

Table of Contents

7	Board of Directors
9	Senior Management
11	Financial Highlights
12	Chairman's Statement
14	Directors' Report
46	Independent Auditors' Report
48	Consolidated Statement of Financial Position
49	Consolidated Statement of Income
50	Consolidated Statements of Comprehensive Income
51	Consolidated Statement of Changes in Shareholders' Equity
52	Consolidated Statement of Cash Flows
53	Notes to the Consolidated Financial Statements (31 December 2014)
105	Basel – Pillar 3 Annual Disclosures (31 December 2014)
121	Basel – Pillar 3 Annual Disclosures – Tables
152	Addresses and Contact Numbers

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

To receive a copy of this report, please visit our website.

SABB

Head Office:

P.O. Box 9084

Riyadh 11413

Kingdom of Saudi Arabia

Tel: +966 (11) 276 4779

Fax: +966 (11) 276 4809

Email: prsabb@sabb.com

website: www.sabb.com

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Custodian of The Two Holy Mosques
King Salman bin Abdulaziz Al Saud



His Royal Highness
Prince Mohamed bin Naif bin Abdulaziz Al Saud,
Crown Prince, Deputy Prime Minister and Minister of Interior
Chairman of the Council of Political and Security Affairs



His Royal Highness
Prince Mohamed bin Salman bin Abdulaziz Al Saud,
Deputy Crown Prince, Second Deputy Prime Minister and Minister of Defense
Chairman of the Council of Economic and Development Affairs

Board of Directors



Chairman
Khaled Suliman Olayan



David Dew



Sulaiman Abdulkader
Al Muhaidib



Ahmed Suliman
Banajah



Khalid Abdullah
Al Molhem



Mohammad Mazyed
Al Tuwaijri



Mohammed Omran
Al Omran



Nigel Hinshelwood

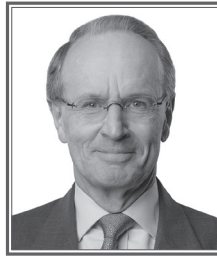


Saad Abdulmohsen
Al Fadly



Martin Spurling

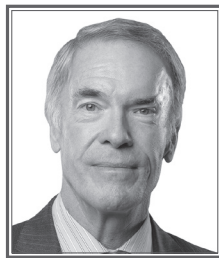
Senior Management



David Dew
Managing Director



Naif Alabdulkareem
General Manager,
Retail Banking and
Wealth Management



David Kenney
Chief Risk Officer



Majid Al Gwaiz
General Manager,
Commercial Banking



Fahad Al Saif
General Manager,
Global Banking and
Markets



Ahmed Al Sudais
General Manager,
Human Resources



Saad Al Khalb
Chief Operating Officer



Craig Bell
Chief Financial Officer



Mohammed Al Obaid
Company Secretary



Saleh Al Motawa
Treasurer



Hussain Al Yami
Chief Internal Auditor



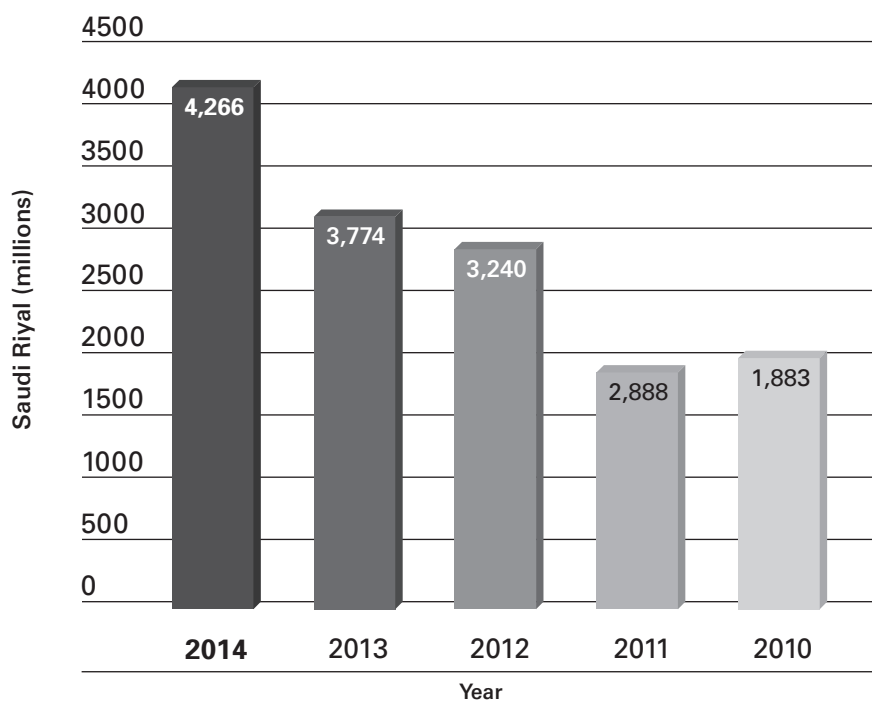
Sami Al Muhaid
Chief Compliance Officer

Financial Highlights

Five-year financial highlights

Saudi Riyal (millions)	Year				
	2014	2013	2012	2011	2010
Customer Deposits	145,870	138,961	120,434	105,577	94,673
Shareholders' Equity	26,071	22,833	20,066	17,166	15,172
Investments, Net	45,281	37,400	27,587	22,200	24,972
Loans and Advances, Net	115,221	106,115	96,098	84,811	74,248
Total Assets	187,609	177,302	156,652	138,658	125,373
Net Income	4,266	3,774	3,240	2,888	1,883
Gross Dividend	1,150	1,100	1,000	563	563

Net income



Chairman's Statement

On behalf of the Board of Directors I am pleased to present to you the Annual Report of SABB for the financial year ended 31st December 2014.

SABB has again had an excellent year with profits rising further to SAR4,266 million, an increase of SAR492 million or 13% over a year earlier. These results are most gratifying and clearly evidence strong growth in our increasingly diverse revenue streams, detailed attention to the increasingly sophisticated demands of our customers, comprehensive application of the highest professional standards in accordance with best international practice and dedicated attention to the containment of costs.

Throughout 2014 we have continued to pursue our customer-focused strategy that has resulted in the wider accessibility of our products and services either through our growing number of branches and ATM machines across the Kingdom or through a wide range of readily-available, highly-secure electronic services. Integral to the strategy has been SABB's leading role in developing and offering an increasingly wide range of innovative, best-in-class products and services across all our business lines, to which our customers have responded positively thereby expressing confidence in our Bank and its portfolio of offerings. Evidence of this success has been the recognition we have earned globally from prominent financial journals.

In the final analysis, however, it has been our acquisition of high quality human resources, among the best in the financial sector in Saudi Arabia, whose professionalism in performing their activities is second-to-none. To ensure their retention we offer an unsurpassed level of broadly-based, in-house training and provide them with a career path that ensures their continued loyalty to SABB. In this we have been most successful and are well able to boast that a substantial majority of our staff are Saudi nationals of whom an increasing number are females.

In pursuing our activities we seek always to be fully compliant with the rules and regulations laid down by both the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority. Furthermore, we ensure a strong commitment to our core values, to the principles of corporate governance and to performing our activities ethically, transparently and with full disclosure. Of increasing importance have become the Basel III capital adequacy requirements, with which we seek at all times to comply, whilst also working closely with SAMA in their application of the requirements in order to ensure the on-going stability of the financial sector in Saudi Arabia.

As a responsible corporate citizen we always participate fully with the communities within which we work. SABB's community services, which also involve many of our staff, have been focused in the recent past on the provision of community support and on protecting the environment. Our continuing efforts over many years were well-rewarded during 2014 as we were honoured by the Council of Ministers of Social Affairs of GCC member states with the award of "Best Community Service Company in Saudi Arabia", an accolade of which we are a most proud recipient.

Finally, and on behalf of the Board of Directors, I would like to express our thanks and gratitude to the Custodian of the Two Holy Mosques, HRH The Crown Prince and HRH The Second Deputy Prime Minister for their support and encouragement of the economic development of our Kingdom, and especially that given to the financial sector. We wish to recognise also the important role played by the Saudi government and its continued leadership and cooperation in taking our nation forward and in supporting all national banking institutions. In particular, we thank the Ministries of Finance and Commerce and Industry, the Saudi Arabian Monetary Agency and the Capital Market Authority for working jointly and constructively with all Saudi banks to advance the best interests of the Kingdom and especially the banking sector. Last but by no means least we express sincere thanks and appreciation to all SABB's stakeholders for their confidence and support and especially to our hard-working staff for their loyalty and spirit of achievement in helping make SABB the leading financial institution it is today.

A handwritten signature in black ink, consisting of a series of connected loops and a final flourish.

Khaled Suliman Olayan
Chairman

Directors' Report

The Board of Directors (the "Board") is pleased to submit to shareholders the Annual Report of The Saudi British Bank ("SABB") for the financial year ending 31st December 2014.

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 1978G) and is an associate of the HSBC Group. The Bank's capital is Saudi Riyals ("SAR") 10 billion divided into 1 billion shares with a nominal value of SAR 10. The main objectives of the Bank are to provide a complete range of integrated banking products and services to both retail and corporate sectors throughout its departments, business segments and its branch network across the Kingdom of Saudi Arabia (the "Kingdom"). The Bank has no subsidiaries established or operating outside the Kingdom.

The Bank provides to its customers a complete set of conventional banking products and services which include current accounts, savings, time deposits, corporate credit facilities, consumer and mortgage loans, trade finance, cash and payments management, treasury and credit cards. The Bank also provides Shariah approved products, which are approved and supervised by an independent Shariah Board.

SABB holds a 100% (2013:100%) ownership interest in a subsidiary, SABB Insurance Agency with a capital of SAR 500 thousand, a limited liability company registered in the Kingdom 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 subsidiary registered in the Kingdom). The principal activity of the subsidiary is to act as sole insurance agent for SABB Takaful Company within the Kingdom as per the agreement between them. However, the Articles of Association enables the subsidiary to act as an agent to any other insurance company in the Kingdom.

SABB holds a 100% (2013:100 %) ownership interest in a subsidiary, Arabian Real Estate Company Limited with a capital of SAR 1 million, a limited liability company registered in the Kingdom under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has a 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB holds 100% ownership interest in a subsidiary, SABB Real Estate Company Limited with a capital of SAR 500 thousand, a limited liability company registered in the Kingdom under commercial registration No1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom). The main purpose of this subsidiary is the registration of real estate.

The Bank assures there are no shares or debt securities in issue for any of these three subsidiaries.

Five-year financial highlights

Saudi Riyal (millions)	Year				
	2014	2013	2012	2011	2010
Customer Deposits	145,870	138,961	120,434	105,577	94,673
Shareholders' Equity	26,071	22,833	20,066	17,166	15,172
Investments, Net	45,281	37,400	27,587	22,200	24,972
Loans and Advances, Net	115,221	106,115	96,098	84,811	74,248
Total Assets	187,609	177,302	156,652	138,658	125,373
Net Income	4,266	3,774	3,240	2,888	1,883
Gross Dividend	1,150	1,100	1,000	563	563

Five-year financial highlights *(continued)*

Geographical Analysis of Income

The Bank generates its operating income from its activities in the Kingdom and has no branches, subsidiaries or associates established or operating outside the Kingdom. The following table shows the distribution of operating income in accordance with the geographical classification of the Kingdom's regions.

Saudi Riyal (millions)			
Year	Central Province	Western Province	Eastern Province
2014G	4,126	1,408	968

Operating Segments

The Bank is organised into the following main operating segments:

Retail Banking - which caters mainly to the banking requirements of personal and private banking customers including deposits, current and savings accounts, personal finances and credit cards.

Corporate Banking - which caters mainly to the banking requirements of commercial and corporate banking customers including deposits, current accounts, loans, finances and other credit facilities.

Treasury - which caters mainly to capital markets, foreign currency transactions and trading in financial derivatives. It also caters to management of 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 the Bank's investment in a joint venture and an associate.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total operating income and expenses and the results for the year ended 31 December 2014, by business segments, are as follows:

SAR '000	Retail Banking	Corporate Banking	Treasury	Other	Total
Total Operating Income	2,247,934	2,993,006	1,261,269	-	6,502,209
Total Operating Expenses	1,353,284	843,916	148,401	-	2,345,601
Share in Earnings of a Joint Venture and an Associate	-	-	-	109,453	109,453
Net Income	894,650	2,149,090	1,112,868	109,453	4,266,061

The bank's share in earnings of investment in a joint venture and an associate represents shares in the profits of the following companies:

HSBC Saudi Arabia Limited

SABB owns 51% of the shares of HSBC Saudi Arabia Limited, with a paid up capital of SAR 500 million, a joint venture with HSBC. SABB does not consolidate the entity as it does not have management control, nor the power to govern the financial and operating policies of the entity. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

SABB Takaful

SABB owns 32.5% of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 31 December 2014 is SAR 346.9 million (2013 : SAR 381.2 million).

Directors' Report (continued)**Profits**

SABB recorded a net profit of SAR 4,266 million for the year ended 31 December 2014. This is an increase of SAR 492 million or 13.0% compared to SAR 3,774 million for the same period in 2013. The increase is due mainly to an increase in net special commission income of SAR 343 million, an increase in fee and commission income of SAR 212 million, an increase in trading income of SAR 101 million and an increase in exchange income of SAR 44 million which was partially offset by an increase in the total operating expenses of SAR 183 million. Earnings per share were SAR 4.27 for the year ended 31 December 2014 as against SAR 3.77 for the same period last year.

Total assets were SAR 187.6 billion at 31 December 2014, compared with SAR 177.3 billion at 31 December 2013, an increase of 5.8 % or SAR 10.3 billion. Customer deposits totalled SAR 145.9 billion at 31 December 2014 – an increase of SAR 6.9 billion, or 5.0%, compared with SAR 139.0 billion at 31 December 2013. Loans and advances to customers amounted to SAR 115.2 billion at 31 December 2014 – an increase of SAR 9.1 billion, or 8.6 %, from SAR 106.1 billion at 31 December 2013. The bank's investment portfolio totalled SAR 45.3 billion at 31 December 2014, an increase of SAR 7.9 billion or 21.1 % compared with SAR 37.4 billion at 31 December 2013.

Cash Dividend and Bonus Share Issue

In accordance with the Bank's Articles of Association and SABB Governance Document, the Bank's 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 the non-Saudi partner, will be calculated and 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 at least the paid up share capital of the Bank.
3. Based on the recommendation of the Board and approval of shareholders at the Ordinary general meeting dividends will be paid to shareholders in accordance with the number of shares held by each shareholder.
4. Undistributed net income is carried forward as retained earnings or transferred to statutory reserve.

The Ordinary General Meeting of the Bank, which was held on 18 March 2014, approved the proposal of the Board to distribute a cash dividend for the financial year 2013 to all shareholders registered as at the end of trading on the day of holding the meeting amounting to SAR 1,100 million at the rate of SAR (1.00) per share after deducting zakat and tax. This was paid to the shareholders on 25 March 2014.

With regard to the distributable profits proposed for the year ending 31 December 2014, the Bank announced on 24 December 2014 that the Board has recommended to the Ordinary General Meeting of the Bank scheduled for 11 March 2015 the distribution of cash dividends to shareholders for the year 2014 of a total amount of SAR 1,050 million at the rate of SAR 1.05 per share, which represents 10.5% of the nominal value of share. Eligibility to such dividends will be for the shareholders registered in the Bank's share registry as of the end of trading on the Extra-Ordinary General Meeting day.

The Board has recommended the distribution of profits as follows:

	SAR '000
Net Income 2014	4,266,061
Retained earnings from the previous year	3,809,033
Total	8,075,094
Distributed as follows:	
Transferred to statutory reserves	1,066,515
Zakat and Income Tax	399,100
Proposed dividend, net	750,900
Retained earnings for 2014	5,858,579

Other than the cash dividend proposed to be paid to shareholders for the year 2014, and whereas the Bank is in the process of increasing its share capital from SAR 10 billion to SAR 15 billion, the Board has recommended to the Extra-Ordinary General Meeting scheduled for 11 March 2015, approval for the Bank's share capital increase and to grant the shareholders registered in the Bank's register as of the end of trading on the Extra-Ordinary General Meeting day, a bonus share issue of 1 share for each 2 shares held.

Profits (continued)

Statutory Payments

Statutory payments payable by the Bank during 2014 as a whole consists of Zakat payable by Saudi shareholders, tax payable by the foreign partner, and the amounts payable to the General Organization for Social Insurance ("GOSI") which represent staff insurance contributions.

The statutory payments for the year 2014 were as follows:

	SAR '000
Zakat attributable to the Saudi shareholders for the year 2014	62,700
Income tax attributable to the share of the non-Saudi shareholders for the year 2014	336,400
GOSI payments	95,275
Other payments	2,030

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 2012G 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 the Saudi Arabian Monetary Agency ("SAMA").

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

	As at 31 December 2014 SAR'000
HSBC Group	
Due from banks and other financial institutions	1,874,520
Investments	948,429
Derivatives (at fair value)	(236,724)
Due to banks and other financial institutions	2,185,523
Other liabilities	28,118
Commitments and contingencies	2,047,214

The above investments include investments in a joint venture and associate, amounting to SAR 651.7 million.

Directors, Audit Committee, Other Major Shareholders and their Affiliates

	As at 31 December 2014 SAR'000
Loans and advances	3,087,237
Customers' deposits	10,240,067
Derivatives (at fair value)	20,329
Commitments and contingencies	85,736

Note: Shareholders holding more than 5% of the Bank's paid-up capital are classified as major shareholders

	As at 31 December 2014 SAR'000
Bank's Mutual Funds	
Loans and advances	1,247
Customers' deposits	1,040,795

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

Following is the analysis of income and expenditure pertaining to transactions with related parties included in the consolidated financial statements for the year ended 31 December 2014.

Item	SAR'000
Special commission income	92,749
Special commission expense	(293,653)
Fees and commission income	106,056
Service charges paid to HSBC group	41,366
Profit share arrangement relating to investment banking activities	(4,679)
Share in earnings of associates	109,453
Directors' remuneration	3,334

The total amount of compensation paid to key management personnel during the year ended 31 December 2014 as follows:

Item	SAR'000
Short-term employee benefits (Salaries and allowances)	31,373
Employment termination benefits	6,592

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 2014.

Debt securities in issue

The bank continues to enhance its capital adequacy position, diversification of sources of funds and reduce its asset-liability maturity mismatch. The bank has issued the following debt securities:

	As at 31 December 2014
Bank's Mutual Funds	SAR'000
USD 600 million 5 year fixed rate notes	2,264,678
SAR 1,500 million 5 year SAR subordinated Sukuk - 2012	1,500,000
SAR 1,500 million 7 year SAR subordinated Sukuk - 2013	1,500,000
Total	5,264,678

USD 600 million 5 year fixed rate notes

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

The special commission rate exposure on these notes has been hedged by a fixed to floating special commission rate swap. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a fair value hedge in these consolidated financial statements. The negative mark to market relating to these notes pertaining to the hedged portion is SAR 17.3 million as at the end of the current year.

Profits (continued)

SAR 1,500 million 5 year SAR subordinated Sukuk - 2012

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

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

SAR 1,500 million 7 year SAR subordinated Sukuk - 2013

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

The Sukuk carries effective special commission income at six months' SIBOR plus 140 bps payable semi-annually. The Sukuk is unsecured and is registered on Tadawul.

Borrowings

This represents a 12 year amortising fixed rate loan from a financial institution that carries special commission at the rate of 5.11% payable semi-annually. The loan was taken on 7 July 2005 and is repayable by 15 June 2017. The outstanding loan amount as of 31 December 2014 is SAR 78,125 thousands. The table below sets out the its maturity profile.

Payment Date	Payment Amounts	Outstanding Balance
	SAR'000	SAR'000
Balance as at 31 December 2014	-	78,125
15 June 2015	15,625	62,500
15 December 2015	15,625	46,875
15 June 2016	15,625	31,250
15 December 2016	15,625	15,625
15 June 2017	15,625	-

Directors' Report (continued)**Directors' and Senior Executives' Remuneration**

The compensation paid to members of the Board of Directors of the Bank or members from outside the Board are determined in accordance with the frameworks set by the instructions issued by the supervisory authorities, and governed by prime principles of governance of banks operating in the Kingdom and the compensation regulations issued by SAMA, the Corporate Governance Regulation issued by the Capital Market Authority of Saudi Arabia ("CMA") the provisions of the Companies Law and the Articles of Association of SABB; and the SABB Governance manual and SABB Compensation Policy.

Directors' fees for their membership of the Board and participation in the Banks' operations, during 2014 amounted to SAR 3,334,000 including SAR 354,000 in attendance fees at Board meetings and Board Committees, namely: Executive Committee, Audit Committee, Remuneration and Nomination Committee and Board Risk. The following table shows details of remuneration paid to Board and Committees members and senior executives of the Bank during the year:

2014 SAR' 000	<i>Executive/ Non-Executive Board Members</i>	<i>Detailed remuneration elements for the six executives who have received the highest compensation from the Bank. The MGD and CFO are included as required</i>	<i>Detailed remuneration elements for the senior executives whose appointment requires SAMA no objection</i>
Salaries and Remuneration	5,921	8,707	18,946
Allowances	247	2,849	7,941
Annual and Periodic Bonuses	2,114	19,298	25,800
Incentive Schemes	-	-	-
Any Remuneration or other benefits in kind paid monthly or annually	449	778	1,332

Note: Above values were calculated on cost to the Bank during 2014 excluding bonuses and shares where they are based on value delivered to employees.

Staff Benefits and Schemes

In response to the guidelines issued by SAMA and the Financial Stability Board (FSB) an independent review of the Bank's compensation structure was undertaken. The report was submitted to the Nomination and Remuneration Committee (NRC) for consideration and then together with a management report to SAMA. A Compensation Policy was also developed and agreed by NRC and approved by the Board of Directors and has been implemented since 2010.

The policy sets the guidelines as to how both fixed and variable pay (including incentive schemes) will be managed at SABB. The policy aligns the reward practices with the Bank's strategy and values to support the successful execution of the strategy in a risk compliant manner. Finally, it offers an attractive employee value proposition to attract, motivate and retain employees thereby ensuring the financial sustainability of SABB.

According to the Labour Law of The Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefit is due for payment at the end of an employee's period of service. The end of service benefit outstanding at the end of December 2014 amounted to SAR 348 million.

The Bank operates three equity schemes for certain employees. The scheme reflects the number of committed shares for performance years 2011, 2012, 2013 as of 31 December 2014 with a total market value of SAR 33,171,392.

Board of Directors' Assurance

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

- The Bank's books of account were properly prepared
- The Bank's internal control system is effective
- It has no evidence that suggests the Bank's inability 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 that which 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 review of 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 exercise. In the Board'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, International Financial Reporting Standards (IFRS) and also comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association. There has been no major deviation in the accounting standards being applied at SABB against SOCPA's accounting standards applied during the financial year ended 31 December 2014, except in the application of the international standards mentioned in the notes to the financial statements in which case SABB has applied the subject standard with retrospective effect without an impact on the Bank's financial position or performance.

Appointment of External Auditors

The General Assembly Meeting of the Bank held on 18 March 2014, endorsed the selection of both KPMG Al Fozan & Al Sadhan and Ernst & Young as external auditors from among the candidates and according to the recommendation of the Audit Committee, to audit the Bank's annual financial statements and quarterly interim condensed financial statements for the year ended 31 December 2014 and the determination of their audit fees.

Basel III

Basel III 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 standards have been adopted by SAMA.

Basel III builds upon and enhances the regulatory framework adopted by Basel II and Basel II.5, which now form integral parts of the Basel III framework.

The final Basel III capital reforms framework has been issued by SAMA with an implementation date effective from 1 January 2013.

The Basel 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.

Directors' Report (continued)

Basel III (continued)

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 example, Concentration risk.

SABB's ICAAP is a comprehensive document designed to evaluate the Bank's risk profile, the processes for identifying, measuring and controlling risk, and its capital requirements and 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 II 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.

The Basel disclosures have been prepared in accordance with the Basel III rules issued by SAMA in Dec 2012.

The Basel III rules set out a minimum common equity Tier 1 ratio of 7%, including a capital conservation buffer; any additional countercyclical buffer requirements will be phased in starting in 2016 to a maximum of 2.5%. In addition, all classes of capital instruments to be included in the regulatory capital from 1 January 2013 must fully absorb losses at the point of non-viability before taxpayers are exposed to losses. The capital treatment of securities issued prior to this date will be phased over a 10 year period commencing from 1 January 2013.

SAMA has also issued final liquidity guidelines on the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR and NSFR become a minimum standard from 1 Jan 2015 and 1 Jan 2018 respectively.

SABB is well positioned to respond to the capital and liquidity requirements imposed by Basel III.

During 2015, SABB will continue participating in SAMA working groups on the various aspects of Basel III to facilitate a smooth implementation of the rules within Saudi Arabia.

Credit Rating

During 2014, Standard & Poor's Ratings Services affirmed its 'A/A-1' long- and short-term counter-party credit ratings on SABB with stable outlook. Also, Fitch affirmed its 'A/F1' long- and short-term counter-party credit rating on SABB with stable outlook. SABB's credit ratings affirmation and Stable Outlook reflect SABB's financial strengths, consistently strong profitability and earnings generation, comfortable liquidity, and strong franchise.

Arrangements for Directors' or Senior Executives' waiver of salaries or remuneration

The Bank is not aware of information on any arrangements or agreements for the waiver by any director of the Board or any senior executive of any salaries, awards or remuneration.

Arrangements for shareholders' waiver of rights to dividends

The Bank is not aware of any information on any arrangements or agreements for the waiver by any shareholder of the Bank of any of their rights to dividends.

Notification Relating to Substantial Shareholdings

During the year, the Bank did not receive any notification from shareholders or relevant persons with regard to the change in their ownership of the Bank's shares in accordance with the Disclosure requirements of the Listing Rules issued by the Capital Market Authority. Below are schedules of share ownership of major shareholders, Directors of the Board and Senior Executives or their spouses and minor children in shares or equity:

Arrangements for Directors' or Senior Executives' waiver of salaries or remuneration (continued)

Description of any interest, option rights and subscription rights of major shareholders:

Major Shareholders	<i>No. of Shares</i>		<i>Net Change during the year</i>	
	<i>at the beginning of the year</i>	<i>No. of Shares at year-end</i>	<i>No. of Shares</i>	<i>%</i>
SAR'000				
<i>Name of stakeholder</i>	<i>01/01/2014</i>	<i>31/12/2014</i>		
HSBC Holdings BV	400,000,000	400,000,000	-	0
Olayan Saudi Investment Company Ltd.	169,995,000	169,828,435	-166,565	-0.09
General Organization for Social Insurance	97,416,959	97,416,959	-	0
Abdulkader Al-Muhaidib and Sons Company	50,009,026	50,009,026	-	0

Description of any interest, option rights and subscription rights of Directors of the Board and their wives and minor children:

Directors of the Board and their wives and minor children	<i>No. of Shares</i>		<i>Net Change during the year</i>	
	<i>at the beginning of the year</i>	<i>No. of Shares at year-end</i>	<i>No. of Shares</i>	<i>%</i>
SAR'000				
<i>Name of stakeholder</i>	<i>01/01/2014</i>	<i>31/12/2014</i>		
Khaled Suliman Saleh Al-Olayan	5,000	5,000	-	0
Khalid Abdullah Abdulaziz Al-Molhem	35,413	35,413	-	0
Sulaiman Abdulkader Abdulmohsen Al-Muhaidib and family members	82,493	82,493	-	0
Mohammed Omran Mohammed Al Omran and family members	9,373,693	9,373,693	-	0
Ahmed Suliman Banajah and family members	33,666	25,666	-8,000	-23
Saad Abdulmohsen Al Fadly (Representing GOSI)	0	1,000	1,000	100
David Robert Dew	17,000	1,000	-16,000	-94
Martin Spurling (Representing HSBC Group)	1,000	1,000	-	0
Mohammad Mazyed Mohammad Al-Tuwaijri (Representing HSBC Group)	1,000	1,000	-	0
Nigel Hinshelwood (Representing HSBC Group)	0	1,000	1,000	100
Mohammed Abdulrahman Al Samhan*	1,000	-	-1,000	-100
Zarir J. Cama (Representing HSBC Group)**	1,000	-	-1,000	-100

(*) The Directorship of Mr. Mohammed Abdulrahman Al Samhan lapsed, and he was replaced by Mr. Saad Al Fadly effective 1 April 2014.

(**) Zarir J. Cama's directorship lapsed, and he was replaced by Mr Nigel Henshelwood effective 1 September 2014.

Directors' Report (continued)**Arrangements for Directors' or Senior Executives' waiver of salaries or remuneration** (continued)

Description of any interest, option rights and subscription rights of senior executives and their wives and minor children:

Bank's Senior Executives, their Spouses and Minor Children	<i>No. of Shares at the beginning of the year 01/01/2014</i>	<i>No. of Shares at year-end 31/12/2014</i>	<i>Net Change during the year</i>	
			<i>No. of Shares</i>	<i>%</i>
SAR'000				
<i>Name of stakeholder</i>				
David Robert Dew	17,000	1,000	-16,000	-94
Ian Macalester	0	-	-	0
Mansour Abdulaziz Rashid Al-Bosaily	60,223	100,000	39,777	66
Craig Bell	0	-	-	0

Board of Directors and its Committees**Directors**

The Board of the Saudi British Bank comprises ten members, six of whom represent Saudi interests and are elected and appointed by the General Assembly of the Bank for three Gregorian years with the possibility of re-election. The other four members are appointed by the foreign partner.

On 15 December 2013, The General Assembly of the Bank convened and elected the Directors of the Board representing the Saudi partners for a term of 3 years which commenced on 01 January 2014 and will end on 31 December 2016. The General Assembly approved the election and appointment of directors by way of accumulative voting.

On 1 April 2014, Mr. Saad Al Fadly replaced Mr. Mohammed Al Samhan as a Director of the Board. On 01 September 2014, Mr. Nigel Hinshelwood replaced Mr. Zarir Cama as a director of the Board representing HSBC Group.

In the light of the above, the Board of Directors as at 31 December 2014 comprised the following members, whose membership was classified as per Article (2) of the Corporate Governance Regulations issued by the CMA's and SAMA's Corporate Governance Principles Document:

Board of Directors and its Committees *(continued)*

Mr Khaled Suliman Saleh Al-Olayan, BOARD MEMBER, INDEPENDENT DIRECTOR (SAUDI)
Board Member, Al-Zamil Industrial Investment Company

Engr. Khalid Abdullah Al-Molhem, BOARD MEMBER, INDEPENDENT DIRECTOR (SAUDI)
Board Member, Economic City
Board Member, Amlak Company
Board Member, White Cement Co.
Board Member, United Electronics Company (Extra)
Board Member, King Abdullah Economic City

Mr Mohammed Omran Mohammed Al-Omran, BOARD MEMBER, INDEPENDENT DIRECTOR (SAUDI)
Board Member, Credit Suisse (Saudi Arabia)
Board Member, Saudi Telecommunication Co. (STC)
Board Member, Saudi Orex Lease Finance Company
Board Member, Al-Rajhi Cooperative Insurance Co.

Mr Ahmed Suliman Banajah, BOARD MEMBER, INDEPENDENT DIRECTOR (SAUDI)
Board Member, Saudi Economic and Development Co.
Board Member, SEDCO Capital
Board Member, Al-Faisaliah Group

Mr Sulaiman Abdulkader Al-Muhaidib, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (SAUDI)
Chairman, K. Al-Muhaidib & Sons Company (representing Sulaiman Al Muhaidib & Partners Company)
Chairman, Secorp Co.
Board Member, First Real Estate Development Company (representing Abdulkadir Al Muhaidib & Sons Co.)
Board Member, Savola Group Company (representing Abdulkadir Al Muhaidib & Sons Co.)
Board Member, National Industries Company (representing Abdulkadir Al Muhaidib & Sons Co.)
Board Member, Al-Marai Company (representing Savola Group Company)
Board Member, Middle East Paper Company (representing Abdulkadir Al Muhaidib & Sons Co.)
Board Member, Power & Water International Co.
Board Member, Rafal Real-Estate Development Co.
Board Member, Al jusoor United Holding Co.
Board Member, ACWA Holding

Mr Saad Abdulmohsen Al Fadly, NON-EXECUTIVE DIRECTOR (SAUDI)
Board Member, representing GOSI

Mr Nigel Hinshelwood, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (BRITISH)
Representing HSBC Group

Mr Martin Spurling, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (BRITISH)
Representing HSBC Group

Mr Mohammad Mazyed Mohammad Al Tuwaijri, BOARD MEMBER, NON-EXECUTIVE DIRECTOR (BRITISH)
Representing HSBC Group

Mr David Dew, EXECUTIVE DIRECTOR AND THE MANAGING DIRECTOR, BOARD MEMBER, NON-INDEPENDENT (BRITISH)
Board Member, SABB Takaful Company

Directors' Report (continued)**Board Meetings**

In 2014, the Board of Directors of the Saudi British Bank ("SABB") held 4 meetings. The following table shows details of those meetings and the record of attendance of directors during the year:

<i>No.</i>	<i>Name</i>	<i>18 March 2014</i>	<i>3 June 2013</i>	<i>26 August 2014</i>	<i>16 December 2014</i>
1.	Mr Khaled Suliman Olayan	✓	–	✓	✓
2.	Engr. Khalid Abdullah Al-Molhem	✓	✓	✓	✓
3.	Mr Sulaiman Abdulkader Al-Muhaidib	✓	✓	✓	✓
4.	Mr Mohammed Omran Al Omran	✓	✓	✓	✓
5.	Mr Saad Abdulmohsen Al Fadly	–	✓	✓	✓
6.	Mr Ahmed Suliman Banajah	✓	✓	✓	✓
7.	Mr David Dew	✓	✓	✓	✓
8.	Mr Mohammed Mezyad Al Tuwaijri	✓	✓	✓	✓
9.	Mr Martin Spurling	✓	✓	✓	✓
10.	Mr Nigel Hinshelwood	–	–	–	✓
11.	Mr Mohammed Abdulrahman AlSamhan (*)	✓	–	–	–
12.	Mr Zarir Cama (**)	✓	✓	✓	–
	Number of Attendees	10	9	10	10
	Percentage of Attendees	100%	90%	100%	100%

The following table shows attendance at Board and Board Committees during the year 2014:

<i>No.</i>	<i>Name</i>	<i>Board</i>	<i>Excom</i>	<i>Aucom</i>	<i>BRC</i>	<i>Remco</i>
1.	Mr Khaled Suliman Olayan	3	–	–	3	3
2.	Engr. Khalid Abdullah Al-Molhem	4	10	–	4	–
3.	Mr Sulaiman Abdulkader AlMuhaidib	4	–	–	–	–
4.	Mr Mohammed Omran Al-Omran	4	10	–	4	3
5.	Mr Ahmed Suliman Banajah	3	7	2	–	–
6.	Mr Saad Abdulrahman Al Fadly	4	3	4	–	2
7.	Mr David Dew	4	11	–	–	–
8.	Mr Mohammed Mezyad Al Tuwaijri	4	11	–	4	–
9.	Mr Martin Spurling	4	–	–	–	–
10.	Mr Nigel Henshelwood	1	–	–	–	–
11.	Mr Mohammed Abdulrahman Al-Samhan (*)	1	–	1	–	1
12.	Mr Zarir Cama (**)	3	–	–	–	–
13.	Mr Mohammed M Al-Ammaj (***)	–	–	3	–	–
14.	Mr James Madsen (***)	–	–	4	–	–
15.	Mr Talal Al-Zamel (***)	–	–	4	–	–

(*) The Directorship of Mr. Mohammed Abdulrahman Al Samhan lapsed, and he was replaced by Mr. Saad Al Fadly effective 1 April 2014.

(**) Zarir J. Cama's directorship lapsed, and he was replaced by Mr Nigel Hinshelwood effective 1 September 2014.

(***) The Audit Committee, as per its formation rules and terms of reference, consists of 5 members including 3 Non-Board members.

Board Committees

In line with the regulatory requirements issued by the Supervisory Authorities, SABB's Articles of Association and SABB's Governance Document, which provide for the formation of an appropriate number of committees, depending on the Bank's size, needs and activity diversification, the Board formed four Board sub-committees, the membership and formation of which is described in the following sections.

Executive Committee

The Executive Committee (“EXCOM”) is appointed by the Board in accordance with Article 26 of the Bank’s Articles of Association and reports directly to the Board. The committee consists of the Managing Director (Chairman) and four other members selected from among the Directors.

The main task of this committee is to assist the Managing Director (“MGD”) within the powers determined by the Board to deal with matters referred by the MGD or by the Board. In addition, EXCOM reviews and considers all monthly reports submitted by different functional heads and business segments of the Bank and meets twelve times during the year.

The Board approved new revised terms of reference for the committee in May 2013, and the committee members as of 31 December 2014 were Mr. David Dew (Chairman); Engr. Khalid Abdullah Al Molhem; Mr. Mohammed Omran Al Omran; Mr. Mohammed Mezyad Al Tuwaijri; and Mr. Saad Abdulmohsen Al Fadly.

The Committee held 11 meetings during 2014.

Audit Committee

SABB’s Audit Committee (“AUCOM”) was formed in 1992 and as per the formation rules and terms of reference it consists of three to five members from within and outside the Board.

The committee reports directly to the Board and meets four times during the year, where it supervises the Internal Audit Department and monitors the Bank’s internal and external audit functions and reviews control weaknesses and system deficiencies. It is also responsible for review of interim and annual financial statements including compliance with accounting policies, and provides the Board with its comments and feedback. The committee reviews the audit reports and provides its recommendations thereon, and also recommends to the Board the appointment of the Bank’s auditors, fixing their fees, reviewing the audit plan, following-up on the auditors’ work and reviewing the bank’s auditors’ comments, whilst also approving any work beyond normal audit business.

In line with the Bank’s plan to comply with corporate governance requirements, the terms of reference of the committee were revised and approved by the Board in May 2013 and endorsed by the AGM held on 18 March 2014.

The committee members are Mr. Ahmed Suliman Banajah, Independent Board member (Chairman); Mr. Saad Abdulmohsen Al Fadly, Non-Executive Board member; and Mr. James Madsen, Mr. Mohammed Mutlaq Al Ammaj and Mr. Talal Ahmed Al Zamel, who are all Non-Board members.

The committee held 4 meetings during 2014.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee (“REMCO”) was formed by the Board and meets at least twice during the year. The committee consists of three to five members from within and outside the Board, who are appointed by the Board, and reports directly to the Board.

The committee recommends to the Board nominations for Board membership in line with SABB Board membership policies and criteria as approved by the Board, 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, evaluates the effectiveness thereof as well as of the members and committees and ensures the independence of independent members and the absence of potential conflicts of interest. It also reviews the scopes and limits of SABB’s governance in addition to drawing-up and approving the compensation and remuneration policies and schemes and submits necessary recommendations in that regard.

In line with the Bank’s plan to comply with the corporate governance requirements, the terms of reference of the committee were revised and approved by the Board in May 2013, and the new terms were endorsed by the AGM held on 18 March 2014.

The committee members are Mr. Mohammed Omran Al-Omran, Chairman; Mr. Khaled Suliman Olayan, member and Mr. Ahmed Suliman Banajah, member.

The committee held 3 meetings during 2014.

Directors' Report (continued)

Board Risk Committee

The Board Risk Committee ("BRC") was formed by the Board in line with SAMA's rules on Credit Risk Management, which require the formation of a committee to handle risk management affairs.

As per its terms of reference, the committee consists of three to five non-executive members of the Board and reports directly to the Board.

The committee meets four times a year and supervises and gives advice to the Board on all matters relating to high level risks pertinent to the Bank's business in addition to strategic direction of risks across SABB including the drawing up of a risk vision, prioritization and supervision of principal initiatives and overseeing the execution of major transformational risk initiatives.

The Committee members are Engr. Khalid Abdullah Al-Molhem (Chairman), Mr. Khaled Suliman Olayan, member, Mr. Mohammed Omran Al-Omran, member and Mr. Mohammed Mezyad Al-Tuwaijri, member. Having been recently formed the committee held four meetings in 2014.

Corporate Governance

SABB is aware of the immense effects associated with the adoption of Prudent Corporate Governance Principles and Standards and that such adoption will lead to observance of professional and ethical standards in all the Bank's dealings as well as transparency and disclosure which will contribute to the furthering and improvement of its efficiency and relations with all interested parties, be they staff, depositors or others. It is also believed that the adoption of this approach will enhance investors' confidence both in the Bank and in the Saudi banking industry, which in turn will reflect positively on the security, integrity and stability of the Banking Sector in the Kingdom.

SABB has also adopted the Accumulative Voting principle for the election and selection of Board members. To this effect, the Bank's Articles of Association were amended at the Extra-Ordinary General Meeting held on 13 March 2012. This approach was adopted in electing the Saudi directors held on 15 December 2013.

In addition, the Bank issued a policy to regulate potential conflicts of interest of Board directors and senior executives as well as a policy that handles the disclosure mechanism and its requirements. The two policies were implemented after the Board's approval. The Bank, in its endeavour to enhance communication with its shareholders, pursued its initiative to urge shareholders who did not receive their dividends in the past to communicate with the bank to update their details and arrange for receipt of their rights.

The Bank's Articles of Association and the SABB Governance Document as approved by the Board provide for a shareholder's right to dividends, attendance at General Meetings, discussion, voting and the disposal of shares. In line with SABB's disclosure policy, the information relating to General Meetings, balance sheets, profit and loss accounts and the Board's annual report are provided to shareholders and published in the newspapers and on the Tadawul and Bank websites. In its endeavours to enhance its shareholders' awareness, the Bank issued Guidelines for Shareholders Rights at General Meetings, which are distributed to shareholders at such meetings.

In line with the provisions of the "Principles of Governance at Banks operating in KSA" document issued by SAMA that included a general framework of governance that banks operating in the Kingdom have to observe, and subsequent to the Bank's intention to comply with all contents of the said document, a comprehensive revision of the compliance system and applications adopted by SABB was made. Consequently an action plan with a time frame was laid down and discussed with SAMA so as to lead to the full compliance of the Bank with all requirements included in the Principles document.

In its endeavour to meet the regulatory requirements stated in the Corporate Governance Regulations issued by the CMA, Principles of Governance issued by SAMA and best international and local practices, and to ensure fulfilment of such requirements in a documented frame and approach, the Bank has worked to conduct the internal revisions by the Company Secretary and Compliance Department to assess the Bank's compliance with governance requirements and then to customize the governance frame adopted by the Bank to cope with the regulatory requirements in this regard.

As a result of such revisions, at the directions of the Board and the Remuneration and Nomination Committee a number of governance policies and frameworks and terms of reference of Board committees were formulated and revised. Forms were also designed to evaluate the efficiency of the Board and its members as well as of the Board Committees in line with the following details:

Corporate Governance *(continued)*

a) Policies and Procedures

The Bank's executive management revised SABB's Governance Policies which were endorsed by the Board and which included the following:

1. SABB Disclosure Policy to cope with the SABB Governance Document
2. SABB Conflict of Interests Policy
3. The Policies and Criteria for Selection of Board Directors and Committees and the Membership of executive and non-executive directors. This document covers all requirements set by the Ministry of Commerce and Industry, SAMA and the CMA relating to justifications, capabilities, qualifications, continuous training requirements, assessment of directors' efficiency and committee business and matters of succession with concentration on qualification, training and succession. This policy, which includes confirmations by directors of their observance of conflict of interest matters, independency and adherence to code of conduct, was approved by the Board on 15 December 2013 and by the Bank's General Meeting held on 18 March 2014.
4. The policy regulating the relationship with stakeholders such as shareholders, customers, staff and the local community in a bid to preserve their rights. The policy includes all rules provided for in the Principles document and Corporate Governance Rules so as to establish and preserve the rights of stakeholders and to handle the Bank's policy towards community service. This policy was endorsed by the Board on 15 December 2013 and was approved at the Bank's General Meeting on 18 March 2014.
5. The policy to regulate Related Parties' transactions that enhances the Bank's keenness to be aware of, track and endorse such transactions in line with the role of the Audit Committee, provided such transactions are disclosed on a regular and transparent basis.
6. The Policy for Directors' Remuneration and Compensation.
7. The SABB Corporate Governance Document, which was endorsed by the Board in December 2011 to cope with regulatory requirements, and to which amendments were endorsed by the Board on August 2014.

b) Terms of reference of Board Committees

In 2013 the terms of reference of all Board committees (EXCOM, REMCO and AUCOM) were revised so as to be in line with the Principles of Governance, Membership Criteria, Banking Control Law, Corporate Governance Rules and Companies Act.

Additionally, in line with the regulatory requirements issued by SAMA for the formation of a Board Risk Committee, the terms of reference were drafted and the Committee formed during 2013.

SABB's Board endorsed the terms of reference of all Board committees in May 2013. The General Assembly Meeting held on 18 March 2014 endorsed the revised terms of reference of the AUCOM and REMCO as per the regulatory directives.

c) Assessment of the efficiency of the Board, Directors and Board Committees

In line with the regulatory requirements of the Governance Principles and Corporate Governance Rules, which stipulate that the Board should, on an annual basis, assess the efficiency of its members and the size of their contribution to its business individually and as a group covering the Board committees, frameworks for such assessments were designed and prepared. Also a framework was designed to evaluate the efficiency of Board committees and the work they have undertaken measured against the scope of their responsibilities. Implementation of evaluation process frameworks commenced in 2014.

Directors' Report (continued)

Corporate Governance (continued)

d) Board and Committee Members Training Programmes

In the Bank's endeavours to enhance the skills of the Board and Committee members in all aspects of the banking industry, direct and remote training programmes, which extend to 3 years, were designed. Such programmes, which commenced in 2014, cover all Board and Committee members.

Generally, SABB complies in form and content with all Corporate Governance guidelines included in the Corporate Governance Regulations issued by the CMA. This commitment has resulted in the inclusion of the compulsory requirements in the Bank's Articles of Association and the Terms of Reference of Board Committees as well as in the Internal Policies and Guidelines regulating the work of the different Bank sectors. These include establishment of the rights of shareholders to purchase and own shares and to participate in General Meetings; the provision of all information that ensures shareholders can exercise their rights; the disclosure of financial and non-financial information and the complete observance of transparency requirements in line with the regulatory limits; and the definition of the liabilities of the Board of Directors and formation of its various committees under Terms of Reference that are in line with the Regulatory Guidelines.

In addition, the Bank is committed to observing the majority of the guidelines included in the Corporate Governance Regulations with the exception of the following:

<i>Article</i>	<i>Requirement</i>	<i>Reasons For Non-Compliance by the Bank</i>
3	This Article provides for a number of requirements relating to shareholders' rights including the right to a share of the company's assets upon liquidation.	There is no explicit text in the Bank's Articles of Association which provides for this requirement; however Article (52) of the Articles of Association handles matters relating to the liquidation of the company and the procedures as provided for in the Companies Act. In addition, the Governance Policy approved by the Board of Directors provides for the right of shareholders to a part of the Bank's assets upon liquidation.
Item (d) of Article 6	Investors who are judicial persons and who act on behalf of others - e.g. investment funds - shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of fundamental rights in relation to their investments.	The Bank is not entitled under any capacity to oblige any judicial investors who act on behalf of others to disclose their voting policies.

Penalties and Regulatory Restrictions

The Bank practises its business in line with the banking laws, rules and regulations and in accordance with the regulatory directives issued by the supervisory and regulatory authorities in the Kingdom of Saudi Arabia and has not been subject to any fines or penalties of significant effect on its business. However, in 2014 SAMA levied fines of an operational nature totalling SAR5,076,368. In addition, the Capital Market Authority imposed a fine of SAR 10,000 for not having drawn, before 30 June 2013, Board membership policies and criteria to be approved by the General Assembly. This point was handled and rectified in due course.

Compliance with Regulatory and International Requirements

SABB is in compliance with all regulatory instructions and guidelines issued by SAMA in respect of all banking activities including the aspects relating to the compliance environment, AML and penalties' determinants. SABB enhanced the skills of its staff by providing intensive training courses covering all business sectors. SABB also continues to be in compliance with Basel protocols in respect of the measurement of risks, capital adequacy and disclosure.

The Risk Committee formed by the Bank's management continues to ensure continuous compliance with all guidelines and instructions made in accordance with best international practices and issues its feedback and comments to the Board Risk Committee. SABB has established its own internal policies in line with the different regulatory requirements.

During 2012, SAMA, in view of its supervisory and controlling role and as part of the comprehensive inspection plans adopted thereby, carried out a comprehensive inspection of all the Bank's activities and business sectors. The inspection reflected the strength of the Bank's financial standing and full compliance with the rules regulating the Banking business. In 2014, SABB completed the provision to SAMA of the steps taken to be in compliance with the recommendations of review and inspection reports.

In its endeavour to become a leading financial institution both locally and globally, the Bank implemented in 2014 the adopted ethical and professional standards (SABB International Standards) which aim in general at strengthening the concepts of treating customers fairly so as to secure their interests and requirements in addition to the compliance in spirit and form with the rules and regulations governing the banking industry at all levels and the observation of information protection principles.

Statement on Internal Controls

SABB's management is responsible for establishing and maintaining an adequate and effective system of internal control which encompasses the policies, procedures/ processes and information systems as approved by the Board that facilitate effective and efficient operations. The Internal Control System ensures quality of external and internal reporting, maintenance of proper records and processes, compliance with applicable laws and regulations, and internal policies with respect to conduct of business. However, the ultimate responsibility for a system of internal controls lies with the Board and the Internal Control System is designed to manage, rather than eliminate, the risk of failure to achieve SABB's strategic objectives.

In 2014, SABB has made its best efforts to ensure that an effective Internal Control System continues to perform as per the requirements of Guidelines on Internal Controls issued by SAMA, vide circular dated March 2013, which is an ongoing process for the identification, evaluation and management of significant risks faced by the Bank. The observations made by the external/internal auditors and SAMA's inspection team in their respective audits/inspections were promptly reviewed and addressed by the Board, AUCOM and SABB's management for rectification of such observations to safeguard SABB's interest. As per SABB's assessment, the Internal Control System in place provides a reasonable assurance as to the integrity and reliability of the controls established and reports produced therefrom.

Directors' Report (continued)

Annual Review of the Effectiveness of Internal Control Procedures

The Board is responsible for internal control in SABB and for reviewing its effectiveness. The framework of standards, policies and key procedures that the Directors have established is designed to provide effective internal control within SABB for managing risks within the accepted risk appetite of the Bank; for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage and mitigate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. Such procedures for the on-going identification, evaluation and management of the significant risks faced by SABB have been in place throughout the year.

SABB's management is responsible for implementing and reviewing the effectiveness of the Bank's internal control framework as approved by the Board. SABB has implemented a 'Three Lines of Defence' model for managing risks facing the Bank and its subsidiaries. Business management, as the First Line of Defence, is responsible for setting policies, procedures and standards across all areas under their responsibility. Specific policies and manuals are established by functions covering all material risks including credit, market, liquidity, information technology and security, capital, financial management, model, reputational, strategic, sustainability, compliance and other operational risks. Functional management is also responsible for implementing effective monitoring mechanisms to detect and prevent deviations or breaches from established policies and regulatory requirements.

The Second Line of Defence comprises various risk management and control functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud. Risks are analysed qualitatively as well as by quantitative methods and reported to the Board through internal management committees, such as Risk Management Committee, Operational Risk and Internal Control Committee, Compliance Committee, Executive Committee, the Board Risk Committee and the Audit Committee.

The Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements, particularly the Rules for Opening of Bank Accounts, Anti-Money Laundering and Terrorism Finance Fighting Rules, CMA Rules and Regulations, and other key level international regulatory requirements. The risk management process is fully integrated with strategic planning, the annual operating plan and the 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. Results are communicated for the information of the directors by means of periodic reports provided to the Audit Committee and Board Risk Committee members.

Key internal control procedures include the following:

- SABB standards. SABB has established clear standards that should be met by employees, departments and the Bank as a whole. Functional, operating and financial reporting standards are established for application across the whole of SABB
- Delegation of authority within limits set by the Board. Authority to carry out various activities and responsibilities for financial performance against plans are delegated to SABB management within limits set by the Board. Delegation of authority from the Board to individuals requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control appropriate to the business. Authorities to enter into credit and market risk exposures are delegated with limits to line management. The concurrence of the EXCOM is required, however, for credit proposals with specified higher risk characteristics. Credit and market risks are measured and aggregated for review of risk concentrations. The appointment of executives to the most senior positions within SABB requires the approval of the Board

Risk identification and monitoring: Systems and procedures are in place in SABB to identify, control and report on the major risks including credit, market, liquidity, capital, financial management, model, reputational, strategic, sustainability, compliance, other operational risks and any emerging risks. Exposure to these risks is monitored by various management governance forums such as the Management Committee, the Asset and Liability Committee, the Risk Management Committee, the Compliance Committee, the Audit Tracker Committee and their various sub-committees. Minutes of these meetings are submitted to the Board sub-committees EXCOM, AUCOM, REMCO and BRC, and through these sub-committees to the board.

Financial reporting. SABB's financial reporting process for preparing the consolidated Annual Report and Accounts 2014 is controlled using documented accounting policies and reporting formats. The submission of financial information is subject to certification by the SABB Chief Financial Officer

Annual Review of the Effectiveness of Internal Control Procedures *(continued)*

- Changes in market conditions/practices. Processes are in place to identify new risks arising from changes in market conditions and practices and customer behaviour. During 2014, attention was focused on:
 - a) Implementing the highest international standards across all SABB activities;
 - b) Identifying and mitigating regulatory compliance, money laundering and financial crimes risks facing the businesses;
 - c) Embedding risk appetite and stress testing into the business of SABB;
 - d) The top and emerging risks;
 - e) Managing geopolitical risk and on-going instability in the region; and
 - f) Mitigation of information risks
- Strategic plans: A 3 year Medium Term Outlook (MTO) for the period 2014 – 2016 is in place. Annual operating plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that we are prepared to take in executing our strategy, are prepared at business and functional levels and set out the key business initiatives and the likely financial effects of those initiatives
- Governance arrangements: Governance arrangements are in place to provide oversight of, and advice to the Board on, material-risk-related matters. These are effected through the Board sub-committees as well as management sub-committees which oversees the effectiveness of risk management and report to the Board sub-committees.

Internal Audit (“INA”) represents the Third Line of Defence and monitors the effectiveness of internal control structures across the whole of SABB focusing on the areas of greatest risk to the Bank as determined by a risk-based grading approach. Internal Audit accomplishes this by independently reviewing the design effectiveness and operating efficiency of internal control systems and policies established by both business management (‘First Line’) and by risk management and control (‘Second Line’) functions to ensure that the Bank is operating within its stated risk appetite and in compliance with the regulatory framework. The Chief Internal Auditor reports to AUCOM on all audit related matters. The SABB Internal Audit Activity Charter sets out the accountability, independence, responsibility and authority of the Internal Audit function, while the SABB Audit Standards Manual prescribes the standards and procedures adhered to by the INA function. Both documents are reviewed and approved by AUCOM, acting on behalf of the Board on an annual basis. Executive management is responsible for ensuring that recommendations made by the Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Internal Audit.

During 2014, Internal Audit reviewed a number of activities and processes of SABB following a risk-based approach. Reports of these audits have been submitted to the AUCOM, highlighting areas where the effectiveness of controls or management’s effectiveness in addressing control deficiencies was found to be less than satisfactory. On an overall basis, audits of the effectiveness of the internal control environment conducted during 2014 confirmed that systems and procedures for the on-going 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 and the standards established by the Board.

During the year, BRC and AUCOM have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews BRC and AUCOM receive business and operational risk assessments; regular reports from SABB’s Risk Functions and Chief Internal Auditor; reports on reviews of the internal control framework, both financial and nonfinancial; contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Directors, through BRC and AUCOM, conduct annual reviews of the effectiveness of the Bank’s system of internal control covering all material controls, including financial, operational and compliance controls, risk management systems, the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. BRC and AUCOM receive confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of our framework of controls. SABB also engaged a leading consulting firm to identify gaps between the requirements of the Guidelines on Internal Control issued by SAMA, and the Bank’s existing control environment. The report of this review was presented to the Board in early 2014. INA will conduct independent annual reviews of the implementation of the recommendations and will provide its report to AUCOM.

Directors' Report (continued)

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, Compliance risk (regulatory and Financial Crime risks), Information security risk, 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 or its designated committee (Board Risk Committee) approves the Bank's risk framework, plans and performance targets, which include 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 reviewed and approved by the Board Risk Committee 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.

In line with the SAMA Rules on Credit Risk Management in Banks, issued in 2013, SABB has maintained risk management practices aligned with these rules, including operating a credit review team to provide an independent credit assessment on individual counterparty 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 who act as the first line of defence, the risk and control units who act as the second line of defence and Internal audit who are the third line of defence. In conjunction with this SABB has continued to develop and deliver appropriate training to increase risk awareness and embed a strong risk aware culture within SABB.

In line with the Guidelines on Internal Controls issued by SAMA in 2013, SABB has completed an independent review of the Banks Internal Control Framework.

Looking ahead, key enhancements of the framework will include up-grading of the Operational risk management system to ensure that it supports businesses and managing and controlling 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 regulatory proposals covering liquidity risk outlined within the Basel III framework.

Future 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 the core business infrastructure together with capital deployment into various strategic businesses. SABB's principal lines of business are Retail Banking & Wealth Management, Global Banking and Markets (a new single umbrella comprising Global Banking & Treasury) and Commercial Banking. SABB offers Islamic (Sharia) compliant products across all principal business lines. SABB is continually evaluating new business opportunities to expand the range of banking and finance products and services which it offers customers. These offerings are complemented by our associate companies which offer Takaful, Investment Banking, Asset Management, Brokerage and Securities Services.

Key deliverables of the plan included the following aspects:

- Become the leading provider of personal Wealth Management solutions. Single wealth management offerings including Asset Management, Brokerage, Takaful and FX solutions across an integrated and expanded customer base including Premier, Advance and Private Banking clients
- Invest in technology and digital channels for improved customer experience and empowerment
- Maintain a leadership position in Credit Cards and retain a top two market share ranking in mortgages
- Alongside maintenance of a leadership position in Large Corporates, CMB team seeks to increase penetration into the Mid-Market and Business Banking upper segments
- The setting-up of a dedicated international Relationship Management team to capture strong Foreign Direct Investment flows leveraging connectivity with HSBC
- Combining the Global Banking and Treasury platforms under a single Global Banking and Markets umbrella. Combining both platforms will lead to better integration, strategic client prioritisation and capture of ancillary business opportunities
- Global Banking will continue to focus on attracting multi-national corporations as well as financing public and social infrastructure projects for governmental and quasi-governmental institutions so as to maintain its number one position amongst Multinationals
- In addition to increasing its investment portfolio size, Global Markets (Treasury) continues to work closely with all customer groups to offer market leading products both to our existing client base and to new clients attracted to the Bank. Treasury to become a more sales-led function with greater emphasis on Non-Fund Income
- In Global Transaction Banking, Payments and Cash Management will continue to focus on capturing new opportunities particularly in untapped e-Government initiatives as well as growing current account liabilities by increasing new product penetrations
- Enhance the product offering in trade by commercializing Receivable Finance Commodity and Structured Finance as well as exploring new distribution channels
- Strict adherence to SABB International Standards to treat customers fairly, comply with laws and regulations and protect confidential information
- SABB to be the best place to work by 2016. This includes investing in people, developing robust talent management with a structured learning and development proposition
- Continued focus on Islamic Banking propositions across all customer groups
- Continued focus on operational efficiencies and organizational effectiveness

Directors' Report (continued)

Commercial Banking

SABB Commercial Banking (CMB) is one of the strongest players in the commercial banking market in Saudi Arabia.

As a full-service bank, SABB offers both conventional and Islamic banking solutions to meet the needs of commercial customers. A dedicated relationship and support team of 235 staff covers customers' corporate banking requirements and provides access to specialist teams in Treasury, Cash Management, Trade and Investment Banking. SABB is both a strong local partner for its customers in Saudi Arabia and the gateway to global financial markets and services through the HSBC Group.

CMB supports an "Islamic Financial Services (IFS)" approach in providing financial services to corporate clients but maintains the flexibility of offering conventional products depending on clients' needs and requirements. In addition, and as part of SABB's commitment to grow Sharia-compliant banking, the management has decided to make SABB's Business Banking segment an "IFS Only" proposition, in line with the general theme for this business segment in Saudi Arabia, where only Sharia-compliant products are provided. Furthermore, SABB has a full suite of Sharia-compliant products covering all business requirements, and is a Sharia-compliant product leader especially in the provision of international products and treasury solutions such as forex forward, options and interest rate swaps. Additionally, SABB was the first bank to introduce a Sharia-compliant solution for overdrafts.

SABB's Trade and Supply Chain team assists customers in implementing efficient and optimal financing structures to meet their trade and working capital requirements while minimizing market risk. During 2013, SABB launched its Receivable Finance proposition, the only bank in the Kingdom to have such a dedicated proposition. In addition, SABB has rolled out various initiatives aimed at enhanced client experience and risk mitigation. These include expansion of the Sales and Client Management team, further enhancement to structured Sharia-compliant trade solutions, continued investment in technology to improve the product offering and customer experience, facilitating trade with high risk countries via risk distribution, introduction of new products and solutions from a supply chain perspective, and strengthening the customer training proposition under the SABB Trade Academy.

During 2014, SABB has built on these activities having further strengthened its product capabilities, including increasing the workforce with key strategic hires; cemented strategic partnerships such as that with the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), a member of the Islamic Development Bank Group (IDB) enabling the Bank to increase the breadth and depth of its product capabilities; hosted a number of key trade seminars, client engagement events and roadshows, both locally and internationally, assisting customers to go "international" whilst opening up opportunities to them; and conducted rigorous market and client feedback/satisfaction exercises to ensure full understanding of the needs of customers and their markets so as to remain relevant and in a position to meet their ever-changing and complex needs.

SABB retains its strong links with HSBC Group, which provides SABB an unrivalled international access and connectivity for the benefit of its clients, and it remains the leading international trade bank in the Kingdom supporting and servicing both domestic and foreign companies as they expand both locally and across borders.

In-house technology development combined with access to HSBC systems ensures that SABB offers state of the art banking channels to its clients including various payments and cash management solutions to meet their complex and structured needs. Vigorous business continuity arrangements ensure that SABB's clients have reliable access to their finances. The Bank's corporate online banking strategy focuses on providing multifaceted platforms to customers across all business lines, covering a wide variety of services in ways that can be packaged or personalized to suit their unique needs. Cross-product integration is offered through a single window that serves diverse customers through one unified portal. A one-stop-shop for payments, receivables, financing, markets and foreign exchange SABB's online channels aim to provide a globally consistent client experience with robust local functionality. The Bank currently has four online banking channels serving the overall needs of business customers. SWIFTnet and SABB Connect, Host-to-Host channels being offered to top tier customers with sophisticated requirements; HSBCnet, mainly targeting corporates, mid-to-large commercial customers and financial institutions with a variety of financial needs; Pay-roll Cards or SABB Salary Cards that cater to low salary groups; the Wage Protection System (WPS); and Virtual accounts for receivables. SABB Bulk Payments are also in the process of being commercialised.

Commercial Banking *(continued)*

In pursuit of its strategic direction to deliver market-leading propositions, international connectivity and exceptional services to customers, SABB CMB has made excellent progress on several key initiatives launched a year earlier. These include the continued growth in Large Corporate as well as expansion of the teams to service the Mid-Market segment. A dedicated international team has been established leveraging HSBC's cross-border relationships with companies entering the Saudi market. The net result has been the mutual referral of substantial levels of business as well as the strengthening of SABB's links with China through the China Desk, the first such initiative by a Saudi bank, to encourage bilateral trade flows.

SABB CMB has a history of commitment to the small business customer and was the first bank in Saudi Arabia to participate in the Kafalah Programme, a government Guarantee programme to encourage banks to lend to small businesses. During the year, SABB has split the SME business into two, moving the non-relationship customers to RBWM to be closer to the branch network where they transact and the relationship managed Business Banking accounts as a sub segment of the Corporate teams and managed within the regions. The focus remains on providing dedicated relationship management to clients with an annual turnover of less than SAR100m.

Global Transaction Banking

Global Transaction Banking (GTB), comprising of Trade & Supply Chain (TSC), Receivable Financing (RF) and Payments & Cash Management (PCM) remains a core business for SABB. Despite a tough macro-economic environment and slower growth in some market sectors, GTB continues to demonstrate strong performance in comparison to plan and history. As a key product partner to both Global Banking and Commercial Banking, GTB played a critical role in serving the trade and supply chain, receivable financing, as well as the payments and cash management needs of our clients through deployment of innovative and customised solutions. Furthermore, the business maintained a pro-active and leading role, particularly in shaping the trade landscape within the Kingdom supporting non-oil export growth, a key aim of the government by providing risk mitigating tools to clients whilst developing and leveraging both current and emerging trade corridors of Saudi Arabia.

As a market leader in transaction banking, GTB enjoys a healthy market share of the available business, which is demonstrated through a consultative business approach, superior service standards and a best-in-class product suite through continued innovation to cater to dynamic market needs. SABB GTB has launched several initiatives not limited to Receivable Financing, Virtual Accounts and Mobile Banking to enable Saudi clients to manage their working capital in an optimal manner. SABB is the first bank within the kingdom to launch the structured Receivable Finance proposition which offers customers an additional source of funding to help them manage their short term liquidity needs in an efficient manner. SABB has also been the first bank to successfully pilot and launch key regulatory initiatives such as Paycards and WPS (Wage Protection System) in the Kingdom.

SABB continues to be recognized by the market and industry alike, winning a number of significant awards including Euromoney's "Best Domestic Cash Manager in Saudi Arabia 2014", Global Finance's "Best Trade Finance Bank Award 2014" and the inaugural Asian Banker award "Best Trade Finance Bank Award in the Kingdom of Saudi Arabia 2014". Euromoney and Global Finance awards have been won seven times in a row.

Treasury

Treasury enjoyed another strong and profitable year despite the continued low interest rate environment and tight credit markets. The Balance Sheet evidenced healthy and robust liquidity levels, supporting the Bank's overall growth. Active interest rate risk management, as well as leading positions in foreign exchange, made a significant contribution to the Bank's operating income.

Treasury continued to increase its market share by providing both Sharia-compliant and conventional hedging and investment solutions to its growing clientele, whilst offering specialized geographical coverage in all three major provinces (Central, Western and Eastern). Treasury continues to make good progress on its major systems implementation project which will further enhance its product capabilities, automate processes and enhance customer service.

Directors' Report (continued)

Global Banking

Global Banking (GBB) operates as a stand-alone, centrally-managed business segment within SABB and is responsible for the relationship management of top-end Saudi companies that are globally managed by SABB; multinational companies operating in Saudi Arabia but headquartered overseas; and institutional clients such as ministries, government agencies and departments, banks and other financial institutions.

The Saudi Government's continuous spending in 2014, which was mainly focused on utilities, transportation, health care, education and oil and gas, resulted in a number of Engineering, Procurement and Construction and Lump Sum Turnkey projects and contracts being awarded, mainly to Korean, Chinese, French, Spanish and Indian multinationals. Most of the international companies have been long-standing HSBC Group clients, with several of them being Fortune 500 companies, whilst the underlying project owners are Saudi corporates or their joint ventures, which have been long-term SABB clients.

The segment continued to leverage its connectivity with the HSBC Group, the support of SABB's sister company HSBC Saudi Arabia, the Investment Bank, to provide niche financing solutions to multinational groups and the broader spectrum of Global Banking clients. Such support has included assistance in ensuring timely and quality execution of projects in the Kingdom whilst helping Saudi corporates internationally with their ambitious expansion and acquisition plans or in tapping-into liquidity through non-Saudi financial institutions by way of ECA Finance and international bonds.

At the end of 2014 GBB's activities had resulted in facilities that included the provision of export finance and syndications, comprising non-recourse long-term loans, equity bridge loans, guarantees, working capital and treasury solutions for international companies implementing specific contracts; and the confirmation and discounting of export letters of credit. In addition, with the support of the SABB Islamic Financial Solutions team, GBB has provided a complete range of Sharia-compliant product offerings.

Retail Banking and Wealth Management

In 2014, SABB has continued as a leading provider in Saudi Arabia of Retail Banking and Wealth Management (RBWM) products and services.

The branch network is spread all around the kingdom with 99 retail outlets (81 branches and 18 dedicated ladies sections). In addition, there are two Lite branches, one in Central province and the other in Eastern province. RBWM provides Islamic financial solutions through its entire branch network.

Over the course of the year further attention was given to internal restructuring and reorganization to the benefit of high net worth customers, with specific focus on increasing the number of Premier Centres within the Kingdom, which now total 17 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 continues to expand its Advance proposition which is available in 34 other markets across the globe. This service, which serves as a second tier Premier proposition, allows the Bank's customers access to a high quality banking service in the Kingdom that has the added advantage of being available worldwide. SABB Advance customers have access to a wider range of the very best international retail banking products aligned to priority service. The 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 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 them 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. Such expansion and increased activity, coupled with focused marketing and sales initiatives, contributed to an increase of 24.2% in the SABB Premier Customer base over the previous year.

Retail Banking and Wealth Management *(continued)*

During the year, the business introduced e-redemption for its loyalty program “ICSABB”, a first for any bank in the Kingdom.

SABB continued to evaluate customer needs and introduce solutions during 2014. The Bank continuously introduces new and enhanced services through its alternate channels such as Internet banking, Phone banking and Mobile banking applications as well as the enhanced Queuing system and Self Service machines to ensure customers are provided with the best customer experience. SABB have formally launched the SABB Visa Debit card in May 2014, thus bringing a new set of features that will take the product to a whole new level of functionality enabling SABB customers to pay directly, conveniently, and securely with funds from their SABB account for goods and services at all SPAN merchants locally and millions of Visa merchants around the world. SABB installed a further 200 ATMs in 2014 increasing its network to 854.

SABB continues to adopt and implement the highest compliance standards throughout its business. SABB has also implemented the new consumer lending regulation and new mortgage regulation in line with regulatory requirements. This will require a change of mindset both within and across the Bank and therefore SABB International Standards will:

- Embed the highest international standards across SABB in a consistent manner
- Strengthen SABB’s response to the on-going potential threat of financial crime and information leakage
- Ensure that SABB consistently applies the highest values, ethically serves customers and creates a sustainable business for staff, shareholders and other stakeholders

Private Banking

SABB Private Banking provides dedicated services to high net worth individuals (HNWI) throughout the kingdom, including tailored, customised and best in class banking services. Private Banking continues to thrive on the alignment with HSBC, the benefits of which include Global Network Resources, skills, specialist knowledge and expertise.

Private Banking revenues have grown significantly higher year-on-year, due in part to the streamlining of operations and to reduced risk in the business. Assets and Liabilities have also increased considerably over those in past years. Integration of the Private Banking Unit into Wealth Management resulted in greater synergy and improved banking experiences for clients, whilst also helping in continuous achievement of quality of service.

Private Banking will continue to ensure a maximum level of Client Relationship Management by providing tailored products and fully personalised services to clients, thereby they will continue to benefit from SABB’s value-added services that include customised investment solutions and the asset management capabilities of HSBC Saudi Arabia Limited.

During 2014, SABB Private Banking won the “Best Private Banking Services Overall”, in the Kingdom of Saudi Arabia, from different respected international publishing houses such as Euromoney and The Banker.

Directors' Report (continued)

Islamic Financial Services

IFS have seen continued growth in 2014. SABB Shariah Committee held 9 meetings during 2014, in which number of Shariah issues and Shariah audit reports were presented for their guidance and approval.

Most of RBWM activities offered to customers have now become Shariah-Compliant, in accordance with SABB's strategy for retail banking of providing a full package of Islamic products and services. This has ensured continued growth in all retail segments. One new product developed for RBWM customers fully launched across branches kingdom-wide was Murabaha Share, a variant of personal finance, allowing customers to obtain finance backed by local shares. This new product meets customers' needs and enhances SABB's personal finance product offering. Additionally, all new credit cards issued during 2014 were Shariah-compliant.

The home finance market remained strong during 2014 and SABB maintained its position as one of the major market players. The new home finance product based on a variable rental rate launched in 2013 has been well-received by customers. Overall SABB's home finance products include ready-to-occupy properties, land and under-construction buildings with the added benefit of allowing customers to own the property at the end of the lease.

The Islamic Financial Services Corporate Sector attaches great importance to the satisfaction of the needs of its corporate customers of all categories. The Bank's approach to fulfilling the increasing demand of corporate customers for Islamic banking services continued through the enhancement of current products services and the introduction of new products that satisfy their advanced needs, including Islamic securitization that enables large corporates to sell their finance portfolio to the Bank.

In addition Islamic Financial Services' corporate sector organized advanced training programmes including specialized qualification tests for relationship managers and officers in charge of providing products to ensure that they are able to sell these in an effective and appropriate manner and in a way that ensures the credibility of the Bank in Islamic banking business. It should be noted that passing these tests is part of an integrated plan in the governance of Islamic products for corporate customers.

Furthermore Corporate Islamic Financial Services organized during 2014 three seminars on corporate Islamic banking solutions in Riyadh, Jeddah and Al Khobar for corporate customers during which the Bank hosted a number of distinguished experts in the field of Islamic banking. The aim of these seminars was to introduce SABB's corporate Islamic banking services to present and potential customers, to enhance the image of Islamic banking in the marketplace, to increase customers' awareness of Islamic banking generally and to acquaint customers with the SABB products and solutions compliant with Shariah law that satisfy their needs. The seminars were attended by some of SABB's prominent corporate customers.

At the end of 2014, most of the operating income and assets of SABB Corporate banking was from Shariah compliant activities.

Islamic Financial Services won the award of "Best Finance Deal for Islamic Projects for the Year 2014" from Al Osool Magazine, Category "Asset Triple A" for the Bank's continuous success in fulfilling its customers' aspirations.

Human Resources

Strategically focused, Human Resources aims to advance SABB's success by thinking and acting in the best interests of the organisation and the workforce; in particular when developing policies and programmes and delivering services.

We continue to drive SABB goals through the committed development and engagement of our staff, and our primary purpose is to enable all functions within SABB to thrive and prosper by building professional capability, and helping people to fulfil their hopes and ambitions.

SABB's reward strategy supports this objective through balancing of both short-term and sustainable performance. Our total compensation package is key to the success of our recruitment and retention activities, and we have conducted an extensive review of our total compensation scheme which was approved by the Nomination and Remuneration Committee and communicated across the business.

Performance is judged, not only on what colleagues achieve, but also how they achieve it. We now formally rate senior executives on their behaviours relation to the SABB values and this is reflected in their pay and reward. We plan to extend this measurement of values and behaviours to the rest of the organisation throughout 2015-and 2016. The financial and non-financial measures incorporated in the annual scorecards are carefully considered to ensure alignment with the long term strategy of SABB.

Human Resources *(continued)*

With a large and diverse workforce across KSA we foster a welcoming work environment for all individuals and are committed to removing any workplace barriers in order to create the most positive environment and experience for all individuals and groups. Communication at all levels across SABB is key and we continue to communicate organisational messages to our staff via an array of innovative management reach out programmes. The SABB People Committee and the SABB Engagement Working Group consist of senior executives and managers who are focused on making SABB a great place to work.

Ensuring our workforce has the right skills and abilities is essential to our long-term success. We support the development of our employees through both technical and non-technical opportunities, and our learning and talent professionals oversee a wealth of targeted development programmes.

In 2014 SABB continued to extend its learning offerings in response to increasingly sophisticated requirements articulated by the business. Learning needs are captured formally via a competency-based Learning Needs Analysis Toolkit. The needs are then matched against offerings from SABB's network of providers and translated into individual learning plans, which were issued to all staff during the first quarter of the year.

In addition to addressing a range of management skills and technical learning needs, Learning & Talent has also focused on meeting the SAMA requirements specified for frontline staff via a refreshment programme for RBWM. Additionally 450 RBWM staff have been trained to prepare them for the Retail Banking Professional Certification assessment.

There has been continued focus on embedding SABB Values and SABB International Standards, with development and rollout of a bespoke mandatory e-Learning module.

The 2013 Global People Survey highlighted several areas for further development relating to SABB's leadership capability. In response to this, the SABB LEAD programme was developed in partnership with IMD Business School and YSC Investment. Pilot courses have been successfully deployed for 163 People Managers from Band 3 to 7.

SABB's Career Progression Programme has continued to gain momentum, with 151 staff enrolled in the programme since it was launched covering Bands 2, 3, 4 & 5. This exceeds the MTO target of 140 staff.

100% of the Career Development Programmes for the first 3 cohorts have been finalized and follow-up sessions are currently being conducted.

The first Level succession Plan (Managing Director reports) was finalised and presented to the Numeration and Reward Committee in 3rd quarter 2014.

Talent ratings for Bands 3 and above were refreshed using the Career Progression Programme reports and the succession plans discussions.

Talent ratings for Bands 4, 5 & 6 are being concluded through 180 surveys completed by line managers and their direct reports and discussed during departmental succession plan meetings for confirmation.

The Senior Management Development Plan was completed; which included the following:

- 2 Educational sessions for EXCOM
- 2 Educational sessions for BRC
- 2 Educational sessions for AUCOM
- 1 Educational session for REMCO
- 1 Educational session for the Board

SABB continued to make significant progress in its Saudisation initiatives and this will remain a key focus. As a result of career fairs and graduate events, the Saudisation ratio increased to 89.9 % with an increase in the number of females in all departments. We continue to focus on diversity with several development initiatives rolled out for female development. 18.1 % of our employees are now female.

SABB was shortlisted as a finalist to receive the Employer of the Year Award and the Employee Engagement Initiative of the Year Award at the 2014 HR Summit & Expo.

SABB's aim, approved by the Board, is to be the best bank to work for by 2016.

Directors' Report (continued)

Corporate Real Estate

During 2014 CRE advanced the Bank's engineering projects with the aim of preserving the architectural vision of the Bank's properties and facilitating SABB's banking business, including eight branches around the Kingdom being created, renovated or relocated and the delivery of 200 new ATM sites.

The construction of the new Jeddah Area Management Building commenced having obtained all the necessary local authority approvals. The start of the construction was marked with a ground breaking ceremony in DEC14.

Looking to the future, plans are underway for 13 new projects including new branches and the relocation and renovation of existing premises, and further expansion of the SABB ATM network.

Operations & Processing

During 2014 the primary focus has been on the strengthening of internal controls and the embedding of SABB's Values and Standards in every aspect of the business. Additionally, centralisation and automation projects have been advanced to further empower the customer and improve customer service and efficiency. External recognition was received from Commerzbank, whom presented SABB with the STP Award™ for 'Excellent Quality in the delivery of commercial payments and financial institution transfers' for the fourth consecutive year.

Information Technology Services

SABB Information Technology Services remains a key facilitator of the Bank's operations and businesses, and is a key partner in the execution of the Bank's strategic objectives.

During 2014, investment in "Change the Bank" activities has increased and the Bank's infrastructure enhanced to meet current and future needs, whilst also improving resilience. As a consequence, service availability for the year was good at 99.92%.

Over the year, IT projects were successfully delivered with notable achievements including the launch of new visa debit card, improved workflow capabilities and online services, online KYC update, enhanced treasury systems, and Uptime TIER III Data Centre Certification.

Focus on the Digital Strategy for the year has also seen a number of strategic projects deployed, including a Mobile Banking solution for Android & iOS tablets, and MOI payment services. Additionally the up-grading of the Bank's public web site and intranet is in progress.

IT Governance was further strengthened with enhancements in project management, and more comprehensive risk analysis and tracking. Data security and risk mitigation also remain a top priority with several initiatives implemented to continually strengthen the Bank's infrastructure and prevent and mitigate possible cyber-attacks.

Community Service

In line with SABB's core values, the bank continues to display a strong commitment to the community it serves. The pioneering position SABB has long enjoyed in community service programming has been enhanced in recent times with an expanded set of CSR activities. The bank focused on three important areas that are considered to be vital to the process of sustainable development: training/education, social affairs, and the environment.

With a strategic view, SABB has organized a diversity of activities that seek to integrate the Bank into the national development process in the Kingdom. By focusing CSR efforts on a carefully selected set of areas, the bank seeks to maximize its social footprint to better gauge the community benefits derived out of its CSR investment. Moreover, SABB extended the community service activities to include its own employees. Staff engagement in CSR was enhanced as a strong and visible manifestation of SABB's core values displayed in the public eye.

In its community service programmes, SABB continuously seeks to integrate a degree of social innovation as it seeks to address societal concerns. In the southern town of Al Qunfudhah, the bank partnered with the Ministry of Social Affairs (MOSA) by setting up commercial booths for families benefiting from MOSA's social security system.

Community Service *(continued)*

With the goal of diversification, SABB planned its efforts in various geographical locations, covering multiple social causes, and coinciding with local and international observance days. Programmes have included renovation of needy families' homes in Riyadh, training the blind in the use of smart devices, Ramadan fasting activities and English language training for the blind. In the Eastern province, SABB launched a well-equipped occupational training facility for the Saudi Association for the Hearing Impairment offices in Dammam. In addition, the bank distributed winter aid packages in coordination with the Tabuk Charity Association.

A major event that exemplifies the goals and reach of the community service strategy is the grand opening of Prince Sultan Bin Abdulaziz Specialized Centre for Prosthetics and Orthotics in Sultan Bin Abdulaziz Humanitarian City. The centre was provided with the latest technologies in manufacturing prosthetics for patients in need, and is now able to produce the required parts with precision and in a shorter amount of time.

As a product of its track record of community service work, SABB won a highly regarded award from the Council of Ministers of Social Affairs for GCC member-states. The award is offered to the top Saudi private sector firm that displayed an excellent commitment to the ideals of corporate social responsibility during the year.

International Recognition

2014 was a year in which SABB enjoyed a tremendous amount of recognition, on regional and international levels. The awards and acknowledgements stressed a wide range of criteria by which SABB was evaluated, and covered all main areas of the Bank's operations.

In the retail banking arena, SABB won awards for the "Best Private Bank" from Euromoney, "Best Internet Bank" from Global Finance magazine, and "Best Mobile Banking Services" from Banker Middle East. In the commercial banking space, SABB was awarded "Best Cash Management Provider" by Euromoney, "Best Trade Finance Provider" by Global Finance, "Best Foreign Exchange Provider" by Global Finance, "Best Derivative Solutions Provider" by Banker Middle East, and "Best Commercial Bank" by International Finance Magazine.

Moreover, the bank was recognized by the Talent and Leadership Forum with the "Employer Achievement Award" for its excellent work environment and HR policies. SABB was also recognized to be the "Best Commercial Establishment in Community Service" in the Kingdom of Saudi Arabia by the Council of Ministers of Social Affairs of the Gulf Cooperation Council (GCC).

SABB Takaful Company

SABB Takaful Company is a Saudi Joint Stock Company established pursuant to Royal Decree No. M/60 dated 11/10/2006. The Company commenced its first fiscal year subsequent to the issuance of Ministerial Resolution No. 108 dated 15/05/2007, declaring the incorporation of the Company. The Company operates under Commercial Registration No. 1010234032 and the Saudi Arabian Monetary Agency Insurance License No. 5/20079. The licence authorises the Company to engage in protection and savings, general and miscellaneous Takaful activities and was renewed on 08/07/2013 for three years. The paid-up share capital of the Company is SAR 340,000,000, SABB and HSBC, representing 65% of the Company's share capital.

SABB Takaful provides a range of Sharia-compliant Family and General Takaful products to meet the protection needs of both individual and corporate customers. The Company's portfolio of Family Takaful Plans provides financial security in the unfortunate event of death or total and permanent disability of a plan holder to a designated beneficiary. Family Takaful products are available for both individual and commercial customers. The Company's General Takaful products provide both individuals and companies with protection against unpredictable events.

As one of the first licensed Takaful companies in Saudi Arabia, SABB Takaful has experienced strong growth since commencement of operations and is poised to continue its growth capitalising on the favourable long-term prospects of the insurance industry. With increasing growth in the market and growing awareness of Sharia-compliant insurance solutions, the Company is very well placed to benefit from its competitive advantages for increasing market presence and expansion of its business and activities.

Directors' Report (continued)

HSBC Saudi Arabia Limited

Investment Banking Advisory

During the year, HSBC Saudi Arabia Limited concluded a number of Equity Capital Markets ("ECM") and Mergers & Acquisitions ("M&A") transactions in Saudi Arabia. The highlight among these was its role as joint financial advisor and joint lead manager on the SAR 22.5bn initial public offering ("IPO") of The National Commercial Bank ("NCB"). The IPO was the largest in the history of the MENA region, the second largest IPO globally during the year, and was executed within a record timeframe and amid wider market volatility. HSBC Saudi Arabia Limited also acted as sole financial advisor, joint lead manager and underwriter for Saudi Arabian Mining Company ('Ma'aden') on its SAR 5.6bn rights issuance, which was the largest rights issue in the MENA region since 2012. HSBC Saudi Arabia Limited finished at the top of the ECM league tables, even while it continues to advise on other strategic mandates in the ECM and M&A space.

Investment Banking Finance – Debt Capital Markets and Syndicated Finance

HSBC Saudi Arabia Limited's debt advisory and arranging engagements across corporate financing, debt capital markets and acquisition financing ensured continuing leadership for the franchise. Such leadership is particularly in the Sukuk space where HSBC Saudi Arabia has led league tables every single year since the debut issuance in the market, and in the club and syndicated loan market. HSBC Saudi Arabia Limited led the following Sukuk issuances during the year:

- National Commercial Bank ("NCB's") debut Sukuk issuance, wherein HSBC Saudi Arabia Limited was lead coordinator, joint lead manager and bookrunner
- Advanced Petrochemical Company ("APC")'s SAR 1.0bn Sukuk, wherein HSBC Saudi Arabia was a joint lead manager and bookrunner
- Saudi Electricity Company ("SEC")'s SAR-denominated public Sukuk, wherein HSBC Saudi Arabia Limited was a joint lead manager and bookrunner
- SEC's second 144a/RegS issuance, wherein HSBC Saudi Arabia Limited was a joint lead manager and bookrunner

HSBC Saudi Arabia Limited's market leadership was evidenced by the receipt of numerous awards from respected third parties including, but not limited to, Euromoney Awards for Excellence where HSBC Saudi Arabia Limited was awarded "Best Investment Bank in Saudi Arabia" and The Banker Awards where Tasnee's SAR 4.0billion syndicated loan was recognized as "Best Loan in the Middle East".

Project and Export Finance

In 2014 a marked slowdown was experienced in the development of new projects in the petrochemical, power and infrastructure sectors, mainly due to limited gas allocations being made available for new large scale projects and a lack of privatization initiatives in the infrastructure sector where funding continued to be sourced from government budgetary expenditures. Nevertheless, HSBC Saudi Arabia Limited maintained its position as the leading financial advisor and arranger for projects in the Kingdom. The Division achieved successful closings of two major advisory mandates; the USD 7.5bn Ma'aden Wa'ad Al-Shamal Phosphate Company (a Ma'aden, Mosaic and Sabic JV) and Saudi Aramco Greenfield Co-Generation Projects. During the year, the team also continued to advise on several high profile transactions, including co-advisory on the USD 8bn expansion of the Rabigh Refining and Petrochemicals Company (PetroRabigh, a JV of Sumitomo Chemical and Saudi Aramco) and sole financial advisor for Saudi Aramco on the development of the Air Separation Unit and the Integrated Gasification and Combined Cycle power plant located in the Jazan refinery complex.

Asset Management

HSBC Saudi Arabia Limited continued to maintain its strong position in managing local equity mandates for institutional as well as retail and private banking clients. HSBC Saudi Arabia Limited offers a wide variety of funds covering the local equity market offering funds that cover the whole Saudi market as well as sector specific funds. HSBC Saudi Arabia Limited also offers exposure to the Saudi market through active as well as passive strategies, including an Exchange Traded Fund that is listed on Tadawul. This market leadership position is demonstrated by HSBC's market share of 21.69% (as per the data available on Tadawul) at the end of December, 2014.

HSBC Saudi Arabia Limited *(continued)*

Asset Management *(continued)*

HSBC Saudi Arabia attracted strong flows in its various offerings during the year, particularly the Discretionary Portfolio service, although the flows tapered off towards the end of the year due to a sharp decline in international oil prices and a resulting decline in the Saudi equity market.

HSBC received nine awards for its performance in 2013 from “MENA Fund Manager”, which included the “Asset Manager of the Year” award”, and is again nominated for a number of awards in 2014. In addition, the HSBC GCC Equity Fund won the best performing GCC equity fund by Lipper Global Islamic Fund Awards for one year category and the winner of the Lipper Fund Award 2014.

Equity Brokerage

The brokerage division offers a comprehensive range of services including equity trading through different delivery channels that include 8 Investment Centres across the Kingdom, on-line services such as HSBC Tadawul and HSBC Mubasher and phone services via the Brokerage Call Centre. These services are supported by a dedicated research team that provides timely and comprehensive sector and company research. In its continuous quest to provide innovative solutions to its customers, HSBC Saudi Arabia Limited will continue to develop its e-trading services. HSBC Saudi Arabia Limited’s swaps offering enables international institutional investors to participate in the growth of Saudi single-listed stocks indirectly.

Equity Research

In just six years, HSBC Saudi Arabia Limited has established an industry leading research platform catering to both local and leading international fund managers. The research team covers 45 Saudi stocks comprising more than 80% of Tadawul’s market capitalisation. More recently the team was ranked number one for MENA equity research (Extel 2014) and three of its analysts achieved top rankings in their individual sectors. The annual equity investor conference organised by the department has consistently attracted top Saudi corporates and international clients.

Securities Services

HSBC Securities Services (HSS) business had another successful year with record growth in revenues. During the year custody products remained the key revenue driver and Loan Agency Services’ contribution significantly improved as compared to last year. All products attained healthy growth in 2014 and a strong client base was maintained in the light of growing investor interest in the Saudi market. The potential opening of the Saudi stock market to foreign institutions is a major development in the investments landscape in Saudi Arabia and HSS is well positioned to capture the flows that will originate from this new client base. Once again HSS won the “Best Sub-Custodian Bank in Saudi Arabia” award in the Global Custodian’s Emerging Markets Survey 2014.

INDEPENDENT AUDITORS' REPORT



KPMG Al Fozan & Al Sadhan

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 subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, 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 40. We have not audited note 37, nor the information related to "Disclosure under Basel III framework" 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 ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

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

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

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



KPMG Al Fozan & Al Sadhan

Independent Auditors' report to the shareholders of The Saudi British Bank

(a Saudi Joint Stock Company) (continued)

Opinion

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

- Present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA 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.

Ernst & Young

P.O.Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277



KPMG Al Fozan & Al Sadhan

P.O.Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

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



28 Rabi Thani 1436H
(15 February 2015)

Consolidated Statement of Financial Position

As at 31 December

	Notes	2014 SAR'000	2013 SAR'000
ASSETS			
Cash and balances with SAMA	3	19,313,766	26,123,913
Due from banks and other financial institutions	4	2,468,871	3,286,053
Investments, net	5	45,280,816	37,399,559
Loans and advances, net	6	115,220,797	106,114,930
Investment in a joint venture and an associate	7	651,674	647,057
Property and equipment, net	8	663,401	603,656
Other assets	9	4,009,943	3,127,032
Total assets		187,609,268	177,302,200
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	4,085,928	3,769,640
Customers' deposits	12	145,870,497	138,961,470
Debt securities in issue	13	5,264,678	5,282,873
Borrowings	14	78,125	109,375
Other liabilities	15	6,238,828	6,346,043
Total liabilities		161,538,056	154,469,401
SHAREHOLDERS' EQUITY			
Share capital	16	10,000,000	10,000,000
Statutory reserve	17	9,001,019	7,934,504
Other reserves	18	61,614	(10,738)
Retained earnings		5,858,579	3,809,033
Proposed dividends	26	1,150,000	1,100,000
Total shareholders' equity		26,071,212	22,832,799
Total liabilities and shareholders' equity		187,609,268	177,302,200

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

Consolidated Statement of Income

For the year ended 31 December

	Notes	2014 SAR'000	2013 SAR'000
Special commission income	20	4,625,951	4,386,138
Special commission expense	20	563,344	666,842
Net special commission income		4,062,607	3,719,296
Fees and commission income, net	21	1,645,000	1,433,435
Exchange income, net		445,710	401,480
Income from FVIS financial instruments		7,500	11,250
Trading income, net	22	270,008	169,165
Dividend income		64,798	38,629
Gains on non-trading investments, net	23	7,196	40,251
Other operating income, net		(610)	161
Total operating income		6,502,209	5,813,667
Salaries and employee related expenses	24	1,152,845	1,090,597
Rent and premises related expenses		114,418	110,613
Depreciation	8	86,425	91,518
General and administrative expenses		542,106	428,265
Provision for credit losses, net	6	450,756	374,179
(Reversal of impairment) impairment of other financial assets	5	(949)	67,855
Total operating expenses		2,345,601	2,163,027
Income from operating activities		4,156,608	3,650,640
Share in earnings of a joint venture and associate	7	109,453	123,170
Net income for the year		4,266,061	3,773,810
Basic and diluted earnings per share (in SAR)	25	4.27	3.77

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December

		2014	2013
	Notes	SAR'000	SAR'000
Net income for the year		4,266,061	3,773,810
Other comprehensive income to be reclassified to statement of income in subsequent years			
Available for sale financial assets			
– Net change in fair value	18	80,339	(45,061)
– Transfer to consolidated statement of income	18	(7,196)	29,749
Cash flow hedges			
– Net change in fair value	18	-	9,585
– Transfer to consolidated statement of income	18	(791)	(791)
		72,352	(6,518)
Total comprehensive income for the year		4,338,413	3,767,292

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December

		<i>Share capital</i>	<i>Statutory reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Proposed dividends</i>	<i>Total</i>
	<i>Notes</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
2014							
Balance at beginning of the year		10,000,000	7,934,504	(10,738)	3,809,033	1,100,000	22,832,799
Total comprehensive income for the year							
– Net income for the year		-	-	-	4,266,061	-	4,266,061
– Net changes in fair value of cash flow hedges	18	-	-	-	-	-	-
– Net changes in fair value of available for sale investments	18	-	-	80,339	-	-	80,339
– Transfer to consolidated statement of income	18	-	-	(7,987)	-	-	(7,987)
				72,352	4,266,061		4,338,413
Transfer to statutory reserve	17	-	1,066,515	-	(1,066,515)	-	-
2013 final dividend paid		-	-	-	-	-	-
2014 final proposed dividend	26	-	-	-	(1,150,000)	1,150,000	-
Balance at end of the year		10,000,000	9,001,019	61,614	5,858,579	1,150,000	26,071,212
2013							
Balance at beginning of the year		10,000,000	6,991,051	(4,220)	2,078,676	1,000,000	20,065,507
Total comprehensive income for the year							
– Net income for the year		-	-	-	3,773,810	-	3,773,810
– Net changes in fair value of cash flow hedges	18	-	-	9,585	-	-	9,585
– Net changes in fair value of available for sale investments	18	-	-	(45,061)	-	-	(45,061)
Transfer to consolidated statement of income	18	-	-	28,958	-	-	28,958
				(6,518)	3,773,810		3,767,292
Transfer to statutory reserve		-	943,453	-	(943,453)	-	-
2012 final dividend paid	17	-	-	-	-	(1,000,000)	(1,000,000)
2013 final proposed dividend	26	-	-	-	(1,100,000)	1,100,000	-
Balance at end of the year		10,000,000	7,934,504	(10,738)	3,809,033	1,100,000	22,832,799

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

Consolidated Statement of Cash Flows

For the year ended 31 December

		2014	2013
	Notes	SAR'000	SAR'000
OPERATING ACTIVITIES			
Net income for the year		4,266,061	3,773,810
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments		35,824	36,788
Gains on non-trading investments, net	23	(7,196)	(40,251)
Depreciation	8	86,425	91,518
Income from FVIS financial instruments		(7,500)	(11,250)
Losses on disposal of property and equipment, net		1,321	1,525
Share in earnings of a joint venture and associate	7	(109,453)	(123,170)
Provision for credit losses, net of reversal	6	450,756	627,891
(Reversal of impairment) impairment of other financial assets		(949)	67,855
Change in carrying value of debt securities in issue		(18,195)	(17,907)
		<u>4,697,094</u>	<u>4,406,809</u>
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(949,722)	(824,773)
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		(93,750)	-
Investments held for trading, net		1,007	3,914
Loans and advances		(9,556,623)	(10,644,515)
Other assets		(882,911)	127,799
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		316,288	(2,162,210)
Customers' deposits		6,909,027	18,527,754
Other liabilities		(162,786)	772,723
Net cash from operating activities		<u>277,624</u>	<u>10,207,501</u>
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		26,305,632	17,351,575
Purchase of non-trading investments		(34,135,723)	(27,227,523)
Purchase of property and equipment	8	(151,491)	(92,190)
Dividend from a joint venture and associate	7	104,836	88,345
Proceeds from disposal of property and equipment		4,000	-
Net cash used in investing activities		<u>(7,872,746)</u>	<u>(9,879,793)</u>
FINANCING ACTIVITIES			
Debt securities issued		-	1,500,000
Debt securities repaid/matured		-	(705,000)
Borrowings		(31,250)	(31,250)
Dividends paid		(1,044,429)	(1,001,539)
Net cash used in financing activities		<u>(1,075,679)</u>	<u>(237,789)</u>
(Decrease) Increase in cash and cash equivalents		<u>(8,670,801)</u>	<u>89,919</u>
Cash and cash equivalents at beginning of the year		21,682,842	21,592,923
Cash and cash equivalents at end of the year	27	<u>13,012,041</u>	<u>21,682,842</u>
Special commission received during the year		4,648,757	4,459,121
Special commission paid during the year		<u>627,726</u>	<u>644,980</u>
Supplemental non cash information			
Other comprehensive income		<u>72,352</u>	<u>(6,518)</u>

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

Notes to the Consolidated Financial Statements (31 December 2014)

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 (2013: 80 branches) in the Kingdom of Saudi Arabia. SABB employed 3,314 staff as at 31 December 2014 (2013 : 3,158). 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% (2013:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority’s Resolution No. 2007-35-7 dated 10 Jumada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2013 : 100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2013 : 100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB has 100% ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiaries main purpose is the registration of real estates.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

1.1. Basis of preparation

a) *Statement of compliance*

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

b) *Basis of measurement*

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

c) *Functional and presentation currency*

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

d) *Presentation of consolidated financial statements*

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

e) *Basis of consolidation*

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

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

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

f) *Critical accounting judgements and estimates*

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

1.1. Basis of preparation (continued)

f) Critical accounting judgements and estimates (continued)

i) Impairment losses on loans and advances

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

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

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

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

iii) Impairment of available for sale equity investments

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

iv) Classification of held to maturity investments

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

v) Classification of fair value through income statement

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

vi) Determination of control over investees

The control indicators set out note 1.1 (e) are subject to management's judgements.

vii) Provisions for liabilities and charges

The Bank receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

1.1. Basis of preparation (continued)

g) *Going concern*

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

2. Summary of significant accounting policies

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

a) *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year. The following authoritative pronouncements which introduce certain improvements to existing standards and a new interpretation which did not have any impact on the accounting policies, financial position or performance of the Bank:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10
- Amendments to IAS 32 - Offsetting financial assets and financial liabilities.
- Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets.
- Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting – These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.
- Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards
- Amendments to IFRS 13 - Fair Value Measurement
- IFRIC 21 - Levies

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 becomes a party to the contractual provisions of the instrument. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

c) *Derivative financial instruments and hedge accounting*

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

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

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

i) *Derivatives held for trading*

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

ii) *Embedded derivatives*

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

2. Summary of significant accounting policies (continued)

c) Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting

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

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

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

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

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

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

d) Foreign currencies

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

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

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

2. Summary of significant accounting policies (continued)

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 currently legally enforceable right to set off the recognised amounts and when the Bank intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

f) *Revenue/expenses recognition*

Special commission income and expense

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

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

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

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

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

Special commission income on Shariah approved products received but not earned is netted off against the related assets.

Exchange income/loss

Exchange income/loss is recognised when earned/incurred.

Fees and commission income and expenses

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

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.

2. Summary of significant accounting policies (continued)

f) Revenue/expenses recognition (continued)

Day one profit

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of income when the inputs become observable, or when the instrument is derecognised.

g) Sale and repurchase agreements

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

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

h) Investments

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

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

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

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

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

2. Summary of significant accounting policies (continued)

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

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

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

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

ii) Available for sale

Available-for-sale investments are those non-derivative equity and debt securities which are neither classified as Held to maturity investments, loans and receivables nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

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

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

iii) Held at amortised cost

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

2. Summary of significant accounting policies (continued)

h) Investments (continued)

iv) Held to maturity

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

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

i) Investment in equity-accounted investees

The Bank’s interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Bank’s share of the profit or loss and Other Comprehensive Income (“OCI”) of equity-accounted investees, until the date on which significant influence or joint control ceases.

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

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

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.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

2. Summary of significant accounting policies (continued)

l) *Impairment of financial assets*

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

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

l) Impairment of financial assets

ii) Impairment of financial assets held at fair value

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

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

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

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

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

m) Property and equipment

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

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

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

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

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

n) Financial liabilities

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

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

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

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

2. Summary of significant accounting policies (continued)

o) Provisions

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

p) Guarantees and loan commitments

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

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

q) Accounting for leases

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

r) Cash and cash equivalents

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

s) Derecognition of financial instruments

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

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

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

	2014	2013
	SAR'000	SAR'000
Cash in hand	1,278,469	1,009,023
Statutory deposit	8,676,846	7,727,124
Placements with SAMA	8,595,941	17,026,883
Other balances	762,510	360,883
Total	19,313,766	26,123,913

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

4. Due from banks and other financial institutions

	2014	2013
	SAR'000	SAR'000
Current accounts	2,246,121	3,286,053
Money market placements	222,750	-
Total	2,468,871	3,286,053

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2014	2013	2014	2013	2014	2013
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
i) Held as FVIS						
Floating rate securities	-	1,007	-	-	-	1,007
Held as FVIS investments	-	1,007	-	-	-	1,007

Investments classified under FVIS are all held for trading.

ii) Available for sale						
Fixed rate securities	33,691,002	25,968,132	6,989,695	6,323,185	40,680,697	32,291,317
Floating rate securities	3,392,599	3,696,472	77,204	77,745	3,469,803	3,774,217
Equities	980,570	952,850	49,746	80,196	1,030,316	1,033,046
Available for sale investments, net	38,064,171	30,617,454	7,116,645	6,481,126	45,180,816	37,098,580

Available for sale investments, net includes impairment provision of SAR 70 million (2013: SAR 70 million) for domestic equities and SAR 18.8 million (2013: SAR 19.8 million) for International floating rate securities.

iii) Held at amortised cost						
Fixed rate securities	100,000	299,972	9,000	9,000	109,000	308,972
Held at amortised cost, gross	100,000	299,972	9,000	9,000	109,000	308,972
Allowance for impairment	-	-	(9,000)	(9,000)	(9,000)	(9,000)
Held at amortised cost investment, net	100,000	299,972	-	-	100,000	299,972
Investments, net	38,164,171	30,918,433	7,116,645	6,481,126	45,280,816	37,399,559

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**5. Investments, net** (continued)**b) The analysis of the composition of investments is as follows:**

	2014			2013		
	<i>Quoted</i>	<i>Unquoted</i>	<i>Total</i>	<i>Quoted</i>	<i>Unquoted</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Fixed rate securities	8,621,681	32,168,016	40,789,697	7,681,829	24,918,460	32,600,289
Floating rate securities	-	3,469,803	3,469,803	1,007	3,774,217	3,775,224
Equities	972,706	57,610	1,030,316	944,986	88,060	1,033,046
	<u>9,594,387</u>	<u>35,695,429</u>	<u>45,289,816</u>	<u>8,627,822</u>	<u>28,780,737</u>	<u>37,408,559</u>
Allowance for impairment	-	(9,000)	(9,000)	-	(9,000)	(9,000)
Investments, net	<u>9,594,387</u>	<u>35,686,429</u>	<u>45,280,816</u>	<u>8,627,822</u>	<u>28,771,737</u>	<u>37,399,559</u>

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

	2014			2013		
	<i>Carrying</i>	<i>Gross unrealised</i>	<i>Fair</i>	<i>Carrying</i>	<i>Gross unrealised</i>	<i>Fair</i>
	<u>value</u>	<u>gain</u>	<u>value</u>	<u>value</u>	<u>gain</u>	<u>value</u>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
i) Held at amortised cost						
Fixed rate securities	100,000	169	100,169	299,972	5,024	304,996
Total	<u>100,000</u>	<u>169</u>	<u>100,169</u>	<u>299,972</u>	<u>5,024</u>	<u>304,996</u>

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

	2014	2013
	<u>SAR'000</u>	<u>SAR'000</u>
Government and quasi-government	35,403,594	29,811,514
Corporate	3,562,110	2,493,818
Banks and other financial institutions	6,306,764	5,085,815
Other	8,348	8,412
Total	<u>45,280,816</u>	<u>37,399,559</u>

Equities reported under available for sale investments include unquoted shares of SAR 8.3 million (2013 : SAR 8.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include treasury bills classified as available for sale amounting to SAR 12.7 million (2013 : SAR 189.1 million) which have been pledged under repurchase agreement with customers. The market value of these investments is SAR 12.7 million (2013 : SAR 189.0 million).

e) Credit quality of investments

	2014	2013
	<u>SAR'000</u>	<u>SAR'000</u>
Saudi sovereign debt	30,136,708	23,714,079
Investment grade	8,481,687	8,926,878
Non-investment grade	50,193	110,254
Unrated	6,612,228	4,648,348
Total	<u>45,280,816</u>	<u>37,399,559</u>

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

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Issuer ratings have been used for bonds amounting to SAR 347.7 million (2013 : SAR 297.8 million) which have not been rated by any agency.

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

5. Investments, net (continued)

f) Movements of allowance for impairment of investments:

	2014	2013
	SAR'000	SAR'000
Balance at beginning of the year	98,756	31,901
Provided during the year	-	70,000
Amounts recovered during the year	(949)	(3,145)
Balance at end of the year	97,807	98,756

The net charge to consolidated statement of income on account of impairment (reversal of impairment) of other financial assets is negative SAR 0.9 million (2013 : SAR 67.9 million), which is net of recoveries of amounts previously provided as shown above and directly written off investments amounting to SAR Nil (2013 : SAR 1.0 million).

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2014			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Performing loans and advances - gross	2,091,725	24,027,009	90,009,676	116,128,410
Non-performing loans and advances, net	3,409	46,182	1,445,341	1,494,932
Total loans and advances	2,095,134	24,073,191	91,455,017	117,623,342
Provision for credit losses (specific and collective)	(98,543)	(222,605)	(2,081,397)	(2,402,545)
Loans and advances, net	1,996,591	23,850,586	89,373,620	115,220,797

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

Loans and advances, net include Shariah approved products totalling SAR 90,083 million (2013: SAR 78,679 million) which are stated at cost less provision for credit losses of SAR 1,537.1 million (2013 : SAR 1,356.4 million).

Loans and advances include loans amounting to SAR 164 million (2013 : SAR 568 million) that have been fair value hedged through a fixed to floating interest rate swap. The negative mark to market on these loans was SAR 0.003 million as at the end of the current year (2013 : positive SAR 0.2 million).

Nonperforming loans and advances are disclosed net of accumulated special commission in suspense of SAR 209.9 million (2013 : SAR 249.6 million).

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**6. Loans and advances, net** (continued)**b) Movement in provision for credit losses**

	2014			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance at beginning of the year	86,189	204,931	1,967,549	2,258,669
Bad debts written off	(104,746)	(276,974)	(60,069)	(441,789)
Provided during the year, net of reversals	117,100	294,648	179,244	590,992
Recoveries of amounts previously provided	-	-	(5,327)	(5,327)
Balance at the end of the year	<u>98,543</u>	<u>222,605</u>	<u>2,081,397</u>	<u>2,402,545</u>

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

The allowance for credit losses related to commercial loans and overdrafts as mentioned above includes a collective allowance amounting to SAR 1,148.1 million (2013 : SAR 1,092.4 million) related to the performing portfolio.

Provision for credit losses charged to the consolidated statement of income related to Shariah approved products is SAR 320.8 million (2013 : SAR 118.6 million).

The net charge to consolidated statement of income on account of provision for credit losses is SAR 450.8 million (2013 : SAR 374.2 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off amounting to SAR 134.9 million (2013 : SAR 213.5 million).

6. Loans and advances, net (continued)

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

2014				
Grades	Credit	Consumer	Commercial	Total
	Cards	Loans	Loans and	
			Overdrafts	
	SAR'000	SAR'000	SAR'000	SAR'000
Undoubted	-	-	664,654	664,654
Good	263,065	11,088,495	36,107,274	47,458,834
Satisfactory	1,674,101	11,753,677	52,507,093	65,934,871
Total	1,937,166	22,842,172	89,279,021	114,058,359

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

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

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

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

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

	2014			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
From 1 day to 30 days	63,424	951,596	708,470	1,723,490
From 31 days to 90 days	46,067	131,204	16,009	193,280
From 91 days to 180 days	45,068	102,037	6,176	153,281
Total	154,559	1,184,837	730,655	2,070,051
	2013			
	<i>Credit Cards</i>	<i>Consumer Loans</i>	<i>Commercial Loans and Overdrafts</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
From 1 day to 30 days	66,559	931,593	877,251	1,875,403
From 31 days to 90 days	45,775	135,165	1,942	182,882
From 91 days to 180 days	40,914	86,780	20,429	148,123
Total	153,248	1,153,538	899,622	2,206,408

Notes to the Consolidated Financial Statements (31 December 2014) (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:

	2014			
	<i>Performing</i>	<i>Non-performing, net</i>	<i>Provision for credit losses</i>	<i>Loans and advances, net</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Government and quasi-Government	5,014,379	-	-	5,014,379
Finance	13,166,493	-	-	13,166,493
Agriculture and fishing	1,860,838	-	-	1,860,838
Manufacturing	19,696,145	110,268	(37,478)	19,768,935
Mining and quarrying	2,126,829	-	-	2,126,829
Electricity, water, gas and health services	4,122,107	-	-	4,122,107
Building and construction	7,179,938	470,963	(171,400)	7,479,501
Commerce	20,063,246	446,490	(471,621)	20,038,115
Transportation and communication	4,815,881	-	-	4,815,881
Services	3,763,351	35,553	(25,244)	3,773,660
Consumer loans and credit cards	26,118,734	49,591	(321,148)	25,847,177
Other	8,200,469	382,067	(227,548)	8,354,988
Collective impairment provision	-	-	(1,148,106)	(1,148,106)
Total	116,128,410	1,494,932	(2,402,545)	115,220,797

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

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

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

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. Investment in a joint venture and an associate

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

SABB owns 32.5% of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 31 December 2014 is SAR 346.9 million (2013: SAR 381.2 million).

	2014			2013		
	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>Total</i>	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	526,302	120,755	647,057	496,237	115,995	612,232
Share of undistributed profits	104,755	4,698	109,453	118,410	4,760	123,170
Dividend received	(104,836)	-	(104,836)	(88,345)	-	(88,345)
Balance at end of the year	526,221	125,453	651,674	526,302	120,755	647,057

Share of joint venture and associate financial statements:

	2014		2013	
	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>	<i>HSBC Saudi Arabia Limited</i>	<i>SABB Takaful</i>
	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Total assets	583,020	289,414	506,144	302,379
Total liabilities	174,692	163,961	97,735	181,624
Total equity	408,328	125,453	408,409	120,755
Total income	331,860	17,523	256,540	17,561
Total expenses	227,105	12,825	138,130	12,801

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**8. Property and equipment, net**

	<i>Land and Buildings</i>	<i>Leasehold improvements</i>	<i>Equipment, furniture and vehicles</i>	2014 Total	2013 Total
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Cost					
As at 1 January	699,921	470,627	504,206	1,674,754	1,895,164
Additions	30,528	51,422	69,541	151,491	92,190
Disposals	(37,237)	(21,698)	(46,764)	(105,699)	(312,600)
As at 31 December	693,212	500,351	526,983	1,720,546	1,674,754
Accumulated depreciation					
As at 1 January	362,215	323,360	385,523	1,071,098	1,290,655
Charge for the year	14,493	26,106	45,826	86,425	91,518
Disposals	(31,916)	(21,698)	(46,764)	(100,378)	(311,075)
As at 31 December	344,792	327,768	384,585	1,057,145	1,071,098
Net book value					
As at 31 December 2014	348,420	172,583	142,398	663,401	
As at 31 December 2013	337,706	147,267	118,683		603,656

Land and buildings, leasehold improvements and equipment furniture and vehicles include work in progress as at 31 December 2014 amounting to SAR Nil (2013 : SAR 0.1 million), SAR 37.4 million (2013 : SAR 33.6 million) and SAR 53.8 million (2013 : SAR 22.4 million) respectively.

9. Other assets

	2014	2013
	<u>SAR'000</u>	<u>SAR'000</u>
Accrued special commission receivable		
– banks and other financial institutions	475	117
– investments	131,362	133,422
– loans and advances	385,707	406,811
Total accrued special commission receivable	517,544	540,350
Accounts receivable	161,555	843,927
Positive fair value of derivatives (note10)	1,024,886	951,314
Advance tax	226,077	191,302
Others	2,079,881	600,139
Total	4,009,943	3,127,032

10. Derivatives

In the ordinary course of business, the Bank uses 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.

10. Derivatives (continued)

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

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 nor credit risk, which is generally limited to the positive fair value of the derivatives.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**10. Derivatives** (continued)**Cash flow hedges**

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

	Notional amounts by term to maturity							
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Monthly average</i>
2014	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Derivatives held for trading:								
Special commission rate swaps	548,911	(465,354)	51,325,703	2,885,252	7,671,072	32,900,408	7,868,971	50,917,545
Special commission rate futures and options	43,078	(43,078)	2,249,929	20,000	342,429	875,000	1,012,500	2,283,708
Spot and forward foreign exchange contracts	60,153	(61,514)	26,635,831	21,179,738	5,456,093	-	-	25,144,405
Currency options	151,473	(154,264)	193,156,074	32,001,173	95,215,955	65,938,946	-	192,748,061
Currency swaps	37,967	(37,967)	461,211	-	-	461,211	-	475,426
Others	166,038	(166,038)	833,565	126,183	7,594	699,788	-	949,705
Derivatives held as fair value hedges:								
Special commission rate swaps	17,266	(48,199)	4,121,257	206,250	2,365,254	442,261	1,107,492	4,058,668
Total	1,024,886	(976,414)	278,783,570	56,418,596	111,058,397	101,317,614	9,988,963	
2013								
Derivatives held for trading:								
Special commission rate swaps	581,625	(438,305)	44,538,871	1,056,664	3,075,113	37,021,827	3,385,267	53,362,054
Special commission rate futures and options	51,535	(51,535)	2,645,997	300,001	21,067	1,312,429	1,012,500	3,792,236
Spot and forward foreign exchange contracts	56,691	(26,692)	23,927,549	16,105,899	7,821,650	-	-	24,514,155
Currency options	59,738	(52,923)	105,850,497	15,605,287	45,539,515	44,705,695	-	87,691,254
Currency swaps	27,358	(27,358)	475,473	-	-	475,473	-	481,599
Others	129,859	(129,998)	1,022,712	3,993	307,344	711,375	-	1,428,760
Derivatives held as fair value hedges:								
Special commission rate swaps	44,508	(21,452)	3,826,351	-	489,146	3,095,635	241,570	4,126,044
Total	951,314	(748,263)	182,287,450	33,071,844	57,253,835	87,322,434	4,639,337	

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.

2014							
Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument		Positive fair value	Negative fair value
	SAR'000	SAR'000				SAR'000	SAR'000
Fixed commission rate investments	1,778,865	1,729,331	Fair value	Special commission rate swap		24	(48,124)
Fixed commission rate loans	163,762	163,765	Fair value	Special commission rate swap		87	(75)
Fixed commission rate debt securities in issue	2,264,678	2,247,361	Fair value	Special commission rate swap		17,155	-
Floating commission rate debt securities in issue	-	-	Cash flow	Special commission rate swap		-	-
2013							
Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument		Positive fair value	Negative fair value
	SAR'000	SAR'000				SAR'000	SAR'000
Fixed commission rate investments	1,023,920	1,008,445	Fair value	Special commission rate swap		4,827	(20,757)
Fixed commission rate loans	568,083	567,906	Fair value	Special commission rate swap		546	(695)
Fixed commission rate debt securities in issue	2,282,873	2,244,302	Fair value	Special commission rate swap		39,135	-
Floating commission rate debt securities in issue	-	-	Cash flow	Special commission rate swap		-	-

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

The net losses on the hedging instruments for fair value hedges are SAR 54.0 million (2013 : net gains SAR 15.5 million). The net gains on the hedged item attributable to the hedged risk are SAR 55.1 million (2013 : net losses SAR 16.6 million). The net fair value of the derivatives is negative SAR 28.6 million (2013 : positive SAR 23.1 million).

Approximately 29% (2013 : 44%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 15% (2013 : 13%) of the positive fair value contracts are with any individual counterparty at the reporting date.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**11. Due to banks and other financial institutions**

	2014	2013
	SAR'000	SAR'000
Current accounts	1,702,884	2,200,996
Money market deposits	2,383,044	1,568,644
Total	4,085,928	3,769,640

Money market deposits also include deposits placed by SAMA amounting to SAR 277.5 million (2013 : SAR 267.0 million).

12. Customers' deposits

	2014	2013
	SAR'000	SAR'000
Demand	86,583,535	74,717,693
Savings	6,865,211	6,686,175
Time	50,235,555	54,315,985
Margin deposits	2,186,196	3,241,617
Total	145,870,497	138,961,470

Customers' deposits include SAR 70,527.2 million (2013 : SAR 75,126.7 million) deposits under Shariah approved product contracts.

Time deposits include deposits against sale and repurchase agreement amounting to SAR 12.7 million (2013 : SAR 189.1 million).

The above deposits include the following foreign currency deposits:

	2014	2013
	SAR'000	SAR'000
Demand	10,605,889	9,762,262
Savings	214,095	220,176
Time	8,693,171	6,017,900
Margin deposits	866,094	1,854,791
Total	20,379,249	17,855,129

13. Debt securities in issue

	2014	2013
	SAR'000	SAR'000
USD 600 million 5-year fixed rate notes	2,264,678	2,282,873
SAR 1,500 million 5-year SAR subordinated Sukuk - 2012	1,500,000	1,500,000
SAR 1,500 million 7-year SAR subordinated Sukuk - 2013	1,500,000	1,500,000
Total	5,264,678	5,282,873

USD 600 million 5 year fixed rate notes

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

The special commission rate exposure on these notes has been hedged by a fixed to floating special commission rate swap. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a fair value hedge in these consolidated financial statements. The negative mark to market relating to these notes pertaining to the hedged portion is SAR 17.3 million as at the end of the current year (2013 : 38.6 million).

13. Debt securities in issue (continued)

SAR 1,500 million 5 year subordinated Sukuk - 2012

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

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

SAR 1,500 million 7 year subordinated Sukuk - 2013

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

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

14. Borrowings

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

15. Other liabilities

	2014 SAR'000	2013 SAR'000
Accrued special commission payable		
– banks and other financial institutions	8,296	64,521
– customers' deposits	163,001	170,936
– debt securities in issue	17,009	17,156
– borrowings	189	264
Total accrued special commission payable	188,495	252,877
Accounts payable	1,843,423	1,160,033
Drawings payable	1,021,695	1,237,022
Negative fair value of derivatives (note 10)	976,414	748,263
End of service benefits	348,116	329,441
Others	1,860,685	2,618,407
Total	6,238,828	6,346,043

End of service benefits

Arrangement for staff retirement benefits is made in accordance with local regulations and custom. The schemes net obligation to the Bank is reviewed quarterly by using a discounted cash flow valuation model. The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**16. Share capital**

The authorised, issued and fully paid share capital of SABB consists of 1,000 million shares of SAR 10 each (2013 : 1,000 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2014	2013
Saudi shareholders	60%	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	40%	40%

The Board of Directors has recommended on 2 Rabi Awal 1436H (corresponding to 24 December 2014) a bonus issue of 500 million shares of nominal value of SAR 10 each on the basis of one bonus share for every two shares held through the capitalisation of retained earnings and statutory reserve account which is subject to approval of shareholders at an Extraordinary General Meeting and regulatory agencies.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 1,067 million (2013 : SAR 943 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

	2014		
	<i>Cash flow hedges</i>	<i>Available for sale investments</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	2,656	(13,394)	(10,738)
Net change in fair value	-	80,339	80,339
Transfer to consolidated statement of income	(791)	(7,196)	(7,987)
Net movement during the year	(791)	73,143	72,352
Balance at end of the year	<u>1,865</u>	<u>59,749</u>	<u>61,614</u>
	2013		
	<i>Cash flow hedges</i>	<i>Available for sale investments</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	(6,138)	1,918	(4,220)
Net change in fair value	9,585	(45,061)	(35,476)
Transfer to consolidated statement of income	(791)	29,749	28,958
Net movement during the year	8,794	(15,312)	(6,518)
Balance at end of the year	<u>2,656</u>	<u>(13,394)</u>	<u>(10,738)</u>

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 0.8 million (2013 : SAR 0.8 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Commitments and contingencies

a) *Legal proceedings*

As at 31 December 2014 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) *Capital commitments*

As at 31 December 2014 the Bank has capital commitments of SAR 228.9 million (2013: SAR 183.6 million) in respect of land, buildings and equipment purchases.

c) *Credit related commitments and contingencies*

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

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

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

	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2014	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Letters of credit	7,807,909	6,361,435	962,243	-	15,131,587
Guarantees	9,131,576	21,306,928	23,926,067	7,093,607	61,458,178
Acceptances	2,718,790	465,653	5,664	-	3,190,107
Irrevocable commitments to extend credit	130,063	-	214,881	1,367,381	1,712,325
Total	19,788,338	28,134,016	25,108,855	8,460,988	81,492,197
	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2013	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Letters of credit	10,579,988	4,654,050	1,103,815	-	16,337,853
Guarantees	10,899,217	19,127,641	21,469,459	4,824,758	56,321,075
Acceptances	1,955,464	404,299	44,022	485	2,404,270
Irrevocable commitments to extend credit	130,000	-	408,125	2,884,431	3,422,556
Total	23,564,669	24,185,990	23,025,421	7,709,674	78,485,754

The outstanding unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank is SAR 66,720.4 million (2013 : SAR 60,846.4 million).

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**19. Commitments and contingencies** (continued)*e) The analysis of credit related commitments and contingencies by counterparty is as follows:*

	2014	2013
	SAR'000	SAR'000
Government and quasi-government	552,636	421,837
Corporate	66,736,597	61,953,559
Banks and other financial institutions	14,111,367	15,903,721
Other	91,597	206,637
Total	81,492,197	78,485,754

f) Operating lease commitments

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

	2014	2013
	SAR'000	SAR'000
Less than 1 year	79,806	63,406
1 to 5 years	214,839	168,991
Over 5 years	145,359	93,357
Total	440,004	325,754

20. Net special commission income

	2014	2013
	SAR'000	SAR'000
Special commission income		
Investments		
– available for sale investments	547,525	463,286
– held at amortised cost	5,817	20,917
– held to maturity investments	-	197
	553,342	484,400
Due from banks and other financial institutions	24,069	23,103
Loans and advances	4,048,540	3,878,635
Total	4,625,951	4,386,138
Special commission expense		
Due to banks and other financial institutions	12,188	104,843
Customers' deposits	424,828	451,380
Debt securities in issue	121,138	103,815
Borrowings	5,190	6,804
Total	563,344	666,842
Net special commission income	4,062,607	3,719,296

21. Fees and commission income, net

	2014	2013
	SAR'000	SAR'000
Fee and commission income:		
– Fund management fees	88,900	55,218
– Trade finance	881,231	834,493
– Corporate finance and advisory	193,730	119,948
– Cards	334,131	305,798
– Other banking services	385,060	349,895
Total fee and commission income	1,883,052	1,665,352
Fee and commission expense:		
– Cards	(151,579)	(127,012)
– Custodial services	(843)	(818)
– Other banking services	(85,630)	(104,087)
Total fee and commission expense	(238,052)	(231,917)
Fees and commission income, net	1,645,000	1,433,435

22. Trading income, net

	2014	2013
	SAR'000	SAR'000
Foreign exchange income, net	221,998	114,590
Derivatives	46,896	55,195
Debt securities	(7)	383
Others	1,121	(1,003)
Total	270,008	169,165

23. Gains on non-trading investments, net

	2014	2013
	SAR'000	SAR'000
Available-for-sale investments	7,196	40,251

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**24. Salaries and employee related expenses**

	2014	2013
	SAR'000	SAR'000
Salaries and allowance	662,584	601,346
Housing allowance	113,929	107,417
End of service benefits	44,227	64,173
Others	332,105	317,661
Total	1,152,845	1,090,597

i) Quantitative Disclosure

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended 31 December 2014 and 31 December 2013, and the forms of such payments.

2014 Category	Number of employees SAR'000	Fixed compensation SAR'000	Variable compensation paid in 2014		
			Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	16	28,220	17,146	8,654	25,800
Employees engaged in risk taking activities	287	130,091	59,120	3,357	62,477
Employees engaged in control functions	125	61,059	17,249	759	18,008
Other employees	2,886	503,425	110,012	386	110,398
Outsourced employees	399	29,258	9,696	-	9,696
Total	3,713	752,053	213,223	13,156	226,379
Variable compensation accrued or paid in 2014		251,669			
Other employee related benefits		149,123			
Total salaries and employee related expenses		1,152,845			

2013 Category	Number of employees SAR'000	Fixed compensation SAR'000	Variable compensation paid in 2013		
			Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	14	21,375	16,928	1,926	18,854
Employees engaged in risk taking activities	276	124,958	47,211	1,966	49,177
Employees engaged in control functions	126	53,028	11,673	396	12,069
Other employees	2,742	452,132	98,382	584	98,966
Outsourced employees	405	30,857	9,798	-	9,798
Total	3,563	682,350	183,992	4,872	188,864
Variable compensation accrued or paid in 2013		239,283			
Other employee related benefits		168,964			
Total salaries and employee related expenses		1,090,597			

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.

24. Salaries and employee-related expenses (continued)

i) Quantitative Disclosure (continued)

Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

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

Outsourced employees:

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

ii) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements

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

SABB Compensation Policy

a) Policy Objectives

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

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

b) Compensation Structure

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

c) Performance Management System

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

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

24. Salaries and employee-related expenses (continued)

ii) Qualitative Disclosure (continued)

d) Risk-adjustment for Variable Pay schemes

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

e) Bonus Deferral

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

f) Nomination and Remuneration Committee

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

25. Basic and diluted earnings per share

Basic earnings per share for the year ended 31 December 2014 and 2013 is calculated by dividing the net income for the year attributable to the equity holders by 1,000 million.

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

26. Gross dividend, Zakat and income tax

The Board of Directors has proposed a gross dividend of SAR 1,150 million for the year 2014 (2013 : SAR 1,100 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 62.7 million (2013 : SAR 55.7 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 1.05 per share (2013: SAR 1.0 per share).

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 336.4 million (2013: SAR 298.4 million).

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

Status of Zakat and Income Tax assessments

SABB has filed its Zakat and Income Tax returns for the financial years up to and including the year 2013 with the Department of Zakat and Income Tax (the “DZIT”). SABB has received Zakat and Income Tax assessments for the years up to 2009 raising additional demands aggregating to SAR 487 million. The above additional exposure is mainly on account of disallowance of certain long-term investments by the DZIT. The basis for the additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. SABB has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat and Income Tax assessments for the years 2010 to 2013 have not been finalized by the DZIT and SABB may not be able to determine reliably the impact of such assessments.

27. Cash and cash equivalents

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

	2014	2013
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	10,636,920	18,396,789
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	2,375,121	3,286,053
Total	13,012,041	21,682,842

28. Operating segments

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

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

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

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

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

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

Others – includes activities of investment in a joint venture and an associate.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2014 and 2013, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

	Retail Banking	Corporate Banking	Treasury	Others	Total
2014	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Total assets	35,455,551	84,313,335	67,188,708	651,674	187,609,268
Total liabilities	57,653,291	80,471,238	23,413,527	-	161,538,056
Investment in a joint venture and an associate	-	-	-	651,674	651,674
Total operating income	2,247,934	2,993,006	1,261,269	-	6,502,209
Total operating expenses	1,353,284	843,916	148,401	-	2,345,601
Share in earnings of joint venture and associate	-	-	-	109,453	109,453
Net income for the year	894,650	2,149,090	1,112,868	109,453	4,266,061
Net special commission income	1,715,731	1,537,638	809,238	-	4,062,607
Fees and commission income, net	426,296	1,219,847	(1,143)	-	1,645,000
Trading income, net	499	52,108	217,401	-	270,008
Credit losses and impairment provision, net	250,505	200,251	(949)	-	449,807

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**28. Operating segments** (continued)**a) The Bank's reportable segments are as follows:** (continued)

	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Others</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2013					
Total assets	33,585,039	76,688,800	66,381,304	647,057	177,302,200
Total liabilities	57,072,930	70,046,474	27,349,997	-	154,469,401
Investment in a joint venture and an associate	-	-	-	647,057	647,057
Total operating income	1,930,188	2,710,194	1,173,285	-	5,813,667
Total operating expenses	1,215,730	818,588	128,709	-	2,163,027
Share in earnings of joint venture and associate	-	-	-	123,170	123,170
Net income for the year	714,458	1,891,606	1,044,576	123,170	3,773,810
Net special commission income	1,458,971	1,470,440	789,885	-	3,719,296
Fees and commission income, net	381,934	1,052,357	(856)	-	1,433,435
Trading income, net	92	13,177	155,896	-	169,165
Credit losses and impairment provision, net	201,203	237,716	3,115	-	442,034

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

	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2014				
Assets	32,932,041	82,288,756	64,754,668	179,975,465
Commitments and contingencies	45,666	37,716,991	-	37,762,657
Derivatives	-	-	2,137,569	2,137,569
Total	32,977,707	120,005,747	66,892,237	219,875,691
	<i>Retail Banking</i>	<i>Corporate Banking</i>	<i>Treasury</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2013				
Assets	31,174,075	74,940,855	64,767,456	170,882,386
Commitments and contingencies	81,725	33,538,515	-	33,620,240
Derivatives	-	-	2,444,705	2,444,705
Total	31,255,800	108,479,370	67,212,161	206,947,331

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

29. Credit risk

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

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

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

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

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

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 19. The information on Bank's maximum credit exposure by operating segment is given in note 28. The information on maximum credit risk exposure and their relative risk weights is also provided in note 36.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**30 a). Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure**

	2014					
	<i>Kingdom of Saudi Arabia</i>	<i>GCC and Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>Other Countries</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
ASSETS						
Cash and balances with SAMA	19,313,766	-	-	-	-	19,313,766
Due from banks and other financial institutions	-	306,019	497,144	1,551,527	114,181	2,468,871
Investments, net	38,164,171	5,796,696	367,742	49,262	902,945	45,280,816
Loans and advances, net	114,419,804	375,000	397,500	28,493	-	115,220,797
Investment in a joint venture and associate	651,674	-	-	-	-	651,674
Total	<u>172,549,415</u>	<u>6,477,715</u>	<u>1,262,386</u>	<u>1,629,282</u>	<u>1,017,126</u>	<u>182,935,924</u>
LIABILITIES						
Due to banks and other financial institutions	282,004	2,659,203	477,665	651,414	15,642	4,085,928
Customer deposits	145,074,622	13,707	665,061	16,486	100,621	145,870,497
Debt securities in issue	3,000,000	-	2,264,678	-	-	5,264,678
Borrowings	-	-	78,125	-	-	78,125
Total	<u>148,356,626</u>	<u>2,672,910</u>	<u>3,485,529</u>	<u>667,900</u>	<u>116,263</u>	<u>155,299,228</u>
Commitments and contingencies	<u>69,104,176</u>	<u>946,306</u>	<u>4,895,774</u>	<u>321,998</u>	<u>6,223,943</u>	<u>81,492,197</u>
Credit exposure (stated at credit equivalent amounts)						
Assets	169,638,702	6,427,969	1,262,386	1,629,282	1,017,126	179,975,465
Commitments and contingencies	31,777,737	466,088	2,453,745	136,545	2,928,542	37,762,657
Derivatives	1,401,683	164,214	560,020	909	10,743	2,137,569
Total credit exposure	<u>202,818,122</u>	<u>7,058,271</u>	<u>4,276,151</u>	<u>1,766,736</u>	<u>3,956,411</u>	<u>219,875,691</u>

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

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

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

2014						
	<i>Kingdom of Saudi Arabia</i>	<i>GCC and Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>Other Countries</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Non-performing loans, net	1,494,932	-	-	-	-	1,492,932
Provision for credit loss	2,402,545	-	-	-	-	2,402,545
2013						
	<i>Kingdom of Saudi Arabia</i>	<i>GCC and Middle East</i>	<i>Europe</i>	<i>North America</i>	<i>Other Countries</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Non-performing loans, net	1,525,265	-	-	-	-	1,525,265
Provision for credit loss	2,258,669	-	-	-	-	2,258,669

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**31. Market risk**

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

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

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

a) Market risk-trading book

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

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

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

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

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

The Bank's VAR related information is as under.

	<i>Foreign exchange</i>	<i>Special commission rate</i>	<i>Overall risk</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2014			
VAR as at 31 December 2014	364	70	356
Average VAR for 2014	1,571	291	1,672
	<i>Foreign exchange</i>	<i>Special commission rate</i>	<i>Overall risk</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2013			
VAR as at 31 December 2013	347	160	337
Average VAR for 2013	358	1,121	1,245

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 reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non- trading financial assets and financial liabilities held as at 31 December 2014, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets; including the effect of any associated hedges as at 31 December 2014 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represent only those exposures that directly impact OCI of the Bank.

2014							
Currency	Increase in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
			SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	+ 100	(24,385)	(106,440)	(58,228)	(46,845)	(25,933)	(237,446)
USD	+ 100	(6,345)	(29,528)	(30,006)	(114,716)	(5,835)	(180,085)
EUR	+ 100	1,327	(1,809)	(1,942)	(14,699)	(3,999)	(22,449)
Others	+ 100	12	(137)	(148)	(1,026)	-	(1,311)

2014							
Currency	Decrease in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
			SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
SAR	- 100	24,385	106,440	58,228	46,845	25,933	237,446
USD	- 100	6,345	29,528	30,006	114,716	5,835	180,085
EUR	- 100	(1,327)	1,809	1,942	14,699	3,999	22,449
Others	- 100	(12)	137	148	1,026	-	1,311

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

31. Market risk (continued)

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

i) Special commission rate risk (continued)

2013							
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	+ 100	40,746	(78,480)	(36,886)	(24,654)	(50,196)	(190,216)
USD	+ 100	(11,640)	(30,342)	(29,102)	(101,425)	(36,513)	(197,382)
EUR	+ 100	1,307	-	-	-	-	-
Others	+ 100	144	-	-	-	-	-

2013							
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	- 100	(40,746)	78,480	36,886	24,654	50,196	190,216
USD	- 100	11,640	30,342	29,102	101,425	36,513	197,382
EUR	- 100	(1,307)	-	-	-	-	-
Others	- 100	(144)	-	-	-	-	-

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.

31. Market risk (continued)

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

i) Special commission rate risk (continued)

	2014					Total
	Within 3	3-12	1-5	Over 5	Non special	
	months	months	years	years	commission bearing	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Assets						
Cash and balances with SAMA	8,595,941	-	-	-	10,717,825	19,313,766
Due from banks and other financial institutions	2,375,121	93,750	-	-	-	2,468,871
Investments, net	13,270,871	22,199,685	5,662,296	3,117,648	1,030,316	45,280,816
Loans and advances, net	68,935,917	18,456,488	17,569,929	10,258,463	-	115,220,797
Investment in a joint venture and associate	-	-	-	-	651,674	651,674
Property and equipment, net	-	-	-	-	663,401	663,401
Other assets	109,314	175,989	567,188	172,395	2,985,057	4,009,943
Total assets	93,287,164	40,925,912	23,799,413	13,548,506	16,048,273	187,609,268
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,085,928	-	-	-	-	4,085,928
Customer deposits	44,347,300	10,889,172	1,864,294	-	88,769,731	145,870,497
Debt securities in issue	1,500,000	1,500,000	2,264,678	-	-	5,264,678
Borrowings	-	31,250	46,875	-	-	78,125
Other liabilities	114,655	156,848	550,524	154,387	5,262,414	6,238,828
Shareholders' equity	-	-	-	-	26,071,212	26,071,212
Total liabilities and shareholders' equity	50,047,883	12,577,270	4,726,371	154,387	120,103,357	187,609,268
Commission rate sensitivity on assets and liabilities	43,239,281	28,348,642	19,073,042	13,394,119	(104,055,084)	
Commission rate sensitivity on derivative financial instruments	(734,993)	2,284,746	(442,261)	(1,107,492)	-	
Total special commission rate sensitivity gap	42,504,288	30,633,388	18,630,781	12,286,627	(104,055,084)	
Cumulative special commission rate sensitivity gap	42,504,288	73,137,676	91,768,457	104,055,084	-	

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**31. Market risk** (continued)**b) Market risk – non-trading or banking book** (continued)**i) Special commission rate risk** (continued)

	2013					Total
	Within 3	3-12	1-5	Non special	commission	
	months	months	years	Over 5	bearing	
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Assets						
Cash and balances with SAMA	17,026,883	-	-	-	9,097,030	26,123,913
Due from banks and other financial institutions	3,286,053	-	-	-	-	3,286,053
Investments, net	11,105,271	19,068,815	5,493,214	698,205	1,034,054	37,399,559
Loans and advances, net	65,163,919	14,565,333	17,508,416	8,877,262	-	106,114,930
Investment in a joint venture and associate	-	-	-	-	647,057	647,057
Property and equipment, net	-	-	-	-	603,656	603,656
Other assets	88,696	40,994	717,504	104,120	2,175,718	3,127,032
Total assets	96,670,822	33,675,142	23,719,134	9,679,587	13,557,515	177,302,200
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,769,640	-	-	-	-	3,769,640
Customer deposits	41,985,669	18,390,324	626,167	-	77,959,310	138,961,470
Debt securities in issue	1,500,000	1,500,000	2,282,873	-	-	5,282,873
Borrowings	-	31,250	78,125	-	-	109,375
Other liabilities	59,849	46,524	590,876	51,014	5,597,780	6,346,043
Shareholders' equity	-	-	-	-	22,832,799	22,832,799
Total liabilities and shareholders' equity	47,315,158	19,968,098	3,578,041	51,014	106,389,889	177,302,200
Commission rate sensitivity on assets and liabilities	49,355,664	13,707,044	20,141,093	9,628,573	(92,832,374)	
Commission rate sensitivity on derivative financial instruments	(823,649)	(339,146)	1,404,365	(241,570)	-	
Total special commission rate sensitivity gap	48,532,015	13,367,898	21,545,458	9,387,003	(92,832,374)	
Cumulative special commission rate sensitivity gap	48,532,015	61,899,913	83,445,371	92,832,374	-	

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.

31. Market risk (continued)

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

ii) Currency risk

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

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

	2014	2013
	<i>Long</i>	<i>Long</i>
	<i>(short)</i>	<i>(short)</i>
	SAR'000	SAR'000
US Dollar	(2,110,875)	(479,606)
Euro	(2,760)	(7,380)
Sterling Pounds	(555)	(12,154)
Other	3,156	(7,068)

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 2014 would have correspondingly increase or decrease equity by SAR 102 million (2013 : SAR 102 million).

32. Liquidity risk

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

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

Notes to the Consolidated Financial Statements (31 December 2014) (continued)

32. Liquidity risk (continued)

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

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

a) Analysis of financial liabilities by remaining contractual maturities:

2014						
	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No fixed maturity</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Financial liabilities:						
Due to banks and other financial institutions	3,805,550	-	299,259	-	-	4,104,809
Customer deposits	136,886,875	3,287,793	5,870,790	218,168	-	146,263,626
Debt securities in issue	8,132	2,377,271	1,688,126	1,535,376	-	5,608,905
Borrowings	-	34,892	49,308	-	-	84,200
Other liabilities	-	-	-	-	5,073,919	5,073,919
<u>Derivatives:</u>						
– Contractual amounts payable (receivable)	37,858	43,537	(297)	-	-	81,098
Total undiscounted financial liabilities	<u>140,738,415</u>	<u>5,743,493</u>	<u>7,907,186</u>	<u>1,753,544</u>	<u>5,073,919</u>	<u>161,216,557</u>
2013						
	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No fixed maturity</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Financial liabilities:						
Due to banks and other financial institutions	3,502,680	-	319,066	-	-	3,821,746
Customer deposits	131,198,920	6,444,945	1,443,177	152,420	-	139,239,462
Debt securities in issue	8,266	128,678	4,045,682	1,572,762	-	5,755,388
Borrowings	-	36,511	84,200	-	-	120,711
Other liabilities	-	-	-	-	5,344,903	5,344,903
<u>Derivatives:</u>						
– Contractual amounts payable (receivable)	32,981	(2,158)	12,958	-	-	43,781
Total undiscounted financial liabilities	<u>134,742,847</u>	<u>6,607,976</u>	<u>5,905,083</u>	<u>1,725,182</u>	<u>5,344,903</u>	<u>154,325,991</u>

32. 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.

	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No fixed maturity</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2014						
Assets						
Cash and balances with SAMA	10,636,920	-	-	-	8,676,846	19,313,766
Due from banks and other financial institutions	2,375,121	93,750	-	-	-	2,468,871
Investments, net	8,772,598	22,776,704	7,673,573	5,027,625	1,030,316	45,280,816
Loans and advances, net	49,335,300	18,753,568	25,542,294	21,589,635	-	115,220,797
Investment in a joint venture and associate	-	-	-	-	651,674	651,674
Property and equipment, net	-	-	-	-	663,401	663,401
Other assets	109,314	175,989	567,188	172,395	2,985,057	4,009,943
Total assets	71,229,253	41,800,011	33,783,055	26,789,655	14,007,294	187,609,268
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,808,438	-	277,490	-	-	4,085,928
Customer deposits	136,789,356	3,264,159	5,601,408	215,574	-	145,870,497
Debt securities in issue	-	2,264,678	1,500,000	1,500,000	-	5,264,678
Borrowings	-	31,250	46,875	-	-	78,125
Other liabilities	114,655	156,848	550,524	154,387	5,262,414	6,238,828
Shareholders' equity	-	-	-	-	26,071,212	26,071,212
Total liabilities and shareholders' equity	140,712,449	5,716,935	7,976,297	1,869,961	31,333,626	187,609,268
	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No fixed maturity</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
2013						
Assets						
Cash and balances with SAMA	18,396,789	-	-	-	7,727,124	26,123,913
Due from banks and other financial institutions	3,286,053	-	-	-	-	3,286,053
Investments, net	8,336,840	17,674,340	7,059,263	3,296,070	1,033,046	37,399,559
Loans and advances, net	48,986,520	15,004,069	23,492,251	18,632,090	-	106,114,930
Investment in a joint venture and associate	-	-	-	-	647,057	647,057
Property and equipment, net	-	-	-	-	603,656	603,656
Other assets	88,696	40,994	717,504	104,120	2,175,718	3,127,032
Total assets	79,094,898	32,719,403	31,269,018	22,032,280	12,186,601	177,302,200
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,502,653	-	266,987	-	-	3,769,640
Customer deposits	130,990,943	6,407,013	1,433,767	129,747	-	138,961,470
Debt securities in issue	-	-	3,782,873	1,500,000	-	5,282,873
Borrowings	-	31,250	78,125	-	-	109,375
Other liabilities	59,849	46,524	590,876	51,014	5,597,780	6,346,043
Shareholders' equity	-	-	-	-	22,832,799	22,832,799
Total liabilities and shareholders' equity	134,553,445	6,484,787	6,152,628	1,680,761	28,430,579	177,302,200

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.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**33. Offsetting of financial assets and financial liabilities**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

	<i>Gross amount of recognised financial assets</i>	<i>Gross amount offset in the statement of financial position</i>	<i>Amount presented in the statement of financial position</i>	Amount not set off in the statement of financial position		
				<i>Financial instruments</i>	<i>Cash collateral received</i>	<i>Net amount</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
At 31 December 2014						
Due from banks and other financial institutions	11,609,473	(9,140,602)	2,468,871	-	-	2,468,871
Derivatives	1,024,886	-	1,024,886	-	-	1,024,886
At 31 December 2013						
Due from banks and other financial institutions	9,200,858	(5,914,805)	3,286,053	-	-	3,286,053
Derivatives	951,314	-	951,314	-	-	951,314

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

	<i>Gross amount of recognised financial liabilities</i>	<i>Gross amount offset in the statement of financial position</i>	<i>Amount presented in the statement of financial position</i>	Amount not set off in the statement of financial position		
				<i>Financial instruments</i>	<i>Cash collateral pledged</i>	<i>Net amount</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
At 31 December 2014						
Derivatives	976,414	-	976,414	-	(561,225)	415,189
Sale and repurchase arrangements	12,747	-	12,747	(12,747)	-	-
At 31 December 2013						
Derivatives	748,263	-	748,263	-	(120,038)	628,225
Sale and repurchase arrangements	189,060	-	189,060	(189,060)	-	-

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

34. Fair values of financial instruments

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

The fair values of recognised financial instruments are not materially different from their carrying values, except for loans and advances and customer deposits. It is not practicable to determine the fair value of loans and advances, customer deposits with sufficient reliability except as disclosed below.

Determination of fair value and fair value hierarchy

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

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

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

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

2014				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Financial assets				
Derivative financial instruments	-	1,024,886	-	1,024,886
Financial assets held as FVIS	-	-	-	-
Financial investments available for sale	9,594,387	35,528,819	49,262	45,172,468
Investments held at amortised cost	-	100,169	-	100,169
Loans and advances – Fair value hedged	-	163,762	-	163,762
Total	<u>9,594,387</u>	<u>36,817,636</u>	<u>49,262</u>	<u>46,461,285</u>
Financial Liabilities				
Derivative financial instruments	-	976,414	-	976,414
Debt securities in issue – Fair value hedged	2,264,678	-	-	2,264,678
Total	<u>2,264,678</u>	<u>976,414</u>	<u>-</u>	<u>3,241,092</u>
2013				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Financial assets				
Derivative financial instruments	-	951,314	-	951,314
Financial assets held as FVIS	1,007	-	-	1,007
Financial investments available for sale	8,626,815	28,383,707	79,648	37,090,170
Investments held at amortised cost	-	304,996	-	304,996
Loans and advances – Fair value hedged	-	568,083	-	568,083
Total	<u>8,627,822</u>	<u>30,208,100</u>	<u>79,648</u>	<u>38,915,570</u>
Financial Liabilities				
Derivative financial instruments	-	748,263	-	748,263
Debt securities in issue – Fair value hedged	2,282,873	-	-	2,282,873
Total	<u>2,282,873</u>	<u>748,263</u>	<u>-</u>	<u>3,031,136</u>

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**34. Fair values of financial instruments** (continued)**Determination of fair value and fair value hierarchy** (continued)

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

Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads. The total fair value of investments reclassified from Level 1 to Level 2 was SAR Nil (2013 : 1,440.4) during the year. This reclassification was made due to the non-availability of active market quotes for the underlying investments during the year.

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

The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is positive SAR 39.2 million (2013 : SAR 70.7 million).

35. Related party transactions

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

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

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

	2014	2013
	SAR'000	SAR'000
The HSBC Group:		
Due from banks and other financial institutions	1,874,520	2,286,715
Investments	948,429	862,442
Other assets	-	2,812
Derivatives (at fair value)	(236,724)	(140,917)
Due to banks and other financial institutions	2,185,523	1,816,640
Other liabilities	28,118	-
Commitments and contingencies	2,047,214	2,472,937

The above investments include investments in a joint venture and associate, amounting to SAR 651.7 million (2013 : SAR 647.1 million).

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

	2014	2013
	SAR'000	SAR'000
Loans and advances	3,087,237	2,575,341
Customers' deposits	10,240,067	8,847,055
Derivatives (at fair value)	20,329	11,301
Commitments and contingencies	85,736	39,729

35. Related party transactions (continued)

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

	2014	2013
	<u>SAR'000</u>	<u>SAR'000</u>
Bank's mutual funds:		
Loans and advances	1,247	-
Customers' deposits	1,040,795	851,458

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

	2014	2013
	<u>SAR'000</u>	<u>SAR'000</u>
Special commission income	92,749	88,731
Special commission expense	(293,653)	(168,066)
Fees and commission income	106,056	61,597
Services charges paid to HSBC group	41,366	37,899
Profit share arrangement relating to investment banking activities	(4,679)	(2,906)
Share in earnings of a joint venture and an associate	109,453	123,170
Directors' remuneration	3,334	2,993

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

	2014	2013
	<u>SAR'000</u>	<u>SAR'000</u>
Short-term employee benefits (salaries and allowances)	31,373	41,053
Employment termination benefits	6,592	417

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 2014. The detail of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

Notes to the Consolidated Financial Statements (31 December 2014) (continued)**36. 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.

	2014	2013
	SAR'000	SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	151,267,712	139,218,183
Operational Risk RWA	11,688,587	10,668,249
Market Risk RWA	3,841,275	1,600,088
Total RWA	166,797,574	151,486,520
Tier I Capital	26,071,212	22,832,799
Tier II Capital	3,128,106	3,402,426
Total I & II Capital	29,199,318	26,235,225
Capital Adequacy Ratio %		
Tier I ratio	15.63%	15.07%
Tier I + Tier II ratio	17.51%	17.32%

37. Disclosures under Basel III framework

Certain additional disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website www.sabb.com within prescribed time as required by SAMA.

38. Prospective changes in accounting standards

The Bank has opted not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance for the Bank's accounting year beginning after January 1, 2015.

IFRS 9 - Financial Instruments

Classification and Measurement of Financial Assets & Financial Liabilities.

IFRS 2 Share-based Payment

This improvement clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. Effective for annual periods beginning on or after 1 July 2014.

IFRS 3 Business Combinations

The amendment clarifies the scope exceptions within IFRS 3 and that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). Effective for annual periods beginning on or after 1 July 2014.

IFRS 8 Operating Segments

The amendments clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8 and the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. Effective for annual periods beginning on or after 1 July 2014.

38. Prospective changes in accounting standards *(continued)*

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures and an entity that uses a management entity is required to disclose the expenses incurred for management services. Effective for annual periods beginning on or after 1 July 2014.

IFRS 13 Fair Value Measurement

The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). Effective for annual periods beginning on or after 1 July 2014.

IFRS 15 Revenue from Contracts with Customers

New revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Effective for annual periods beginning on or after 1 January 2017.

Amendments to IFRS 11 Joint Arrangements

Accounting for Acquisitions of Interests- Effective for annual periods beginning on or after 1 January 2016,

Amendments to IAS 16 and IAS 38

Clarification of Acceptable Methods of Depreciation and Amortization - Effective prospectively for annual periods beginning on or after 1 January 2016. Moreover, there is an amendment which clarifies that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. Effective for annual periods beginning on or after 1 July 2014.

Amendments to IAS 27

Equity Method in Separate Financial Statements- The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Effective for annual periods beginning on or after 1 January 2016.

Annual Improvements to IFRSs 2012–2014 Cycle include:

- IFRS 5 Non Current Assets Held for sale and Discontinued Operations – change in method for disposal
- IFRS 7 Financial Instruments: Disclosure
- Continuing involvement for servicing contracts
- Offsetting disclosure in condensed interim financial statements
- IAS 19 Employee Benefits
- Discount rate in a regional market sharing the same currency – e.g. the Eurozone
- IAS 34 Interim Financial Reporting
- Disclosure of information ‘elsewhere in the interim financial report’

39. Comparative figures

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

40. Board of Directors’ approval

The consolidated financial statements were approved by the Board of Directors on 26 Rabi Thani 1436H (Corresponding 15 February 2015).

**The Saudi British Bank
Basel - Pillar 3
Annual Disclosures
31 December 2014**

Basel – Pillar 3 Annual Disclosures (31 December 2014)

Cautionary statement regarding forward looking statements

These Capital and Risk Management Pillar 3 Disclosures as at 31 December 2014 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 in Note 1 of the Annual Report and Accounts 2014.

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 has 100% (2013:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jumada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2013:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2013:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB has 100% ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary main purpose is the registration of real estates.

1. Scope of Application (continued)

b) Basis of consolidation (continued)

Significant Minority Investments:

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

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 generally risk weighted at 100%.

Under Basel III, significant minority investments in commercial entities and financial institutions below a defined Basel threshold which under Basel II were deducted 50% from Tier 1 and 50% from Tier 2 will receive the risk weight 1250% and 250% respectively.

c) Capital transferability between legal entities

Restrictions by Memorandum and Articles of Association

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

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

Statutory restriction

SABB is required to transfer at least 25% of its net profit to statutory reserves before declaration of 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 III 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 1,000 million shares of SAR 10 each (2013 : 1,000 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2014	2013
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.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**2. Capital Structure** (continued)

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.	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 required by SABB businesses 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.

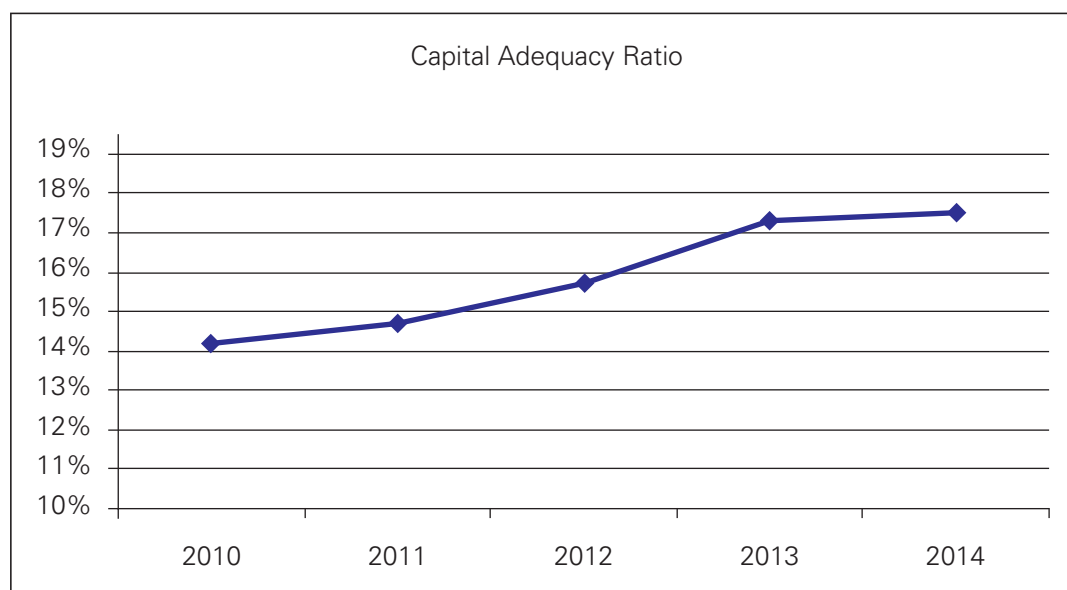
3. Capital Adequacy

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

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

The ability to intervene at an early stage to prevent capital from falling below the minimum levels as required according to its risk profile.

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



2010-2012: Capital Adequacy Ratio's are on Basel II basis

2013-2014: Capital Adequacy Ratio's are on Basel III basis

3. 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 strong culture of prudent and responsible lending is a cornerstone of SABB's risk management philosophy. This is attained through effective control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns.

Credit manuals provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. These policy manuals are reviewed annually by the Risk Management function and approved by the Chief Risk Officer with material policy changes approved through the Risk Management Committee (RMC). In line with SAMA Rules on Credit Risk Management, the main Credit Policy manual has been reviewed and approved by the Board Risk Committee (BRC) in 2014.

Credit risk assessment is undertaken by the credit approval function which reports directly to the Managing Director through the CRO; hence ensuring that they have an appropriate degree of independence. The teams are responsible for credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.

The approval process is reviewed annually by the Board Risk Committee with limit delegations named down from the Board. Within SABB, emphasis is placed on the individual's responsibility for making credit decisions and as such there is a series of delegated approval limits agreed by Board.

A key element in the Bank's credit culture is the proactive management of the portfolio through:

- The regular review of facilities by lending and credit officers, at least annually
- The operation of an independent special asset management function to handle non performing and problem exposures
- The central monitoring of credit concentration in certain countries, specialized industries/sectors, products, customers and customer groups with monthly reports to the RMC, Asset and Liability Management Committee (ALCO) and quarterly to BRC
- The continual development of improved techniques for measuring and evaluating risk, and for optimizing risk-adjusted return on capital
- The development and adoption of automated application processing and assessment systems, to enable consistency of decisions and an efficient framework for application processing
- A structured framework of credit training and accreditation to build risk awareness and credit assessment capabilities

Personal lending decisions are based on credit scoring models and decision strategies, developed using internal data and credit bureau information from SIMAH; with behavioural scoring applied to support credit card processing, authorisation, collections and limit review decisions.

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

SABB operates dedicated special assets and recoveries teams to manage companies in financial distress and non-performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from Legal. For personal banking there is a dedicated collections function undertaking debt counselling and recovery activities at each stage of delinquency including the use of external and overseas recovery agencies.

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 – Pillar 3 Annual Disclosures (31 December 2014) (continued)**3. Risk Exposure and Assessment** (continued)**General Qualitative Disclosure Requirements** (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.

Whilst SABB does hold a nominal position in private equity investments it does not hold any direct equity investments. Further information on equities risk is provided in the table 13 commentary below.

Interest Rate Risk

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

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

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 risk arises are those other than the designated reporting currency of the SABB, which is the Saudi Riyal (SAR)

3. Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(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.

SABB continues to monitor liquidity risk based on projected cashflow scenarios referred to as the Operational Cashflow Projection (OCP). Its objective is to better reflect the likely behaviour of different customers and manage liquidity during crisis events or loss in confidence in SABB, resulting in deposit withdrawals by customers. The OCP policy aims to diversify SABB's liability base, and reduce concentration levels to any single customer.

The framework is compliant with BIS guidelines 'Principles for Sound Liquidity Risk Management and Supervision' issued in September 2008 and the 'International Framework for Liquidity Risk, Measurement, Standards and Monitoring' issued in December 2010 and subsequent revisions and updates issued as part of the Basel III framework.

As a general policy, SABB seeks to be self-sufficient with regards to funding its own operations from 'core' deposits. 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 cashflow stress testing as part of its control processes to assess liquidity risk. The cashflow 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 has established Risk Appetite Statements covering liquidity risk that are approved by the Board Risk Committee annually, and reviewed monthly through ALCO and RMC with quarterly reports provided to the BRC.

SABB manages and reports balance sheet liquidity against internal and regulatory ratios as follows:

- **Operational Cashflow Projection** – The OCP is a cashflow based model for management of liquidity risks, taking into account the Bank's total cash inflow (assets) and total cash outflow (liabilities) under stress scenario. The objective is to increase the core funds and decrease non-core-funds
- **SABB Internal Asset to Deposit Ratio (ADR)** – Monitors the extent to which customer advances are covered by core deposits
- **Asset to Deposit Ratio (ADR)** – Monitors the extent to which customer advances are covered by customer deposits
- **SAMA Liquid Reserve Requirement** – Minimum 20% of deposit liabilities to be held in liquid assets maturing in less than 1 month, treasury bills and government bonds in accordance with Article 7 of the Banking Control Law
- **Liquidity Coverage Ratio (LCR)** – Minimum requirement of 100% requiring SABB to hold enough liquid assets which can, if needed, be converted easily into cash in private markets to survive a 30 day stress scenario
- **Net Stable Funding Ratio (NSFR)** – Minimum requirement of 100% requiring SABB to hold a minimum amount of stable funding relative to the liquidity profiles of asset activities over one year horizon

SABB assesses and manages liquidity risk through clearly defined liquidity policies which form part of a boarder Liquidity and Funding framework and funding plan which is reviewed and approved by ALCO and BRC. 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.

The Finance 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.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**3. Risk Exposure and Assessment** (continued)**General Qualitative Disclosure Requirements** (continued)**Liquidity Risk** (continued)

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.

The maturity profile of the Bank's assets and liabilities is monitored to ensure that sufficient liquidity is maintained at all times. The table below shows the analysis of assets and liabilities maturity as at 31 December 2014 as per annual financial statement:

ASSETS & LIABILITIES MATURITY PROFILE (SAR '000)	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	Total
ASSETS						
Cash and balances with SAMA	10,636,920	-	-	-	8,676,846	19,313,766
Due from banks and other financial institutions	2,375,121	93,750	-	-	-	2,468,871
Investments, net	8,772,598	22,776,704	7,673,573	5,027,625	1,030,316	45,280,816
Loans and advances, net	49,335,300	18,753,568	25,542,294	21,589,635	-	115,220,797
Investment in associates	-	-	-	-	651,674	651,674
Property and equipment, net	-	-	-	-	663,401	663,401
Other assets	-	-	-	-	4,009,943	4,009,943
Total assets	71,119,939	41,624,022	33,215,867	26,617,260	15,032,180	187,609,268
LIABILITIES						
Due to banks and other financial institutions	3,808,438	-	277,490	-	-	4,085,928
Customers' deposits	136,789,356	3,264,159	5,601,408	215,574	-	145,870,497
Debt securities in issue	-	2,264,678	1,500,000	1,500,000	-	5,264,678
Borrowings	-	31,250	46,875	-	-	78,125
Other liabilities	-	-	-	-	6,238,828	6,238,828
Shareholders' equity	-	-	-	-	26,071,212	26,071,212
Total liabilities & shareholders' equity	140,597,794	5,560,087	7,425,773	1,715,574	32,310,040	187,609,268
GAP	(69,477,855)	36,063,935	25,790,094	24,901,686	(17,277,860)	-

SABB also accesses global debt markets in order to source longer term funding for its balance sheet.

SABB would meet unexpected net cash outflows by selling securities and accessing additional funding sources through inter-bank markets.

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 RMC.

3. Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

Reputational Risk

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

A focus on Community Service programs resulted in SABB being awarded the "Best Commercial Establishment in Community Service in KSA" by the Ministers of Social Affairs of the GCC Council.

The reputation of SABB is critical to its success. Any financial services organisation stands or falls by its reputation and the confidence it can engender in its customers. The maintenance of customer confidence is a prime objective of management and can be achieved through a strong and healthy financial position and by exhibiting successful risk management, but can be severely damaged by non-compliance with relevant regulations or by inappropriate actions or comments to the media or in the public domain.

SABB Board decided in 2013 to adopt the highest International Standards in every aspect of our business in order to enhance our brand, protect our reputation and achieve competitive advantage. The programme has been branded as the 'SABB International Standards' (SIS) and is designed to complement SABB's core values.

The SABB International Standards focus on three core themes:

1. Treating Customers Fairly
2. Protecting Customer Information
3. Comply with Laws and Regulations

SABB has initiated four programmes to address the International Standards:

- Customer Due Diligence (CDD)
- Payment LifeCycle Review Programme (PLC)
- Including Transaction and Non-Transaction Monitoring
- Information Protection Programme (IPP)
- Treating Customers Fairly Programme (TCF)

These standards are intended to ensure that SABB is upholding the highest International Standards, which in conjunction with its Values will act not only to protect SABB's reputation in the local market but also build a clear comparative advantage when compared to its competitors.

Macro Economic and Business Cycle Risk

Macroeconomic risk or business cycle risk is the non-diversifiable impact of the domestic and global economic cycles on SABB's businesses. Macroeconomic risk can arise from changes in the regulatory environment, technological advances, or shocks to the economy such as deflation, recession or changes to government spending plans.

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

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**3. Risk Exposure and Assessment** (continued)**General Qualitative Disclosure Requirements** (continued)**Macro Economic and Business Cycle Risk** (continued)

As an intrinsic part of the process, the management monitors local key macroeconomic indicators, with quarterly reporting to RMC. These indicators include:

- Price of oil per barrel in the world market
- Any significant reduction in public finances expenditure
- TASI Index
- 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

The BRC also reviews regional indicators, such as the HSBC Group Purchasing Managers Index (PMI) which acts as an indicator of changes in market sentiment. Business Heads use the macroeconomic data as part of their business forecasting and to assess risk impacts. Similarly a review is undertaken on the annual Government expenditure budget to identify strategic policy shifts for SABB and its risk appetite framework.

Strategic Risk

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

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

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

Compliance Risk

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

Compliance is a specialised activity with a great degree of complexity managing the risks of financial crime and regulatory compliance capturing Sanctions, Money Laundering, Fraud, Anti-Bribery and Corruption and alike. There have been significant investments in people and compliance infrastructure over the last three years. In view of the growing focus on financial crime activity in the industry in general, during 2Q14 the compliance function was re-organised to establish two streams of Financial Crime Compliance and Regulatory Compliance. Several additional resources were added to the team in order to better monitor the transactions and customer activity. The function has also added roles to manage the risk of Bribery and Corruption.

SABB ensures full compliance with all directives issued by SAMA, the CMA and other such regulatory bodies in addition to local legal requirements. SABB also seeks to align with broader HSBC best practices to manage, monitor and control compliance risks in respect of international sanctions.

3. Risk Exposure and Assessment *(continued)*

General Qualitative Disclosure Requirements *(continued)*

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 RMC
- 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. Issues are addressed in a proactive manner with respect to risk assessment and management to ensure continued compliance with local regulatory requirements. Economic and regulatory capital issues, if any, are promptly addressed through the relevant policies and procedures.

4. Credit Risk: General Disclosures for All Banks

Past due loans:

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

Impaired loan:

Individual Impairment Provisions:

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

Collective Impairment Provisions:

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

Credit Risk:

Standardised Approach

Overall, SABB currently calculates its models and assessments based on the Basel 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.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**4. Credit Risk: General Disclosures for All Banks** (continued)**Credit Risk:** (continued)**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 for credit risk.

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

For retail portfolios SABB uses a wide range of application and behavioural models and has completed a risk segmentation process as well as having developed a full range of Basel IRB-A compliant scorecards to calculate expected and unexpected losses for each retail portfolio. SABB is currently in the process of embedding these models into its capital generation system.

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:

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

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

Claims on sovereigns and their central banks:

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

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

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
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

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
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	Up to 20%
100	20% to 50%
100	50% and above

Other assets

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

When calculating the risk weighted value of any exposure under the standardized approach, look up function is applied to the central data base maintained in Excel and assigns to each individual exposures.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**6. Credit Risk: Disclosures for Portfolios Subject to IRB Approaches**

Not Applicable

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

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

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

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

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

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

The granting of facilities and taking of collateral as risk mitigants is governed by defined policies and procedures, as well as the use of bank standard documentation that cater for the offset of credit balances against facilities granted, the control over the integrity and valuation of collateral, and the rights required to enforce and 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.

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

The operational risk governance framework is made up of a series of operational risk meetings and processes as detailed in Appendix 9a. An operational risk assessment process is undertaken periodically and at least annually by each line of business and support functions with the output challenged through the Operational Risk and Internal Control Committee (ORICC).

The operational risk taxonomy was expanded from the previous 4 major risk categories (people, process, systems, external) to a more granular 16 key Level 1 risk categories which include major areas that are currently a focus of regulatory/national bodies (Please see Appendix 9a for more details):

- | | | | |
|---------------|------------------|-----------------------|-------------|
| - People | - Compliance | - Business continuity | - Tax |
| - Systems | - Legal | - Accounting | - Shariah |
| - Operations | - Internal fraud | - Physical | - Political |
| - Information | - External fraud | - Fiduciary | - Project |

A Bank level Operational Risk dashboard is used by Senior Management to highlight the major risks and breaches; loss trends reports are reviewed monthly by ORIC Committees and RMC with a quarterly update provided to the BRC.

Systems established to record risks and losses by Basel business lines, risk and loss event categories enable business units to manage their action plans and request for management information reports. Duties are segregated to ensure integrity of loss and risk data in the system. Data is captured and approved in the system by the business. The central Operational Risk department coordinates the recording process, reconciles to ensure only operational losses are captured and the data meets both SABB and regulatory guidelines in addition to ensuring the quality of the input data.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**12. Operational Risk** *(continued)*

During 2014, SABB continued the consolidation/strengthening of its Operational Risk Management and Governance processes:

- The Risk Governance Framework was reviewed by the Board Risk Committee
- Effectiveness reviews were undertaken by the Board Risk Committee with business heads and risk owners to provide an assurance on the effectiveness of internal controls within their business or across their risk area
- Continued focus to implement the Board approved SABB International Standards programme covering adherence to laws and regulations, Treating Customers Fairly, and Protecting Customer Information
- SABB continued implementation of the “Three Lines of Defence”, and its alignment to the operational risk management framework, reemphasized the accountability and ownership of internal control within the business segments
- Risk and Control Assessment (RCA) is a component of the Operational Risk and Internal Control (ORIC) Management Framework implemented across SABB. The RCA process is designed to provide business/function with a forward looking view of operational risk to help them proactively determine whether their key operational risks are controlled within acceptable levels
- The formalisation of Second Line of Defence Reviews and establishment of an assurance programme and tracking framework within ORIC to ensure implementation on ongoing compliance
- The ongoing implementation of findings from the independent review of the Internal Control Guidelines undertaken by external consultants (Pricewaterhouse Coopers – PWC) with progress updates submitted monthly to RMC and quarterly to the BRC

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 BRC. 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.

1. Table – Scope of Application

Capital Deficiencies (Table 1, (e))

Particulars	<i>Amount</i> <u>SAR'000</u>
The aggregate amount of capital deficiencies in subsidiaries not included in the consolidation i.e that are deducted	
1. Subsidiary 1	-
2. Subsidiary 2	-
3. Subsidiary 3	-

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**2. Table – Capital Structure****Balance sheet – Step 1 (Table 2 (b))**

	<i>Balance sheet in Published financial statements (C)</i>	<i>Adjustment of banking associates/ other entities (*) (D)</i>	<i>Under regulatory scope of consolidation (E)</i>
	SAR'000	SAR'000	SAR'000
Assets			
Cash and balances at central banks	19,313,766		19,313,766
Due from banks and other financial institutions	2,468,871		2,468,871
Investments, net	30,036,708		30,036,708
Loans and advances, net	115,220,797		115,220,797
Debt securities	14,213,792		14,213,792
Trading assets	0		0
Equity shares	1,030,316		1,030,316
Investment in associates	651,674		651,674
Derivatives	1,024,886		1,024,886
Goodwill	0		0
Other intangible assets	0		0
Property and equipment, net	663,401		663,401
Other assets	2,985,057		2,985,057
Total assets	187,609,268	0	187,609,268
Liabilities			
Due to Banks and other financial institutions	4,085,928		4,085,928
Items in the course of collection due to other banks	0		0
Customer deposits	145,870,497		145,870,497
Trading liabilities	0		0
Debt securities in issue	5,264,678		5,264,678
Derivatives	976,414		976,414
Retirement benefit liabilities	348,116		348,116
Taxation liabilities	0		0
Accruals and deferred income	862,445		862,445
Borrowings	78,125		78,125
Other liabilities	4,051,854		4,051,854
Subtotal	161,538,056	0	161,538,056
Paid up share capital	10,000,000		10,000,000
Statutory reserves	9,001,019		9,001,019
Other reserves	61,614		61,614
Retained earnings	5,858,579		5,858,579
Minority Interest	0		0
Proposed dividends	1,150,000		1,150,000
Total liabilities and equity	187,609,268	0	187,609,268

*For further details on column D please refer to step 1 on page 16 of the guidance notes.

Additional information:

List of entities (including disclosure of such entities balance sheet, balance sheet activity and principal activities).

2. Table – Capital Structure (continued)

Balance sheet – Step 2 (Table 2 (c))

	<i>Balance sheet in Published financial statements (C)</i>	<i>Adjustment of banking associates/ other entities (D)</i>	<i>Under regulatory scope of consolidation (E)</i>	<i>Reference</i>
	SAR'000	SAR'000	SAR'000	
Assets				
Cash and balances at central banks	19,313,766		19,313,766	
Due from banks and other financial institutions	2,468,871		2,468,871	
Investments, net	30,008,401		30,008,401	
Loans and advances, net	115,220,797		115,220,797	
of which Collective provisions	1,148,106		1,148,106	A
Debt securities	14,241,600		14,241,600	
Trading assets	0		0	
Equity shares	1,030,815		1,030,815	
Investment in associates	651,674		651,674	
Derivatives	1,024,886		1,024,886	
Goodwill	0		0	
Other intangible assets	0		0	
Property and equipment, net	663,401		663,401	
Other assets	2,985,057		2,985,057	
Total assets	187,609,268	0	187,609,268	
Liabilities				
Due to Banks and other financial institutions	4,085,928		4,085,928	
Items in the course of collection due to other banks	0		0	
Customer deposits	145,870,497		145,870,497	
Trading liabilities	0		0	
Debt securities in issue	5,264,678		5,264,678	
of which Tier 2 capital instruments	3,000,000		3,000,000	B
Derivatives	976,414		976,414	
Retirement benefit liabilities	348,116		348,116	
Taxation liabilities	0		0	
Accruals and deferred income	862,445		862,445	
Borrowings	78,125		78,125	
Other liabilities	4,051,854		4,051,854	
Subtotal	161,538,056	0	161,538,056	
Paid up share capital	10,000,000		10,000,000	
of which amount eligible for CET1	10,000,000		10,000,000	C
of which amount eligible for AT1	0		0	
Statutory reserves	9,001,019		9,001,019	D
Other reserves	61,614		61,614	E
Retained earnings	5,858,579		5,858,579	F
Minority Interest	0		0	
Proposed dividends	1,150,000		1,150,000	G
Total liabilities and equity	187,609,268	0	187,609,268	

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**2. Table – Capital Structure** (continued)**Common template (transition) – Step 3 (Table 2 (d)) I**

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment

	<i>Components¹ of regulatory capital reported by the Bank</i>	<i>Amounts¹ subject to Pre-Basel III treatment</i>	<i>Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2</i>
	<u>SAR'000</u>	<u>SAR'000</u>	
Common Equity Tier 1 capital: Instruments and reserves			
1. Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	10,000,000		C
2. Retained earnings	7,008,579		F + G
3. Accumulated other comprehensive income (and other reserves)	9,062,633		D + E
4. Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
5. Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6. Common Equity Tier 1 capital before regulatory adjustments	<u>26,071,212</u>		
Common Equity Tier 1 capital: Regulatory adjustments			
7. Prudential valuation adjustments			
8. Goodwill (net of related tax liability)			
9. Other intangibles other than mortgage-servicing rights (net of related tax liability)			
10. Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
11. Cash-flow hedge reserve			
12. Shortfall of provisions to expected losses			
13. Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)			
14. Gains and losses due to changes in own credit risk on fair valued liabilities			
15. Defined-benefit pension fund net assets			
16. Investments in own shares (if not already netted off paid-in capital on reported balance sheet)			
17. Reciprocal cross-holdings in common equity			
18. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
19. Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)			
20. Mortgage servicing rights (amount above 10% threshold)			
21. Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
22. Amount exceeding the 15% threshold			
23. of which: significant investments in the common stock of financials			
24. of which: mortgage servicing rights			
25. of which: deferred tax assets arising from temporary differences			
26. National specific regulatory adjustments			
Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment			
of which: [insert name of adjustment]			
of which: ...			

2. Table – Capital Structure (continued)

Common template (transition) – Step 3 (Table 2 (d)) I (continued)

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment (continued)

	<i>Components¹ of regulatory capital reported by the Bank</i>	<i>Amounts¹ subject to Pre-Basel III treatment</i>	<i>Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2</i>
	<u>SAR'000</u>	<u>SAR'000</u>	
27. Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions			
28. Total regulatory adjustments to Common equity Tier 1			
29. Common Equity Tier 1 capital (CET1)	26,071,212		
Additional Tier 1 capital: instruments			
30. Directly issued qualifying Additional Tier 1 instruments plus related stock surplus			
31. of which: classified as equity under applicable accounting standards			
32. of which: classified as liabilities under applicable accounting standards			
33. Directly issued capital instruments subject to phase out from Additional Tier 1			
34. Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)			
35. of which: instruments issued by subsidiaries subject to phase out			
36. Additional Tier 1 capital before regulatory adjustments			
Additional Tier 1 capital: regulatory adjustments			
37. Investments in own Additional Tier 1 instruments			
38. Reciprocal cross-holdings in Additional Tier 1 instruments			
39. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40. Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		(328,675)	
41. National specific regulatory adjustments			
Regulatory adjustments applied to additional Tier 1 in respect of amounts subject to Pre-Basel III Treatment			
of which: [insert name of adjustment]			
of which: ...			
42. Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43. Total regulatory adjustments to Additional Tier 1 capital			
44. Additional Tier 1 capital (AT1)			
45. Tier 1 capital (T1 = CET1 + AT1)	26,071,212		

¹ For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.

² All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches

Note: Items which are not applicable are to be left blank.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**2. Table – Capital Structure** (continued)**Common template (transition) – Step 3 (Table 2 (d)) II**

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment

	<i>Components¹ of regulatory capital reported by the Bank</i>	<i>Amounts¹ subject to Pre-Basel III treatment</i>	<i>Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2</i>
	SAR'000	SAR'000	
Tier 2 capital: instruments and provisions			
46. Directly issued qualifying Tier 2 instruments plus related stock surplus	1,500,000		B
47. Directly issued capital instruments subject to phase out from Tier 2	480,000		B
48. Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)			
49. of which: instruments issued by subsidiaries subject to phase out			
50. Provisions	1,148,106		A
51. Tier 2 capital before regulatory adjustments			
Tier 2 capital: regulatory adjustments	3,128,106		
52. Investments in own Tier 2 instruments			
53. Reciprocal cross-holdings in Tier 2 instruments			
54. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
55. Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		(328,675)	
56. National specific regulatory adjustments			
Regulatory adjustments applied to Tier 2 in respect of amounts subject to Pre-Basel III Treatment			
of which: [insert name of adjustment]			
of which: ...			
57. Total regulatory adjustments to Tier 2 capital			
58. Tier 2 capital (T2)	3,128,106		
59. Total capital (TC = T1 + T2)	29,199,318		
Risk weighted assets in respect of amounts subject to Pre-Basel III Treatment			
of which: [insert name of adjustment]			
of which: ...			
60. Total risk weighted assets	<u>166,797,574</u>		
Capital ratios			
61. Common Equity Tier 1 (as a percentage of risk weighted assets)	15.63%		
62. Tier 1 (as a percentage of risk weighted assets)	15.63%		
63. Total capital (as a percentage of risk weighted assets)	17.51%		
64. Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)			
65. of which: capital conservation buffer requirement			
66. of which: bank specific countercyclical buffer requirement			
67. of which: G-SIB buffer requirement			
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)			

2. Table – Capital Structure (continued)

Common template (transition) – Step 3 (Table 2 (d)) II (continued)

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre-Basel III Treatment (continued)

	<i>Components¹ of regulatory capital reported by the Bank</i>	<i>Amounts¹ subject to Pre-Basel III treatment</i>	<i>Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2</i>
	<u>SAR'000</u>	<u>SAR'000</u>	
National minima (if different from Basel 3)			
69. National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	N/A		
70. National Tier 1 minimum ratio (if different from Basel 3 minimum)	N/A		
71. National total capital minimum ratio (if different from Basel 3 minimum)	N/A		
Amounts below the thresholds for deduction (before risk weighting)			
72. Non-significant investments in the capital of other financials			
73. Significant investments in the common stock of financials			
74. Mortgage servicing rights (net of related tax liability)			
75. Deferred tax assets arising from temporary differences (net of related tax liability)			
Applicable caps on the inclusion of provisions in Tier 2			
76. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,148,106		
77. Cap on inclusion of provisions in Tier 2 under standardised approach	1,890,846		
78. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79. Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80. Current cap on CET1 instruments subject to phase out arrangements			
81. Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82. Current cap on AT1 instruments subject to phase out arrangements			
83. Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84. Current cap on T2 instruments subject to phase out arrangements			
85. Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

¹ For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.

² All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches.

Note: Items which are not applicable are to be left blank.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**2. Table – Capital Structure** (continued)**Main features template of regulatory capital instruments – (Table 2 (e))**

1. Issuer	Saudi British Bank (SABB)
2. Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	ISIN No. SA131VK0GJ37
3. Governing law(s) of the instrument	The instrument is governed by the laws of the Kingdom of Saudi Arabia
Regulatory treatment	
4. Transitional Basel III rules	Tier 2
5. Post-transitional Basel III rules	Ineligible
6. Eligible at solo/igroup/group&solo	Solo
7. Instrument type	Subordinated Sukuk
8. Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	SAR 480mil
9. Par value of instrument	SAR 1,500mil
10. Accounting classification	Liability – amortised cost
11. Original date of issuance	28th March 2012
12. Perpetual or dated	Dated
13. Original maturity date	28th March 2017
14. Issuer call subject to prior supervisory approval	Yes
15. Option call date, contingent call dates and redemption amount	Call option only available for a regulatory or tax event. SABB will be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than (60) days' notice to the sukukholders
16. Subsequent call dates if applicable	As above
Coupons/dividends	
17. Fixed or Floating dividend/coupon	Floating
18. Coupon rate and any related index	3 month SIBOR + 120bps
19. Existence of a dividend stopper	No
20. Fully discretionary, partially discretionary or mandatory	Mandatory
21. Existence of step up or other incentive to redeem	No
22. Non cumulative or cumulative	Non cumulative
23. Convertible or non-convertible	Non - convertible
24. If convertible, conversion trigger (s)	N/A
25. If convertible, fully or partially	N/A
26. If convertible, conversion rate	N/A
27. If convertible, mandatory or optional conversion	N/A
28. If convertible, specify instrument type convertible into	N/A
29. If convertible, specify issuer of instrument it converts into	N/A
30. Write-down feature	No
31. If write-down, write-down trigger (s)	N/A
32. If write-down, full or partial	N/A
33. If write-down, permanent or temporary	N/A
34. If temporary writedown, description of the write-up mechanism	N/A
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated. Senior bondholders are immediately senior to this instrument
36. Non-compliant transitioned features	Yes
37. If yes, specify non-compliant features	No writedown or non convertible feature

Note: Further explanation of rows (1-37) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements" issued by the BCBS in June 2012.

2. Table – Capital Structure (continued)

Main features template of regulatory capital instruments – (Table 2 (e))

1. Issuer	Saudi British Bank (SABB)
2. Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	ISIN No.SA13EFK0GJJ0
3. Governing law(s) of the instrument	The instrument is governed by the laws of the Kingdom of Saudi Arabia
Regulatory treatment	
4. Transitional Basel III rules	Tier 2
5. Post-transitional Basel III rules	Eligible
6. Eligible at solo/lgroup/group&solo	Solo
7. Instrument type	Subordinated Sukuk
8. Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	SAR 1,500m
9. Par value of instrument	SAR 1,500m
10. Accounting classification	Liability - amortised cost
11. Original date of issuance	17 December 2013
12. Perpetual or dated	Dated
13. Original maturity date	17 December 2020
14. Issuer call subject to prior supervisory approval	Yes
15. Option call date, contingent call dates and redemption amount	Call option only available after 5 years or for a regulatory or tax event, 17th December 2018 as the date for redemption, SABB shall be entitled to redeem in whole, but not in part, by giving not less than thirty (30) days' not more than sixty (60) days' notice to the Sukukholders
16. Subsequent call dates if applicable	As above
Coupons/dividends	
17. Fixed or Floating dividend/coupon	Floating
18. Coupon rate and any related index	6 months SIBOR + 140bps
19. Existence of a dividend stopper	No
20. Fully discretionary, partially discretionary or mandatory	Mandatory
21. Existence of step up or other incentive to redeem	No
22. Non-cumulative or cumulative	Non-cumulative
23. Convertible or non-convertible	Non-convertible
24. If convertible, conversion trigger (s)	N/A
25. If convertible, fully or partially	N/A
26. If convertible, conversion rate	N/A
27. If convertible, mandatory or optional conversion	N/A
28. If convertible, specify instrument type convertible into	N/A
29. If convertible, specify issuer of instrument it converts into	N/A
30. Write-down feature	Yes
31. If write-down, write-down trigger (s)	Terms of contract of the instrument provide the legal basis for SAMA to trigger write-down (a contractual approach)
32. If write-down, full or partial	Written down fully or partially
33. If write-down, permanent or temporary	Permanent
34. If temporary write-down, description of the write-up mechanism	
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated. Senior Bondholders are immediately senior to this instrument.
36. Non-compliant transitioned features	N/A
37. If yes, specify non-compliant features	N/A

Note: Further explanation of rows (1-37) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements" issued by the BCBS in June 2012.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**3. Table – Capital Adequacy****Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (Table 3, (b))**

Portfolios	<i>Amount of exposure</i> SAR'000	<i>Capital requirement</i> SAR'000
Sovereigns and central banks:		
– SAMA and Saudi Government	48,811,175	-
– Others	1,341,420	27,413
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	10,252,444	470,135
Corporates	95,293,868	6,817,320
Retail non-mortgages	15,701,871	948,739
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	10,954,888	879,033
– Commercial	-	-
Securitized assets	-	-
Equity	1,681,990	217,982
Others	3,061,611	94,451
Total	187,099,267	9,455,073

Capital requirements for market risk* (822, Table 3, (d))

	<i>Interest rate risk</i> SAR'000	<i>Equity position risk</i> SAR'000	<i>Foreign exchange risk</i> SAR'000	<i>Commodity risk</i> SAR'000	<i>Total</i> SAR'000
Standardised approach	137,758	-	169,544	-	307,302

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

Capital requirements for operational risk* (Table 3, (e))

Particulars	<i>Capital requirement</i> SAR'000
Standardised approach	935,087

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

Capital Adequacy Ratios (Table 3, (f))

Particulars	<i>Total capital ratio</i> %	<i>Tier I capital ratio</i> %
Top consolidated level	17.51	15.63

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

Credit risk exposure (Table 4, (b))

	<i>Total gross credit risk exposure</i>	<i>Average gross credit risk exposure over the period</i>
Portfolios	SAR'000	SAR'000
Sovereigns and central banks:		
– SAMA and Saudi Government	48,811,175	-
– Others	1,341,420	-
Multilateral Development Banks (MDBs)	103,264	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	17,894,580	-
Corporates	127,220,551	-
Retail non-mortgages	15,720,114	-
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	10,954,888	-
– Commercial	-	-
Securitised assets	-	-
Equity	1,681,990	-
Others	3,061,611	-
Total	226,789,593	-

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**4. Table (STA) – Credit Risk: General Disclosures** (continued)**Geographic breakdown (Table 4, (c))**

	<i>Saudi Arabia</i>	<i>Other GCC & Middle East</i>	<i>Europe</i>	<i>North America</i>
Portfolios	SAR'000	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:				
– SAMA and Saudi Government	48,811,175	-	-	-
– Others	-	986,467	296,519	-
Multilateral Development Banks (MDBs)	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-
Banks and securities firms	4,261,487	4,123,880	4,941,299	1,351,598
Corporates	125,386,974	1,833,577	-	-
Retail non-mortgages	15,720,114	-	-	-
– Small Business Facilities Enterprises (SBFE's)	-	-	-	-
Mortgages	-	-	-	-
– Residential	10,954,888	-	-	-
– Commercial	-	-	-	-
Securitized assets	-	-	-	-
Equity	1,681,990	-	-	-
Others	3,061,611	-	-	-
Total	209,878,239	6,943,924	5,237,818	1,351,598

Industry sector breakdown (Table 4, (d))

	<i>Government and quasi- government</i>	<i>Banks and other financial institutions</i>	<i>Agriculture and fishing</i>	<i>Manufactur- ing</i>	<i>Mining and quarrying</i>
Portfolios	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:					
– SAMA and Saudi Government	48,811,175	-	-	-	-
– Others	1,341,420	-	-	-	-
Multilateral Development Banks (MDBs)	-	103,264	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-
Banks and securities firms	-	17,894,580	-	-	-
Corporates	-	13,428,795	1,991,845	26,675,753	2,271,481
Retail non-mortgages	-	-	-	-	-
– Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-
Mortgages	-	-	-	-	-
– Residential	-	-	-	-	-
– Commercial	-	-	-	-	-
Securitized assets	-	-	-	-	-
Equity	-	1,681,990	-	-	-
Others	-	-	-	-	-
Total	50,152,595	33,108,629	1,991,845	26,675,753	2,271,481

<i>South East Asia</i>	<i>Other countries</i>	<i>Total</i>
SAR'000	SAR'000	SAR'000
-	-	48,811,175
58,434	-	1,341,420
-	103,264	103,264
-	-	-
217,241	2,999,074	17,894,580
-	-	127,220,551
-	-	15,720,114
-	-	-
-	-	-
-	-	10,954,888
-	-	-
-	-	-
-	-	1,681,990
-	-	3,061,611
275,675	3,102,338	226,789,593

<i>Electricity, water, gas and health services</i>	<i>Building and construction</i>	<i>Commerce</i>	<i>Transporta- tion and communica- tion</i>	<i>Services</i>	<i>Consumer loans and credit cards</i>	<i>Others</i>	<i>Total</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
-	-	-	-	-	-	-	48,811,175
-	-	-	-	-	-	-	1,341,420
-	-	-	-	-	-	-	103,264
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	17,894,580
6,093,608	28,595,561	31,879,795	7,318,442	6,428,933	-	2,536,338	127,220,551
-	-	-	-	-	15,720,114	-	15,720,114
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	10,954,888	-	10,954,888
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,681,990
-	-	-	-	-	-	3,061,611	3,061,611
6,093,608	28,595,561	31,879,795	7,318,442	6,428,933	26,675,002	5,597,949	226,789,593

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**4. Table (STA) – Credit Risk: General Disclosures** (continued)**Residual contractual maturity breakdown (Table 4, (e))**

Portfolios	Maturity Breakdown	
	<i>Less than 8 days</i>	<i>8 - 30 days</i>
	SAR'000	SAR'000
Sovereigns and central banks:		
– SAMA and Saudi Government	9,608,526	2,101,995
– Others	-	133,724
Multilateral Development Banks (MDBs)	68,289	-
Public Sector Entities (PSEs)	-	-
Banks and Securities Firms	2,939,359	341,673
Corporates	15,386,408	13,489,730
Retail non-mortgages	2,229,827	18,417
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	928	494
– Commercial	-	-
Securitized assets	-	-
Equity	-	-
Others	-	-
Total	30,233,337	16,086,034

Impaired loans, past due loans and allowances (Table 4, (f))

Industry sector	Ageing of past due loans (days)		
	<i>Impaired loans</i>	<i>Defaulted</i>	<i>Less than 90</i>
	SAR'000	SAR'000	SAR'000
Government and quasi government	-	-	-
Banks and other financial institutions	-	-	1,886
Agriculture and fishing	-	-	52,251
Manufacturing	110,268	110,268	-
Mining and quarrying	-	-	-
Electricity, water, Gas and health services	-	-	47,448
Building and construction	470,963	470,963	20,758
Commerce	446,490	446,490	163,127
Transportation and communication	-	-	53,568
Services	35,553	35,553	35,683
Consumer loans and credit cards	49,591	196,696	1,192,291
Others	382,067	388,243	349,758
Total	1,494,932	1,648,213	1,916,770

Maturity Breakdown							
<i>30 - 90 days</i>	<i>90 - 180 days</i>	<i>180 - 360 days</i>	<i>1 - 3 years</i>	<i>3 - 5 years</i>	<i>Over 5 years</i>	<i>No maturity</i>	<i>Total</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
6,717,603	7,484,178	12,835,288	-	-	1,386,738	8,676,846	48,811,175
77,511	-	39,679	256,046	330,948	503,512	-	1,341,420
-	34,975	-	-	-	-	-	103,264
-	-	-	-	-	-	-	-
1,204,852	2,177,961	2,459,046	4,962,620	2,289,226	1,519,842	-	17,894,580
28,249,535	14,085,685	13,765,732	17,211,293	7,614,710	17,417,458	-	127,220,551
48,074	63,851	354,019	3,798,951	9,118,653	88,322	-	15,720,114
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
208	2,602	6,095	97,237	203,436	10,643,890	-	10,954,888
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,681,990	1,681,990
-	-	-	-	-	-	3,061,611	3,061,611
36,297,783	23,849,252	29,459,858	26,326,146	19,556,973	31,559,762	13,420,447	226,789,593

Ageing of past due loans (days)			Specific allowances				
<i>90 - 180</i>	<i>180 - 360</i>	<i>Over 360</i>	<i>Balance at the beginning of the period</i>	<i>Charges during the period</i>	<i>Charge-offs during the period</i>	<i>Balance at the end of the period</i>	<i>General allowances</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,904
-	-	-	-	-	-	-	11,911
-	-	-	7,478	30,000	-	37,478	264,803
-	-	-	-	-	-	-	17,012
-	-	-	-	-	-	-	28,136
-	-	-	101,320	70,245	(165)	171,400	190,924
-	-	-	455,366	16,255	-	471,621	317,216
-	-	-	-	-	-	-	12,378
-	-	-	22,879	2,365	-	25,244	259,706
147,105	-	-	291,120	411,748	(381,720)	321,148	-
6,176	-	-	288,080	(628)	(59,904)	227,548	44,116
153,281	-	-	1,166,243	529,985	(441,789)	1,254,439	1,148,106

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**4. Table (STA) – Credit Risk: General Disclosures** (continued)**Impaired loans, past due loans and allowances (Table 4, (g))**

Geographic area	<i>Impaired loans</i> SAR'000	Ageing of past due loans (days)			
		<i>Less than 90</i>	<i>90 - 180</i>	<i>180 - 360</i>	<i>Over 360</i>
		SAR'000	SAR'000	SAR'000	SAR'000
Saudi Arabia	1,494,932	1,916,770	153,281	-	-
Other GCC and Middle East	-	-	-	-	-
Europe	-	-	-	-	-
North America	-	-	-	-	-
South East Asia	-	-	-	-	-
Others countries	-	-	-	-	-
Total	1,494,932	1,916,770	153,281	-	-

Reconciliation of changes in the allowances for loan impairment (Table 4, (h))

Particulars	<i>Specific allowances</i>	<i>General allowances</i>
	SAR'000	SAR'000
Balance, beginning of the year	1,166,243	1,092,426
Charge-offs taken against the allowances during the period	(441,789)	-
Amounts set aside (or reversed) during the period	529,985	55,680
Other adjustments:	-	-
– exchange rate differences	-	-
– business combinations	-	-
– acquisitions and disposals of subsidiaries	-	-
– etc.	-	-
Transfers between allowances	-	-
Balance, end of the year	1,254,439	1,148,106

5. Table (STA) – Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach**Allocation of exposures to risk buckets (Table 5, (b))**

Particulars	Risk buckets		
	<i>0%</i>	<i>20%</i>	<i>35%</i>
	SAR'000	SAR'000	SAR'000
Sovereigns and central banks:			
– SAMA and Saudi Government	48,811,175	-	-
– Others	819,560	58,434	-
Multilateral Development Banks (MDBs)	-	68,289	-
Public Sector Entities (PSEs)	-	-	-
Banks and securities firms	-	4,137,644	-
Corporates	-	4,642,189	-
Retail non-mortgages	-	-	-
– Small Business Facilities Enterprises (SBFE's)	-	-	-
Mortgages	-	-	-
– Residential	-	-	-
– Commercial	-	-	-
Securitized assets	-	-	-
Equity	-	-	-
Others	1,278,469	749,929	-
Total	50,909,204	9,656,486	-

<i>Specific allowances</i>	<i>General allowances</i>
SAR'000	SAR'000
1,254,439	1,148,106
-	-
-	-
-	-
-	-
-	-
1,254,439	1,148,106

Risk buckets							
<i>50%</i>	<i>75%</i>	<i>100%</i>	<i>150%</i>	<i>Other risk weights</i>	<i>Unrated</i>	<i>Total</i>	<i>Deducted</i>
SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
-	-	-	-	-	-	48,811,175	-
264,907	-	198,519	-	-	-	1,341,420	-
34,925	-	50	-	-	-	103,264	-
-	-	-	-	-	-	-	-
13,920,679	-	513,390	-	-	-	18,571,713	-
4,675,967	-	110,795,705	349,302	-	-	120,463,163	-
-	15,582,179	596	117,646	-	-	15,700,421	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	10,895,520	59,368	-	-	10,954,888	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,024,641	-	657,349	-	1,681,990	-
-	-	1,033,213	-	-	-	3,061,611	-
18,896,478	15,582,179	124,461,634	526,316	657,349	-	220,689,646	-

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**7. Table (STA) – Credit Risk Mitigation (CRM): Disclosures for Standardised Approach****Credit risk exposure covered by CRM (Table 7, (b) and (c))**

Portfolios	Covered by	
	<i>Eligible financial collateral</i>	<i>Guarantees/ credit derivatives</i>
	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	11,337	-
Corporates	6,068,918	688,470
Retail non-mortgages	19,693	-
– Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
– Residential	-	-
– Commercial	-	-
Securitised assets	-	-
Equity	-	-
Others	-	-
Total	6,099,948	688,470

8. Table (STA) – General Disclosures for Exposures Related to Counterparty Credit Risk (CCR)**General disclosures (Table 8, (b) and (d))**

Particulars	<i>Amount</i>
	SAR'000
Gross positive fair value of contracts	1,024,886
Netting Benefits*	-
Netted Current Credit Exposure*	-
Collateral held:	
– Cash	-
– Government securities	-
– Others	-
Exposure amount (under the applicable method):	
– Internal Models Method (IMM)	-
– Current Exposure Method (CEM)	2,137,569
Notional value of credit derivative hedges	-
Current credit exposure (by type of credit exposure):	
– Interest rate contracts	912,303
– FX contracts	1,028,248
– Equity contracts	197,018
– Credit derivatives	-
– Commodity/other contracts	-

*Bank's estimate of Alpha (if the bank has received supervisory approval) is: N/A

*Currently, netting for credit exposure measurement purposes not permitted in KSA.

8. Table (STA) – General Disclosures for Exposures Related to Counterparty Credit Risk (CCR) (continued)

Credit derivative transactions (Table 8, (c))

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

N I L

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

Outstanding exposures securitised by the Bank as an originator or purchaser (Table 9, (g))

Exposures Type	Outstanding exposures	
	<i>Traditional</i>	<i>Synthetic</i>
	SAR'000	SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Other		

N I L

Outstanding exposures securitised by the Bank as a sponsor (Table 9, (g))

Exposures Type	Outstanding exposures	
	<i>Traditional</i>	<i>Synthetic</i>
	SAR'000	SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		

N I L

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**9. Table (STA) – Securitisation: Disclosures for STA Approach** (continued)**Outstanding exposures securitised by the bank as an originator or purchaser (Table 9, (h))**

Exposures Type	<i>Impaired/ past due assets securitised</i> SAR'000	<i>Losses recognised by the Bank during the current period</i> SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		

N I L

Outstanding exposures securitised by the Bank as a sponsor (Table 9, (h))

Exposures Type	<i>Impaired/ past due assets securitised</i> SAR'000	<i>Losses recognised by the Bank during the current period</i> SAR'000
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		

N I L

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Outstanding exposures securitised by the Bank (Table 9, (i))

Exposures Type	<i>Securitisation exposures retained or purchased</i> SAR'000
Credit cards	
Home equity loans	
Commercial loans	
Automobile loans	
Small business loans	
Equipment leases	
Others	

N I L

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

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

Summary of current year's securitisation activity of the Bank as an originator or purchaser (Table 9, (j))

	<i>Amount of exposures securitised</i>	<i>Recognised gain or loss on sale</i>
Exposures Type	<u>SAR'000</u>	<u>SAR'000</u>
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		
	N I L	

Summary of current year's securitisation activity of the Bank as a sponsor (Table 9, (j))

	<i>Amount of exposures securitised</i>	<i>Recognised gain or loss on sale</i>
Exposures Type	<u>SAR'000</u>	<u>SAR'000</u>
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		
	N I L	

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Securitised exposures (Table 9, (k))

	<i>On balance sheet aggregate exposure retained or purchased</i>	<i>Off balance sheet aggregate exposure</i>
Exposures Type	<u>SAR'000</u>	<u>SAR'000</u>
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		
	N I L	

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**9. Table (STA) – Securitisation: Disclosures for STA Approach** (continued)**Exposures by risk-weight bands (Table 9, (l))**

Risk-weight bands	Securitisation		Re-Securitisation	
	<i>Exposures retained or purchased</i>	<i>Associated capital charges</i>	<i>Exposures retained or purchased</i>	<i>Associated capital charges</i>
	SAR'000	SAR'000	SAR'000	SAR'000
0% to 20%				
Above 20% to 40%				
Above 40% to 60%				
Above 60% to 80%				
Above 80% to 100%				
Above 100%				

N I L

N I L

Deductions from capital (Table 9, (l))

Type of underlying assets	<i>Exposures deducted from Tier 1 capital</i>	<i>Credit enhancing I/Os deducted from total capital</i>	<i>Other exposures deducted from total capital</i>
		SAR'000	SAR'000
		SAR'000	SAR'000
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans			
Small business loans			
Equipment leases			
Others			

N I L

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Securitisations subject to early amortisation treatment (Table 9, (m))

Type of underlying assets	<i>Aggregate drawn exposures attributed to the seller's and investor's interests</i>	Aggregate capital charges incurred by the Bank against	
		<i>Its retained shares of the drawn balances and undrawn lines</i>	<i>The investor's shares of drawn balances and undrawn lines</i>
	SAR'000	SAR'000	SAR'000
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans			
Small business loans			
Equipment leases			
Others			

N I L

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

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

Re-Securitisation exposures retained or purchased (Table 9, (n))

	Credit Risk Mitigation	
	<i>Applied</i>	<i>Not applied</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Securitisation exposure		
Loans		
Commitments		
Asset-backed securities		
Mortgage-backed securities		N I L
Corporate bonds		
Equity securities		
Private equity investments		
Others		

Re-Securitisation exposures retained or purchased (Table 9, (n))

	<i>Aggregate exposure</i>
	<u>SAR'000</u>
Guarantor credit worthiness (Grade 1 being the highest)	
Grade 1	
Grade 2	
Grade 3	
Grade 4	N I L
Grade 5	
Grade 6	
Grade 7	

Outstanding exposures securitised by the Bank as an originator or purchaser (Table 9, (o))

	Outstanding exposures	
	<i>Traditional</i>	<i>Synthetic</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Exposure type		
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		N I L
Small business loans		
Equipment leases		
Others		

Outstanding exposures securitised by the Bank as a sponsor (Table 9, (o))

	Outstanding exposures	
	<i>Traditional</i>	<i>Synthetic</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Exposure type		
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		N I L
Small business loans		
Equipment leases		
Others		

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**9. Table (STA) – Securitisation: Disclosures for STA Approach** (continued)**Outstanding exposures securitised by the Bank (Table 9, (p))**

	<i>Securitisation exposures retained or purchased</i>
Exposure type	<u>SAR'000</u>
Credit cards	
Home equity loans	
Commercial loans	
Automobile loans	N I L
Small business loans	
Equipment leases	
Others	

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Summary of current year's securitisation activity of the Bank as an originator or purchaser (Table 9, (q))

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

Summary of current year's securitisation activity of the Bank as a sponsor (Table 9, (q))

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

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

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

Securitisation exposure retained subject to market risk approach where Bank is an originator or purchaser (Table 9, (r))

Exposure type	Outstanding exposures	
	<i>Traditional</i>	<i>Synthetic</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		
	N I L	

Securitisation exposure retained subject to market risk approach where Bank is a sponsor (Table 9, (r))

Exposure type	Outstanding exposures	
	<i>Traditional</i>	<i>Synthetic</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		
	N I L	

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Securitised exposures (Table 9, (s))

Exposure type	<i>On balance sheet</i>	<i>Off balance sheet</i>
	<i>aggregate exposure</i>	<i>aggregate exposure</i>
	<i>retained or purchased</i>	<i>retained or purchased</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Credit cards		
Home equity loans		
Commercial loans		
Automobile loans		
Small business loans		
Equipment leases		
Others		
	N I L	

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**9. Table (STA) – Securitisation: Disclosures for STA Approach** (continued)**Securitisation exposures retained or purchased (Table 9, (t))**

	<i>Subject to comprehensive risk measure for specific risk</i>
Securitisation exposure	SAR'000
Loans	
Commitments	
Asset-backed securities	
Mortgage-backed securities	NIL
Corporate bonds	
Equity securities	
Private equity investments	
Others	

Exposures by risk-weight bands (Table 9, (t))

	<i>Securitisation exposures retained or purchased subject to specific risk</i>
Risk-weight bands	SAR'000
0% to 20%	
Above 20% to 40%	
Above 40% to 60%	
Above 60% to 80%	NIL
Above 80% to 100%	
Above 100%	

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

Capital requirements subject to comprehensive risk measures (Table 9, (u))

	Risk types		
	<i>Default risk</i>	<i>Migration risk</i>	<i>Correlation risk</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Securitisation exposure			
Loans			
Commitments			
Asset-backed securities			
Mortgage-backed securities		N I L	
Corporate bonds			
Equity securities			
Private equity investments			
Others			

Capital requirement risk-weight bands (Table 9, (u))

	Capital charges	
	<i>Securitisation</i>	<i>Re- Securitisation</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Risk-weight bands		
0% to 20%		
Above 20% to 40%		
Above 40% to 60%		
Above 60% to 80%		
Above 80% to 100%		N I L
Above 100%		

Deductions from capital (Table 9, (u))

	<i>Exposures deducted from Tier 1 capital</i>	<i>Credit enhancing I/Os deducted from total capital</i>	<i>Other exposures deducted from total capital</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Type of underlying assets			
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans			
Small business loans			
Equipment leases			
Others			

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**9. Table (STA) – Securitisation: Disclosures for STA Approach** (continued)**Securitisations subject to early amortisation treatment (Table 9, (v))**

	Aggregate capital charges incurred by the Bank against		
	<i>Aggregate drawn exposures attributed to the seller's and investor's interests</i>	<i>Its retained shares of the drawn balances and undrawn lines</i>	<i>The investor's shares of drawn balances and undrawn lines</i>
Type of underlying assets	SAR'000	SAR'000	SAR'000
Credit cards			
Home equity loans			
Commercial loans			
Automobile loans			
Small business loans			
Equipment leases			
Others			

N I L

Please provide the type of securities (e.g. RMBS, CMBS, ABS, CDOs) for each securitised exposure.

Re-Securitisation exposures retained or purchased (Table 9, (w))

Securitisation exposure	Credit risk mitigation	
	<i>Applied</i>	<i>Not applied</i>
	SAR'000	SAR'000
Loans		
Commitments		
Asset-backed securities		
Mortgage-backed securities		
Corporate bonds		
Equity securities		
Private equity investments		
Others		

N I L

Re-Securitisation exposures retained or purchased (Table 9, (w))

Guarantor credit worthiness (Grade 1 being the highest)	<i>Aggregate exposure</i>
	SAR'000
Grade 1	
Grade 2	
Grade 3	
Grade 4	
Grade 5	
Grade 6	
Grade 7	

N I L

10. Table (STA) – Market Risk: Disclosures for Banks using the Standardised Approach

Level of market risks in terms of capital requirements (Table 10, (b))

	<i>Interest rate risk</i>	<i>Equity position risk</i>	<i>Foreign exchange risk</i>	<i>Commodity risk</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Capital requirements	137,758	-	169,544	-	307,302

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

Value of investments (Table 13, (b))

	<u>Unquoted investments</u>		<u>Quoted investments</u>		
	<i>Value disclosed in financial statements</i>	<i>Fair value</i>	<i>Value disclosed in financial statements</i>	<i>Fair value</i>	<i>Publicly quoted share values (if materially different from fair value)</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Investments	583,892	583,892	1,098,159	1,319,565	-

Type and nature of investments (Table 13, (c))

Investment	<i>Publicly traded</i>	<i>Privately held</i>
	<u>SAR'000</u>	<u>SAR'000</u>
Government and quasi-government	-	-
Banks and other financial institutions	1,098,159	526,221
Agriculture and fishing	-	-
Manufacturing	-	-
Mining and quarrying	-	-
Electricity, water, gas and health services	-	-
Building and construction	-	-
Commerce	-	-
Transportation and communication	-	-
Services	-	8,348
Others	-	49,262
Total	<u>1,098,159</u>	<u>583,831</u>

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

Particulars	<u>SAR'000</u>
Cummulative realised gains/(losses) arising from sales and liquidations in the reporting period	-
Total unrealised gains (losses)	(70,958)
Total latent revaluation gains (losses)*	N/A
Unrealised gains (losses) included in capital	(70,958)
Latent revaluation gains (losses) included in Capital*	N/A

*Not applicable to KSA to Date.

Basel – Pillar 3 Annual Disclosures (31 December 2014) (continued)**13. Table (STA) – Equities: Disclosures for Banking Book Positions** (continued)**Capital requirements (Table 13, (f))**

	<i>Capital requirements</i>
	SAR'000
Equity grouping	
Government and quasi-government	-
Banks and other financial institutions	129,950
Agriculture and fishing	-
Manufacturing	-
Mining and quarrying	-
Electricity, water, gas and health services	-
Building and construction	-
Commerce	-
Transportation and communication	-
Services	668
Others	3,941
Total	134,559

Equity investments subject to supervisory transition or grandfathering provisions (Table 13, (f))

	<i>Aggregate amount</i>
	SAR'000
Equity grouping	
Government and quasi-government	
Banks and other financial institutions	
Agriculture and fishing	
Manufacturing	
Mining and quarrying	
Electricity, water, gas and health services	NIL
Building and construction	
Commerce	
Transportation and communication	
Services	
Others	
Total	

14. Table (STA) – Interest Rate Risk in the Banking Book (IRRBB)**200bp interest rate shocks for currencies with more than 5% of assets or liabilities (Table 14, (b))**

		<i>Change in earnings</i>
Rate shocks		SAR'000
Upward rate shocks:		
SAR		(1,361,621)
USD		(380,066)
Downward rate shocks:		
SAR		1,361,621
USD		380,066

Addresses and Contact Numbers

The Saudi British Bank (SABB)

SAUDI ARABIA

Head Office

Prince Abdulaziz Bin
Mossaad Bin Jalawi Street (Dabaab)
P.O. Box 9084, Riyadh 11413
Telephone: +966 11 405 0677
Facsimile: +966 11 405 0660

TREASURY

Telephone: +966 11 405 0020
Facsimile: +966 11 405 8652

CUSTOMER SERVICE CENTRE

Toll-free number: 800 124 8888
Website: www.sabb.com

Area Management Offices:

CENTRAL PROVINCE

Riyadh

Prince Abdulaziz Bin
Mossaad Bin Jalawi Street (Dabaab)
P.O. Box 9084, Riyadh 11413
Telephone: +966 11 405 0677
Facsimile: +966 11 405 8418

WESTERN PROVINCE

Jeddah

Ali Bin Abi Talib Street
Sharafiah
P.O. Box 109, Jeddah 21411
Telephone: +966 12 651 2121
Facsimile: +966 12 653 2816

EASTERN PROVINCE

Al-Khobar

King Abdulaziz Boulevard
P.O. Box 394, Al-Khobar 31952
Telephone: +966 13 882 6000
Facsimile: +966 13 882 1669

© Copyright The Saudi British Bank 2014
All rights reserved

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Saudi British Bank.

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.

