 35. Capital adequacy

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 balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

	Capital		Ratio %	
	2002 SAR'000	2001 SAR'000	2002	2001
Tier 1	4,277,370	3,950,388	16.3	18.4
Tier 1 + Tier 2	4,277,370	3,950,388	16.3	18.4

	Risk weighted assets					
	2002 SAR'000			2001 SAR'000		
	Carrying value/ Notional amount	Credit equivalent	Risk weighted assets	Carrying value/ Notional amount	Credit equivalent	Risk weighted assets
<b>Balance sheets assets</b>						
0%	17,131,760		-	18,175,408		-
20%	7,069,707		1,413,941	6,064,745		1,212,949
100%	22,025,042		22,025,042	17,680,592		17,680,592
<b>Total</b>	46,226,509		23,438,983	41,920,745		18,893,541
<b>Commitments and contingencies, and derivatives</b>						
0%	411,777	142,790	-	300,640	108,072	-
20%	901,490	346,498	69,300	1,037,617	364,198	72,840
50%	23,172,124	335,169	167,585	39,172,787	627,275	313,637
100%	7,482,118	2,567,462	2,567,462	6,434,147	2,182,524	2,182,524
<b>Total</b>	31,967,509	3,391,919	2,804,347	46,945,191	3,282,069	2,569,001
<b>Total risk weighted assets</b>			26,243,330			21,462,542

## 36. Investment management services

The Bank offers investment services to its customers which include the management of certain investment funds in consultation with professional investment advisors. The financial statements of these funds are not consolidated with the financial statements of the Bank. However, the Bank's share of these funds is included in investments available for sale and fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the financial statements.

## 37. Comparative figures

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

## 38. Board of Directors' approval

The financial statements were approved by the Board of Directors on 15 Dhul Qadah 1423H (18 January 2003G).

## BRANCHES AND ATM LOCATIONS

### Head Office:

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P.O. Box 9084, Riyadh 11413, Saudi Arabia.  
Tel: (01) 405-0677 - Fax: (01) 405-0660  
Telegram: SABRIT RIYADH.  
**Treasury:** Tel: (01) 405-0020 - Fax: (01) 405-8652  
**SABB Direct: Toll Free Number:** 800-124-8888  
**Website:** [www.sabb.com](http://www.sabb.com)

### Area Management Office - Central Province:

Salah Al-Din Al-Ayubi Road (Sitteen), P.O. Box 2907,  
Riyadh 11461, Saudi Arabia.  
Tel: (01) 479-4400 - Fax: (01) 476-5672

### Central Province Branches:

#### Riyadh:

Riyadh Main: Salah Al-Din Al-Ayubi Road, Malaz,  
P.O. Box 2907, Riyadh 11461. Tel: (01) 479-4400  
King Faisal Street: King Faisal Street, Batha, P.O. Box 43069,  
Riyadh 11561. Tel: (01) 404-3196  
Dabaab: Prince Abdulaziz Bin Mossaad Bin Jalawi Street,  
P.O. Box 17682, Riyadh 11494. Tel: (01) 405-0677  
Olaya Road: Olaya Main, P.O. Box 10914, Riyadh 11443.  
Tel: (01) 465-7171  
Al-Faisalyiah: Al-Faisalyiah Tower, King Fahd Road,  
P.O. Box 2907, Riyadh 11461.  
Tel: (01) 273-4459 Ext. 4475-4470  
Al-Faisalyiah, Ladies Section: P.O. Box 2907, Riyadh 11461.  
Tel: (01) 273-4208  
Sinnaiyah: Prince Salman Bin Abdulaziz Street,  
P.O. Box 26973, Riyadh 11496. Tel: (01) 446-5849  
North Olaya: Owdah Building Olaya Main Road,  
P.O. Box 10914, Riyadh 11443. Tel: (01) 456-0334  
Dharat Al-Badia: Anas Bin Malik Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 431-1250  
Dharat Al-Badia, Ladies Section: Anas Bin Malik Street,  
P.O. Box 2907, Riyadh 11461. Tel: (01) 432-7601  
Al-Worood: King Abdulaziz Road, Warood, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 456-5125  
Al-Takhassusi: Takhassusi Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 464-9446  
Al-Rawdah: Khalid Bin Al-Walid Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 230-0101  
Al-Suwaidi: Al-Suwaidi Main Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 426-3961  
Al-Shifa: Ibn Taymiyah Street, Al-Shifa, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 422-2441

Mohammadiyah: Prince Abdullah Bin Abdulaziz Street,  
P.O. Box 2907, Riyadh 11461. Tel: (01) 488-0260  
Al-Nozha: Abubaker Al-Siddiq Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 456-4441  
Al-Naseem: Saad Ibn Ali Al-Wakkas Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 231-7456  
Al-Hassa Street: Al-Hassa Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 476-9028  
Al-Hassa Street, Ladies Section: Al-Hassa Street,  
P.O. Box 2907, Riyadh 11461. Tel: (01) 477-4007  
Shumaisi: Prince Fahd Bin Faisal Al-Farhan Al-Saud Street,  
P.O. Box 2907, Riyadh 11461. Tel: (01) 434-1115

#### Al-Kharj:

King Fahd Road, Al-Kharj District, P.O. Box 698,  
Al-Kharj 11942. Tel: (01) 544-4000

#### Onaizah:

Al-Zulfi Road, P.O. Box 877, Onaizah.  
Tel: (06) 362-0490

#### Al-Rass:

Al-Quds Street, Al-Rass, P.O. Box 101, Al-Rass.  
Tel: (06) 333-7060

### Al-Amanah Islamic Branches:

#### Riyadh:

Rabwah: Omar Bin Abdulaziz Street, P.O. Box 2907,  
Riyadh 11461. Tel: (01) 493-2439

#### Buraidah:

Al-Khubaib Street, P.O. Box 1829, Buraidah.  
Tel: (06) 324-5494

### Central Province Offsite ATM Locations:

#### Riyadh:

Al-Mohammadiyah, Al-Jamea'ah, Prince Abdullah Street  
Al-Dabab Street, Al Jomaih Gas Station  
Al-Malaz, Al-Abar Gas Station - Salah Alddeen Al-Ayoubi  
(60) Street  
Al-Manar, Al-Zahra Gas Station, Ahmed Bin Hanbbal Street  
Al-Nahdhah, AT&T, Khuraiss Road  
Olaya, Al-Awais Market - North Olaya  
Olaya, Alkhaldiah Building, Computer Market  
(next to Holiday Inn Hotel)  
Olaya, Sahara Mall - 1<sup>st</sup> - Prince Abdullah Road  
Olaya, Sahara Mall - 2<sup>nd</sup> - Prince Abdullah Road  
Olaya, NCCI Building - King Fahd Road  
Olaya, Al Faisaliah - 3<sup>rd</sup> floor, Olaya Main  
Olaya, Al Faisaliah - Ground floor, Olaya Main

## BRANCHES AND ATM LOCATIONS

(Continuation)

Olaya, Al Faisaliah 3 - King Fahd Road  
 Olaya, Nimer Plaza 1, Olaya Main Road  
 Otaiqah, Al Aswaq Al Arabiah Mall - King Fahd Road  
 Tahkassusi, City Plaza, Takhassusi Main Road  
 Wizarat - Sh. Abdulrahman Bin Hussain Street  
 Al-Noor, Shumaisi, Muslimah Bin Abdulmalik Street  
 (can be used by blind people)  
 Al-Nadeem, Al Marmara Street  
 Batha, Al Rajhi Centre, Batha Main Street  
 Al-Swaidi, Naft Al-Swaidi, Swaidi Main Street  
 Al-Swaidi, Reem Al-Jazirah Gas Station, Sultana Street  
 Al-Rawdah, Al-Sharqi Mall, Khalid Ibn Al-Waleed Street  
 (Inkas)  
 Al-Rawdah, Al-Rawdah International Mall, Hafsa Bin Omer Street  
 Al-Rawdah, Al Nasser Mall, Khurais, Hassan Bin Ali Street  
 Al-Rawdah, Al-Jazirah Gas Station, Prince Bandar Bin Abdulaziz Street  
 Al-Aud, Naft Ghobairah, Amar Bin Yaser Street  
 Industrial Zone, MASCO 2, Al-Kharj Road

### Al-Kharj:

Najmat Al-Madaen Gas Station, King Abdulaziz Road  
 Al Ameera Gas Station - King Abdulaziz Street

### Buraidah:

Al Khobaib, Al Khobaib Road

### Al-Rass:

Al-Souq, King Abdulaziz Street  
 Al-Souq, King Fahd Road

### Area Management Office - Western Province:

Ali Ibn Abi Talib Street, Sharafieh, P.O. Box 109,  
 Jeddah 21411, Saudi Arabia.  
 Tel: (02) 651-2121 - Fax: (02) 653-2816

### Western Province Branches:

#### Jeddah:

Jeddah Main: Ali Ibn Abi Talib Street, P.O. Box 109,  
 Jeddah 21411. Tel: (02) 651-2121  
 Caravan: Hail Street, P.O. Box 6885, Jeddah 21452.  
 Tel: (02) 651-2840  
 King Abdulaziz Street: King Abdulaziz Street, Al-Balad,  
 P.O. Box 7002, Jeddah 21462. Tel: (02) 642-6008  
 Makkah Road: Kilo 3, Al-Nuzlah Al-Sharqeyyah,  
 P.O. Box 11633, Jeddah 21463. Tel: (02) 687-7643  
 Palestine Street: Al-Mukhmal Commercial Centre, Palestine  
 Street, P.O. Box 109, Jeddah 21411. Tel: (02) 660-2728  
 Palestine Street, Ladies Branch: Al-Mukhmal Commercial

Centre, Palestine Street, P.O. Box 109, Jeddah 21411.  
 Tel: (02) 668-2254

Prince Mutaib Street: Al-Rehab Market, P.O. Box 109,  
 Jeddah 21411. Tel: (02) 672-9046

Sary Street: Sary Street, Al-Salamah, P.O. Box 109,  
 Jeddah 21411. Tel: (02) 683-2416

Sary Street, Ladies Section: Sary Street, Al-Salamah,  
 P.O. Box 109, Jeddah 21411. Tel: (02) 698-1802

Al-Tahliah: Prince Mohammed Ibn Abdulaziz, Al-Rawdah,  
 P.O. Box 109, Jeddah 21411. Tel: (966 2) 665-9641

Al-Tahliah, Ladies Section: Prince Mohammed Ibn Abdulaziz,  
 Al-Rawdah, P.O. Box 109, Jeddah 21411. Tel: (02) 665-9614

Hera Street: Hera Street, Al-Nahda, P.O. Box 109,  
 Jeddah 21411. Tel: (02) 699-1356

Hera Street, Ladies Section: Hera Street, Al-Nahda,  
 P.O. Box 109, Jeddah 21411. Tel: (02) 622-6007

Balad: Al-Dahab Street, Al-Balad, P.O. Box 19513,  
 Jeddah 21455. Tel: (02) 647-1145

Al-Safa District: Amir Majed Street, Al-Safa, P.O. Box, 109,  
 Jeddah 21411. Tel: (02) 679-2424

Al-Amir Fahd Street: Prince Fahd Street, Al-Bawadi,  
 P.O. Box 109, Jeddah 21411. Tel: (02) 655-0862

### Makkah:

Makkah: Abdullah Areef Street, Al-Nuzha, P.O. Box 9559,  
 Makkah Al-Mukarramah. Tel: (02) 545-9191

Makkah, Ladies Section: Abdullah Areef Street, Al-Nuzha, P.O.  
 Box 9559, Makkah Al-Mukarramah. Tel: (02) 548-2925

Al-Aziziah: Aziziah Main Road, P.O. Box 6052,  
 Makkah Al-Mukarramah. Tel: (02) 557-0395

### Madinah Al-Munawwarah:

Medinah: Abu Baker Al-Siddiq Street, Sultana, P.O. Box 135,  
 Medinah Al-Munawwarah. Tel: (04) 826-7472

Medinah, Ladies Section: Shara Abu Bakr Al-Siddiq, Sultana,  
 P.O. Box 135, Medinah Al-Munawwarah. Tel: (04) 823-2530

### Taif:

King Faisal Street, Al-Balad, P.O. Box 822, Taif.  
 Tel: (02) 738-1360

### Abha:

King Abdulaziz Street, Al-Khasha'a, P.O. Box 698, Abha.  
 Tel: (07) 224-4628

### Khamis Mushait:

Al Khairia Commercial Centre, P.O. Box 1846,  
 Khamis Mushait. Tel: (07) 222-2302

### Yanbu:

King Saud Street, Al-Nawa, Yanbu Industrial City,  
 P.O. Box 31220, Yanbu Al-Sinaiyah, Tel: (07) 325-4445

## Al-Amanah Islamic Branches:

### Makkah:

Misfalah: Ibrahim Al-Khaleel Street, P.O. Box 9559,  
Makkah Al-Mukarramah. Tel: (02) 537-8501

### Madinah Al-Munawwarah:

King Abdulaziz Street: Al-Hakrah Al-Sharqeyyah,  
P.O. Box 135, King Abdulaziz Street. Tel: (04) 838-5984

## Western Province Offsite ATM Locations:

### Jeddah:

Al-Bawadi, City Plaza Mall, Siteen Street  
Al Bughdadiyah District, Al Johara Building, Madinah Road  
Al-Hamra, Fudruckers Restaurant - Al Fitaihi Street  
Al-Mahjer, King Abdulaziz Hospital - Al-Mahjer Street  
Al-Rehab, Al-Rehab Centre - Prince Mutaib Street (40)  
Al-Rwais, United Doctors Hospital, Al Jazeerah Street  
Al-Salamah, Al-Salamah Station - Sari Street  
Al-Mokhtar Mall, Prince Sultan Street  
ARAMCO, SAMARIC - Al-Madinah Road  
Herra, Dr. Erfan Hospital - King Fahd (60) Street  
Industrial Zone, Saudi Cable Plant - Saudi Cable Street  
Kandarah, Al-Wafa Gas Station - Old Airport Street  
Marriot Hotel, Palestine Street  
Mosadia, Mosadia Plaza, Al-Madinah Road  
SWCC, SWCC Compound Jeddah  
Al-Jameah, Diwan Restaurant, Abdallah Bin Sulaiman Street  
Quraish Road, near Madina Road, Mobil Station  
Petrolco Gas Station, Sitteen Street  
Suzuki Dealership, Hail Street  
Sahafa Street, Palestine Street  
Suzuki Dealership, Tahliyah Street

### Makkah:

Al-Haram Hilton Hotel (2 ATMs), King Abdulaziz Street  
Al Hojoon, Al Haram Street  
Al Noor, Jeddah-Makkah Road (can be used by blind people)  
Industrial Zone, Makkah Medical Center - Al-Madinah Road

### Al-Madinah:

Al-Anabiyah, Oberoi Hotel (next to Al-Haram)  
Madinah International Mall, Abu Baker Al Siddiq Street  
Said Al Shuhada Road

### Taif:

Al-Qammaryah, Airport Road

### Abha:

Al Hizam Al Akhdar, Opposite to Al Ghunaim Commercial  
Center, Prince Sultan Road  
Shamsan, Al-Ghamdi Gas Station, Prince Sultan Bin Abdulaziz  
Street

### Khamis Mushait:

Al-Ghounaim, Al-Ghounaim Centre - Main Street  
Al Mobti, Abha - Airport Road  
Al-Janadriah Gas Station, Prince Sultan Street  
(next to the Military Base)  
Bin Dawass Gas Station - Air-Base Street

### Yanbu:

King Saud X Radawi Street

## Area Management Office - Eastern Province:

King Abdulaziz Boulevard, P.O. Box 394, Al-Khobar 31952,  
Saudi Arabia.  
Tel: (03) 882-6000 - Fax: (03) 882-1669.

## Eastern Province Branches:

### Dammam:

Dammam Main: Dhahran Street, P.O. Box 1618,  
Dammam 31441. Tel: (03) 833-1553  
Ibn Khildoun Street: King Fahd Road, P.O. Box 1618,  
Dammam 31441. Tel: (03) 842-5242  
Al-Jalawiah: King Khalid Street, P.O. Box 1618,  
Dammam 31441. Tel: (03) 842-4105  
Al-Anoud: King Abdulaziz Street, P.O. Box 1618,  
Dammam 31441. Tel: (03) 834-1087  
Dammam Superbranch: Corniche Street, Al-Shati District, P.O.  
Box 1618, Dammam 31441. Tel: (03) 830-1000  
Dammam Superbranch, Ladies Section: Corniche Street, Al-Shati  
District, P.O. Box 1618, Dammam 31441. Tel: (03) 830-1000

### Al-Khobar:

King Abdulaziz Boulevard: P.O. Box 394, Al-Khobar 31952.  
Tel: (03) 888-1395  
King Abdulaziz Boulevard, Ladies Section: P.O. Box 394,  
Al-Khobar 31952. Tel: (03) 882-1395 Ext. 3020  
Al-Agrabiah: 10<sup>th</sup> Street crossing Abu Haidria, P.O. Box 1618,  
Dammam 31441. Tel: (03) 894-8297  
Thugbah: Makkah Street, P.O. Box 394, Al-Khobar 31952.  
Tel: (03) 898-5580

### Qatif:

Taroot: Main Street, P.O. Box 1618, Dammam 31441.  
Tel: (03) 823-2444

### Safwa:

Safwa: Main Road, P.O. Box 1618, Dammam 31441.  
Tel: (03) 664-2620  
Saihat: King Abdulaziz Street, P.O. Box 1618,  
Dammam 31441. Tel: (03) 856-0008  
Ras Tanura: Al Malik Street, Ras Tanura, P.O. Box 607,  
Rahima 31941. Tel: (03) 667-0056

## BRANCHES AND ATM LOCATIONS

(Continuation)

Ohud: Ohud Street, Al-Qatif, P.O. Box 209, Qatif 31911.

Tel: (03) 854-1100

Ohud, Ladies Section: Ohud Street, Al-Qatif, P.O. Box 209, Qatif 31911. Tel: (03) 852-0526

Jubail: Jubail International Markets, Al-Safah Street,

P.O. Box 119, Jubail 31951. Tel: (03) 362-0250

Jubail Industrial City: 213 Road, P.O. Box 10015, Jubail 31961.

Tel: (03) 341-9147

### Al-Hassa:

Hoffuf: Al Koot Street, P.O. Box 365,

Hoffuf 31982. Tel: (03) 586-6000

Mubarraz: Al-Hazam Street, P.O. Box 365, Hoffuf 31982.

Tel: (03) 587-2269

Al-Khaldia: University Street, P.O. Box 365, Hoffuf 31982.

Tel: (03) 580-5186

Al-Khaldia, Ladies Section: University Street, P.O. Box 365,

Hoffuf 31982. Tel: (03) 580-0092

Al-Jafr: Main Street, Al-Jafr, Hoffuf, P.O. Box 365,

Hoffuf 31982. Tel: (03) 539-3156

### Eastern Province Offsite ATM Locations:

#### Dammam:

Dammam Plaza Complex, Prince Mohammed Street

Al-Anoud, Vegetable Market - 42<sup>nd</sup> Street

Al-Itisalat, STC Main Office

Al Jabreen Station, Ibqaiq Highway

Al-Mina, Al Mina Street

Al-Otaibi Gas Station, King Fahd Road

Al-Doyan Gas Station, King Saud Road

Al-Wisham Centre, Ibn Sina Street

#### Al-Khobar:

Al Dayem Mall, Riyadh Street

Al-Haras, Arkan Al-Khair, Al-Estath Street

Al-Mohammadiyah, Giant Store - 42<sup>nd</sup> Street

Al-Mubarakia - Al Mubarakia Main Street

Al Rashid Mall

Al-Sanad Stores, Al Khobar - Dhahran Street

Cornish Al-Khobar, near Meredian Hotel

EPM Super Branch - 1<sup>st</sup> Street, Al Cornish Road, near Sheraton Hotel

Madinat Al-Oummal, 9<sup>th</sup> Street, 9<sup>th</sup> Street X King Khalid Street

Muthaleth, Al Rabia Park - 1<sup>st</sup> Street

Nassreyah, GDE, Al-Khobar-Dammam Highway

Railway Headquarters, Ali Ben Abi Talib Street

SWCC Market, Al Khobar Main Street

Thoqbah, Naghmoush Building, 20<sup>th</sup> Street

Toyota Showroom, Prince Faisal Bin Fahd Street

Al-Jesser Area

King Abdulaziz Air Base Hospital

Prince Sultan Street

### Al-Dhahran:

Al-Danah, Main Street

Dhahran Military City, KFMMC, Al-Hasa Street

Jisr, King Fahd Causeway

### Qatif:

Al-Madinah, Al Abduljabbar Gas Station, Quds Street

Al-Nasserah, Al-Zahrah, Tarout Street

Al Awamiyah - Main Street

Fish Market - Al-Fath Street

Ohud, Ohud Street

Umm Al Hammam, Al Ghanim Gas Station, Al Jish Street

### Safwa:

Safwa Co-Op. Store, Al-Zahra Main Street

### Al-Ahssa:

Bukhadher Gas Station, AL-Jafer Street

Presidency of Girls Education, Khaldia Main Street

### Hoffuf:

Municipality Square, King Abdulaziz Street

Al-Noor, Prince Sultan Road (can be used by blind people)

King Fahd Road, (next to Al Reda Supermarket)

Riyadh Road, near King Fahd Hospital

Al-Kuhul Gas Station, Dhahran Street

### Al-Gara:

Al Gara Main Street, facing Co-Op

### Jubail:

Toyota Showroom, Jeddah Street

SWCC Market, Safat Main Street

Al Safat, Al Safat Street

### Jubail Industrial City:

Al-Fanateer Mall, Al-Mazra'ah Street

### Mubarraz:

Sanabel Al Khaleej Station, Abo Hatab Road

Al-Rashdeyah, Al-Rashdeyah Street

### Al Omran:

Al Omran Main Street

### London Branch:

18C, Curzon Street, London W1J 7SX, United Kingdom

Tel: (44 207) 409-2567 - Fax: (44 207) 495-2329