BASE PROSPECTUS



THE SAUDI BRITISH BANK

(incorporated as a joint stock company in Saudi Arabia)

U.S.$1,600,000,000
Euro Medium Term Note Programme

This document constitutes a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") relating to issues of notes under the Euro Medium Term Note Programme (the "**Programme**") of The Saudi British Bank (the "**Issuer**" or "**SABB**").

Application has been made to the Financial Services Authority, in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for notes issued under the Programme (the "**Notes**") during the period of twelve months after the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (within the meaning of Directive 2004/39/EC, the "**Regulated Market**"). Application may also be made for the Notes to be admitted to listing and/or trading on regulated markets (as from time to time determined for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**")) in any member state of the European Economic Area or on any other listing authority, stock exchange or quotation system. Notes which are not so admitted may also be issued pursuant to the Programme. The relevant Final Terms (as such term is defined in "*Terms and Conditions of the Notes - Introduction*") in respect of the issue of any Notes will specify whether or not an application for admission to listing on the Official List and to trading on the Regulated Market of the London Stock Exchange or by or on any other listing authority, stock exchange or quotation system will be made.

Notes may only be issued under the Programme that have a denomination of at least EUR 50,000 (or its equivalent in any other currency).

For a discussion of certain risks and other factors that should be considered in connection with any investment in the Notes, see - "Risk Factors" on page 1.

Programme Arranger and Dealer

HSBC

1 November 2010

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Base Prospectus. The Issuer declares that, to the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omissions likely to affect its import.

Information contained in this Base Prospectus relating to "The Banking Sector in Saudi Arabia" on pages 79 to 80 was derived from publicly available information, including press releases. The Issuer accepts responsibility for accurately reproducing such information. However, the Issuer has relied on the accuracy of such information without carrying out any independent verification.

This Base Prospectus should be read and construed together with any supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes which is the subject of Final Terms (as defined herein), should be read and construed together with the relevant Final Terms (as defined herein). This Base Prospectus may only be used for the purposes for which it has been published.

The Issuer has confirmed to the Dealers named under "*Subscription and Sale*" below that this Base Prospectus (including for this purpose, each relevant Final Terms) contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the United States or to U.S. persons as defined in Regulation S under the Securities Act.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.$1,600,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement as defined under "*Subscription and Sale*")). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

In this Base Prospectus, unless otherwise specified, references to "**U.S.$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**EUR**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended, references to "**SAR**" or "**Riyals**" are to Saudi Riyals and references to "**£**" or "**Sterling**" are to Pounds Sterling and references to a "**Member State**" are references to a Member State of the European Economic Area.

Certain figures included in this Base Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules. As at the date of this Base Prospectus, no stabilising activity may be carried out in Saudi Arabia or in relation to any Notes offered in Saudi Arabia.

Kingdom of Saudi Arabia Notice

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "Saudi Arabia Capital Market Authority").

The Saudi Arabia Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Notes issued under the Programme should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

BASE PROSPECTUS SUPPLEMENTS

Throughout the duration of the Programme, if there is a significant new factor, material mistake or inaccuracy relating to the information included in this Base Prospectus that is capable of affecting the assessment of the Notes, the Issuer will prepare and make available a supplement to this Base Prospectus or a further base prospectus for use in any subsequent issue of Notes.

CONTENTS

Page

RISK FACTORS 1
GENERAL DESCRIPTION OF THE PROGRAMME 10
FORMS OF THE NOTES 15
TERMS AND CONDITIONS OF THE NOTES 19
FORM OF FINAL TERMS 42
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM 54
DESCRIPTION OF THE ISSUER 58
THE BANKING SECTOR IN SAUDI ARABIA 78
SAUDI ARABIAN BANKING REGULATION & SUPERVISION 80
TAXATION 84
SUBSCRIPTION AND SALE 86
GENERAL INFORMATION 90
INDEX OF DEFINED TERMS 93
FINANCIAL STATEMENTS 95
PRINCIPAL OFFICE OF THE ISSUER 96

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfill its obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuer to pay profit, principal or other amounts on or in connection with any Notes may occur for other reasons which are as yet unknown and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in the "Form of the Notes" and the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings in this section.

Risks Relating to the Notes

The Notes are not principal protected

By investing in any Notes issued under the Programme, investors risk losing part or all of their investment.

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although an application has been made for the Notes issued under the Programme to be admitted to listing on the Official List and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be redeemed prior to maturity

Unless in the case of any particular Tranche of Notes the relevant Final Terms specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Saudi Arabia ("**Saudi Arabia**") or any political subdivision thereof or any authority therein or thereof having power to tax in excess of 5 per cent. of the gross amount payable in respect of such Notes, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms specifies that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective rate of return as high as that for the relevant Notes.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

Notes issued under the Programme may be represented by, in the case of Bearer Notes, one or more temporary global notes (each, a "**Temporary Global Note**"), permanent global notes (each, a "**Permanent Global Note**" and, together with a Temporary Global Note, the "**Global Notes**") or, in the

case of Registered Notes, interests in a global registered note (a "**Global Registered Note** "). Such Global Notes and Global Registered Notes will be deposited with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). Except in the circumstances described in the relevant Global Note or Global Registered Note, investors will not be entitled to receive Definitive Notes or, as the case may be, Individual Note Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes or, as the case may be, Global Registered Notes. While the Notes are represented by one or more Global Notes or a Global Registered Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes or Global Registered Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Registered Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Registered Notes.

Holders of beneficial interests in the Global Notes or Global Registered Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes or Global Registered Notes will not have a direct right under the Global Notes or Global Registered Notes to take enforcement action against the Issuer in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

Credit rating

Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings described above. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

No third-party guarantees

Investors should be aware that no guarantee is or will be given in relation to the Notes by the shareholders of the Issuer (including, without limitation, any member of the HSBC Group) or any other person.

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or profit payable in one or more currencies, or where the currency for principal or profit payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, and additional review or regulation, by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) whether other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common of such features:

Interest rate risks

Investment in fixed rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of such Notes.

Index-Linked Notes

The Issuer may issue Notes with principal or profit determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no profit;

(iii) payment of principal or profit may occur at a different time than that expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or profit payable may be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historic performance of an index should not be viewed as an indication of the future performance of such index during the term of any Index-Linked Notes. Accordingly, each potential investor should

consult its own financial and legal advisers about the risk entailed by an investment in any Index-Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of their investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable profit rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include these features.

Fixed/Floating Rate Notes

Fixed/floating rate Notes may accrue profit at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Exchange rate risks and exchange controls

The Issuer will pay principal and profit in respect of the Notes in the Specified Currency (as referred to in the applicable Final Terms). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less profit or principal than expected, or no profit or principal.

Risks Relating to Investments in Saudi Arabia

Economic and Political Risks

The vast majority of the Issuer's assets and operations are located in Saudi Arabia. As a result, the Issuer's operating results and growth are and will be affected in general by economic and political developments in or affecting Saudi Arabia and, in particular, by the level of economic activity in Saudi Arabia.

Although Saudi Arabia continues to pursue a policy of divergence to enhance the contribution of the non-oil sector to its Gross Domestic Product ("**GDP**"), oil income will continue to play a pivotal role in

its economic planning and development. Consequently, any sustained down-turn in oil prices will have a negative impact on Saudi Arabia's overall economy, with adverse ripple effects felt at all micro levels, including on the Issuer and the market price of the Notes.

Like other countries in the Middle East, Saudi Arabia could be affected by political and social unrest in the region. Although the threat to stability in the Middle East region from the Iraq war appears to have receded, Saudi Arabia, in common with other Middle Eastern countries, could be affected by any other external action taken in the region. Within Saudi Arabia, the government faces a number of challenges arising mainly from the relatively high levels of population growth and unemployment among its youth and the security threat posed by certain groups of extremists, which could have an adverse effect on the Saudi economy and, as a consequence, the Issuer's business.

Investors in emerging markets should also be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Governing Law and Enforcement of Judgments

Investors should note that the Issuer is a Saudi joint stock company and is incorporated in, and has its operations and the majority of its assets located in, Saudi Arabia. Accordingly, there may be insufficient assets of the Issuer located outside Saudi Arabia to satisfy in whole or part any judgment obtained from an English court relating to amounts owing under the Notes. If investors were to seek enforcement of an English judgment in Saudi Arabia, or to bring proceedings in relation to the Notes in Saudi Arabia, then the limitations described below would apply.

The Notes are expressed to be governed by English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus. The Notes provide for the jurisdiction of the courts of England, subject only to an option for Noteholders to bring proceedings before The Committee for the Resolution of Securities Disputes established under the Saudi Arabian capital market law (issued by Royal Decree No. M/30 dated 1 August 2003, the "**Capital Market Law**" (the "**Committee**"). Despite this, the courts and judicial committees of Saudi Arabia may not recognise the choice of English law or submission to jurisdiction of the English courts. Accordingly, in any proceedings relating to the Notes in Saudi Arabia, Islamic law (*Shariah*), as interpreted in Saudi Arabia, may be applied by the relevant court or judicial committee. The courts and judicial committees of Saudi Arabia have the discretion to deny the enforcement of any contractual or other obligations, if, in their opinion, the enforcement thereof would be contrary to the principles of Islamic law.

The Committee was established pursuant to Article 25 of the Capital Market Law and is responsible for the settlement of disputes arising under the Capital Markets Law and its implementing regulations. The decisions of the Committee are subject to appeal before an appeal panel (the "**Appeal Panel**") consisting of three members representing the Ministry of Finance, the Ministry of Commerce and Industry and the Bureau of Experts at the Council of Ministers. The decisions of the Appeal Panel are final. The terms and conditions of the Notes give Noteholders an option to bring proceedings relating to the Notes before the Committee. However, since Notes issued under the Programme are to be admitted to both the Official List and to trading on the London Stock Exchange's Regulated Market, it is uncertain, in the absence of precedent, whether the Committee or the Appeal Panel would accept jurisdiction over any claim relating to the Notes or what decisions the Committee or the Appeal Panel would come to.

Disputes of a commercial nature in Saudi Arabia are currently heard before a court called the Grievances Board which strictly applies Islamic law although a new law of the judiciary has been issued and calls for the establishment of commercial courts in Saudi Arabia. In addition, the Grievances Board has the exclusive jurisdiction to consider the enforcement of foreign judgments and arbitral awards, supervise insolvency and bankruptcy proceedings of commercial entities and hear claims against Saudi Arabian government bodies. Accordingly, if a judgment from an English court is to be enforced in Saudi Arabia, it would need to be submitted to the Grievances Board for enforcement.

The Grievances Board may, at its discretion, enforce all or any part of a foreign judgment **provided that** (a) the judgment is not inconsistent with Islamic law and/or Saudi Arabian law including the general principles of Islamic law and (b) the judgment creditor can demonstrate to the Grievances Board that the courts of the jurisdiction granting the judgment will reciprocally enforce the judgments of the courts and committees of Saudi Arabia in such foreign jurisdiction. Such reciprocity may be demonstrated by way of the existence of a treaty or protocol between Saudi Arabia and the relevant jurisdiction or by virtue of a plaintiff providing evidence that the relevant foreign court has recognised and enforced a Saudi judgment on a previous occasion. In the case of an English judgment, there is no relevant treaty and, accordingly, Noteholders seeking to enforce an English judgment might be required to adduce other evidence of such reciprocity. No assurance can be given that investors would be able to meet the requirements of reciprocity of enforcement. In addition, even if Noteholders were able to meet this requirement, they should be aware that if any terms of the Notes (including any provisions relating to the payment of profit) were found to be inconsistent with Islamic law, they would not be enforced by the Grievances Board. See further below under "*Enforcement of Profit and Other Provisions*".

Saudi Arabian Judicial Reform

The Saudi government recently approved a restructuring of the judicial system, including the establishment of a Supreme Court as well as commercial, personal status and labour tribunals. The new Judiciary Law and Grievances Board Law were enacted by Royal Decree No. M/78 dated 19/9/1429H (corresponding to 1 October 2007) but are yet to be fully brought into force. Under the new judiciary law, the Supreme Court will take over all the functions other than certain administrative responsibilities of the Supreme Judiciary Council, which currently serves as the Kingdom's highest tribunal. The Grievances Board's current jurisdiction over the commercial disputes will also pass to a new commercial court as part of this restructuring.

It is not clear at this stage what the outcome of this reform of the judicial system will be or its impact on the Notes or any claim under the Notes.

Enforcement of Profit and Other Provisions

An obligation to pay a sum in the nature of interest (howsoever described), including any "profit" (as that term is used in the Terms and Conditions of the Notes), discount or premium, is not enforceable under Islamic law, which is the paramount body of law in Saudi Arabia. It follows that provisions for the payment of profit and other sums in the nature of interest under the Notes will not be enforced by a court or judicial committee in Saudi Arabia applying Islamic law. In particular, a court or judicial committee in Saudi Arabia may, on the application of the payer of sums in the nature of interest, only give judgment in respect of principal sums found by such court or judicial committee to be due and payable less the amount of sums in the nature of interest previously paid by the payer to the payee. Any amounts previously paid by the Issuer in respect of sums in the nature of interest would therefore reduce the amount receivable by Noteholders in relation to payments of principal.

In addition, there is a risk that a Saudi court or judicial committee (as the case may be) will not give effect to an event of default other than one consisting of the non-payment of principal.

To the extent any proceedings relating to the enforcement of a non-Saudi Arabian judgment in relation to the Notes or relating to the insolvency or bankruptcy of the Issuer are held in Saudi Arabia, such proceedings would be resolved before the Grievances Board. In addition, any other proceedings relating to the Notes brought in Saudi Arabia would most likely be resolved before the Grievances Board unless they fell to be resolved by the Committee or Appeal Panel. See further under "*Governing Law and Enforcement of Judgments*" above.

In addition, a unilateral promise or a covenant to act in a certain way (other than a unilateral undertaking or covenant to irrevocably and unconditionally repay a principal amount borrowed, including through an issue of debt securities, such as the Notes) may not create an obligation which would be enforceable before the courts and judicial committees of the Kingdom of Saudi Arabia. In connection with the Programme, the Issuer has entered into the Deed of Covenant, which would be regarded as including unilateral promises for these purposes. Among other things, the Deed of Covenant constitutes the Notes in registered form and provides for certain direct rights in circumstances in which the Global Notes become void (see "*Summary of Provisions Relating to the Notes while in Global Form*" below). Accordingly, the Issuer's obligations under the Deed of Covenant, other than its obligations to repay the

principal amount of any Notes, including, among other things, any obligations to pay interest or additional amounts in relation to the Notes, may not be enforceable before the courts and judicial committees of the Kingdom of Saudi Arabia.

Secondary Market Purchasers

The trading of debts is prohibited under Islamic law. Accordingly, if a secondary market purchaser of a Note were to take direct action against the Issuer in Saudi Arabia, there is a possibility (although, as far as the Issuer is aware, no such matter has been the subject of adjudication before a Saudi court or judicial committee) that the Saudi courts would consider such claim to be void. In such event, the relevant Noteholder's only recourse would be against the seller of the Note. Notwithstanding the foregoing, the Capital Market Law contemplates the trading of debt securities and provides for the establishment of the Committee (as defined above) to hear disputes, among others, relating to debt securities. Under the Terms and Conditions of the Notes, Noteholders may elect to have a dispute relating to the Notes heard by the Committee. However, no assurance can be given that the Committee would accept such jurisdiction or how it would treat secondary market purchasers of the Notes.

Risks Relating to the Issuer

Credit Risk

Credit risk arises primarily from the Issuer's lending activities. The Issuer holds collective and discounted cashflow impairment provisions to cover bad and doubtful debts. If these provisions prove to be inadequate either because of an economic downturn or a significant breakdown in its credit disciplines, then this could have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Competition

All sectors of the Saudi Arabian market for financial and banking services are highly competitive. There are at present twenty commercial banks operating in Saudi Arabia, of which twelve are incorporated in Saudi Arabia. The remaining eight are branches of banks based outside Saudi Arabia. There are three additional branches of foreign banks licensed by Saudi Arabian Monetary Agency ("**SAMA**") but not yet operational. In the past few years, SAMA has awarded banking licences to a number of international banks, which has resulted in increased competition and may increase the pressure for the Issuer to improve the range and sophistication of its products and services currently offered. The competitive nature of the Saudi Arabian market may adversely impact on the Issuer's business and may lead some of the Issuer's customers to start using competitors instead. However, SAMA has not issued additional banking licenses since the second quarter of 2008 so that it has an opportunity to examine the liberalisation of the Saudi Arabian banking sector.

Market Risks

The Issuer is exposed to market risks including interest rate and currency exchange rate risks.

The Issuer is exposed to interest rate risk resulting from mismatches between the interest rates on its interest-bearing assets and interest-bearing liabilities. Although the Issuer monitors interest rates with respect to its assets and liabilities and seeks to match its interest rate positions, interest rate movements may adversely affect the Issuer's business, financial condition, results of operations or prospects.

The Issuer is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. Although the Issuer is subject to limits on its open currency positions pursuant to SAMA rules and the Issuer's internal policies, significant movements in currency exchange rates may adversely affect the Issuer's foreign currency positions.

Liquidity Risks

The Issuer, like other financial services institutions in Saudi Arabia and elsewhere, is exposed to liquidity risk due to the maturity mismatches between its assets and liabilities. Although the Issuer believes that its level of access to domestic and international inter-bank markets and its liquidity risk management policy allows, and will continue to allow, the Issuer to meet its short-term and long-term liquidity needs, any maturity mismatches between the Issuer's assets and liabilities (including by reason of an unexpected

withdrawal of funds by the Issuer's customers) may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Operational Risks

As a financial services institution, the Issuer is exposed to a wide spectrum of other risks including those arising from external events or from process error, fraud, systems failure, unauthorised activities and security protection. Any materialisation of such risks may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Adequacy of Risk Management Systems

Although the Issuer invests substantial time and effort in its risk management systems, it may nevertheless fail to identify all risks, particularly those of a novel or unanticipated nature. If risks that the Issuer has been unable to identify were to materialise, they may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Basel II Challenge

Saudi Arabia is one of the signatories to the new Basel II global risk standard. Basel II will require higher standards in governance and policies, processes and procedures, organisation framework, systems, transparency and disclosure. Challenges for the Issuer include having and maintaining adequate resources, data, quality and budgets, managing conflicts with other business demands, maintaining senior management commitment and sponsorship and complying with the requirements of SAMA.

Management of Growth

The Issuer has experienced significant growth in all its business segments in recent years. The Issuer intends to continue to grow in order to meet its shareholder strategic objectives, although whether this can be achieved is largely dependent on the performance of the Saudi Arabian economy and the oil price.

The management of the Issuer's growth will require, among other things, continued development of the Issuer's financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. If the Issuer fails to manage its growth properly, such failure may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Regulatory Risks

The Issuer is subject to a number of regulations designed to maintain the safety and soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations include Saudi Arabian laws and regulations (particularly those of SAMA and the Capital Market Law and its implementing regulations including the Authorised Persons Regulations issued by the Capital Market Authority in Saudi Arabia). These regulations may limit the Issuer's activities and changes in these regulations may increase the Issuer's cost of doing business. In addition, a breach of regulatory guidelines could expose the Issuer to potential liabilities and sanctions. Changes in these laws and regulations (such as pursuant to Basel II) and the manner in which they are interpreted or enforced may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Dependence on Qualified Personnel

The Issuer's success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in the Saudi banking industry for personnel with relevant expertise is intense due to the limited number of qualified individuals. The Issuer attempts to structure its compensation packages appropriately in order to attract and retain experienced personnel. The Issuer is not insured against damage that may be incurred in case of the loss of any of its key personnel. The Issuer's failure to manage its personnel needs successfully could have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to profit rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Global economic disruption

Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to any Notes that may be issued under the Programme. The Issuer cannot predict when these circumstances will change and if and when they do whether conditions of general market illiquidity for such Notes and instruments similar to such Notes will return in the future.

GENERAL DESCRIPTION OF THE PROGRAMME

The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in "Forms of the Notes" or "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer:	The Saudi British Bank
Arranger:	HSBC Bank plc
Dealers:	HSBC Bank plc and any other Dealers appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent:	HSBC Bank plc
Listing and Admission to Trading:	Applications have been made for Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List and to trading on the Regulated Market of the London Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms.
Initial Programme Amount:	Up to U.S.$1,600,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of profit may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects.
Final Terms or Drawdown Prospectus:	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a drawdown prospectus (each a "**Drawdown Prospectus**") prepared in connection with a particular Tranche of Notes. For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, supplement the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Terms and Conditions of the Notes as supplemented to the extent described in the relevant Final Terms. The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Terms and Conditions of the Notes as supplemented to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown

	Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus.
Forms of Notes:	Notes may issued in bearer form or in registered form. Each Tranche of Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of profit in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if profit-earning, have Coupons attached and, if appropriate, a Talon for further Coupons. Each Tranche of Registered Notes will be in the form of either Individual Note Certificates or a Global Registered Note, in each case as specified in the relevant Final Terms. Each Global Registered Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.
Currencies:	Notes may be denominated in U.S. dollars, euro, Riyals or Sterling or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, only be made in and/or linked to the currency in which such Notes are denominated.
Status of the Notes:	Notes will be issued on an unsubordinated and unsecured basis.
Rating:	The rating of the Notes to be issued under the Programme will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Issue Price:	Notes may be issued at any price as specified in the relevant Final Terms, but will only be issued on a fully paid basis. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Maturities:	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

	Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the United Kingdom Financial Services and Markets Act 2000 ("**FSMA**") by the Issuer.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms.
Optional Redemption:	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms.
Tax Redemption:	Except as described in "Optional Redemption" above, early redemption will only be permitted for tax reasons if the Issuer has or will become obliged to pay additional amounts based on a rate of withholding or deduction in excess of 5 per cent. of the gross amount payable in respect of the Notes as described further in Condition 10(b) (*Redemption and Purchase - Redemption for tax reasons*).
Profit:	Notes may be profit-earning or non-profit earning. Profit (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating profit may vary between the issue date and the maturity date of the relevant Series.
Denominations:	No Notes may be issued under the Programme which (a) have a minimum denomination of less than EUR50,000 (or equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. All Notes of a particular Series will have the same denomination.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
Cross Default:	The Notes will have the benefit of a cross default as described in Condition 14 (*Events of Default*).
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of Saudi Arabia unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 13 (*Taxation*)) pay such additional

	amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required. Under Saudi Arabian law, the Issuer is required to withhold 5 per cent. in respect of any profit payments under the Notes to persons resident outside Saudi Arabia, unless investors are able to take advantage of any applicable double taxation treaty. For more information, see the "*Taxation*" section in this Base Prospectus.
Governing Law:	English law.
Enforcement of Notes in Global Form:	In the case of Global Notes, individual investors' rights against the Issuer will be governed by a Deed of Covenant dated 1 November 2010, a copy of which will be available for inspection at the specified office of the Fiscal Agent.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, the European Economic Area, Saudi Arabia, the United Arab Emirates and Japan see "*Subscription and Sale*" below. Additional restrictions may be imposed which will be set out in the applicable Final Terms.
Saudi Companies Law Requirements:	Under the provisions of the Saudi Arabian Companies Regulation (the "**Companies Regulation**") a Saudi Arabian joint stock company may not issue debt securities until such issuance has been approved by a resolution (an "**OGM Resolution**") of the company's shareholders in ordinary general meeting and such OGM Resolution has been published in "Um-Alqura" (the Saudi Arabian Official Gazette (**Official Gazette**")) and registered in the Commercial Register of the relevant company (the "**Commercial Register**"). The shareholders of the Issuer passed an OGM Resolution on 13 December 2004 approving the issuance of Notes and authorising the Board of Directors to approve the value and terms and conditions of the first Tranche of Notes. This OGM Resolution was published in the Official Gazette on 14 January 2005 and registered in the Issuer's Commercial Register on 7 February 2005. The Board of Directors of the Issuer passed resolutions approving the terms and conditions of the Programme and the issuance of the first Tranche of Notes on 19 January 2005 and 28 February 2005. The shareholders of the Issuer passed an OGM Resolution on 21 March 2006 approving the issuance of subsequent Tranches and Series of Notes and authorising the Board of Directors of the Issuer to approve the relevant amounts and the terms and conditions of such Tranche or Series of Notes. The Board of Directors of the Issuer passed resolutions approving the amended terms and conditions of the Programme on 22 March 2006. The shareholders of the Issuer passed an Extraordinary General Meeting Resolution on 10 March 2009 increasing the share capital of the Issuer to SAR 7.5 billion. The Board of Directors of the Issuer passed a resolution on 26 October 2010 authorising the issuance of any subsequent Tranches and Series of Notes up to, U.S.$ 750 million (or its equivalent in any other currency or currencies) and approving the amended terms and conditions of

	the Programme.
Risk Factors:	An investment in the Notes involves certain risks. See "*Risk Factors*".

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without profit coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without profit coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without profit coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, profit payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(a) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent; and

(b) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; **provided**, **however**, **that** in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Bearer Notes in definitive form ("**Definitive Notes**"):

(a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(b) at any time, if so specified in the relevant Final Terms; or

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Profit payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(b) at any time, if so specified in the relevant Final Terms; or

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which supplement those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("**Individual Note Certificates**") or a global Note in registered form (a "**Global Registered Note**"), in each case as specified in the relevant Final Terms. Each Global Registered Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to the Noteholders in respect of their respective holdings.

If the relevant Final Terms specifies the form of Notes as being "Global Registered Note exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Registered Note which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms ; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Global Registered Note ", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Global Registered Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the*

Notes" below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Registered Note will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. **Introduction**

(a) *Programme*: The Saudi British Bank (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$1,600,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Final Terms*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a Final Terms (the "**Final Terms**") which supplement these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

(c) *Agency Agreement*: The Notes are the subject of an issue and paying agency agreement dated 1 March 2005 as last amended and restated on 1 November 2010 (the "**Agency Agreement**") between the Issuer, HSBC Bank plc as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), HSBC Bank plc as registrar (the "**Registrar**"), which expression includes any successor registrar appointed from time to time in connection with the Notes) the paying agents (if any) named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents (if any) named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

(d) *The Notes*: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for inspection by Noteholders during normal business hours at the Specified Office of the Fiscal Agent and will be available free of charge at the Specified Office of the Paying Agent in Luxembourg, whose initial Specified Offices are set out below.

(e) *Deed of Covenant:* The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 1 November 2010 (the "**Deed of Covenant**") entered into by the Issuer.

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their respective detailed provisions. Noteholders (as defined below) and the holders of the related profit coupons, if any (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2. **Interpretation**

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Base Prospectus**" means a base prospectus dated 1 November 2010 in connection with the Programme;

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred; **provided**, **however**, **that**:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Profit and Profit Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Calculation Amount**" means the calculation amount specified in the relevant Final Terms;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)** " is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(ii) if "**Actual/Actual**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)** " is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified means, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*);

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases; and

(iv) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) the primary purpose of which is the raising of finance;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Margin**" has the meaning given in the relevant Final Terms;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*);

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Permitted Security Interest**" means a Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to:

(iii) a "sukuk" or similar Islamic law-based financing arrangement; or

(iv) any other asset-based financing or like arrangement (including a securitisation transaction),

whereby the payment obligations secured by such Security Interest are to be discharged primarily from such assets or revenues, **provided that** the aggregate outstanding amount of assets or revenues the subject of such security pursuant to transactions described in (ii) above shall not at any time exceed an amount equal to 10 per cent. of the total assets of the Issuer, as evidenced by its most recent audited financial statements (or, if at any time the Issuer prepares consolidated financial statements, its most recent audited consolidated financial statements);

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided**, **however**, **that**:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Principal Subsidiary**" means at any relevant time a Subsidiary of the Issuer:

(i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated financial statements, whose total consolidated assets or gross consolidated revenues, as the case may be) represents not less than 10 per cent. of the total consolidated assets or the gross consolidated revenues of the Issuer and its Subsidiaries, all as calculated by reference to the then latest audited financial statements (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated financial statements of the Issuer; or

(ii) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary;

"**Profit**" means an amount accruing on the Notes pursuant to Condition 6 (*Fixed Rate Note Provisions*) with respect to Fixed Rate Notes and Condition 7 (*Floating Rate Note and Index-Linked Profit Note Provisions*) with respect to Floating Rate Notes or Index-Linked Profit Notes;

"**Profit Amount**" means, in relation to a Note and a Profit Period, the amount of Profit payable in respect of that Note for that Profit Period;

"**Profit Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Profit Commencement Date in the relevant Final Terms;

"**Profit Determination Date**" has the meaning given in the relevant Final Terms;

"**Profit Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Profit Commencement Date (in the case of the first Profit Payment Date) or the previous Profit Payment Date (in any other case);

"**Profit Period**" means each period beginning on (and including) the Profit Commencement Date or any Profit Payment Date and ending on (but excluding) the next Profit Payment Date;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Profit**" means the rate or rates (expressed as a percentage per annum) of profit payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption

Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

"**Reference Banks**" has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" in relation to any Zero Coupon Note, is the amount (expressed as a currency amount per Note and not as a percentage) specified in the relevant Final Terms;

"**Reference Rate**" has the meaning given in the relevant Final Terms;

"**Regular Period**" means:

(i) in the case of Notes where profit is scheduled to be paid only by means of regular payments, each period from and including the Profit Commencement Date to but excluding the first Profit Payment Date and each successive period from and including one Profit Payment Date to but excluding the next Profit Payment Date;

(ii) in the case of Notes where, apart from the first Profit Period, profit is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Profit Payment Date falls; and

(iii) in the case of Notes where, apart from one Profit Period other than the first Profit Period, profit is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Profit Payment Date falls other than the Profit Payment Date falling at the end of the irregular Profit Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Indebtedness**" means any Indebtedness in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is for the time being or is intended to be listed, quoted or traded on any stock exchange or any securities market (including, without limitation, any over-the-counter market)

(i) denominated , payable or optionally payable in a currency other than Saudi Riyals; and

(ii) not initially distributed primarily to investors inside Saudi Arabia;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, the Reuters Screen) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Saudi Arabia**" means the Kingdom of Saudi Arabia;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Subsidiary**" means, in respect of any person (the "**first person**") at any particular time, any other person (the "**second person**") controlled by the first person. For this purpose, "**control**" of the second person (being a company) means the ability to influence the acts or decisions of that person by way of the first person having directly or indirectly, alone or jointly with any relative or other participant, more than 50 per cent. of the voting rights in the second person;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Treaty**" means the Treaty establishing the European Communities, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to profit shall be deemed to include any additional amounts in respect of profit which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of profit payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable", then such expression is not applicable to the Notes;

(viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes; and

(ix) if a drawdown prospectus is prepared in connection with a particular Tranche of Notes, each reference in these Conditions to information being specified or identified in relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant drawdown prospectus.

3. **Form, Denomination, Title and Transfer**

(a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

(d) *Title to Registered Notes:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement (the "**Register**"). A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership:* The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods:* Noteholders may not require transfers of Registered Notes to be registered during the period of 15 days ending on the due date for any payment of principal or profit in respect of the Notes.

(j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Status**

The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. **Negative Pledge**

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Principal Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

6. **Fixed Rate Note Provisions**

(a) *Application*: This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of profit*: The Notes earn profit from the Profit Commencement Date at the Rate of Profit payable in arrear on each Profit Payment Date, subject as provided in Condition 11 (*Payments*). Each Note will cease to earn profit from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to earn profit in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of profit payable in respect of each Note for any Profit Period shall be the relevant Fixed Coupon Amount.

(d) *Calculation of profit amount*: The amount of profit payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Profit to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **Floating Rate Note and Index-Linked Profit Note Provisions**

(a) *Application*: This Condition 7 (*Floating Rate Note and Index-Linked Profit Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Profit Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of profit*: The Notes earn profit from the Profit Commencement Date at the Rate of Profit payable in arrear on each Profit Payment Date, subject as provided in Condition 11

(*Payments*). Each Note will cease to earn profit from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to earn profit in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Profit is/are to be determined, the Rate of Profit applicable to the Notes for each Profit Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Profit Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Profit Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Profit Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Profit Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Profit Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Profit for such Profit Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided**, **however**, **that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Profit Period, the Rate of Profit applicable to the Notes during such Profit Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Profit Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Profit is/are to be determined, the Rate of Profit applicable to the Notes for each Profit Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Profit Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Profit Period or (B) in any other case, as specified in the relevant Final Terms.

(e) *Index-Linked Profit*: If the Index-Linked Profit Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Profit applicable to the Notes for each Profit Period will be determined in the manner specified in any relevant Final Terms.

(f) *Maximum or Minimum Rate of Profit*: If any Maximum Rate of Profit or Minimum Rate of Profit is specified in the relevant Final Terms, then the Rate of Profit shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Calculation of Profit Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Profit is to be determined in relation to each Profit Period, calculate the Profit Amount payable in respect of each Note for such Profit Period. The Profit Amount will be calculated by applying the Rate of Profit for such Profit Period to the Calculation Amount and multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a figure equal to the Specified Denomination of the relevant Note divided by the Calculation Amount.

(h) *Calculation of other amounts*: If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in any relevant Final Terms.

(i) *Publication*: The Calculation Agent will cause each Rate of Profit and Profit Amount determined by it, together with the relevant Profit Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Profit, Profit Amount and Profit Payment Date) in any event not later than the first day of the relevant Profit Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Profit Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Profit Period.

(j) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. **Zero Coupon Note Provisions**

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue

Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Dual Currency Note Provisions**

(a) *Application*: This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Rate of Profit*: If the rate or amount of profit is to be determined by reference to an exchange rate, the rate or amount of profit payable shall be determined in the manner specified in the relevant Final Terms.

10. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Profit Note Provisions are specified in the relevant Final Terms as being applicable); or

(ii) on any Profit Payment Date (if the Floating Rate Note Provisions or the Index-Linked Profit Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with profit accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 13 (*Taxation*) based on a rate of withholding or deduction in excess of 5 per cent. of the gross amount payable in respect of such Notes as a result of any change in, or amendment to, the laws or regulations of Saudi Arabia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, **however**, **that** no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on a Profit Payment Date, 60 days prior to the Profit Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become

obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued profit (if any) to such date).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with profit (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; **provided**, **however**, **that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

(g) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360 or Eurobond Basis.

(h) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. Notes so purchased must be surrendered for cancellation to any Paying Agent

(i) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. **Payments Bearer-Notes**

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal*: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

(b) *Profit*: Payments of profit shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in New York City*: Payments of principal or profit may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the profit on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such profit at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*: If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided**, **however**, **that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided**, **however**, **that** where this sub-paragraph

would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided**, **however**, **that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*: If the relevant Final Terms specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Profit Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(c) (*Redemption at the option of the Issuer*), Condition 10(e) (*Redemption at the option of Noteholders*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further profit or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*: Payments of profit other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. **Payments - Registered Notes**

This Condition 12 is only applicable to Registered Notes.

(a) *Principal:* Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Profit:* Payments of profit shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency and (in the case of profit payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and profit payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of profit payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any profit or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

13. **Taxation**

(a) *Gross up*: All payments of principal and profit in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Saudi Arabia or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27

November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iii) held by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or

(iv) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.

(b) *Taxing jurisdiction*: If the Issuer becomes subject at any time to any taxing jurisdiction other than Saudi Arabia, references in these Conditions to Saudi Arabia shall be construed as references to Saudi Arabia and/or such other jurisdiction.

14. **Events of Default**

If any of the following events occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes within 7 days of the due date for payment thereof or fails to pay any amount of profit in respect of the Notes within 14 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) Cross-default of Issuer or Subsidiary:

(i) any Indebtedness of the Issuer or any of its Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Principal Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(iii) the Issuer or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness (excluding any Guarantee issued in the ordinary course of banking business),

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.$20,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an aggregate amount in excess of U.S.$20,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or at least 25 per cent. of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries; or

(f) *Insolvency etc*: (i) the Issuer or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (if) an administrator or liquidator of the Issuer or any of its Principal Subsidiaries or the whole or at least 25 per cent. of the undertaking, assets and revenues

of the Issuer or any of its Principal Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Settlement to Avoid Bankruptcy Law) or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (except in the case of a Principal Subsidiary, for the purpose of an amalgamation, merger or consolidation while solvent); or

(g) *Winding up etc*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries (except, in the case of a Principal Subsidiary, for the purpose of an amalgamation, merger or consolidation while solvent); or

(h) *Analogous event*: any event occurs which under the laws of Saudi Arabia or any other jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) to (g) above; or

(i) *Failure to take action etc*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Coupons admissible in evidence in the courts of Saudi Arabia is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes (other than its obligation to pay any amounts in the nature of interest as described in the "Risk Factors" section of the Base Prospectus); or

(k) *Government intervention*: (A) all or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (B) the Issuer or any of its Principal Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues,

then any Note may, by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued profit (if any) without further action or formality.

15. **Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for profit in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and profit on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. **Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided**, **however**, **that**:

(a) the Issuer shall at all times maintain a fiscal agent and a registrar; and

(b) the Issuer will ensure it maintains a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; and

(c) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and

(d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. **Meetings of Noteholders; Modification**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing at least 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons holding or representing at least 25 per cent. of the outstanding Notes.

An Extraordinary Resolution requires the affirmative vote of at least two thirds of those represented in the relevant meeting in order for it to be passed.

(b) *Modification*: The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

19. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of profit) so as to form a single series with the Notes.

20. **Notices**

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*), or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Notices to Noteholders shall be published in compliance with the rules and regulations of each listing authority, stock exchange, and/or quotation system on which the Notes are admitted to listing, trading and/or quotation.

21. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. **Governing Law and Jurisdiction**

(a) *Governing Law*: The Notes and any non-contractual obligations arising out of or in connection with them are governed by English law.

(b) *English Courts*: Subject to Condition 23(c) (*Noteholder's Jurisdiction Option*) below, the courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes).

(c) *Noteholder's Jurisdiction Option*: Without prejudice to the provisions of Condition 23(b) (*English Courts*) above, any Noteholder may, at its discretion, require all Disputes or any specific Dispute to be settled by the Saudi Arabian Committee for the Resolution of Securities Disputes and the Appeal Panel. The Issuer expressly agrees and consents to this Condition 23(c).

(d) *Appropriate Forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(e) *Rights of the Noteholders to take proceedings outside England*: Condition 23(b) (*English Courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 23 prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(f) *Service of process*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at 5th Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Acts. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Fiscal Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

24. **Third Party Rights**

No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

FORM OF FINAL TERMS

PRO FORMA FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF NOTES WITH A DENOMINATION OF AT LEAST EUR50,000 TO BE ADMITTED TO TRADING ON A REGULATED MARKET.

Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [•]

THE SAUDI BRITISH BANK

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$1,600,000,000

Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated 1 November 2010 (the "**Base Prospectus**") [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing during normal business hours at [address] [and copies may be obtained from [address].]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [*original date*] [and the supplemental Base Prospectus dated [•]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 1 November 2010 [and the supplemental Base Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purpose of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplemental Base Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [*original date*] and [•] 2010 [and the supplemental Base Prospectuses dated [•] and [•]]. The Base Prospectuses [and the supplemental Base Prospectuses] [are] available for viewing during normal business hours at [address] [and copies may be obtained from [address].]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]

[When adding any other final terms or information, including final terms at items 9, 10, 15, 16, 17 or 30 of Part A or in relation to the interests of natural and legal persons involved in the issue/offer in Part B, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

1.	Issuer:		The Saudi British Bank
2.	(i)	[Series Number:]	[•]
	(ii)	[Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	[•]
3.	Specified Currency or Currencies:		[•]
4.	Aggregate Nominal Amount of Notes admitted to trading:		[•]
	[(i)]	[Series:]	[•]
	[(ii)]	[Tranche:	[•]]
5.	Issue Price:		[•] per cent. of the Aggregate Nominal Amount [plus accrued profit from [*insert date*] (*in the case of fungible issues only, if applicable*)]
6.	(i)	Specified Denomination:	[•][1]
	(ii)	Calculation Amount:	[•]
7.	(i)	Issue Date:	[•]
	(ii)	Profit Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:		[*Specify date or (for Floating Rate Notes) Profit Payment Date falling in or nearest to the relevant month and year*] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professionals" within Article 9(2)(a) of the Financial Services and Markets Act (Regulated Activities) Order 2001 or (ii) another applicable exemption from section 19 of the FSMA must be available.*]
9.	Profit Basis:		[[•] per cent. Fixed Rate]] [[*specify reference rate*] +/-[•]per cent. Floating Rate

[1] [There may only be one Specified Denomination and this Specified Denomination must be greater than or equal to EUR50,000 or its equivalent unless an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive.]

			[Zero Coupon] [Index-Linked Profit] [Other *(specify)*] (*further particulars specified below*)
10.	Redemption/Payment Basis:		[Redemption at par] [Index-Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other *(specify)*]
11.	Change of Profit or Redemption/Payment Basis:		[*Specify details of any provision for convertibility of Notes into another profit or redemption/ payment basis*]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [(*further particulars specified below*)]
13.	[(i)]	Status of the Notes:	[Senior]
	[(ii)	Date of OGM Resolution approval for issuance of Notes obtained:]	[•]
14.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO PROFIT (IF ANY) PAYABLE

15.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate[(s)] of Profit:	[•] per cent. per annum [payable [annually/semi-annually/ quarterly/monthly/other (*specify*)] in arrear]
	(ii)	Profit Payment Date(s):	[•] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount
	(iv)	Broken Amount(s):	[•] per Calculation Amount payable on the Profit Payment Date falling [in/on] [•] [*Insert particulars of any initial or final broken profit amounts which do not correspond with the Fixed Coupon Amount(s)*]
	(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(vi)	Profit Determination Dates:	[•] in each year (*insert regular profit payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*
	(vii)	Other terms relating to the method of calculating profit for Fixed Rate	[Not Applicable/*give details*]

Notes:

16.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph.*)
	(i)	Profit Period(s):	[•]
	(ii)	Specified Period(s):	[•] (*Specified Periods and Specified Profit Payment Dates are alternatives. A Specified Period, rather than Specified Profit Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable".*)
	(iii)	Specified Profit Payment Date(s):	[•] (*Specified Periods and Specified Profit Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable".*)
	(iv)	First Profit Payment Date:	[•]
	(v)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
	(vi)	Additional Business Centre(s):	[Not Applicable/*give details*]
	(vii)	Manner in which the Rate(s) of Profit is/are to be determined:	[Screen Rate Determination/ ISDA Determination/other (*give details*)]
	(viii)	Party responsible for calculating the Rate(s) of Profit and Profit Amount(s) (if not the Fiscal Agent):	[[*Name*] shall be the Calculation Agent (*no need to specify if the Fiscal Agent is to perform this function*)]
	(ix)	Screen Rate Determination:	
		• Reference Rate:	[*For example, LIBOR, EURIBOR or SIBOR*]
		• Profit Determination Date(s):	[•]
		• Relevant Screen Page:	[*For example, Reuters page 3750/248*]
	(x)	ISDA Determination:	
		• Floating Rate Option:	[•]
		• Designated Maturity:	[•]
		• Reset Date:	[•]
	(xi)	Margin(s):	[+/-][•] per cent. per annum

	(xii)	Minimum Rate of Profit:	[•] per cent. per annum
	(xiii)	Maximum Rate of Profit:	[•] per cent. per annum
	(xiv)	Day Count Fraction:	[•]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating profit on Floating Rate Notes, if different from those set out in the Conditions:	[•]
17.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Accrual/Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	Any other formula/basis of determining amount payable:	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(g) (Early redemption of Zero Coupon Notes)*]
18.	**Index-Linked Profit Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula/other variable:	[*Give or annex details*]
	(ii)	Party responsible for calculating the Rate(s) of Profit and/or Profit Amount(s) (if not the Fiscal Agent):	[•]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Profit Determination Date(s):	[•]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•] (*Need to include a description of market disruption or settlement disruption events and adjustment provisions*)
	(vi)	Specified Period(s):	[•] (*Specified Periods and Specified Profit Payment Dates are alternatives. A Specified Period, rather than Specified Profit Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable".*)
	(vii)	Specified Profit Payment Date(s):	[•]

			(*Specified Periods and Specified Profit Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*.)
	(viii)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other *(give details*)]
	(ix)	Additional Business Centre(s):	[•]
	(x)	Minimum Rate/Amount of Profit:	[•] per cent. per annum
	(xi)	Maximum Rate/Amount of Profit:	[•] per cent. per annum
	(xii)	Day Count Fraction:	[•]
19.	**Dual Currency Note Provisions**		[Applicable/Not Applicable]
			[*If not applicable, delete the remaining sub-paragraphs of this paragraph*]
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*Give details*]
	(ii)	Party, if any, responsible for calculating the principal and/or profit due (if not the Fiscal Agent):	[•]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions.*]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[•]

PROVISIONS RELATING TO REDEMPTION

20.	**Call Option**		[Applicable/Not Applicable]
			(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv)	Notice period:	[•]

21.	**Put Option**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amounts:	[•] per Calculation Amount
	(iii)	Notice period:	[•]
22.	**Final Redemption Amount of each Note**		[•] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		
	(i)	Index/Formula/variable:	[*Give or annex details*]
	(ii)	Party responsible for calculating the Final Redemption Amount (if not the Fiscal Agent):	[•]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Profit Determination Date(s):	[•]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disputed:	[•]
	(vi)	Payment Date:	[•]
	(vii)	Minimum Final Redemption Amount:	[•] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[•] per Calculation Amount
23.	**Early Redemption Amount**		
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):		[Not Applicable (*if both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes*)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	[Bearer Notes:] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on [•] days' notice/at any

		time/in the limited circumstances specified in the Permanent Global Note].] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice.] [Permanent Global Note exchangeable for Definitive Notes [on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]]. *(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes)* [Registered Notes] [Global Registered Note exchangeable for Individual Note Certificates on [•] days' notice/ at any time/in the limited circumstances specified in the Global Registered Note] [Individual Note Certificates]
25.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details*. *Note that this item relates to the date and place of payment, and not profit period end dates, to which items 15(ii), 16(iv) and 18(ix) relate*]
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and profit due on late payment:	[Not Applicable/*give details*]
28.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
29.	Other final terms or special Conditions:	[Not Applicable/*give details*] (*When adding any other final terms, consideration should be given as to whether*

such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

30.	(i)	If syndicated, names and addresses of Managers:	[Not Applicable/*give names and addresses*] (*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*)
	(ii)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
31.		If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
32.		TEFRA:	(*In the case of Bearer Notes*) - [Not Applicable/The [C/D] Rules are applicable] (*In the case of Registered Notes*) – Not Applicable
33.		Additional selling restrictions:	[Not Applicable/*give details*]

[LISTING AND ADMISSION TO TRADING

These Final Terms comprise the final terms required for the Notes described herein to be admitted to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange pursuant to the U.S.$1,600,000,000 Euro Medium Term Note Programme of The Saudi British Bank.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [(*Relevant third party information*)] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By: .....
Duly authorised

PART B — OTHER INFORMATION LISTING

1. **LISTING AND ADMISSION TO TRADING**:

(i)	Listing:	[London/other *(specify)*/None]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [•] with effect from [•]]/[Not Applicable] (*Where documenting a fungible issue, need to indicate that original Notes are already admitted to trading*)
(iii)	Estimate of total expenses related to admission to trading:	[•]

2. **RATINGS**

Ratings:	The Notes to be issued have been rated: [S & P: [•]] [Moody's: [•]] [Fitch: [•]] [Other: [•]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. **[NOTIFICATION**

The [*include name of competent authority in home Member State*] [*has been requested to provide/has provided — include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*include names of competent authorities of host Member State*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. Such may be satisfied by the inclusion of the following statement:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."

When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospective Directive.

5. **[REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i)]	Reasons for the offer	[•] (*See "Use of Proceeds" wording in Base Prospectus — if reasons for offer are different from making profit and/or hedging certain risks,*

will need to include those reasons here.)]

[(ii)] Estimated net proceeds: [•]

(*If proceeds are intended for more than one use, will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses, state amount and sources of other funding.*)

[(iii)] Estimated total expenses: [•] [*Include breakdown of expenses*]

(*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.*)]

6. [**Fixed Rate Notes only — YIELD**

Indication of yield: [•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. **[HISTORIC INTEREST RATES** — Floating Rate Notes only

Details of historic [LIBOR/EURIBOR/*other*] rates can be obtained from [Reuters].]

8. [**PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, EXPLANATION AND OTHER INFORMATION CONCERNING THE UNDERLYING** — Index-Linked or other variable-linked Notes only

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index, need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer, need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.

When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospective Directive.

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

9. **[PERFORMANCE OF RATE[S] OF EXCHANGE** — Dual Currency Notes only

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.

When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospective Directive.]

10. **OPERATIONAL INFORMATION**

ISIN Code:	[•]
Common Code:	[•]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s) (if any):	[•]
Names and addresses of additional Paying Agent(s) (if any):	[•]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or a Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Registered Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

(a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note; or

(b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Fiscal Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within seven days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or

(c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued profit thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under a deed of covenant dated 1 November 2010 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued profit thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Global Registered Notes

Whenever a Global Registered Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf

of the holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes represented by a Global Registered Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued profit thereon has not been made to the holder of the Global Registered Note in accordance with the terms of the Global Registered Note on the due date for payment,

then the Global Registered Note (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Registered Note will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Registered Note or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Registered Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Note became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Owner of Global Registered Notes and Payments

Subject to certain provisions of the Deed of Covenant relating to directions, sanctions and consents of Holders of Registered Notes and to meetings of Holders of Notes, so long as Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered owner or holder of a Global Registered Note, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Registered Note for all purposes under the Agency Agreement, the Deed of Covenant and the Notes. Payments of principal, profit and additional amounts, if any, pursuant to Condition 12 (*Payments - Registered Notes*), on Global Registered Notes will be made to Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Registrar, or any Paying Agent or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Registered Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Each such payment in respect of a Global Registered Note will be made to the person shown as the registered owner or holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Registered Note is being held is open for business.

Conditions applicable to Global Notes

Each Global Note and Global Registered Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Registered Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Registered Note which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Individual Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all profit accrued thereon) surrender of the Global Note or Global Registered Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. In respect of a Global Note or Global Registered Note only, a Payment Business Day will mean (i) if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or (ii) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre. On each occasion on which a payment of principal or profit is made in respect of the Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption at the option of Noteholders*), the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) or the Global Registered Note is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

DESCRIPTION OF THE ISSUER

General

The Saudi British Bank ("**SABB**") is a joint stock company incorporated under the laws of Saudi Arabia with registered office in Prince Abdulaziz Bin Musaad Bin Jalawi Street (Dabaab), Riyadh 11413, Saudi Arabia. SABB was established by Royal Decree No. M/4 dated 21 January 1978 and was assigned commercial registration number 1010025779 on 13 October 1979. SABB formally commenced business on 1 July 1978 with the taking over of the operations of The British Bank of the Middle East in Saudi Arabia. SABB is incorporated for a term of 99 years commencing on 29 May 1978, which may be extended by a resolution of the shareholders at an extraordinary general meeting. SABB operates under a banking licence granted by the Saudi Arabian Monetary Agency ("**SAMA**"), which permits it to operate as a commercial bank. SABB is authorised under its by-laws to conduct all types of banking activities within Saudi Arabia and abroad. Currently, it operates through a network of 79 branches and 31 exclusive ladies' sections in Saudi Arabia. SABB employed 3,405 staff as at 30 September 2010.

SABB is the fifth largest bank in Saudi Arabia in terms of shareholders' equity and total assets (see "The Banking Sector in Saudi Arabia - Selected Financial Information for Saudi Banks"). For the year ended 31 December 2009, SABB generated operating income of SAR 5.16 billion and had net income of SAR 2.03 billion. As at 31 December 2009, SABB's shareholders' equity was SAR 13.05 billion and its total assets were SAR 126.8 billion. For the year ended 31 December 2009, SABB's return on equity was 15.58 per cent. and its return on assets was 1.6 per cent. As at 31 December 2009, SABB's capital adequacy ratio, calculated according to standards set by SAMA (which are based on standards established by the Bank for International Settlements), was 12.8 per cent.

SABB's objectives are to provide a full range of financial services. SABB's principal lines of business are Personal Banking, Commercial & Corporate Banking, Private Banking, Investment Banking and Treasury. In addition, SABB provides non-interest bearing products, offering Islamic law (Shariah) compliant products across all principal business lines, under the "Amanah" brand-name. These are approved and supervised by an independent Shariah Board established by SABB. SABB is continually evaluating new business opportunities to expand the range of banking and finance products and services which it offers its customers. See "Strategy".

In 2009

The Banker named SABB Saudi Bank of the Year; Asian Banker named SABB Strongest Bank in Saudi Arabia; and Global Finance awarded SABB with Best Internet Bank and Best Trade Finance Provider in Saudi Arabia for the second year in succession.

History

The origins of SABB's business derive from the establishment by The British Bank of the Middle East ("**BBME**") of a presence in Saudi Arabia in 1950. BBME was subsequently purchased by HSBC Group (as defined below) in 1959. SABB was established for the purpose of acquiring BBME's business in Saudi Arabia, following the issue of a directive by the government of Saudi Arabia in 1976 that prohibited more than 40 per cent. foreign ownership of banks in Saudi Arabia. SABB began commercial operations on 1 July 1978 following completion of the acquisition. The business acquired included branches in Jeddah, Al Khobar and Dammam.

SABB's share capital at the time of its establishment was SAR 100,000,000, of which SAR 42,750,000 was raised by public subscription for 427,500 shares (representing 42.75 per cent. of the total issued share capital). Since its establishment, SABB's paid-up share capital has been increased to SAR 7.5 billion by successive capital increases. SABB has 9,187 registered shareholders as of 31 March 2009. All shares in SABB are fully paid. SABB's shares have been listed on the Saudi Stock Exchange since the inception of the exchange in August 1990.

Relationship with HSBC

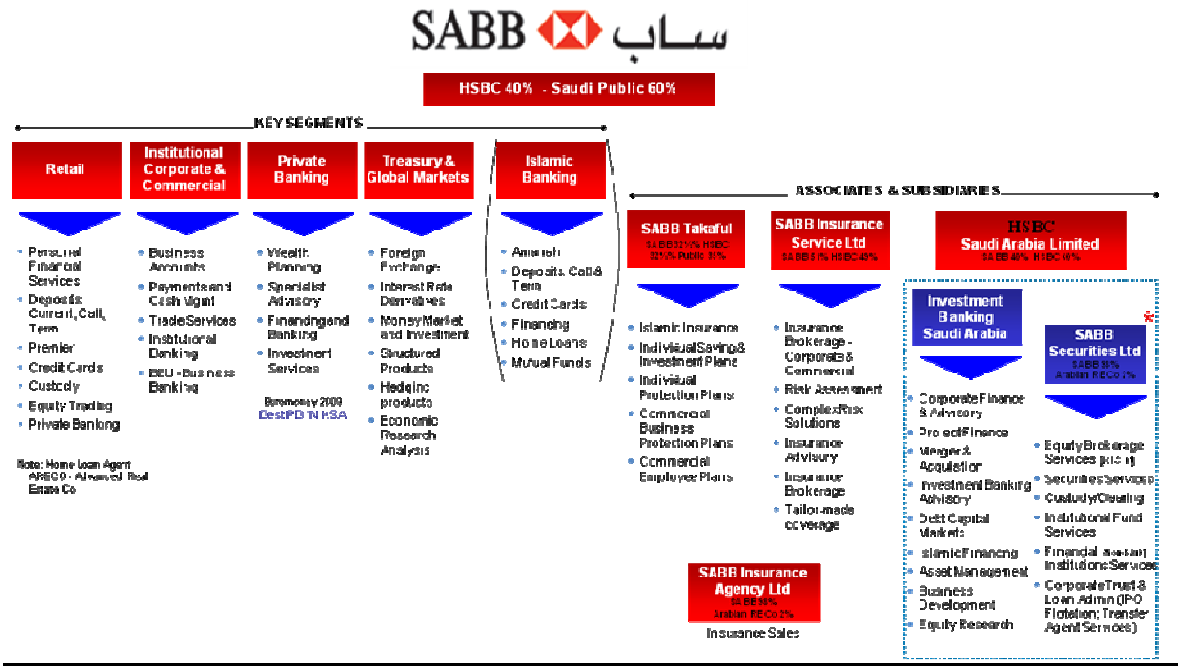
HSBC Holdings BV, a wholly-owned subsidiary of HSBC Holdings plc ("**HSBC Holdings**"), is the major shareholder of SABB, holding 40 per cent. of its share capital (the maximum permitted foreign shareholding in a Saudi bank at the time of the incorporation of the Issuer). (HSBC Holdings, together with its subsidiaries and associated undertakings, is referred to in this Base Prospectus as the "**HSBC**

Group".) HSBC Group is one of the world's leading banking and financial services groups with over 125 million customers around the world served by 312,000 staff in 88 countries and territories. In addition, HSBC Group provides SABB with management and technical support. Other shareholders of SABB are Saudi institutions and individuals.

Although SABB is not a subsidiary but an associate of HSBC Holdings, it adopts a common approach with HSBC Group members in a number of areas, including strategic planning, risk control and compliance. Pursuant to a technical services agreement between SABB and HSBC Holdings (the "**Technical Services Agreement**"), HSBC Holdings is responsible for providing management support to SABB and for assisting SABB to expand and improve its banking services in accordance with HSBC Group's banking practices and standards. Under the Technical Services Agreement, HSBC Holdings is also responsible for developing SABB's strategic plan and training its staff. The Technical Services Agreement was first entered into on 23 July 1978 and has been renewed periodically since that date. It was renewed most recently on 30 September 2007 and is valid for five years. SABB is able to offer HSBC Group banking services to its customers through its inter-linkage with HSBC Group's ATMs and payment systems, IT operating systems and its electronic banking systems. SABB also uses HSBC Group's Treasury Trading System ("**TREATS**") and is able to draw on HSBC Group's world-wide operational management expertise.

Significant joint ventures and principal subsidiary

A summary of the product groups, significant joint ventures and principal subsidiaries is provided below;



Note: As HSBC Group's Islamic Banking brand, Amanah is not a standalone product, but rather offered throughout SABB's different service offerings.

HSBC Saudi Arabia Limited

In November 2005, the Saudi Capital Market Authority (the "**CMA**") granted an investment banking licence to HSBC Saudi Arabia Limited ("**HSBC Saudi Arabia**"), a newly incorporated Saudi company, owned 60 per cent. by HSBC Group and 40 per cent. by SABB, which was the first such licence to be granted in Saudi Arabia.

The joint venture associate is known as HSBC Saudi Arabia Limited, established as a limited liability company headquartered in Riyadh. The joint venture operates in a range of investment banking activities, providing a wide range of superior investment banking services and products:

- debt capital markets and syndicated loans,
- corporate financing services (initial public offerings, M&A and private placements),
- project finance and advisory,
- asset management,
- research,
- investment advice, and
- innovative Islamic Shariah compliant (*Amanah*) solutions

SABB Takaful Company

SABB Takaful Company ("**SABB Takaful**") is a Saudi joint stock company authorised by Royal Decree No.M/60 dated 9 October 2006 and operates under commercial registration No. 1010234032 dated 6 June 2007. SABB Takaful is incorporated in Saudi Arabia with a fully paid-up capital of a SAR 100 million. It is an associate company of SABB and HSBC, with 32.5 per cent. owned by SABB, 31 per cent. of its share capital owned by subsidiaries of the HSBC Group and the balance owned by the public by way of an initial public offering. SABB Takaful is listed on the Tadawul.

Through HSBC Amanah, the global Islamic banking division of the HSBC Group, SABB Takaful is able to leverage on HSBC Amanah's experience, *takaful* (*Shariah* compliant insurance) know-how and expertise worldwide, including in Singapore, Malaysia and the United Kingdom, to provide high quality *takaful* products in Saudi Arabia. SABB Takaful operates via SABB's established distribution channels. All SABB Takaful products are reviewed and approved by SABB Takaful's Shariah Committee. SABB Takaful offers a range of *takaful* plans to meet individuals and corporate customers' protection needs in Saudi Arabia. These plans include:

- individual family *takaful* (protection and investments);
- general *takaful* (property and accident); and
- corporate and commercial *takaful*.

SABB Insurance Services Limited

In 2008 SABB launched SABB Insurance Services Limited ("**SISL**"), an insurance brokerage service aimed at assisting large corporations to manage risk. The company is a joint venture between SABB and HSBC Insurance Brokers Limited. On 18 December 2009, Marsh, the world's leading insurance broker and risk advisor, announced it had reached an agreement to acquire HSBC Insurance Brokers Limited. Concurrent with this transaction, Marsh had entered into a Preferred Strategic Partnership ("**PSP**") with HSBC. Under the terms of the PSP, Marsh will have preferred access to provide insurance broking and risk management services to HSBC's corporate and private clients. It is anticipated that Marsh will also acquire SISL during the course of 2010. Through a dedicated team of professionals, it will provide risk assessment and insurance advice for companies operating in Saudi Arabia.

SISL complements the activities of SABB Takaful. Together, the two organisations enable SABB to offer a full range of insurance products to all types of customers in Saudi Arabia, from individuals to major corporations. SABB's partner in the brokerage venture, HSBC Insurance Brokers, has over 30 years experience of operating in the Gulf region and is recognised as a leading international insurance broker, with offices in United Arab Emirates, Oman, Sweden, United Kingdom, China, Taiwan, Philippines, India, Korea, Singapore, Bermuda and Italy.

With its head office located in Riyadh, SISL has representation in Jeddah and Al Khobar. These will provide local services to companies across Saudi Arabia and, through the HSBC network, internationally.

SABB Securities Limited

SABB has a 100 per cent. ownership interest (2 per cent. indirectly) in a subsidiary, SABB Securities Limited ("**SABB Securities**"), a Saudi limited liability company formed in accordance with CMA's

resolution No. 2007-35-7 dated 25 June 2007 and registered in Saudi Arabia under commercial registration No. 1010235982 dated 22 July 2007.

SABB Securities is the official operating company for all of SABB's equity brokerage and securities services formally offered by SABB itself. The objectives of SABB Securities are to engage in the business of custody and dealing as an agent excluding underwriting. SABB Securities has opened for business as SABB's equity brokerage and financial securities service. SABB Securities was established so as to comply with the CMA's requirements for banks to separate certain businesses into independent entities.

SABB Securities offers a full range of brokerage services including domestic, GCC and international equity brokerage. Trading is offered through a variety of channels including on-line services, toll-free phone call centres and investment centres. In addition, SABB Securities offers custody and clearing services to both local and foreign corporate and institutional investors, including the safekeeping of securities, receipt and delivery of securities, conversion of share certificates, portfolio reporting, corporate action reporting and payments collection. It also expects to be involved in the floatation management of initial public offerings, rights issues, dematerialisation of shares, promotion of institutional fund services products to external fund managers, fund administration services and back office support to newly formed non-bank financial institutions.

SABB Insurance Agency Limited

The Bank has 100 per cent. (2008: 100 per cent.) ownership interest in a subsidiary, SABB Insurance Agency company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has 98 per cent. direct and 2 per cent. indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activity is to act as a sole insurance agent for SABB Takaful Company (an associate company- see note 7) within Kingdom of Saudi Arabia as per the agreement between them. However, the article of association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

Strategy

Having successfully achieved its previous strategy, "Managing for Growth", and developed its brand "Local vision, international expertise", SABB, which adopts a common strategic approach with the HSBC Group, is now implementing the core pillars of the HSBC Group strategy.

The key themes of this strategy target the following areas:

- *Customers* – SABB aims at improving its customer experience by delivering excellence and providing services which meet the highest quality standards with a view to achieving customer satisfaction and be recognised as the 'best place to bank'.

- *Personnel* – SABB aims at investing in human resources by identifying and developing its staff's skills and expertise and providing, at the same time, the best possible working environment. SABB's management considers motivation and engagement of SABB's employees to be a critical factor in SABB's business performance.

- *Growth* – SABB aims at focusing on business and profitability growth by prioritising the allocation of its capital so that it generates the best return for shareholders in the long term. SABB's objective is to ensure that its businesses, especially in mature markets, are self-funding.

- *Technology and process* – SABB aims at investing in technology and automating its processing to facilitate business relationships with its customers by providing easier access to its services when and where they want, and to improve efficiency.

- *Global Advantage* - SABB considers that HSBC's global reach is a key competitive advantage for SABB. SABB aims to offer its customers an unparalleled international service through the creation of a truly joined-up network, with seamless referrals between countries, to support its customers around the world.

Competition and Competitive Strengths

SABB faces competition from many foreign and domestic banks in each of the different business areas in which it operates. For further details, see "The Banking Sector in Saudi Arabia - General".)

In the corporate banking sector, SABB competes to attract large national corporate clients that can provide significant volumes of business directly and present opportunities to cross sell personal banking services to employees. SABB considers its primary competitors in this sector to be Arab National Bank, Riyad Bank, Banque Saudi Fransi and Samba Financial Group. In relation to Islamic banking services, SABB also competes with Alrajhi Bank, Bank Aljazira and Bank Al-Bilad.

SABB competes with the same group of Saudi banks across its personal products as it does on the corporate side and, in addition, The National Commercial Bank ("**NCB**"), an unlisted Saudi bank, majority owned by Saudi government institutions.

SABB's investment banking/securities business subsidiary SABB Securities and its affiliate IBSA compete with subsidiaries/affiliates of the same group of Saudi banks, Management of SABB believes that, with the formation of SABB Securities and IBSA, given these entities' ability to draw on HSBC Group's investment banking/securities business expertise, it will be well placed to compete in this area.

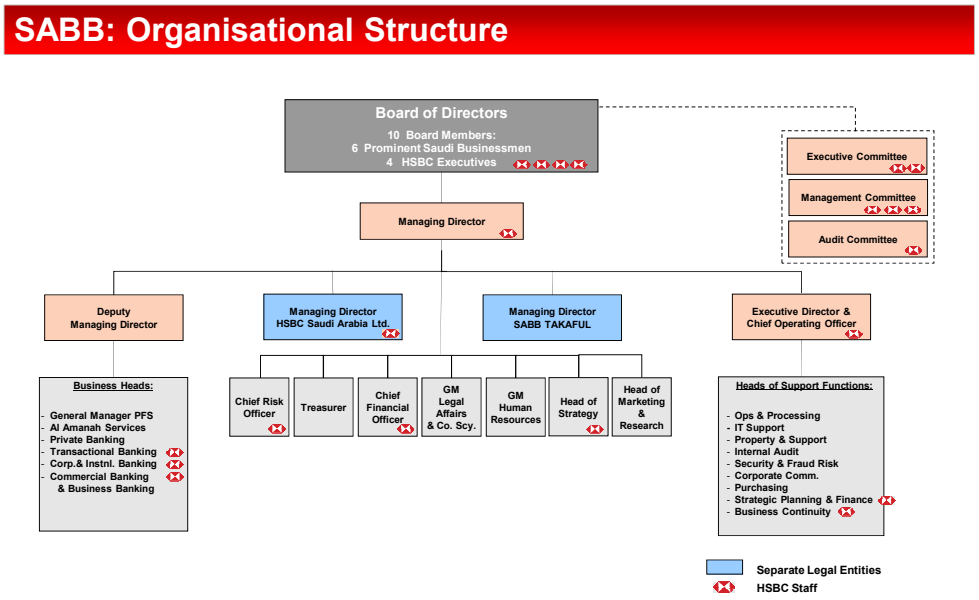
SABB considers that it has a strong position in the Saudi trade finance, commercial banking and credit card segments. SABB also considers that this is also true of its investment banking/securities business subsidiary and affiliate.

SABB believes that its, and its investment banking/securities business subsidiary's and affiliate's, strong market position is attributable to its competitive advantages, and in particular to their:

- alignment and linkages with HSBC Group;
- extensive range of customised products and services;
- well-known "*Amanah*" Islamic banking brand and reputation for Shariah compliant products and services;
- developed distribution channels;
- advanced technological platform, with systems support from HSBC Group;
- committed and talented staff, and human resources policies that enable SABB and its investment banking/securities business subsidiary and affiliate to retain talent and increase productivity;
- first mover advantage in certain key business lines (such as electronic banking channels), and opportunistic exploitation through joint ventures (such as investment banking/securities business and insurance);
- conservative credit policies, based upon HSBC Group policies and procedures; and
- strong balance sheet and liquidity, providing operational and financial flexibility.

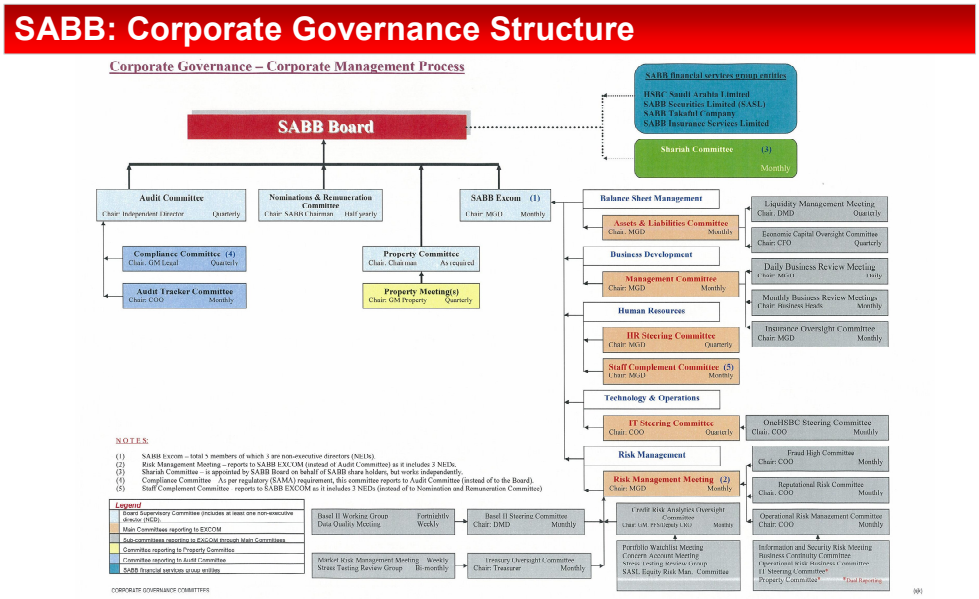
Organisational Structure of SABB

The following chart sets out SABB's senior management structure:



SABB ساب

The following chart sets out SABB's Corporate Governance structure:



SABB divides its operations into five principal business segments: Personal Banking, Corporate & Commercial Banking, Private Banking, Investment Banking and Treasury. SABB offers *Shariah* compliant products across all principal business lines, under the "*Amanah*" brand-name. The following table sets out the proportion of SABB's net income contributed by each business segment for the periods indicated.

Income Contribution by Business Segment

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

Retail Banking

Personal Banking

SABB offers a wide spectrum of Personal Banking products to individuals through the SABB network. As at 30 September 2010 the SABB network consists of 79 branches including 31 exclusive ladies sections throughout Saudi Arabia, as well as 500 automatic teller machines ("**ATMs**") and 80 cash deposit machines ("**CDMs**"). Super branches offer a full range of banking and investment products and support other branches located in proximity to them. ATMs are located throughout Saudi Arabia; 64 per cent. of ATMs are at locations other than branches and 56 per cent. of those are drive-up ATMs. Many services are also available through direct access channels such as SABB's proprietary 24-hour telephone banking service, "SABB Direct", and its proprietary internet banking facility, "SABBNET".

SABB's Personal Banking product range is extensive, with products offered in both Shariah compliant and conventional formats. In addition to accounts offered in four major currencies (Saudi Riyals, U.S. dollars, euro and Sterling), SABB offers its Personal Banking customers certain investment services including, if required, a financial advisory service. Lending facilities include a range of credit products including "Manazel" home ownership loans and Visa or MasterCard credit cards. SABB seeks to tailor its offerings by developing packages that cover the needs of all of its customers. SABB currently offers its Personal Banking customers the following range of packaged banking services:

- *Premier*. Specialised service tailored to meet the needs of high net worth customers. It is an innovative globally linked-up banking service that enables SABB Premier customers to explore and seize all the opportunities the world now has to offer. This new banking service has been built around four guiding principles to respond to the expressed needs of international customers, as they want: international recognition and support, good investment advice, help when relocating or banking overseas and one of the most competitive credit card reward scheme on the market.

- *Al Imtiaz*. Specialised services tailored to meet the needs of affluent customers who will receive excellent personalised attention offered by their Al-Imtiaz officer.

- *Al Ruwaad*. Al Ruwaad Account represents a new vision of banking services for men and ladies in all employment sectors (both governmental and private) and is targeted at middle market customers with an attractive range of benefits and features.

- *Al Mustaqbal*. This package caters to college and university students. It offers them normal banking services, automatic conversion to Al Ruwaad accounts after graduation and on-the-spot cashing of government "Student Reward" cheques.

These packages are continually updated and revised. Since the full range of SABB's products and services can be included within these packages, individual customers are free to select those products and services that they require. SABB's product development and sales process is built around identifying customer needs and providing solutions to customers.

The products and services of SABB cater for the full range of its personal customer base. Demand for a broad range of investment products has tended to be limited to SABB's high net worth customers while other personal customers have taken advantage of a more limited range of investment products. However,

with the growth of the Saudi stock market, a wider cross-section of individuals have begun to invest in the domestic capital markets, which has led to a growth in demand for SABB's brokerage services across SABB's personal customer base.

The concentration of customers utilising retail lending products is within the middle- to upper-income bracket, with many customers being employees of SABB's corporate customers who have been referred to SABB by their employers.

To expand methods of delivery of products from the branch network, SABB has been investing in direct banking channels including internet services and mobile telephony via Short Message Service (SMS) as well as telephone banking and ATM services.

SABB has also converted 78 branches to become Amanah branches providing a full-range of *Shariah* compliant products. SABB intends to convert further branches during 2010.

SABB has launched an initiative called CEBS (Corporate Employees Benefits Scheme). SABB has CEBS Managers in each region of Saudi Arabia to cater to all the banking needs of employees of the companies banking with SABB.

Private Banking

SABB's Private Banking business was established in 1994, and offers a wide range of domestic and international financial services to high net worth individuals aimed at wealth protection and growth. These services include private client stock brokerage, asset management and general banking services (including lending and treasury services). Each private client is allocated a private banking relationship manager. SABB aims to expand the product range it offers to its Private Banking customers to include structured finance products and other tailored products.

SABB Private Banking has grown yet further in 2009 and now has representation in the three main regions of Saudi Arabia, including a dedicated ladies unit in Riyadh. All are staffed by some of the most highly qualified relationship managers in Saudi Arabia. This has ensured Private Banking's status as a market leader in terms of market share.

To strengthen Private Banking's activities, in addition to all investment opportunities offered by HSBC Saudi Arabia, SABB Private Banking extended services to its clients by developing a close relationship with HSBC Private Bank in Geneva. SABB Private Banking's clients are now able to benefit from the services offered by HSBC in a number of centres worldwide.

SABB has been recognised as the Best Private Bank in Saudi Arabia in the Euromoney Private Banking and Wealth Management Survey 2009, which is regarded as the benchmark for the wealth management sector.

Corporate & Commercial Banking

SABB's Corporate & Commercial Banking offers a wide range of products and services to small, medium and large enterprises with dedicated relationship management teams covering each segment, based in Central, Eastern and Western Provinces.

The Corporate Banking segment serves institutional clients, the largest Saudi corporations among SABB's clients, and global corporate customers of the HSBC Group, who are offered the full range of integrated corporate and investment banking solutions. The commercial banking segment serves large commercial businesses, middle-market commercial customers commercial customers and those smaller customers classified as Small and Medium Enterprises referred to as Business Banking - who are offered a wide range of solutions with an increasing emphasis on Amanah products. All of SABB's Corporate and Commercial Banking clients are able to utilise the extensive domestic branch network, as well as that of the wider HSBC Group, with SABB relationship managers providing the link to relationship teams in HSBC where required.

SABB's Corporate & Commercial Banking products, include the following:

- *Corporate & Commercial Banking services*. SABB offers its corporate and commercial customers Saudi Riyal and foreign currency accounts, treasury services, international and

domestic payments facilities and cash management. Account information can be accessed, and payments and transfers made, electronically 24 hours a day, all year round.

- *Trade services*. SABB offers import and export services to traders in Saudi Arabia, including import and export financing, assistance in the processing of import/export transactions and advisory services, guarantee issuances, confirmation of documentation credits, and documentary credit collection. Management considers that its ability to draw on the resources of HSBC Group in the handling of documentation on international trade finance transactions gives it a significant competitive advantage.

- *Investment banking services*. This comprises services offered to SABB clients by the Investment Banking Group (see "Investment Banking" below).

- *Insurance and retirement services*. SABB offers a wide range of insurance services to its corporate and commercial customers, through SABB Takaful (for Shariah compliant solutions), as well as its newly established insurance brokers operation, SISL, in partnership with the HSBC Group.

Investment Banking

HSBC Saudi Arabia Limited ("**IBSA**") is a global full-service, independent investment bank in Saudi Arabia licensed under the Capital Market Law.

IBSA provides a full range of investment banking services including corporate finance advisory, debt capital markets and project finance, across Shariah-based and conventional financing modes. It also manufactures and manages equity and money market funds, as well as offering discretionary portfolio management. IBSA serves a wide range of clients including but not limited to corporates, non-bank financial institutions and individuals. IBSA also manages SABB Securities Limited, which offers domestic and international equity brokerage as well as securities services.

In 2009 and 2010 IBSA won, Euromoney's the "Best Investment Bank in Saudi Arabia" award. Also in 2009, IBSA won EMEA Finance “Best Foreign Investment Bank in Saudi Arabia” award. Furthermore, IBSA contributed to HSBC being awarded by Euromoney "Best Sukuk House" and "Best Islamic Project Finance House" in 2007, "Best International Islamic Bank" in 2008 and "Best Debt House in the Middle East" in 2009.

Corporate Finance

The Corporate Finance activities consist of three core product groups, comprising Investment Banking Financing, Investment Banking Advisory, and Islamic Finance.

During 2009 IBSA continued to be the Saudi's most active bank in terms of financial advisory, lead manager and/or placing agent for equity and fixed income issues. In addition, during the course of 2009, IBSA further consolidated its position in Islamic Finance transactions whereby IBSA led the way in advising on and lead arranging the major domestic Sukuk issues in Saudi Arabia.

- The Debt Capital Market and Syndication team is responsible for leading the advisory and arranging of financings, debt capital markets transactions, structured and syndicated finance transactions. IBSA has expertise in advising, arranging, underwriting, and syndicating complex transactions in key sectors such as oil and gas, petrochemicals, power and energy, telecommunications, manufacturing and services, and infrastructure.

- The Project Export Finance team is responsible for leading the advisory and arranging of project financings, IBSA has expertise in advising, arranging, underwriting, and syndicating complex project finance transactions in key sectors such as oil and gas, petrochemicals, power and energy, and infrastructure.

- The Investment Banking Advisory team is responsible for advisory services related to acquisitions, divestments and mergers, strategic planning and reviews, corporate restructuring and privatisations and for the structuring, managing and underwriting of initial public offerings, flotation or secondary placements of equity or equity-linked securities and the structuring and placement of private equity transactions.

• The Islamic Finance team is responsible for advising on and structuring of *Shariah*-based financing solutions focusing on Sukuk, project and structured finance, and syndications. IBSA has extensively been involved in the development of groundbreaking *Shariah*-based finance, including the award-winning project financings and the first local Islamic Sukuk for SABIC in 2006 and two subsequent issues in the local market for SABIC and two Issues for Saudi Electricity Company in 2007 and 2009.

Asset management

IBSA manages a total of five money market and twenty-four non-money market investment funds. The funds provide all segments of investors (retail, high net worth, corporate and institutional) with opportunities for domestic and international investment with varying risk/ return profiles.

As at 31 December 2009, the Asset Management unit had total funds under management of over SAR 14 billion of which non-money market funds had over SAR 5 billion in funds managed and funds managed on a discretionary basis were in excess of SAR 5bn.

In December 2007, IBSA launched the Saudi Equity Index Fund and Saudi Petrochemical Fund with a view to increase its capacity for foreign institutional investments. The mutual funds provide local and overseas investors the opportunity to invest in a broad spectrum of regional as well as international equities.

In addition to a number of mutual funds, IBSA offers discretionary portfolio management services for private, corporate and institutional clients in both local and international markets.

IBSA also manages SABB Securities, which offers the following services:

Brokerage Services

SABB Securities was successfully established during 2007 and continues to provide domestic and international equity brokerage services. The brokerage service is operated out of an equities centre in Riyadh and is offered via 14 investment centres spread throughout Saudi Arabia. SABB Securities also provides brokerage services via the internet and call centres. During 2009, SABB Securities was ranked 3rd among 36 active local competitors, gaining a market share of over 11.6 per cent. in terms of total Saudi market turnover.

Securities Services

The Custody and Clearing unit provides custodial services to corporate and institutional investors, offering a range of services such as safe keeping of securities, receipt and delivery of securities, conversion of share certificates, portfolio reporting, corporate action reporting and payments collection. This unit is also involved in the floatation and management of initial public offering and rights issues and dematerialisation of shares. It is also involved in the promotion of institutional fund services products to external fund managers, as well as offering corporate trust and loan agency services. SABB Securities strong position in the local debt and equity markets, coupled with its close association with HSBC Group Securities Services gives it an advantage in delivering quality custody services, both domestic and international. HSBC Group has the largest custodian network in the Middle East and Asia. During 2007, it was named the "Best Sub-custodian bank in Saudi Arabia" and "Best Sub-Custodian" by *Global Finance* magazine.

Treasury

SABB's Treasury is based in Riyadh and offers treasury products to its corporate and commercial clients and internal networks ranging from basic foreign exchange and interest rate protection to money market operation, precious metals and government bonds, foreign exchange and interest rates derivatives for hedging purposes. SABB Treasury is the market leader in Saudi Arabia for Islamic law compliant derivative products to corporates.

Where SABB does not have local expertise it is able to offer its clients access to the HSBC Group's network to offer and price the complete range of treasury products.

The Treasury also manages SABB's proprietary portfolio of bonds and other fixed income securities and is considered a major participant in the local Saudi currency spot and forward markets.

Proprietary trading is generally limited to Saudi government debt.

Derivatives are used by SABB for its own account to hedge interest rate and currency positions and for customer-related transactions and, to a limited extent, for proprietary trading.

Treasury operates within an established limit structure, including oversight by SABB's Asset and Liability Committee ("**ALCO**"), with positions monitored on a daily basis.

Funding

Treasury is also responsible for the funding of all of SABB's operations. The main source of funding is customer deposits. As at 31 December 2009, the aggregate amount of SABB's liabilities totalled SAR 113.8 billion, including customer deposits of SAR 89.2 billion.

Risk Management

SABB faces a variety of risks in its day-to-day operations (including market, trading, credit and operational risks). In order to minimise their effects, SABB has established risk management functions to identify, evaluate and manage SABB's risks. In addition, SABB responded to asset quality concerns that peaked in 2009 by establishing a Special Assets Team to actively monitor clients whose accounts fall below stringent performance ratings.

Organisation

Risk Management is an independent function within SABB headed by the Chief Risk Officer with responsibility for the development validation and oversight of SABB's risk policies, reporting and models.

Whilst business units have primary responsibility for managing specific risk exposures under the oversight of the Chief Risk Officer, the Executive Committee, the Audit Committee, Risk Management Committee, the Operations Risk Management Committee (the "**ORM Committee**") and ALCO have primary responsibility for managing the following areas of SABB's global risk exposure:

- *Executive Committee*. Through delegated authority from the Board of Directors, the Executive Committee approves methods and procedures for managing operational and credit risk. The Executive Committee is chaired by SABB's Managing Director and consists of four members (in addition to the chairman) selected from among the members of the Board of Directors (including two representatives of HSBC Group). The Executive Committee meets at least once a month and whenever it is convened by its chairman.

- *Audit Committee*. This committee receives recommendations from internal, external and HSBC Group auditors for improvements in risk management controls. The Audit Committee is appointed by the Board of Directors (subject to approval of SABB's shareholders) and consists of between three and five members appointed from SABB's non-executive directors who do not perform any technical or administrative work within SABB. The Audit Committee is responsible for: (i) recommending the appointment of SABB's external auditors; (ii) monitoring the effectiveness of SABB's compliance with internal controls and related matters; (iii) reviewing material accounting policies and procedures; and (iv) reviewing the evaluation of internal controls carried out by the internal and external auditors. The Audit Committee is accountable and reports to the Board of Directors.

- *Risk Management Committee*. This committee meets monthly to discuss risk management and Basel II issues. This committee is chaired by the Managing Director and includes the Senior Management of the Bank.

- *Operations Risk Management Committee*. This committee is chaired by the Chief Operating Officer and includes the Treasurer, Chief Financial Officer, Chief Risk Officer, Senior Manager Operational Risk, and General Manager Operations and Processing. The ORM Committee meets

quarterly, or more frequently if required, to review significant risk management issues. The ORM Committee reports to the Executive Committee and the Audit Committee.

- *Asset and Liability Committee*. This committee meets once a month to discuss previous month balance sheet activities and discuss potential balance sheet movements. Balance sheet risk is also discussed. The committee consists of 21 members including SABB's Managing Director, Chief Operating Officer, General Manager Credit and Risk, Deputy Managing Director, General Manager Personal Banking, Treasurer, Head of Market Risk , Chief Financial Officer and General Manager of Corporate and Commercial Banking.

- *Liquidity Management Committee*. This committee was established as a sub committee to the asset and liability committee. The committee meets quarterly to ensure that SABB remains within internal and regulatory parameters and to review liquidity risks and contingency strategies. The committee is chaired by the Deputy Managing Director and its core members include the Chief Financial Officer, Treasurer, Deputy Treasurer, General Manager Credit and Risk, Treasury Controller, Head of Market Risk, General Manager Personal Banking, and General Manager Corporate and Commercial Banking.

Market and Trading Risk Management

Market risk is the risk that foreign exchange rates, interest rates, equities or commodity prices will move and result in profits or losses to SABB. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis). SABB's exposure to interest rate and foreign exchange risks is identified, monitored and managed by SABB's Treasury.

SABB trades in exchange rate, interest rate and derivative instruments, as well as in debt securities. Trading risks arise from position-taking within prescribed limits.

Treasury Risk management is an independent unit in Risk Management reporting ultimately to the Chief Risk Officer.

SABB manages market risk through approved risk limits and the Treasury Risk Management reviews limit utilisation by SABB on a daily basis. The risk management policies, measurement techniques and risk models used by SABB are based upon those used within HSBC Group.

Limits are set by product and risk type, with market liquidity being a principal factor in determining the level of limits. Limits are set using a combination of risk measurement techniques, including position limits, sensitivity limits as well as value at risk (VAR) limits at a portfolio level. Similarly, option risks are controlled through full revaluation limits in conjunction with limits on the underlying variables that determine each option's value. Liquidity limits for futures are established as percentages of the open interest in the relevant market.

SABB assesses its overall exposure to changes in interest rates by using the "present value of a basis point" method, which calculates the impact on the present value of future cash flows when the market standard yield curve is shifted by one basis point. In addition, SABB routinely runs stress tests, which assess the impact on SABB's portfolio of immediate hypothetical movements in interest and foreign exchange rates. SABB utilises an automated risk management reporting system to report interest rate risk (against limits). The system also permits periodic intra-day updates of positions. These risks are subject to review during internal audits of Treasury to ensure risks have been properly identified and that policies to limit risk are being observed.

VAR is a technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. VAR is calculated daily on an historical simulation basis, which uses the past 500 days historical movements in market rates and prices, a 99 per cent. confidence level, a one day holding period and takes account of correlations between different markets and rates. The movement in market prices is calculated by reference to market data from the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types. The VAR model's effectiveness is evaluated through the process of daily back testing of the model output with actual daily profit and loss.

VAR modelled using the historical simulation approach addresses linear and non-linear risk.. SABB recognises the limitations of VAR models by augmenting the VAR limits with scenario analysis through stress testing. The stress testing scenarios further protect SABB by modelling extreme market movements not covered in the previous 500 days, both on individual portfolios and on a consolidated basis. The stress testing results provide senior management with an assessment of the profits or losses arising from extreme events.

Structural interest rate risk arises from the differing repricing characteristics of commercial banking assets and liabilities, including non-interest bearing liabilities such as shareholders' funds and current accounts. SABB assesses the structural interest rate risks which arise in its businesses and transfers such risks to its treasury unit for management. The asset and liability management committee regularly monitors all interest rate risk positions. In the course of managing interest rate risk, quantitative techniques and simulation models are used where appropriate to identify and assess the potential net interest income and market value effects of these interest rate positions in different interest rate scenarios. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income.

Credit Risk Management

SABB has implemented credit approval and monitoring procedures which are consistent with and based upon HSBC Group standards.

SABB adopts a conservative approach in making credit decisions, limits exposures to high-risk sectors and avoids undue risk concentration. Credit policy is developed and implemented by the risk department under the supervision of the Chief Risk Officer. SABB's credit manual is distributed to every business area and additional guidelines are regularly issued and communicated through circulars by Risk Management.

So as to form and maintain a portfolio of high quality assets, and long-term relationships with its customers, SABB has formulated the following policies:

- avoid risk concentration by being conservative in the concession of credit and limiting operations with high-risk sectors;
- attribute grades to business credits and use credit-scoring based systems and behaviour scoring for individuals; constantly monitor and review the portfolio, introduce more efficient management and control tools;
- carry out specific audits of branch credit approval processes;
- use provisioning criteria which exceed applicable legal requirements and conform with international monetary standards; and
- encourage good asset growth through the publication of clear policies and credit guidelines supplemented through various training programmes and tools.

SABB carries out periodic reviews of its portfolio to evaluate concentration levels, whether by industry, sector, region or product, in addition to constant analysis of potential problem cases.

SABB imposes exposure caps for certain industries and applies additional restrictions on certain specialised sectors, including shipping, aviation, real estate and share margin trading. In addition, SABB also has limits on its exposure to the Saudi government. Consistent with the limits in place and duly approved, there are currently no undue concentrations of risk in SABB's credit portfolio.

SABB has in place set procedures for credit approvals, which vary between personal banking and business banking, and between business areas. Most personal loans are subject to an automated process, which approves or declines credit applications on the basis of credit and behavioural scoring. If a credit application is declined by the automated process, the credit department may conduct a manual review of the application and overturn the decision. Conversely, a credit application approved by the automated process may be subsequently declined if negative information is obtained from a credit bureau. Share margin trading is offered to select client segments as a form of asset-based lending, employing a

specifically tailored credit proposal document. This focuses on the suitability of the investor and the liquidity of the underlying security.

Credit decisions for small businesses are made at branch level and are automatically approved if made within established guidelines and branch credit limits. Relationship managers may apply to a credit manager for exceptional approval if the application is initially declined. In the commercial banking area, proposals submitted in accordance with credit guidelines and limits may be approved directly by a central credit department for the commercial banking area. Corporate and institutional credit proposals which do not meet established guidelines or which exceed limits granted to a relationship management team are required to be approved by the credit department (subject to SABB's established guidelines and rules on maximum exposures). Larger credits are sanctioned or declined by senior executives with appropriate levels of discretionary approval authority. Above such limits, credit proposals are reviewed and then approved or declined by the Executive Committee and finally by the Board of Directors. The Risk Management Team in conjunction with the credit department monitors risk by conducting periodic reviews of SABB's portfolio which seek to evaluate concentration levels by industry, sector, region and product. In addition, each credit facility is reviewed at least annually (with higher risk credits being reviewed more frequently).

The central credit and risk management department produces frequent statistics of defaults and overdue loans broken down by age. The results are analysed and reported to the Chief Risk Officer. A number of other reports are produced on a regular basis for the Audit Committee, Executive Committee and the Board of Directors on provision trends, success rates for collections, assets and delinquency trends. These reports aim to detect early warning signals of negative trends.

Internal Audit

SABB has implemented internal auditing procedures, which are based upon HSBC Group standards and international practices. SABB's internal audit department reports directly to SABB's Audit Committee on audit issues, and for administrative and management issues reports to Executive Director and Chief Operating Officer. SABB coordinates its audit activities with HSBC Group's internal audit to ensure a sharing of best practices and resources. SABB has implemented SAMA's mandatory guidelines in its operational risk management procedures.

SABB's internal audit team consists of the Head of Audit, Deputy Head of Audit, ten auditors, two data analysts and one support staff, whose task it is to ensure that all activities of SABB are conducted in compliance with SABB's internal audit guidelines.

SABB branches are audited through the Continuous Audit approach where extensive data on the branches are extracted from the system, analysed and an extensive report on the branches is issued quarterly. Based on such analysis 'field visit' to a branch or 'themed review' of a process are conducted.

SABB businesses and support departments audit frequency is based on the 'Risk Calculator' where the risk in each unit is assessed, calculated and units with higher risk score are audited.

SABB's internal audit team conducts all audits of SABB's units, except Treasury, Investments, Credit Card Services and Core IT installation, which are conducted by specialised internal audit units within HSBC Group, assisted by SABB's internal auditors.

Internal audit ratings are among the contributing factors when determining staff incentives in order to encourage staff members to achieve high compliance standards.

Operational Risk Management

SABB benchmarks itself against best practice procedures and systems in relation to Operational Risk Management including those adopted by HSBC Group. SABB's Board and Executive Committee discuss and review annually SABB's tolerance for operational risk and its strategy to ensure that mechanisms established provide ongoing monitoring, assessment and management of the risk environment. The operational risk management process is subject to an independent review by Internal Audit.

Basel II

A steering committee of members of senior management has been formed by SABB, with oversight from SABB's Deputy Managing Director, to oversee the implementation of systems to ensure that SABB is fully compliant with the requirements of the new capital adequacy framework established by the Basel Committee on Banking Supervision to replace the Basel Accord of 1988 in the form of a final Accord (commonly known as "Basel II"). Basel II provides three approaches to capital risk regulatory capital calculation. The most basic approach is the standardised approach, which uses external credit ratings to determine the risk weighting applied to rated counterparties and groups other counterparties into broad categories and applies standardised risk weightings to these categories. Other approaches are based on internal credit ratings (IRB) and divide into the IRB foundation approach and the more complicated IRB advanced approach. SABB obtained approval to migrate to Basel II standardised approach for credit with effect from 1 January 2008. Also SABB has continued to comply with the standardised approach for Market risk per SAMA's circular no. NCS 355 of 29 December, 2004.

Allowance for Credit Losses

As at 31 December 2009, loans and advances, net include non-interest bearing products totalling SAR 38,568 million (2008: SAR 37,568 million) which are stated at cost less provision for credit losses, of SAR 723.0 million (2008: SAR 277.9 million).

Provision for credit losses charged to the consolidated statement of income related to non-interest bearing products is SAR 692.4 million (2008: SAR 111.5 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 256 million as at the beginning of the year. The hedge expired during the year and the negative mark to market of SAR 0.6 million on these loans as at the beginning of the year became nil as at the statement of financial position date.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 277.5 million (2008: SAR 108.1 million).

SABB adopts a conservative approach towards provisioning in relation to loans and other credit and is in compliance with SAMA regulations.

Capital Adequacy and Leverage

SABB is required to comply with capital adequacy requirements promulgated by SAMA, which are based on the standards established by the Bank for International Settlements. (See "Saudi Arabian Banking Regulation and Supervision".) The following table sets out capital adequacy information of SABB as at 31 December 2009 in accordance with SAMA rules.

	Capital Adequacy Information
	2009
	SAR'000
Risk Weighted Assets (RWA)	
Credit Risk RWA	**92,947,700**
Operational Risk RWA	**9,088,561**
Market Risk RWA	**672,013**
Total RWA	**102,708,274**
Tier I Capital	**10,423,435**
Tier II Capital	**2,683,537**

Capital Adequacy Information	
	2009
	SAR'000
Total I & II Capital	**13,106,972**
Capital Adequacy Ratio %	
Tier I ratio	**10.15%**
Tier I + Tier II ratio	**12.76%**

Investments

SABB has a range of investments accounted for under IFRS 39 accounting regulation. The following table is a highlight from the 2009 published Financial Statements, split between domestic and international investments.

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

Investments classified under FVIS are all held for trading (2008: SAR 350.9 million), and floating rate notes designated as FVIS as at inception or on adoption of the revised IAS 39 as at 1 January 2005 are nil (2008 : SAR 50.4 million). The maximum credit exposure of investments designated as FVIS as at 31 December 2009 is SAR nil (2008: SAR 56.8 million).

The changes in fair value are mainly attributable to the changes in credit risk during the year, as the impact of market risk is minimal.

ii) **Available for sale**			
Fixed rate securities	10,685,614	2,733,709	13,419,323
Floating rate securities	3,631,376	1,590,398	5,221,774
Equities	10,894	46,615	57,509
Available for sale investments, gross	**14,327,884**	**4,370,722**	**18,698,606**
Allowance for impairment	-	-21,679	-21,679
Available for sale investments	**14,327,884**	**4,349,043**	**18,676,927**

Operations and Information Technology (IT)

Information Technology is a key enabler for growth in SABB. IT represents one of the most significant cost side initiatives in the business. Operations, Development, OAD & Telecoms, Security and Planning & Finance form the key components of this unit.

SABB uses IT as a centre piece in delivering operational efficiency. The core banking system, as well as all the ancillary applications, drives SABB's growth and customer service initiatives. Core banking,

Credit cards, Consumer finance, Direct banking, Risk management, Retail broking, Takaful Insurance and Private Banking are the main areas that benefit from IT.

All SABB systems focus on contingency and 24-hour availability. A fully functional disaster recovery backup site with adequate tested capacity is located in Jeddah. Procedures are reviewed and fine tuned periodically. A competent team of professionals, complemented by guidance from group offices overseas, aims to ensure that SABB's IT remains leading edge. This is coupled with established standard project management methodology that delivers projects on time and within budget.

As an extension of the use of IT systems, SABB Operations are also governed by continually updated operational procedures, in particular the SABB Instruction Manual ("**FIM OPS**"), a compilation of policies and procedures.

Overseas Operations

As a cost-cutting measure SABB closed its London branch in 2004 and ceased to have any establishment outside Saudi Arabia.

Legal and Compliance

SABB's compliance department has responsibility for legal and regulatory compliance. The compliance department is headed by the General Manager Legal Affairs. Compliance requirements for each business unit are the responsibility of a Local Compliance Officer assigned to each unit, who reports to the General Manager Legal Affairs, who is the Area Compliance Officer of SABB operations in the Kingdom of Saudi Arabia.

Compliance with anti-money laundering procedures and internal training in such procedures is the function of the Money Laundering Control Officer who reports to the Area Compliance Officer. SAMA has imposed strict "know your customer" requirements on banks since 2002 which entail regular reporting to SAMA and SABB adheres to these requirements.

Legal Proceedings

SABB has been, and continues to be, the subject of legal proceedings in the ordinary course of its business.

No material provision has been made as at 31 December 2009 in respect of any outstanding legal proceedings against SABB as professional advice indicates that it is unlikely that any significant loss will occur.

Management and Employees of the Issuer

Management

In accordance with the Saudi Arabian Regulations for Companies and SABB's by-laws, SABB's executive management is currently comprised of a Board of Directors and an Executive Committee.

The Board of Directors is required to meet at least twice per year but generally meets five times per year. It is made up of ten members (the "**Directors**"), including the Chairman, Managing Director and the Chief Operating Officer. The Chairman is required to be a Saudi national and the Managing Director is required to be selected from among the Directors appointed by HSBC Group. Six of the Directors represent SABB's Saudi shareholders and are elected every three years. SABB's by-laws provide that the other four Directors are to be appointed by HSBC Group. The Board of Directors maintains control over SABB and monitors the executive management of SABB.

The Executive Committee is chaired by SABB's Managing Director and consists of four members (in addition to the Chairman) selected from among the Directors (including, as required by SABB's by-laws, two representatives of HSBC Group for so long as HSBC Group holds 40 per cent. of SABB's share capital). The Executive Committee meets at least once a month and whenever it is convened by its Chairman. The Executive Committee assists the Managing Director within the powers determined for it by the Board of Directors, and deals with matters referred to it by the Managing Director or by the Board of Directors. No Executive Committee meeting is quorate unless attended by at least four members either

in person or by way of proxy, provided that at least three members are present in person. A member of the Executive Committee may delegate another member to attend and vote at the meeting of the Executive Committee on his behalf. Resolutions of the Executive Committee are passed unanimously and, in case of any differences, by a majority of those present or represented.

The Audit Committee is appointed by the Board of Directors (subject to approval of the shareholders) and consists of between three and five members appointed from SABB's non-executive directors who do not perform any technical or administrative work within SABB. See "Risk Management- Organisation" for a description of the Audit Committee's functions.

The Board of Directors

Set out below are the current members of the Board of Directors and their business addresses:

- Khaled Suliman Olayan, of The Olayan Group, P.O. Box 8772, Riyadh, 11492, Saudi Arabia.
- David Dew of The Saudi British Bank, Head Office, P.O. Box 9084, Riyadh 11413, K.S.A.
- Fouad Abdulwahab Bahrawi of c/o The Bahrawi Trading Company, P.O. Box 48, Jeddah 21411, K.S.A.
- Khalid Abdullah Al Molhem of c/o Saudi Arabian Airlines, Jeddah 21231, K.S.A.
- Sulaiman Abdulkader Al Muhaidib of c/o Abdulkhader Al Muhaidib Company, P.O. Box 30, Riyadh 11312, K.S.A.
- Ahmed Sulaiman Banaja of P.O. Box 8595, Jeddah 21492, K.S.A.
- Mohammed Omran AlOmran, of Omran AlOmran Corporation. Po box 91.Riyadh Saudi Arabia.
- Simon Cooper of c/o HSBC Holdings plc, Level 41, 8 Canada Square, London, U.K.
- Zarir Cama of c/o HSBC Holdings plc, Level 41, 8 Canada Square, London, U.K.
- Robin Jones, of The Saudi British Bank, Head Office, P.O. Box 9084, Riyadh 11413, K.S.A.

Khaled Suliman Olayan

Mr Olayan has been Chairman of the Board of Directors since 2009 and a member of the Board of Directors since 2001. Sheikh Khaled Suliman Olayan is the Chairman of The Olayan Group and Olayan Financing Company. A diversified multinational enterprise The Olayan Group ranks among the World’s largest privately held companies that operates or actively participates in over 50 businesses and financial enterprises. Sheikh. Olayan joined the group in 1974 after briefly working with the Ministry of Finance and national Economy.

David Dew

Mr Dew has been Managing Director since May 2009. He was previously Deputy Chief Executive Officer of HSBC Amanah and Chief of Administration, Global Banking and Markets, Middle East & North Africa for HSBC. Mr Dew has served as Chief Operating Officer for HSBC Bank USA and Chief Auditor for HSBC North America.

Mr Dew is Chairman of the Executive Committee.

Fouad Abdulwahab Bahrawi

Mr Bahrawi has been a member of the Board of Directors since 1993. He was awarded the Prince Henrick Medal (Denmark) in 1984. Mr Bahrawi is a partner in AI-Bahrawi Company and is the CEO in Watani Trading Company.

Mr Bahrawi is a member of the Executive Committee.

Khalid Abdullah Al Molhem

Engr. Al Molhem has been a member of the Board of Directors since 1996. Mr Al Molhem was a SABB staff member for eight years, and held different executive positions, the last of which was Executive Director for Investment Banking. He then held the positions of General Manager of AI-Marai and President of the Saudi Telecommunications Company, and at present he is the General Manager of Saudi Arabian Airlines.

Engr. Al Molhem is a member of the Executive Committee.

Sulaiman Abdulkader Al Muhaidib

Mr Al Muhaidib has been a member of the Board of Directors since 2002. Mr Muhaidib is a businessman and Chairman of the Abdulkader Al Muhaidib Co. He is also a board member of Riyadh Cables Company, Aziziah Investment Company and Arabian Pipes Company.

Ahmed Sulaiman Banaja

Mr Banaja has been a member of the Board of Directors since 2002. Mr Banaja has extensive experience in the banking industry. For two decades Mr Banaja held positions in various departments at Citibank and The National Commercial Bank. Mr Banaja is a member of the Executive Committee and the Chairman of the Audit Committee.

Mohammed Omran AlOmran

Mr AlOmran has been a member of the Board of Directors since 2009. He is a board member and independent Director of Credit Suisse (Saudi Arabia), Director, Saudi Telecommunications Co., Director, Saudi Orex Lease Finance Company and Member of the Board of Directors at Al-Rajhi Insurance Co.

Simon Cooper

Mr Cooper has been a member of the Board of Directors since October 2009. He is currently Deputy Chairman & Chief Executive Officer, HSBC Middle East and North Africa. He was previously President & Chief Executive Officer of HSBC Korea 2006-2009, Managing Director, HSBC Singapore

Zarir Cama

Mr Cama has been a member of the Board of Directors since May 2010. He is currently the Group General Manager, Director of Global Resourcing (UK) Ltd, HFC Bank (UK) Ltd, HSBC Private Banking Holding (Suisse) SA, and special advisor on the Middle east, the Group's Islamic Finance Business and Global Indian initiative. He has undertaken various senior management roles within HSBC Group, including CEO of India, CEO and Deputy Chairman of Bank Malaysia, Head of Corporate Bank and Deputy Managing Director of SABB.

Robin Jones

Mr Jones is Executive Director and Chief Operating Officer of SABB. Robin has been with the HSBC Group since April 1994. Before moving to SABB, in April 2009, he was Chief Operating Officer for Global Banking and Markets. He has also undertaken Chief Operating Officer roles in USA, Australia and Canada.

There are no potential conflicts of interest between the duties owed to SABB by the persons listed above and their private interests or other duties.

Employees

As at 30 September 2010, SABB employed 3,405 staff members.

Since 1980, SABB has continued to make significant investments in developing and maintaining high quality training programmes for its staff. During 2009 a total of 48,664 training days were attended by 10,738 delegates.(including external seminars and workshops).

Programmes are conducted in SABB's dedicated training facilities in the Western and Eastern Provinces of Saudi Arabia as well as at SABB's headquarters in Riyadh. SABB believes that its training is considered to be amongst the best available in the Saudi banking industry. SABB continually reviews its training resources against the current and future needs of the business. The cost and benefits of providing in-house training support are compared with those of out-sourcing. SABB has access to HSBC Group's training resources, utilising their support from the United Kingdom, United Arab Emirates, Hong Kong and India.

SABB has invested significant time and resources in bringing new and existing employees up to the highest standards in all areas of SABB's business and this process is ongoing. Particular attention has been given to customer management skills, focusing on service and selling techniques.

Accreditation programmes for Branch Management, Cash Supervisors as well as for Amanah have been expanded. High performing and high potential executives continue to benefit from HSBC Group strategic leadership and graduate development programmes in the UK and other destinations outside Saudi Arabia.

Utilising an updated performance management system allied to a structured role identification process, SABB actively pursues a performance-based, market-driven compensation strategy that includes participation in annual compensation and benefits surveys in the Kingdom that enable the Bank to keep abreast of ongoing market trends.

SABB is committed to increasing the percentage of its Saudi workforce and actively supports the Saudi government's policy of increasing the percentage of its Saudi workforce. Accordingly, SABB has established a long-term strategy of attracting Saudi graduates from universities, colleges, institutes and high schools to join SABB's ongoing training courses especially designed to develop them to take leading positions at SABB. In line with this strategy, SABB has three specialised training centres which it considers to be among the largest and best equipped in the banking sector in Saudi Arabia. It offers specialist training programmes aimed at new joiners who are university graduates or graduates of colleges, institutes and high schools, and bank staff with proven performance records. The percentage of Saudi staff employed by SABB has increased from 85 per cent. in 2008 to 87 per cent., as at 31 December 2009.

THE BANKING SECTOR IN SAUDI ARABIA

General

Saudi Arabia has the largest economy in the Middle East and Arabian Gulf regions in terms of gross domestic product and as such Saudi banks carry significant weight and influence in these regions. There are at present twenty-three commercial banks licensed in Saudi Arabia of which twenty are operating. Out of the operating banks, twelve are incorporated in Saudi Arabia. The remaining eight operating banks are five branches of banks based in countries of the Gulf Cooperation Council ("**GCC**") other than Saudi Arabia, namely: Gulf International Bank ("**GIB**"), which operates only three branches: Emirates Bank, National Bank of Bahrain, National Bank of Kuwait and Muscat Bank; and three international banks: namely JPMorgan Chase, BNP Paribas and Deutsche Bank. Of the twelve Saudi operating banks, eleven are publicly- listed joint stock companies and their shares are traded on the Saudi Stock Exchange. National Commercial Bank ("**NCB**") is currently the only unlisted Saudi bank, and is majority-owned by the Saudi government.

All twelve Saudi banks provide a broad range of retail and wholesale banking products and services. Alrajhi Bank, Bank Al-Bilad, Bank Aljazira and Al Inma Bank provide only Shariah compliant products and services. The remaining eight banks provide a combination of Shariah compliant and conventional banking products and services.

There are three other banks that are licensed but not yet operating and three branches of non-Saudi banks, being the National Bank of Pakistan, State Bank of India and T.C.ZIRAAT BANKASI A.S.

In addition to the commercial banks, there are five state-run credit institutions, such as the Saudi Industrial Development Fund and the Public Investment Fund, which provide funds for targeted sectors.

Key highlights of the trends and outlook for the Saudi banking industry are as follows:

- In spite of the global economic crisis, the profitability of the core banking sector remains strong.
- The combination of growing consumer appetite and renewed demand in the corporate sector has allowed for a restructuring of most banks' balance sheets.
- With the rising sophistication and education of an increasingly young Saudi population, the Issuer expects the demand for retail banking services in Saudi Arabia to continue to expand. The younger generation Saudis are moving away from using cash to using banks for their financial transactions. The Issuer expects this to lead to an expansion in the demand for retail services, an area dependent on the ability of Saudi banks to embrace technology. Most banks in Saudi Arabia have upgraded their automation processes, including offering internet banking, and diversified their retail products to be better positioned to compete more effectively.
- Fee based services and products for retail markets are proliferating, the focus being turned to non-funded business volumes and cross-selling opportunities.
- Islamic banking continues to be an area of growth.

History

The first bank in Saudi Arabia was the Netherlands Trading Society which was founded in 1926 and is still operating in Saudi Arabia as the Saudi Hollandi Bank. NCB, established as a partnership in 1950, was the first wholly Saudi-owned bank. Prior to 1976, a number of wholly foreign-owned banks operated branches and subsidiaries in Saudi Arabia, including The British Bank of the Middle East, whose operations were taken over by SABB.

In 1976 the government of Saudi Arabia issued a directive requiring all banks operating within its borders to convert to entities incorporated locally in which at least 60 per cent. of the shares are owned by Saudi nationals.

In 2000, the first branch of a foreign bank authorised in over 40 years was opened in Saudi Arabia, in connection with changes in GCC countries' policies concerning cross-border banking. The new entrant was GIB, an off- shore bank based in Bahrain and owned by the six GCC states. GIB had been active in

Saudi Arabia for many years, but having a branch allowed it to compete at close hand. More recently, SAMA has granted several banking licences and these new banks will intensify competition.

There are also non-bank competitors in brokerage and personal finance. The Saudi banking sector has seen an accelerating competitive convergence focused on Islamic banking, private and affluent segments, brokerage and investment banking, as well as aggressive investments in new distribution, marketing and technology.

As at 31 December 2009, there were only four Saudi banks with active foreign shareholders, as follows (the ultimate foreign shareholder in each is identified in brackets):

- The Saudi British Bank (HSBC Holdings plc)
- Banque Saudi Fransi (Calyon Credit Agricole CIB)
- Saudi Hollandi Bank (The Royal Bank of Scotland Group, previously ABN AMRO Bank N.V.)
- Arab National Bank (Arab Bank PLC)

Prior to Citigroup divesting its stake in The Saudi American Bank (subsequently renamed Samba Financial Group) ("**SAMBA**") in 2004, SAMBA was the fifth Saudi bank with foreign shareholding.

Recent Developments

As part of the Saudi government's general initiative to liberalise the Saudi economy and encourage foreign investment, the banking and financial sector is also being opened up to foreign participation.

SAMA has granted licences to GIB, Emirates Bank, National Bank of Bahrain, National Bank of Kuwait, Muscat Bank, JPMorgan Chase, BNP Paribas, Deutsche Bank, National Bank of Pakistan, State Bank of India and T.C.ZIRAAT BANKASI A.S. to operate branches in Saudi Arabia. The Saudi government is developing the capital markets sector in Saudi Arabia and has introduced capital markets legislation with the enactment of the Capital Market Law (issued by Royal Decree No. M/30 dated 1 August 2003). The Capital Markets Authority was also established to regulate the capital markets business in Saudi Arabia. In line with the government's overall desire to develop and boost the capital markets in Saudi Arabia, it is expected that the Capital Market Authority (the "**CMA**") will encourage the participation of foreign investment banks. Since its establishment, the CMA has licensed more than 100 entities to conduct various securities business, of which 97 licenses are current although some are not yet operational. In November 2005, it granted an operating licence to HSBC Saudi Arabia, the investment banking joint venture between HSBC Asia Holdings B.V. (part of the HSBC Group) and SABB. For further details regarding this joint venture, see "Description of the Issuer - Relationship with HSBC".

SABB Takaful provides insurance products that are compliant with Islamic principles. SABB Takaful is an associate company of SABB and HSBC, with 32.5 per cent. owned by SABB, 31 per cent. owned by subsidiaries of the HSBC Group and the balance owned by the public by way of an initial public offering, listed in the Saudi stock market.

SAUDI ARABIAN BANKING REGULATION & SUPERVISION

General

The banking sector in Saudi Arabia is regulated by SAMA within the framework of the Banking Control Law (the "**BCL**"), which was promulgated by Royal Decree No. M/5 dated 11 June 1966. The BCL sets out the framework within which banks must operate in Saudi Arabia and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars, directives and guidelines are generally not made publicly available outside the banking sector.

The banking sector is also regulated by the Capital Market Authority (the "**CMA**") which was established by the Capital Market Law, issued by Royal Decree No. (M/30) dated 1 August 2003. The CMA is a government organization with financial, legal and administrative independence. It reports directly to the Prime Minister.

The CMA functions are to regulate and develop the Saudi Arabian capital market. It issues the required rules and regulations for the implementation of the provisions of Capital Market Law aimed at creating an appropriate investment environment.

Management of Liquidity and Credit Risk

Under the BCL, a bank's deposit liabilities must not exceed 15 times its reserves and paid up share capital or invested capital. The current percentage specified by SAMA for a statutory deposit is primarily 7 per cent. of customers demand deposits and 4 per cent. of customer savings and time deposits

In addition to the statutory deposit, each bank in Saudi Arabia is also required to maintain a liquid reserve equal to 20 per cent. of its total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding 30 days in order to comply with the requirements of the BCL.

The BCL also sets a maximum limit on the amount of financial liability that a bank may incur in respect of any one person. Under the BCL, a bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding 25 per cent. of its total reserves and paid-up or invested capital. SAMA may increase this limit up to a maximum of 50 per cent. if it considers it to be in the public interest.

SAMA also has the power to regulate liquidity and credit risk at a bank by restricting, among other things, the maximum amount of money which may be loaned by a bank, the level of a bank's exposure to single customer and the categories of loans which a bank can make. These restrictions may vary from bank to bank depending on the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided for in the BCL.

SAMA carries out a full review of the operations of each bank every three years and more regular assessments of specific functions within each institution. SAMA has also intervened to support banks that have found themselves in difficulties. It acted to ease the panic that followed the 1990 Iraqi invasion of Kuwait, which directly threatened Saudi Arabia's own security. Similarly, it allowed distressed banks to benefit from low cost funding in the 1980s.

SAMA has over the years developed a reputation as a strict regulator. In 1989, SAMA introduced accounting and disclosure standards for commercial banks in Saudi Arabia, which essentially comply with International Financial Reporting Standards ("**IFRS**"). All banks in Saudi Arabia are now in compliance with IFRS and the Accounting Standards for Financial Institutions issued by SAMA. The banks also prepare their financial statements to comply with the BCL and the Regulations for Companies in Saudi Arabia.

Reporting Requirements

Banks are required to submit monthly statements of the consolidated financial position of their domestic and foreign branches. Banks also have to submit quarterly, semi-annual and annual reports to SAMA. These reports are comprehensive and deal with matters like the maturity schedule of credit facilities, risk concentrations, large exposures, foreign exchange exposure, analysis of specific loan loss reserves and a calculation of the banks risk asset based capital adequacy.

The requirement is for banks to submit their audited annual statements to SAMA within six months of each financial year end. Annual financial statements have to be audited and signed by at least two external auditors, Joint stock companies have to publish quarterly statements as their stocks are listed on the Saudi Stock Exchange. However, quarterly financial statements are not audited but reviewed by the auditors in accordance with generally accepted standards applicable to review engagements and are limited in terms of the scope of disclosure. Information such as non-performing loans and the breakdown of customer deposits are not disclosed in quarterly financial statements.

Since SAMA introduced mandatory disclosure standards, there has been an improvement in the level of disclosure by Saudi banks. Banks now publish a breakdown of loans by sector and geography, in addition to loans to the government and related parties. Banks also report doubtful loans, loan loss reserves and write-offs.

Anti-Money Laundering and Counter-Terrorist Financing

Saudi Arabia is a signatory to, and has implemented measures required by, the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the "**1988 Vienna Convention**"), the International Convention for the Suppression of the Financing of Terrorism ("**UNSC 1373**"), and various other international conventions and agreements relating to money-laundering and terrorist financing.

Money- laundering is considered an offence under Shariah law. Over the past 10 years Saudi Arabia has put into place a relatively comprehensive legislative and regulatory framework that deals with money-laundering and terrorist financing. Saudi Arabia implemented its first customer identification procedure in 1975. Beginning in the mid -1990s, Saudi Arabia began to put in place a more expansive anti -money-laundering regime with the issuance of the 1995 anti -money- laundering manual and several other circulars from SAMA and other government agencies.

Saudi Arabia has comprehensive rules covering "know-your-customer" and anti -money laundering and counter -terrorist financing requirements for the banking sector. In April 2003, SAMA issued updated Rules Governing the Opening of Bank Accounts and General Operational Guidelines (SAMA No. 3222/BCI/60: dated 8 April, 2003). These rules contain comprehensive requirements governing customer identification, the opening and maintenance of bank accounts, the transmission of funds and the deposit of cash. They also contain detailed rules controlling the operation of bank accounts for charitable and welfare organisations. In 2008, SAMA revised the account opening rules by adding additional requirements and providing guidelines on dealing with non-resident individuals, entities and multi-lateral organizations.

Saudi Arabia's existing anti -money- laundering regime was overhauled by SAMA in May 2003 with its issue of Rules Governing Anti-Money Laundering and Combating Terrorist Financing (SAMA No. BC1/I22: dated 27 May 2003). These rules govern, amongst other things, the reporting of suspicious transactions, transaction monitoring, customer and transaction profiling, risk assessment, control systems, compliance programs, reviews and audits, know -your -customer policies and standards, and record retention. In August 2003, Saudi Arabia updated its existing anti -money laundering statutes with the enactment of the Anti-Money Laundering Law (pursuant to Royal Decree No. M/39 dated 24 August, 2003), providing an up-to-date statutory basis for money laundering and terrorist financing offences, establishing a Financial Intelligence Unit, and enabling a greater international exchange of financial information in cases of suspected money laundering and terrorist financing amongst law enforcement agencies and regulators.

In November 2005, SAMA issued a circular (SAMA No. 35185/MAT/539: dated 22 November 2005) requiring all banks and financial institutions operating in Saudi Arabia to strictly comply with the provisions of the Anti-Money Laundering Law. The Authorised Person Regulations issued by the Capital Market Authority also require investment banks to comply with the Anti-Money Laundering Law.

The GCC is in the unique position of being a member of the Financial Action Task Force on Money Laundering (the "**FATF**"), even though the individual member states of the GCC are not FATF members. As a member of the GCC, Saudi Arabia has issued laws and regulations designed to comply with the Forty Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing issued by the FATF.

In September 2003, the FATF carried out, in conjunction with the GCC, the mutual evaluation of Saudi Arabia. This evaluation was the sixth evaluation of the GCC Member States and was performed on the basis of the common anti -money- laundering/counter -terrorist financing assessment methodology employed by the FATF. With the approval of the evaluation of Saudi Arabia in February 2004, all GCC member States have now undergone a mutual evaluation and the GCC first round of evaluations has been completed. In its 2003-2004 Annual Report, the FATF concluded that Saudi Arabia "is compliant or largely compliant with most of the FATF 40 + 8 Recommendations" (see FATF Annual Report 2003 - 2004, Annex C, Kingdom of Saudi Arabia: Executive Summary FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism, paragraph 51).

External Auditors

As a measure of prudence, SAMA requires all banks in Saudi Arabia to be audited jointly by two external auditors.]

Financial Requirements

SAMA has introduced regulations to ensure that banks do not have disproportionate concentrations to any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities. The most significant regulations are summarised below:

(i) Doubtful and Past Due Loans/Loan Loss Reserves

In 2002, SAMA issued regulations regarding reclassification of assets as well as provisioning norms. The following table sets out the new classifications and the reserves required for prudential regulation purposes.

Classification	*Defined as*	*Reserve Required*
Current	No problems	1 per cent. of outstandings
1A (Special mention)	Potential weakness	1 per cent. of outstandings
II (Substandard)	Inadequate capacity to pay and/or profit or principal overdue by more than 90 days	25 per cent. of outstandings
III (Doubtful)	Full collection questionable and/or overdue by more than 180 days	50 per cent. of outstandings
IV (Loss)	Uncollectible and/or overdue by more than 360 days	100 per cent. of outstandings

The single party limit is 25 per cent. of the bank capital and reserves. This limit may be increased to 50 per cent. at the discretion of SAMA.

(ii) Liquidity

Saudi Arabian banks are required to maintain liquid assets of at least 20 per cent. of deposit liabilities. For purposes of this calculation, cash, gold, treasury bills, government bonds, up to one month placements and any asset that can be liquidated within 30 days are included. The breakdown of call deposits, savings accounts and time deposits must also be shown on the balance sheet. The maturity of assets and liabilities has to be disclosed to determine the sensitivity to commission rate risk.

(iii) Capital Adequacy

The GCC has introduced a common standard for capital adequacy based on the BIS capital adequacy standards. The GCC standard applicable in Saudi Arabia recommends a minimum 8 per cent. ratio of capital to risk weighted assets, including off-balance sheet risk. Assets are categorised into four risk groups carrying varying risk weights according to the risk assessment of the counterparty. There are also

two levels of country risk, one for the GCC, OECD countries and others that have special lending arrangements with the International Monetary Fund under its general agreement to borrow, considered a preferred risk. All other countries are considered full risk. In contrast BIS only counts Saudi Risk and not all GCC at par with OECD. The other major difference is that the GCC standards account for mortgage loans as 100 per cent. risk as opposed to 50 per cent. under BIS standards.

Deposit liabilities of banks are limited to 15 times capital and reserves. In cases where this ratio is exceeded, banks have to place interest free deposits of half the excess amount with SAMA. Furthermore, 25 per cent. of net profits have to be transferred to statutory reserves until the reserve balance equals paid-up capital.

TAXATION

The following is a general description of certain Saudi Arabian and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes nor does it address the considerations that are dependant on individual circumstances. Prospective purchasers of Notes should consult their own tax advisers to determine the tax consequences for them of acquiring, holding and disposing of Notes and receiving payments of profit, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Saudi Arabia

GCC holders resident in Saudi Arabia for tax purposes

A GCC holder resident in Saudi Arabia for tax purposes (except (a) a citizen of a GCC- country other than Saudi Arabia with a permanent establishment in Saudi Arabia and (b) a legal entity established under the laws of a GCC- country other than Saudi Arabia with a permanent establishment in Saudi Arabia) is not subject to Saudi tax, whether by withholding or direct assessment, in respect of any payment or gain realised in respect of a Note.

However, such a holder will be subject to *zakat* (a religious levy by the Saudi Government). This summary does not consider the extent to which such a holder would be liable to *zakat* as a consequence of acquiring, holding or disposing of Notes.

A "**GCC Person**" means (a) a citizen of a GCC country (namely, Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait) and (b) any legal entity owned by GCC citizens and established under the laws of a GCC country. A GCC holder is a GCC Person who holds a Note.

Non-GCC holders resident in Saudi Arabia for tax purposes

Payments in the nature of interest in respect of a Note (which includes any return on a Note by way of "profit" (as that term is used in the terms and conditions of the Notes), or by way of payment in respect of any discount element or redemption premium) to a holder who is resident in Saudi Arabia and is not a GCC Person are not subject to Saudi withholding tax as long as certain requirements are satisfied. However, such a holder will generally be subject to Saudi taxation in respect of any income or gain it derives from the holding or disposal of a Note.

Generally, any gain realised from the disposal of securities issued by a Saudi company (other than securities traded on the Saudi Stock Exchange, provided that certain requirements are satisfied) will be subject to Saudi capital gains tax at a rate of 20 per cent. In the case of securities in bearer form, such tax is expected to apply only on a disposal made by the holder of the certificate representing such securities. Accordingly, while any Tranche of Notes is represented by a Global Note, a gain realised on a disposal of any book-entry interest in such Notes held through Euroclear or Clearstream, Luxembourg is not expected to be subject to Saudi capital gains tax although this will depend on the nature of the transfer of the interest. However, gains realised on a disposal of a Note by the holder of the certificate representing such Note (whether in the form of a Global Note or Definitive Note) will be subject to Saudi capital gains tax at a rate of 20 per cent. This includes companies incorporated in Saudi Arabia which have non-GCC shareholders.

Holders resident outside Saudi Arabia for tax purposes

Payments in the nature of interest in respect of a Note, including a payment of profit as provided by the terms and conditions of the Notes, to a holder who is resident outside Saudi Arabia will be subject to Saudi withholding tax at a rate of 5 per cent unless the provisions of a double tax treaty apply. This could include payments of profit to a GCC holder who is not resident in Saudi Arabia for tax purposes. It is for the Issuer to deduct such withholding tax from payments to the holder although ultimate liability for such withholding tax rests with the holder. No Saudi withholding tax will apply to payments of principal. The Saudi tax authorities are entitled to claim from a holder any withholding tax SABB has failed to withhold in accordance with Saudi Arabian tax law.

The Saudi capital gains tax position on a disposal of Notes by a holder who is resident outside Saudi Arabia for tax purposes is the same as that of a non-GCC Person resident in Saudi Arabia, even though its holding of Notes may be outside Saudi Arabia. See "*Non-GCC Person resident in Saudi Arabia for tax purposes*" above.

If, however, a holder who is resident outside of Saudi Arabia has a permanent establishment in Saudi Arabia to which the holding of its Note is attributable, payments in the nature of interest in respect of a Note will not be subject to Saudi withholding tax as long as certain requirements are satisfied. Instead such a holder will be subject to Saudi tax in respect of any income as well as gain it derives from the holding or disposal of its Note, by way of direct assessment. The Saudi capital gains tax position on a disposal of Notes by a holder who, although resident outside Saudi Arabia for tax purposes, has a permanent establishment in Saudi Arabia to which the holding of the Note is attributable is the same as that of a non-GCC Person resident in Saudi Arabia.

If payments of principal or profit in respect of the Notes are subject to any withholding or deduction on account of Saudi tax, Condition 12 (*Taxation*) provides for SABB to pay additional amounts as will result in Noteholders receiving the amounts which would otherwise been receivable, subject to certain exceptions.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are implemented they would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult professional advisors.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of HSBC Bank plc, and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a Dealer Agreement dated 1 March 2005 as last amended and restated on 1 November 2010 (the "**Dealer Agreement**") and made between the Issuer and HSBC Bank plc. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America: *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public offer selling restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a drawdown prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) ***Authorised institutions***: at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) ***Significant enterprises***: at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than

€43,000,000 and (3) an annual net turnover of more than €50,000,000, all as shown in its last annual or consolidated accounts; or

(c) ***Fewer than 100 offerees****:* at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) ***Other exempt offers****:* at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Selling restrictions addressing additional United Kingdom securities laws

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the programme will be required to represent, warrant and agree, that:

(a) ***No deposit-taking***: in relation to any Notes having a maturity of less than one year from the date of their issue:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) ***Financial promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires Notes pursuant to an offering should note that the offer of Notes is a private placement to sophisticated investors under Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA**

Regulations"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi Investor will comply with the KSA Regulations.

The offer of Notes shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the following restrictions on secondary market activity under Article 17 of the KSA Regulations:

(a) any transfer must be made through an entity licensed by the Saudi Capital Markets Authority.

(b) a Saudi Investor (the "**transferor**") who has acquired Notes pursuant to a private placement offer may not offer or sell the Notes to any person (referred to as a "**transferee**") unless (i) the price to be paid by the transferee for such Notes equals or exceeds Saudi Riyals 1 million; or (ii) the transferee is a sophisticated investor (as defined under the Regulations);

(c) if the provisions of paragraph (b) cannot be fulfilled because the price of the Notes being offered or sold to the transferee has declined since the date of the original private placement offer, the transferor may offer or sell the Notes to the transferee if their purchase price during the period of the original private placement offer was equal to or exceeded Saudi Riyals 1 million;

(d) if the provisions of (b) and (c) cannot be fulfilled, the transferor may offer or sell the Notes if he/she sells his/her entire holding of Notes to one transferee; and

the provisions of paragraphs (b), (c) and (d) shall apply to all subsequent transferees of the Notes.

United Arab Emirates

Each Dealer has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates or the Dubai International Financial Centre (the "**DIFC**") other than in compliance with any laws applicable in the United Arab Emirates or the DIFC, as the case may be, governing the issue, offer, sale and promotion of securities.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken and each further Dealer appointed under the Programme will be required to undertake that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Conrid Law (Law No. 228 f1949, as amended) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the preceding paragraph.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or

modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this document.

GENERAL INFORMATION

Listing and Admission to Trading

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to Trading on the Regulated Market.

However, Notes may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation on the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by other or further listing authorities, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

Authorisations

The issue of the first Tranche of Notes under the Programme was approved by an OGM Resolution of the shareholders on 13 December 2004 which was published in the Official Gazette on 14 January 2005 and registered in SABB's Commercial Register on 7 February 2005. The establishment of the Programme was authorised by the resolutions of the Board of Directors passed on 19 January 2005 and 28 February 2005.

The shareholders of the Issuer passed an OGM Resolution on 21 March 2006 approving the issuance of any subsequent Tranches and Series of Notes and authorising the Board of Directors of the Issuer to approve the relevant amounts and the terms and conditions of such Tranche or Series of Notes. The Board of Directors of the Issuer passed resolutions approving the amended terms and conditions of the Programme on 22 March 2006.

The shareholders of the Issuer passed an Extraordinary General Meeting Resolutions on 10 March 2009 increasing the share capital of the Issuer to SAR 7.5 billion. The Board of Directors of the Issuer passed a resolution on 26 October 2010 authorising the issuance of any subsequent Tranches and Series of Notes up to U.S.$ 750 million (or its equivalent in any other currency or currencies) and approving the amended terms and conditions of the Programme.

Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The address of Euroclear is 1 Boulevard du Roi Albert II Brussels, B-1210 Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, Luxembourg L-1855. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information. The address of any alternative clearing system will be specified in the applicable Final Terms.

Use of proceeds

The net proceeds of the issue of each Tranche of Notes will be applied by the Issuer to meet part of its general financing requirements.

Legal and arbitration proceedings

There are no governmental, legal or arbitration proceedings (including proceedings which are pending or threatened of which the Issuer is aware), during the 12 month period before the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

No significant change

Since 30 September 2010, there has been no significant change in the financial or trading position of the Issuer and since 31 December 2009, there as been no material adverse change in the prospects of the Issuer.

Auditors

The 2008 and 2009 financial statements of the Issuer have been audited by Ernst & Young and KPMG Al Fozan & Al Sadhan (formerly KPMG Al Fozan & Bannaga) (their addresses being P.O. Box 2732, Riyadh 11461, Kingdom of Saudi Arabia and P.O. Box 92876, Riyadh 11663, Kingdom of Saudi Arabia, respectively), both of which are members of the Saudi Organisation for Certified Public Accountants as independent public auditors of the Issuer for the relevant periods, and unqualified opinions have been reported thereon.

Third Party Information

The Issuer confirms that the information sourced from a third party in "The Banking Sector in Saudi Arabia Selected Financial Information for Saudi Banks" has been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Post-Issuance Information

The Issuer will not provide any post-issuance information, except if required by any applicable laws and regulations.

Documents available for inspection

For the life of this Base Prospectus, copies and, where appropriate, English translations of the following documents may be inspected and obtained during normal business hours and subject to reasonable notice at the specified office of the Fiscal Agent and at the specified office of the Paying Agent in Luxembourg, namely:

(a) the memorandum and articles of association (with an English translation thereof) of the Issuer;

(b) the current Base Prospectus in relation to the Programme, together with any supplements thereto;

(c) the Agency Agreement;

(d) the Deed of Covenant;

(e) the Dealer Agreement;

(f) the Programme Manual (which contains the forms of the Notes in global and definitive form);

(g) the most recent publicly available audited consolidated financial statements of the Issuer beginning with such financial statements for the years ended 31 December 2008 and 31 December 2009. The Issuer currently prepares audited consolidated accounts on an annual basis;

(h) the most recently published unaudited interim financial statements (if any) of the Issuer in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated interim accounts on a quarterly basis; and

(i) any future base prospectuses, drawdown prospectuses and supplements thereto including any Final Terms (save that the Final Terms relating to Notes which are neither admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, will only be available for inspection by the relevant Noteholders).

The Issuer has investments in subsidiaries and associates relating to SABB Insurance Agency Company, SABB Securities, Arabian Real Estate Company, SABB Insurance Services Company, Saudi Properties

Ltd., all operating within Saudi Arabia. SABB does not operate subsidiaries outside Saudi Arabia. SABB produces consolidated financial statements.

Listing on other exchanges

On 15 December 2004, the European Parliament and of the Council adopted the transparency directive concerning the harmonisation of transparency requirements with information about issuers whose securities are admitted to trading on a regulated market in the European Union (Directive 2004/109/EC) (the "**Transparency Directive**"). If, as a result of any legislation implementing the Transparency Directive, the Issuer could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, or any other requirements are imposed on the Issuer which it considers burdensome, the Issuer may de-list the Notes if it so decides or it may (but is not obliged to) seek an alternative admission to listing, trading and/or quotation for the Notes by such other listing authority, stock exchange and/or quotation system outside the European Union as it may decide.

INDEX OF DEFINED TERMS

£ iii
1988 Vienna Convenation 81
30/360 21
30E/360 (ISDA) 22
360/360 21
Accountholder 54
Accrual Yield 19
Actual/360 21
Actual/365 (Fixed) 21
Actual/Actual 21
Actual/Actual (ICMA) 21
Actual/Actual (ISDA) 21
Additional Business Centre(s) 19
Additional Financial Centre(s) 20
Agency Agreement 19
Agent 19
Agents 19
ALCO 68
Appeal Panel 5
ATMs 64
Base Prospectus 20, 42
BBME 58
BCL 80
Bearer Notes 19
Bond Basis 21
business day 28
Business Day 20
Business Day Convention 20
Calculation Agent 20
Calculation Amount 20
Calculation Period 21
Capital Market Law 5
CDMs 64
Clearing System Business Day 56
Clearstream, Luxembourg 2, 15
CMA 59, 79, 80
Commercial Register 13
Committee 5
Companies Regulation 13
Conditions 19, 42
control 27
Coupon Sheet 21
Couponholder 28
Couponholders 19
Coupons 19
Day Count Fraction 21
Dealer Agreement 86
Dealers 86
Deed of Covenant 19, 55
Definitive Notes 15
DIFC 88
Directors 74
Dispute 40
dollars iii
Drawdown Prospectus 10
Early Redemption Amount (Tax) 22
Early Termination Amount 23
EUR iii
euro iii
Eurobond Basis 22
Euroclear 2, 15
Eurodollar Convention 20
Extraordinary Resolution 23
FATF 81
FIM OPS 74
Final Redemption Amount 23
Final Terms 19
first currency 40
first person 27
Fiscal Agent 19
Fixed Coupon Amount 23
Floating Rate Convention 20
Following Business Day Convention 20
FRN Convention 20
FSMA 12
GCC 78
GCC Person 84
GDP 4
GIB 78
Global Note 15
Global Notes 1
Global Registered Note 2, 17
Guarantee 23
Holder 23, 28
HSBC Group 59
HSBC Holdings 58
HSBC Saudi Arabia 59
IBSA 66
IFRS 80
Indebtedness 23
Individual Note Certificates 17
Investor's Currency 4
ISDA Definitions 23
ISDA Rate 30
Issue Date 23
Issuer ..... i, 19
Margin 23
Markets in Financial Instruments Directive i
Maturity Date 23
Maximum Redemption Amount 23
Member State iii
Minimum Redemption Amount 23
Modified Business Day Convention 20
Modified Following Business Day Convention 20
NCB 62, 78
No Adjustment 20
Note Certificate 28
Noteholder 23, 28, 54
Notes ..... i, 19
Official Gazette 13
OGM Resolution 13
Optional Redemption Amount (Call) 24
Optional Redemption Amount (Put) 24
Optional Redemption Date (Call) 24
Optional Redemption Date (Put) 24

ORM Committee....68
outstanding....27
Participating Member State....24
Paying Agents....19
Payment Business Day....24
Permanent Global Note....1, 15
Permitted Security Interest....24
Person....24
Preceding Business Day Convention....20
Principal Financial Centre....24
Principal Subsidiary....25
Proceedings....41
Profit....25
Profit Amount....25
Profit Commencement Date....25
Profit Determination Date....25
Profit Payment Date....25
Profit Period....25
Programme....19
Prospectus Directive....i, 42, 87
Put Option Notice....25
Put Option Receipt....25
Rate of Profit....25
Record Date....36, 56
Redemption Amount....25
Reference Banks....26
Reference Price....26
Reference Rate....26
Register....28
Registered Notes....19
Regular Date....26
Regular Period....26
Regulated Market....i
Relevant Coupons....34
Relevant Date....26
Relevant Factor....3
Relevant Financial Centre....26
Relevant Implementation Date....86
Relevant Indebtedness....26
Relevant Member State....86
Relevant Screen Page....26
Relevant Time....26
Riyals....iii
SABB....i, 58
SABB Securities....60
SABB Takaful....60
SAMA....7, 58
SAMBA....79
SAR....iii
Saudi Arabia....1, 26
Saudi Arabia Capital Market Authority....iii
second currency....40
second person....27
Securities Act....ii
Security Interest....26
Series....19
Specified Currency....27
Specified Office....27
Specified Period....27
Stabilising Manager(s)....iii
Sterling....iii
Subsidiary....27
sub-unit....29
Talon....27
TARGET Settlement Day....27
TARGET2....27
Technical Services Agreement....59
TEFRA C Rules....15
TEFRA D Rules....15
Temporary Global Note....1, 15
Tranche....19
Transfer Agents....19
Transparency Directive....92
TREATS....59
Treaty....27
U.S. dollars....iii
U.S.$....iii
UNSC 1373....81
Zero Coupon Note....27

FINANCIAL STATEMENTS

(1) the Issuer's consolidated, unaudited interim financial statements in respect of the nine months ended 30 September 2010, together with the auditors' reports in respect of the same.....A-1

(2) the Issuer's consolidated, audited annual financial statements in respect of the years ended 31 December 2009, together with the auditors' reports in respect of the same.....B-1

(3) the Issuer's consolidated, audited annual financial statements in respect of the year ended 31 December 2008, together with the auditors' report in respect of the same.....C-1

The Issuer's consolidated, unaudited interim financial statements in respect of the nine months ended 30 September 2010.

REVIEW REPORT

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

We have reviewed the accompanying interim consolidated statement of financial position of The Saudi British Bank ("the Bank") and its subsidiary, as of 30 September 2010, the interim consolidated statements of income and comprehensive income for the three and nine month periods then ended, the interim consolidated statements of changes in shareholders' equity and cash flows for the nine month period then ended, and the notes from (1) to (12) which form an integral part of these interim condensed consolidated financial statements.

Management's Responsibility for the Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements are the responsibility of the management and have been prepared by them in accordance with applicable Accounting Standards for Financial Institutions and certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting" and submitted to us together with all the information and explanations which we required.

Scope of Review

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia, applicable to review engagements, and with International Standard on Review Engagements 2410. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34 "Interim Financial Reporting".

Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (11) of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (11) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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16 Dhul-Qadah 1431H
(24 October 2010)

Interim Condensed

Consolidated Financial Statements

For the nine months ended
30 September 2010

The Saudi British Bank

SABB ساب

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 September 2010 Unaudited SAR' 000**	31 December 2009 Audited SAR' 000	30 September 2009 Unaudited SAR' 000
ASSETS				
Cash and balances with SAMA		**12,392,715**	16,614,885	7,213,433
Due from banks and other financial institutions		**5,593,630**	6,004,593	9,288,705
Investments, net	**4**	**20,964,708**	23,817,550	24,084,074
Loans and advances, net		**74,687,164**	76,381,599	78,834,571
Investment in associates	**5**	**208,055**	180,458	278,081
Property and equipment, net		**580,344**	594,042	557,973
Other assets		**3,919,406**	3,244,835	3,649,096
Total assets		**118,346,022**	126,837,962	123,905,933
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		**4,418,984**	13,605,744	10,148,784
Customers' deposits		**90,667,625**	89,186,861	89,246,180
Debt securities in issue		**3,368,789**	5,709,487	5,741,795
Borrowings		**187,500**	187,500	187,500
Other liabilities		**4,896,249**	5,103,081	5,463,538
Total liabilities		**103,539,147**	113,792,673	110,787,797
Shareholders' equity				
Share capital	**10**	**7,500,000**	7,500,000	7,500,000
Statutory reserve		**4,988,075**	4,988,075	4,981,605
Other reserves		**137,540**	(137,535)	(38,810)
Retained earnings		**2,181,260**	694,749	675,341
Total shareholders' equity		**14,806,875**	13,045,289	13,118,136
Total liabilities and shareholders' equity		**118,346,022**	126,837,962	123,905,933

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF INCOME
Unaudited

		Three months ended		Nine months ended	
		30 September 2010	30 September 2009	**30 September 2010**	30 September 2009
	Notes	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Special commission income		**898,857**	1,055,336	**2,849,269**	3,582,351
Special commission expense		**99,084**	201,194	**336,509**	953,214
Net special commission income		**799,773**	854,142	**2,512,760**	2,629,137
Fees and commission income, net		**288,223**	321,295	**898,935**	925,331
Exchange income, net		**26,897**	33,164	**89,840**	98,805
Income from FVIS financial instruments, net		**-**	880	**-**	6,568
Trading income, net		**41,434**	74,169	**201,699**	239,222
Dividend income		**267**	-	**2,215**	1,049
Gains on non-trading investments, net		**-**	16,675	**250**	49,719
Other operating income		**1,585**	4,163	**17,374**	23,800
Total operating income		**1,158,179**	1,304,488	**3,723,073**	3,973,631
Salaries and employee related expenses		**237,782**	217,674	**684,628**	677,122
Rent and premises related expenses		**23,943**	20,248	**67,625**	60,373
Depreciation and amortisation		**28,244**	27,377	**85,098**	83,334
Other general and administrative expenses		**137,860**	135,943	**421,836**	396,427
Provision for credit losses, net		**324,483**	351,537	**1,004,972**	782,201
Total operating expenses		**752,312**	752,779	**2,264,159**	1,999,457
Net income from operating activities		**405,867**	551,709	**1,458,914**	1,974,174
Share in earnings of associates, net	**5**	**13,069**	18,748	**27,597**	32,225
Net income for the period		**418,936**	570,457	**1,486,511**	2,006,399
Basic and diluted earnings per share (in SAR)	**10**	**0.56**	0.76	**1.98**	2.68

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three months ended		Nine months ended	
	30 September 2010 SAR' 000	30 September 2009 SAR' 000	**30 September 2010 SAR' 000**	30 September 2009 SAR' 000
Net income for the period	**418,936**	570,457	**1,486,511**	2,006,399
Other comprehensive income				
Available for sale financial assets				
- Net change in fair value	**180,063**	122,945	**321,043**	200,401
- Transfer to interim consolidated statement of income	**-**	(16,675)	**-**	(49,719)
Cash flow hedges				
- Net change in fair value	**(6,510)**	11,877	**(43,522)**	(961)
- Transfer to interim consolidated statement of income	**(2,164)**	(11,815)	**(2,446)**	(11,815)
	171,389	106,332	**275,075**	137,906
Total comprehensive income for the period	**590,325**	676,789	**1,761,586**	2,144,305

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended 30 September
Unaudited

	Share Capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividend SAR '000	Total SAR '000
2010						
Balance at beginning of the period	**7,500,000**	**4,988,075**	**(137,535)**	**694,749**	-	**13,045,289**
Total comprehensive income for the period	**-**	**-**	**275,075**	**1,486,511**	-	**1,761,586**
Balance at end of the period	**7,500,000**	**4,988,075**	**137,540**	**2,181,260**	-	**14,806,875**
2009						
Balance at beginning of the period	6,000,000	4,480,005	(176,716)	1,330,542	-	11,633,831
Total comprehensive income for the period	-	-	137,906	2,006,399	-	2,144,305
Bonus share issue	1,500,000	-	-	(1,500,000)		-
Transfer to statutory reserve	-	501,600	-	(501,600)	-	-
Interim gross dividend	-	-	-	(660,000)	660,000	-
Interim gross dividend paid	-	-	-	-	(660,000)	(660,000)
Balance at end of the period	7,500,000	4,981,605	(38,810)	675,341	-	13,118,136

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended 30 September
Unaudited

	Notes	2010 SAR' 000	2009 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		**1,486,511**	2,006,399
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Accretion of discounts on non-trading investments, net		**(5,829)**	(2,592)
Income from FVIS financial instruments, net		**-**	(6,568)
Gains on non-trading investments, net		**(250)**	(49,719)
Depreciation and amortisation		**85,098**	83,334
Losses on disposal of property and equipment, net		**2**	14
Share in earnings from associates, net		**(27,597)**	(32,225)
Provision for credit losses, net		**1,004,972**	782,201
Change in fair value		**(90,698)**	84,995
		2,452,209	2,865,839
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**178,195**	(29,479)
Investments held as FVIS		**322,225**	10,732
Loans and advances		**689,463**	619,985
Other assets		**(674,571)**	(68,041)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(9,186,760)**	(5,920,708)
Customers' deposits		**1,480,764**	(3,431,357)
Other liabilities		**(196,887)**	172,553
Net cash used in operating activities		**(4,935,362)**	(5,780,476)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		**22,439,235**	13,716,718
Purchase of non-trading investments		**(19,627,464)**	(8,148,299)
Purchase of property and equipment		**(72,059)**	(79,895)
Investment in associates		**-**	(97,500)
Proceeds from disposal of property and equipment		**657**	34
Net cash from investing activities		**2,740,369**	5,391,058
FINANCING ACTIVITIES			
Debt securities issued		**(2,250,000)**	-
Dividends paid		**(9,945)**	(666,642)
Net cash used in financing activities		**(2,259,945)**	(666,642)
Decrease in cash and cash equivalents		**(4,454,938)**	(1,056,060)
Cash and cash equivalents at beginning of the period		**17,456,914**	12,701,229
Cash and cash equivalents at end of the period	**8**	**13,001,976**	11,645,169
Special commission received during the period		**2,784,825**	3,851,345
Special commission paid during the period		**480,460**	1,207,888

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements**.**

1. General

The Saudi British Bank ("the Bank") is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 79 branches (2009: 70) and 31 exclusive ladies' sections (2009: 31) in the Kingdom of Saudi Arabia. The Bank employed 3,405 staff as at 30 September 2010 (2009: 3,425). The address of the Bank's head office is as follows:

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

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

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

The Bank has 100% (2009: 100%) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activity is to act as a sole insurance agent for SABB Takaful Company (an associate company- see note 5) within the Kingdom of Saudi Arabia as per the agreement between them. However, the articles of association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

The Bank has 51% (2009: 51%) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and IAS 34 – Interim Financial Reporting. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2009. These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

The interim condensed consolidated financial statements comprise the financial statements of "The Saudi British Bank" and its subsidiary, SABB Securities Limited. The financial statements of the subsidiary are prepared for the same reporting period as that of the Bank, using consistent accounting policies. The Bank has not consolidated SABB Insurance Agency Company Limited and SABB Insurance Services Limited as their total assets, liabilities and their income and expenses are not significant to the Bank's overall interim condensed consolidated financial statements.

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

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Balances between the Bank and its subsidiary, and any unrealised income and expenses arising from inter-company transactions, are eliminated in preparing the interim condensed consolidated financial statements.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2009, as described in the annual consolidated financial statements for the year ended 31 December 2009.

4. Investments, net

Investment securities are classified as follows:

SAR'000	**30 September 2010 (Unaudited)**	31 December 2009 (Audited)	30 September 2009 (Unaudited)
Investments:			
- Held as FVIS	**32,176**	346,203	351,524
- Available for sale	**18,341,655**	18,676,927	18,687,670
- Other investments held at amortized cost	**2,490,218**	4,392,648	4,542,214
- Held to maturity	**100,659**	401,772	502,666
Total	**20,964,708**	23,817,550	24,084,074

Investments classified under FVIS are all held for trading.

5. Investment in associates

SAR'000	**30 September 2010 (Unaudited)**	31 December 2009 (Audited)	30 September 2009 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	**70,126**	130,150	130,150
Dividend received	**-**	(111,446)	-
Share of undistributed profit	**29,507**	51,422	36,178
	99,633	70,126	166,328
SABB Takaful			
Balance at beginning of the period	**110,332**	18,206	18,206
Cost of investment during the period	**-**	97,500	97,500
Share of losses	**(1,910)**	(5,374)	(3,953)
	108,422	110,332	111,753
Total	**208,055**	180,458	278,081

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

The Bank owns 32.5% of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general takaful products.

6. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

SAR'000	**30 September 2010 (Unaudited)**			31 December 2009 (Audited)			30 September 2009 (Unaudited)		
	Positive fair Value	**Negative fair value**	**Notional Amount**	Positive fair Value	Negative fair value	Notional Amount	Positive fair Value	Negative fair value	Notional Amount
Derivatives held for trading:									
Special commission rate swaps	**1,710,930**	**(1,618,190)**	**51,330,295**	1,410,339	(1,318,875)	53,314,211	1,660,582	(1,563,782)	53,424,272
Currency swaps	**190,807**	-	**1,475,297**	284,116	-	1,475,297	317,778	-	1,475,297
Special commission rate futures and options	**62,768**	**(62,768)**	**2,887,500**	34,021	(34,021)	2,887,500	22,711	(22,711)	2,887,500
Spot and forward foreign exchange contracts	**120,280**	**(142,793)**	**35,044,839**	39,918	(52,381)	17,026,881	63,901	(84,023)	17,411,211
Currency options	**66,182**	**(66,182)**	**5,076,306**	72,118	(72,118)	3,037,146	77,143	(77,143)	3,414,262
Others	**2,268**	**(2,268)**	**675,000**	3,831	(3,831)	725,000	2,680	(2,680)	725,000
Derivatives held as fair value hedges:									
Special commission rate swaps	-	**(75,887)**	**1,877,524**	4,824	(29,539)	835,182	2,050	(32,863)	747,674
Derivatives held as cash flow hedges:									
Special commission rate swaps	**6,902**	**(39,771)**	**1,343,750**	29,844	(1,386)	1,381,250	26,528	(3,057)	581,250
Total	**2,160,137**	**(2,007,859)**	**99,710,511**	1,879,011	(1,512,151)	80,682,467	2,173,373	(1,786,259)	80,666,466

7. Credit related commitments and contingencies

The Bank's credit related commitments and contingencies are as follows:

SAR'000	**30 September 2010 (Unaudited)**	31 December 2009 (Audited)	30 September 2009 (Unaudited)
Letters of credit	**8,830,122**	7,741,632	8,218,802
Letters of guarantee	**31,909,511**	27,740,924	25,756,141
Acceptances	**2,388,916**	2,468,011	2,490,431
Irrevocable commitments to extend credit	**251,131**	834,765	1,407,045
Total	**43,379,680**	38,785,332	37,872,419

8. Cash and cash equivalents

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

SAR'000	**30 September 2010 (Unaudited)**	31 December 2009 (Audited)	30 September 2009 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	**7,408,346**	11,452,321	2,356,464
Due from banks and other financial institutions maturing within three months of acquisition date	**5,593,630**	6,004,593	9,288,705
Total	**13,001,976**	17,456,914	11,645,169

9. Segment information

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's management in its function as chief decision maker in order to allocate resources to the segments and to assess its performance. All operating segments used by the Bank meet the definition of reportable segments under IFRS 8.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income or expense between the business segments. Revenue from external parties is measured in a manner consistent with that in the interim consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2009.

The Bank is organised into the following main business segments:

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

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

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

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 30 September 2010 and 2009, their total operating income and expenses, and the net income for the nine-month periods then ended, by business segment, are as follows:

30 September 2010 (Unaudited) SAR' 000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Total assets	**20,859,595**	**56,056,031**	**41,216,488**	**213,908**	**118,346,022**
Total liabilities	**36,656,615**	**37,531,679**	**29,315,263**	**35,590**	**103,539,147**
Total operating income	**1,186,314**	**1,751,212**	**668,209**	**117,338**	**3,723,073**
Total operating expenses	**1,285,649**	**840,158**	**78,801**	**59,551**	**2,264,159**
Share in earnings of associates, net	**-**	**-**	**-**	**27,597**	**27,597**
Net income for the period	**(99,335)**	**911,054**	**589,408**	**85,384**	**1,486,511**
Provision for credit losses, net	**562,247**	**442,725**	**-**	**-**	**1,004,972**

30 September 2009 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	20,822,246	59,902,066	42,900,460	281,161	123,905,933
Total liabilities	33,827,895	38,908,834	38,022,259	28,809	110,787,797
Total operating income	1,454,632	1,736,603	613,051	169,345	3,973,631
Total operating expenses	1,099,805	766,557	43,490	89,605	1,999,457
Share in earnings of associates, net	-	-	-	32,225	32,225
Net income for the period	354,827	970,046	569,561	111,965	2,006,399
Provision for credit losses, net	280,143	502,058	-	-	782,201

10. Earnings per share

Basic and fully diluted earnings per share for the period ended 30 September 2010 and 2009 is calculated by dividing the net income for the period attributable to the equity holders by 750 million.

11. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Saudi Arabian Monetary Agency in supervising the Bank.

Capital Adequacy Ratios	**September 2010**		September 2009	
Particulars	**Total capital ratio**	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
	%		**%**	
Top consolidated level	14.0	12.0	12.7	10.1

12. Comparative figures

Certain prior period figures have been reclassified to confirm with the current period's presentation.

The Issuer's consolidated, audited annual financial statements in respect of the years ended 31 December 2009, together with the auditors' reports in respect of the same

ERNST & YOUNG

KPMG

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 subsidiary, which comprise the consolidated statement of financial position as at 31 December 2009, 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 41, other than note 38, and the information related to "Basel II disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

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 whether these consolidated financial statements are free from material misstatement.

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

ERNST & YOUNG

KPMG

KPMG Al Fozan & Al Sadhan

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiary as at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young
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Tareq A. Al Sadhan
Certified Public Accountant
License No. 352

6 Rabi Awal 1431H
(20 February 2010)

The Saudi British Bank
Consolidated Financial Statements

For the year ended

31 December 2009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2009 SAR'000	2008 SAR'000
ASSETS			
Cash and balances with SAMA	3	**16,614,885**	11,328,253
Due from banks and other financial institutions	4	**6,004,593**	6,200,466
Investments, net	5	**23,817,550**	29,604,346
Loans and advances, net	6	**76,381,599**	80,236,757
Investment in associates	7	**180,458**	148,356
Property and equipment, net	8	**594,042**	561,460
Other assets	9	**3,244,835**	3,581,055
Total assets		**126,837,962**	131,660,693
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**13,605,744**	16,069,492
Customers' deposits	12	**89,186,861**	92,677,537
Debt securities in issue	13	**5,709,487**	5,656,800
Borrowings	14	**187,500**	187,500
Other liabilities	15	**5,103,081**	5,435,533
Total liabilities		**113,792,673**	120,026,862
Shareholders' equity			
Share capital	16	**7,500,000**	6,000,000
Statutory reserve	17	**4,988,075**	4,480,005
Other reserves	18	**(137,535)**	(176,716)
Retained earnings		**694,749**	1,330,542
Total shareholders' equity		**13,045,289**	11,633,831
Total liabilities and shareholders' equity		**126,837,962**	131,660,693

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

The Saudi British Bank
CONSOLIDATED STATEMENT OF INCOME

For the years ended 31 December	**Notes**	**2009 SAR'000**	2008 SAR'000
Special commission income	20	**4,573,599**	5,864,966
Special commission expense	20	**1,136,857**	2,657,922
Net special commission income		**3,436,742**	3,207,044
Fees and commission income, net	21	**1,210,734**	1,257,222
Exchange income, net		**127,265**	138,310
Income (losses) from FVIS financial instruments, net	22	**6,567**	(42,400)
Trading income, net	23	**295,982**	363,569
Dividend income		**1,453**	1,770
Gains (losses) on non-trading investments, net	24	**48,828**	(17,010)
Other operating income		**32,708**	3,023
Total operating income		**5,160,279**	4,911,528
Salaries and employee related expenses		**919,395**	898,078
Rent and premises related expenses		**82,159**	79,459
Depreciation	8	**111,289**	107,395
Other general and administrative expenses		**564,706**	556,612
Provision for credit losses, net	6	**1,496,483**	371,280
Impairment of other financial assets		**-**	86,929
Other operating expenses		**18**	77
Total operating expenses		**3,174,050**	2,099,830
Income from operating activities		**1,986,229**	2,811,698
Share in earnings of associates, net	7	**46,048**	108,321
Net income for the year		**2,032,277**	2,920,019
Basic and diluted earnings per share (in SAR)	25	**2.71**	3.89

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended 31 December

	2009 **SAR' 000**	2008 SAR' 000
Net income for the year	**2,032,277**	2,920,019
Other comprehensive income:		
Available for sale financial assets		
- Net change in fair value	**95,799**	(206,002)
- Transfer to consolidated statement of income	**(48,828)**	17,010
Cash flow hedges		
- Net change in fair value	**6,275**	28,496
- Transfer to consolidated statement of income	**(14,065)**	-
	39,181	(160,496)
Total comprehensive income for the year	**2,071,458**	2,759,523

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended 31 December

	Notes	Share capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividend SAR '000	Total SAR '000
2009							
Balance at beginning of the year		**6,000,000**	**4,480,005**	**(176,716)**	**1,330,542**	**-**	**11,633,831**
Total comprehensive income for the year		**-**	**-**	**39,181**	**2,032,277**	**-**	**2,071,458**
Bonus share issue	16	**1,500,000**	**-**	**-**	**(1,500,000)**	**-**	**-**
Transfer to statutory reserve	17	**-**	**508,070**	**-**	**(508,070)**	**-**	**-**
2009 interim dividend paid	26	**-**	**-**	**-**	**(660,000)**	**-**	**(660,000)**
Balance at end of the year		**7,500,000**	**4,988,075**	**(137,535)**	**694,749**	**-**	**13,045,289**
2008							
Balance at beginning of the year		3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933
Total comprehensive income for the year		-	-	(160,496)	2,920,019	-	2,759,523
Bonus share issue	16	2,250,000	-	-	(2,250,000)	-	-
Transfer to statutory reserve	17	-	730,005	-	(730,005)	-	-
2007 final dividend paid	26	-	-	-	-	(890,625)	(890,625)
2008 interim dividend paid	26	-	-	-	(660,000)	-	(660,000)
Balance at end of the year		6,000,000	4,480,005	(176,716)	1,330,542	-	11,633,831

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

The Saudi British Bank

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December	**Notes**	**2009 SAR'000**	2008 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**2,032,277**	2,920,019
Adjustments to reconcile net income to net cash from (used in) operating activities:			
(Accretion of discount) and amortisation of premiums and on non trading investments		**(4,075)**	1,067
(Income) losses from FVIS financial instruments, net	22	**(5,883)**	47,104
(Gains) losses on non-trading investments, net	24	**(48,828)**	17,010
Depreciation	8	**111,289**	107,395
Losses (gains) on disposal of property and equipment, net		**14**	(200)
Share in earnings of associates, net	7	**(46,048)**	(108,321)
Provision for credit losses, net	6	**1,496,483**	371,280
Impairment of other financial assets		**-**	86,929
Change in fair value		**52,687**	(88,819)
		3,587,916	3,353,464
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	**(335,074)**	(1,506,225)
Investments held for trading		**11,685**	(181,449)
Loans and advances		**2,358,675**	(18,607,179)
Other assets		**336,220**	(1,257,359)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,463,748)**	8,024,445
Customers' deposits		**(3,490,676)**	20,829,685
Other liabilities		**(285,576)**	1,600,749
Net cash (used in) from operating activities		**(280,578)**	12,256,131
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**19,549,679**	43,571,660
Purchase of non-trading investments		**(13,715,782)**	(58,285,668)
Dividend received from associates		**111,446**	70,412
Purchase of property and equipment	8	**(143,919)**	(117,743)
Investment in associates		**(97,500)**	-
Proceeds from disposal of property and equipment		**34**	928
Net cash from (used in) investing activities		**5,703,958**	(14,760,411)
FINANCING ACTIVITIES			
Debt securities in issue		**-**	1,705,000
Dividends paid		**(667,695)**	(1,545,548)
Net cash (used in) from financing activities		**(667,695)**	159,452
Increase (Decrease) increase in cash and cash equivalents		**4,755,685**	(2,344,828)
Cash and cash equivalents at the beginning of the year		**12,701,229**	15,046,057
Cash and cash equivalents at the end of the year	27	**17,456,914**	12,701,229
Special commission received during the year		**4,901,462**	5,765,791
Special commission paid during the year		**1,539,842**	2,327,993
Supplemental non cash information			
Net changes in fair value and cash flow hedges		**39,181**	(160,496)

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

1. General

The Saudi British Bank (the Bank) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 72 branches (2008: 68) and 31 exclusive ladies' sections (2008: 31) in the Kingdom of Saudi Arabia. The Bank employed 3,504 staff as at 31 December 2009 (2008: 3,395). The address of the Bank's head office is as follows:

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

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

The Bank has 100% (2008 : 100 %) ownership interest in a subsidiary, SABB Securities Limited, a Limited Liability Company formed in accordance with the Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The activities of the subsidiary are to engage in business of custody and dealing as an agent excluding underwriting.

The Bank has 100% (2008 : 100 %) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activity is to act as a sole insurance agent for SABB Takaful Company (an associate company- see note 7) within Kingdom of Saudi Arabia as per the agreement between them. However, the article of association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

The Bank has 51% (2008 : 51 %) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

1.1. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Basis of consolidation

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

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

Intercompany transactions and balances have been eliminated upon consolidation.

e) Critical accounting judgements and estimates

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

(i) Impairment losses on loans and advances

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

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

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

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

(iv) Classification of held to maturity investments

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

(v) Classification of fair value through income statement

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

f) Going concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2008, as described in the annual consolidated financial statements for the year ended 31 December 2008 except for the adoption of IFRS 8 Operating Segments and amendments to existing standards, as mentioned below. The Bank has adopted the standard and amendments with retrospective effect which had no impact on the financial position and financial performance of the Bank. The comparative information has been restated, where required, to conform to current year presentation.

- IFRS 8 Operating Segments, which supersedes IAS 14 Segment Reporting and requires disclosure of information about the Bank's operating segments;
- the revisions and amendments to IAS 1 Presentation of Financial statements; and
- amendments to IFRS 2 Share based payments – vesting conditions and cancellations and IAS 32 Financial Instruments Presentation.

b) Trade date accounting

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

c) Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

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

e) Offsetting financial instruments

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

f) Revenue/ expenses recognition

Special commission income and expense

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

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

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

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

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

Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

Fees and commission income

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

Dividend income

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

Net trading income

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

g) Sale and repurchase agreements

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

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

h) Investments

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

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

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

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

(i) Held as FVIS

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

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

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

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

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

(ii) Available for sale

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

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

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

(iii) Held to maturity

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

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

(iv) Held at amortised cost

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

i) Investment in associates

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

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

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

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

j) Loans and advances

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

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

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

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

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

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

l) Impairment of financial assets

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

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

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

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

i) Impairment of financial assets held at amortised cost

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

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

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

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

ii) Impairment of financial assets held at fair value

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

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

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

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

m) Property and equipment

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

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

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

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

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

n) Liabilities

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

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

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

o) Provisions

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

p) Guarantees

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

q) Accounting for leases

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

r) Cash and cash equivalents

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

s) Derecognition of financial instruments

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

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

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

t) Assets held in trust or in fiduciary capacity

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

u) Zakat and income taxes

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

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

v) Non-interest based banking products

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

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

3. Cash and balances with SAMA

	2009 SAR'000	2008 SAR'000
Cash in hand	**662,694**	621,611
Statutory deposit	**5,162,564**	4,827,490
Reverse repos	**10,787,850**	5,540,769
Other balances	**1,777**	338,383
Total	**16,614,885**	11,328,253

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

4. Due from banks and other financial institutions

	2009 SAR'000	2008 SAR'000
Current accounts	**1,091,225**	2,722,368
Money market placements	**4,913,368**	3,478,098
Total	**6,004,593**	6,200,466

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		**International**		**Total**	
	2009 SAR'000	2008 SAR'000	**2009 SAR'000**	2008 SAR'000	**2009 SAR'000**	2008 SAR'000
i) Held as FVIS						
Fixed rate securities	**-**	-	**18,673**	17,822	**18,673**	17,822
Floating rate securities	**327,530**	323,016	**-**	60,457	**327,530**	383,473
Held as FVIS	**327,530**	323,016	**18,673**	78,279	**346,203**	401,295

Investments classified under FVIS are all held for trading (2008: SAR 350.9 million), and floating rate notes designated as FVIS as at inception or on adoption of the revised IAS 39 as at 1 January 2005 are nil (2008 : SAR 50.4 million). The maximum credit exposure of investments designated as FVIS as at 31 December 2009 is SAR nil (2008: SAR 56.8 million).

The changes in fair value are mainly attributable to the changes in credit risk during the year, as the impact of market risk is minimal.

ii) Available for sale						
Fixed rate securities	**10,685,614**	16,731,299	**2,733,709**	2,161,076	**13,419,323**	18,892,375
Floating rate securities	**3,631,376**	2,587,485	**1,590,398**	2,410,352	**5,221,774**	4,997,837
Equities	**10,894**	10,894	**46,615**	83,671	**57,509**	94,565
Available for sale investments, gross	**14,327,884**	19,329,678	**4,370,722**	4,655,099	**18,698,606**	23,984,777
Allowance for impairment	**-**	-	**(21,679)**	(77,929)	**(21,679)**	(77,929)
Available for sale investments	**14,327,884**	19,329,678	**4,349,043**	4,577,170	**18,676,927**	23,906,848
iii) Held at amortised cost						
Fixed rate securities	**3,171,648**	3,569,809	**-**	-	**3,171,648**	3,569,809
Floating rate securities	**1,221,000**	1,221,000	**9,000**	9,000	**1,230,000**	1,230,000
Held at amortised cost, gross	**4,392,648**	4,790,809	**9,000**	9,000	**4,401,648**	4,799,809
Allowance for impairment	**-**	-	**(9,000)**	(9,000)	**(9,000)**	(9,000)
Held at amortised cost	**4,392,648**	4,790,809	**-**	-	**4,392,648**	4,790,809
iv) Held to maturity						
Fixed rate securities	**401,772**	505,394	-	-	**401,772**	505,394
Held to maturity investments	**401,772**	505,394	-	-	**401,772**	505,394
Investments, net	**19,449,834**	24,948,897	**4,367,716**	4,655,449	**23,817,550**	29,604,346

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

	2009			2008		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**3,182,778**	**13,828,638**	**17,011,416**	2,178,898	20,806,502	22,985,400
Floating rate securities	**4,960,535**	**1,818,769**	**6,779,304**	4,351,711	2,259,599	6,611,310
Equities	**-**	**57,509**	**57,509**	-	94,565	94,565
	8,143,313	**15,704,916**	**23,848,229**	6,530,609	23,160,666	29,691,275
Allowance for impairment	**-**	**(30,679)**	**(30,679)**	-	(86,929)	(86,929)
Investments	**8,143,313**	**15,674,237**	**23,817,550**	6,530,609	23,073,737	29,604,346

Unquoted investments include securities of SAR 15,180.0 million (2008: SAR 22,328.0 million) issued by the Saudi Arabian Government and its agencies.

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

	2009 SAR'000			2008 SAR'000		
	Carrying value	**Gross unrealised gain**	**Fair value**	Carrying value	Gross unrealised gain	Fair value
i) Held at amortised cost						
Fixed rate securities	**3,171,648**	**172,061**	**3,343,709**	3,569,809	233,852	3,803,661
Floating rate securities	**1,221,000**	**1,282**	**1,222,282**	1,221,000	3,491	1,224,491
Total	**4,392,648**	**173,343**	**4,565,991**	4,790,809	237,343	5,028,152
(ii) Held to maturity						
Fixed rate securities	**401,772**	**12,939**	**414,711**	505,394	26,482	531,876
Total	**401,772**	**12,939**	**414,711**	505,394	26,482	531,876

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

	2009 SAR'000	2008 SAR'000
Government and quasi Government	**20,348,115**	26,769,715
Corporate	**593,881**	271,857
Banks and other financial institutions	**2,864,155**	2,518,478
Other	**11,399**	44,296
Total	**23,817,550**	29,604,346

Equities reported under available for sale investments include unquoted shares of SAR 11.4 million (2008: SAR 11.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR nil (SAR 2008: SAR 3,502.2 million) which have been pledged under repurchase agreements with banks and customers. The market value of such investments is SAR nil (2008: SAR 3,492.5 million).

e) Credit quality of investments

	2009 SAR'000	2008 SAR'000
Saudi Government bonds	**15,180,032**	22,328,041
Investment grade	**8,540,236**	7,011,599
Unrated	**97,282**	264,706
Total	**23,817,550**	29,604,346

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

Investment Grade includes those investments with credit ratings equivalent to aStandard and Poor's Rating of AAA to BBB. Issuer ratings have been used for bonds which have not been rated by any agency amounting to SAR 311.2 million (2008: SAR 1,418.9 million).

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

f) Movements of allowance for impairment on investments

	2009 SAR'000	2008 SAR'000
Balance at beginning of the year	**86,929**	-
Provided during the year	**-**	86,929
Amounts written off during the year	**(56,250)**	-
Balance at end of the year	**30,679**	86,929

6. Loans and advances, net

a) Loans and advances are classified as follows:

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

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

Loans and advances, net include non-interest bearing products totalling SAR 38,568 million (2008: SAR 37,568 million) which are stated at cost less provision for credit losses, of SAR 723.0 million (2008: SAR 277.9 million).

Provision for credit losses charged to the consolidated statement of income related to non-interest bearing products is SAR 692.4 million (2008: SAR 111.5 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 256 million as at the beginning of the year. The hedge expired during the year and the negative mark to market of SAR 0.6 million on these loans as at the beginning of the year became nil as at the statement of financial position date.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 277.5 million (2008: SAR 108.1 million).

b) Movement in provision for credit losses

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

	2008			SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Balance at beginning of the year	98,881	131,702	340,465	571,048
Bad debts written off	(110,994)	(171,693)	(30,119)	(312,806)
Provided during the year	158,499	203,401	98,392	460,292
Recoveries of amounts previously provided	(31,930)	(29,138)	(27,944)	(89,012)
Balance at the end of the year	114,456	134,272	380,794	629,522

The allowance for credit losses above includes a collective allowance amounting to SR 247.4 million (2008: SR 229.7 million) related to the performing portfolio.

The net charge to income on account of provision for credit losses is SAR 1,496.5 million (2008: SAR 371.2 million), which is net of recoveries of amounts previously provided as shown above.

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

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

	2008			SAR' 000
Grades	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Undoubted	-	-	59,438	59,438
Good	-	-	9,032,034	9,032,034
Satisfactory	1,850,220	12,009,103	55,265,410	69,124,733
Total	1,850,220	12,009,103	64,356,882	78,216,205

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)

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

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

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

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

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

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

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

d) Collateral

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

7. Investments in associates

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

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

	2009			2008		
	HSBC Saudi Arabia Limited	**SABB Takaful**	**Total**	HSBC Saudi Arabia Limited	SABB Takaful	Total
	SAR' 000	**SAR' 000**	**SAR' 000**	SAR' 000	SAR' 000	SAR' 000
Balance at beginning of the year	**130,150**	**18,206**	**148,356**	90,411	20,036	110,447
Cost of investment during the year	**-**	**97,500**	**97,500**	-	-	-
Dividend received	**(111,446)**	**-**	**(111,446)**	(70,412)	-	(70,412)
Share of undistributed profits (losses)	**51,422**	**(5,374)**	**46,048**	110,151	(1,830)	108,321
Total	**70,126**	**110,332**	**180,458**	130,150	18,206	148,356

Share of the associates' financial statements:	**2009**		2008	
	HSBC Saudi Arabia Limited	**SABB Takaful**	HSBC Saudi Arabia Limited	SABB Takaful
	SAR' 000	**SAR' 000**	SAR' 000	SAR' 000
Total assets	**130,950**	**257,745**	186,823	60,429
Total liabilities	**60,824**	**147,413**	56,673	42,223
Total equity	**70,126**	**110,332**	130,150	18,206
Total income	**88,438**	**13,606**	167,759	15,096
Total expenses	**37,016**	**18,980**	57,608	16,926

8. Property and equipment, net

	Land and Buildings SAR'000	Leasehold improvements SAR'000	Equipment, furniture and vehicles SAR'000	2009 Total SAR'000	2008 Total SAR'000
Cost					
As at 1 January	**612,775**	**280,286**	**602,380**	**1,495,441**	1,380,503
Additions	**23,112**	**51,691**	**69,116**	**143,919**	117,743
Disposals	**-**	**-**	**(1,372)**	**(1,372)**	(2,805)
As at 31 December	**635,887**	**331,977**	**670,124**	**1,637,988**	1,495,441
Accumulated depreciation					
As at 1 January	**281,058**	**197,869**	**455,054**	**933,981**	828,663
Charge for the year	**25,766**	**22,672**	**62,851**	**111,289**	107,395
Disposals	**-**	**-**	**(1,324)**	**(1,324)**	(2,077)
As at 31 December	**306,824**	**220,541**	**516,581**	**1,043,946**	933,981
Net book value					
As at 31 December 2009	**329,063**	**111,436**	**153,543**	**594,042**	
As at 31 December 2008	331,717	82,417	147,326		561,460

Land and buildings, leasehold improvements and equipment include work in progress as at 31 December 2009 amounting to SAR 24.7 million (2008: SAR 8.3 million), SAR 46.0 million (2008: SAR 10.8 million) and SAR 16.8 million (2008 : SAR nil) respectively.

9. Other assets

	2009 SAR'000	2008 SAR'000
Accrued special commission receivable		
– banks and other financial institutions	**95**	430
– investments	**128,108**	203,659
– loans and advances	**445,371**	697,348
Total accrued special commission receivable	**573,574**	901,437
Accounts receivable	**63,134**	107,922
Other real estate	**4,277**	4,277
Positive fair value of derivatives (note10)	**1,879,011**	2,176,791
Advance tax	**165,662**	157,303
Other	**559,177**	233,325
Total	**3,244,835**	3,581,055

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading

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

Derivatives held for hedging

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

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

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

Cash flow hedges

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

			SAR' 000
2009	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	**3,264**	**16,143**	**-**
Cash out flows (liabilities)	**(6,671)**	**(41,949)**	**(24,283)**
Net cash outflow	**(3,407)**	**(25,806)**	**(24,283)**
2008	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	9,021	11,276	8,131
Cash out flows (liabilities)	(2,098)	(120)	-
Net cash inflow	6,923	11,156	8,131

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

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

Notional amounts by term to maturity

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

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

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

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

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

The net gains on the hedging instruments for fair value hedges are SAR 2.9 million (2008: net losses of SAR 25.9 million). The net losses on the hedged item attributable to the hedged risk are SAR 4.2 million (2008: net gains of SAR 27.3 million). The net fair value of the derivatives is negative SAR 24.7 million (2008: negative SAR 27.6 million).

Approximately 27% (2008: 29%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 19% (2008: 18%) of the total of the positive fair value contracts are with any individual counterparty at the consolidated statement of financial position date.

11. Due to banks and other financial institutions

	2009 SAR'000	2008 SAR'000
Current accounts	**1,455,515**	1,380,911
Money market deposits	**12,150,229**	14,688,581
Total	**13,605,744**	16,069,492

Money market deposits also include deposits placed by SAMA of SAR 276.9 million (2008: SAR 2,013.5 million).

12. Customers' deposits

	2009 SAR'000	2008 SAR'000
Demand	**38,073,079**	28,569,398
Savings	**3,877,905**	3,174,064
Time	**46,327,624**	60,216,345
Other	**908,253**	717,730
Total	**89,186,861**	92,677,537

Customers' deposits include SAR 39,417.7 million (2008: SAR 39,577.5 million) deposits taken under non-interest bearing product contracts.

Other customers' deposits include SAR 905.6 million (2008: SAR 715.1 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2009 SAR'000	2008 SAR'000
Demand	**3,206,460**	3,017,154
Savings	**157,591**	149,440
Time	**8,780,380**	7,509,247
Other	**227,317**	219,140
Total	**12,371,748**	10,894,981

13. Debt securities in issue

	2009 SAR'000	2008 SAR'000
USD 600 million 5 year floating rate notes	**2,249,867**	2,249,134
Euro 325 million 5 year floating rate notes	**1,754,620**	1,702,666
SAR 1,705 million 5 year floating rate notes	**1,705,000**	1,705,000
Total	**5,709,487**	5,656,800

USD 600 million 5 year floating rate notes
These notes were issued during March 2005 under the Bank's Euro Medium Term Note programme and mature on 8 March 2010. The notes carry effective special commission at three months' LIBOR plus 40.76 bps payable quarterly. The notes are non-convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

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

Euro 325 million 5 year floating rate notes
These notes were issued during 2006 under the Bank's Euro Medium Term Note programme and mature on 13 April 2011. The notes carry effective special commission at three months' Euribor plus 34.68 bps which is payable on a quarterly basis. The notes are non convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

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

SAR 1,705 million 5 year floating rate notes
These notes were issued during 2008 and are due to mature on 21 July 2013. The notes carry special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are non convertible, are unsecured and are listed on Tadawul.

14. Borrowings

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

15. Other liabilities

	2009 SAR'000	2008 SAR'000
Accrued special commission payable		
– banks and other financial institutions	**45,832**	192,457
– customers' deposits	**220,505**	464,559
– debt securities in issue	**10,289**	22,127
– borrowings	**452**	920
Total accrued special commission payable	**277,078**	680,063
Accounts payable	**854,951**	575,886
Drawings payable	**622,344**	346,094
Negative fair value of derivatives (note 10)	**1,512,151**	1,884,126
Other	**1,836,557**	1,949,364
Total	**5,103,081**	5,435,533

16. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2008: 600 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2009	2008
Saudi shareholders	**60%**	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	**40%**	40%

The shareholders of the Bank approved a bonus issue of one share for every four shares (2008: three shares for every five shares) in their Extraordinary General Meeting held on 10 March 2009 (2008: 27 April 2008). As a result 150 million shares (2008: 225 million shares) of SAR 10 each were issued by capitalising retained earnings.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 508 million (2008: SAR 730 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

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

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

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 14.1 million (2008: SAR nil) from equity to the consolidated statement of income.

19. Commitments and contingencies

a) Legal proceedings

As at 31 December 2009 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b) Capital commitments

The Bank has capital commitments of SAR 67.9 million (2008: SAR 66.6 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

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

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

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

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

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 35,229.1 million (2008: SAR 40,667.8 million).

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

	2009 SAR'000	2008 SAR'000
Government and quasi Government	**267,144**	1,322,016
Corporate	**31,112,704**	30,503,531
Banks and other financial institutions	**7,269,803**	4,464,166
Other	**135,681**	155,969
Total	**38,785,332**	36,445,682

f) Operating lease commitments

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

	2009 SAR'000	2008 SAR'000
Less than 1 year	**49,313**	48,404
1 to 5 years	**145,599**	146,093
Over 5 years	**149,606**	151,137
Total	**344,518**	345,634

20. Net special commission income

	2009 SAR'000	2008 SAR'000
Special commission income		
Investments		
–available for sale investments	**536,208**	790,132
– held at amortised cost	**203,728**	256,092
– held to maturity investments	**28,712**	29,635
	768,648	1,075,859
Due from banks and other financial institutions	**65,008**	227,811
Loans and advances	**3,739,943**	4,561,296
Total	**4,573,599**	5,864,966
Special commission expense		
Due to banks and other financial institutions	**189,096**	369,302
Customers' deposits	**831,003**	2,049,333
Debt securities in issue	**106,475**	228,958
Borrowing	**10,283**	10,329
Total	**1,136,857**	2,657,922
Net special commission income	**3,436,742**	3,207,044

21. Fees and commission income, net

	2009 SAR'000	2008 SAR'000
Fees income:		
- Share trading and fund management	**232,281**	354,209
- Trade finance	**485,535**	319,726
- Corporate finance and advisory	**195,112**	208,913
- Cards	**319,427**	307,800
- Other banking services	**80,063**	164,085
Total fees income	**1,312,418**	1,354,733
Fees expense:		
- Cards	**(37,452)**	(35,458)
- Custodial services	**(852)**	(628)
- Other banking services	**(63,380)**	(61,425)
Total fees expense	**(101,684)**	(97,511)
Fees and commission income, net	**1,210,734**	1,257,222

22. Income (losses) from FVIS financial instruments, net

	2009 SAR'000	2008 SAR'000
Fair value change on investments held as FVIS	**5,883**	(47,104)
Special commission income on FVIS investments	**684**	4,704
Total	**6,567**	(42,400)

23. Trading income, net

	2009 SAR'000	2008 SAR'000
Foreign exchange, net	**253,551**	239,323
Derivatives	**41,807**	127,672
Debt instruments	**4,486**	5,784
Others	**(3,862)**	(9,210)
Total	**295,982**	363,569

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

	2009 SAR'000	2008 SAR'000
Available for sale investments	**48,828**	(17,010)

25. Basic and diluted earnings per share

Basic earnings per share for the year ended 31 December 2009 and 2008 is calculated by dividing the net income for the year attributable to the equity holders by 750 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

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

26. Gross dividend, zakat and income tax

The gross dividend for the year is SAR 660 million (2008: SAR 660 million) and was paid as an interim dividend to shareholders on 27 July 2009. Dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Saudi shareholders:

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 39.9 million (2008: SAR 50.4 million).

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 174.4 million (2008: SAR 237.9 million).

27. Cash and cash equivalents

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

	2009 SAR'000	2008 SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	**11,452,321**	6,500,763
Due from banks and other financial institutions with an original maturity of ninety days or less from date of the acquisition	**6,004,593**	6,200,466
Total	**17,456,914**	12,701,229

28. Business segments

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance. In contrast, the predecessor standard IAS 14 Segment Reporting required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as a starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Bank's reportable segments has not changed.

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

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

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

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

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

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

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2009 and 2008, its total operating income and expenses, and the results for the years then ended, by business segment, are as follows:

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

2008 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	24,032,842	58,450,117	49,026,870	150,864	131,660,693
Total liabilities	35,434,109	41,808,929	42,771,069	12,755	120,026,862
Total operating income	1,932,519	1,889,277	664,895	424,837	4,911,528
Total operating expenses	1,426,032	393,934	149,927	129,937	2,099,830
Share in earnings of associates,net	-	-	-	108,321	108,321
Net income	506,487	1,495,343	514,968	403,221	2,920,019
Fees and commission income, net	654,146	602,778	317	(19)	1,257,222
Trading income, net	3,190	-	360,379	-	363,569
Credit losses and impairment provision, net	304,450	66,830	86,929	-	458,209

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

2009 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Assets	**19,481,964**	**56,899,635**	**45,774,334**	**180,458**	**122,336,391**
Commitments and contingencies	**211,368**	**16,118,405**	**-**	**-**	**16,329,773**
Derivatives	**-**	**-**	**2,821,383**	**-**	**2,821,383**
Total	**19,693,332**	**73,018,040**	**48,595,717**	**180,458**	**141,487,547**

2008 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Assets	22,345,009	57,891,748	46,511,454	148,356	126,896,567
Commitments and contingencies	174,607	14,491,577	-	-	14,666,184
Derivatives	-	-	3,195,209	-	3,195,209
Total	22,519,616	72,383,325	49,706,663	148,356	144,757,960

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

29. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk 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 or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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

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

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

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

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

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

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

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

2009 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA	**16,614,885**	**-**	**-**	**-**	**-**	**16,614,885**
Due from banks and other financial institutions	**-**	**99,797**	**4,989,353**	**873,364**	**42,079**	**6,004,593**
Investments, net	**19,341,136**	**3,312,903**	**919,113**	**189,922**	**54,476**	**23,817,550**
Loans and advances, net	**74,869,569**	**1,248,143**	**213,446**	**39,202**	**11,239**	**76,381,599**
Investment in associates	**180,458**	**-**	**-**	**-**	**-**	**180,458**
Total	**111,006,048**	**4,660,843**	**6,121,912**	**1,102,488**	**107,794**	**122,999,085**
Liabilities						
Due to banks and other financial institutions	**9,387,411**	**2,175,996**	**1,738,322**	**175,041**	**128,974**	**13,605,744**
Customer deposits	**89,125,033**	**3,638**	**52,505**	**-**	**5,685**	**89,186,861**
Debt securities in issue	**1,705,000**	**-**	**4,004,487**	**-**	**-**	**5,709,487**
Borrowings	**-**	**-**	**187,500**	**-**	**-**	**187,500**
Total	**100,217,444**	**2,179,634**	**5,982,814**	**175,041**	**134,659**	**108,689,592**
Commitments and contingencies	**37,747,509**	**355,807**	**96,566**	**51,631**	**533,819**	**38,785,332**
Credit exposure (stated at credit equivalent amounts)						
Assets	**110,343,354**	**4,660,843**	**6,121,912**	**1,102,488**	**107,794**	**122,336,391**
Commitments and contingencies	**16,060,521**	**74,148**	**46,350**	**16,176**	**132,578**	**16,329,773**
Derivatives	**1,438,277**	**155,211**	**1,218,865**	**9,028**	**2**	**2,821,383**
Total credit exposure	**127,842,152**	**4,890,202**	**7,387,127**	**1,127,692**	**240,374**	**141,487,547**

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

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

31. Market risk

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

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

a) Market risk-trading book

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

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

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

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

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

The Bank's VAR related information is as under.

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

			SAR'000
2008	Foreign exchange	Special commission rate	Overall risk
VAR as at 31 December 2008	1,309	615	1,545
Average VAR for 2008	1,665	590	1,880

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2009, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2009 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity of the asset or swap.

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

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

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

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

ii) Currency risk

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

32. Currency risk

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

	2009 SAR'000 Long (short)	2008 SAR'000 Long (short)
US Dollar	**188,485**	(202,605)
Euro	**165**	(1,437)
Sterling Pounds	**(544)**	(1,062)
Other	**6,004**	3,016

33. Special commission rate risk

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

2009 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non special commission bearing**	**Total**	**Effective Commission rate %**
Assets							
Cash and balances with SAMA	**10,787,850**	**-**	**-**	**-**	**5,827,035**	**16,614,885**	**0.3%**
Due from banks and other financial institutions	**4,913,368**	**-**	**-**	**-**	**1,091,225**	**6,004,593**	**0.1%**
Investments, net	**18,368,335**	**1,885,585**	**3,326,705**	**169,137**	**67,788**	**23,817,550**	**2.2%**
Loans and advances, net	**43,783,937**	**12,737,753**	**19,859,909**	**-**	**-**	**76,381,599**	**2.5%**
Investment in associates	**-**	**-**	**-**	**-**	**180,458**	**180,458**	
Property and equipment, net	**-**	**-**	**-**	**-**	**594,042**	**594,042**	
Other assets	**-**	**-**	**-**		**3,244,835**	**3,244,835**	
Total assets	**77,853,490**	**14,623,338**	**23,186,614**	**169,137**	**11,005,383**	**126,837,962**	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	**11,873,355**	**-**	**276,873**	**-**	**1,455,516**	**13,605,744**	**0.8%**
Customer deposits	**41,272,756**	**2,648,013**	**7,193,012**	**-**	**38,073,080**	**89,186,861**	**0.1%**
Debt securities in issue	**5,709,487**	**-**	**-**	**-**	**-**	**5,709,487**	**1.0%**
Borrowings	**-**	**-**	**-**	**187,500**	**-**	**187,500**	**5.1%**
Other liabilities	**-**	**-**	**-**	**-**	**5,103,081**	**5,103,081**	
Shareholders' equity	**-**	**-**	**-**	**-**	**13,045,289**	**13,045,289**	
Total liabilities and shareholders' equity	**58,855,598**	**2,648,013**	**7,469,885**	**187,500**	**57,676,966**	**126,837,962**	
Net gap between assets and liabilities	**18,997,892**	**11,975,325**	**15,716,729**	**(18,363)**	**(46,671,583)**		
Net gap between derivative financial instrument	**2,139,804**	**(463,426)**	**(1,582,629)**	**(93,749)**	**-**		
Total special commission rate sensitivity gap	**21,137,696**	**11,511,899**	**14,134,100**	**(112,112)**	**(46,671,583)**		
Cumulative special commission rate sensitivity gap	**21,137,696**	**32,649,595**	**46,783,695**	**46,671,583**	**-**		

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

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.

34. Liquidity risk

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

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities :

2009 **SAR'000**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities					
Due to banks and other financial institutions	**13,344,890**	**-**	**332,305**	**-**	**13,677,195**
Customer deposits	**79,221,880**	**2,980,775**	**7,632,815**	**7,984**	**89,843,454**
Debt securities in issue	**2,265,116**	**33,675**	**3,545,415**	**-**	**5,844,206**
Borrowings	**-**	**9,714**	**139,758**	**84,195**	**233,667**
Derivatives :					
- Contractual amounts payable	**8,811,909**	**9,301,035**	**3,120,984**	**-**	**21,233,928**
- Contractual amounts receivable	**(8,798,119)**	**(9,298,158)**	**(3,324,239)**	**(5,423)**	**(21,425,939)**
Total undiscounted financial liabilities	**94,845,676**	**3,027,041**	**11,447,038**	**86,756**	**109,406,511**

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

b) Maturity analysis of assets and liabilities :

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

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

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

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

35. Fair values of financial instruments

Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

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

The fair values of derivatives are based on the quoted market prices or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is SAR 44.7 million (2008: SAR 95.7 million).

36. Related party transactions

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

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

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

	2009 SAR'000	2008 SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**1,604,704**	4,323,321
Investments	**674,459**	835,220
Derivatives (at fair value)	**(117,733)**	(408,151)
Due to banks and other financial institutions	**2,754,995**	8,135,827
Other liabilities	**-**	4,619
Commitments and contingencies	**1,330,634**	997,114

The above investments include investments in associates, amounting to SAR 180.5 million (2008: SAR 148.3 million).

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

Loans and advances	**3,065,140**	2,168,348
Customers' deposits	**8,196,270**	4,000,924
Derivatives (at fair value)	**7,045**	12,137
Commitments and contingencies	**195,482**	242,057
Bank's mutual funds:		
Loans and advances	**1,437**	1,002
Customers' deposits	**926,396**	384,839

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

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

	2009 SAR'000	2008 SAR'000
Special commission income	**48,036**	34,449
Special commission expense	**(111,693)**	(295,379)
Fees and commission income	**55,836**	102,491
Profit share arrangement relating to investment banking activities	**(12,225)**	(18,643)
Share in earnings of associates	**46,048**	108,321
Directors' remuneration	**2,647**	2,828

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

	2009 SAR'000	2008 SAR'000
Short-term employee benefits (salaries and allowances)	**48,222**	45,607
Employment termination benefits	**-**	1,029

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 two such schemes outstanding at 31 December 2009. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

37. Capital adequacy

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

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

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

	2009 SAR'000	2008 SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	**92,947,700**	95,224,500
Operational Risk RWA	**9,088,561**	8,564,371
Market Risk RWA	**672,013**	509,500
Total RWA	**102,708,274**	104,298,371
Tier I Capital	**10,423,435**	8,645,646
Tier II Capital	**2,683,537**	3,072,693
Total I & II Capital	**13,106,972**	11,718,339
Capital Adequacy Ratio %		
Tier I ratio	**10.15%**	8.29 %
Tier I + Tier II ratio	**12.76%**	11.24%

38. Basel II Pillar 3 Disclosures

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

39. Prospective changes in accounting standards

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

Improvements to IFRSs 2009 – various standards	effective date 1 January 2010
Amendments to IAS 32 Financial Instruments: Presentation Classification of Rights Issues	effective date 1 February 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	effective date 1 July 2010
IAS 24 Related Party Disclosures (revised 2009)	effective date 1 January 2011
IFRS 9 Financial Instruments	effective date 1 January 2013

40. Comparative figures

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

41. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 6 Rabi Awal 1431H (Corresponding 20 February 2010).

The Issuer's consolidated, audited annual financial statements in respect of the years ended 31 December 2008, together with the auditors' reports in respect of the same

ERNST & YOUNG KPMG KPMG Al Fozan & Al-Sadhan

AUDITORS' REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

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 whether these consolidated financial statements are free from material misstatement.

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

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiary as at 31 December 2008, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young
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Kingdom of Saudi Arabia

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Registration No. 277

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Certified Public Accountant
Registration No. 348

Riyadh: 27 Muharram 1430H
(24 January 2009)





The Saudi British Bank
Consolidated Financial Statements

For the year ended

31 December 2008

CONSOLIDATED BALANCE SHEET

As at 31 December	Notes	2008 SAR'000	2007 SAR'000
ASSETS			
Cash and balances with SAMA	3	**11,328,253**	16,643,746
Due from banks and other financial institutions	4	**6,200,466**	1,723,576
Investments, net	5	**29,604,346**	14,858,747
Loans and advances, net	6	**80,236,757**	62,000,858
Investment in associates	7	**148,356**	110,447
Property and equipment, net	8	**561,460**	551,840
Other assets	9	**3,581,055**	2,323,696
Total assets		**131,660,693**	98,212,910
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**16,069,492**	8,045,047
Customers' deposits	12	**92,677,537**	71,847,852
Debt securities in issue	13	**5,656,800**	4,038,367
Borrowings	14	**187,500**	187,500
Other liabilities	15	**5,435,533**	3,669,211
Total liabilities		**120,026,862**	87,787,977
Shareholders' equity			
Share capital	16	**6,000,000**	3,750,000
Statutory reserve	17	**4,480,005**	3,750,000
Other reserves	18	**(176,716)**	(16,220)
Retained earnings		**1,330,542**	2,050,528
Proposed dividend	26	**-**	890,625
Total shareholders' equity		**11,633,831**	10,424,933
Total liabilities and shareholders' equity		**131,660,693**	98,212,910

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

CONSOLIDATED STATEMENT OF INCOME

For the years ended 31 December	Notes	2008 SAR'000	2007 SAR'000
Special commission income	20	**5,864,966**	5,219,955
Special commission expense	20	**2,657,922**	2,161,258
Net special commission income		**3,207,044**	3,058,697
Fees from banking services, net	21	**1,257,222**	861,924
Exchange income, net		**138,310**	107,236
(Losses) income from FVIS financial instruments, net	22	**(42,400)**	63,777
Trading income, net	23	**363,569**	189,968
Dividend income		**1,770**	4,433
(Losses) Gains on non-trading investments, net	24	**(17,010)**	83,319
Other operating income		**3,023**	4,598
Operating income		**4,911,528**	4,373,952
Salaries and employee related expenses		**898,078**	760,029
Rent and premises related expenses		**79,459**	64,214
Depreciation	8	**107,395**	102,895
Other general and administrative expenses		**556,612**	500,045
Provision for credit losses, net	6	**371,280**	396,264
Impairment of other financial assets		**86,929**	-
Other operating expenses		**77**	1,513
Operating expenses		**2,099,830**	1,824,960
Income from operating activities		**2,811,698**	2,548,992
Share in earnings of associates, net	7	**108,321**	57,947
Net income for the year		**2,920,019**	2,606,939
Basic and fully diluted earnings per share (in SAR)	25	**4.87**	4.34

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

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended 31 December

	Notes	Share capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividend SAR '000	Total SAR '000
2008							
Balance at beginning of the year		**3,750,000**	**3,750,000**	**(16,220)**	**2,050,528**	**890,625**	**10,424,933**
Net changes in fair value of cash flow hedges (note10)		-	-	**28,496**	-	-	**28,496**
Net changes in fair value of available for sale investments		-	-	**(206,002)**	-	-	**(206,002)**
Transfer to consolidated statement of income:							
Cash flow hedge		-	-	-	-	-	-
Available for sale investments		-	-	**17,010**	-	-	**17,010**
Net expense recognised directly in equity		-	-	**(160,496)**	-	-	**(160,496)**
Net income for the year		-	-	-	**2,920,019**	-	**2,920,019**
Total recognised income and expense for the year		-	-	**(160,496)**	**2,920,019**	-	**2,759,523**
Bonus share issue	16	**2,250,000**	-	-	**(2,250,000)**	-	-
Transfer to statutory reserve	17	-	**730,005**	-	**(730,005)**	-	-
2007 final dividend paid		-	-	-	-	**(890,625)**	**(890,625)**
2008 interim dividend paid	26	-	-	-	**(660,000)**	-	**(660,000)**
Balance at end of the year		**6,000,000**	**4,480,005**	**(176,716)**	**1,330,542**	-	**11,633,831**
2007							
Balance at beginning of the year		3,750,000	3,750,000	70,385	943,589	890,625	9,404,599
Net changes in fair value of cash flow hedges (note10)		-	-	4,349	-	-	4,349
Net changes in fair value of available for sale investments		-	-	(8,879)	-	-	(8,879)
Transfer to consolidated statement of income :							
Cash flow hedge		-	-	1,244	-	-	1,244
Available for sale investments		-	-	(83,319)	-	-	(83,319)
Net expense recognised directly in equity		-	-	(86,605)	-	-	(86,605)
Net income for the year		-	-	-	2,606,939	-	2,606,939
Total recognised income and expense for the year		-	-	(86,605)	2,606,939	-	2,520,334
2006 final dividend paid		-	-	-	-	(890,625)	(890,625)
2007 interim dividend paid	26	-	-	-	(609,375)	-	(609,375)
2007 final proposed dividend	26	-	-	-	(890,625)	890,625	-
Balance at end of the year		3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December	Notes	2008 SAR'000	2007 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**2,920,019**	2,606,939
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premiums and (accretion of discount) on non trading investments		**1,067**	(582)
Losses from FVIS financial instruments	22	**47,104**	11,523
Losses (gains) on non - trading investments		**17,010**	(83,319)
Depreciation	8	**107,395**	102,895
Gains on disposal of property and equipment, net		**(200)**	(4,598)
Share in earnings of associates, net	7	**(37,909)**	(38,238)
Provision for credit losses, net	6	**371,280**	396,264
Impairment of other financial assets		**86,929**	-
Change in fair value		**(88,819)**	238,101
		3,423,876	3,228,985
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	**(1,506,225)**	(971,848)
Investments held for trading		**(181,449)**	114,622
Loans and advances		**(18,607,179)**	(19,946,879)
Other assets		**(1,257,359)**	(832,955)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**8,024,445**	5,873,212
Customers' deposits		**20,829,685**	12,590,210
Other liabilities		**1,600,749**	1,339,354
Net cash from operating activities		**12,326,543**	1,394,701
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**43,571,660**	11,976,616
Purchase of non-trading investments		**(58,285,668)**	(5,314,720)
Purchase of property and equipment	8	**(117,743)**	(113,682)
Proceeds from disposal of property and equipment		**928**	4,780
Net cash (used in) from investing activities		**(14,830,823)**	6,552,994
FINANCING ACTIVITIES			
Debt securities in issue		**1,705,000**	-
Dividends paid		**(1,545,548)**	(1,484,751)
Net cash from (used in) financing activities		**159,452**	(1,484,751)
(Decrease) increase in cash and cash equivalents		**(2,344,828)**	6,462,944
Cash and cash equivalents at the beginning of the year		**15,046,057**	8,583,113
Cash and cash equivalents at the end of the year	27	**12,701,229**	15,046,057
Special commission received during the year		**5,765,791**	5,201,815
Special commission paid during the year		**2,327,993**	2,137,319
Supplemental non cash information			
Net changes in fair value and cash flow hedges		**(160,496)**	(86,605)

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

1. General

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

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

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

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

1.1. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Basis of consolidation

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

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

Intercompany transactions and balances have been eliminated upon consolidation.

e) Critical accounting judgements and estimates

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

(i) Impairment losses on loans and advances

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

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

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

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

(iv) Classification of held-to-maturity investments

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

(v) Classification of fair value through income statement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a) Trade date accounting

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

b) Derivative financial instruments and hedging

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedging accounting

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

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

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

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

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

c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date**.** Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income except when deferred in equity as qualifying cash flow hedges.

d) Offsetting

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

e) Revenue recognition

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

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

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

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

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

Fees and commission are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fee received on the asset management, wealth management, financial planning, custody services and other similar services that are provided in extended period of time are recognised rateably over the period when the service is being provided.

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

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

f) Sale and repurchase agreements

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

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

g) Investments

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

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

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

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

(i) Held as FVIS

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

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

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

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

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

(ii) Available for sale

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

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

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

(iii) Held to maturity

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

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

(iv) Held at amortised cost

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

h) Investment in associates

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

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

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

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

i) Loans and advances

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

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

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

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

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

j) Due from banks and other financial institutions

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

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

k) Impairment of financial assets

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

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

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

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

i) Impairment of financial assets held at amortised cost

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

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

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

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

ii) Impairment of financial assets held at fair value

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

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

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

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

l) Property and equipment

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

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

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

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

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

m) Liabilities

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

Subsequently all commission bearing financial liabilities, or where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts 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.

n) Provisions

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

o) Guarantees

In the ordinary course of business, the Bank extends credit related commitments, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the income statement in "credit loss expenses". The premium received is recognised in the income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

p) Accounting for leases

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

q) Cash and cash equivalents

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

r) Derecognition of financial instruments

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

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

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

s) Assets held in trust or in fiduciary capacity

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

t) Zakat and income-taxes

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

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

u) Non-interest based banking products

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

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

3. Cash and balances with SAMA

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

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

4. Due from banks and other financial institutions

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

5. Investments

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2008 SAR'000	2007 SAR'000	**2008 SAR'000**	2007 SAR'000	**2008 SAR'000**	2007 SAR'000
i) Held as FVIS						
Fixed rate securities	-	80,914	**17,822**	18,637	**17,822**	99,551
Floating rate securities	**323,016**	82,716	**60,457**	194,396	**383,473**	277,112
Held as FVIS	**323,016**	163,630	**78,279**	213,033	**401,295**	376,663

FVIS investments above includes investments held for trading of SAR 350.9 million (2007: SAR 211.9 million), and floating rate notes issued by banks and corporates designated as FVIS for reasons disclosed in the summary of significant accounting policies, amounting to SAR 50.4 million (2007 : SAR 164.8 million).

The maximum credit exposure of investments designated as FVIS as at 31 December 2008 is SAR 56.75 million (2007: SAR 171.8 million).

The changes in fair value are mainly attributable to the changes in credit risk during the year, as the impact of market risk is minimal.

ii) Available for sale						
Fixed rate securities	**16,731,299**	973,925	**2,161,076**	2,586,360	**18,892,375**	3,560,285
Floating rate securities	**2,587,485**	2,014,750	**2,410,352**	2,553,873	**4,997,837**	4,568,623
Equities	**10,894**	99,798	**83,671**	31,249	**94,565**	131,047
Available for sale investments, gross	**19,329,678**	3,088,473	**4,655,099**	5,171,482	**23,984,777**	8,259,955
Allowance for impairment	**-**	-	**(77,929)**	-	**(77,929)**	-
Available for sale investments	**19,329,678**	3,088,473	**4,577,170**	5,171,482	**23,906,848**	8,259,955
iii) Held at amortised cost						
Fixed rate securities	**3,569,809**	4,492,077	**-**	-	**3,569,809**	4,492,077
Floating rate securities	**1,221,000**	1,221,000	**9,000**	-	**1,230,000**	1,221,000
Held at amortised cost, gross	**4,790,809**	5,713,077	**9,000**	-	**4,799,809**	5,713,077
Allowance for impairment	**-**	-	**(9,000)**		**(9,000)**	-
Held at amortised cost	**4,790,809**	5,713,077	**-**	-	**4,790,809**	5,713,077
iv) Held to maturity						
Fixed rate securities	**505,394**	509,052	-	-	**505,394**	509,052
Held to maturity investments	**505,394**	509,052	-	-	**505,394**	509,052
Investments, net	**24,948,897**	9,474,232	**4,655,449**	5,384,515	**29,604,346**	14,858,747

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

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

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

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

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

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

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

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

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

e) Credit quality of investments

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

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

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

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

6. Loans and advances, net

a) Loans and advances are classified as follows:

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

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

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

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

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

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

b) Movement in provision for credit losses

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

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

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

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

c) Credit quality of loans and advances

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

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

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

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

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

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

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

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

d) Collateral

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

e) Neither past due nor impaired loans

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

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

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

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

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

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

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

7. Investments in associates

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

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

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

Share of the associate's financial statements:	**2008**		2007	
	HSBC Saudi Arabia Limited	**SABB Takaful**	HSBC Saudi Arabia Limited	SABB Takaful
	SAR' 000	**SAR' 000**	SAR' 000	SAR' 000
Total Assets	**186,823**	**60,429**	130,051	27,987
Total Liabilities	**56,673**	**42,223**	39,640	7,951
Total Equity	**130,150**	**18,206**	90,411	20,036
Total Income	**167,759**	**15,096**	114,212	2,461
Total Expenses	**57,608**	**16,926**	43,801	14,925

8. Property and equipment, net

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

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

9. Other assets

	2008 SAR'000	2007 SAR'000
Accrued special commission receivable – banks and other financial institutions	**430**	1,477
– investments	**203,659**	220,787
– loans and advances	**697,348**	579,998
Total accrued special commission receivable	**901,437**	802,262
Accounts receivable	**107,922**	198,186
Other real estate	**4,277**	12,929
Positive fair value of derivatives (note10)	**2,176,791**	983,432
Advance tax	**157,303**	184,451
Other	**233,325**	142,436
Total	**3,581,055**	2,323,696

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading

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

Derivatives held for hedging

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

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

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

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

Notional amounts by term to maturity

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

Notional amounts by term to maturity

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

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

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

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

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

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

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

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

11. Due to banks and other financial institutions

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

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

12. Customers' deposits

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

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

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

The above deposits include the following foreign currency deposits:

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

13. Debt securities in issue

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

USD 600 million 5 year floating rate notes
These notes were issued during March 2005 under the Bank's Euro Medium Term Note programme and mature on 8 March 2010. The notes carry effective special commission at three months' LIBOR plus 40.76 bps payable quarterly. The notes are non-convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

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

Euro 325 million 5 year floating rate notes
These notes were issued during 2006 under the Bank's Euro Medium Term Note programme and mature on 13 April 2011. The notes carry effective special commission at three months' Euribor plus 34.68 bps which is payable on a quarterly basis. The notes are non convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

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

SAR 1,705 million 5 year floating rate notes
These notes were issued during the current year and are due to mature on 21 July 2013. The notes carry special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are unsecured, non convertible and are listed on Tadawul.

14. Borrowings

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

15. Other liabilities

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

16. Share capital

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

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

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

17. Statutory reserve

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

18. Other reserves

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

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

19. Commitments and contingencies

a) Legal proceedings

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

b) Capital commitments

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

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore 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:

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

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

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

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

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

f) Operating lease commitments

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

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

20. Net special commission income

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

21. Fees from banking services, net

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

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

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

23. Trading income, net

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

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

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

25. Basic and fully diluted earnings per share

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

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

26. Gross dividend, zakat and income tax

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

Saudi shareholders:

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

Non Saudi shareholders

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

27. Cash and cash equivalents

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

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

28. Business segments

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

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

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

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

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

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

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

Securities – activities related to dealing and custody of securities.

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

2008 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Securities**	**Others**	**Total**
Total assets	**24,032,842**	**58,450,117**	**49,026,870**	**2,508**	**148,356**	**131,660,693**
Total liabilities	**35,434,109**	**41,808,929**	**42,771,069**	**12,755**	**-**	**120,026,862**
Total operating income	**1,932,519**	**1,889,277**	**664,895**	**424,837**	**-**	**4,911,528**
Total operating expenses	**1,426,032**	**393,934**	**149,927**	**129,937**	**-**	**2,099,830**
Share in earnings of associates	**-**	**-**	**-**	**-**	**108,321**	**108,321**
Net income	**506,487**	**1,495,343**	**514,968**	**294,900**	**108,321**	**2,920,019**

2007 SAR'000	Retail Banking	Corporate Banking	Treasury	Securities	Others	Total
Total assets	21,525,884	42,043,291	34,533,288	-	110,447	98,212,910
Total liabilities	29,637,918	34,231,719	23,918,340	-	-	87,787,977
Total operating income	1,872,695	1,705,002	465,782	330,473	-	4,373,952
Total operating expenses	1,335,455	325,365	69,692	94,448	-	1,824,960
Share in earnings of associates	-	-	-	-	57,947	57,947
Net income	537,240	1,379,637	396,090	236,025	57,947	2,606,939

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

2008 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Balance sheet assets	**22,345,009**	**57,891,748**	**46,511,454**	**148,356**	**126,896,567**
Commitments and contingencies	**174,607**	**14,491,577**	**-**	**-**	**14,666,184**
Derivatives	**-**	**-**	**3,195,209**	**-**	**3,195,209**
Total	**22,519,616**	**72,383,325**	**49,706,663**	**148,356**	**144,757,960**

2007 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Balance sheet assets	20,495,700	41,505,158	32,478,459	110,447	94,589,764
Commitments and contingencies	125,428	10,481,018	-	-	10,606,446
Derivatives	-	-	2,481,164	-	2,481,164
Total	20,621,128	51,986,176	34,959,623	110,447	107,677,374

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

29. Credit risk

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

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

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

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by 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 Banks maximum credit exposure by business segment is given in note 28. The information on maximum credit risk exposure and their relative risk weights is also provided in note 37.

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

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

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

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

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

31. Market risk

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

The market risk for the trading book is managed and monitored using 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 Banks ALCO committee for their review.

The Bank's VAR related information is as under.

	2008		SAR'000
	Foreign Exchange	**Special commission Rate**	**Overall risk**
VAR as at 31December 2008	**1,309**	**615**	**1,545**
Average VAR for 2008	**1,665**	**590**	**1,880**

	2007		SAR'000
	Foreign Exchange	Special commission Rate	Overall risk
VAR as at 31 December 2007	649	405	694
Average VAR for 2007	486	514	791

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

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

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

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

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

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

ii) Currency risk

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

32. Currency risk

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

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

33. Special commission rate risk

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

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

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

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

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

34. Liquidity risk

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

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities :

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

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

b) Maturity analysis of assets and liabilities :

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

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

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

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

35. Fair values of financial assets and liabilities

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

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

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

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

36. Related party transactions

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

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

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

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

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

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

Loans and advances	**2,168,348**	2,356,137
Customers' deposits	**4,000,924**	3,714,385
Derivatives (at fair value)	**12,137**	4,990
Commitments and contingencies	**242,057**	213,524
Bank's mutual funds:		
Loans and advances	**1,002**	43,494
Customers' deposits	**384,839**	607,314

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

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

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

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

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

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2008. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

37. Capital adequacy

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

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

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

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

38. Basel II Pillar 3 Disclosures

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

39. Prospective changes in accounting standards

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

40. Comparative figures

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

41. Board of Directors' approval

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

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