

**Interim Condensed
Consolidated Financial
Statements**

For the six months period ended
30 June 2015

The Saudi British Bank

SABB  **ساب**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2015	31 December 2014	30 June 2014	
	Unaudited SAR' 000	Audited SAR' 000	Unaudited SAR' 000	
ASSETS	Notes			
Cash and balances with SAMA		11,958,330	19,313,766	14,763,295
Due from banks and other financial institutions		4,472,067	2,468,871	1,869,872
Investments, net	4	44,531,975	45,280,816	41,475,439
Loans and advances, net	5	126,550,623	115,220,797	112,709,618
Investment in associate and joint venture	6	732,670	651,674	718,323
Property and equipment, net		940,513	663,401	613,987
Other assets		3,141,944	4,009,943	3,317,559
Total assets		192,328,122	187,609,268	175,468,093
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		3,147,063	4,085,928	2,802,004
Customers' deposits	7	151,018,595	145,870,497	138,295,464
Debt securities in issue	8	6,756,500	5,264,678	5,272,105
Borrowings		62,500	78,125	93,750
Other liabilities		4,091,748	6,238,828	4,854,938
Total liabilities		165,076,406	161,538,056	151,318,261
Shareholders' equity				
Share capital		15,000,000	10,000,000	10,000,000
Statutory reserve		7,064,131	9,001,019	7,934,504
Other reserves		139,669	61,614	168,535
Retained earnings		4,372,916	5,858,579	6,046,793
Proposed dividends		675,000	1,150,000	-
Total shareholders' equity		27,251,716	26,071,212	24,149,832
Total liabilities and shareholders' equity		192,328,122	187,609,268	175,468,093

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF INCOME

Unaudited

	Notes	Three months ended		Six months ended	
		30 June 2015 SAR'000	30 June 2014 SAR'000	30 June 2015 SAR'000	30 June 2014 SAR'000
Special commission income		1,211,255	1,152,387	2,366,468	2,265,932
Special commission expense		144,203	143,739	267,953	296,700
Net special commission income		1,067,052	1,008,648	2,098,515	1,969,232
Fee and commission income, net		398,682	446,679	810,708	888,489
Exchange income, net		118,195	113,966	225,485	211,803
Income from FVIS financial instruments		3,750	-	3,750	3,750
Trading income, net		54,411	73,255	181,093	185,205
Dividend income		17,640	17,765	17,640	19,527
Gain on non-trading investments, net		15,177	4,604	54,744	7,286
Other operating gain / (loss), net		72	(1,170)	224	(603)
Total operating income		1,674,979	1,663,747	3,392,159	3,284,689
Salaries and employee related expenses		283,949	279,920	642,005	571,478
Rent and premises related expenses		33,057	28,565	63,031	54,191
Depreciation		22,787	26,868	45,853	48,449
General and administrative expenses		135,495	134,776	250,812	245,118
Provision for credit losses, net		113,049	81,372	228,637	199,908
Reversal of impairment of other financial assets		(9,000)	-	(9,632)	(949)
Total operating expenses		579,337	551,501	1,220,706	1,118,195
Income from operating activities		1,095,642	1,112,246	2,171,453	2,166,494
Share in earnings of associate and joint venture	6	41,622	44,988	80,996	71,266
Net income for the period		1,137,264	1,157,234	2,252,449	2,237,760
Basic and diluted earnings per share (in SAR)	13	0.76	0.77	1.50	1.49

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

	Three months ended		Six months ended	
	30 June 2015 SAR' 000	30 June 2014 SAR' 000	30 June 2015 SAR' 000	30 June 2014 SAR' 000
Net income for the period	1,137,264	1,157,234	2,252,449	2,237,760
Other comprehensive income to be reclassified to statement of income in subsequent period				
Available for sale financial assets				
- Net change in fair value	40,572	(25,796)	147,620	186,952
- Transfer to interim consolidated statement of income	(15,177)	(4,604)	(54,744)	(7,286)
Cash flow hedges				
- Net change in fair value	824	-	(1,566)	-
- Transfer to interim consolidated statement of income	-	(198)	(195)	(393)
	26,219	(30,598)	91,115	179,273
Total comprehensive income for the period	1,163,483	1,126,636	2,343,564	2,417,033

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months period ended 30 June

Unaudited

	Share capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividends SAR '000	Total SAR '000
2015						
Balance at beginning of the period	<u>10,000,000</u>	<u>9,001,019</u>	<u>61,614</u>	<u>5,858,579</u>	<u>1,150,000</u>	<u>26,071,212</u>
Total comprehensive income for the period						
Net income for the period	-	-	-	2,252,449	-	2,252,449
Net changes in fair value of cash flow hedges	-	-	(1,566)	-	-	(1,566)
Net changes in fair value of available for sale investments	-	-	147,620	-	-	147,620
Transfer to interim consolidated statement of income	-	-	(54,939)	-	-	(54,939)
			<u>91,115</u>	<u>2,252,449</u>		<u>2,343,564</u>
Bonus share issue	5,000,000	(2,500,000)	-	(2,500,000)	-	-
Treasury Shares	-	-	(25,792)	-	-	(25,792)
Employee share plan reserve	-	-	12,732	-	-	12,732
Transfer to statutory reserve	-	563,112	-	(563,112)	-	-
2014 final dividend paid	-	-	-	-	(1,150,000)	(1,150,000)
2015 Proposed interim dividend (<i>Note 14</i>)	-	-	-	(675,000)	675,000	-
Balance at end of the period	<u>15,000,000</u>	<u>7,064,131</u>	<u>139,669</u>	<u>4,372,916</u>	<u>675,000</u>	<u>27,251,716</u>
2014						
Balance at beginning of the period	<u>10,000,000</u>	<u>7,934,504</u>	<u>(10,738)</u>	<u>3,809,033</u>	<u>1,100,000</u>	<u>22,832,799</u>
Total comprehensive income for the period						
Net income for the period	-	-	-	2,237,760	-	2,237,760
Net changes in fair value of cash flow hedges	-	-	-	-	-	-
Net changes in fair value of available for sale investments	-	-	186,952	-	-	186,952
Transfer to interim consolidated statement of income	-	-	(7,679)	-	-	(7,679)
			<u>179,273</u>	<u>2,237,760</u>		<u>2,417,033</u>
2013 final dividend paid	-	-	-	-	(1,100,000)	(1,100,000)
Balance at end of the period	<u>10,000,000</u>	<u>7,934,504</u>	<u>168,535</u>	<u>6,046,793</u>	<u>-</u>	<u>24,149,832</u>

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 30 June

Unaudited

	Note	2015 SAR' 000	2014 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		2,252,449	2,237,760
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments, net		25,624	17,299
Depreciation		45,853	48,449
Gains on non-trading investments, net		(54,744)	(7,286)
Share in earnings of associate and joint venture		(80,996)	(71,266)
Provision for credit losses, net		228,637	199,908
Losses on disposal of property and equipment , net		-	1,300
Reversal of impairment of other financial assets		(9,632)	(949)
Change in carrying value of debt securities in issue		(8,178)	(10,768)
		2,399,013	2,414,447
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(562,490)	(188,632)
Due from banks and other financial institutions		(117,968)	-
Loans and advances		(11,558,463)	(6,794,596)
Other assets		867,999	(190,520)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(938,865)	(967,636)
Customers' deposits		5,148,098	(666,006)
Other liabilities		(2,167,599)	(1,490,665)
Net cash used in operating activities		(6,930,275)	(7,883,608)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		19,491,020	16,137,508
Purchase of non-trading investments		(18,612,372)	(20,043,186)
Purchase of property and equipment		(322,965)	(60,080)
Net cash from/(used in) investing activities		555,683	(3,965,758)
FINANCING ACTIVITIES			
Debt securities in issue		1,500,000	-
Borrowings		(15,625)	(15,625)
Dividends paid		(1,129,481)	(1,100,440)
Treasury Shares purchased		(13,000)	-
Net cash from/(used in) financing activities		341,894	(1,116,065)
Net decrease in cash and cash equivalents		(6,032,698)	(12,965,431)
Cash and cash equivalents at beginning of the period		13,012,041	21,682,842
Cash and cash equivalents at end of the period	11	6,979,343	8,717,411
Special commission received during the period		2,321,868	2,241,475
Special commission paid during the period		299,834	341,731
<u>Supplemental non cash information</u>			
Other comprehensive income		91,115	179,273

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

1. General

The Saudi British Bank (“SABB”) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 81 branches (2014: 81 branches) in the Kingdom of Saudi Arabia. SABB employed 3,365 staff as at 30 June 2015 (2014: 3,261). The address of SABB’s head office is as follows:

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

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

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

SABB has 100% (2014:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (an associate company of SABB - see note 6) within the Kingdom of Saudi Arabia as per the agreement between the subsidiary and the associate. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

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

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

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard 34 – Interim Financial Reporting. SABB prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2014.

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended 31 December 2014.

30 June 2015

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

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

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

2(i). Basis of consolidation

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

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

Intra-group transactions and balances have been eliminated in preparing interim condensed consolidated financial statements.

3. Accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2014 except for the adoption of the following amendments to existing standards mentioned below, which has had an insignificant effect/no financial impact on the interim condensed consolidated interim financial statements of the Bank on the current period or prior period, and is not expected to have any significant effect in future periods:

Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 are applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions are satisfied, to reduce service cost in the period in which the related service is rendered.

Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:

IFRS 1 – “first time adoption of IFRS”: the amendment clarifies that a first time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.

IFRS 2 amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’.

IFRS 3 – “business combinations” amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.

IFRS 8 – “operating segments” has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.

IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.

30 June 2015

IAS 16 – “Property plant and equipment” and IAS 38 – “intangible assets”: – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.

IAS 24 – “related party disclosures”– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.

IAS 40 – “investment property” clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

4. Investments, net

Investment securities are classified as follows:

SAR’000	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2014 (Unaudited)
Investments:			
- Held as FVIS	-	-	1,000
- Available for sale, net	44,531,975	45,180,816	41,374,452
- Held at amortised cost, net	-	100,000	99,987
Total	44,531,975	45,280,816	41,475,439

Investments classified under FVIS are all held for trading.

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR’000	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2014 (Unaudited)
Credit cards	2,141,630	2,091,725	2,066,027
Consumer loans	24,158,422	24,027,009	23,956,369
Commercial loans and overdrafts	101,134,723	90,009,676	87,469,468
Performing loans and advances, gross	127,434,775	116,128,410	113,491,864
Non-performing loans and advances, net	1,508,271	1,494,932	1,547,248
Total loans and advances	128,943,046	117,623,342	115,039,112
Provision for credit losses (specific and collective)	(2,392,423)	(2,402,545)	(2,329,494)
Loans and advances, net	126,550,623	115,220,797	112,709,618

6. Investment in associate and joint venture

SAR'000	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2014 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	526,221	526,302	526,302
Share of undistributed profit	80,012	104,755	68,991
Dividend received	-	(104,836)	-
	<u>606,233</u>	<u>526,221</u>	<u>595,293</u>
SABB Takaful			
Balance at beginning of the period	125,453	120,755	120,755
Share of undistributed profit	984	4,698	2,275
	<u>126,437</u>	<u>125,453</u>	<u>123,030</u>
Total	<u><u>732,670</u></u>	<u><u>651,674</u></u>	<u><u>718,323</u></u>

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

SABB owns 32.5% of the shares of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products. The market value of investment in SABB Takaful as of 30 June 2015 is SAR 508.7 million (30 June 2014: SAR 471.0 million).

7. Customers' deposits

SAR'000	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2014 (Unaudited)
Demand	98,007,589	86,583,535	82,429,687
Savings	7,655,898	6,865,211	7,051,184
Time	42,535,536	50,235,555	46,721,224
Margin deposits	2,819,572	2,186,196	2,093,369
Total	<u><u>151,018,595</u></u>	<u><u>145,870,497</u></u>	<u><u>138,295,464</u></u>

8. Debt securities in issue

These include SAR 1,500 million ten year SAR subordinated Sukuk (the "Sukuk") issued by SABB on 28 May 2015 maturing in May 2025 with the Bank having the right to call the Sukuk at the end of the 5th year. The Sukuk carries effective special commission income at six months' SIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is registered with the Saudi Stock Exchange(Tadawul).

9. Derivatives

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

SAR'000	30 June 2015 (Unaudited)			31 December 2014 (Audited)			30 June 2014 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading:									
Special commission rate swaps	465,340	(338,414)	45,276,344	548,911	(465,354)	51,325,703	617,134	(448,041)	52,391,511
Special commission rate futures and options	38,537	(38,537)	1,944,550	43,078	(43,078)	2,249,929	44,995	(44,995)	2,249,929
Spot and forward foreign exchange contracts	42,246	(39,853)	24,626,709	60,153	(61,514)	26,635,831	17,521	(11,646)	28,937,682
Currency options	177,787	(184,748)	227,457,084	151,473	(154,264)	193,156,074	76,542	(77,046)	213,145,369
Currency swaps	52,212	(52,212)	445,360	37,967	(37,967)	461,211	21,083	(21,083)	480,283
Others	22,452	(22,454)	412,889	166,038	(166,038)	833,565	140,914	(141,055)	839,360
Derivatives held as fair value hedges:									
Special commission rate swaps	9,679	(40,956)	3,860,283	17,266	(48,199)	4,121,257	28,320	(32,164)	4,108,664
Derivatives held as cash flow hedges:									
Currency swaps	-	(1,566)	304,688	-	-	-	-	-	-
Total	808,253	(718,740)	304,327,907	1,024,886	(976,414)	278,783,570	946,509	(776,030)	302,152,798

10. Credit related commitments and contingencies

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

SAR'000	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2014 (Unaudited)
Letters of credit	15,579,467	15,131,587	14,274,041
Letters of guarantee	64,222,429	61,458,178	58,468,348
Acceptances	3,904,538	3,190,107	3,228,373
Irrevocable commitments to extend credit	2,545,569	1,712,325	2,092,424
Total	86,252,003	81,492,197	78,063,186

11. Cash and cash equivalents

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

SAR'000	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2014 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	2,718,994	10,636,920	6,847,539
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	4,260,349	2,375,121	1,869,872
Total	6,979,343	13,012,041	8,717,411

12. Segment information

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

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

There have been no significant changes to the basis of segmentation or the measurement basis for the operating segment profit or loss since 31 December 2014.

The Bank is organised into the following main operating segments:

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 for managing the Bank's investment portfolio and liquidity position.

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

The Bank's total assets and liabilities as at 30 June 2015 and 2014, their total operating income and expenses, and the net income for the six-month periods then ended, by operating segment, are as follows:

30 June 2015 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	34,803,424	96,720,835	60,071,191	732,672	192,328,122
Total liabilities	64,266,153	75,049,863	25,760,390	-	165,076,406
Total operating income	1,166,769	1,484,055	741,335	-	3,392,159
Total operating expenses	597,462	334,363	69,876	-	1,001,701
Share in earnings of associate and joint venture	-	-	-	80,996	80,996
Net income for the period	455,390	1,034,972	681,091	80,996	2,252,449
Credit losses and impairment provision (reversal), net	113,917	114,720	(9,632)	-	219,005

The Saudi British Bank

Notes To The Interim Condensed Consolidated Financial Statements (continued)

30 June 2015

30 June 2014 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	34,963,642	81,820,427	57,965,701	718,323	175,468,093
Total liabilities	60,875,926	67,735,941	22,706,394	-	151,318,261
Total operating income	1,122,662	1,509,471	652,556	-	3,284,689
Total operating expenses	537,862	304,370	77,004	-	919,236
Share in earnings of associate and joint venture	-	-	-	71,266	71,266
Net income for the period	487,069	1,102,924	576,501	71,266	2,237,760
Credit losses and impairment provision (reversal), net	97,731	102,177	(949)	-	198,959

13. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 30 June 2015 and 30 June 2014 is calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of issued shares of 1,500 million. The weighted average number of shares has been retrospectively adjusted for the prior period to reflect the effect of the bonus share issue.

14. Interim dividends

The Board of Directors approved on July 9, 2015 an interim gross dividend of SAR 675 million. Zakat attributable to Saudi shareholders for the period amounted to SAR 45 million approximately. This will be deducted from their share of the dividend, resulting in net dividend to Saudi shareholders of SAR 0.40 per share. The income tax liability of the foreign shareholders will be deducted from their share of the dividend.

15. Capital adequacy

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

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

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

	30 June 2015 SAR'000 (Unaudited)	31 December 2014 SAR'000 (Audited)	30 June 2014 SAR'000 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	165,442,774	151,267,712	148,514,277
Operational Risk RWA	12,323,523	11,688,587	11,127,675
Market Risk RWA	2,126,063	3,841,275	1,741,125
Total RWA	179,892,360	166,797,574	161,383,077
Tier I Capital	27,251,716	26,071,212	24,149,832
Tier II Capital	4,372,666	3,128,106	3,127,006
Total I & II Capital	31,624,382	29,199,318	27,276,838
Capital Adequacy Ratio %			
Tier I ratio	15.15%	15.63%	14.96%
Tier I + Tier II ratio	17.58%	17.51%	16.90%

Notes To The Interim Condensed Consolidated Financial Statements (continued)
30 June 2015

16. 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. The fair value of loans and advances held at amortised cost and commission-bearing customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates.

Determination of fair value and fair value hierarchy

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

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

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

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

SAR' 000	Level 1	Level 2	Level 3	Total
30 June 2015				
<u>Financial assets</u>				
Derivative financial instruments	-	808,253	-	808,253
Financial assets held as FVIS	-	-	-	-
Financial investments available for sale	9,998,964	34,480,774	52,237	44,531,975
Loans and advances – Fair value hedged	-	118,017	-	118,017
Total	9,998,964	35,407,044	52,237	45,458,245
<u>Financial Liabilities</u>				
Derivative financial instruments	-	718,740	-	718,740
Debt securities in issue- Fair value hedged	2,256,500	-	-	2,256,500
Total	2,256,500	718,740	-	2,975,240

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

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

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

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

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

The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is positive SAR 46.3 million (2014: positive SAR 47.2 million).

17. 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.

18. Comparative figures

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