

**The Saudi British Bank
Consolidated Financial Statements
For the year ended
31 December 2015**



The Saudi British Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2015 SAR'000	2014 SAR'000
ASSETS			
Cash and balances with SAMA	3	10,942,268	19,313,766
Due from banks and other financial institutions	4	11,452,326	2,468,871
Investments, net	5	35,426,239	45,280,816
Loans and advances, net	6	125,424,305	115,220,797
Investment in a joint venture and an associate	7	693,235	651,674
Property and equipment, net	8	991,455	663,401
Other assets	9	2,820,595	4,009,943
Total assets		187,750,423	187,609,268
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	1,826,798	4,085,928
Customers' deposits	12	148,638,613	145,870,497
Debt securities in issue	13	4,500,000	5,264,678
Borrowings	14	46,875	78,125
Other liabilities	15	4,563,600	6,238,828
Total liabilities		159,575,886	161,538,056
Shareholders' equity			
Share capital	16	15,000,000	10,000,000
Statutory reserve	17	7,583,656	9,001,019
Other reserves	18	(340,608)	61,614
Retained earnings		5,361,489	5,858,579
Proposed dividends	26	570,000	1,150,000
Total shareholders' equity		28,174,537	26,071,212
Total liabilities and shareholders' equity		187,750,423	187,609,268

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December

	Notes	2015 SAR'000	2014 SAR'000
Special commission income	20	4,813,421	4,625,951
Special commission expense	20	559,543	563,344
Net special commission income		4,253,878	4,062,607
Fees and commission income, net	21	1,550,271	1,645,000
Exchange income, net		465,755	445,710
Income from FVIS financial instruments		3,750	7,500
Trading income, net	22	252,382	270,008
Dividend income		37,050	64,798
Gains on non-trading investments, net	23	66,634	7,196
Other operating income/(expense), net		907	(610)
Total operating income		6,630,627	6,502,209
Salaries and employee related expenses	24	1,252,725	1,152,845
Rent and premises related expenses		131,791	114,418
Depreciation	8	96,557	86,425
General and administrative expenses		529,267	542,106
Provision for credit losses, net	6	429,716	450,756
Reversal of impairment of other financial assets	5	(9,631)	(949)
Total operating expenses		2,430,425	2,345,601
Income from operating activities		4,200,202	4,156,608
Share in earnings of a joint venture and associate	7	130,345	109,453
Net income for the year		4,330,547	4,266,061
Basic and diluted earnings per share (in SAR)	25	2.89	2.84

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December

	Notes	2015 <u>SAR' 000</u>	2014 <u>SAR' 000</u>
Net income for the year		4,330,547	4,266,061
Other comprehensive income to be reclassified to statement of income in subsequent years			
Available for sale financial assets			
- Net change in fair value	18	(295,809)	80,339
- Transfer to consolidated statement of income	18	(66,635)	(7,196)
Cash flow hedges			
- Net change in fair value	18	(31,964)	-
- Transfer to consolidated statement of income	18	(791)	(791)
		<u>(395,199)</u>	<u>72,352</u>
Total comprehensive income for the year		<u>3,935,348</u>	<u>4,338,413</u>

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December

		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
Notes		<u>SAR '000</u>	<u>SAR '000</u>	<u>SAR '000</u>	<u>SAR '000</u>	<u>SAR '000</u>	<u>SAR '000</u>
2015							
Balance at beginning of the year		<u>10,000,000</u>	<u>9,001,019</u>	<u>61,614</u>	<u>5,858,579</u>	<u>1,150,000</u>	<u>26,071,212</u>
Total comprehensive income for the year							
Net income for the year		-	-	-	4,330,547	-	4,330,547
Net changes in fair value of cash flow hedges	18	-	-	(31,964)	-	-	(31,964)
Net changes in fair value of available for sale investments	18	-	-	(295,809)	-	-	(295,809)
Transfer to consolidated statement of income	18	-	-	(67,426)	-	-	(67,426)
				<u>(395,199)</u>	<u>4,330,547</u>		<u>3,935,348</u>
Bonus share issue	16	5,000,000	(2,500,000)	-	(2,500,000)	-	-
Treasury shares	18	-	-	(25,792)	-	-	(25,792)
Employee share plan reserve	18	-	-	18,769	-	-	18,769
Transfer to statutory reserve	17	-	1,082,637	-	(1,082,637)	-	-
2014 Final dividend paid	26	-	-	-	-	(1,150,000)	(1,150,000)
2015 Interim dividend paid	26	-	-	-	(675,000)		(675,000)
2015 Final proposed dividend	26	-	-	-	(570,000)	570,000	-
Balance at end of the year		<u>15,000,000</u>	<u>7,583,656</u>	<u>(340,608)</u>	<u>5,361,489</u>	<u>570,000</u>	<u>28,174,537</u>
2014							
Balance at beginning of the year		<u>10,000,000</u>	<u>7,934,504</u>	<u>(10,738)</u>	<u>3,809,033</u>	<u>1,100,000</u>	<u>22,832,799</u>
Total comprehensive income for the year							
Net income for the year		-	-	-	4,266,061	-	4,266,061
Net changes in fair value of cash flow hedges	18	-	-	-	-	-	-
Net changes in fair value of available for sale investments	18	-	-	80,339	-	-	80,339
Transfer to consolidated statement of income	18	-	-	(7,987)	-	-	(7,987)
				<u>72,352</u>	<u>4,266,061</u>		<u>4,338,413</u>
Transfer to statutory reserve	17	-	1,066,515	-	(1,066,515)	-	-
2013 final dividend paid		-	-	-	-	(1,100,000)	(1,100,000)
2014 final proposed dividend	26	-	-	-	(1,150,000)	1,150,000	-
Balance at end of the year		<u>10,000,000</u>	<u>9,001,019</u>	<u>61,614</u>	<u>5,858,579</u>	<u>1,150,000</u>	<u>26,071,212</u>

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

	Notes	2015 SAR'000	2014 SAR'000
OPERATING ACTIVITIES			
Net income for the year		4,330,547	4,266,061
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments		177,130	35,824
Gains on non-trading investments, net	23	(66,634)	(7,196)
Depreciation	8	96,557	86,425
Income from FVIS financial instruments		(3,750)	(7,500)
Losses on disposal of property and equipment, net		-	1,321
Share in earnings of a joint venture and associate	7	(130,345)	(109,453)
Provision for credit losses, net of reversal	6	429,716	450,756
Reversal of impairment of other financial assets		(9,631)	(949)
Change in carrying value of debt securities in issue		(14,678)	(18,195)
		4,808,912	4,697,094
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(379,521)	(949,722)
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		93,750	(93,750)
Investments held for trading, net		-	1,007
Loans and advances		(10,633,224)	(9,556,623)
Other assets and derivatives		1,195,505	(882,911)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,259,130)	316,288
Customers' deposits		2,768,116	6,909,027
Other liabilities and derivatives		(1,707,986)	(162,786)
Net cash (used in) from operating activities		(6,113,578)	277,624
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		33,564,869	26,305,632
Purchase of non-trading investments		(24,209,899)	(34,135,723)
Purchase of property and equipment	8	(424,611)	(151,491)
Dividend from a joint venture and associate	7	88,784	104,836
Proceeds from disposal of property and equipment		-	4,000
Net cash from (used in) investing activities		9,019,143	(7,872,746)
FINANCING ACTIVITIES			
Debt securities issued		1,500,000	-
Debt securities repaid/ matured		(2,250,000)	-
Borrowings		(31,250)	(31,250)
Treasury shares, net		(5,977)	-
Dividends paid		(1,792,242)	(1,044,429)
Net cash used in financing activities		(2,579,469)	(1,075,679)
Increase (decrease) in cash and cash equivalents		326,096	(8,670,801)
Cash and cash equivalents at beginning of the year		13,012,041	21,682,842
Cash and cash equivalents at end of the year	27	13,338,137	13,012,041
Special commission received during the year		4,707,176	4,648,757
Special commission paid during the year		478,314	627,726
Supplemental non-cash information			
Other comprehensive income		(395,199)	72,352

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

1. General

The Saudi British Bank (“SABB”) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 84 branches (2014: 81 branches) in the Kingdom of Saudi Arabia. SABB employed 3,451 staff as at 31 December 2015 (2014: 3,314). The address of SABB’s head office is as follows:

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

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

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

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2014:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary’s main purpose is the registration of real estates.

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) and interpretation issued by the IFRS Interpretation Committee (IFRIC) as issued by the International Accounting Standards Board (IASB). SABB prepares its consolidated financial statements to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and its Articles of Association.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of consolidated financial statements

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

e) Basis of consolidation

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

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

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

f) Critical accounting judgements and estimates

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

i. Impairment losses on loans and advances

Impairment methodology

The Bank’s policy is to create impairment allowances for impaired loans promptly and appropriately, when there is objective evidence that impairment of a loan or portfolio of loans has occurred.

Loan impairment allowances represent management’s best estimate of losses incurred in the loan portfolios at the consolidated statement of financial position date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Collective impairment allowances are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio. The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience.

Where changes in economic, regulatory or behavioural conditions result in the most recent trends in portfolio risk factors being not fully reflected in the models, risk factors are taken into account by adjusting the impairment allowances derived from historical loss experience. Risk factors include loan portfolio growth, product mix, unemployment rates, concentration, geographical concentrations, loan product features, economic conditions such as trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns.

The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

For individually assessed loans, judgement is exercised in determining whether there is objective evidence that a loss event has occurred, through evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances that are calculated on individual loans or on groups of loans assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired loans on the Statement of Financial Position. Losses which may arise from future events are not recognised.

Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, and the importance of the individual loan relationship, and how this is managed. Loans that meet these criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology (see below).

Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the Bank considers on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to make this assessment include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- The Bank's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the bank and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely costs of obtaining and selling collateral as part of foreclosure;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

Collectively assessed loans and advances

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant. Retail lending portfolios are generally assessed for impairment collectively as the portfolios are generally large homogeneous loan pools.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the bank has incurred as a result of events occurring before the reporting date, which the bank is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed individually.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. An estimated period may vary over time as these factors change.

Statistical methods are used to determine collective impairment losses for homogeneous groups of loans not considered individually significant. Losses in these groups of loans are recorded individually when individual loans are removed from the group and written off.

The methods that are used to calculate collective allowances are:

- When appropriate empirical information is available, The bank uses roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be written off as a result of the events occurring before the reporting date but which the bank is not able to identify individually. Individual loans are grouped using ranges of past due days; statistical analysis is then used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and become irrecoverable. Additionally, individual loans are segmented based on their credit characteristics as described above. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring and its discovery, for example through a missed payment, (known as the emergence period) and the period of time between discovery and write-off (known as the outcome period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.
- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, the bank adopts a basic formulaic approach based on historical loss rate experience, or a discounted cash flow model. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is estimated by local management, and is typically between six and twelve months.

The inherent loss within each portfolio is assessed on the basis of these models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the models, they are taken

into account by adjusting the impairment allowances derived from the models to reflect these changes as at the reporting date.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

Collateral and other credit enhancements held

The Bank's practice is to lend on the basis of customers' ability to meet their obligations out of cash flow resources rather than rely on the value of security offered. Depending on a customer's standing and the type of product, facilities may be provided without security. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk.

Additionally, risk may be managed by employing other types of collateral and credit risk enhancements such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

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

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

iii. Impairment of available for sale equity investments

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

iv. Classification of held to maturity investments

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

v. Classification of fair value through income statement

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

vi. Determination of control over investees

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

vii. Provisions for liabilities and charges

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

g) Going concern

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2014, except for the adoption of the following new standards and other amendments to existing standards and a new interpretation, mentioned below which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

- Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in the period in which the related service is rendered.
- Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:
 - a) IFRS 1 – “first time adoption of IFRS” : the amendment clarifies that a first time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.
 - b) IFRS 2 amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’.
 - c) IFRS 3 – “business combinations” amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.
 - d) IFRS 8 – “operating segments” has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria..
 - e) IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.
 - f) IAS 16 – “Property plant and equipment” and IAS 38 – “intangible assets”: – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.
 - g) IAS 24 – “related party disclosures”– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.
 - h) IAS 40 – “investment property” clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

b) Trade date accounting

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

c) Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

d) Foreign currencies

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

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

e) Offsetting financial instruments

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

f) Revenue/expenses recognition

Special commission income and expense

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

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

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

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

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

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

Exchange income/loss

Exchange income/loss is recognised when earned/incurred.

Dividend income

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

Fees and commission income and expenses

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

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.

Day one profit

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

g) Sale and repurchase agreements

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

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

h) Investments

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

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

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

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

(i) Held as FVIS

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

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

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

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

(ii) Available for sale

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

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

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

(iii) Held at amortised cost

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

(iv) Held to maturity

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

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

i) Investment in equity-accounted investees

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

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

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

The statement of income reflects SABB's share of the results of operations of the associate and the joint venture.

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

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

j) Loans and advances

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

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

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

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

k) Due from banks and other financial institutions

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

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

l) Impairment of financial assets

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

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

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

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

i. Impairment of financial assets held at amortised cost

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

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

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

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

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

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

ii. Impairment of financial assets held at fair value

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

iii. Impairment of available for sale investments

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

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

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

iv. Impairment of available for sale- debt securities

In assessing objective evidence of impairment at the reporting date, SABB considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

m) Property and equipment

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

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

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

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

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

n) Financial liabilities

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

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

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

o) Provisions

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

p) Guarantees and loan commitments

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

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

q) Accounting for leases

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

r) Cash and cash equivalents

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

s) Derecognition of financial instruments

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

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

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

t) Assets held in trust or in fiduciary capacity

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

u) Zakat and income taxes

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

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

v) Shariah approved banking products

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

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

w) End of service benefits

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

x) Share Based payments

Under the terms of the Equity Based Long Term Bonus Plan, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions.

The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

3. Cash and balances with SAMA

	2015	2014
	SAR'000	SAR'000
Cash in hand	1,520,252	1,278,469
Statutory deposit	9,056,367	8,676,846
Placements with SAMA	150,994	8,595,941
Other balances	214,655	762,510
Total	10,942,268	19,313,766

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents. Placements with SAMA represents securities purchased under an agreement to re-sell (reverse repo) with SAMA.

4. Due from banks and other financial institutions

	2015	2014
	SAR'000	SAR'000
Current accounts	7,677,105	2,246,121
Money market placements	3,775,221	222,750
Total	11,452,326	2,468,871

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2015	2014	2015	2014	2015	2014
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
i) Available for sale						
Fixed rate securities	19,798,119	33,691,002	6,371,067	6,989,695	26,169,186	40,680,697
Floating rate securities	4,499,029	3,392,599	76,110	77,204	4,575,139	3,469,803
Equities	987,712	980,570	44,202	49,746	1,031,914	1,030,316
Available for sale investments, net	25,284,860	38,064,171	6,491,379	7,116,645	31,776,239	45,180,816

Available for sale investments, net includes impairment provision of SAR 70 million (2014: SAR 70 million) for domestic equities and SAR 18.1 million (2014: SAR 18.8 million) for International floating rate securities.

ii) Held at amortised cost

Fixed rate securities	3,650,000	100,000	-	9,000	3,650,000	109,000
Held at amortised cost, gross	3,650,000	100,000	-	9,000	3,650,000	109,000
Allowance for impairment	-	-	-	(9,000)	-	(9,000)
Held at amortised cost investment, net	3,650,000	100,000	-	-	3,650,000	100,000
Investments, net	28,934,860	38,164,171	6,491,379	7,116,645	35,426,239	45,280,816

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

	2015			2014		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	8,080,344	21,738,842	29,819,186	8,621,681	32,168,016	40,789,697
Floating rate securities	-	4,575,139	4,575,139	-	3,469,803	3,469,803
Equities	979,846	52,068	1,031,914	972,706	57,610	1,030,316
	9,060,190	26,366,049	35,426,239	9,594,387	35,695,429	45,289,816
Allowance for impairment	-	-	-	-	(9,000)	(9,000)
Investments, net	9,060,190	26,366,049	35,426,239	9,594,387	35,686,429	45,280,816

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

	2015 SAR'000			2014 SAR'000		
	Carrying value	Gross unrealised gain	Fair value	Carrying value	Gross unrealised gain	Fair value
Held at amortised cost						
Fixed rate securities	3,650,000	-	3,650,000	100,000	169	100,169
Total	3,650,000	-	3,650,000	100,000	169	100,169

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

	2015 SAR'000	2014 SAR'000
Government and quasigovernment	29,669,240	35,403,594
Corporate	3,823,830	3,562,110
Banks and other financial institutions	1,924,417	6,306,764
Other	8,752	8,348
Total	35,426,239	45,280,816

Equities reported under available for sale investments include unquoted shares of SAR 8.7 million (2014: SAR 8.3 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include treasury bills classified as available for sale amounting to nil (2014: SAR 12.7 million) which have been pledged under repurchase agreement with customers. The market value of these investments is nil (2014: SAR 12.7 million).

e) Credit quality of investments

	2015 SAR'000	2014 SAR'000
Saudi sovereign debt	21,704,021	30,136,708
Investment grade	8,480,762	8,481,687
Non investment grade	96,041	50,193
Unrated investments including equities	5,145,415	6,612,228
Total	35,426,239	45,280,816

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

Unrated investments include equity investments of SAR 1,032 million (2014: SAR 1,030 million).

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

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Issuer ratings have been used for bonds amounting to SAR 169.36 million (2014: SAR 347.7 million) which have not been rated by any agency.

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

f) Movements of allowance for impairment of investments

	2015 SAR'000	2014 SAR'000
Balance at beginning of the year	97,807	98,756
Provided during the year	-	-
Amounts recovered during the year	(9,631)	(949)
Balance at end of the year	88,176	97,807

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2015			SAR' 000
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances-gross	2,172,280	25,390,996	98,830,303	126,393,579
Non performing loans and advances, net	2,261	91,284	1,423,727	1,517,272
Total loans and advances	2,174,541	25,482,280	100,254,030	127,910,851
Provision for credit losses (specific and collective)	(89,998)	(268,520)	(2,128,028)	(2,486,546)
Loans and advances, net	2,084,543	25,213,760	98,126,002	125,424,305

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

Loans and advances, net include Shariah approved products totalling SAR 99,039 million (2014: SAR 90,083 million) which are stated at cost less provision for credit losses of SAR 1,570.0 million (2014: SAR 1,537.1 million).

Loans and advances include loans amounting to SAR 0.003 million (2014: SAR 164 million) that have been fair value hedged through a fixed to floating interest rate swap. The negative mark to market on these loans was SAR Nil as at the end of the current year (2014: negative SAR 0.003 million).

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 215.6 million (2014: SAR 209.9 million).

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

b) Movement in provision for credit losses

	2015			SAR' 000
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Balance at beginning of the year	98,543	222,605	2,081,397	2,402,545
Bad debts written off	(100,043)	(292,567)	(121,467)	(514,077)
Provided during the year, net of reversals	91,498	338,482	194,449	624,429
Recoveries of amounts previously provided	-	-	(26,351)	(26,351)
Balance at the end of the year	89,998	268,520	2,128,028	2,486,546

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

The allowance for credit losses related to commercial loans and overdrafts as mentioned above includes a collective allowance amounting to SAR 1,172.9 million (2014: SAR 1,148.1 million) related to the performing portfolio.

Provision for credit losses charged to the consolidated statement of income related to Shariah approved products is SAR 390.9 million (2014: SAR 320.8 million).

The net charge to consolidated statement of income on account of provision for credit losses is SAR 429.7 million (2014: SAR 450.8 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off amounting to SAR 168.4 million (2014 : SAR 134.9 million).

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

	2015			SAR' 000
<u>Grades</u>	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Undoubted	-	-	524,014	524,014
Good	297,988	12,246,880	34,541,756	47,086,624
Satisfactory	1,725,913	11,705,152	62,876,002	76,307,067
Total	2,023,901	23,952,032	97,941,772	123,917,705

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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)

	2015			SAR' 000
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
From 1 day to 30 days	68,645	1,164,874	723,835	1,957,354
From 31 days to 90 days	43,629	180,842	17,716	242,187
From 91 days to 180 days	36,105	93,248	1,813	131,166
Over 180 days	-	-	145,167	145,167
Total	148,379	1,438,964	888,531	2,475,874

	2014			SAR' 000
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
From 1 day to 30 days	63,424	951,596	708,470	1,723,490
From 31 days to 90 days	46,067	131,204	16,009	193,280
From 91 days to 180 days	45,068	102,037	4,469	151,574
Over 180 days	-	-	1,707	1,707
Total	154,559	1,184,837	730,655	2,070,051

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

2015 SAR'000	Performing	Non performing, net	Provision for credit losses	Loans and advances, net
Government and quasi Government	3,842,663	-	-	3,842,663
Finance	10,658,734	-	-	10,658,734
Agriculture and fishing	610,384	-	-	610,384
Manufacturing	22,204,654	86,387	(65,560)	22,225,481
Mining and quarrying	2,179,336	-	-	2,179,336
Electricity, water, gas and health services	4,508,998	-	-	4,508,998
Building and construction	10,316,030	375,004	(231,484)	10,459,550
Commerce	27,869,631	472,083	(338,254)	28,003,460
Transportation and communication	3,341,913	74,153	(77,966)	3,338,100
Services	7,106,031	9,564	(13,823)	7,101,772
Consumer loans and credit cards	27,563,276	93,545	(358,518)	27,298,303
Others	6,191,929	406,536	(227,945)	6,370,520
Collective impairment provision	-	-	(1,172,996)	(1,172,996)
TOTAL	126,393,579	1,517,272	(2,486,546)	125,424,305

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

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

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

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.

As of 31 December 2015, the net carrying amount of impaired loans and advances comprising of commercial loans and overdrafts amounted to SAR 1,424 million (2014: SAR 1,445 million) and the value of identifiable collateral held against those loans and advances amount to SAR 973 million (2014: SAR 973 million).

The table below set out the principal types of collateral held against loan and advances;

	2015	2014	Principal type of Collateral held
<u>Credit Card and Consumer Loans</u>			
Mortgage Finance	100%	100%	Residential Property
Personal Finance	-	-	
Credit Cards	0.03%	-	Cash.
<u>Commercial Loans and Overdrafts</u>			
Commercial Real Estate	100%	100%	Commercial and Residential Property
Other Finance	70%	70%	Marketable equity securities, Property and Cash.

7. Investment in a joint venture and an associate

SABB owns 51% (2014:51%) of the shares of HSBC Saudi Arabia Limited, a joint venture with HSBC. SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

SABB owns 32.5% (2014: 32.5%) of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 31 December 2015 is SAR 363.4 million (2014: SAR 346.9 million).

	2015			2014		
	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	526,221	125,453	651,674	526,302	120,755	647,057
Share of undistributed profits	128,461	1,884	130,345	104,755	4,698	109,453
Dividend received	(88,784)	-	(88,784)	(104,836)	-	(104,836)
Balance at end of the year	565,898	127,337	693,235	526,221	125,453	651,674

**Share of joint venture and
associate financial statements:**

	2015		2014	
	HSBC Saudi Arabia Limited SAR' 000	SABB Takaful SAR' 000	HSBC Saudi Arabia Limited SAR' 000	SABB Takaful SAR' 000
Total assets	595,506	277,124	583,020	289,414
Total liabilities	133,316	149,787	174,692	163,961
Total equity	462,190	127,337	408,328	125,453
Total income	294,907	13,546	331,860	17,523
Total expenses	166,446	11,662	227,105	12,825

8. Property and equipment, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Equipment, furniture and vehicles SAR'000	Software SAR'000	2015 Total SAR'000	2014 Total SAR'000
Cost						
As at 1 January	693,213	500,350	459,991	66,992	1,720,546	1,674,754
Additions	204,627	87,509	117,880	14,615	424,631	151,491
Disposals	-	-	(4,143)	-	(4,143)	(105,699)
As at 31 December	897,840	587,859	573,728	81,607	2,141,034	1,720,546
Accumulated depreciation						
As at 1 January	344,793	327,768	333,745	50,839	1,057,145	1,071,098
Charge for the year	13,056	31,516	41,297	10,688	96,557	86,425
Disposals	-	-	(4,123)	-	(4,123)	(100,378)
As at 31 December	357,849	359,284	370,919	61,527	1,149,579	1,057,145
Net book value						
As at 31 December 2015	539,991	228,575	202,809	20,080	991,455	
As at 31 December 2014	348,420	172,582	126,246	16,153		663,401

Leasehold improvements and equipment, furniture, vehicles and software include work in progress as at 31 December 2015 amounting to SAR 81.6 million (2014: SAR 37.4 million) and SAR 100.8 million (2014 : SAR 53.8 million) respectively.

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

9. Other assets

	2015	2014
	SAR'000	SAR'000
Accrued special commission receivable		
– banks and other financial institutions	652	475
– investments	100,806	131,362
– loans and advances	522,331	385,707
Total accrued special commission receivable	623,789	517,544
Accounts receivable	147,386	161,555
Positive fair value of derivatives (note 10)	872,865	1,024,886
Advance tax	251,823	226,077
Others	924,732	2,079,881
Total	2,820,595	4,009,943

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

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.

Risk-related adjustments

Bid-offer:

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value.

Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Credit valuation adjustment ('CVA '):

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that SABB may not receive the full market value of the transactions.

Debit valuation adjustment ('DVA'):

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that SABB may default, and that SABB may not pay the full market value of the transactions.

Credit valuation adjustment/debit valuation adjustment methodology:

SABB calculates a separate CVA and DVA for each counterparty to which the entity has exposure. SABB calculates the CVA by applying the probability of default ('PD') of the counterparty conditional on the non default of SABB to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, SABB calculates the DVA by applying the PD of SABB, conditional on the non default of the counterparty, to the expected positive exposure of the counterparty to SABB and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

Hedge effectiveness testing

To qualify for hedge accounting, SABB requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by an entity to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined as 80% to 125%. Hedge ineffectiveness is recognised in the consolidated statement of income 'Net trading income'.

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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
	Within 1 year	1-3 years	3-5 years	Over 5 years
2015				
Cash inflows (assets)	5,963	48,771	129,322	199,969
Cash out flows (liabilities)	-	-	-	-
Net cash outflow	5,963	48,771	129,322	199,969
2014	Within 1 year	1-3 years	3-5 years	
Cash inflows (assets)	-	-	-	-
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	-	-	-	-

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

Notional amounts by term to maturity

	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years
2015							
SAR'000							
Derivatives held for trading:							
Special commission rate swaps	332,167	(259,396)	45,436,530	1,510,432	5,617,498	35,862,449	2,446,151
Special commission rate futures and options	34,088	(34,088)	2,858,426	-	-	226,250	2,632,176
Spot and forward foreign exchange contracts	56,989	(52,287)	12,446,528	7,655,619	3,963,409	827,500	-
Currency options	364,518	(380,808)	290,984,536	44,900,089	122,574,007	123,510,440	-
Currency swaps	73,874	(74,049)	421,414	-	421,414	-	-
Others	8,455	(8,455)	435,573	3,994	5,794	425,785	-
Derivatives held as fair value hedges:							
Special commission rate swaps	-	(51,608)	1,452,467	3	243,750	571,214	637,500
Derivatives held as cash flow hedges:							
Special commission rate swaps	-	(33,474)	1,100,000	-	-	1,100,000	-
Currency swaps	2,774	(1,264)	585,938	-	-	585,938	-
Total	872,865	(895,429)	355,721,412	54,070,137	132,825,872	163,109,576	5,715,827
2014							
SAR'000							
Derivatives held for trading:							
Special commission rate swaps	548,911	(465,354)	51,325,703	2,885,252	7,671,072	32,900,408	7,868,971
Special commission rate futures and options	43,078	(43,078)	2,249,929	20,000	342,429	875,000	1,012,500
Spot and forward foreign exchange contracts	60,153	(61,514)	26,635,831	21,179,738	5,456,093	-	-
Currency options	151,473	(154,264)	193,156,074	32,001,173	95,215,955	65,938,946	-
Currency swaps	37,967	(37,967)	461,211	-	-	461,211	-
Others	166,038	(166,038)	833,565	126,183	7,594	699,788	-
Derivatives held as fair value hedges:							
Special commission rate swaps	17,266	(48,199)	4,121,257	206,250	2,365,254	442,261	1,107,492
Total	1,024,886	(976,414)	278,783,570	56,418,596	111,058,397	101,317,614	9,988,963

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

The Bank enters into structured currency option products with clients which involve one or more derivatives included in the structure. In such instances, the fair value of the individual structured product represents a net valuation of the underlying derivatives. The sum of all option notionals included in each structure as of the reporting date is disclosed in the table above.

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

2015 (SAR'000)	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of the hedged items:						
Fixed commission rate investments	1,523,484	1,470,671	Fair value	Special commission rate swap	-	(51,608)
Fixed commission rate loans	3	3	Fair value	Special commission rate swap	-	-
Floating commission rate investments	1,055,956	1,100,280	Cash flow	Special commission rate swap	-	(33,474)
Floating commission rate investments	594,434	596,759	Cash flow	Currency rate swap	2,774	(1,264)

2014 (SAR'000)	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of the hedged items:						
Fixed commission rate investments	1,778,865	1,729,331	Fair value	Special commission rate swap	24	(48,124)
Fixed commission rate loans	163,762	163,765	Fair value	Special commission rate swap	87	(75)
Fixed commission rate debt securities in issue	2,264,678	2,247,361	Fair value	Special commission rate swap	17,155	-

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

The net losses on the hedging instruments for fair value hedges are SAR 20.7 million (2014: net losses SAR 54.0 million). The net gains on the hedged item attributable to the hedged risk are SAR 20.6 million (2014: net gains SAR 55.1 million).

Approximately 26% (2014: 29%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 5% (2014: 15%) of the positive fair value contracts are with any individual counterparty at the reporting date.

11. Due to banks and other financial institutions

	2015 SAR'000	2014 SAR'000
Current accounts	1,284,625	1,702,884
Money market deposits	542,173	2,383,044
Total	1,826,798	4,085,928

Money market deposits also include deposits placed by SAMA amounting to SAR 288.4 million (2014: SAR 277.5 million).

12. Customers' deposits

	2015 SAR'000	2014 SAR'000
Demand	87,284,903	86,583,535
Savings	7,522,891	6,865,211
Time	51,568,935	50,235,555
Margin deposits	2,261,884	2,186,196
Total	148,638,613	145,870,497

Customers' deposits include SAR 84,628.0 million (2014: SAR 70,527.2 million) deposits under Shariah approved product contracts.

Time deposits include deposits against sale and repurchase agreement amounting to SAR Nil (2014: SAR 12.7 million).

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

The above deposits include the following foreign currency deposits:

	2015 SAR'000	2014 SAR'000
Demand	12,088,428	10,605,889
Savings	210,935	214,095
Time	6,172,869	8,693,171
Margin deposits	1,147,165	866,094
Total	19,619,397	20,379,249

13. Debt securities in issue

	2015 SAR'000	2014 SAR'000
USD 600 million 5 year fixed rate notes	-	2,264,678
SAR 1,500 million 5 year subordinated Sukuk - 2012	1,500,000	1,500,000
SAR 1,500 million 7 year subordinated Sukuk - 2013	1,500,000	1,500,000
SAR 1,500 million 10 year subordinated Sukuk- 2015	1,500,000	-
Total	4,500,000	5,264,678

USD 600 million 5 year fixed rate notes

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

SAR 1,500 million 5 year subordinated Sukuk – 2012

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

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

SAR 1,500 million 7 year subordinated Sukuk – 2013

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

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

SAR 1,500 million 10 year subordinated Sukuk -2015

The Sukuk was issued by SABB on 28 May 2015 and matures in May 2025. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

14. Borrowings

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

15. Other liabilities

	2015	2014
	SAR'000	SAR'000
Accrued special commission payable		
– banks and other financial institutions	8,108	8,296
– customers' deposits	248,565	163,001
– debt securities in issue	12,938	17,009
– borrowings	113	189
Total accrued special commission payable	269,724	188,495
Accounts payable	592,537	1,843,423
Drawings payable	839,226	1,021,695
Negative fair value of derivatives (note 10)	895,429	976,414
End of service benefits	382,382	348,116
Others	1,584,302	1,860,685
Total	4,563,600	6,238,828

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 1,500 million shares of SAR 10 each (2014: 1,000 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2015	2014
Saudi shareholders	60%	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	40%	40%

During the year 2015, Bank issued bonus shares of 500 million with a nominal value of SAR 10 each on the basis of one bonus share for every two shares held through the capitalisation of retained earnings and statutory reserve account.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 1,083 million (2014: SAR 1,067 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

18. Other reserves

Cash flow and available for sale investments

2015 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	1,865	59,749	61,614
Net change in fair value	(31,964)	(295,809)	(327,773)
Transfer to consolidated statement of income	(791)	(66,635)	(67,426)
Net movement during the year	(32,755)	(362,444)	(395,199)
Sub total	(30,890)	(302,695)	(333,585)
Treasury shares			(25,792)
Employee share plan reserve			18,769
Sub total			(7,023)
Balance at end of the year			(340,608)

2014 SAR'000	Cash flow Hedges	Available for sale investments	Total
Balance at beginning of the year	2,656	(13,394)	(10,738)
Net change in fair value	-	80,339	80,339
Transfer to consolidated statement of income	(791)	(7,196)	(7,987)
Net movement during the year	(791)	73,143	72,352
Balance at end of the year	1,865	59,749	61,614

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 0.8 million (2014: SAR 0.8 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Commitments and contingencies

a) Legal proceedings

As at 31 December 2015, there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) Capital commitments

As at 31 December 2015, the Bank has capital commitments of SAR 193.8 million (2014: SAR 228.9 million) in respect of land, buildings and equipment purchases.

c) Credit related commitments and contingencies

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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:

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	8,158,313	3,692,441	380,103	1,122,511	13,353,368
Guarantees	10,138,625	22,721,667	24,265,160	6,345,628	63,471,080
Acceptances	2,403,501	1,194,445	15,158	-	3,613,104
Irrevocable commitments to extend credit	-	1,130,000	829,373	2,136,335	4,095,708
Total	20,700,439	28,738,553	25,489,794	9,604,474	84,533,260

2014 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	7,807,909	6,361,435	962,243	-	15,131,587
Guarantees	9,131,576	21,306,928	23,926,067	7,093,607	61,458,178
Acceptances	2,718,790	465,653	5,664	-	3,190,107
Irrevocable commitments to extend credit	130,063	-	214,881	1,367,381	1,712,325
Total	19,788,338	28,134,016	25,108,855	8,460,988	81,492,197

The outstanding unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 75,252 million (2014: SAR 66,720 million).

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

	2015 SAR'000	2014 SAR'000
Government and quasigovernment	2,532,751	552,636
Corporate	67,466,296	66,736,597
Banks and other financial institutions	14,462,283	14,111,367
Other	71,930	91,597
Total	84,533,260	81,492,197

- f) **Operating lease commitments**

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

	2015 SAR'000	2014 SAR'000
Less than 1 year	81,577	79,806
1 to 5 years	196,195	214,839
Over 5 years	128,877	145,359
Total	406,649	440,004

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

20. Net special commission income

	2015 SAR'000	2014 SAR'000
Special commission income		
Investments		
– available for sale investments	509,648	547,525
– held at amortised cost	19,771	5,817
	<u>529,419</u>	<u>553,342</u>
Due from banks and other financial institutions	10,932	24,069
Loans and advances	4,273,070	4,048,540
Total	<u>4,813,421</u>	<u>4,625,951</u>
 Special commission expense		
Due to banks and other financial institutions	27,080	12,188
Customers' deposits	397,832	424,828
Debt securities in issue	131,065	121,138
Borrowings	3,566	5,190
Total	<u>559,543</u>	<u>563,344</u>
Net special commission income	<u>4,253,878</u>	<u>4,062,607</u>

21. Fees and commission income, net

	2015 SAR'000	2014 SAR'000
Fee and commission income:		
- Fund management fees	44,467	88,900
- Trade finance	822,807	881,231
- Corporate finance and advisory	199,872	193,730
- Cards	387,828	334,131
- Other banking services	386,228	385,060
Total fee and commission income	<u>1,841,202</u>	<u>1,883,052</u>
 Fee and commission expense:		
- Cards	(182,688)	(151,579)
- Custodial services	(942)	(843)
- Other banking services	(107,301)	(85,630)
Total fee and commission expense	<u>(290,931)</u>	<u>(238,052)</u>
Fees and commission income, net	<u>1,550,271</u>	<u>1,645,000</u>

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

22. Trading income, net

	2015 SAR'000	2014 SAR'000
Foreign exchange income, net	186,040	221,998
Derivatives	66,679	46,896
Debt securities	(232)	(7)
Others	(105)	1,121
Total	252,382	270,008

23. Gains on non-trading investments, net

	2015 SAR'000	2014 SAR'000
Available for sale investments	66,634	7,196

24. Salaries and employee related expenses

	2015 SAR'000	2014 SAR'000
Salaries and allowance	717,890	662,584
Housing allowance	120,313	113,929
End of service benefits	66,390	44,227
Others	348,132	332,105
Total	1,252,725	1,152,845

a) Quantitative Disclosure

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended 31 December 2015 and 31 December 2014, and the forms of such payments.

2015 Category	Number of Employees	Fixed compensation SAR'000	Variable compensation paid in 2015		
			Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	16	26,155	14,561	6,685	21,246
Employees engaged in risk taking activities	547	176,207	59,980	4,872	64,852
Employees engaged in control functions	272	93,986	22,492	1,490	23,982
Other employees	2,616	474,502	82,587	300	82,887
Outsourced employees	404	29,998	8,364	-	8,364
Total	3,855	800,848	187,984	13,347	201,331
Variable compensation accrued or paid in 2015		213,719			
Other employee related benefits		238,158			
Total salaries and employee related expenses		1,252,725			

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

2014 Category	Number of employees	Fixed compensation SAR'000	Variable compensation paid in 2014		
			Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	16	28,220	17,146	8,654	25,800
Employees engaged in risk taking activities	433	137,292	51,761	3,357	55,118
Employees engaged in control functions	226	81,684	21,967	759	22,726
Other employees	2,639	475,599	112,653	386	113,039
Outsourced employees	399	29,258	9,696	-	9,696
Total	3,713	752,053	213,223	13,156	226,379
Variable compensation accrued or paid in 2014		251,669			
Other employee related benefits		149,123			
Total salaries and employee related expenses		1,152,845			

Senior executives (requiring SAMA no objection):

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

Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

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

Outsourced employees:

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

b) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements

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

SABB Compensation Policy

i. Policy Objectives

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

ii. Compensation Structure

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

iii. Performance Management System

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

iv. Risk-adjustment for Variable Pay schemes

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

v. Bonus Deferral

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

vi. Nomination and Remuneration Committee

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

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended 31 December 2015 and 2014 is calculated by dividing the net income for the year attributable to the equity holders by the weighted average number of issued shares. The weighted average number of shares have been retrospectively adjusted for the prior year to reflect the effect of the bonus share issue.

26. Gross dividend, Zakat and income tax

The Board of Directors has proposed a gross final dividend of SAR 570 million for the year 2015 (2014: SAR 1,150 million). During 2015, an interim dividend of SAR 675 million (2014: Nil) was also proposed and paid. Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Saudi shareholders:

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 64.8 million (2014: SAR 62.7 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 0.75 per share (2014: SAR 1.05 per share).

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 340.4 million (2014: SAR 336.4 million).

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

Status of Zakat and Income Tax assessments

SABB has filed its Zakat and Income Tax returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax (the "DZIT"). SABB has received Zakat and Income Tax assessments for the years up to 2009 raising additional demands aggregating to SAR 487 million.

The above additional exposure is mainly on account of disallowance of certain long-term investments by the DZIT. The basis for the additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. SABB has also formally contested these assessments before the Preliminary Tax Appeal Committee. The revised zakat and tax assessments, after giving the effect to the appeal committee's decision, should raise demands aggregating to SAR 433 million for these years. The DZIT has yet to raise the revised assessments.

SABB has filed an appeal before the Appellate Committee for Tax Appeal for certain unfavourable rulings.

The Zakat and Income Tax assessments for the years 2010 to 2014 have not been finalized by the DZIT and SABB may not be able to determine reliably the impact of such assessments.

The DZIT has raised a withholding tax claim in relation to bonus shares issued and dividends paid to non-Saudi shareholders for the years 2005 to 2009 amounting to SAR 155 million. Subsequent to the reporting period, the Bank has settled the claim. In addition, the DZIT has raised a further withholding tax claim of SAR 150 million in relation to bonus shares issued in 2012 and 2015.

27. Cash and cash equivalents

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

	2015	2014
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit amounting to SAR 9,056 million (2014: SAR 8,677 million) (note 3)	1,885,901	10,636,920
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	11,452,236	2,375,121
Total	13,338,137	13,012,041

28. Operating segments

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

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

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

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

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

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

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2015 and 2014, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

2015 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	33,000,077	96,850,258	57,206,853	693,235	187,750,423
Total liabilities	61,345,170	75,311,894	22,918,822	-	159,575,886
Investment in a joint venture and an associate	-	-	-	693,235	693,235
Total operating income	2,311,689	2,970,362	1,348,576	-	6,630,627
Total operating expenses	1,465,074	829,361	135,990	-	2,430,425
Share in earnings of joint venture and associate	-	-	-	130,345	130,345
Net income for the year	846,615	2,141,001	1,212,586	130,345	4,330,547
Net special commission income	1,638,171	1,797,451	818,256	-	4,253,878
Fees and commission income, net	411,090	1,140,138	(957)	-	1,550,271
Trading income, net	-	30,337	222,045	-	252,382
Credit losses and impairment provision, net	269,144	160,572	(9,631)	-	420,085
2014 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	35,455,551	84,313,335	67,188,708	651,674	187,609,268
Total liabilities	57,653,291	80,471,238	23,413,527	-	161,538,056
Investment in a joint venture and an associate	-	-	-	651,674	651,674
Total operating income	2,311,809	2,929,131	1,261,269	-	6,502,209
Total operating expenses	1,370,435	826,765	148,401	-	2,345,601
Share in earnings of joint venture and associate	-	-	-	109,453	109,453
Net income for the year	941,374	2,102,366	1,112,868	109,453	4,266,061
Net special commission income	1,749,653	1,503,716	809,238	-	4,062,607
Fees and commission income, net	445,336	1,200,807	(1,143)	-	1,645,000
Trading income, net	-	52,108	217,900	-	270,008
Credit losses and impairment provision, net	250,505	200,251	(949)	-	449,807

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

2015 SAR'000	Retail Banking	Corporate Banking	Treasury	Total
Assets	30,270,243	95,154,062	56,300,561	181,724,866
Commitments and contingencies	85,321	39,642,851	-	39,728,172
Derivatives	-	-	2,303,539	2,303,539
Total	30,355,564	134,796,913	58,604,100	223,756,577

2014 SAR'000	Retail Banking	Corporate Banking	Treasury	Total
Assets	32,932,041	82,288,756	64,754,668	179,975,465
Commitments and contingencies	45,666	37,716,991	-	37,762,657
Derivatives	-	-	2,137,569	2,137,569
Total	32,977,707	120,005,747	66,892,237	219,875,691

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

29. Credit risk

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

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

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

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses external ratings, of major rating agencies, 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 to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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

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

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

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

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

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

2015 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA	10,942,268	-	-	-	-	10,942,268
Due from banks and other financial institutions	2,450,000	1,416,160	1,938,547	5,592,991	54,628	11,452,326
Investments, net	28,629,367	5,659,010	466,675	43,317	627,870	35,426,239
Loans and advances, net	124,710,007	375,000	318,750	20,548	-	125,424,305
Investment in a joint venture and associate	693,235	-	-	-	-	693,235
Total	167,424,877	7,450,170	2,723,972	5,656,856	682,498	183,938,373
Liabilities						
Due to banks and other financial institutions	246,224	815,342	578,749	161,905	24,578	1,826,798
Customer deposits	147,593,882	6,218	925,696	24,805	88,012	148,638,613
Debt securities in issue	4,500,000	-	-	-	-	4,500,000
Borrowings	-	-	46,875	-	-	46,875
Total	152,340,106	821,560	1,551,320	186,710	112,590	155,012,286
Commitments and contingencies	71,464,891	1,361,117	4,703,690	1,510,942	5,492,620	84,533,260
Credit exposure (stated at credit equivalent amounts)						
Assets	164,223,678	7,405,968	2,723,972	5,656,856	682,498	180,692,972
Commitments and contingencies	29,813,723	660,126	2,321,538	500,320	2,689,290	35,984,997
Derivatives	1,641,852	136,423	514,748	-	10,516	2,303,539
Total credit exposure	195,679,253	8,202,517	5,560,258	6,157,176	3,382,304	218,981,508

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

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

2015 SAR'000	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non performing loans, net	1,517,272	-	-	-	-	1,517,272
Provision for credit loss	2,486,546	-	-	-	-	2,486,546

2014 SAR'000	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non performing loans, net	1,494,932	-	-	-	-	1,492,932
Provision for credit loss	2,402,545	-	-	-	-	2,402,545

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

30. Market risk

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

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

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

a) Market risk-trading book

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

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

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

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

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

The Bank's VAR related information is as under.

	SAR'000		
	Foreign exchange	Special commission rate	Overall risk
2015			
VAR as at 31December 2015	474	562	650
Average VAR for 2015	300	444	607
Minimum VAR for 2015	11	51	115
Maximum VAR for 2015	1,966	1,062	2,437
			SAR'000
	Foreign exchange	Special commission rate	Overall risk
2014			
VAR as at 31December 2014	364	70	356
Average VAR for 2014	1,571	291	1,672
Minimum VAR for 2014	43	(148)	146
Maximum VAR for 2014	11,460	1,122	11,485

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities repricing as at 31 December 2015, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets; including the effect of any associated hedges as at 31 December 2015 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represent only those exposures that directly impact OCI of the Bank.

		2015				SAR' 000	
Currency	Increase in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				Total
			6months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+ 100	(49,847)	(38,820)	(5,492)	(28,846)	-	(73,158)
USD	+ 100	13,783	(22,550)	(26,310)	(69,503)	(2,361)	(120,724)
EUR	+ 100	1,069	(1,815)	(1,659)	(11,613)	(416)	(15,503)
Others	+ 100	17	-	-	-	-	-

		2015				SAR '000	
Currency	Decrease in basis points	Sensitivity of Special Commission Income	Sensitivity of Equity				Total
			6months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	- 100	49,847	38,820	5,492	28,846	-	73,158
USD	- 100	(13,783)	22,550	26,310	69,503	2,361	120,724
EUR	- 100	(1,069)	1,815	1,659	11,613	416	15,503
Others	- 100	(17)	-	-	-	-	-

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

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.

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	365,649	-	-	-	10,576,619	10,942,268
Due from banks and other financial institutions	11,452,326	-	-	-	-	11,452,326
Investments, net	11,692,472	8,327,965	6,064,606	8,339,891	1,001,304	35,426,238
Loans and advances, net	74,017,804	20,372,104	19,407,463	11,626,935	-	125,424,306
Investment in a joint venture and associate	-	-	-	-	693,235	693,235
Property and equipment, net	-	-	-	-	991,455	991,455
Other assets	35,538	140,610	573,835	122,882	1,947,730	2,820,595
Total assets	97,563,789	28,840,679	26,045,904	20,089,708	15,210,343	187,750,423
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,826,798	-	-	-	-	1,826,798
Customer deposits	38,480,928	13,092,679	3,473,199	301,303	93,290,504	148,638,613
Debt securities in issue	1,500,000	3,000,000	-	-	-	4,500,000
Borrowings	-	46,875	-	-	-	46,875
Other liabilities	39,785	142,218	583,769	129,657	3,668,171	4,563,600
Shareholders' equity	-	-	-	-	28,174,537	28,174,537
Total liabilities and shareholders' equity	41,847,511	16,281,772	4,056,968	430,960	125,133,212	187,750,423
Commission rate sensitivity on assets and liabilities	55,716,278	12,558,907	21,988,936	19,658,748	(109,922,869)	
Commission rate sensitivity on derivative financial instruments	1,158,402	(463,750)	(57,152)	(637,500)	-	
Total special commission rate sensitivity gap	56,874,680	12,095,157	21,931,784	19,021,248	(109,922,869)	
Cumulative special commission rate sensitivity gap	56,874,680	68,969,837	90,901,621	109,922,869	-	

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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

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.

ii) Currency risk

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

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

	2015 SAR'000 Long (short)	2014 SAR'000 Long (short)
US Dollar	1,785,761	(2,110,875)
Euro	(8,933)	(2,760)
Sterling Pounds	(1,264)	(555)
Other	(12,612)	3,156

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non trading equity price risk exposure arises from equity securities classified as available for sale. A 10 per cent increase or decrease in the value of the bank's available for sale equities at 31 December 2015 would have correspondingly increase or decrease equity by SAR 102 million (2014: SAR 102 million).

31. Liquidity risk

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

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

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

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

a) Analysis of financial liabilities by remaining contractual maturities :

The table below sets out Bank's contractual undiscounted financial liabilities.

2015 SAR'000	Within 3 Months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	-	1,538,406	290,589	-	-	1,828,995
Customer deposits	127,008,688	15,527,593	6,093,078	301,303	-	148,930,662
Debt securities in issue	8,199	104,205	3,326,632	1,668,407	-	5,107,443
Borrowings	-	33,279	16,029	-	-	49,308
Other liabilities	-	-	-	-	3,398,448	3,398,448
Derivatives :						
- Contractual amounts payable (receivable)	26,593	92,908	311,991	174,599	-	606,091
Total undiscounted financial liabilities	127,043,480	17,296,391	10,038,319	2,144,309	3,398,448	159,920,947

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

2014 SAR'000	Within 3 Months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	3,805,550	-	299,259	-	-	4,104,809
Customer deposits	136,886,875	3,287,793	5,870,790	218,168	-	146,263,626
Debt securities in issue	8,132	2,377,271	1,688,126	1,535,376	-	5,608,905
Borrowings	-	34,892	49,308	-	-	84,200
Other liabilities	-	-	-	-	5,073,919	5,073,919
<u>Derivatives :</u>						
- Contractual amounts payable (receivable)	37,858	43,537	(297)	-	-	81,098
Total undiscounted financial liabilities	140,738,415	5,743,493	7,907,186	1,753,544	5,073,919	161,216,557

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.

2015 SAR'000	Within 3 months	3-12 Months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	1,885,901	-	-	-	9,056,367	10,942,268
Due from banks and other financial institutions	11,452,326		-	-	-	11,452,326
Investments, net	12,077,926	7,177,779	11,857,463	3,281,158	1,031,913	35,426,239
Loans and advances, net	51,864,487	24,137,292	25,742,228	23,680,298	-	125,424,305
Investment in a joint venture and associate	-	-	-	-	693,235	693,235
Property and equipment, net	-	-	-	-	991,455	991,455
Other assets	35,538	140,610	573,835	122,882	1,947,730	2,820,595
Total assets	77,316,178	31,455,681	38,173,526	27,084,338	13,720,700	187,750,423
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,538,392	288,406	-	-	-	1,826,798
Customer deposits	132,567,690	10,293,951	5,583,762	193,210	-	148,638,613
Debt securities in issue	-		4,500,000	-	-	4,500,000
Borrowings	-		46,875	-	-	46,875
Other liabilities	39,785	142,218	583,768	129,658	3,668,171	4,563,600
Shareholders' equity	-	-	-	-	28,174,537	28,174,537
Total liabilities and shareholders' equity	134,145,867	10,724,575	10,714,405	322,868	31,842,708	187,750,423

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

2014 SAR'000	Within 3 months	3-12 Months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	10,636,920	-	-	-	8,676,846	19,313,766
Due from banks and other financial institutions	2,375,121	93,750	-	-	-	2,468,871
Investments, net	8,772,598	22,776,704	7,673,573	5,027,625	1,030,316	45,280,816
Loans and advances, net	49,335,300	18,753,568	25,542,294	21,589,635	-	115,220,797
Investment in a joint venture and associate	-	-	-	-	651,674	651,674
Property and equipment, net	-	-	-	-	663,401	663,401
Other assets	109,314	175,989	567,188	172,395	2,985,057	4,009,943
Total assets	71,229,253	41,800,011	33,783,055	26,789,655	14,007,294	187,609,268
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,808,438	-	277,490	-	-	4,085,928
Customer deposits	136,789,356	3,264,159	5,601,408	215,574	-	145,870,497
Debt securities in issue	-	2,264,678	1,500,000	1,500,000	-	5,264,678
Borrowings	-	31,250	46,875	-	-	78,125
Other liabilities	114,655	156,848	550,524	154,387	5,262,414	6,238,828
Shareholders' equity	-	-	-	-	26,071,212	26,071,212
Total liabilities and shareholders' equity	140,712,449	5,716,935	7,976,297	1,869,961	31,333,626	187,609,268

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 are given in note 19(d) of the consolidated financial statements.

32. Offsetting of financial assets and financial liabilities

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

SAR'000				Amount not set off in the statement of financial position		
	Gross amount of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
At 31 December 2015						
Due from banks and other financial institutions	12,921,033	(1,468,707)	11,452,326	-	-	11,452,326
Derivatives	872,865	-	872,865	-	-	872,865

At 31 December 2014

Due from banks and other financial institutions	11,609,473	(9,140,602)	2,468,871	-	-	2,468,871
Derivatives	1,024,886	-	1,024,886	-	-	1,024,886

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

SAR'000				Amount not set off in the statement of financial position		
	Gross amount of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Financial instruments	Cash collateral pledged	Net amount
At 31 December 2015						
Derivatives	895,429	-	895,429	-	(814,125)	81,304
Sale and repurchase arrangements	-	-	-	-	-	-
At 31 December 2014						
Derivatives	976,414	-	976,414	-	(561,225)	415,189
Sale and repurchase arrangements	12,747	-	12,747	(12,747)	-	-

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

33. Fair values of financial instruments

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

The fair values of recognised financial instruments are not materially different from their carrying values.

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
2015				
<u>Financial assets:</u>				
Derivative financial instruments	-	872,865	-	872,865
Financial investments available for sale	9,060,190	22,663,983	43,317	31,767,490
Investments held at amortised cost	-	3,649,661	-	3,649,661
Total	9,060,190	27,186,509	43,317	36,290,016
<u>Financial Liabilities:</u>				
Derivative financial instruments	-	895,429	-	895,429
Total	-	895,429	-	895,429

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

SAR' 000	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2014				
<u>Financial assets:</u>				
Derivative financial instruments	-	1,024,886	-	1,024,886
Financial investments available for sale	9,594,387	35,528,819	49,262	45,172,468
Investments held at amortised cost	-	100,169	-	100,169
Loans and advances – Fair value hedged	-	163,762	-	163,762
Total	9,594,387	36,817,636	49,262	46,461,285
<u>Financial Liabilities:</u>				
Derivative financial instruments	-	976,414	-	976,414
Debt securities in issue- Fair value hedged	2,264,678	-	-	2,264,678
Total	2,264,678	976,414	-	3,241,092

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

Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

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

There were no transfers between the levels of fair value hierarchies during the year.

The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is positive SAR 52.6 million (2014: SAR 39.2 million).

34. Related party transactions

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

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

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

	<u>2015</u> <u>SAR'000</u>	<u>2014</u> <u>SAR'000</u>
The HSBC Group:		
Due from banks and other financial institutions	7,007,693	1,874,520
Investments	943,556	948,429
Other assets	13,468	-
Derivatives (at fair value)	(99,846)	(236,724)
Due to banks and other financial institutions	738,502	2,185,523
Other liabilities	8,355	28,118
Commitments and contingencies	1,673,929	2,047,214

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

The above investments include investments in a joint venture and associate, amounting to SAR 693.2 million (2014: SAR 651.7 million).

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

Loans and advances	3,009,582	3,087,237
Customers' deposits	8,802,798	10,240,067
Derivatives (at fair value)	23,474	20,329
Commitments and contingencies	224,345	85,736

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

Related mutual funds:

Loans and advances	7,068	1,247
Customers' deposits	697,514	1,040,795

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

Special commission income	94,372	92,749
Special commission expense	(148,660)	(293,653)
Fees and commission income	47,653	106,056
Services charges paid to HSBC group	39,384	41,366
Profit share arrangement relating to investment banking activities	(2,340)	(4,679)
Share in earnings of a joint venture and an associate	130,345	109,453
Directors' remuneration	2,995	3,001

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

Short-term employee benefits (salaries and allowances)	36,749	31,373
Employment termination benefits	687	6,592

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2015. The detail of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

35. 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.

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

	2015 SAR'000	2014 SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	167,661,775	151,267,712
Operational Risk RWA	12,620,144	11,688,587
Market Risk RWA	2,844,213	3,841,275
Total RWA	183,126,132	166,797,574
Tier I Capital	28,174,537	26,071,212
Tier II Capital	4,082,996	3,128,106
Total I & II Capital	32,257,533	29,199,318
Capital Adequacy Ratio %		
Tier I ratio	15.39%	15.63%
Tier I + Tier II ratio	17.61%	17.51%

36. Disclosures under Basel III framework

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

37. Prospective changes in accounting standards

The Bank has opted not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance for the Group's accounting year beginning after January 1, 2016.

- IFRS 9 - Financial Instruments - Classification and Measurement of Financial Assets & Financial Liabilities. Effective for annual periods beginning on or after 1 January 2018.
- IFRS 15 Revenue from Contracts with Customers - New revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Effective for annual periods beginning on or after 1 January 2018.
- IFRS 10, IFRS 12 and IAS 28 Investment Entities – Amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
- The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. Effective for annual periods beginning on or after 1 January 2016.
- IFRS 14 Regulatory Deferral Accounts. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 27: Equity Method in Separate Financial Statements - The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests - Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation - Effective prospectively for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. Effective for annual periods beginning on or after 1 January 2016.
- Annual improvements to International Financial Reporting Standards - 2012-2014 cycle. Effective for annual periods beginning on or after 1 January 2016. These include:
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - IFRS 7 Financial Instruments: Disclosures
 - IAS 19 Employee Benefits

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

- IAS 1 Disclosure Initiative

38. Comparative figures

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

39. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 5 Jumaada Al-Awal 1437H (Corresponding 14 February 2016).