

**The Saudi British Bank
Consolidated Financial Statements
For the year ended
31 December 2014**

SABB  **ساب**

The Saudi British Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2014 SAR'000	2013 SAR'000
ASSETS			
Cash and balances with SAMA	3	19,313,766	26,123,913
Due from banks and other financial institutions	4	2,468,871	3,286,053
Investments, net	5	45,280,816	37,399,559
Loans and advances, net	6	115,220,797	106,114,930
Investment in a joint venture and an associate	7	651,674	647,057
Property and equipment, net	8	663,401	603,656
Other assets	9	4,009,943	3,127,032
Total assets		187,609,268	177,302,200
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	4,085,928	3,769,640
Customers' deposits	12	145,870,497	138,961,470
Debt securities in issue	13	5,264,678	5,282,873
Borrowings	14	78,125	109,375
Other liabilities	15	6,238,828	6,346,043
Total liabilities		161,538,056	154,469,401
Shareholders' equity			
Share capital	16	10,000,000	10,000,000
Statutory reserve	17	9,001,019	7,934,504
Other reserves	18	61,614	(10,738)
Retained earnings		5,858,579	3,809,033
Proposed dividends	26	1,150,000	1,100,000
Total shareholders' equity		26,071,212	22,832,799
Total liabilities and shareholders' equity		187,609,268	177,302,200

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

The Saudi British Bank
CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December		2014	2013
	Notes	SAR'000	SAR'000
Special commission income	20	4,625,951	4,386,138
Special commission expense	20	563,344	666,842
Net special commission income		4,062,607	3,719,296
Fees and commission income, net	21	1,645,000	1,433,435
Exchange income, net		445,710	401,480
Income from FVIS financial instruments		7,500	11,250
Trading income, net	22	270,008	169,165
Dividend income		64,798	38,629
Gains on non-trading investments, net	23	7,196	40,251
Other operating income, net		(610)	161
Total operating income		6,502,209	5,813,667
Salaries and employee related expenses	24	1,152,845	1,090,597
Rent and premises related expenses		114,418	110,613
Depreciation	8	86,425	91,518
General and administrative expenses		542,106	428,265
Provision for credit losses, net	6	450,756	374,179
(Reversal of impairment) impairment of other financial assets	5	(949)	67,855
Total operating expenses		2,345,601	2,163,027
Income from operating activities		4,156,608	3,650,640
Share in earnings of a joint venture and associate	7	109,453	123,170
Net income for the year		4,266,061	3,773,810
Basic and diluted earnings per share (in SAR)	25	4.27	3.77

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

The Saudi British Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December

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

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

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

		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
Notes		SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
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>
2013							
Balance at beginning of the year		<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 year							
Net income for the year		-	-	-	3,773,810	-	3,773,810
Net changes in fair value of cash flow hedges	18	-	-	9,585	-	-	9,585
Net changes in fair value of available for sale investments	18	-	-	(45,061)	-	-	(45,061)
Transfer to consolidated statement of income	18	-	-	28,958	-	-	28,958
				<u>(6,518)</u>	<u>3,773,810</u>		<u>3,767,292</u>
Transfer to statutory reserve	17	-	943,453	-	(943,453)	-	-
2012 final dividend paid		-	-	-	-	(1,000,000)	(1,000,000)
2013 final proposed dividend	26	-	-	-	(1,100,000)	1,100,000	-
Balance at end 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>

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

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

The Saudi British Bank
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2014

1. General

The Saudi British Bank (“SABB”) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 81 branches (2013: 80 branches) in the Kingdom of Saudi Arabia. SABB employed 3,314 staff as at 31 December 2014 (2013: 3,158). The address of SABB’s head office is as follows:

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

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

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

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

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

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

1.1. Basis of preparation

a) Statement of compliance

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

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b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of consolidated financial statements

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

e) Basis of consolidation

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

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

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

f) Critical accounting judgements and estimates

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

(i) Impairment losses on loans and advances

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

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

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

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

(iii) Impairment of available for sale equity investments

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

(iv) Classification of held to maturity investments

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

(v) Classification of fair value through income statement

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

(vi) Determination of control over investees

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

(vii) Provisions for liabilities and charges

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

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:

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a) Changes in accounting policies

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

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

b) Trade date accounting

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

c) Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

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.

Fees and commission income and expenses

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

Dividend income

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

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense, dividends from financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

Day one profit

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

g) Sale and repurchase agreements

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

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

h) Investments

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

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

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

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

(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):

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- 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.

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i) Investment in equity-accounted investees

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

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

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

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

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

j) Loans and advances

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

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

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

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

k) Due from banks and other financial institutions

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

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

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.

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.

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

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

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

m) Property and equipment

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

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

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

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

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

n) Financial liabilities

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

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

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

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.

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p) Guarantees and loan commitments

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

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

q) Accounting for leases

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

r) Cash and cash equivalents

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

s) Derecognition of financial instruments

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

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

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

t) Assets held in trust or in fiduciary capacity

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

u) Zakat and income taxes

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

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

v) Shariah approved banking products

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

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

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3. Cash and balances with SAMA

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

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

4. Due from banks and other financial institutions

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

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5. Investments, net

a) Investment securities are classified as follows:

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

Investments classified under FVIS are all held for trading.

ii) Available for sale

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

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

iii) Held at amortised cost

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

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

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

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

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

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

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

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

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

e) Credit quality of investments

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

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

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

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

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f) Movements of allowance for impairment of investments

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

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

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2014			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

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

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

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

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

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b) Movement in provision for credit losses

	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

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

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

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

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

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

<u>Grades</u>	2014			SAR' 000
	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

<u>Grades</u>	2013			SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Undoubted	-	-	1,425,640	1,425,640
Good	260,869	10,332,311	36,274,500	46,867,680
Satisfactory	1,543,481	10,430,329	44,374,796	56,348,606
Total	1,804,350	20,762,640	82,074,936	104,641,926

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

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

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

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

	2014			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	6,176	153,281
Total	154,559	1,184,837	730,655	2,070,051

	2013			SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
From 1 day to 30 days	66,559	931,593	877,251	1,875,403
From 31 days to 90 days	45,775	135,165	1,942	182,882
From 91 days to 180 days	40,914	86,780	20,429	148,123
Total	153,248	1,153,538	899,622	2,206,408

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

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

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

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

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

d) Collateral

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets.

7. Investment in a joint venture and an associate

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

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

	2014			2013		
	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	526,302	120,755	647,057	496,237	115,995	612,232
Share of undistributed profits	104,755	4,698	109,453	118,410	4,760	123,170
Dividend received	(104,836)	-	(104,836)	(88,345)	-	(88,345)
Balance at end of the year	526,221	125,453	651,674	526,302	120,755	647,057

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

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

8. Property and equipment, net

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

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

9. Other assets

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

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity and the monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to market risk nor credit risk, which is generally limited to the positive fair value of the derivatives.

Notional amounts by term to maturity

2014 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Special commission rate swaps	548,911	(465,354)	51,325,703	2,885,252	7,671,072	32,900,408	7,868,971	50,917,545
Special commission rate futures and options	43,078	(43,078)	2,249,929	20,000	342,429	875,000	1,012,500	2,283,708
Spot and forward foreign exchange contracts	60,153	(61,514)	26,635,831	21,179,738	5,456,093	-	-	25,144,405
Currency options	151,473	(154,264)	193,156,074	32,001,173	95,215,955	65,938,946	-	192,748,061
Currency swaps	37,967	(37,967)	461,211	-	-	461,211	-	475,426
Others	166,038	(166,038)	833,565	126,183	7,594	699,788	-	949,705
Derivatives held as fair value hedges:								
Special commission rate swaps	17,266	(48,199)	4,121,257	206,250	2,365,254	442,261	1,107,492	4,058,668
Total	1,024,886	(976,414)	278,783,570	56,418,596	111,058,397	101,317,614	9,988,963	

Notional amounts by term to maturity

2013 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Special commission rate swaps	581,625	(438,305)	44,538,871	1,056,664	3,075,113	37,021,827	3,385,267	53,362,054
Special commission rate futures and options	51,535	(51,535)	2,645,997	300,001	21,067	1,312,429	1,012,500	3,792,236
Spot and forward foreign exchange contracts	56,691	(26,692)	23,927,549	16,105,899	7,821,650	-	-	24,514,155
Currency options	59,738	(52,923)	105,850,497	15,605,287	45,539,515	44,705,695	-	87,691,254
Currency swaps	27,358	(27,358)	475,473	-	-	475,473	-	481,599
Others	129,859	(129,998)	1,022,712	3,993	307,344	711,375	-	1,428,760
Derivatives held as fair value hedges:								
Special commission rate swaps	44,508	(21,452)	3,826,351	-	489,146	3,095,635	241,570	4,126,044
Total	951,314	(748,263)	182,287,450	33,071,844	57,253,835	87,322,434	4,639,337	

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

2014 (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	-
Floating commission rate debt securities in issue	-	-	Cash flow	Special commission rate swap	-	-
2013 (SAR'000)						
Description of the hedged items:						
Fixed commission rate investments	1,023,920	1,008,445	Fair value	Special commission rate swap	4,827	(20,757)
Fixed commission rate loans	568,083	567,906	Fair value	Special commission rate swap	546	(695)
Fixed commission rate debt securities in issue	2,282,873	2,244,302	Fair value	Special commission rate swap	39,135	-
Floating commission rate debt securities in issue	-	-	Cash flow	Special commission rate swap	-	-

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

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

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

11. Due to banks and other financial institutions

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

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

12. Customers' deposits

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

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

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

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The above deposits include the following foreign currency deposits:

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

13. Debt securities in issue

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

USD 600 million 5 year fixed rate notes

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

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

SAR 1,500 million 5 year subordinated Sukuk - 2012

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

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

SAR 1,500 million 7 year subordinated Sukuk - 2013

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

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

14. Borrowings

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

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15. Other liabilities

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

End of service benefits

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

16. Share capital

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

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

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

17. Statutory reserve

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

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18. Other reserves

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

2013 SAR'000	Cash flow Hedges	Available for sale investments	Total
Balance at beginning of the year	(6,138)	1,918	(4,220)
Net change in fair value	9,585	(45,061)	(35,476)
Transfer to consolidated statement of income	(791)	29,749	28,958
Net movement during the year	8,794	(15,312)	(6,518)
Balance at end of the year	2,656	(13,394)	(10,738)

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

19. Commitments and contingencies

a) Legal proceedings

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

b) Capital commitments

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

c) Credit related commitments and contingencies

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

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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:

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

2013 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	10,579,988	4,654,050	1,103,815	-	16,337,853
Guarantees	10,899,217	19,127,641	21,469,459	4,824,758	56,321,075
Acceptances	1,955,464	404,299	44,022	485	2,404,270
Irrevocable commitments to extend credit	130,000	-	408,125	2,884,431	3,422,556
Total	23,564,669	24,185,990	23,025,421	7,709,674	78,485,754

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

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

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

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f) Operating lease commitments

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

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

20. Net special commission income

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

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21. Fees and commission income, net

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

22. Trading income, net

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

23. Gains on non-trading investments, net

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

24. Salaries and employee related expenses

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

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i) Quantitative Disclosure

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

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

Variable compensation accrued or paid in 2014 **251,669**

Other employee related benefits **149,123**

Total salaries and employee related expenses **1,152,845**

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

Variable compensation accrued or paid in 2013 **239,283**

Other employee related benefits **168,964**

Total salaries and employee related expenses **1,090,597**

Senior executives (requiring SAMA no objection):

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

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Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

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

Outsourced employees:

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

ii) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements

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

SABB Compensation Policy

a) Policy Objectives

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

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

b) Compensation Structure

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

c) Performance Management System

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

d) Risk-adjustment for Variable Pay schemes

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

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e) Bonus Deferral

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

f) Nomination and Remuneration Committee

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

25. Basic and diluted earnings per share

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

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

26. Gross dividend, Zakat and income tax

The Board of Directors has proposed a gross dividend of SAR 1,150 million for the year 2014 (2013: SAR 1,100 million). Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Saudi shareholders:

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 62.7 million (2013: SAR 55.7 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 1.05 per share (2013: SAR 1.0 per share).

Non Saudi shareholders

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

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

Status of Zakat and Income Tax assessments

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

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

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27. Cash and cash equivalents

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

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

28. Operating segments

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

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

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

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

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

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

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

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

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	2,247,934	2,993,006	1,261,269	-	6,502,209
Total operating expenses	1,353,284	843,916	148,401	-	2,345,601
Share in earnings of joint venture and associate	-	-	-	109,453	109,453
Net income for the year	894,650	2,149,090	1,112,868	109,453	4,266,061
Net special commission income	1,715,731	1,537,638	809,238	-	4,062,607
Fees and commission income, net	426,296	1,219,847	(1,143)	-	1,645,000
Trading income, net	499	52,108	217,401	-	270,008
Credit losses and impairment provision, net	250,505	200,251	(949)	-	449,807

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

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

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

2013 SAR'000	Retail Banking	Corporate Banking	Treasury	Total
Assets	31,174,075	74,940,855	64,767,456	170,882,386
Commitments and contingencies	81,725	33,538,515	-	33,620,240
Derivatives	-	-	2,444,705	2,444,705
Total	31,255,800	108,479,370	67,212,161	206,947,331

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

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29. Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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
2013 SAR'000	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non performing loans, net	1,525,265	-	-	-	-	1,525,265
Provision for credit loss	2,258,669	-	-	-	-	2,258,669

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31. Market risk

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

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

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

a) Market risk-trading book

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

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

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

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

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

The Bank's VAR related information is as under.

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

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b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

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

		2014					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)

		2014					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	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

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

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

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or the maturity dates. The Bank is exposed to special commission rate risks as a result of mismatches or gaps in the amounts of assets and liabilities and derivative financial instruments that reprice or mature in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

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	-	

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

The net gap between derivative financial instruments represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

ii) Currency risk

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

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

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

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iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non trading equity price risk exposure arises from equity securities classified as available for sale. A 10 per cent increase or decrease in the value of the bank's available for sale equities at 31 December 2014 would have correspondingly increase or decrease equity by SAR 102 million (2013: SAR 102 million).

32. Liquidity risk

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

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

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.

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

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2013 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	3,502,680	-	319,066	-	-	3,821,746
Customer deposits	131,198,920	6,444,945	1,443,177	152,420	-	139,239,462
Debt securities in issue	8,266	128,678	4,045,682	1,572,762	-	5,755,388
Borrowings	-	36,511	84,200	-	-	120,711
Other liabilities	-	-	-	-	5,344,903	5,344,903
Derivatives :						
- Contractual amounts payable (receivable)	32,981	(2,158)	12,958	-	-	43,781
Total undiscounted financial liabilities	134,742,847	6,607,976	5,905,083	1,725,182	5,344,903	154,325,991

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.

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

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2013 SAR'000	Within 3 months	3-12 Months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	18,396,789	-	-	-	7,727,124	26,123,913
Due from banks and other financial institutions	3,286,053	-	-	-	-	3,286,053
Investments, net	8,336,840	17,674,340	7,059,263	3,296,070	1,033,046	37,399,559
Loans and advances, net	48,986,520	15,004,069	23,492,251	18,632,090	-	106,114,930
Investment in a joint venture and associate	-	-	-	-	647,057	647,057
Property and equipment, net	-	-	-	-	603,656	603,656
Other assets	88,696	40,994	717,504	104,120	2,175,718	3,127,032
Total assets	79,094,898	32,719,403	31,269,018	22,032,280	12,186,601	177,302,200
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,502,653	-	266,987	-	-	3,769,640
Customer deposits	130,990,943	6,407,013	1,433,767	129,747	-	138,961,470
Debt securities in issue	-	-	3,782,873	1,500,000	-	5,282,873
Borrowings	-	31,250	78,125	-	-	109,375
Other liabilities	59,849	46,524	590,876	51,014	5,597,780	6,346,043
Shareholders' equity	-	-	-	-	22,832,799	22,832,799
Total liabilities and shareholders' equity	134,553,445	6,484,787	6,152,628	1,680,761	28,430,579	177,302,200

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies is given in note 19(d) of the consolidated financial statements.

33. Offsetting of financial assets and financial liabilities

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

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

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

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

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

34. Fair values of financial instruments

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

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

Determination of fair value and fair value hierarchy

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

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

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

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

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SAR' 000	Level 1	Level 2	Level 3	Total
2014				
<u>Financial assets</u>				
Derivative financial instruments	-	1,024,886	-	1,024,886
Financial assets held as FVIS	-	-	-	-
Financial investments available for sale	9,594,387	35,528,819	49,262	45,172,468
Investments held at amortised cost	-	100,169	-	100,169
Loans and advances – Fair value hedged	-	163,762	-	163,762
Total	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

SAR' 000	Level 1	Level 2	Level 3	Total
2013				
<u>Financial assets</u>				
Derivative financial instruments	-	951,314	-	951,314
Financial assets held as FVIS	1,007	-	-	1,007
Financial investments available for sale	8,626,815	28,383,707	79,648	37,090,170
Investments held at amortised cost	-	304,996	-	304,996
Loans and advances – Fair value hedged	-	568,083	-	568,083
Total	8,627,822	30,208,100	79,648	38,915,570
<u>Financial Liabilities</u>				
Derivative financial instruments	-	748,263	-	748,263
Debt securities in issue- Fair value hedged	2,282,873	-	-	2,282,873
Total	2,282,873	748,263	-	3,031,136

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Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate futures and options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers. Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads. The total fair value of investments reclassified from Level 1 to Level 2 was SAR Nil (2013: 1,440.4) during the year. This reclassification was made due to the non-availability of active market quotes for the underlying investments during the year.

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

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

35. Related party transactions

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

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

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

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

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

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

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

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

Bank's mutual funds:

Loans and advances	1,247	-
Customers' deposits	1,040,795	851,458

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

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

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

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

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2014. The detail of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

36. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

The Bank monitors the adequacy of its capital using the methodology and ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

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

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37. Disclosures under Basel III framework

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

38. Prospective changes in accounting standards

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

- IFRS 9 - Financial Instruments - Classification and Measurement of Financial Assets & Financial Liabilities.
- IFRS 2 Share-based Payment - This improvement clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. Effective for annual periods beginning on or after 1 July 2014.
- IFRS 3 Business Combinations - The amendment clarifies the scope exceptions within IFRS 3 and that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). Effective for annual periods beginning on or after 1 July 2014.
- IFRS 8 Operating Segments - The amendments clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8 and the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. Effective for annual periods beginning on or after 1 July 2014.
- IAS 24 Related Party Disclosures - The amendment clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures and an entity that uses a management entity is required to disclose the expenses incurred for management services. Effective for annual periods beginning on or after 1 July 2014.
- IFRS 13 Fair Value Measurement - The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). Effective for annual periods beginning on or after 1 July 2014.
- IFRS 15 Revenue from Contracts with Customers - New revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Effective for annual periods beginning on or after 1 January 2017.
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests- Effective for annual periods beginning on or after 1 January 2016,
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization - Effective prospectively for annual periods beginning on or after 1 January 2016. Moreover, there is an amendment which clarifies that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. Effective for annual periods beginning on or after 1 July 2014.
- Amendments to IAS 27: Equity Method in Separate Financial Statements- The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Effective for annual periods beginning on or after 1 January 2016.

Annual Improvements to IFRSs 2012–2014 Cycle include:

- IFRS 5 Non Current Assets Held for sale and Discontinued Operations – change in method for disposal
- IFRS 7 Financial Instruments: Disclosure
- Continuing involvement for servicing contracts
- Offsetting disclosure in condensed interim financial statements
- IAS 19 Employee Benefits

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- Discount rate in a regional market sharing the same currency – e.g. the Eurozone
- IAS 34 Interim Financial Reporting
- Disclosure of information ‘elsewhere in the interim financial report’

39 Comparative figures

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

40. Board of Directors' approval

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