

**Interim Condensed  
Consolidated Financial  
Statements**

For the nine months period ended  
30 September 2014

**The Saudi British Bank**

**SABB**  **ساب**

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>30 September 2014</b>	31 December 2013	30 September 2013
<u>Notes</u>	<b>Unaudited SAR' 000</b>	Audited SAR' 000	Unaudited SAR' 000
<b>ASSETS</b>			
Cash and balances with SAMA	<b>15,748,557</b>	26,123,913	18,113,886
Due from banks and other financial institutions	<b>4,627,368</b>	3,286,053	4,291,592
Investments, net	<b>4 40,928,999</b>	37,399,559	31,007,774
Loans and advances, net	<b>5 116,667,761</b>	106,114,930	107,834,795
Investment in a joint venture and an associate	<b>6 746,087</b>	647,057	608,600
Property and equipment, net	<b>640,143</b>	603,656	611,928
Other assets	<b>3,598,937</b>	3,127,032	3,810,654
<b>Total assets</b>	<b>182,957,852</b>	177,302,200	166,279,229
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	<b>2,768,293</b>	3,769,640	3,774,726
Customers' deposits	<b>7 143,687,301</b>	138,961,470	129,915,047
Debt securities in issue	<b>5,267,001</b>	5,282,873	3,785,406
Borrowings	<b>93,750</b>	109,375	125,000
Other liabilities	<b>5,741,833</b>	6,346,043	6,771,671
<b>Total liabilities</b>	<b>157,558,178</b>	154,469,401	144,371,850
<b>Shareholders' equity</b>			
Share capital	<b>10,000,000</b>	10,000,000	10,000,000
Statutory reserve	<b>7,934,504</b>	7,934,504	6,991,051
Other reserves	<b>359,422</b>	(10,738)	39,347
Retained earnings	<b>7,105,748</b>	3,809,033	4,876,981
Proposed dividends	<b>-</b>	1,100,000	-
<b>Total shareholders' equity</b>	<b>25,399,674</b>	22,832,799	21,907,379
<b>Total liabilities and shareholders' equity</b>	<b>182,957,852</b>	177,302,200	166,279,229

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF INCOME

### Unaudited

	Three months ended		Nine months ended	
	30 September 2014	30 September 2013	30 September 2014	30 September 2013
Notes	SAR'000	SAR'000	SAR'000	SAR'000
Special commission income	1,159,900	1,071,720	3,425,832	3,162,536
Special commission expense	130,443	121,804	427,143	388,462
<b>Net special commission income</b>	<b>1,029,457</b>	<b>949,916</b>	<b>2,998,689</b>	<b>2,774,074</b>
Fee and commission income, net	387,689	337,067	1,276,178	1,087,912
Exchange income, net	124,901	112,655	336,704	309,882
Income from FVIS financial instruments	-	-	3,750	9,375
Trading income, net	64,275	40,983	249,480	151,342
Dividend income	45,271	18,066	64,798	38,629
Gain on non-trading investments, net	2,894	14,974	10,180	40,279
Other operating loss (gain), net	113	364	(490)	1,745
<b>Total operating income</b>	<b>1,654,600</b>	<b>1,474,025</b>	<b>4,939,289</b>	<b>4,413,238</b>
Salaries and employee related expenses	286,261	291,407	857,739	815,980
Rent and premises related expenses	28,672	28,327	82,863	77,979
Depreciation	18,526	24,056	66,975	69,193
General and administrative expenses	132,168	93,420	377,286	311,305
Provision for credit losses, net	157,782	216,164	357,690	357,334
(Reversal of impairment) impairment of other financial assets	-	(1,362)	(949)	67,855
<b>Total operating expenses</b>	<b>623,409</b>	<b>652,012</b>	<b>1,741,604</b>	<b>1,699,646</b>
<b>Net income from operating activities</b>	<b>1,031,191</b>	<b>822,013</b>	<b>3,197,685</b>	<b>2,713,592</b>
Share in earnings of a joint venture and an associate	6	27,764	99,030	84,713
<b>Net income for the period</b>	<b>1,058,955</b>	<b>845,778</b>	<b>3,296,715</b>	<b>2,798,305</b>
<b>Basic and diluted earnings per share (in SAR)</b>	<b>12</b>	<b>1.06</b>	<b>0.85</b>	<b>3.30</b>
				<b>2.80</b>

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Unaudited

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September 2014 SAR' 000</b>	30 September 2013 SAR' 000	<b>30 September 2014 SAR' 000</b>	30 September 2013 SAR' 000
<b>Net income for the period</b>	<b>1,058,955</b>	845,778	<b>3,296,715</b>	2,798,305
<b>Other comprehensive income to be reclassified to statement of income in subsequent period</b>				
Available for sale financial assets				
- Net change in fair value	<b>193,980</b>	96,988	<b>380,932</b>	4,853
- Transfer to interim consolidated statement of income	<b>(2,894)</b>	(14,974)	<b>(10,180)</b>	29,721
Cash flow hedges				
- Net change in fair value	-	1,039	-	9,585
- Transfer to interim consolidated statement of income	<b>(199)</b>	(200)	<b>(592)</b>	(592)
	<b>190,887</b>	82,853	<b>370,160</b>	43,567
<b>Total comprehensive income for the period</b>	<b>1,249,842</b>	928,631	<b>3,666,875</b>	2,841,872

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**For the nine months period ended 30 September**

**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>
<b>2014</b>						
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	-	-	-	3,296,715	-	3,296,715
Net changes in fair value of cash flow hedges	-	-	-	-	-	-
Net changes in fair value of available for sale investments	-	-	380,932	-	-	380,932
Transfer to interim consolidated statement of income	-	-	<u>(10,772)</u>	<u>-</u>	<u>-</u>	<u>(10,772)</u>
			<u>370,160</u>	<u>3,296,715</u>		<u>3,666,875</u>
2013 final dividend paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,100,000)</u>	<u>(1,100,000)</u>
Balance at end of the period	<u>10,000,000</u>	<u>7,934,504</u>	<u>359,422</u>	<u>7,105,748</u>	<u>-</u>	<u>25,399,674</u>
<b>2013</b>						
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	-	-	-	2,798,305	-	2,798,305
Net changes in fair value of cash flow hedges	-	-	9,585	-	-	9,585
Net changes in fair value of available for sale investments	-	-	4,853	-	-	4,853
Transfer to interim consolidated statement of income	-	-	<u>29,129</u>	<u>-</u>	<u>-</u>	<u>29,129</u>
			<u>43,567</u>	<u>2,798,305</u>		<u>2,841,872</u>
2012 final dividend paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Balance at end of the period	<u>10,000,000</u>	<u>6,991,051</u>	<u>39,347</u>	<u>4,876,981</u>	<u>-</u>	<u>21,907,379</u>

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months period ended 30 September

Unaudited

	<u>Note</u>	2014 SAR' 000	2013 SAR' 000
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>3,296,715</b>	2,798,305
<b>Adjustments to reconcile net income to net cash from (used in) operating activities:</b>			
Amortisation of premium on non-trading investments, net		25,760	27,036
Depreciation		66,975	69,193
Income from FVIS financial instruments		(3,750)	(9,375)
Gains on non-trading investments, net		(10,180)	(40,279)
Share in earnings of a joint venture and an associate		(99,030)	(84,713)
Provision for credit losses, net		357,690	357,334
Losses (gains) on disposal of property and equipment , net		1,321	(145)
(Reversal of impairment) impairment of other financial assets		(949)	67,855
Change in carrying value of debt securities in issue		(15,872)	(15,374)
		<b>3,618,680</b>	3,169,837
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		(571,527)	(382,493)
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		(93,750)	-
Investments held for trading		1,007	3,911
Loans and advances		(10,910,521)	(12,093,823)
Other assets		(471,905)	(555,823)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		(1,001,347)	(2,157,124)
Customers' deposits		4,725,831	9,481,331
Other liabilities		(662,797)	1,198,039
<b>Net cash used in operating activities</b>		<b>(5,366,329)</b>	(1,336,145)
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and maturities of non-trading investments		20,079,764	16,981,147
Purchase of non-trading investments		(23,250,932)	(20,407,317)
Dividend received from associates		-	88,345
Purchase of property and equipment		(108,783)	(78,387)
Proceeds from disposal of property and equipment		4,000	1,920
<b>Net cash used in investing activities</b>		<b>(3,275,951)</b>	(3,414,292)
<b>FINANCING ACTIVITIES</b>			
Debt securities in issue		-	(705,000)
Borrowings		(15,625)	(15,625)
Dividends paid		(1,041,413)	(1,001,227)
<b>Net cash used in financing activities</b>		<b>(1,057,038)</b>	(1,721,852)
<b>Net decrease in cash and cash equivalents</b>		<b>(9,699,318)</b>	(6,472,289)
<b>Cash and cash equivalents at beginning of the period</b>		<b>21,682,842</b>	21,592,923
<b>Cash and cash equivalents at end of the period</b>	<b>10</b>	<b>11,983,524</b>	15,120,634
Special commission received during the period		3,348,185	3,145,828
Special commission paid during the period		470,895	408,396
<b>Supplemental non cash information</b>			
Net changes in fair value and transfer to interim consolidated statement of income		370,160	43,567

The accompanying notes 1 to 15 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 3,244 staff as at 30 September 2014 (2013: 3,120). 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 asset 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	<b>30 September 2014 (Unaudited)</b>	31 December 2013 (Audited)	30 September 2013 (Unaudited)
<b>Investments:</b>			
- Held as FVIS	-	1,007	1,010
- Available for sale, net	<b>40,829,006</b>	37,098,580	30,706,805
- Held at amortised cost, net	<b>99,993</b>	299,972	299,959
<b>Total</b>	<b>40,928,999</b>	37,399,559	31,007,774

Investments classified under FVIS are all held for trading.

**5. Loans and advances, net**

Loans and advances are comprised of the following:

SAR'000	<b>30 September 2014 (Unaudited)</b>	31 December 2013 (Audited)	30 September 2013 (Unaudited)
Credit cards	<b>2,094,721</b>	1,957,598	1,960,645
Consumer loans	<b>24,269,140</b>	21,916,178	19,531,785
Commercial loans and overdrafts	<b>91,169,866</b>	82,974,558	86,987,738
Performing loans and advances – gross	<b>117,533,727</b>	106,848,334	108,480,168
Non performing loans and advances, net	<b>1,500,742</b>	1,525,265	1,612,119
<b>Total loans and advances</b>	<b>119,034,469</b>	108,373,599	110,092,287
Provision for credit losses (specific and collective)	<b>(2,366,708)</b>	(2,258,669)	(2,257,492)
<b>Loans and advances, net</b>	<b>116,667,761</b>	106,114,930	107,834,795

6. Investment in a joint venture and an associate

SAR'000	30 September 2014 (Unaudited)	31 December 2013 (Audited)	30 September 2013 (Unaudited)
<b>HSBC Saudi Arabia Limited</b>			
Balance at beginning of the period	526,302	496,237	496,237
Share of undistributed profit	95,403	118,410	81,324
Dividend received	-	(88,345)	(88,345)
	<u>621,705</u>	<u>526,302</u>	<u>489,216</u>
<b>SABB Takaful</b>			
Balance at beginning of the period	120,755	115,995	115,995
Share of undistributed profit	3,627	4,760	3,389
	<u>124,382</u>	<u>120,755</u>	<u>119,384</u>
<b>Total</b>	<u><u>746,087</u></u>	<u><u>647,057</u></u>	<u><u>608,600</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 September 2014 is SAR 572.7 million (2013: SAR 360.2 million).

7. Customers' deposits

SAR'000	30 September 2014 (Unaudited)	31 December 2013 (Audited)	30 September 2013 (Unaudited)
Demand	83,775,049	74,717,693	73,414,399
Savings	6,802,848	6,686,175	6,233,893
Time	50,101,995	54,315,985	46,551,561
Margin deposits	<u>3,007,409</u>	<u>3,241,617</u>	<u>3,715,194</u>
<b>Total</b>	<u><u>143,687,301</u></u>	<u><u>138,961,470</u></u>	<u><u>129,915,047</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 September 2014 (Unaudited)			31 December 2013 (Audited)			30 September 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
<b>Derivatives held for trading:</b>									
Special commission rate swaps	533,553	(388,231)	52,641,238	581,625	(438,305)	44,538,871	708,753	(528,431)	45,413,511
Special commission rate futures and options	52,342	(52,342)	2,249,929	51,535	(51,535)	2,645,997	45,453	(45,453)	2,645,996
Spot and forward foreign exchange contracts	45,511	(51,038)	25,108,482	56,691	(26,692)	23,927,549	34,144	(38,447)	28,068,294
Currency options	133,994	(130,343)	215,283,537	59,738	(52,923)	105,850,497	148,167	(148,167)	113,212,464
Currency swaps	23,159	(23,159)	475,369	27,358	(27,358)	475,473	24,375	(24,375)	476,913
Others	154,362	(154,362)	835,365	129,859	(129,998)	1,022,712	96,713	(96,713)	1,417,500
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	23,529	(27,432)	4,160,349	44,508	(21,452)	3,826,351	45,154	(27,603)	4,115,510
<b>Total</b>	<b>966,450</b>	<b>(826,907)</b>	<b>300,754,269</b>	<b>951,314</b>	<b>(748,263)</b>	<b>182,287,450</b>	<b>1,102,759</b>	<b>(909,189)</b>	<b>195,350,188</b>

**9. Credit related commitments and contingencies**

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

SAR'000	30 September 2014 (Unaudited)	31 December 2013 (Audited)	30 September 2013 (Unaudited)
Letters of credit	15,546,815	16,337,853	16,977,910
Letters of guarantee	59,375,362	56,321,075	58,157,738
Acceptances	2,917,343	2,404,270	3,236,868
Irrevocable commitments to extend credit	2,771,981	3,422,556	1,950,839
<b>Total</b>	<b>80,611,501</b>	<b>78,485,754</b>	<b>80,323,355</b>

## 10. Cash and cash equivalents

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

SAR'000	30 September 2014 (Unaudited)	31 December 2013 (Audited)	30 September 2013 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	7,449,906	18,396,789	10,829,042
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	4,533,618	3,286,053	4,291,592
<b>Total</b>	<b>11,983,524</b>	<b>21,682,842</b>	<b>15,120,634</b>

## 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 a joint venture and an associate

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

30 September 2014 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	36,651,847	84,990,272	60,569,646	746,087	182,957,852
Total liabilities	55,862,654	81,020,209	20,675,315	-	157,558,178
Total operating income	1,681,652	2,279,137	978,500	-	4,939,289
Total operating expenses	988,129	643,909	109,566	-	1,741,604
Share in earnings of a joint venture and an associate	-	-	-	99,030	99,030
Net income for the period	693,523	1,635,228	868,934	99,030	3,296,715
Credit losses and impairment provision (reversal), net	187,168	170,522	(949)	-	356,741

# The Saudi British Bank

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

30 September 2013 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	33,315,494	78,863,533	53,491,602	608,600	166,279,229
Total liabilities	54,796,229	65,902,692	23,672,929	-	144,371,850
Total operating income	1,451,640	2,073,968	887,630	-	4,413,238
Total operating expenses	909,291	690,061	100,294	-	1,699,646
Share in earnings of a joint venture and an associate	-	-	-	84,713	84,713
Net income for the period	542,349	1,383,907	787,336	84,713	2,798,305
Credit losses and impairment provision (reversal), net	160,785	257,812	6,592	-	425,189

### 12. Basic and diluted earnings per share

Basic and fully diluted earnings per share for the period ended 30 September 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 September 2014 SAR'000 (Unaudited)	31 December 2013 SAR'000 (Audited)	30 September 2013 SAR'000 (Unaudited)
<b>Risk Weighted Assets</b>			
Credit Risk Weighted Assets	152,275,517	139,218,183	143,581,116
Operational Risk Weighted Assets	11,413,677	10,668,249	10,487,951
Market Risk Weighted Assets	2,211,663	1,600,088	1,395,088
<b>Total Weighted Assets</b>	<b>165,900,857</b>	<b>151,486,520</b>	<b>155,464,155</b>
<b>Tier I Capital</b>	<b>25,371,343</b>	<b>22,832,799</b>	<b>21,907,379</b>
<b>Tier II Capital</b>	<b>3,155,337</b>	<b>3,402,426</b>	<b>1,869,486</b>
<b>Total I &amp; II Capital</b>	<b>28,526,680</b>	<b>26,235,225</b>	<b>23,776,865</b>
<b>Capital Adequacy Ratio %</b>			
<b>Tier I ratio</b>	<b>15.29%</b>	15.07%	14.09%
<b>Tier I + Tier II ratio</b>	<b>17.20%</b>	17.32%	15.29%

**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
<b>30 September 2014</b>				
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	966,450	-	966,450
Financial investments available for sale	9,210,193	31,529,046	89,767	40,829,006
Investments held at amortised cost	-	101,165	-	101,165
Loans and advances – Fair value hedged	-	198,403	-	198,403
<b>Total</b>	<b>9,210,193</b>	<b>32,795,064</b>	<b>89,767</b>	<b>42,095,024</b>
<b><u>Financial Liabilities</u></b>				
Derivative financial instruments	-	826,907	-	826,907
Debt securities in issue- Fair value hedged	2,267,001	-	-	2,267,001
<b>Total</b>	<b>2,267,001</b>	<b>826,907</b>	<b>-</b>	<b>3,093,908</b>

SAR' 000	Level 1	Level 2	Level 3	Total
30 September 2013				
<u>Financial assets</u>				
Derivative financial instruments	-	1,102,759	-	1,102,759
Financial assets held as FVIS	1,010	-	-	1,010
Financial investments available for sale	8,515,601	22,103,362	87,842	30,706,805
Investments held at amortised cost	-	308,039	-	308,039
Loans and advances – Fair value hedged	-	673,060	-	673,060
<b>Total</b>	<b>8,516,611</b>	<b>24,187,220</b>	<b>87,842</b>	<b>32,791,673</b>
<u>Financial Liabilities</u>				
Derivative financial instruments	-	909,189	-	909,189
Debt securities in issue- Fair value hedged	2,285,406	-	-	2,285,406
<b>Total</b>	<b>2,285,406</b>	<b>909,189</b>	<b>-</b>	<b>3,194,595</b>

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 56.7 million (2013: positive SAR 64.1 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](http://www.sabb.com) within prescribed time as required by SAMA.