

**Interim Condensed
Consolidated Financial
Statements**

For the six months period ended
30 June 2014

The Saudi British Bank

SABB  **ساب**

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2014	31 December 2013	30 June 2013
<u>Notes</u>	<u>Unaudited SAR' 000</u>	<u>Audited SAR' 000</u>	<u>Unaudited SAR' 000</u>
ASSETS			
Cash and balances with SAMA	14,763,295	26,123,913	14,537,493
Due from banks and other financial institutions	1,869,872	3,286,053	4,981,122
Investments, net	4 41,475,439	37,399,559	30,843,020
Loans and advances, net	5 112,709,618	106,114,930	105,999,793
Investment in associate and joint venture	6 718,323	647,057	673,180
Property and equipment, net	613,987	603,656	615,172
Other assets	3,317,559	3,127,032	4,285,337
Total assets	175,468,093	177,302,200	161,935,117
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	2,802,004	3,769,640	3,922,151
Customer deposits	7 138,295,464	138,961,470	125,888,012
Debt securities in issue	5,272,105	5,282,873	4,486,776
Borrowings	93,750	109,375	125,000
Other liabilities	4,854,938	6,346,043	6,534,430
Total liabilities	151,318,261	154,469,401	140,956,369
Shareholders' equity			
Share capital	10,000,000	10,000,000	10,000,000
Statutory reserve	7,934,504	7,934,504	6,991,051
Other reserves	168,535	(10,738)	(43,506)
Retained earnings	6,046,793	3,809,033	4,031,203
Proposed dividends	-	1,100,000	-
Total shareholders' equity	24,149,832	22,832,799	20,978,748
Total liabilities and shareholders' equity	175,468,093	177,302,200	161,935,117

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF INCOME

Unaudited

	Notes	Three months ended		Six months ended	
		30 June 2014 SAR'000	30 June 2013 SAR'000	30 June 2014 SAR'000	30 June 2013 SAR'000
Special commission income		1,152,387	1,068,193	2,265,932	2,090,816
Special commission expense		143,739	129,269	296,700	266,658
Net special commission income		1,008,648	938,924	1,969,232	1,824,158
Fee and commission income, net		446,679	387,088	888,489	750,845
Exchange income, net		113,966	100,817	211,803	197,227
Income from FVIS financial instruments		-	1,875	3,750	9,375
Trading income, net		73,255	51,928	185,205	110,359
Dividend income		17,765	20,563	19,527	20,563
Gain on non-trading investments, net		4,604	454	7,286	25,305
Other operating loss, net		(1,170)	(1,528)	(603)	(160)
Total operating income		1,663,747	1,500,121	3,284,689	2,937,672
Salaries and employee related expenses		279,920	262,569	571,478	524,573
Rent and premises related expenses		28,565	26,285	54,191	49,652
Depreciation		26,868	23,170	48,449	45,137
General and administrative expenses		134,776	106,180	245,118	216,344
Provision for credit losses, net		81,372	105,252	199,908	141,170
(Reversal of impairment) impairment of other financial assets		-	561	(949)	69,217
Total operating expenses		551,501	524,017	1,118,195	1,046,093
Net income from operating activities		1,112,246	976,104	2,166,494	1,891,579
Share in earnings of associate and joint venture	6	44,988	28,562	71,266	60,948
Net income for the period		1,157,234	1,004,666	2,237,760	1,952,527
Basic and diluted earnings per share (in SAR)	12	1.16	1.00	2.24	1.95

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

	Three months ended		Six months ended	
	30 June 2014 SAR' 000	30 June 2013 SAR' 000	30 June 2014 SAR' 000	30 June 2013 SAR' 000
Net income for the period	1,157,234	1,004,666	2,237,760	1,952,527
Other comprehensive income to be reclassified to statement of income in subsequent period				
Available for sale financial assets				
- Net change in fair value	(35,004)	(52,460)	172,380	(92,135)
- Transfer to interim consolidated statement of income	4,604	(454)	7,286	44,695
Cash flow hedges				
- Net change in fair value	-	4,387	-	8,546
- Transfer to interim consolidated statement of income	(198)	(197)	(393)	(392)
	(30,598)	(48,724)	179,273	(39,286)
Total comprehensive income for the period	1,126,636	955,942	2,417,033	1,913,241

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months period ended 30 June

Unaudited

	Share capital <u>SAR '000</u>	Statutory reserve <u>SAR '000</u>	Other reserves <u>SAR '000</u>	Retained earnings <u>SAR '000</u>	Proposed dividends <u>SAR '000</u>	Total <u>SAR '000</u>
2014						
Balance at beginning of the period	<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 period						
Net income for the period	-	-	-	2,237,760	-	2,237,760
Net changes in fair value of cash flow hedges	-	-	-	-	-	-
Net changes in fair value of available for sale investments	-	-	172,380	-	-	172,380
Transfer to interim consolidated statement of income	-	-	6,893	-	-	6,893
			<u>179,273</u>	<u>2,237,760</u>		<u>2,417,033</u>
2013 final dividend paid	-	-	-	-	(1,100,000)	(1,100,000)
Balance at end of the period	<u>10,000,000</u>	<u>7,934,504</u>	<u>168,535</u>	<u>6,046,793</u>	<u>-</u>	<u>24,149,832</u>
2013						
Balance at beginning of the period	<u>10,000,000</u>	<u>6,991,051</u>	<u>(4,220)</u>	<u>2,078,676</u>	<u>1,000,000</u>	<u>20,065,507</u>
Total comprehensive income for the period						
Net income for the period	-	-	-	1,952,527	-	1,952,527
Net changes in fair value of cash flow hedges	-	-	8,546	-	-	8,546
Net changes in fair value of available for sale investments	-	-	(92,135)	-	-	(92,135)
Transfer to interim consolidated statement of income	-	-	44,303	-	-	44,303
			<u>(39,286)</u>	<u>1,952,527</u>	<u>-</u>	<u>1,913,241</u>
2012 final dividend paid	-	-	-	-	(1,000,000)	(1,000,000)
Balance at end of the period	<u>10,000,000</u>	<u>6,991,051</u>	<u>(43,506)</u>	<u>4,031,203</u>	<u>-</u>	<u>20,978,748</u>

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 30 June

Unaudited

	<u>Note</u>	<u>2014</u> SAR' 000	<u>2013</u> SAR' 000
OPERATING ACTIVITIES			
Net income for the period		2,237,760	1,952,527
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments, net		17,299	17,329
Depreciation		48,449	45,137
Gains on non-trading investments, net		(7,286)	(25,305)
Share in earnings of associate and joint venture		(71,266)	(60,948)
Provision for credit losses, net		199,908	141,170
Losses on disposal of property and equipment , net		1,300	1,460
(Reversal of impairment) impairment of other financial assets		(949)	69,217
Change in carrying value of debt securities in issue		(10,768)	(19,004)
		2,414,447	2,121,583
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(188,632)	(410,665)
Investments held for trading		7	3,908
Loans and advances		(6,794,596)	(10,042,657)
Other assets		(190,527)	(1,030,506)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(967,636)	(2,009,699)
Customer deposits		(666,006)	5,454,296
Other liabilities		(1,490,665)	960,658
Net cash used in operating activities		(7,883,608)	(4,953,082)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		16,137,508	13,700,845
Purchase of non-trading investments		(20,043,186)	(17,061,115)
Purchase of property and equipment		(60,080)	(57,366)
Proceeds from disposal of property and equipment		-	106
Net cash used in investing activities		(3,965,758)	(3,417,530)
FINANCING ACTIVITIES			
Borrowings		(15,625)	(15,625)
Dividends paid		(1,100,440)	(1,001,087)
Net cash used in financing activities		(1,116,065)	(1,016,712)
Net decrease in cash and cash equivalents		(12,965,431)	(9,387,324)
Cash and cash equivalents at beginning of the period		21,682,842	21,592,923
Cash and cash equivalents at end of the period	10	8,717,411	12,205,599
Special commission received during the period		2,241,475	2,069,479
Special commission paid during the period		341,731	344,371
<u>Supplemental non cash information</u>			
Other comprehensive income		179,273	(39,286)

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

1. General

The Saudi British Bank (“SABB”) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 81 branches (2013: 79 branches) in the Kingdom of Saudi Arabia. SABB employed 3,261 staff as at 30 June 2014 (2013: 3,079). The address of SABB’s head office is as follows:

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

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

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

SABB has 100% (2013:100%) ownership interest in a subsidiary, SABB Insurance Agency, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 6) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

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

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard 34 – Interim Financial Reporting. SABB prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended 31 December 2013.

The Bank presents its statement of financial position in order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the interim consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the interim consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

2(i). Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of SABB and its subsidiaries, as mentioned in note 1 (collectively referred to as the “Bank”). The financial statements of the subsidiaries are prepared for the same reporting period 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 in preparing interim condensed consolidated financial statements.

3. Accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the following amendments to existing standards mentioned below, which has had an insignificant effect/no financial impact on the interim condensed consolidated interim financial statements of the Bank on the current period or prior period, and is not expected to have any significant effect in future periods:

Amendments to existing standards

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investments funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity’s investing activities.
- IAS 32 amendment applicable from 1 January 2014 clarifies that (a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.
- IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

The Bank has not early adopted any other standard’s interpretation or amendment that has been issued but is not yet effective.

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
Investments:			
- Held as FVIS	1,000	1,007	1,013
- Available for sale, net	41,374,452	37,098,580	30,392,081
- Held at amortised cost, net	99,987	299,972	449,926
Total	41,475,439	37,399,559	30,843,020

Investments classified under FVIS are all held for trading.

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
Credit cards	2,066,027	1,957,598	1,972,439
Consumer loans	23,956,369	21,916,178	20,746,999
Commercial loans and overdrafts	87,469,468	82,974,558	84,139,166
Performing loans and advances – gross	113,491,864	106,848,334	106,858,604
Non performing loans and advances, net	1,547,248	1,525,265	1,620,609
Total loans and advances	115,039,112	108,373,599	108,479,213
Provision for credit losses (specific and collective)	(2,329,494)	(2,258,669)	(2,479,420)
Loans and advances, net	112,709,618	106,114,930	105,999,793

6. Investment in associate and joint venture

SAR'000	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	526,302	496,237	496,237
Share of undistributed profit	68,991	118,410	58,612
Dividend received	-	(88,345)	-
	<u>595,293</u>	<u>526,302</u>	<u>554,849</u>
SABB Takaful			
Balance at beginning of the period	120,755	115,995	115,995
Share of undistributed profit	2,275	4,760	2,336
	<u>123,030</u>	<u>120,755</u>	<u>118,331</u>
Total	<u><u>718,323</u></u>	<u><u>647,057</u></u>	<u><u>673,180</u></u>

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

SABB owns 32.5% of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 30 June 2014 is SAR 471.0 million (2013: SAR 375.7 million).

7. Customer deposits

SAR'000	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
Demand	82,429,687	74,717,693	69,052,065
Savings	7,051,184	6,686,175	6,267,198
Time	46,721,224	54,315,985	47,809,914
Margin deposits	2,093,369	3,241,617	2,758,835
Total	<u><u>138,295,464</u></u>	<u><u>138,961,470</u></u>	<u><u>125,888,012</u></u>

8. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

SAR'000	30 June 2014 (Unaudited)			31 December 2013 (Audited)			30 June 2013 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading:									
Special commission rate swaps	617,134	(448,041)	52,391,511	581,625	(438,305)	44,538,871	795,557	(609,684)	51,159,299
Special commission rate futures and options	44,995	(44,995)	2,249,929	51,535	(51,535)	2,645,997	41,969	(41,969)	3,125,996
Spot and forward foreign exchange contracts	17,521	(11,646)	28,937,682	56,691	(26,692)	23,927,549	29,066	(30,407)	27,255,164
Currency options	76,542	(77,046)	213,145,369	59,738	(52,923)	105,850,497	1,023,426	(1,023,426)	99,664,272
Currency swaps	21,083	(21,083)	480,283	27,358	(27,358)	475,473	21,678	(21,678)	484,090
Others	140,914	(141,055)	839,360	129,859	(129,998)	1,022,712	69,304	(69,304)	1,305,000
Derivatives held as fair value hedges:									
Special commission rate swaps	28,320	(32,164)	4,108,664	44,508	(21,452)	3,826,351	42,928	(32,913)	4,189,412
Derivatives held as cash flow hedges:									
Special commission rate swaps	-	-	-	-	-	-	-	(1,038)	1,250,000
Total	946,509	(776,030)	302,152,798	951,314	(748,263)	182,287,450	2,023,928	(1,830,419)	188,433,233

9. Credit related commitments and contingencies

The Bank's credit related commitments and contingencies are as follows:

SAR'000	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
Letters of credit	14,274,041	16,337,853	17,679,720
Letters of guarantee	58,468,348	56,321,075	52,872,969
Acceptances	3,228,373	2,404,270	3,918,668
Irrevocable commitments to extend credit	2,092,424	3,422,556	2,650,274
Total	78,063,186	78,485,754	77,121,631

10. Cash and cash equivalents

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

SAR'000	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	6,847,539	18,396,789	7,224,477
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	1,869,872	3,286,053	4,981,122
Total	8,717,411	21,682,842	12,205,599

11. Segment information

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's management in its function as chief operating decision maker in order to allocate resources to the segments and to assess its performance. All operating segments used by the Bank meet the definition of reportable segments under IFRS 8.

Transactions between the operating segments are on normal commercial terms and conditions. There are no material items of income or expense between the operating segments. Revenue from external parties reported to chief operating decision maker is measured in a manner consistent with that in the interim consolidated statement of income. Operating segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

There have been no changes to the basis of segmentation or the measurement basis for the operating segment profit or loss since 31 December 2013.

The Bank is organised into the following main operating segments:

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

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

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

Others – includes activities of investment in associate and joint venture

The Bank's total assets and liabilities as at 30 June 2014 and 2013, their total operating income and expenses, and the net income for the six-month periods then ended, by operating segment, are as follows:

30 June 2014 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	34,963,642	81,820,427	57,965,701	718,323	175,468,093
Total liabilities	57,848,678	70,763,189	22,706,394	-	151,318,261
Total operating income	1,090,296	1,541,837	652,556	-	3,284,689
Total operating expenses	627,316	414,824	76,055	-	1,118,195
Share in earnings of associate and joint venture	-	-	-	71,266	71,266
Net income for the period	462,980	1,127,013	576,501	71,266	2,237,760
Credit losses and impairment provision (reversal), net	97,731	102,177	(949)	-	198,959

The Saudi British Bank

Notes To The Interim Condensed Consolidated Financial Statements (continued) 30 June 2014

30 June 2013 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	31,440,783	77,816,196	52,004,958	673,180	161,935,117
Total liabilities	52,088,402	66,166,118	22,701,849	-	140,956,369
Total operating income	961,911	1,391,003	584,758	-	2,937,672
Total operating expenses	587,329	391,456	67,308	-	1,046,093
Share in earnings of associate and joint venture	-	-	-	60,948	60,948
Net income for the period	374,582	999,547	517,450	60,948	1,952,527
Credit losses and impairment provision (reversal), net	95,941	108,032	6,414	-	210,387

12. Basic and diluted earnings per share

Basic and fully diluted earnings per share for the period ended 30 June 2014 and 2013 is calculated by dividing the net income for the period attributable to the equity holders by 1,000 million shares.

13. 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.

	30 June 2014 SAR'000 (Unaudited)	31 December 2013 SAR'000 (Audited)	30 June 2013 SAR'000 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	148,514,277	139,218,183	141,585,985
Operational Risk RWA	11,127,675	10,668,249	10,264,016
Market Risk RWA	1,741,125	1,600,088	2,391,313
Total RWA	161,383,077	151,486,520	154,241,314
Tier I Capital	24,149,832	22,832,799	20,923,126
Tier II Capital	3,127,006	3,402,426	1,878,588
Total I & II Capital	27,276,838	26,235,225	22,801,714
Capital Adequacy Ratio %			
Tier I ratio	14.96%	15.07%	13.57%
Tier I + Tier II ratio	16.90%	17.32%	14.78%

14. 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 value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantages accessible market for the asset or liability.

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

Determination of fair value and fair value hierarchy

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

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

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

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

SAR' 000	Level 1	Level 2	Level 3	Total
30 June 2014				
<u>Financial assets</u>				
Derivative financial instruments	-	946,509	-	946,509
Financial assets held as FVIS	1,000	-	-	1,000
Financial investments available for sale	8,967,217	32,316,770	90,465	41,374,452
Investments held at amortised cost	-	102,118	-	102,118
Loans and advances – Fair value hedged	-	249,201	-	249,201
Total	8,968,217	33,614,598	90,465	42,673,280
<u>Financial Liabilities</u>				
Derivative financial instruments	-	776,030	-	776,030
Debt securities in issue- Fair value hedged	2,272,105	-	-	2,272,105
Total	2,272,105	776,030	-	3,048,135

SAR' 000	Level 1	Level 2	Level 3	Total
30 June 2013				
<u>Financial assets</u>				
Derivative financial instruments	-	2,023,928	-	2,023,928
Financial assets held as FVIS	1,013	-	-	1,013
Financial investments available for sale	8,459,759	21,854,165	78,157	30,392,081
Investments held at amortised cost	-	461,251	-	461,251
Loans and advances – Fair value hedged	-	758,488	-	758,488
Total	8,460,772	25,097,832	78,157	33,636,761
<u>Financial Liabilities</u>				
Derivative financial instruments	-	1,830,419	-	1,830,419
Debt securities in issue- Fair value hedged	2,281,776	-	-	2,281,776
Total	2,281,776	1,830,419	-	4,112,195

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 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 balance sheet date. The movement in Level 3 financial instruments during the period relates to fair value adjustment only.

The total amount of the changes in fair value recognised in the interim consolidated statement of income, which was estimated using valuation technique, is positive SAR 47.3 million (2013: positive SAR 47.5 million).

15. 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.

16. Comparative figures

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