The Saudi British Bank

Annual Report and Accounts 2010

SABB ساب

Local vision, international expertise

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

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بسم الله الرحمن الرحيم

Custodian of The Two Holy Mosques

King Abdullah Bin Abdulaziz Al Saud

His Royal Highness

Prince Sultan Bin Abdulaziz Al Saud

The Crown Prince, Deputy Premier,
Minister of Defence and Aviation and Inspector General

His Royal Highness

Prince Nayef Bin Abdulaziz Al Saud,

Second Deputy Prime Minister,
Minister of Interior

Board of Directors

Chairman
Khaled Suliman Olayan

Fouad Abdulwahab Bahrawi

Sulaiman Abdulkader Al Muhaidib

Zarir J. Cama

Mohammed Omran Al Omran

Simon Cooper

Khalid Abdullah Al Molhem

David Dew

Ahmed Sulaiman Banaja

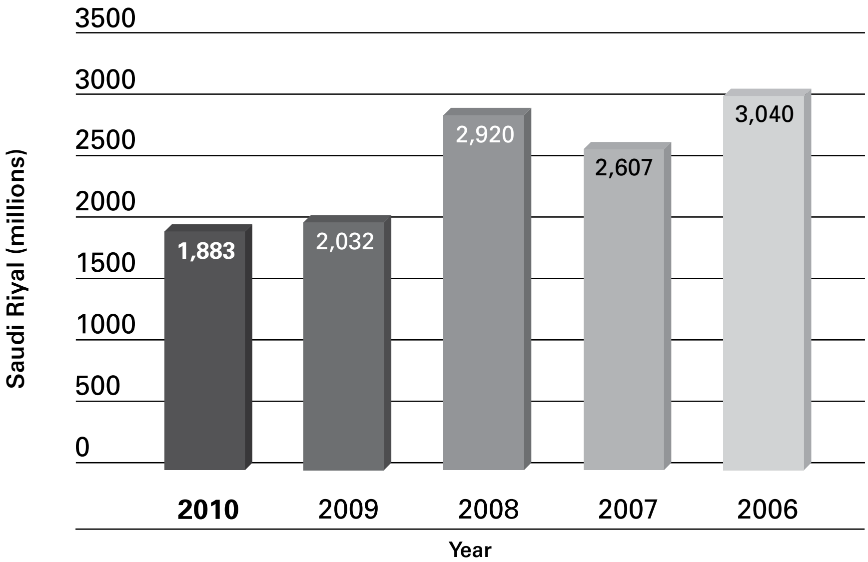
Robin Douglas Jones

Financial Highlights

Five-year financial highlights

	Year				
Saudi Riyal (millions)	**2010**	**2009**	2008	2007	2006
Customer Deposits	**94,673**	89,187	92,678	71,848	59,258
Shareholders' Equity	**15,172**	13,045	11,634	10,425	9,405
Investments, Net	**24,972**	23,818	29,604	14,859	21,702
Loans and Advances, Net	**74,248**	76,382	80,237	62,001	42,450
Total Assets	**125,373**	126,838	131,661	98,213	77,189
Net Income	**1,883**	2,032	2,920	2,607	3,040
Gross Dividend	**563**	660	660	1,500	1,500

Net income



Chairman's Statement

On behalf of the Board of Directors I am pleased to present the Annual Report of SABB for the financial year ending 31st December 2010.

2010 has seen yet more challenges for the financial sector in Saudi Arabia. Although the government's budget for the year saw a further increase in expenditure over the record figure of a year earlier, overall growth in the economy has remained modest. Integral to this has been the private sector, which has sought to move forward after the period of consolidation it underwent following the financial crisis of 2008 but which still has some way to go to attain the level of growth experienced in earlier years. With this situation in mind SABB has maintained a conservative stance whilst investing in its own infrastructure to improve customer service and pursuing new opportunities for growth. As a result the Bank is well-placed to derive maximum benefit in the future.

In this environment SABB has derived satisfactory net profits for the year of SAR1,883 million, a figure that evidences the Bank's strong operating income streams and its on-going implementation of cost cutting measures. Furthermore, the Bank has sought also to strengthen further its core business whilst introducing new technology, products and services to the ultimate benefit of customers.

On the basis of the declared results the Board of Directors proposes a net dividend for the year totalling SAR372.5 million. Shareholders' approval for the dividend will be sought at the Annual General Meeting.

Despite the subdued operating environment for banks in the Kingdom SABB has continued to expand its branch and ATM networks Kingdom-wide. It now has 111 retail outlets, after the opening of 9 new branches in 2010, of which 86 operate under the Amanah (Islamic) brand and 30 are dedicated to the ladies. The ATM network now numbers 503 following the installation of 31 further machines over the course of the year and, for higher net worth customers, 11 Premier Centres are now available across Saudi Arabia.

HSBC Saudi Arabia Limited has enjoyed continuing success in 2010 despite greater competition and the many challenges facing the local capital markets.

SABB Takaful had another successful year as a leading provider of insurance products for both individuals and companies.

SABB Securities, which offers brokerage and securities services and is one of the most active brokers in the Kingdom, led the way in the local market introducing a number of initiatives during the year through its extensive delivery channels.

Corporate and Commercial Banking again succeeded in growing its business with both existing and new customers. A particular feature of the year has been the increased level of trade financing of Saudi manufacturers' exports.

Personal Banking has maintained its status during 2010 as a leading provider of personal banking products and services, now substantially under the Amanah brand. Integral to Personal Banking's success has been increased attention to customer needs both locally and across the globe. SABB is also the leading credit card issuer in Saudi Arabia, a status it has held for some years.

The on-going success of SABB is clearly reflected in the international recognition received from global organisations and publications during the year. These have included accolades as the «Best Trade Finance Bank in Saudi Arabia», «Best Online Consumer Credit Site in Saudi Arabia for the 5th consecutive year» and «Best Domestic Cash Management Bank in Saudi Arabia».

SABB has maintained its role as an active and responsible corporate citizen, focusing throughout 2010 on education, the environment and community service. During the year the Bank has provided sponsorships for students and scientific research as well as humanitarian support for those most in need within Saudi society. Furthermore, close attention has continued to be given to protecting the environment and to ensuring the conservation of wildlife.

In the light of its activities during 2010 SABB is well-placed to maintain its position as a leading Saudi financial institution in the years to come. As government expenditure on infrastructure continues to grow it is anticipated the now strengthened private sector will be a major beneficiary such that it, including the Bank, can look to the future with increasing confidence.

Finally, on behalf of the Board of Directors, it is my pleasure to extend our sincere thanks to all shareholders for their continued loyalty; our deep appreciation to all members of the Bank's staff, without whose dedicated efforts the Bank would not enjoy such success; and our considerable gratitude to all our customers for their continued confidence and support. Considerable thanks are due also to the Saudi government, specifically the Ministries of Finance and Commerce and Industry as well as the Saudi Arabian Monetary Agency, and to the Capital Market Authority, for their continued guidance and assistance to the Saudi banking and financial communities. On behalf of SABB, as a leading member of that community, I confirm our commitment to the on-going growth and development of Saudi Arabia under the leadership of the Custodian of the Two Holy Mosques, the Crown Prince and the Second Deputy Prime Minister.

Khaled Suliman Olayan

Directors' Report

The Board of Directors is pleased to submit to shareholders the Annual Report of SABB for the financial year ending 31st December 2010.

Introduction

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

SABB has a 100% (2009 : 100 %) ownership interest in a subsidiary, SABB Securities Limited, a Limited Liability Company formed in accordance with the Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). SABB has a 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in the Kingdom of Saudi Arabia). The principal activities of the subsidiary are to engage in the business of custody and dealing as an agent excluding underwriting.

SABB has a 100% (2009: 100%) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has a 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company within the Kingdom of Saudi Arabia as per the agreement between them. However, the Articles of Association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has a 51% (2009: 51%) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity of the subsidiary is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

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

Five-year financial highlights

	Year				
Saudi Riyal (millions)	**2010**	2009	2008	2007	2006
Customer Deposits	**94,673**	89,187	92,678	71,848	59,258
Shareholder's Equity	**15,172**	13,045	11,634	10,425	9,405
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Total Assets	**125,373**	126,838	131,661	98,213	77,189
Net Income	**1,883**	2,032	2,920	2,607	3,040
Gross Dividend	**563**	660	660	1,500	1,500

Geographical Analysis of Income:

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

Saudi Riyal millions

Year	Eastern Province	Western Province	Central Province
2010	883	975	2,981

Business Segments:

The Bank is organized into the following business segments:

Retail Banking - which caters to the Banking requirements of Personal and Private Banking customers.

Corporate Banking - which caters to the Banking requirements of Commercial and Corporate Banking customers.

Treasury - which manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and managing the Bank's investment portfolio and statement of financial position. Treasury offers hedging and investment product solutions to its customers.

Others - includes activities of SABB Securities Limited and investment in associates.

Transactions between the business segments are based on the Bank's Transfer Pricing policy. The Bank's Total Operating Income and expenses and the net income for the year ended 31 December 2010, split by business segments, are as follows:

2010 **SAR '000**	**Retail Banking**	**Corporate Banking**	**Treasury**	**Other**	**Total**
Total Operating Income	**1,544,536**	**2,265,864**	**868,887**	**160,134**	**4,839,421**
Total Operating Expenses	**1,678,297**	**1,136,886**	**108,399**	**73,761**	**2,997,343**
Share in Earnings of Associates, Net	**-**	**-**	**-**	**41,074**	**41,074**
Net Income	**(133,761)**	**1,128,978**	**760,488**	**127,447**	**1,883,152**

The Bank's earnings from associates represent shares in the profits of the following companies:

HSBC Saudi Arabia Limited

SABB holds a 40% equity share of the capital with a value of SAR 50 million. The company provides Investment Banking financing, investment financing services, IPOs (initial public offerings), mergers and acquisitions and private placements in the Kingdom of Saudi Arabia.

SABB Takaful

A Saudi joint-stock company listed on Tadawul. The Bank owns 32.5% of the company's capital with a value of SAR 340 million. The company offers Shariah-compliant insurance services including family and general Takaful products.

Profits

The Bank's profit declined in the year 2010 to SAR 1,883 million, down SAR 149 million or 7.3 per cent compared with SAR 2,032 million for the same period in 2009. This was mainly due to a decrease in operating income of SAR 321 million driven by lower net special commission income of SAR 194 million and lower income from trading and non-trading investments of SAR 87 million. This was partially offset by lower operating costs of SAR 177 million mainly due to lower provision for credit losses.

Earnings per share amounted to SAR 2.51 compared with SAR 2.71 in 2009.

Total assets during 2010 decreased to SAR 125.4 billion, a decline of SAR 1.5 billion or 1.2 per cent, compared with SAR 126.9 billion at the end of the previous year. Customer deposits increased to SAR 94.7 billion, an increase of SAR 5.5 billion or 6.2 per cent, compared with SAR 89.2 billion at the end of 2009. Loans and advances to customers of SAR 74.2 billion at 31 December 2010 was SAR 2.1 billion or 2.8 per cent, lower than SAR 76.4 billion at the end of 2009. Investments increased by 4.8% or 1.2 billion to SAR 25.0 billion as at 31 December 2010 from SAR 23.8 billion at the end of 2009.

Directors' Report (continued)

Cash Dividends and Bonus Share Issue:

In accordance with the Bank's Articles of Association, the dividend distribution policy is in compliance with the provisions of the Banking Control Law. The annual net income of the Bank is distributed as follows:

1. Amounts for payment of Zakat payable by Saudi shareholders and the tax payable by non-Saudi partner, will be allocated in line with the rules and regulations in force in the Kingdom of Saudi Arabia. The Bank will pay such amounts from the net income distributed to these parties.
2. 25% of the net income is transferred to statutory reserves until this reserve equals the paid up share capital of the Bank.
3. The payment of a dividend to shareholders in proportion to the number of shares held as recommended by the Board of Directors and approved at the Ordinary General Meeting.
4. Un-distributed net income is carried forward as retained earnings or transferred to statutory reserves.

The distributable profits proposed for 2010 (0.68 Hallalas per share) will be presented to the Annual General Meeting, scheduled for 15 March 2011 for endorsement and approval. However, the Board of Directors have recommended the distribution of profits as follows:

	SAR '000
Net Income 2010	1,883,152
Retained earnings from the previous year	694,749
Total	2,577,901
Distributed as follows:	
Transferred to statutory reserves	470,788
Bonus share issue	-
Zakat and income Tax	190,000
Proposed dividend	372,500
Retained earnings for 2010	1,544,613

Statutory Payments

Statutory payments payable by the Bank during 2010 consist of Zakat payable by Saudi Shareholders, tax payable by foreign partner, and the amounts payable to GOSI which represents staff insurance contributions.

The statutory payments for the year were as follows:

	SAR '000
Zakat attributable to the Saudi Shareholders for the year 2010	30,000
Income tax attributable to the share of the non-Saudi shareholders	160,000
GOSI payments	75,600
Other payments	2,048

Punishments, Penalties and Regulatory Restrictions

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

Arrangements by Board Members for waiver of salaries and remunerations

The Bank doesn't have any information of any arrangements or agreements regarding waiver by any of its Board Members or Senior Executives of any salaries, bonuses or remunerations.

Arrangements by shareholders for waiver of any of their title to dividends

The Bank doesn't have any information of any arrangements or agreements regarding waiver by any shareholders to any title to dividends.

Notification Relating to Substantial Shareholdings

During the year, the Bank received notification from majority shareholders and relevant persons with regard to the change in the ownership of the Bank's shares in accordance with article (30) of the Listing Rules issued by the Capital Market Authority. Below is a breakdown of the share ownership by foreign partner and by SABB's directors and Senior Executive Management including their spouses and minor children:

Name of party	No. of shares at the beginning of 2010	No. of shares at end of 2010	Net change during the year No. of Shares	%
HSBC Holding BV	**300,000,000**	**300,000,000**	**-**	**0%**

Description of interest, options or subscription rights of the board members, their spouses and minor children:

Name of party	No. of shares at the beginning of 2010	No. of shares at end of 2010	Net change during the year No. of Shares	%
Fouad Abdulwahab Mohammed Ali Bahrawi	**151,250**	**171,000**	**19,750**	**0.003%**
Khalid Abdullah Abdulaziz Al Molhem	**26,560**	**26,560**	**0**	**0%**
Sulaiman Abdulkader Abdulmohsen Al Muhaidib	**3,750**	**3,750**	**0**	**0%**
Amrah Saleh Sulaiman Al Medihem	**58,120**	**58,120**	**0**	**0%**
Ahmed Sulaiman Abdulkader Banaja	**33,805**	**33,805**	**0**	**0%**
Amal Ibrahim Mohammed Al Sultan	**14,000**	**14,000**	**0**	**0%**
Khaled Suliman Saleh Olayan	**3,750**	**3,750**	**0**	**0%**
Mohammed Omran Mohammed Al Omran	**30,270**	**30,270**	**0**	**0%**
Najla Abdulrahman Mohammed Al Omran	**6,875,000**	**7,000,000**	**125,000**	**0.017%**
David Dew*	**0**	**12,000**	**12,000**	**0.002%**

**Executive Member of the board*

Description of interest, options or subscription rights of the Senior Executives, their spouses and minor children:

Name of party	No. of shares at the beginning of 2010	No. of shares at end of 2010	Net change during the year No. of Shares	%
Mansour Abdulaziz Rashid Al Bosaily	**4,194**	**13,714**	**9,520**	**0.001%**
Majda Malik Abdulhameed Taher	**7,380**	**7,380**	**0**	**0**

Directors' Report (continued)

Related Party Transactions

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

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

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

	2010 SAR'000
The HSBC Group	
Due from banks and other financial institutions	**5,460,247**
Investments	**579,210**
Other assets	**6,561**
Derivatives (at fair value)	**(414,938)**
Due to banks and other financial institutions	**2,175,504**
Commitments and contingencies	**1,865,178**
Directors, Audit Committee, Other Major Shareholders and their Affiliates	
Loans and advances	**3,665,336**
Customers' deposits	**7,784,384**
Derivatives (at fair value)	**2,623**
Commitments and contingencies	**281,483**

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

Bank's Mutual Funds	
Loans and advances	**4,011**
Customers' deposits	**1,249,774**

Following is the analysis of income and expenditure relating to transactions with related parties included in the consolidated financial statements:

Special commission income	**45,961**
Special commission expense	**(163,804)**
Fees and commission income	**70,633**
Profit share arrangement relating to Investment Banking activities	**(8,670)**
Share in earnings of associates	**41,074**
Directors' remuneration	**2,195**

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

Short-term employee benefits (Salaries and allowances)	**34,307**
Employment termination benefits	**5,391**

Senior management staff are those persons, including an executive director, who have the authority and responsibility for planning, directing and controlling the activities of the Bank.

The Bank offers a share-based compensation scheme to certain Senior Management and employees. There were three such schemes outstanding at 31 December 2010.

Borrowings and debt securities in issue

	2010 SAR'000
USD 600 million 5 year fixed rate notes	**2,154,902**
EUR 325 million 5 year floating rate notes	**1,615,852**
SAR 1,705 million 5 year floating rate notes	**1,705,000**
Borrowings	**187,500**
Total	**5,663,254**

USD 600 million 5 year fixed rate notes

During 2010 the Bank issued 5 year USD 600 million notes at a fixed rate of 3% maturing on 12 November 2015. The notes are unsecured and carry an effective yield of 3.148% which at the time of issuance was 170 bps above 5 year mid swap rates.. The notes are non-convertible, are unsecured and are listed on the London Stock Exchange.

The special commission rate exposure on these notes has been hedged by a fixed to floating special commission rate swap. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a fair value hedge in the financial statements. The positive mark to market on these notes is SAR 79.8 million as at the end of the current year.

Euro 325 million 5 year floating rate notes

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

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

SAR 1,705 million 5 year floating rate notes

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

The special commission rate exposure on these notes has been partially hedged by a floating to fixed special commission rate swap to the value of SAR 1,250 million. The special commission rate swap forms part of a designated and effective hedging strategy and is accounted for as a cash flow hedge.

Borrowing

This represents a 12 year amortising fixed rate loan that carries special commission at the rate of 5.11% payable semi annually. The loan was taken on 7 July 2005 and is repayable by 15 June 2017. An amount of SAR 10.3 million has been paid as commission during the year.

Directors' Report (continued)

Directors' Remuneration

Directors' fees during 2010 amounted to SAR 2,194,500 including SAR 234,500 in attendance fees at Board of Directors', Executive Committee, Audit Committee and the Nomination and Remuneration Committee.

2010 **SAR'000**	*Executive Board Members*	*Non-Executive/ Independent Board Members*	*Details of remuneration for the seven Executives who received the highest compensation from the Bank. This includes the Managing Director and Chief Financial Officer*
Salaries and Remuneration	**2,292**	**2,195**	**7,837**
Allowances	**320**	**-**	**2,974**
Annual and Periodic Bonuses*	**1,060**	**-**	**11,430**
Incentive Schemes**	**-**	**-**	**1,562**
Any Remuneration or other benefits in kind paid monthly or annually	**868**	**-**	**946**

Note: values calculated on cost to Bank during 2010-excluding bonuses and shares where they are based on value delivered to employees during 2010.

* Bonuses received in 2010.
** Current board members

Staff Benefits and Schemes

According to the Labour Law of The Kingdom of Saudi Arabia and the Bank's internal policies, staff benefits are due for payment during or at the end of an employee's period of service. The end of service benefit outstanding at the end of December 2010 amounted to SAR 286.1 million.

The Bank operates three equity schemes for Saudi executive staff. The book value for these schemes amounted to SAR 51.3 million at the end of 2010.

The Bank undertakes an independent review of its compensation structures in line with SAMA's Regulations on Compensation for Banks and was found to be largely compliant. It has submitted a report to SAMA with an action plan on areas requiring changes. This action plan will be fully implemented in 2011.

Board of Directors' Assurance

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

- The Bank has maintained accurate Books of Account
- The Bank has a sound financial system that has been audited by the Bank's Internal Audit Department, which submits its reports to the Bank's Audit Committee
- It has no evidence that might cast significant doubt on the Bank's ability to continue as a going concern
- There is no contract the bank is part of, where or when there were substantial interests for one of the Board Members, Managing Director, Chief Financial Officer or any person who has a relationship with them, except for what was mentioned in the Related Party Transactions in this report

As indicated in their audit report, the Bank's auditors, for the purpose of their work on the financial statements, have considered internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to enable them to design audit procedures which are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. The Auditors have reported to the Board certain deficiencies or recommendations arising from this work. In the management's opinion these items do not constitute material weaknesses. The Auditors have issued an unqualified audit report on the financial statements of the Bank.

Accounting Standards

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

Basel II

The Basel II disclosures have been prepared in accordance with the Basel II rules issued in March 2008 by SAMA.

Basel II is an international business standard and is intended to strengthen risk management practices and processes within financial institutions stipulating a minimum regulatory capital requirement given the risk profile of the institution.

The Basel II framework consists of three mutually reinforcing pillars which, acting together, are intended to contribute to enforcing soundness in the financial systems:

- **Pillar 1:** refers to Minimum Capital Requirements relating to Credit risk, Operational risk and Market risk
- **Pillar 2:** refers to SAMA's supervisory review of SABB's Internal Capital Adequacy Assessment Process (ICAAP)
- **Pillar 3:** refers to Market discipline through public disclosures

ICAAP is designed to capture capital requirements under stressed scenarios as well as capital for Pillar 2 risks. Pillar 2 risks refer to risks not captured under Pillar 1, for e.g. concentration risk.

SABB's ICAAP is a comprehensive document designed to evaluate the Bank's risk profile, processes for identifying, measuring and controlling risk, capital requirements and capital resources. It reflects a conservative and realistic approach to the assessment of SABB's current and planned capital requirements on a fully consolidated basis, based on the Basel II Pillar 2 framework and the expected profile of the Bank.

SABB's ICAAP is in line with guidance issued by SAMA and is updated on an annual basis.

Directors' Report (continued)

Board of Directors and Subsidiary Committees

Directors

The Board of Directors of The Saudi British Bank comprises of ten members, including six members representing the Saudi side, elected by the General Assembly for three years with the possibility of re-election, and four other members appointed by the foreign partner.

- On 25 May 2010, Mr. David Dew was appointed as Managing Director with effect from 26 May 2010 succeeding Mr. Richard W L Groves
- On 25 May 2010, Mr. Zarir Cama was appointed a Director of the Board with effect from 26 May 2010 succeeding Mr. Richard W L Groves

In light of these changes the Board of Directors as at 31 December 2010 comprised:

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

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

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

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

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

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

Mr. Zarir Cama, BOARD MEMBER, NON-INDEPENDENT (BRITISH)

Mr. Simon Cooper, BOARD MEMBER, NON-INDEPENDENT (BRITISH)

***Mr. David Dew,** MANAGING DIRECTOR, BOARD MEMBER, NON-INDEPENDENT (BRITISH)
Board Member, SABB Takaful Co.

Mr. Robin D Jones, CHIEF OPERATING OFFICER, BOARD MEMBER, NON-INDEPENDENT (BRITISH)

**Mr. David Dew, a non-executive board member, has been appointed Managing Director of the Bank, effective 26 May 2010. Based on that, his membership classification is changed to (Executive Board Member).*

Board of Directors and Subsidiary Committees *(continued)*

On 14 December 2010, an Ordinary General Meeting was held to elect the Saudi Directors of the SABB Board for the 3 years commencing 1 January 2011. The following Directors were elected:

1. Shk. Khaled Suliman Olayan
2. Shk. Fouad Abdulwahab Bahrawi
3. H.E. Eng. Khalid Abdullah Al Molhem
4. Shk Sulaiman Abdulkader Al Muhaidib
5. Shk Mohammed Omran Al Omran
6. Mr. Mohammed A. Al-Samhan

The new Board of Directors of SABB elected Mr. Khaled Suliman Olayan as Chairman of the Board of Directors of SABB for a period of 3 years commencing 1 January 2011.

Number of Meetings Attended by each Director – 2010

No.	*Name*	*Audit*	*EXCOM*	*Board*	*Nomination & Remuneration*
1	Shk. Khaled Suliman Olayan	-	-	3	1
2	Shk. Fouad Abdulwahab Bahrawi	-	12	5	2
3	Shk. Khalid Abdullah Al Molhem	-	11	5	3
4	Shk. Sulaiman Abdulkader Al Muhaidib	-	-	5	-
5	Shk. Ahmed Sulaiman Banaja	4	-	5	-
6	Shk. Mohammed Omran Al Omran	-	12	5	2
7	Mr. Richard W L Groves	-	5	2	1
8	Mr. Robin D Jones	-	11	5	-
9	Mr. Simon Cooper	-	-	5	-
10	Mr. David Dew	-	7	5	1
11	Mr. Mohamed M Al Ammaj	4	-	-	-
12	Mr. Ian Stewart Martin	3	-	-	-
13	Mr. Zarir Cama*	-	-	2	-

*Mr. Zarir Cama has been appointed by the foreign partner in SABB's Board of Directors, to replace the former member appointed by the foreign partner, who ended his term of service in 2010.

Board Meetings

The Board of Directors held 5 meetings in 2010 as follows:

No.	*Date of Meeting*	*Number of Attendees*	*Percentage Attendance*
1	16 March 2010	10	100%
2	25 May 2010	9	90%
3	21 July 2010	10	100%
4	26 October 2010	8	80%
5	14 December 2010	10	100%

Directors' Report (continued)

Executive Committee

The Executive Committee is appointed by the Board in accordance with Article 26 of the Bank's Articles of Association and consists of the Managing Director (Chairman) and four other members selected from among the Directors. The Committee's main task is to assist the Managing Director (MGD) within the powers determined by the Board to deal with matters referred by MGD or by the Board. The Executive Committee reviews and considers all monthly reports submitted by different Functional Heads and meets twelve times during the year. The members of the Executive Committee as at 31 December 2010 were: Mr. David Dew (Chairman); Mr. Fouad Abdulwahab Bahrawi; Mr. Khalid Abdullah Al Molhem; Mr. Mohammed Omran Al Omran; and Mr. Robin D. Jones.

The Executive Committee held 12 meetings in 2010.

Audit Committee

SABB's Audit Committee was formed in 1992 reporting directly to the Board of Directors, and meets four times during the year. The Committee monitors the Bank's Internal and External Audit functions and reviews control weaknesses and system deficiencies. It is also responsible for ensuring that all financial information is of the highest quality, concentrating on critical business issues, which enable the Bank's External Auditors and Management to focus on those areas of greatest risk to the business. The members of the Audit Committee as at 31 December 2010 were: Mr. Ahmed Sulaiman Banaja (Chairman); Mr. Ian Stewart Martin: and Mr. Mohammed Mutlaq Al Ammaj.

The Audit Committee held 4 meetings during the year 2010.

Property Committee

The Property Committee includes four members of the Board with a brief to consider and approve the Bank's expenditure and liabilities in respect of properties including rentals, project costs and related support expenditure in areas such as safety and security. Subjects for the Property Committee are considered by circulation unless the Chairman of the Committee requests a meeting. The members of the Property Committee as at 31 December 2010 are: Mr. Khaled Suliman Olayan (Chairman); Mr. Sulaiman Abdulkader Al Muhaidib; Mr. David Dew; Mr. Adel Marzook Al Nasser; and Mr. Robin D. Jones.

Nomination and Remuneration Committee

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

The Committee recommends to the Board of Directors nominations for Board membership, annually reviews the skills and capabilities required of those suitable for Board membership including the time needed by a Board member for Board business, reviews the structure of the Board and submits the necessary recommendations. The members of the committee as at 31 December 2010 were: Mr. Khaled Suliman Olayan (Chairman); Mr. Khalid Abdullah Al Molhem; and Mr. Mohammed Omran Al Omran.

The Nomination and Remuneration Committee held 5 meetings during 2010.

Corporate Governance

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

Corporate Banking

In what was a difficult and challenging global economic and business environment, Corporate Banking was particularly successful, not only in increasing the level of business from existing clients but also as a result of acquiring new clients.

In growing its business during the year SABB Corporate Banking was especially active in playing a lead role in several landmark project and infrastructure financing transactions. These included the financing of a new USD10bn fully Integrated Aluminum Complex and a major water desalination and power plant, the latter of which had over SAR1.5bn of bonding requirements. Further infrastructure project financing was provided to a number of other entities across several economic sectors including transport, education, water supply, power generation and manufacturing.

SABB also leveraged its local trade finance expertise as well as that of the HSBC network in support of the significant growth in exports of local corporates, for whom especially strong demand was seen from the MENA and Asia-Pacific regions.

In addition, and as a result of SABB's international reach, the Bank has been able to assist a number of Saudi companies through HSBC, securing aggregate credit facilities in excess of USD200-300 million. Furthermore, as a result of referrals by HSBC, SABB booked facilities with a value of over SAR450 million.

Personal Banking

2010 has again seen SABB as a leading provider in Saudi Arabia of Personal Banking products and services.

To serve valued customers better nine new branches were opened across the Kingdom during the year thereby increasing SABB's retail outlets to 111 (81 branches and 30 dedicated ladies section). 86 retail outlets (67 branches and 19 dedicated ladies section) out of the total are Amanah (Islamic) while 25 outlets (14 branches and 11 dedicated ladies section) remain conventional.

All the new locations were selected taking into consideration proximity and convenience for the Bank's valued customers.

Amanah Personal Banking assets now amount to 84% of the Bank's total Personal Banking assets and 72% of total Personal Banking deposits. SABB Amanah Personal Banking revenue now accounts for 70% of total SABB Personal Banking revenue in 2010.

Over the course of the year further attention was given to internal restructuring and reorganisation to the benefit of high net worth customers, with specific focus on increasing the number of Premier Centres within the Kingdom, which now number eleven Kingdom-wide. These exclusive Centres provide Premier customers with specially developed products and services as well as addressing their local and international needs through HSBC's global network.

Building on the success of the existing Premier offering through dedicated Premier Relationship Managers, SABB Launched the Amanah Advance proposition in 2010, which is already available in 32 other markets across the globe. This service, which serves as a second tier Premier proposition, allows the Bank's customers access to a banking service in the Kingdom which has the added advantage of being available worldwide. SABB and HSBC Advance customers now have access to a wider range of the very best international retail banking products, allied to priority service. The new service is provided by well-trained Advance Business Officers who are able to offer individual customers financial management solutions best suited to their specific needs. In addition, SABB Amanah Advance harnesses new and multi-channel platforms so customers can manage their finances anytime, anywhere and in a manner that suits them best; provides access to knowledge and counsel that enables customers to explore and broaden their financial horizons so as to achieve tomorrow's life goals; and acts as a facilitator for those who are internationally minded and informed whilst asking customers 'Who could you be tomorrow?'.

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

Such expansion and increased activity, coupled with focused marketing and sales initiatives, contributed to a year-on-year increase of 50% in the SABB Premier Customer base.

SABB installed further 31 ATMs in 2010 increasing its network to 503. To enhance security for card customers the Bank has made considerable progress in introducing chip and pin technology with SABB Debit (SPAN) chip and pin cards being launched in 2010, which will be followed later by chip and pin credit cards.

Directors' Report (continued)

Personal Banking *(continued)*

During 2010 SABB's credit card business maintained its leadership position in terms of cards in issue and total spend. Meanwhile, Amanah credit cards continued to see a considerable growth in sales transacted and now constitute 90% of the sales executed each month.

SABB continued to evaluate customer needs and to introduce innovative solutions in 2010. The SMS alerts have been extended to all credit card transactions and statements. This has helped SABB improve customer service as well as reduce losses resulting from fraud. The new proposition Advance cards, as well as chip and pin credit cards, have been recently launched.

E-statements were also introduced for customers during the year, which are expected to ensure significant cost savings as well as improved efficiency in the provision of customer service.

Private Banking

SABB Private Banking continued to build on its leading position as a provider of bespoke Private Banking and investment solutions to wealthy individuals and families through its dedicated offices in Riyadh, Jeddah, Al Khobar and Makkah.

As part of a new strategic plan, segmentation criteria have been tightened to focus the business on SABB's highest value relationships, while reinforcing the required support infrastructure.

Close co-ordination continues to be maintained with SABB Securities for the provision of brokerage services and with HSBC Saudi Arabia for dedicated private client advisory and portfolio management services.

Private Banking is also able to draw on the resources and expertise of HSBC Private Bank's international network whenever necessary.

Looking ahead, activity in 2011 will continue to focus on enriching the local product spectrum in order to deliver Private Banking clients a wider choice of tailored investment products and solutions.

Treasury

Treasury enjoyed a strong and profitable year despite the challenging economic environment where interest rates remained low while credit markets still wide. The market liquidity premiums presented Treasury with various challenges in managing liquidity but nevertheless the Balance Sheet maintained healthy and robust liquidity levels. Active interest rate risk management, as well as leading positions in foreign exchange, made a significant contribution to the Bank's operating income.

Treasury maintains its focus on hedging and investment products through increased Shariah-compliant and conventional product offerings. The dedicated sales forces in the Central, Western and Eastern Provinces proved to be highly successful in terms of enhancing key customer coverage and services. Additionally the introduction of wealth management solutions for the Bank's affluent and high net-worth customers has contributed to SABB's position as one of the top providers of Treasury solutions in the Kingdom.

Significant Plans

SABB is a diversified financial services institution with a range of business activities and income streams. This has been achieved through continued investment in its core business infrastructure together with capital deployment into various strategic businesses. SABB's principal lines of business are Personal Financial Services (PFS), Corporate Banking, Private Banking, and Treasury Services. SABB offers Islamic Law (Shariah) compliant products across all principal business lines, under the "Amanah" brand-name. SABB is continually evaluating new business opportunities to expand the range of banking and finance products services which it offers customers. These offering are complimented by our associate companies who offer Takaful, Insurance, Investment Banking, Asset Management, Brokerage and Securities Services.

Significant Plans *(continued)*

A new strategic plan (Medium Term Outlook – MTO) for the period 2011 – 2013 was approved by the SABB Board in December, 2010. Our strategic goal is to remain a leading player in the financial services industry in Saudi Arabia by offering a comprehensive suite of banking propositions. Key highlights of the plan are as follows:

- Investment in our People - Robust Talent Management & Succession Plan with a structured Learning & Development proposition
- Increased investment in Global Transaction Banking
- Transformation from a trading driven to a sales lead Treasury function with greater emphasis on Non Fund Income
- Consolidated Corporate/Commercial business to focus on four key segments: Corporate, Middle Market, Business Banking and Institutional Banking
- Move to a segment based strategy in Personal Financial Services with the Premier & Advance segments being a priority
- Development of a robust Wealth Management proposition working closely with our associate companies
- Continued focus on Islamic Banking propositions across all customer groups with percentage of income derived from the business increasing during the plan period
- Business Transformation - Continuous focus on operational efficiencies
- A new Marketing strategy to improve Brand Health Index
- Develop alternative channels and review current branch network
- Restructured Risk Management function closely aligned to the customer groups

Credit and Risk

All SABB's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are Credit risk (including counterparty and cross-border country risk), Market risk (including foreign exchange, interest rate and equity price risks), Operational risks in various forms, Liquidity risk, Reputational risk and Sustainability (environmental and social) risks.

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk. The Board approves the Bank's risk framework, plans and performance targets, which includes the establishment of risk appetite statements, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

SABB's risk appetite framework was enhanced during the year and describes the quantum and types of risk that SABB is prepared to take in executing its strategy. It is central to an integrated approach to risk, capital and business management and supports the Bank in achieving its return on equity objectives, as well as being a key element in meeting the Bank's obligations under pillar 2 of Basel II.

The Bank continued to operate an independent Credit Risk function which provides high-level oversight and management of Credit and Market risk for SABB. Its responsibilities include: formulating SABB's credit policy in compliance with local regulations; guiding business segments on the Bank's appetite for Credit and Market risk exposure to specified market sectors, activities and banking products; controlling exposures to sovereign entities, Banks and other Financial Institutions; and undertaking an independent review and objective assessment of risk.

The Operational Risk management framework covers identification and assessment of material risks, identification and monitoring of key controls and identification and management of the Bank's major risks. In order to increase operational risk awareness SABB has developed a risk-based approach comprising increased integration between all functions and businesses and the development of appropriate training.

Looking ahead, key enhancements of the framework will include up-grading of the Operational Risk management system to ensure that it supports businesses; manage and control their material risks whilst also encouraging a forward-looking approach to operational risk by identifying areas of potential risk.

SABB has adapted its robust liquidity and funding risk management framework in response to changes in the mix of business that it undertakes and the impact of global events on its liquidity positions. The liquidity and funding risk management framework will continue to evolve as the Bank assimilates knowledge from market events, and recent regulatory proposals covering liquidity risk outlined within the Basel III framework.

Directors' Report (continued)

Annual Review of the Effectiveness of Internal Control Procedures

SABB's management is responsible for implementing and reviewing the effectiveness of the Bank's internal control framework as approved by the Board of Directors.

SABB has established clear standards that should be met by employees, departments and the Bank as a whole. Systems and procedures are in place within SABB to identify any deviations, control and report on major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, breaches of law or regulations, unauthorised activities and fraud. In addition to on-going management review, exposure to these risks is subject to monitoring through various management committees that were established to ensure the effectiveness of the Bank's control framework and to maintain specific oversight of key risks such as credit, asset and liability management, compliance and fraud.

Periodically, strategic plans are prepared for key customer and product groups and support functions. These are implemented and monitored through annual operating plans that are prepared and adopted by all business and support functions and that set out the key business initiatives and likely financial effects of the initiatives.

Centralised functional control is exercised over all computer system developments and operations. Common systems are employed for similar business processes wherever practicable. Credit and market risks are measured, reported and aggregated for review of risk concentrations on a Bank-wide basis.

Authorities to enter into credit exposures and market risk exposures are delegated, with limits, to line management. In addition, functional management is responsible for setting policies, procedures and standards across all areas of risk, including credit, market, liquidity, operational, IT, accounting, legal and regulatory compliance, human resources, reputational and purchasing risks.

The Risk Management function serves as a secondary control maintaining oversight of credit, market and operational risks, as well as other functions such as business continuity, security and fraud risks. The Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements. The risk management process is fully integrated with the strategic planning, annual operating plan and capital planning cycle. Furthermore, each employee is expected to be accountable for and to manage the risk within his or her assigned responsibilities based on the governance principles adopted by the Bank and addressed during training programmes.

The systems and procedures for the ongoing identification, evaluation and management of the significant risks faced by SABB were in place throughout the year. These procedures enabled SABB to discharge its obligations under the rules and regulations issued by SAMA, the Saudi Arabian Monetary Agency.

During 2010 the Bank's management integrated the internal control unit within the operational risk management function. The scope of the Security and Fraud Risk unit was expanded to take on independent oversight responsibilities for IT security, which previously resided within the IT department. The specialist Credit Review team, set up in 2009 as a separate secondary control unit for independently assessing the quality of wholesale facilities extended by the Bank, also commenced 'business as usual' operations by conducting reviews of credit portfolios during the year.

Internal Audit (INA), together with the Risk Management and Compliance functions, forms an integral part of the control environment of SABB. Positioned as an independent, tertiary line of control, INA provides management and, through the Audit Committee and Board, with an independent and objective assessment on whether the framework of risk management, control and governance processes, as designed and represented by management, is adequate and functioning effectively.

Internal Audit accomplishes this by independently reviewing, through a risk-based approach, the design effectiveness and operating efficiency of internal control systems and policies prepared and implemented by business management, as well as the oversight maintained by support functions such as internal control, compliance and risk management departments, to ensure that the Bank is operating within its stated risk appetite and in compliance with the regulatory framework.

Human Resources

During the year SABB HR actively pursued a major programme ensuring alignment of the people strategy with the Bank's overall business and organisational goals. To meet this challenging business objective detailed attention was given to up-grading all HR processes and systems and to enhancing the overall knowledge and capability of team members.

Integral to SABB HR's activities was on-going consultative and systematic support to the business through the provision of world-class training and the implementation of programmes designed to enhance the leadership capabilities, knowledge and service delivery of all staff thereby providing them with a platform on which to build their overall career progression.

A robust talent assessment exercise was launched to assist in the identification of high potential staff capable of executing the current and future business strategies of the Bank. This activity was developed in support of the Bank's objective of finding local successors able to fulfil critical leadership roles of the Bank in the years to come. In this regard SABB has the added advantage of being able to leverage the "Best-in-Class" development solutions offered by the HSBC Group. Furthermore, the Bank continued to invest in the advancement of high potential individuals through in-house strategic leadership and graduate development programmes.

SABB's performance management system seeks to ensure the delivery of desired business results by inter-relating business objectives with individual performance plans. The Bank pursued a performance-based, market-driven rewards strategy that included participation in annual compensation and benefits surveys in the Kingdom that enabled the Bank to keep abreast of on-going market trends. Additionally, following SAMA and FSB guidelines, the Bank undertook a review to ensure that its compensation structures were fully in alignment with prudent risk management.

The Bank continued to be fully committed to Saudisation, to include a number of local recruitment drives undertaken during the year. Participation in career day events, the offering of attachments for quality undergraduates in co-operative programmes and the provision of summer internships to potential undergraduates ensured the identification of talented candidates from a variety of educational backgrounds. High calibre, mid-career executives with considerable commercial and industrial experience and expertise of real benefit to the Bank were also recruited.

At year end, SABB's staff complement totalled 3,389 of which 419 were ladies. The Saudisation ratio at 31st December 2010 was 85.3%. During the year a total of 46,734 training days were attended by 12,986 delegates.

Property and Support Services

A major task during 2010 was the expansion of SABB's branch and ATM networks. Nine new branches were built during the year, namely Sinayah II, Khurais, Al Rawabi, Al Ta'wun and Al Nakheel (Men/Ladies) in Riyadh; Hail; Al Rayan (Men/Ladies); and Dhahran (Mens/Ladies) and Qatif in the Eastern Province. A further three new branches are in the process of being completed, Buraidah 2, Sulaimaniah (Jeddah) and Al Yarmook (Al Khobar). Furthermore, four branches underwent conversion to the new image during the year namely: Suwaidi and Riyadh Super Branch in Riyadh and Dammam Corniche and Al Khobar Main Branch in Eastern Province. A further three branches are in the process of being converted for completion in the first quarter of 2011. These are Sary Street Branch (Jeddah), Al Faisaliya (Riyadh) and Jubail Industrial (Eastern Province).

In addition to expansion of the branch network four new Premier Centres have been established at Al Nakheel and Al Suwaidi in Riyadh and Al Rayan (Dammam) and Dhahran in the Eastern Province.

31 new ATM's were introduced in 2010 and a further 10 are under construction and expected to be operational in the first quarter of 2011.

As part of the Bank's efforts to ensure both business continuity and proper customer service, KW Power Back-Up-Systems comprising generating sets, auto transfer switches and uninterruptible power supply units were installed in 40 branches Kingdom-wide during the year.

To promote sustainability and to protect the Environment, SABB has launched a number of initiatives during the year aimed at reducing its CO2 footprint, reducing and recycling waste, conserving water and electricity whilst building an awareness culture amongst both staff and customers.

As regards Security and Safety, a new state of the art Central Monitoring Station is now fully operational covering all SABB premises including the branch and off-branch ATM network. This station has ensured improved vigilance resulting in increased protection of the Bank and its staff and customers.

Directors' Report (continued)

Operations and Processing

Operation and Processing played a major role in deploying the new Core Banking System across SABB. In addition, several key initiatives were implemented during 2010, all aimed at reducing operational costs, improving customer experience and enhancing control levels. These included the computerisation of seven registers at Branches and Cash Centres that formerly were paper-based; replacing clearing cheque processing machines at the regional processing sites in Jeddah, Al Khobar and Riyadh; and completing the imaging of all customer mandate files at the Scanning Centre thereby enabling instant retrieval of important customer documentation.

Information Technology

Throughout 2010, Information Technology continued to support and advance technical solutions for all SABB financial group entities ending the year with the successful roll out of the new Core Banking system which includes an integrated website, second generation Internet Banking for Personal and Corporate Banking and enhancement of the Call Centre and HSBCNet. The enhanced systems represent a major step forward for all business departments in SABB and will provide the customer with an enhanced service across all Electronic delivery channels.

STS also continues to provide support to the efficient operation of Call Centres in Riyadh and Al-Khobar. Major infrastructure improvement initiatives were implemented during 2010 which resulted in a significant increase in systems availability, to 99.5%.

Community Service and Sustainability

SABB is an active and responsible corporate citizen. In 2010 the Bank carried out many initiatives under the umbrella of "SABB in the Community Programmes" focusing on education, environment, and community service.

During the year, SABB sponsored the Investment Research Centre (IRC) in the Finance Department of Al-Yamamah University, enhancing the University's business relationships with national and international agencies working in the field of finance.

The Centre has been named "SABB Centre" in appreciation of the Bank's initiative and contribution. SABB also sponsored 100 senior students of the College of Business Administration at King Saud University to attend an extensive training course, conducted by Dale Carnegie Institute, which provides students with identified business skills required to join the job market.

SABB sponsored scientific research teams from the Saudi Wildlife Commission to study the negative impacts of urbanization on marine life in the Kingdom and another study for the protection and cultivation of mangroves and ways of protecting them from extinction. The Bank continued to participate in the desert cleaning campaign in collaboration with municipal authorities in various regions of the Kingdom.

Contributing to community service, the Bank sponsored the SABB Humanitarian Bed at Sultan Bin Abdulaziz Humanitarian City (SBAHC), an annual initiative that provides treatment to 12 under-privileged children of disadvantaged families. Additionally, SABB established The Training Center for the Blind at The Blind Association Charity "Kafeef" which is fully equipped with computer and Braille language training facilities for males and females. Since inception, more than 260 persons have benefited from SABB's sponsorship. The Bank also sponsored the establishment of the "SABB Sensory Room" at "Mother of Faisal Autism Center (MFAC"). This initiative helps autistic children to explore and develop their senses and skills. Finally, SABB sponsored the Employment Programme for the Disabled, a disabled recruitment drive overseen by the Disabled Children Association (DCA). Implemented simultaneously in major cities around the Kingdom, the initiative helped 450 people get job opportunities with Saudi employers.

Presently, SABB is working closely and coordinating community service activities with over 20 Non-governmental organizations (NGO's) Kingdomwide.

International Recognition

During the year, SABB won a number of major awards from world renowned magazines and international organizations. The awards are testimony to the quality services SABB provides to its clients in Saudi Arabia, enhancing customers experience and facilitating cross-border business. The bank received the awards for being:

- Best Trade Finance Bank in Saudi Arabia by Global Finance (For the 2nd consecutive year)
- Best Sub-Custodian Bank by Global Finance
- Best Call Centre in the Middle East by Global Finance
- Best Online Consumer Credit Site in Saudi Arabia (for the 5th consecutive year) by Global Finance
- Best Bill Payment & Presentment Bank in MENA Region by Global Finance
- Best International Islamic Bank – SABB Amanah by Euromoney
- Best Domestic Cash Management Bank in Saudi Arabia by Euromoney
- The Most Active Confirming Bank in the MENA Region by World Bank's IFC
- Best Trade Finance Bank in Saudi Arabia, Global Trade Review
- Best Phone Banking Award in the Middle East, The Banker Middle East

SABB Securities Limited

Equity Brokerage

SABB Securities Limited provides customers with access to the Saudi stock market, Tadawul, as well as the majority of international stock markets worldwide. A comprehensive range of services is offered through different delivery channels, including 14 Investment Centres across the Kingdom, online services such as SABB Tadawul and SABB Mubasher and phone services via the Brokerage Call Centre. The effectiveness of the services offered is highlighted by SABB Securities' status as the third most active brokers in Saudi Arabia with a market share, in terms of total Tadawul turnover, in excess of 11.7%.

SABB Securities remained at the forefront of local market developments with a number of new initiatives being implemented during 2010 including the introduction of an Institutional Sales Desk and Global Custody Services.

Securities Services

Securities Services offers custody and clearing, funds services and Corporate Trustee and Loan Agency (CTLA) services to its clients and is recognised as a key and leading service provider in the Saudi market. The services offered were enhanced during the year with the introduction of global custody and prime services.

Despite difficult market conditions, the Securities Services business has witnessed a major growth both in assets under custody and in clients thereby impacting positively on revenues.

SABB Takaful Company

SABB Takaful is a leading provider of Takaful products in Saudi Arabia.

Capitalised at SAR 340 million, the Company was one of the first Takaful companies in the Kingdom to be listed on the Saudi Stock Exchange and is 32.5% owned by SABB and 32.5% by HSBC Group and its subsidiaries, with the balance being held by the general public following an Initial Public Offering in July 2007. During 2009 SABB Takaful obtained approval from the Capital Market Authority to raise its capital by way of a rights issue. This constituted an increase in the paid up capital of SAR 240 Million. During 2010, SABB Takaful got a renewed licence from SAMA enabling continued provision of Takaful in the Kingdom.

SABB Takaful offers a comprehensive range of Shariah-compliant Takaful plans to meet individual and corporate customers' protection and savings needs in the Kingdom. These include protection and savings schemes for individuals and families as well as property, marine and accidental plans for commercial customers.

As of 31 December 2010, SABB Takaful was considered the sixth largest insurance company in the country, as per gross written contribution, which amounted to SAR 346 Million, of which SAR 304 Million was Family Takaful business.

SABB Takaful have developed a compelling proposition, a comprehensive product range, a powerful brand position, practical use of technology, a successful banctakaful model focusing on customer service, innovative marketing campaigns and the high quality of the company's staff.

Directors' Report (continued)

SABB Insurance Services Limited (SISL)

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

Having commenced business in 2008, SISL continued to operate this year, building on its level of expertise and implementing best global practice.

HSBC Saudi Arabia Limited

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

Asset Management

The Asset Management Division of HSBC Saudi Arabia maintained its position as a leading player in the local Asset Management industry against the backdrop of another challenging year for local capital markets. The Division continued to focus on product innovation and maintained its track record of excellent performance, whilst remaining well-positioned to capitalise on HSBC Global Asset Management's status as the leading asset manager in Emerging Markets. It continues to deliver products and solutions that play to this strength and are relevant to clients in the Kingdom of Saudi Arabia. The Division's investment products are also being marketed across the GCC in partnership with HSBC Bank Middle East.

HSBC Saudi Arabia Limited continues to be one of the top providers of Access products to international institutional investors. HSBC Saudi Arabia's and HSBC Bank plc's swaps offering enables international institutional investors to participate in the growth of Saudi single listed stocks indirectly. This process was authorised in August 2008 by the Capital Market Authority and since then HSBC Saudi Arabia has enjoyed a pre-eminent position in this offering.

Investment Banking Advisory

HSBC Saudi Arabia maintained its prominent position among the Kingdom's banks in both equity capital markets and mergers and acquisitions. During the year the Division acted as Sole Financial Advisor to Al-Babtain Power & Telecommunications Company in relation to the agreed acquisition of 49% in Al-Babtain Le BLANC Telecommunication Systems Company, a transaction which involved the first instance of a publicly listed Saudi corporate issuing equity as consideration to a foreign vendor. Furthermore, since 2003, HSBC Saudi Arabia has led more equity issues in Saudi Arabia than any other financial adviser; 19 in total with a value in excess of SAR 24,000 million.

Investment Banking Finance – Debt Capital Markets and Syndicated Finance

IBSA continued to dominate the Debt Capital and Syndicated Finance markets in Saudi Arabia, a position it has held since inception. During the year the Division successfully led five debt capital market issuances for key clients, helping them issue SAR12,700 million of debt securities in the local market and USD1,600 million internationally. In addition, it actively distributed international offerings into Saudi Arabia, helping its issuer and investor clients locally and internationally. IBSA was also a lead manager during the year in Saudi Electricity Company's third Sukuk offering, which resulted in the largest order book in the history of the Saudi market totalling in excess of SAR27,000 million. The Division was also a lead manager in Apicorp's debut offering in Saudi Arabia. In the international arena, HSBC Saudi Arabia was a lead manager in SABIC Capital's debut USD1,000 million Eurobond, and the sole lead manager for SABB's third Eurobond, both of which established the tightest pricing benchmarks witnessed in the MENA region since the onset of the financial crisis. All of the foregoing were in addition to a lead level involvement in all significant syndicated loans in the Kingdom during the year, including book runner positions (for both HSBC and SABB) in Saudi Aramco's USD4,000 million syndicated RCF facility.

Project and Export Finance

HSBC Saudi Arabia Limited maintained its leading project and export finance advisory and arranging roles in the Kingdom. This was a remarkably successful year on the advisory side with five key new mandates in the petrochemical and power sectors. At the year end the Division was advising a wide spectrum of clients including Saudi Aramco, Ma'aden, Tasne'e Petrochemical, Sipchem and Sahara Petrochemical. On the arranging side, HSBC acted as Mandated Lead Arranger on the landmark US$8,500 million Satorp Refinery financing, the largest project financed during 2010 in Saudi Arabia. In conjunction with SABB, IBSA also had a leading role in the US$1,700 million raised for Ma'aden Aluminium, a Greenfield aluminium smelter under development by Ma'aden and Alcoa.

Research

In less than two years, HSBC Saudi Arabia has established a significant local presence and now provides research on companies that account for about 80% of the total market capitalization of companies on Tadawul. The research provided is best in class and is setting the standard for the region.

International Recognition

Best MENA research house per Institutional Investor and Euromoney.

HSBC Saudi Arabia has won the following awards in 2010:

- The Banker Investment Banking Awards 2010: Most innovative Investment Bank for Islamic Finance (in addition, The Banker magazine also awarded an HSBC Saudi Arabia debt team the “Team of the month”)
- Credit Awards 2010: Best Bank For Islamic Finance
- Euromoney Awards for Excellence 2010: Best Global Emerging Markets Debt House, Best Investment Bank in the Middle East, Best Investment Bank in Saudi Arabia
- Euromoney Primary Debt Poll 2010: #1 Ratings agency advisory
- Euromoney Islamic Finance Awards 2010: Sukuk House of the Year
- EMEA Finance Best Foreign Investment Bank in Saudi Arabia in 2010
- EMEA Finance honourable mention in the Best Asset Manager category in 2010
- Best MENA Research House in 2010 by Euromoney and Institutional Investor

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Saudi British Bank ("the Bank") and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (42), other than note (38), and the information related to "Basel II Pillar 3 disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

- present fairly, in all material respects, the financial position of the Bank and its subsidiary as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements

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13 Rabi Awal 1432H
(16 February 2011)

Consolidated Statement of Financial Position

As at 31 December

	Notes	2010 SAR'000	2009 SAR'000
ASSETS			
Cash and balances with SAMA	*3*	**15,144,088**	16,614,885
Due from banks and other financial institutions	*4*	**7,042,310**	6,004,593
Investments, net	*5*	**24,972,442**	23,817,550
Loans and advances, net	*6*	**74,248,486**	76,381,599
Investment in associates	*7*	**221,532**	180,458
Property and equipment, net	*8*	**558,609**	594,042
Other assets	*9*	**3,185,399**	3,244,835
Total assets		**125,372,866**	126,837,962
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	*11*	**4,661,178**	13,605,744
Customers' deposits	*12*	**94,672,855**	89,186,861
Debt securities in issue	*13*	**5,475,754**	5,709,487
Borrowings	*14*	**187,500**	187,500
Other liabilities	*15*	**5,203,632**	5,103,081
Total liabilities		**110,200,919**	113,792,673
SHAREHOLDERS' EQUITY			
Share capital	*16*	**7,500,000**	7,500,000
Statutory reserve	*17*	**5,458,863**	4,988,075
Other reserves	*18*	**105,971**	(137,535)
Retained earnings		**1,544,613**	694,749
Proposed dividends		**562,500**	-
Total shareholders' equity		**15,171,947**	13,045,289
Total liabilities and shareholders' equity		**125,372,866**	126,837,962

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the years ended 31 December

	Notes	2010 SAR'000	2009 SAR'000
Special commission income	*20*	**3,724,908**	4,573,599
Special commission expense	*20*	**481,865**	1,136,857
Net special commission income		**3,243,043**	3,436,742
Fees and commission income, net	*21*	**1,181,322**	1,210,734
Exchange income, net		**126,677**	127,265
Income from financial instruments designated as FVIS, net	*22*	**-**	6,567
Trading income, net	*23*	**258,279**	295,982
Dividend income		**3,707**	1,453
Gains on non-trading investments, net	*24*	**-**	48,828
Other operating income		**26,393**	32,708
Total operating income		**4,839,421**	5,160,279
Salaries and employee related expenses		**969,583**	919,395
Rent and premises related expenses		**90,840**	82,159
Depreciation	*8*	**113,114**	111,289
General and administrative expenses		**580,633**	564,706
Provision for credit losses, net	*6*	**1,233,526**	1,496,483
Impairment of other financial assets		**9,553**	-
Other operating expenses		**94**	18
Total operating expenses		**2,997,343**	3,174,050
Income from operating activities		**1,842,078**	1,986,229
Share in earnings of associates, net	*7*	**41,074**	46,048
Net income for the year		**1,883,152**	2,032,277
Basic and diluted earnings per share (in SAR)	*25*	**2.51**	2.71

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended 31 December

	2010	2009
	SAR'000	SAR'000
Net income for the year	**1,883,152**	2,032,277
Other comprehensive income:		
Available for sale financial assets		
- Net change in fair value	**281,568**	95,799
- Transfer to consolidated statement of income	-	(48,828)
Cash flow hedges		
- Net change in fair value	**(33,452)**	6,275
- Transfer to consolidated statement of income	**(4,610)**	(14,065)
	243,506	39,181
Total comprehensive income for the year	**2,126,658**	2,071,458

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the years ended 31 December

2010	Notes	*Share capital* SAR'000	*Statutory reserve* SAR'000	*Other reserves* SAR'000	*Retained earnings* SAR'000	*Proposed dividend* SAR'000	*Total* SAR'000
Balance at beginning of the year		**7,500,000**	**4,988,075**	**(137,535)**	**694,749**	**-**	**13,045,289**
Total comprehensive income for the year							
- Net income for the year		**-**	**-**	**-**	**1,883,152**	**-**	**1,883,152**
- Other comprehensive income		**-**	**-**	**243,506**	**-**	**-**	**243,506**
Transfer to statutory reserve	*17*	**-**	**470,788**	**-**	**(470,788)**	**-**	**-**
2010 final proposed dividend	*26*	**-**	**-**	**-**	**(562,500)**	**562,500**	**-**
Balance at end of the year		**7,500,000**	**5,458,863**	**105,971**	**1,544,613**	**562,500**	**15,171,947**
2009							
Balance at beginning of the year		6,000,000	4,480,005	(176,716)	1,330,542	-	11,633,831
Total comprehensive income for the year							
- Net income for the year		-	-	-	2,032,277	-	2,032,277
- Other comprehensive income		-	-	39,181	-	-	39,181
Bonus share issue		1,500,000	-	-	(1,500,000)	-	-
Transfer to statutory reserve	*17*	-	508,070	-	(508,070)	-	-
2009 interim dividend paid	*26*	-	-	-	(660,000)	-	(660,000)
Balance at end of the year		7,500,000	4,988,075	(137,535)	694,749	-	13,045,289

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended 31 December

	Notes	2010 SAR'000	2009 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**1,883,152**	2,032,277
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Accretion of discount on non trading investments		**(7,821)**	(4,075)
Income from FVIS financial instruments, net	*22*	**-**	(5,883)
Gains on non-trading investments, net	*24*	**-**	(48,828)
Depreciation	*8*	**113,114**	111,289
Losses on disposal of property and equipment, net		**94**	14
Share in earnings of associates, net	*7*	**(41,074)**	(46,048)
Provision for credit losses, net	*6*	**1,233,526**	1,496,483
Impairment of other financial assets		**9,553**	-
Change in carrying value of debt securities in issue		**(233,733)**	52,687
		2,956,811	3,587,916
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	*3*	**(76,234)**	(335,074)
Investments held for trading		**313,945**	11,685
Loans and advances		**899,587**	2,358,675
Other assets		**59,436**	336,220
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(8,944,566)**	(2,463,748)
Customers' deposits		**5,485,994**	(3,490,676)
Other liabilities		**111,250**	(285,576)
Net cash from (used in) operating activities		**806,223**	(280,578)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**26,753,333**	19,549,679
Purchase of non-trading investments		**(27,980,396)**	(13,715,782)
Dividend received from associates		**-**	111,446
Purchase of property and equipment	*8*	**(78,438)**	(143,919)
Investment in associates		**-**	(97,500)
Proceeds from disposal of property and equipment		**663**	34
Net cash (used in) from investing activities		**(1,304,838)**	5,703,958
FINANCING ACTIVITIES			
Dividends paid		**(10,699)**	(667,695)
Net cash used in financing activities		**(10,699)**	(667,695)
(Decrease) Increase in cash and cash equivalents		**(509,314)**	4,755,685
Cash and cash equivalents at the beginning of the year		**17,456,914**	12,701,229
Cash and cash equivalents at the end of the year	*27*	**16,947,600**	17,456,914
Special commission received during the year		**3,740,263**	4,901,462
Special commission paid during the year		**568,217**	1,539,842
SUPPLEMENTAL NONCASH INFORMATION			
Other comprehensive income		**243,506**	39,181

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

1. General

The Saudi British Bank (SABB) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 81 branches (2009: 72) and 30 exclusive ladies' sections (2009: 31) in the Kingdom of Saudi Arabia. SABB employed 3,389 staff as at 31 December 2010 (2009: 3,504). The address of SABB's head office is as follows:

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

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

SABB has 100% (2009 : 100 %) ownership interest in a subsidiary, SABB Securities Limited, a Limited Liability Company formed in accordance with the Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activities of the subsidiary are to engage in business of custody and dealing as an agent excluding underwriting.

SABB has 100% (2009 : 100 %) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company- see note 7) within the Kingdom of Saudi Arabia as per the agreement between them. However, the articles of association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 51% (2009 : 51 %) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity of the subsidiary is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

1.1. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

1.1. Basis of preparation *(continued)*

d) *Basis of consolidation*

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

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

Intercompany transactions and balances have been eliminated upon consolidation.

e) *Critical accounting judgements and estimates*

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

i) *Impairment losses on loans and advances*

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

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

ii) *Fair value of financial instruments that are not quoted in an active market*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

1.1. Basis of preparation *(continued)*

e) Critical accounting judgements and estimates *(continued)*

iii) Impairment of available for sale equity investments

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

iv) Classification of held to maturity investments

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

(v) Classification of fair value through income statement

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

f) Going concern

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

2. Summary of significant accounting policies

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

a) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

b) Trade date accounting

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

c) Derivative financial instruments and hedge accounting

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

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

c) Derivative financial instruments and hedge accounting (continued)

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

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

d) *Foreign currencies*

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

e) *Offsetting financial instruments*

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

f) *Revenue/expenses recognition*

Special commission income and expense

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

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

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

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

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

Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

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

f) Revenue/expenses recognition *(continued)*

Fees and commission income

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

Dividend income

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

Net trading income

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

g) Sale and repurchase agreements

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

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

h) Investments

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

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

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

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

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

i) Held as FVIS

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

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

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

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

ii) Available for sale

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

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

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

iii) Held to maturity

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

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

iv) Held at amortised cost

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

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

i) Investment in associates

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

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

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

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

j) Loans and advances

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

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

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

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

k) Due from banks and other financial institutions

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

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

l) Impairment of financial assets

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

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

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

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

l) *Impairment of financial assets (continued)*

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

i) *Impairment of financial assets held at amortised cost*

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

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

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

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

ii) *Impairment of financial assets held at fair value*

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

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

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

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective commission rate.

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

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

m) Property and equipment

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

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

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

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

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

n) Liabilities

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

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

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

o) Provisions

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

p) Guarantees

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

q) Accounting for leases

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

r) Cash and cash equivalents

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

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

s) *Derecognition of financial instruments*

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

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

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

t) *Assets held in trust or in fiduciary capacity*

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

u) *Zakat and income taxes*

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

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

v) *Shariah approved banking products*

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

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

3. Cash and balances with SAMA

	2010	2009
	SAR'000	SAR'000
Cash in hand	**785,487**	662,694
Statutory deposit	**5,238,798**	5,162,564
Reverse repos	**9,084,874**	10,787,850
Other balances	**34,929**	1,777
Total	**15,144,088**	16,614,885

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

4. Due from banks and other financial institutions

	2010 SAR'000	2009 SAR'000
Current accounts	**6,286,816**	1,091,225
Money market placements	**755,494**	4,913,368
Total	**7,042,310**	6,004,593

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2010 SAR'000	2009 SAR'000	**2010 SAR'000**	2009 SAR'000	**2010 SAR'000**	2009 SAR'000
i) Held as FVIS						
Fixed rate securities	**-**	-	**18,783**	18,673	**18,783**	18,673
Floating rate securities	**13,475**	327,530	**-**	-	**13,475**	327,530
Held as FVIS	**13,475**	327,530	**18,783**	18,673	**32,258**	346,203

Investments classified under FVIS are all held for trading amounting to SAR 32.3 million (2009: SAR 346.2 million).

	Domestic		International		Total	
	2010 SAR'000	2009 SAR'000	**2010 SAR'000**	2009 SAR'000	**2010 SAR'000**	2009 SAR'000
ii) Available for sale						
Fixed rate securities	**12,413,714**	10,685,614	**2,887,871**	2,733,709	**15,301,585**	13,419,323
Floating rate securities	**4,731,526**	3,631,376	**1,269,258**	1,590,398	**6,000,784**	5,221,774
Equities	**1,272,024**	10,894	**56,221**	46,615	**1,328,245**	57,509
Available for sale investments, gross	**18,417,264**	14,327,884	**4,213,350**	4,370,722	**22,630,614**	18,698,606
Allowance for impairment	**-**	-	**(31,232)**	(21,679)	**(31,232)**	(21,679)
Available for sale investments	**18,417,264**	14,327,884	**4,182,118**	4,349,043	**22,599,382**	18,676,927
iii) Held at amortised cost						
Fixed rate securities	**2,102,215**	3,171,648	**-**	-	**2,102,215**	3,171,648
Floating rate securities	**138,000**	1,221,000	**9,000**	9,000	**147,000**	1,230,000
Held at amortised cost, gross	**2,240,215**	4,392,648	**9,000**	9,000	**2,249,215**	4,401,648
Allowance for impairment	-	-	**(9,000)**	(9,000)	**(9,000)**	(9,000)
Held at amortised cost	**2,240,215**	4,392,648	**-**	-	**2,240,215**	4,392,648
iv) Held to maturity						
Fixed rate securities	**100,587**	401,772	**-**	-	**100,587**	401,772
Held to maturity investments	**100,587**	401,772	**-**	-	**100,587**	401,772
Investments, net	**20,771,541**	19,449,834	**4,200,901**	4,367,716	**24,972,442**	23,817,550

5. Investments, net *(continued)*

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

	2010			2009		
	Quoted	***Unquoted***	***Total***	*Quoted*	*Unquoted*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Fixed rate securities	**2,984,483**	**14,538,687**	**17,523,170**	3,182,778	13,828,638	17,011,416
Floating rate securities	**4,815,082**	**1,346,177**	**6,161,259**	4,960,535	1,818,769	6,779,304
Equities	**1,261,130**	**67,115**	**1,328,245**	-	57,509	57,509
	9,060,695	**15,951,979**	**25,012,674**	8,143,313	15,704,916	23,848,229
Allowance for impairment	**-**	**(40,232)**	**(40,232)**	-	(30,679)	(30,679)
Investments	**9,060,695**	**15,911,747**	**24,972,442**	8,143,313	15,674,237	23,817,550

Unquoted investments include securities of SAR 14,968.9 million (2009: SAR 15,180.0 million) issued by the Saudi Arabian Government and its agencies.

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

	2010			2009		
	Carrying value	***Gross unrealised gain***	***Fair value***	*Carrying value*	*Gross unrealised gain*	*Fair value*
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
i) Held at amortised cost						
Fixed rate securities	**2,102,215**	**109,481**	**2,211,696**	3,171,648	172,061	3,343,709
Floating rate securities	**138,000**	**9,278**	**147,278**	1,221,000	1,282	1,222,282
Total	**2,240,215**	**118,759**	**2,358,974**	4,392,648	173,343	4,565,991
ii) Held to maturity						
Fixed rate securities	**100,587**	**7,477**	**108,064**	401,772	12,939	414,711
Total	**100,587**	**7,477**	**108,064**	401,772	12,939	414,711

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

	2010	2009
	SAR'000	SAR'000
Government and quasi Government	**19,871,537**	20,348,115
Corporate	**971,921**	593,881
Banks and other financial institutions	**4,117,561**	2,864,155
Other	**11,423**	11,399
Total	**24,972,442**	23,817,550

Equities reported under available for sale investments include unquoted shares of SAR 11.4 million (2009: SAR 11.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR 543.3 million (2009: SAR nil) which have been pledged under repurchase agreement with banks and customers. The market value of such investments is SAR 565.4 million (2009: SAR nil).

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

5. Investments, net *(continued)*

e) *Credit quality of investments*

	2010	2009
	SAR'000	SAR'000
Saudi Government bonds	**14,698,914**	15,180,032
Investment grade	**8,693,727**	8,540,236
Non Investment Grade	**212,745**	-
Unrated	**1,367,056**	97,282
Total	**24,972,442**	23,817,550

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

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's Rating of AAA to BBB. Issuer ratings have been used for bonds which have not been rated by any agency amounting to SAR 609.9 million (2009: SAR 311.2 million).

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

f) *Movements of allowance for impairment on investments*

	2010	2009
	SAR'000	SAR'000
Balance at beginning of the year	**30,679**	86,929
Provided during the year	**9,553**	-
Amounts written off during the year	**-**	(56,250)
Balance at end of the year	**40,232**	30,679

6. Loans and advances, net

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

	2010			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Performing loans and advances-Gross	**1,921,633**	**12,877,834**	**59,449,025**	**74,248,492**
Non performing loans and advances, net	**18,685**	**37,894**	**2,557,887**	**2,614,466**
Total loans and advances	**1,940,318**	**12,915,728**	**62,006,912**	**76,862,958**
Provision for credit losses (specific and collective)	**(146,817)**	**(236,370)**	**(2,231,285)**	**(2,614,472)**
Loans and advances, net	**1,793,501**	**12,679,358**	**59,775,627**	**74,248,486**

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

Loans and advances, net include Shariah approved products totalling SAR 35,024 million (2009: SAR 38,568 million) which are stated at cost less provision for credit losses, of SAR 1,317.8 million (2009: SAR 723.0 million).

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

Provision for credit losses charged to the consolidated statement of income related to Shariah approved products is SAR 786.1 million (2009: SAR 692.4 million).

Loans and advances include loans amounting to SAR 865 million (2009: SAR nil) that have been fair value hedged through a fixed to floating interest rate swap. The positive mark to market on these loans was SAR 5.3 million (2009: SAR nil) as at the end of the current year.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 339.6 million (2009: SAR 277.5 million).

b) Movement in provision for credit losses

	2010			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Balance at beginning of the year	**127,225**	**207,177**	**1,440,942**	**1,775,344**
Bad debts written off	**(117,890)**	**(249,894)**	**(26,614)**	**(394,398)**
Provided during the year	**192,257**	**334,551**	**1,154,205**	**1,681,013**
Recoveries of amounts previously provided	**(54,775)**	**(55,464)**	**(337,248)**	**(447,487)**
Balance at the end of the year	**146,817**	**236,370**	**2,231,285**	**2,614,472**

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

The allowance for credit losses above includes a collective allowance amounting to SR 505.7 million (2009: SAR 247.4 million) related to the performing portfolio.

The net charge to income on account of provision for credit losses is SAR 1,233.5 million (2009: SAR 1,496.5 million), which is net of recoveries of amounts previously provided as shown above.

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

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

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

	2010			
Grades	***Credit Cards***	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Undoubted	**-**	**-**	**303,683**	**303,683**
Good	**-**	**-**	**19,970,516**	**19,970,516**
Satisfactory	**1,673,784**	**11,926,518**	**36,567,872**	**50,168,174**
Total	**1,673,784**	**11,926,518**	**56,842,071**	**70,442,373**

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

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

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

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

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

c) Credit quality of loans and advances *(continued)*

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

	2010			
	Credit Cards	***Consumer Loans***	***Commercial Loans and Overdrafts***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
From 1 day to 30 days	**107,999**	**648,823**	**2,162,854**	**2,919,676**
From 31 days to 90 days	**76,403**	**185,108**	**130,870**	**392,381**
From 91 days to 180 days	**63,447**	**117,385**	**313,230**	**494,062**
Total loans and advances	**247,849**	**951,316**	**2,606,954**	**3,806,119**

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

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

c) Credit quality of loans and advances *(continued)*

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

	2010			
	Performing	***Non performing, net***	***Credit loss provision***	***Loans and advances, net***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Government and quasi Government	**1,940,204**	**-**	**-**	**1,940,204**
Banks and other financial institutions	**75,000**	**-**	**-**	**75,000**
Agriculture and fishing	**861,528**	**1,695**	**-**	**863,223**
Manufacturing	**14,489,837**	**145,131**	**(89,920)**	**14,545,048**
Mining and quarrying	**16,363**	**-**	**-**	**16,363**
Electricity, water, gas and health services	**948,711**	**7,128**	**(7,128)**	**948,711**
Building and construction	**4,815,904**	**96,859**	**(42,828)**	**4,869,935**
Commerce	**18,426,539**	**920,830**	**(824,835)**	**18,522,534**
Transportation and communication	**4,033,293**	**1,852**	**(1,083)**	**4,034,062**
Services	**6,706,127**	**13,704**	**(10,630)**	**6,709,201**
Consumer loans and credit cards	**14,724,467**	**56,579**	**(383,187)**	**14,397,859**
Other	**7,210,519**	**1,370,688**	**(749,136)**	**7,832,071**
Collective impairment provision	**-**	**-**	**(505,725)**	**(505,725)**
Total	**74,248,492**	**2,614,466**	**(2,614,472)**	**74,248,486**

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

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

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

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

d) *Collateral*

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

7. Investments in associates

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

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

	2010			2009		
	HSBC Saudi Arabia Limited	***SABB Takaful***	***Total***	*HSBC Saudi Arabia Limited*	*SABB Takaful*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	**70,126**	**110,332**	**180,458**	130,150	18,206	148,356
Cost of investment during the year	**-**	**-**	**-**	-	97,500	97,500
Dividend received	**-**	**-**	**-**	(111,446)	-	(111,446)
Share of undistributed profits (losses)	**42,874**	**(1,800)**	**41,074**	51,422	(5,374)	46,048
Total	**113,000**	**108,532**	**221,532**	70,126	110,332	180,458

Share of the associates' financial statements:

	2010		2009	
	HSBC Saudi Arabia Limited	***SABB Takaful***	*HSBC Saudi Arabia Limited*	*SABB Takaful*
	SAR' 000	**SAR' 000**	SAR' 000	SAR' 000
Total assets	**171,082**	**315,710**	130,950	257,745
Total liabilities	**58,082**	**207,178**	60,824	147,413
Total equity	**113,000**	**108,532**	70,126	110,332
Total income	**98,550**	**13,128**	88,438	13,606
Total expenses	**55,676**	**14,928**	37,016	18,980

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

8. Property and equipment, net

	Land and Buildings SAR'000	*Leasehold improvements* SAR'000	*Equipment, furniture and vehicles* SAR'000	**2010** *Total* SAR'000	2009 *Total* SAR'000
Cost					
As at 1 January	**635,887**	**331,977**	**670,124**	**1,637,988**	1,495,441
Additions	**7,554**	**41,249**	**29,635**	**78,438**	143,919
Disposals	**-**	**-**	**(2,799)**	**(2,799)**	(1,372)
As at 31 December	**643,441**	**373,226**	**696,960**	**1,713,627**	1,637,988
Accumulated depreciation					
As at 1 January	**306,824**	**220,541**	**516,581**	**1,043,946**	933,981
Charge for the year	**26,407**	**23,265**	**63,442**	**113,114**	111,289
Disposals	**-**	**-**	**(2,042)**	**(2,042)**	(1,324)
As at 31 December	**333,231**	**243,806**	**577,981**	**1,155,018**	1,043,946
Net book value					
As at 31 December 2010	**310,210**	**129,420**	**118,979**	**558,609**	
As at 31 December 2009	329,063	111,436	153,543		594,042

Land and buildings, leasehold improvements and equipment include work in progress as at 31 December 2010 amounting to SAR 28.5 million (2009: SAR 24.7 million), SAR 54.8 million (2009: SAR 46.0 million) and SAR 4.3 million (2009: SAR 16.8 million) respectively.

9. Other assets

	2010 SAR'000	2009 SAR'000
Accrued special commission receivable		
– banks and other financial institutions	**189**	95
– investments	**108,859**	128,108
– loans and advances	**459,200**	445,371
Total accrued special commission receivable	**568,248**	573,574
Accounts receivable	**98,351**	63,134
Other real estate	**-**	4,277
Positive fair value of derivatives (note10)	**1,790,116**	1,879,011
Advance tax	**117,140**	165,662
Other	**611,544**	559,177
Total	**3,185,399**	3,244,835

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading

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

Derivatives held for hedging

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

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

10. Derivatives *(continued)*

Derivatives held for hedging *(continued)*

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

Cash flow hedges

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

	2010		
	Within 1 year	***1-3 years***	***3-5 years***
	SAR'000	**SAR'000**	**SAR'000**
Cash inflows (assets)	**644**	**323**	**-**
Cash out flows (liabilities)	**(19,407)**	**(33,976)**	**-**
Net cash outflow	**(18,763)**	**(33,653)**	**-**

	2009		
	Within 1 year	*1-3 years*	*3-5 years*
	SAR'000	SAR'000	SAR'000
Cash inflows (assets)	3,264	16,143	-
Cash out flows (liabilities)	(6,671)	(41,949)	(24,283)
Net cash inflow	(3,407)	(25,806)	(24,283)

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

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

10. Derivatives *(continued)*

				Notional amounts by term to maturity				
	Positive fair value	*Negative fair value*	*Notional amount total*	*Within 3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Monthly average*
2010	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Derivatives held for trading:								
Special commission rate swaps	**1,336,516**	**(1,262,996)**	**49,742,259**	**1,646,858**	**6,785,716**	**37,035,595**	**4,274,090**	**55,440,147**
Special commission rate futures and options	**52,355**	**(52,355)**	**2,887,500**	**-**	**-**	**2,887,500**	**-**	**2,887,500**
Spot and forward foreign exchange contracts	**87,661**	**(106,170)**	**28,329,060**	**12,793,040**	**15,108,630**	**427,390**	**-**	**31,966,804**
Currency options	**156,008**	**(156,008)**	**6,552,879**	**1,564,873**	**3,422,006**	**1,566,000**	**-**	**5,592,946**
Currency swaps	**143,793**	**-**	**1,475,297**	**-**	**1,475,297**	**-**	**-**	**1,475,297**
Others	**8,165**	**(8,165)**	**780,000**	**-**	**-**	**780,000**	**-**	**723,000**
Derivatives held as fair value hedges:								
Special commission rate swaps	**-**	**(127,061)**	**4,058,719**	**61,370**	**169,519**	**3,771,580**	**56,250**	**1,966,900**
Derivatives held as cash flow hedges:								
Special commission rate swaps	**5,618**	**(28,417)**	**1,343,750**	**-**	**-**	**1,343,750**	**-**	**1,475,000**
Total	**1,790,116**	**(1,741,172)**	**95,169,464**	**16,066,141**	**26,961,168**	**47,811,815**	**4,330,340**	

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

10. Derivatives *(continued)*

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

10. Derivatives *(continued)*

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

	2010					
	Fair value	***Hedge inception value***	***Risk***	***Hedging instrument***	***Positive fair value***	***Negative fair value***
	SAR'000	**SAR'000**			**SAR'000**	**SAR'000**
Description of the hedged items:						
Fixed commission rate investments	**991,838**	**949,049**	Fair value	Special commission rate swap	**-**	**(43,228)**
Fixed commission rate loans	**865,007**	**859,670**	Fair value	Special commission rate swap	**-**	**(5,297)**
Fixed commission rate debt securities in issue	**2,154,902**	**2,250,000**	Fair value	Special commission rate swap	**-**	**(78,536)**
Floating commission rate investments	**78,615**	**93,750**	Cash flow	Special commission rate swap	**5,618**	**-**
Floating commission rate debt securities in issue	**1,255,556**	**1,250,000**	Cash flow	Special commission rate swap	**-**	**(28,417)**

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

The net losses on the hedging instruments for fair value hedges are SAR 102.3 million (2009: net gains of SAR 2.9 million). The net gains on the hedged item attributable to the hedged risk are SAR 105.6 million (2009: net losses of SAR 4.2 million). The net fair value of the derivatives is negative SAR 127.1 million (2009: negative SAR 24.7 million).

Approximately 33% (2009: 27%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 21% (2009: 19%) of the total of the positive fair value contracts are with any individual counterparty at the consolidated statement of financial position date.

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

11. Due to banks and other financial institutions

	2010	2009
	SAR'000	SAR'000
Current accounts	**672,636**	1,455,515
Money market deposits	**3,988,542**	12,150,229
Total	**4,661,178**	13,605,744

Money market deposits also include deposits placed by SAMA of SAR 290.9 million (2009: SAR 276.9 million).

12. Customers' deposits

	2010	2009
	SAR'000	SAR'000
Demand	**46,625,673**	38,073,079
Savings	**4,452,472**	3,877,905
Time	**42,514,025**	46,327,624
Other	**1,080,685**	908,253
Total	**94,672,855**	89,186,861

Customers' deposits include SAR 47,218.7 million (2009: SAR 39,417.7 million) deposits taken under Shariah approved product contracts.

Other customers' deposits include SAR 1,078.9 million (2009: SAR 905.6 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2010	2009
	SAR'000	SAR'000
Demand	**4,825,657**	3,206,460
Savings	**186,891**	157,591
Time	**4,161,507**	8,780,380
Other	**247,604**	227,317
Total	**9,421,659**	12,371,748

13. Debt securities in issue

	2010	2009
	SAR'000	SAR'000
USD 600 million 5 year fixed rate notes	2,154,902	-
USD 600 million 5 year floating rate notes	-	2,249,867
Euro 325 million 5 year floating rate notes	1,615,852	1,754,620
SAR 1,705 million 5 year floating rate notes	1,705,000	1,705,000
Total	**5,475,754**	5,709,487

USD 600 million 5 year fixed rate notes

During the current year the bank issued 5 year USD 600 million notes at a fixed rate of 3% maturing on 12 November 2015. The notes are unsecured and carry an effective yield of 3.148% which at the time of issuance was 170 bps above 5 year mid swap rates.. The notes are non-convertible, are unsecured and are listed on the London Stock Exchange.

The special commission rate exposure on these notes has been hedged by a fixed to floating special commission rate swap. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a fair value hedge in these financial statements. The positive mark to market on these notes is SAR 79.8 million as at the end of the current year.

USD 600 million 5 year floating rate notes

These notes were issued during March 2005 under the Bank's Euro Medium Term Note programme and matured during the current year. They carried effective special commission at three months' LIBOR plus 40.76 bps which was payable quarterly.

Euro 325 million 5 year floating rate notes

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

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

SAR 1,705 million 5 year floating rate notes

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

The special commission rate exposure on these notes has been partially hedged by a floating to fixed special commission rate swap to the extent of SAR 1,250 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in these financial statements.

14. Borrowings

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

15. Other liabilities

	2010 SAR'000	2009 SAR'000
Accrued special commission payable		
– banks and other financial institutions	**46,586**	45,832
– customers' deposits	**134,867**	220,505
– debt securities in issue	**18,850**	10,289
– borrowings	**452**	452
Total accrued special commission payable	**200,755**	277,078
Accounts payable	**1,069,483**	854,951
Drawings payable	**798,443**	622,344
Negative fair value of derivatives (note 10)	**1,741,172**	1,512,151
Other	**1,393,779**	1,836,557
Total	**5,203,632**	5,103,081

16. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2009: 750 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2010	2009
Saudi shareholders	60%	60%
HSBC Holdings BV	40%	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 471 million (2009: SAR 508 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

	2010		
	Cash flow hedges	***Available for sale investments***	***Total***
	SAR'000	**SAR'000**	**SAR'000**
Balance at beginning of the year	**28,458**	**(165,993)**	**(137,535)**
Net change in fair value	**(33,452)**	**281,568**	**248,116**
Transfer to consolidated statement of income	**(4,610)**	**-**	**(4,610)**
Net movement during the year	**(38,062)**	**281,568**	**243,506**
Balance at end of the year	**(9,604)**	**115,575**	**105,971**

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

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 4.6 million (2009: SAR 14.1 million) from equity to the consolidated statement of income included in the above numbers.

19. Commitments and contingencies

a) Legal proceedings

As at 31 December 2010 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b) Capital commitments

The Bank has capital commitments of SAR 30.2 million (2009: SAR 67.9 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.

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

19. Commitments and contingencies *(continued)*

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

2010	*Within 3 months* SAR'000	*3-12 months* SAR'000	*1-5 years* SAR'000	*Over 5 years* SAR'000	*Total* SAR'000
Letters of credit	**5,142,691**	**4,101,327**	**911,948**	**-**	**10,155,966**
Guarantees	**11,877,344**	**11,312,243**	**9,399,305**	**38,467**	**32,627,359**
Acceptances	**2,369,831**	**346,632**	**82,622**	**-**	**2,799,085**
Irrevocable commitments to extend credit	**-**	**149,408**	**43,642**	**-**	**193,050**
Total	**19,389,866**	**15,909,610**	**10,437,517**	**38,467**	**45,775,460**

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

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 35,173.4 million (2009: SAR 35,229.1 million).

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

	2010 SAR'000	2009 SAR'000
Government and quasi Government	**149,408**	267,144
Corporate	**35,834,452**	31,112,704
Banks and other financial institutions	**9,628,199**	7,269,803
Other	**163,401**	135,681
Total	**45,775,460**	38,785,332

f) Operating lease commitments

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

	2010 SAR'000	2009 SAR'000
Less than 1 year	**50,524**	49,313
1 to 5 years	**146,515**	145,599
Over 5 years	**145,594**	149,606
Total	**342,633**	344,518

20. Net special commission income

	2010	2009
	SAR'000	SAR'000
Special commission income		
Investments		
– available for sale investments	**261,791**	536,208
– held at amortised cost	**151,439**	203,728
– held to maturity investments	**10,717**	28,712
	423,947	768,648
Due from banks and other financial institutions	**40,367**	65,008
Loans and advances	**3,260,594**	3,739,943
Total	**3,724,908**	4,573,599
Special commission expense		
Due to banks and other financial institutions	**52,398**	189,096
Customers' deposits	**358,139**	831,003
Debt securities in issue	**61,045**	106,475
Borrowing	**10,283**	10,283
Total	**481,865**	1,136,857
Net special commission income	**3,243,043**	3,436,742

21. Fees and commission income, net

	2010	2009
	SAR'000	SAR'000
Fees income:		
– Share trading and fund management	**164,737**	232,281
– Trade finance	**505,551**	485,535
– Corporate finance and advisory	**202,407**	195,112
– Cards	**302,311**	319,427
– Other banking services	**130,050**	80,063
Total fees income	**1,305,056**	1,312,418
Fees expense:		
– Cards	**(45,392)**	(37,452)
– Custodial services	**(760)**	(852)
– Other banking services	**(77,582)**	(63,380)
Total fees expense	**(123,734)**	(101,684)
Fees and commission income, net	**1,181,322**	1,210,734

22. Income from financial instruments designated as FVIS, net

	2010	2009
	SAR'000	SAR'000
Fair value change on investments held as FVIS	**-**	5,883
Special commission income on FVIS investments	**-**	684
Total	**-**	6,567

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

23. Trading income, net

	2010	2009
	SAR'000	SAR'000
Foreign exchange, net	**210,337**	253,551
Derivatives	**36,020**	41,807
Debt instruments	**8,636**	4,486
Others	**3,286**	(3,862)
Total	**258,279**	295,982

24. Gains on non-trading investments, net

	2010	2009
	SAR'000	SAR'000
Available for sale investments	**-**	48,828

25. Basic and diluted earnings per share

Basic earnings per share for the year ended 31 December 2010 and 2009 is calculated by dividing the net income for the year attributable to the equity holders by 750 million.

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

26. Gross dividend, zakat and income tax

The Board of Directors has proposed a gross dividend of SAR 562.5 million for the year 2010 (2009: SAR 660 million). Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Saudi shareholders:
Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 30.0 million (2009: SAR 39.9 million).

Non Saudi shareholders:
Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 160.0 million (2009: SAR 174.4 million).

27. Cash and cash equivalents

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

	2010	2009
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	**9,905,290**	11,452,321
Due from banks and other financial institutions with an original maturity of ninety days or less from date of the acquisition	**7,042,310**	6,004,593
Total	**16,947,600**	17,456,914

28. Business segments

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

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

a) The Bank's reportable segments under IFRS 8 are as follows:

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

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

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

Others – includes activities of SABB Securities Limited and investment in associates.

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 2010 and 2009, its total operating income and expenses, and the results for the years then ended, by business segment, are as follows:

	Retail Banking	***Corporate Banking***	***Treasury***	***Others***	***Total***
2010	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Total assets	**20,513,312**	**55,952,908**	**48,677,998**	**228,648**	**125,372,866**
Total liabilities	**37,459,293**	**47,781,713**	**24,925,339**	**34,574**	**110,200,919**
Total operating income	**1,544,536**	**2,265,864**	**868,887**	**160,134**	**4,839,421**
Total operating expenses	**1,678,297**	**1,136,886**	**108,399**	**73,761**	**2,997,343**
Share in earnings of associates, net	**-**	**-**	**-**	**41,074**	**41,074**
Net income	**(133,761)**	**1,128,978**	**760,488**	**127,447**	**1,883,152**
Fees and commission income, net	**401,813**	**775,705**	**4,030**	**(226)**	**1,181,322**
Trading income, net	**91**	**9,114**	**249,074**	**-**	**258,279**
Credit losses and impairment provision, net	**654,331**	**579,195**	**9,553**	**-**	**1,243,079**

	Retail Banking	*Corporate Banking*	*Treasury*	*Others*	*Total*
2009	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Total assets	21,007,060	57,326,634	48,313,780	190,488	126,837,962
Total liabilities	36,360,818	39,664,579	37,732,187	35,089	113,792,673
Total operating income	1,896,342	2,221,338	821,103	221,496	5,160,279
Total operating expenses	1,572,177	1,415,350	61,675	124,848	3,174,050
Share in earnings of associates, net	-	-	-	46,048	46,048
Net income	324,165	805,988	759,428	142,696	2,032,277
Fees and commission income, net	507,889	691,507	11,659	(321)	1,210,734
Trading income, net	-	5,027	290,955	-	295,982
Credit losses and impairment provision, net	436,966	1,059,517	-	-	1,496,483

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

28. Business segments *(continued)*

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

2010	***Retail Banking*** **SAR'000**	***Corporate Banking*** **SAR'000**	***Treasury*** **SAR'000**	***Total*** **SAR'000**
Assets	**18,704,302**	**55,544,184**	**45,045,108**	**119,293,594**
Commitments and contingencies	**164,850**	**18,836,365**	**-**	**19,001,215**
Derivatives	**-**	**-**	**2,664,413**	**2,664,413**
Total	**18,869,152**	**74,380,549**	**47,709,521**	**140,959,222**

2009	*Retail Banking* SAR'000	*Corporate Banking* SAR'000	*Treasury* SAR'000	*Total* SAR'000
Assets	19,481,964	56,899,635	45,716,825	122,098,424
Commitments and contingencies	211,368	16,118,405	-	16,329,773
Derivatives	-	-	2,821,383	2,821,383
Total	19,693,332	73,018,040	48,538,208	141,249,580

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

29. Credit risk

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

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

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

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

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

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

29. Credit risk *(continued)*

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

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

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

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

	2010					
	Kingdom of Saudi Arabia	*GCC and Middle East*	*Europe*	*North America*	*Other Countries*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
ASSETS						
Cash and balances with SAMA	**15,144,088**	**-**	**-**	**-**	**-**	**15,144,088**
Due from banks and other financial institutions	**626,687**	**142,633**	**241,966**	**5,937,201**	**93,823**	**7,042,310**
Investments, net	**20,621,151**	**3,293,205**	**908,492**	**93,773**	**55,821**	**24,972,442**
Loans and advances, net	**73,156,677**	**1,033,227**	**21,082**	**37,500**	**-**	**74,248,486**
Investment in associates	**221,532**	**-**	**-**	**-**	**-**	**221,532**
Total	**109,770,135**	**4,469,065**	**1,171,540**	**6,068,474**	**149,644**	**121,628,858**
LIABILITIES						
Due to banks and other financial institutions	**1,284,453**	**706,419**	**2,436,290**	**224,997**	**9,019**	**4,661,178**
Customer deposits	**94,285,479**	**358,746**	**22,286**	**-**	**6,344**	**94,672,855**
Debt securities in issue	**1,705,000**	**-**	**3,770,754**	**-**	**-**	**5,475,754**
Borrowings	**-**	**-**	**187,500**	**-**	**-**	**187,500**
Total	**97,274,932**	**1,065,165**	**6,416,830**	**224,997**	**15,363**	**104,997,287**
Commitments and contingencies	**37,184,684**	**428,788**	**2,534,129**	**210,790**	**5,418,069**	**45,776,460**
CREDIT EXPOSURE (stated at credit equivalent amounts)						
Assets	**107,491,092**	**4,412,844**	**1,171,540**	**6,068,474**	**149,644**	**119,293,594**
Commitments and contingencies	**15,038,350**	**119,838**	**1,241,904**	**82,885**	**2,518,238**	**19,001,215**
Derivatives	**1,307,891**	**187,278**	**1,163,678**	**5,460**	**106**	**2,664,413**
Total credit exposure	**123,837,333**	**4,719,960**	**3,577,122**	**6,156,819**	**2,667,988**	**140,959,222**

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

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

	2009					
	Kingdom of Saudi Arabia	*GCC and Middle East*	*Europe*	*North America*	*Other Countries*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
ASSETS						
Cash and balances with SAMA	16,614,885	-	-	-	-	16,614,885
Due from banks and other financial institutions	-	99,797	4,989,353	873,364	42,079	6,004,593
Investments, net	19,341,136	3,312,903	919,113	189,922	54,476	23,817,550
Loans and advances, net	74,869,569	1,248,143	213,446	39,202	11,239	76,381,599
Investment in associates	180,458	-	-	-	-	180,458
Total	111,006,048	4,660,843	6,121,912	1,102,488	107,794	122,999,085
LIABILITIES						
Due to banks and other financial institutions	9,387,411	2,175,996	1,738,322	175,041	128,974	13,605,744
Customer deposits	89,125,033	3,638	52,505	-	5,685	89,186,861
Debt securities in issue	1,705,000	-	4,004,487	-	-	5,709,487
Borrowings	-	-	187,500	-	-	187,500
Total	100,217,444	2,179,634	5,982,814	175,041	134,659	108,689,592
Commitments and contingencies	37,747,509	355,807	96,566	51,631	533,819	38,785,332
CREDIT EXPOSURE (stated at credit equivalent amounts)						
Assets	110,152,002	4,614,228	6,121,912	1,102,488	107,794	122,098,424
Commitments and contingencies	16,060,521	74,148	46,350	16,176	132,578	16,329,773
Derivatives	1,438,277	155,211	1,218,865	9,028	2	2,821,383
Total credit exposure	127,650,800	4,843,587	7,387,127	1,127,692	240,374	141,249,580

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

	2010					
	Kingdom of Saudi Arabia	***GCC and Middle East***	***Europe***	***North America***	***Other Countries***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Non Performing Loans net	**2,092,327**	**522,139**	**-**	**-**	**-**	**2,614,466**
Allowance for credit losses	**2,216,703**	**397,769**	**-**	**-**	**-**	**2,614,472**

	2009					
	Kingdom of Saudi Arabia	*GCC and Middle East*	*Europe*	*North America*	*Other Countries*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Non Performing Loans net	3,526,007	-	-	-	-	3,526,007
Allowance for credit losses	1,775,344	-	-	-	-	1,775,344

31. Market risk

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

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

a) *Market risk-trading book*

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

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

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

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

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

The Bank's VAR related information is as under.

	Foreign exchange	***Special commission rate***	***Overall risk***
2010	**SAR'000**	**SAR'000**	**SAR'000**
VAR as at 31December 2010	**416**	**661**	**941**
Average VAR for 2010	**2,313**	**2,266**	**3,428**

	Foreign exchange	*Special commission rate*	*Overall risk*
2009	SAR'000	SAR'000	SAR'000
VAR as at 31December 2009	1,688	874	1,905
Average VAR for 2009	2,095	930	2,393

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

31. Market risk *(continued)*

b) *Market risk – non trading or banking book*

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

i) *Special commission rate risk*

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non- trading financial assets and financial liabilities held as at 31 December 2010, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2010 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap.

2010

Currency	*Increase in basis points*	*Sensitivity of Special Commission Income*	*Sensitivity of Equity*				
			6 months or less	*1 year or less*	*1-5 years or less*	*Over 5 years*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
SAR	**+ 100**	**29,688**	**(3,034)**	**(2,348)**	**(21,001)**	**-**	**(26,383)**
USD	**+ 100**	**(2,412)**	**(34,218)**	**(20,250)**	**(816)**	**-**	**(55,284)**
EUR	**+ 100**	**(12,808)**	**(591)**	**(628)**	**(1,455)**	**-**	**(2,674)**
Others	**+ 100**	**1,547**	**(402)**	**(370)**	**-**	**-**	**(772)**

2010

Currency	*Decrease in basis points*	*Sensitivity of Special Commission Income*	*Sensitivity of Equity*				
			6 months or less	*1 year or less*	*1-5 years or less*	*Over 5 years*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
SAR	**– 100**	**(29,688)**	**3,034**	**2,348**	**21,001**	**-**	**26,383**
USD	**– 100**	**2,412**	**34,218**	**20,250**	**816**	**-**	**55,284**
EUR	**– 100**	**12,808**	**591**	**628**	**1,455**	**-**	**2,674**
Others	**– 100**	**(1,547)**	**402**	**370**	**-**	**-**	**772**

31. Market risk *(continued)*

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

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

2009							
Currency	*Decrease in basis points*	*Sensitivity of Special Commission Income*	*Sensitivity of Equity*				
			6 months or less	*1 year or less*	*1-5 years or less*	*Over 5 years*	*Total*
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	– 100	(21,014)	59,826	(3,106)	(47,791)	-	8,929
USD	– 100	(2,380)	8,024	8,834	44,219	61	61,138
EUR	– 100	13,860	641	704	2,830	-	4,175
Others	– 100	(1,492)	428	468	831	-	1,727

ii) Currency risk

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

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non trading equity price risk exposure arises from equity securities classified as available for sale. A 10 per cent increase or decrease in the value of the bank's available for sale equities at 31 December 2010 would have correspondingly increase or decrease equity by SAR 132 million (2009: SAR 5 million).

32. Currency risk

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

	2010	2009
	Long (short)	*Long (short)*
	SAR'000	SAR'000
US Dollar	**471,114**	188,485
Euro	**690**	165
Sterling Pounds	**(431)**	(544)
Other	**4,169**	6,004

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

33. Special commission rate risk

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

	2010					
	Within 3 months	*3-12 months*	*1-5 years*	*Over 5 years*	*Non special commission bearing*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Assets						
Cash and balances with SAMA	**9,119,803**	**-**	**-**	**-**	**6,024,285**	**15,144,088**
Due from banks and other financial institutions	**7,042,310**	**-**	**-**	**-**	**-**	**7,042,310**
Investments, net	**13,002,859**	**6,579,774**	**3,997,403**	**55,544**	**1,336,862**	**24,972,442**
Loans and advances, net	**38,672,590**	**12,807,097**	**22,768,799**	**-**	**-**	**74,248,486**
Investment in associates	**-**	**-**	**-**	**-**	**221,532**	**221,532**
Property and equipment, net	**-**	**-**	**-**	**-**	**558,609**	**558,609**
Other assets	**-**	**-**	**-**	**-**	**3,185,399**	**3,185,399**
Total assets	**67,837,562**	**19,386,871**	**26,766,202**	**55,544**	**11,326,687**	**125,372,866**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**4,248,695**	**121,569**	**290,914**	**-**	**-**	**4,661,178**
Customer deposits	**39,249,357**	**1,213,647**	**7,562,972**	**21,206**	**46,625,673**	**94,672,855**
Debt securities in issue	**3,320,852**	**-**	**2,154,902**	**-**	**-**	**5,475,754**
Borrowings	**-**	**-**	**-**	**187,500**	**-**	**187,500**
Other liabilities	**-**	**-**	**-**	**-**	**5,203,632**	**5,203,632**
Shareholders' equity	**-**	**-**	**-**	**-**	**15,171,947**	**15,171,947**
Total liabilities and shareholders' equity	**46,818,904**	**1,335,216**	**10,008,788**	**208,706**	**67,001,252**	**125,372,866**
Net gap between assets and liabilities	**21,018,658**	**18,051,655**	**16,757,414**	**(153,162)**	**(55,674,565)**	
Net gap between derivative financial instrument	**1,610,219**	**57,903**	**(1,840,103)**	**171,981**	**-**	
Total special commission rate sensitivity gap	**22,628,877**	**18,109,558**	**14,917,311**	**18,819**	**(55,674,565)**	
Cumulative special commission rate sensitivity gap	**22,628,877**	**40,738,435**	**55,655,746**	**55,674,565**	**-**	

33. Special commission rate risk *(continued)*

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

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

Notes to the Consolidated Financial Statements (31 December 2010) (continued)

34. Liquidity risk

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

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities:

2010	***Within 3 months*** SAR'000	***3-12 months*** SAR'000	***1-5 years*** SAR'000	***Over 5 years*** SAR'000	***Total*** SAR'000
Financial liabilities					
Due to banks and other financial institutions	**4,250,713**	**121,995**	**363,708**	**-**	**4,736,416**
Customer deposits	**85,923,168**	**1,490,968**	**7,893,108**	**21,206**	**95,328,450**
Debt securities in issue	**6,884**	**1,708,848**	**4,273,102**	**-**	**5,988,834**
Borrowings	**-**	**25,344**	**182,585**	**16,024**	**223,953**
Derivatives:					
– Contractual amounts payable	**16,114**	**33,021**	**101,287**	**8,794**	**159,216**
Total undiscounted financial liabilities	**90,196,879**	**3,380,176**	**12,813,790**	**46,024**	**106,436,869**

2009	*Within 3 months* SAR'000	*3-12 months* SAR'000	*1-5 years* SAR'000	*Over 5 years* SAR'000	*Total* SAR'000
Financial liabilities					
Due to banks and other financial institutions	13,344,890	-	332,305	-	13,677,195
Customer deposits	79,221,880	2,980,775	7,632,815	7,984	89,843,454
Debt securities in issue	2,265,116	33,675	3,545,415	-	5,844,206
Borrowings	-	9,714	139,758	84,195	233,667
Derivatives:					
– Contractual amounts payable	6,172	22,735	104,452	1,138	134,497
Total undiscounted financial liabilities	94,838,058	3,046,899	11,754,745	93,317	109,733,019

34. Liquidity risk *(continued)*

b) *Maturity analysis of assets and liabilities:*

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

2010	***Within 3 months*** **SAR'000**	***3-12 months*** **SAR'000**	***1-5 years*** **SAR'000**	***Over 5 years*** **SAR'000**	***No fixed maturity*** **SAR'000**	***Total*** **SAR'000**
Assets						
Cash and balances with SAMA	**9,905,290**	**-**	**-**	**-**	**5,238,798**	**15,144,088**
Due from banks and other financial institutions	**7,042,310**	**-**	**-**	**-**	**-**	**7,042,310**
Investments, net	**7,029,983**	**7,664,806**	**8,392,234**	**557,174**	**1,328,245**	**24,972,442**
Loans and advances, net	**32,499,163**	**12,601,022**	**22,232,543**	**6,915,758**	**-**	**74,248,486**
Investment in associates	**-**	**-**	**-**	**-**	**221,532**	**221,532**
Property and equipment, net	**-**	**-**	**-**	**-**	**558,609**	**558,609**
Other assets	**-**	**-**	**-**	**-**	**3,185,399**	**3,185,399**
Total assets	**56,476,746**	**20,265,828**	**30,624,777**	**7,472,932**	**10,532,583**	**125,372,866**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**4,248,695**	**121,569**	**290,914**	**-**	**-**	**4,661,178**
Customer deposits	**85,810,008**	**1,482,270**	**7,359,371**	**21,206**	**-**	**94,672,855**
Debt securities in issue	**-**	**1,615,851**	**3,859,903**	**-**	**-**	**5,475,754**
Borrowings	**-**	**-**	**-**	**187,500**	**-**	**187,500**
Other liabilities	**-**	**-**	**-**	**-**	**5,203,632**	**5,203,632**
Shareholders' equity	**-**	**-**	**-**	**-**	**15,171,947**	**15,171,947**
Total liabilities and shareholders' equity	**90,058,703**	**3,219,690**	**11,510,188**	**208,706**	**20,375,579**	**125,372,866**

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

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

35. Fair values of financial instruments

Determination of fair value and fair value hierarchy

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

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

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

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

	2010			
	Level 1	***Level 2***	***Level 3***	***Total***
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Financial assets				
Derivative financial instruments	**-**	**1,790,116**	**-**	**1,790,116**
Financial assets held as FVIS	**13,475**	**18,783**	**-**	**32,258**
Financial investments available for sale	**9,028,437**	**13,503,830**	**55,692**	**22,587,959**
Total	**9,041,912**	**15,312,729**	**55,692**	**24,410,333**
Financial Liabilities				
Derivative financial instruments	**-**	**1,741,172**	**-**	**1,741,172**
Total	**-**	**1,741,172**	**-**	**1,741,172**

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

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

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

The fair values of derivatives are based on the quoted market prices or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is negative SAR 66.3 million (2009: positive SAR 44.7 million).

36. Related party transactions

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

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

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

	2010	2009
	SAR'000	SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**5,460,247**	1,604,704
Investments	**579,210**	674,459
Other assets	**6,561**	-
Derivatives (at fair value)	**(414,938)**	(117,733)
Due to banks and other financial institutions	**2,175,504**	2,754,995
Commitments and contingencies	**1,865,178**	1,330,634

The above investments include investments in associates, amounting to SAR 221.5 million (2009: SAR 180.5 million).

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

	2010	2009
	SAR'000	SAR'000
Loans and advances	**3,665,336**	3,065,140
Customers' deposits	**7,784,384**	8,196,270
Derivatives (at fair value)	**2,623**	7,045
Commitments and contingencies	**281,483**	195,482
Bank's mutual funds:		
Loans and advances	**4,011**	1,437
Customers' deposits	**1,249,774**	926,396

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

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

	2010	2009
	SAR'000	SAR'000
Special commission income	**45,961**	48,036
Special commission expense	**(163,804)**	(111,693)
Fees and commission income	**70,633**	55,836
Profit share arrangement relating to investment banking activities	**(8,670)**	(12,225)
Share in earnings of associates	**41,074**	46,048
Directors' remuneration	**2,195**	2,647

36. Related party transactions *(continued)*

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

	2010	2009
	SAR'000	SAR'000
Short-term employee benefits (salaries and allowances)	**34,307**	48,222
Employment termination benefits	**5,391**	-

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2010. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

37. Capital adequacy

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

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

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

	2010	2009
	SAR'000	SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	**98,155,523**	92,947,700
Operational Risk RWA	**9,701,147**	9,088,561
Market Risk RWA	**1,215,475**	672,013
Total RWA	**109,072,145**	102,708,274
Tier I Capital	**12,938,428**	10,423,435
Tier II Capital	**2,512,032**	2,683,537
Total I & II Capital	**15,450,460**	13,106,972
Capital Adequacy Ratio %		
Tier I ratio	**11.86%**	10.15%
Tier I + Tier II ratio	**14.17%**	12.76%

38. Basel II Pillar 3 Disclosures

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

39. Employees' Compensation Practices

i) Quantitative Disclosure

	2010					
	Number of Employees	*Fixed Compensation*	*Variable Compensation*	*Total*	*Forms of Payment*	
					Fixed	*Variable*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**		
Categories of Employees						
Senior executives (requiring SAMA no Objection)	**18**	**23,589**	**27,294**	**50,883**	**Cash**	**Cash and Equity**
Employees engaged in risk taking activities	**476**	**113,758**	**30,988**	**144,746**	**Cash**	**Cash and Equity**
Employees engaged in control functions	**273**	**61,656**	**9,534**	**71,190**	**Cash**	**Cash and Equity**
Other employees	**2,967**	**461,386**	**91,968**	**553,354**	**Cash**	**Cash and Equity**
Total*	**3,734**	**660,389**	**159,784**	**820,173**		

** The compensation and headcount includes all staff present during 2010 inclusive of those who left the Bank. The above note is prepared on paid basis.*

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

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

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

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

39. Employees' Compensation Practices *(continued)*

ii) *Qualitative Disclosure*

Compensation disclosure for the Annual Financial Statements

The Saudi Arabian Monetary Agency (SAMA), being the Banking industry regulator for the Kingdom of Saudi Arabia, has issued its Rules on compensation practices, which is in line with Basel II and FSB Principles. In compliance with the SAMA Rules on compensation practices, a compensation policy endorsed by Nomination and Remuneration Committee and approved by the Board of Directors has been formulated and implemented.

SABB Compensation Policy

a) *Policy Objectives*

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

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

b) *Compensation Structure*

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

c) *Performance Management System*

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

d) *Risk-adjustment for Variable Pay schemes*

The Bank has reviewed all its variable pay schemes, with the assistance of external remuneration consultants, to ensure that any bonus pay pools have taken into account all relevant risks. The determination of bonus pools is based on appropriate performance factors adjusted for risk.

e) *Bonus Deferral*

Bonus deferral in the form of equity applies to all the Top Team members. Bonuses in excess of a threshold will be part deferred over a three year vesting period. The vesting will be subject to malus conditions.

f) *Nomination and Remuneration Committee*

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

40. Prospective changes in accounting standards

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

- IFRS 9 Financial Instruments effective date 1 January 2013
- IAS 24 Related Party Disclosure (Amendment) effective date 1 January 2011

41. Comparative figures

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

42. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 13 Rabia Awal 1432H (Corresponding 16 February 2011).

The Saudi British Bank
Basel II - Pillar 3
Annual Disclosures
31 December 2010

Cautionary statement regarding forward looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2010 contain certain forward looking statements with respect to the financial condition, results of operations and business of SABB. These forward looking statements represent SABB expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

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

1. Scope of Application

a) **Scope**

These qualitative disclosures set out The Saudi British Bank (SABB) approach to capital assessment and complement the minimum capital requirements and the supervisory review process.

b) **Basis of consolidation**

The basis of consolidation for accounting purposes is described on page 40 of the Annual Report and Accounts 2010.

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

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

Entities that are fully consolidated:

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

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

Significant Minority Investments:

Following significant minority investments are deducted from the capital:

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

Equity Investments which are risk weighted

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

c) **Capital transferability between legal entities**

Restrictions by Memorandum and Articles of Association

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

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

1. Scope of Application *(continued)*

Statutory restriction

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

Regulatory restriction

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

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

2. Capital Structure

The authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2009: 750 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2010	2009
Saudi shareholders	**60%**	60%
HSBC Holdings BV	**40%**	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

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

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

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

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

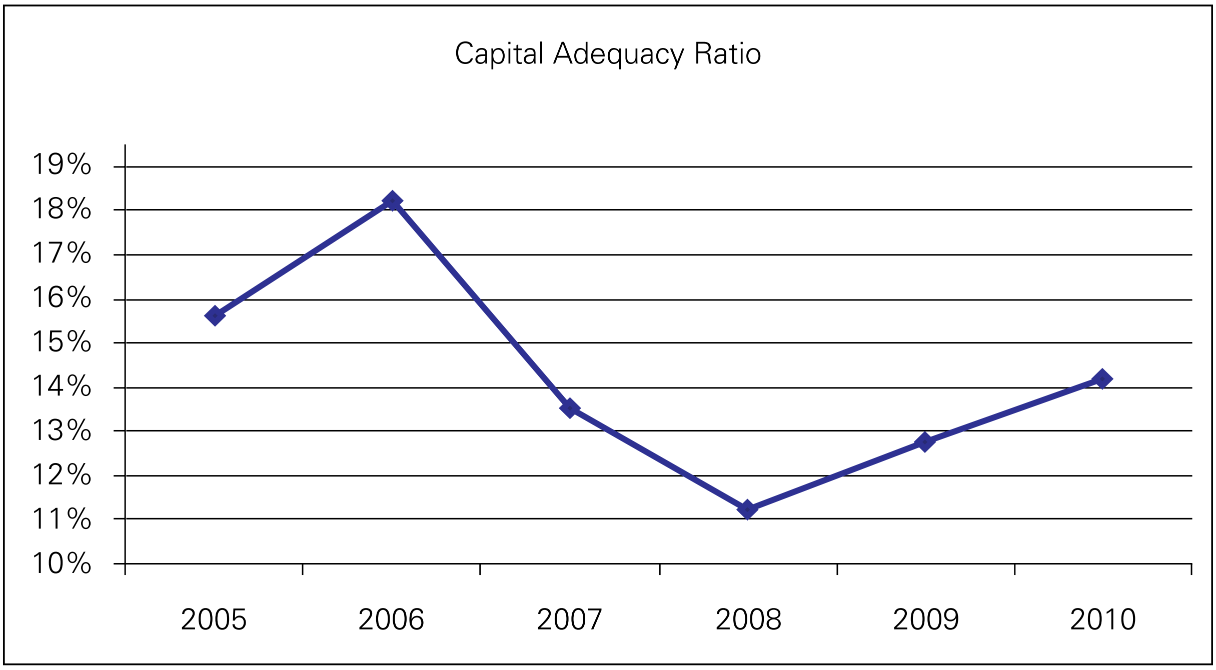
Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

3. Capital Adequacy

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

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

SABB Capital Adequacy Ratio in the last 6 years has been as follows:



2005-2007: Capital Adequacy Ratio's are on Basel I basis
2008-2010: Capital Adequacy Ratio's are on Basel II basis

The introduction of the new BASEL 3 accord scheduled for full implementation from 31 December 2018 and the implementation of the BASEL 2 advanced methodologies for credit will lead to a revised definition of capital and amendments to the RWA calculation generating a recalibrated capital adequacy ratio.

Risk Exposure And Assessment – General Qualitative Disclosure Requirements

Credit Risk

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

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

3. Capital Adequacy *(continued)*

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

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

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

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

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

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

SABB's association to the HSBC Group has promoted the use of standard systems and methodologies for these purposes and employs common measurements of risk throughout the organisation. At SABB, consumer lending decisions are based on credit risk score models developed using internal data and embedded into an automated decision process. Corporate Customers are rated internally and mapped to a 22 point scale based on scorecards with financial and subjective inputs to determine the perceived quality of the company and probability of default (PD). The output is reviewed by expert credit approvers before capital is assigned. Retail customers are rated using a range of behavioural and application quantitative models which segment the customers into different risk bands.

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

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

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

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

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

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

3. Capital Adequacy *(continued)*

Market Risk

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

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

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Operational risk is relevant to every aspect of SABB's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

Further information on operational risk capital is provided in the table 12 commentary below.

Investment Risk

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

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

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

SABB does hold a nominal position in private equity investments and does hold some equity investments. Further information on equities risk is provided in the table 13 commentary below.

Interest Rate Risk

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

Further information on interest risk is provided in the table 14 commentary below.

Foreign Exchange Risk

Currency or foreign exchange risk (FX) arises from an open position, either overbought (long) or oversold (short), in a foreign currency, creating exposure to a change in the relevant exchange rate.

SABB categorises foreign exchange risk as follows:

- ***Trading Book FX risk*** – arises from proprietary currency trading i.e. spot, forwards, futures, swaps and options. Trading exposures are controlled through assigning limits to each currency and aggregate exposure levels as well as through VAR and stress testing measures
- ***Banking Book FX risk*** – arises from a currency mismatch/revaluation between assets and liabilities, including accrued interest and accrued expenses. The mismatch is transferred to Treasury and managed on daily basis through the trading book
- ***Structural FX risk*** – arises due to two reasons
  a) relates to net investments in subsidiaries, branches or associated capital undertakings.
  b) Relates to the non-SAR denominated assets. The currencies where structural FX rise arises are those other than the designated reporting currency of the SABB, which is the Saudi Riyal (SAR).

3. Capital Adequacy *(continued)*

Liquidity Risk

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

Since January 2010, SABB has enhanced its new liquidity framework to increase the focus on on projected cashflow scenarios referred to as the Operational Cashflow Projection (OCP). The objective of the OCP is to better reflect the likely behaviour of different customers and manage liquidity during crisis events or a loss in confidence in SABB, resulting in deposit withdrawals by clients. The OCP policy aims to diversify SABB's liability base and reduce concentration levels to any single customer.

The new framework is compliant with BIS guidelines 'Principles for Sound Liquidity Risk Management and Supervision' issued in September 2008 and the principles defined under Basel III.

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

SABB uses cash-flow stress testing as part of its control processes to assess liquidity risk. The cash-flow stress testing process estimates and takes into consideration the potential severe adverse P&L and capital impacts in a liquidity crisis, with a view to assessing the bank's ability to maintain an adequate capital position in such a scenario.

SABB assesses and manages liquidity risk through clearly defined liquidity policies which form part of a broader Liquidity and Funding framework and funding plan which is reviewed and approved by ALCO and EXCOM. There is a designated Liquidity Management Committee, which monitors the bank's current and projected liquidity position and proposes changes to ALCO on SABB's liquidity ratio limits, funding strategy and liquidity stress testing scenarios.

SABB manages and reports balance sheet liquidity against a range of internal and regulatory ratios which cover the proportion of net liquid assets to customer liabilities, the adequacy of assets to deposits, the proportion of customer deposits held in liquid assets and that Amanah liabilities are only invested in Amanah assets and any excess needs to be invested in Shariah compliant assets.

The Financial Control Department prepares a bank-wide liquidity report, which is monitored daily against approved limits and regulatory requirements by Senior Management, along with a 1-year rolling forecast balance sheet on a quarterly basis showing expected loan and deposit growth including major currency breakdowns.

SABB seeks to maintain a cushion of unencumbered, high quality, liquid assets that can be liquidated or repoed in times of stressed liquidity. The asset tolerance limit is defined and monitored by ALCO on a monthly basis.

Operational Cashflow Projections are used to stress the liquidity position across a range of maturity bands and through the application of bank specific and market wide scenarios.

Current accounts and savings deposits payable on demand or at short notice form a significant part of SABB's funding and there is considerable focus on maintaining the stability of such deposits. SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities.

A comprehensive Liquidity Contingency Plan is in place and tested on an annual basis. The plan identifies early indicators of stress conditions and describes actions to be taken in the event of difficulties arising from systemic or other crises.

SABB has continued to expand its investor relations programme to ensure that it keeps investors advised of developments and kept itself aware of their changing requirements in readiness for any potential debt or equity issuances.

3. Capital Adequacy *(continued)*

Concentration Risk

Concentration in credit portfolios has been a cause for bank and banking system distress in the past. As a result, concentration risk forms an integral part of SABB's supervisory review and internal risk assessment process. There can also be benefits where a Banks portfolio can evidence diversification across asset classes, customer groups, industry sectors, business lines and geographic locations.

Concentration risk can manifest itself in three main forms where there is an imperfect diversification of credit risk:

- Single name concentration (Idiosyncratic risk)
- Sector concentration (Systematic risk)
- Contagion (Systemic failure)

It is the Bank's policy to avoid undesired concentration of exposure in any single dimension of the entire credit portfolio (asset class, industry sector, geography, etc.). We aim to ensure that the Bank's exposure is well diversified across a broad mix of business sectors. SABB has established exposure policies and lending risk tolerance limits for individual counterparties, industry sectors, country cross border risk, specific products or advance purposes and portfolio level controls.

SABB retains capital against the granularity of its lending portfolio and reviews the level of concentration within portfolios on a monthly basis through the senior risk management meeting (RMM) and EXCOM.

Reputational Risk

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

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

Actions by employees can have an impact on the reputation of the bank and they are provided with awareness sessions to educate people on reputational risk and their personal responsibilities in upholding and enhancing the image and brand of SABB.

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

Sustainability risk sensitivities are also of high importance in managing reputational risk and SABB seeks to uphold the highest sustainability risk standards, including the equator principles for project finance lending, sector based sustainability guidelines covering sectors with high environmental, ethical or social impacts.

The unique structure of Islamic financial products (Shariah Compliant Products) is quite distinct and places increased requirements on the Bank to ensure that not only do they meet customer suitability standard but that the internal Shariah compliance process if robust. The impact of Shariah compliance failures would impact SABB's reputation and as a result SABB operates a dedicated Amanah banking team who control Islamic product develop and monitor ongoing compliance with Shariah requirements.

3. Capital Adequacy *(continued)*

Macro Economic and Business Cycle Risk

Macroeconomic and Business Cycle Risks are seen as the potential negative impacts on profits and capital as a result of SABB not meeting its goals and objectives caused by unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

SABB assesses and manages macroeconomic and business cycle risk through clearly defined policies and procedures.

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

- Price of oil per barrel in the world market
- Any significant reduction in public finances expenditure
- TASI index
- External Trade indicators
- Housing market trends
- Bank lending to private sector
- Annual real GDP growth
- Money Supply
- Inflation rate
- Currency uncertainty that may be caused by USD weakness and real appreciation of the SAR

SABB has developed a macro economic stress for the purposes of evaluating the adequacy of capital held to support its business operations.

The main objective is to assess the Bank's ability to meet its capital requirements during all stages of the economic cycle and during an economic recession such as might be experienced once in 25 years. Hence, the exercise measures the 2011 & 2012 impact of the '1 in 25' economic downturn on Risk Weighted Assets and Capital Requirements, reflected in the Profit & Loss and Capital Adequacy Ratio.

Strategic Risk

Strategic Risk is the risk that the business will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years such as changing economic and political circumstances, customer requirements, demographic trends, regulatory developments or competitor action. Risk may be mitigated by consideration of the potential opportunities and challenges through the strategic planning process.

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

Within the SABB financial services umbrella there are a number of separately capitalised associate businesses (SABB Securities Limited and HSBC Saudi Arabia Limited), which are separately regulated by the Capital Markets Authority (CMA). As part of an ongoing review of the required level of capitalisation for brokerage and investment companies, SABB may need to inject funds to increase the capital base of these entities.

An increase in capital for a subsidiary would have not impact on capital adequacy at a SABB consolidated level; however the capitalisation of an associate will act as a deduction for regulatory capital purposes.

The strategic risks are monitored by the strategic planning function on a regular basis and variations, if any are reported to the Risk Management Meeting. Where necessary the Board holds strategic review meetings to refine the bank's strategy in light of market developments.

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

3. Capital Adequacy *(continued)*

Compliance Risk

Compliance Risk is the risk leading to statutory, legal sanctions, material financial loss, or damage to the reputation of SABB that may be suffered as a result of the failure to comply with all applicable laws, rules and regulations. The aim of compliance is to protect the reputation and credibility of SABB and protect the interest of shareholders and depositors, and safeguard the institution against legal consequences.

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

Wrong Way Risk

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

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

Other Risks

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

4. Credit Risk: General Disclosures for All Banks

Past due loans:

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

Impaired loan:

Individual Impairment Provisions:

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

Collective Impairment Provisions:

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

4. Credit Risk: General Disclosures for All Banks *(continued)*

Credit Risk:

Standardised Approach

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

Advanced IRB Approach

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

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

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

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

The alignment of alphanumeric scales of each agency to risk buckets is as follows:

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

Claims on sovereigns and their central banks

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

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

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

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

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

Multilateral Development Banks

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

Claims on public sector entities (PSEs)

As per Option 2

Claims on corporates

	AAA to AA-	*A+ to A-*	*BBB+ to BB-*	*Below BB-*	*Unrated*
Credit Assessment					
Risk Weight	20%	50%	100%	150%	100%

Claims included in the regulatory non-mortgage retail portfolios

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

Claims secured by residential mortgages

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

Claims secured by commercial real estate

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

Past due loans

Risk Weight%	*Level of Provisioning*
150	Upto 20%
100	20% to 50%
100	50% to above

Other assets

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

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

Not Applicable.

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

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

SABB grants facilities based on the borrower's ability to repay, rather than placing its reliance on credit risk mitigation. SABB nevertheless does hold a range of security to reduce the risk of loss and maximise the probability of facilities being repaid. A number of these risk mitigants have been applied under the Standardised approach in Pillar I, and there are other securities that cannot be assigned a value such as shares, land and local property.

The main types of collateral taken by the bank are as follows:

- Savings and Time deposits
- Listed Shares
- Bank Guarantees
- Title deeds of property
- Government Bonds
- Mutual Funds Units
- Corporate/Individual Guarantees
- Assignment of salary or contract proceeds

International and Local Banks Guarantees are referred to Institutional Banking for counterparty and cross border country risk approval.

The granting of facilities and taking of collateral as risk mitigants is governed by defined policies and procedures, as well as the use of bank standard documentation that cater for the offset of credit balances against facilities granted, the control over the integrity and valuation of collateral, and the rights required to enforce and realize security. SABB monitors the concentration of risk mitigants and does not have any material concentrations in the risk mitigants currently held.

8. General Disclosure for Exposure Related to Counterparty Credit Risk

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

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

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

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

9. Securitization

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

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

10. Market Risk: Disclosure for Banks Using Standardized Approaches

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

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

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

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

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

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

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

Not Applicable.

12. Operational Risk

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

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

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

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

13. Equities: Disclosures for Banking Book Positions

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

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

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

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

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

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

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

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

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

The analysis of Interest Rate risk is complicated by having to make assumptions on embedded optionality in products such as loan prepayments, and from behavioural assumptions regarding the economic duration of liabilities, which are contractually repayable on demand. Product reviews are undertaken annually to review and validate any behavioural assumptions.

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

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

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

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

1. Table – Scope of Application

Capital Deficiencies (Table 1, (e))

Particulars	*Amount* **SAR'000**
The aggregate amount of capital deficiencies in subsidiaries not included in the consolidation i.e that are deducted	
1. HSBC Saudi Arabia Limited	113,000
2. Saudi Travellers Cheque Company	5,674
3. SABB Takaful	108,532

2. Table – Capital Structure

Capital Structure (Table 2, (b to (e))

Components of capital	*Amount* **SAR'000**
Core capital - Tier I:	
Eligible paid-up share capital	7,500,000
Shares premium accounts	-
Eligible reserves	5,564,834
Minority interests in the equity of subsidiaries	-
Retained earnings	(12,800)
IAS type adjustments	-
Deductions from Tier I:	
Interim losses during the year	-
Intangible assets (including goodwill)	-
Other country specific deductions from Tier I at 50%	-
Regulatory calculation differences deduction from Tier I at 50%	-
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction:	
Banking and securities entities not fully consolidated	56,500
Insurance organizations	54,267
Commercial organizations	2,839
Total Tier I	**12,938,428**
Supplementary capital - Tier II:	
Revaluation gains/reserves	-
Subordinated loan capital	-
Qualifying general provisions	742,485
Interim profits	1,883,153
Deductions from Tier II:	
Reciprocal holding of bank capital at 50% deduction	-
Significant minority investments at 10% and above at 50% deduction:	-
Banking and securities entities not fully consolidated	56,500
Insurance organizations	54,267
Commercial Organizations	2,839
Other country specific deductions from Tier II at 50%	-
Regulatory calculation differences deduction from Tier II at 50%	-
Total Tier II	**2,512,032**
Capital to cover market risks - Tier III	
Short Term Subordinated Debt	-
Tier I and Tier II Capital Available for Market Risk	-
Total eligible capital	**15,450,460**

3. Table – Capital Adequacy

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

Portfolios	*Amount of exposure* SAR'000	*Capital requirement* SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	29,165,107	-
Others	1,825,586	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	7,075,333	113,205
Corporates	68,912,529	5,014,018
Retail non-mortgages	12,101,413	689,127
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	3,679,899	294,392
Commercial	-	-
Securitized assets	-	-
Equity	1,322,569	105,806
Others	1,796,341	78,586
Total	**125,878,777**	**6,295,134**

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

	Interest rate risk SAR'000	*Equity position risk* SAR'000	*Foreign exchange risk* SAR'000	*Commodity risk* SAR'000	*Total* SAR'000
Standardised approach	59,067	-	38,171	-	97,238

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

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

Particulars	*Capital requirement* SAR'000
Standardized approach	776,092

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

Capital Adequacy Ratios (Table 3, (f))

Particulars	*Total capital ratio* %	*Tier I capital ratio* %
Top consolidated level	14.17	11.86

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

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

Credit Risk Exposure (Table 4, (b))

Portfolios	*Total gross credit risk exposure* **SAR'000**	*Average gross credit risk exposure over the period* **SAR'000**
Sovereigns and central banks:		
SAMA and Saudi Government	29,192,107	-
Others	1,825,586	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	12,967,904	-
Corporates	85,072,743	-
Retail non-mortgages	11,248,219	-
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	3,679,899	-
Commercial	-	-
Securitized assets	-	-
Equity	1,322,569	-
Others	1,796,341	-
Total	**147,105,368**	**-**

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

Geographic Breakdown (Table 4, (c))

Portfolios	*Saudi Arabia* **SAR'000**	*Other GCC & Middle East* **SAR'000**	*Europe* **SAR'000**	*North America* **SAR'000**	*South East Asia* **SAR'000**	*Other countries* **SAR'000**	*Total* **SAR'000**
Sovereigns and central banks:							
SAMA and Saudi Government	29,192,107	-	-	-	-	-	**29,192,107**
Others	4,914	1,820,672	-	-	-	-	**1,825,586**
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	**-**
Public Sector Entities (PSEs)	-	-	-	-	-	-	**-**
Banks and securities firms	1,602,287	458,992	2,042,785	6,063,844	210,063	2,589,933	**12,967,904**
Corporates	81,460,577	2,514,281	929,574	131,273	-	37,038	**85,072,743**
Retail non-mortgages	11,248,219	-	-	-	-	-	**11,248,219**
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	**-**
Mortgages	-	-	-	-	-	-	**-**
Residential	3,679,899	-	-	-	-	-	**3,679,899**
Commercial	-	-	-	-	-	-	**-**
Securitized assets	-	-	-	-	-	-	**-**
Equity	1,266,348	-	56,221	-	-	-	**1,322,569**
Others	1,796,341	-	-	-	-	-	**1,796,341**
Total	**130,250,692**	**4,793,945**	**3,028,580**	**6,195,117**	**210,063**	**2,626,971**	**147,105,368**

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

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

Industry Sector Breakdown (Table 4, (d))

Portfolios	*Government and quasi government* SAR'000	*Banks and other financial institutions* SAR'000	*Agriculture and fishing* SAR'000	*Manufacturing* SAR'000	*Mining and quarrying* SAR'000
Sovereigns and central banks:					
SAMA and Saudi Government	29,192,107	-	-	-	-
Others	1,825,586	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-
Banks and securities firms	-	12,967,904	-	-	-
Corporates	51,865	5,649,503	1,191,605	18,267,548	2,371,311
Retail non-mortgages	-	-	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-
Mortgages	-	-	-	-	-
Residential	-	-	-	-	-
Commercial	-	-	-	-	-
Securitized assets	-	-	-	-	-
Equity	-	1,256,285	-	5,937	8
Others	-	-	-	-	-
Total	**31,069,558**	**19,873,692**	**1,191,605**	**18,273,485**	**2,371,319**

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

	Maturity Breakdown	
Portfolios	*Less then 8 days* SAR'000	*8 - 30 days* SAR'000
Sovereigns and central banks:		
SAMA and Saudi Government	9,133,905	2,346,685
Others	4,937	-
Multilateral Development Banks	-	-
Public Sector Entitties	-	-
Banks and Securities Firms	7,273,456	796,916
Corporates	10,630,587	12,584,202
Retail non-mortgages	1,793,597	136,029
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	-	333
Commercial	-	-
Securitized assets	-	-
Equity	-	-
Others	-	-
Total	**28,836,482**	**15,864,165**

Electricity, water, Gas and health services	*Building and construction*	*Commerce*	*Transportation and communication*	*Services*	*Consumer loans and credit cards*	*Others*	*Total*
SAR’000	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**
-	-	-	-	-	-	-	**29,192,107**
-	-	-	-	-	-	-	**1,825,586**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**12,967,904**
2,254,709	12,470,469	22,922,884	7,312,824	1,339,612	-	11,240,413	**85,072,743**
-	-	-	-	-	11,248,219	-	**11,248,219**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	3,679,899	-	**3,679,899**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	930	3,717	-	55,692	**1,322,569**
-	-	-	-	-	-	1,796,341	**1,796,341**
2,254,709	**12,470,469**	**22,922,884**	**7,313,754**	**1,343,329**	**14,928,118**	**13,092,446**	**147,105,368**

Maturity Breakdown

30 - 90 days	*90 - 180 days*	*180 - 360 days*	*1 - 3 years*	*3 - 5 years*	*Over 5 years*	**No Maturity*	*Total*
SAR’000	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**
4,441,714	1,502,837	4,877,975	1,324,391	301,236	5,263,364	-	**29,192,107**
376,758	-	-	99,757	1,286,731	57,403	-	**1,825,586**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
1,817,118	863,434	1,005,267	853,720	195,901	162,092	-	**12,967,904**
16,720,216	11,411,924	7,920,954	16,097,564	8,334,266	1,373,030	-	**85,072,743**
126,374	149,944	214,515	2,545,154	5,949,151	333,455	-	**11,248,219**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
903	950	2,351	49,703	117,006	3,508,653	-	**3,679,899**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	1,322,569	**1,322,569**
-	-	-	-	-	-	1,796,341	**1,796,341**
23,483,083	**13,929,089**	**14,021,062**	**20,970,289**	**16,184,291**	**10,697,997**	**3,118,910**	**147,105,368**

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

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

Impaired loans, Past Due Loans and Allowances (Table 4, (f))

			Ageing of past due loans
	Impaired loans	*Defaulted*	*Less than 90 days*
Industry sector	**SAR'000**	**SAR'000**	**SAR'000**
Government and quasi government	-	-	-
Banks and other financial institutions	-	-	-
Agriculture and fishing	1,695	1,695	1,193
Manufacturing	145,131	145,131	781,876
Mining and quarrying	-	-	-
Electricity, water, Gas and health services	7,128	7,128	188
Building and construction	96,859	96,859	8,809
Commerce	920,830	920,830	97,197
Transportation and communication	1,852	1,852	2,952
Services	13,704	13,704	5,387
Consumer loans and credit cards	56,579	237,411	1,018,333
Others	1,370,688	1,683,918	1,396,122
Total	**2,614,466**	**3,108,528**	**3,312,057**

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

	Specific allowances	*General allowances*
Particulars	**SAR'000**	**SAR'000**
Balance, beginning of the year	1,527,990	247,354
Charge-offs taken against the allowances during the period	(841,885)	-
Amounts set aside (or reversed) during the period	1,422,642	258,371
Other adjustments:		
- exchange rate differences	-	-
- business combinations	-	-
- acquisitions and disposals of subsidiaries	-	-
- etc.	-	-
Transfers between allowances	-	-
Balance, end of the year	**2,108,747**	**505,725**

Ageing of past due loans			Specific allowances				
90 - 180 days	*180 - 360 days*	*Over 360 days*	*Balance at the begining of the period*	*Charges during the period*	*Charges-offs during the period*	*Balance at the end of the period*	*General allowances*
SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2,745
-	-	-	40,879	54,633	(5,592)	89,920	96,311
-	-	-	-	-	-	-	288
-	-	-	7,128	-	-	7,128	5,471
-	-	-	77,630	(34,739)	(62)	42,829	118,520
-	-	-	940,164	393,329	(321,658)	1,011,835	92,756
-	-	-	1,482	7,772	(8,170)	1,084	5,831
-	-	-	4,774	41,710	(346)	46,138	152,287
180,832	-	-	334,402	526,808	(478,023)	383,187	-
313,230	-	-	121,531	433,129	(28,034)	526,626	31,516
494,062	**-**	**-**	**1,527,990**	**1,422,642**	**(841,885)**	**2,108,747**	**505,725**

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

5. Table (STA) – Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

Allocation of Exposures to Risk Buckets (Table 5, (b))

	Risk buckets		
	0%	*20%*	*35%*
Particulars	**SAR'000**	**SAR'000**	**SAR'000**
Sovereigns and central banks:			
SAMA and Saudi Government	29,192,107	-	-
Others	1,825,586	-	-
Multilateral Development Banks (MDBs)	-	-	-
Public Sector Entities (PSEs)	-	-	-
Banks and securities firms	-	9,498,967	-
Corporates	352,414	3,491,787	-
Retail non-mortgages	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-
Mortgages	-	-	-
Residential	-	-	-
Commercial	-	-	-
Securitized assets	-	-	-
Equity	-	-	-
Others	814,016	-	-
Total	**32,184,123**	**12,990,754**	**-**

7. Table (STA) – Credit Risk Mitigation (CRM); Disclosures for Standardized Approach

Credit Risk Exposure covered by CRM (Table 7, (b) and (c))

	Covered by	
	*Eligible financial collateral**	*Guarantees/ credit derivatives*
Portfolios	**SAR'000**	**SAR'000**
Sovereigns and central banks		
SAMA and Saudi Government	-	-
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	-	-
Corporates	553,645	259,689
Retail non-mortgages		
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages		
Residential	-	-
Commercial	-	-
Securitized assets	-	-
Equity	-	-
Others	-	-
Total	**553,645**	**259,689**

Risk buckets							
50%	*75%*	*100%*	*150%*	*Other risk weights*	*Unrated*	*Total*	*Deducted*
SAR’000	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**	**SAR’000**
-	-	-	-	-	-	**29,192,107**	**-**
-	-	-	-	-	-	**1,825,586**	**-**
-	-	-	-	-	-	**-**	**-**
-	-	-	-	-	-	**-**	**-**
3,466,575	-	2,362	-	-	-	**12,967,904**	**-**
3,574,673	-	75,650,599	1,189,936	-	-	**84,259,409**	**-**
-	11,010,980	-	237,239	-	-	**11,248,219**	**-**
-	-	-	-	-	-	**-**	**-**
-	-	-	-	-	-	**-**	**-**
-	-	3,679,899	-	-	-	**3,679,899**	**-**
-	-	-	-	-	-	**-**	**-**
-	-	-	-	-	-	**-**	**-**
-	-	1,322,569	-	-	-	**1,322,569**	**227,206**
-	-	982,325	-	-	-	**1,796,341**	**-**
7,041,248	**11,010,980**	**81,637,754**	**1,427,175**	**-**	**-**	**146,292,034**	**227,206**

Basel II – Pillar 3 Annual Disclosures (31 December 2010) (continued)

10. Table – Market Risk: Disclosures for Banks Using the Standardized Approach

Level of Market Risks in Terms of Capital Requirements (Table 10, (b))

	Interest rate risk	*Equity position risk*	*Foreign exchange risk*	*Commodity risk*	*Total*
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Capital requirements	59,067	-	38,171	-	97,238

13. Table – Equities: Disclosures for Banking Book Positions

Value of Investments (Table 13, (b))

	Unquoted Investments		**Quoted Investments**		
	Value disclosed in financial statements	*Fair value*	*Value disclosed in financial statements*	*Fair value*	*Publicly quoted share values (if materially different from fair value)**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Investments	180,115	180,115	1,369,662	1,455,057	-

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

	Publicly traded	*Privately held*
Investments	**SAR'000**	**SAR'000**
Government and Quasi-Government	-	-
Banks and Other Financial Institutions	1,362,787	115,030
Agriculture and Fishing	-	-
Manufacturing	5,937	-
Mining and Quarrying	8	-
Electricity, water, gas and health services	-	-
Building and Consruction	-	-
Commerce	-	-
Transportation and communication	930	-
Services	-	9,393
Others	-	55,692
Total	**1,369,662**	**180,115**

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

Particulars	**SAR'000**
Cummulative realised gains/(losses) arising from sales and liquidations in the reporting period	-
Total unrealised gains (losses)	38,814
Total latent revaluation gains (losses)*	N/A
Unrealised gains (losses) included in capital	38,814
Latent revaluation gains (losses) included in Capital*	N/A

**Not applicable to KSA to Date.*

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

Capital Requirements (Table 13, (f))

Equity Grouping	*Capital requirements* SAR'000
Government and Quasi-Government	-
Banks and Other Financial Institutions	100,503
Agriculture and Fishing	-
Manufacturing	475
Mining and Quarrying	1
Electricity, water, gas and health services	-
Building and Consruction	-
Commerce	-
Transportation and communication	74
Services	297
Others	4,455
Total	**105,805**

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

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

Rate Shocks	*Change in earnings* SAR'000
Upward Rate Shocks:	
SAR	(360,729)
USD	(64,491)
Downward rate shocks:	
SAR	360,729
USD	64,491

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Published by Corporate Communications,
The Saudi British Bank, Riyadh.

Cover designed by Addison Corporate Marketing Limited, London;
text pages designed by Group Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, Hong Kong.

Printed by
Al-Nasher Al-Arabi Printing Press
Riyadh, Saudi Arabia