

**Interim Condensed
Consolidated Financial
Statements**

For the six months period ended
30 June 2016

The Saudi British Bank

SABB  **ساب**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 Unaudited SAR' 000	31 December 2015 Audited SAR' 000	30 June 2015 Unaudited SAR' 000
	<u>Notes</u>			
ASSETS				
Cash and balances with SAMA		13,950,773	10,942,268	11,958,330
Due from banks and other financial institutions		14,668,296	11,452,978	4,473,766
Derivatives	8	756,649	872,865	808,253
Investments, net	4	28,128,752	35,527,045	44,616,610
Loans and advances, net	5	131,101,160	125,946,636	126,958,363
Investment in associate and joint venture	6	599,817	693,235	732,670
Property and equipment, net		1,022,661	991,455	940,513
Other assets		1,642,487	1,323,941	1,839,617
Total assets		191,870,595	187,750,423	192,328,122
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		2,326,289	1,834,906	3,150,146
Customers' deposits	7	150,268,554	148,887,178	151,103,179
Debt securities in issue		4,515,958	4,512,938	6,775,862
Borrowings		31,321	46,988	62,642
Derivatives	8	789,190	895,429	718,740
Other liabilities		4,137,610	3,398,447	3,265,837
Total liabilities		162,068,922	159,575,886	165,076,406
Shareholders' equity				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		7,583,656	7,583,656	7,064,131
Other reserves		(436,802)	(340,608)	139,669
Retained earnings		7,654,819	5,361,489	4,372,916
Proposed dividends		-	570,000	675,000
Total shareholders' equity		29,801,673	28,174,537	27,251,716
Total liabilities and shareholders' equity		191,870,595	187,750,423	192,328,122

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

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF INCOME

Unaudited

	Notes	Three months ended		Six months ended	
		30 June 2016	30 June 2015	30 June 2016	30 June 2015
		SAR'000	SAR'000	SAR'000	SAR'000
Special commission income		1,514,898	1,211,255	2,884,872	2,366,468
Special commission expense		333,059	144,203	586,367	267,953
Net special commission income		1,181,839	1,067,052	2,298,505	2,098,515
Fee and commission income, net		348,988	398,682	753,611	810,708
Exchange income, net		127,635	118,195	257,983	225,485
Income from FVIS financial instruments		3,182	3,750	6,932	3,750
Trading income, net		74,123	54,411	194,504	181,093
Dividend income		18,900	17,640	18,900	17,640
Gain on non-trading investments, net		6,426	15,177	26,219	54,744
Other operating gain / (loss), net		16	72	14	224
Total operating income		1,761,109	1,674,979	3,556,668	3,392,159
Salaries and employee related expenses		305,672	283,949	611,043	642,005
Rent and premises related expenses		34,880	33,057	69,581	63,031
Depreciation		27,733	22,787	54,742	45,853
General and administrative expenses		149,297	135,495	301,474	250,812
Provision for credit losses, net		103,289	113,049	248,255	228,637
Reversal of impairment of other financial assets		(460)	(9,000)	(460)	(9,632)
Total operating expenses		620,411	579,337	1,284,635	1,220,706
Income from operating activities		1,140,698	1,095,642	2,272,033	2,171,453
Share in earnings of associate and joint venture	6	10,956	41,622	21,297	80,996
Net income for the period		1,151,654	1,137,264	2,293,330	2,252,449
Basic and diluted earnings per share (in SAR)	12	0.77	0.76	1.53	1.50

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

	Three months ended		Six months ended	
	30 June 2016 SAR' 000	30 June 2015 SAR' 000	30 June 2016 SAR' 000	30 June 2015 SAR' 000
Net income for the period	1,151,654	1,137,264	2,293,330	2,252,449
Other comprehensive income to be reclassified to statement of income in subsequent period				
Available for sale financial assets				
- Net change in fair value	36,454	40,572	(55,450)	147,620
- Transfer to interim consolidated statement of income	(6,426)	(15,177)	(26,219)	(54,744)
Cash flow hedges				
- Net change in fair value	(18,206)	824	(458)	(1,566)
- Transfer to interim consolidated statement of income	(5,484)	-	(5,681)	(195)
Total other comprehensive (loss)/ income for the period	6,338	26,219	(87,808)	91,115
Total comprehensive income for the period	1,157,992	1,163,483	2,205,522	2,343,564

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

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months period ended 30 June

Unaudited

	Share capital <u>SAR '000</u>	Statutory reserve <u>SAR '000</u>	Other reserves <u>SAR '000</u>	Retained earnings <u>SAR '000</u>	Proposed dividends <u>SAR '000</u>	Total <u>SAR '000</u>
2016						
Balance at beginning of the period	<u>15,000,000</u>	<u>7,583,656</u>	<u>(340,608)</u>	<u>5,361,489</u>	<u>570,000</u>	<u>28,174,537</u>
Total comprehensive income for the period						
Net income for the period	-	-	-	2,293,330	-	2,293,330
Net changes in fair value of cash flow hedges	-	-	(458)	-	-	(458)
Net changes in fair value of available for sale investments	-	-	(55,450)	-	-	(55,450)
Transfer to interim consolidated statement of income	-	-	<u>(31,900)</u>	<u>-</u>	-	<u>(31,900)</u>
			<u>(87,808)</u>	<u>2,293,330</u>		<u>2,205,522</u>
Treasury Shares	-	-	(1,307)	-	-	(1,307)
Employee share plan reserve	-	-	(7,079)	-	-	(7,079)
2015 final dividend paid	-	-	-	-	<u>(570,000)</u>	<u>(570,000)</u>
Balance at end of the period	<u>15,000,000</u>	<u>7,583,656</u>	<u>(436,802)</u>	<u>7,654,819</u>	<u>-</u>	<u>29,801,673</u>
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	-	-	<u>(54,939)</u>	<u>-</u>	-	<u>(54,939)</u>
			<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	-	-	-	-	<u>(1,150,000)</u>	<u>(1,150,000)</u>
2015 Proposed interim dividend	-	-	-	<u>(675,000)</u>	<u>675,000</u>	<u>-</u>
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>

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

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 30 June

Unaudited

	<u>Note</u>	<u>2016</u> <u>SAR' 000</u>	<u>2015</u> <u>SAR' 000</u>
OPERATING ACTIVITIES			
Net income for the period		2,293,330	2,252,449
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments, net		23,737	25,624
Income from FVIS financial instruments		(6,932)	(3,750)
Depreciation		54,742	45,853
Gains on non-trading investments, net		(26,219)	(54,744)
Cash flow hedge gain transfer to interim consolidated statement of income		(5,681)	(195)
Share in earnings of associate and joint venture		(21,297)	(80,996)
Provision for credit losses, net		248,255	228,637
Employee share plan reserve		4,864	12,732
Reversal of impairment of other financial assets		(460)	(9,632)
		2,564,339	2,415,978
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		351,724	(562,490)
Due from banks and other financial institutions		(372,116)	(1,224)
Loans and advances		(5,402,779)	(11,580,496)
Other assets		(202,788)	842,963
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		491,383	(944,078)
Customers' deposits		1,381,376	5,069,681
Other liabilities		558,008	(2,086,275)
Net cash used in operating activities		(630,853)	(6,845,941)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		32,319,873	19,734,264
Purchase of non-trading investments		(24,993,375)	(18,803,318)
Dividend received from investment in a joint venture	6	114,715	-
Purchase of property and equipment		(85,948)	(322,965)
Net cash from investing activities		7,355,265	607,981
FINANCING ACTIVITIES			
Debt securities in issue		3,020	1,494,175
Borrowings		(15,667)	(15,672)
Dividends paid		(495,084)	(1,129,481)
Treasury Shares purchased		(13,250)	(25,792)
Net cash (used in)/from financing activities		(520,981)	323,230
Net increase / (decrease) in cash and cash equivalents		6,203,431	(5,914,730)
Cash and cash equivalents at beginning of the period		13,338,227	13,012,041
Cash and cash equivalents at end of the period	10	19,541,658	7,097,311
Special commission received during the period		2,757,624	2,321,868
Special commission paid during the period		507,147	299,834
<u>Supplemental non cash information</u>			
Other comprehensive income		(87,808)	91,115

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

1. General

The Saudi British Bank (“SABB”) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 84 branches (2015: 81 branches) in the Kingdom of Saudi Arabia. SABB employed 3,362 staff as at 30 June 2016 (2015: 3,365). 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% (2015:100%) 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% (2015:100%) 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% (2015:100%) 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% (2015:100%) 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.

In addition to the subsidiaries stated above under note 1, the Bank is party to certain special purpose entities which are formed with the approval of SAMA solely to facilitate certain Shariah compliant financing arrangements. These entities are not consolidated, as the Bank does not control these entities. However, the exposures to these entities are included in the Bank’s loans and advances portfolio.

These interim condensed consolidated financial statements were approved by the Board of Directors on 23 Shawwal 1437H (Corresponding to 28 July 2016).

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 2015.

30 June 2016

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 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 2015, except for the adoption of the following new standards and other 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 IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates", applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. This amendment has had no impact on these interim condensed consolidated financial statements.
- Amendments to IFRS 11 – "Joint Arrangements", applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – "Business Combinations" and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operation retains joint control.

Notes To The Interim Condensed Consolidated Financial Statements (continued) 30 June 2016

- Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;
 - o The materiality requirements in IAS 1
 - o That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated
 - o That entities have flexibility as to the order in which they present the notes to financial statements
 - o That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 41 – “Agriculture”, applicable for annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – “Accounting for Government Grants and Disclosure of Government Assistance”, instead of IAS 41.
- Amendments to IAS 27 – “Separate Financial Statements”, applicable for annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.
- Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:
 - o IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
 - o IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
 - o IAS 19 – “Employee Benefits” – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
 - o IAS 34 – “Interim Financial Reporting” – amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
Investments:			
- Available for sale, net	22,368,016	31,857,402	44,616,610
- Held at amortised cost, net	5,760,736	3,669,643	-
Total	28,128,752	35,527,045	44,616,610

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
Credit cards	2,135,654	2,172,280	2,141,630
Consumer loans	24,728,620	25,440,045	24,211,018
Commercial loans and overdrafts	105,257,975	99,303,586	101,489,867
Performing loans and advances, gross	132,122,249	126,915,911	127,842,515
Non-performing loans and advances, net	1,548,284	1,517,271	1,508,271
Total loans and advances	133,670,533	128,433,182	129,350,786
Provision for credit losses (specific and collective)	(2,569,373)	(2,486,546)	(2,392,423)
Loans and advances, net	131,101,160	125,946,636	126,958,363

Collateral

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

As of 30 June 2016, the net carrying amount of impaired loans and advances comprising commercial loans and overdrafts amounted to SAR 1,449 million (2015: SAR 1,424 million) and the value of identifiable collateral held against those loans and advances amount to SAR 973 million (2015: SAR 973 million).

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>	<u>Principal type of Collateral held</u>
<u>Credit Card and Consumer Loans</u>			
Mortgage Finance	100%	100%	Residential Property
Personal Finance	--	--	
Credit Cards	0.01%	0.03%	Cash
<u>Commercial Loans and Overdrafts</u>			
Commercial Real Estate	100%	100%	Commercial and Residential Property
Other Finance	45%	70%	Marketable securities, Property and Cash

6. Investment in associate and joint venture

SAR'000	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	565,898	526,221	526,221
Share of undistributed profit	20,494	128,461	80,012
Dividend received	(114,715)	(88,784)	-
	<u>471,677</u>	<u>565,898</u>	<u>606,233</u>
SABB Takaful			
Balance at beginning of the period	127,337	125,453	125,453
Share of undistributed profit	803	1,884	984
	<u>128,140</u>	<u>127,337</u>	<u>126,437</u>
Total	<u><u>599,817</u></u>	<u><u>693,235</u></u>	<u><u>732,670</u></u>

SABB owns 51% (2015:51%) of the shares of HSBC Saudi Arabia Limited, a joint venture with HSBC. SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

SABB owns 32.5% (2015: 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 2016 is SAR 269.1 million (30 June 2015: SAR 508.7 million).

7. Customers' deposits

SAR'000	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
Demand	82,387,639	87,284,903	98,007,589
Savings	7,770,643	7,545,422	7,668,799
Time	58,277,470	51,794,969	42,607,219
Margin deposits	1,832,802	2,261,884	2,819,572
Total	<u><u>150,268,554</u></u>	<u><u>148,887,178</u></u>	<u><u>151,103,179</u></u>

8. Derivatives

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

SAR'000	30 June 2016 (Unaudited)			31 December 2015 (Audited)			30 June 2015 (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	350,326	(253,735)	41,775,927	332,167	(259,396)	45,436,530	465,340	(338,414)	45,276,344
Special commission rate options	62,519	(62,519)	6,773,426	34,088	(34,088)	2,858,426	38,537	(38,537)	1,944,550
Spot and forward foreign exchange contracts	75,043	(55,179)	20,319,042	56,989	(52,287)	12,446,528	42,246	(39,853)	24,626,709
Currency options	250,186	(255,496)	220,388,861	364,518	(380,808)	290,984,536	177,787	(184,748)	227,457,084
Currency swaps	14,794	(12,233)	1,423,750	73,874	(74,049)	421,414	52,212	(52,212)	445,360
Others	3,781	(3,782)	429,778	8,455	(8,455)	435,573	22,452	(22,454)	412,889
Derivatives held as fair value hedges:									
Special commission rate swaps	-	(107,905)	2,297,944	-	(51,608)	1,452,467	9,679	(40,956)	3,860,283
Derivatives held as cash flow hedges:									
Special commission rate swaps	-	(38,341)	1,300,000	-	(33,474)	1,100,000	-	-	-
Currency swaps	-	-	-	2,774	(1,264)	585,938	-	(1,566)	304,688
Total	756,649	(789,190)	294,708,728	872,865	(895,429)	355,721,412	808,253	(718,740)	304,327,907

9. Credit related commitments and contingencies

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

SAR'000	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
Letters of credit	10,995,292	13,353,368	15,579,467
Letters of guarantee	57,635,512	63,471,080	64,222,429
Acceptances	3,946,490	3,613,104	3,904,538
Irrevocable commitments to extend credit	3,699,773	4,095,708	2,545,569
Total	76,277,067	84,533,260	86,252,003

10. Cash and cash equivalents

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

SAR'000	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	5,246,130	1,885,901	2,718,994
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	14,295,528	11,452,326	4,378,317
Total	19,541,658	13,338,227	7,097,311

11. Segment information

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

Transactions between the operating segments are on normal commercial terms and conditions. There are no material items of income or expense between the operating segments. Revenue from external parties reported to 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 2015.

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 2016 and 2015, 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 2016 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	34,346,189	101,567,140	55,357,449	599,817	191,870,595
Total liabilities	61,810,423	76,767,169	23,491,330	-	162,068,922
Total operating income	1,164,022	1,625,740	766,906	-	3,556,668
Other operating expenses	602,927	357,537	76,376	-	1,036,840
Share in earnings of associate and joint venture	-	-	-	21,297	21,297
Net income for the period	427,224	1,153,819	690,990	21,297	2,293,330
Credit losses and impairment provision (reversal), net	133,871	114,384	(460)	-	247,795

The Saudi British Bank

Notes To The Interim Condensed Consolidated Financial Statements (continued) 30 June 2016

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
Other 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

Total operating income by operating segments

30 June 2016 SAR'000 (Unaudited)	Retail Banking	Corporate Banking	Treasury	Total
External	1,148,186	2,095,578	312,904	3,556,668
Internal	15,836	(469,838)	454,002	-
Total operating income	1,164,022	1,625,740	766,906	3,556,668

30 June 2015 SAR'000 (Unaudited)	Retail Banking	Corporate Banking	Treasury	Total
External	1,200,250	1,823,905	368,004	3,392,159
Internal	(33,481)	(339,850)	373,331	-
Total operating income	1,166,769	1,484,055	741,335	3,392,159

12. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 30 June 2016 and 30 June 2015 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.

13. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management with SAMA requiring the Bank to hold a minimum level of regulatory capital.

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 2016 SAR'000 (Unaudited)	31 December 2015 SAR'000 (Audited)	30 June 2015 SAR'000 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	175,074,157	167,661,775	165,442,774
Operational Risk RWA	13,034,195	12,620,144	12,323,523
Market Risk RWA	1,735,813	2,844,213	2,126,063
Total RWA	189,844,165	183,126,132	179,892,360
Tier I Capital	29,801,673	28,174,537	27,251,716
Tier II Capital	3,913,516	4,082,996	4,372,666
Total I & II Capital	33,715,189	32,257,533	31,624,382
Capital Adequacy Ratio %			
Tier I ratio	15.70%	15.39%	15.15%
Tier I + Tier II ratio	17.76%	17.61%	17.58%

14. Fair values of financial instruments

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

The fair values of recognised financial instruments are not materially different from their carrying values, except for loans and advances and customer deposits.

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

30 June 2016	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivative financial instruments	-	756,649	-	756,649
Financial investments available for sale	14,083,789	8,240,204	44,023	22,368,016
Investments held at amortised cost	-	5,760,736	-	5,760,736
Loans and advances	-	130,021,649	-	130,021,649
<u>Financial Liabilities</u>				
Customers deposits	-	150,418,207	-	150,418,207
Derivative financial instruments	-	789,190	-	789,190
Debt securities in issue	-	4,515,958	-	4,515,958
Borrowings	-	31,321	-	31,321

31 December 2015	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivative financial instruments	-	872,865	-	872,865
Financial investments available for sale	9,083,363	22,730,722	43,317	31,857,402
Investments held at amortised cost	-	3,669,643	-	3,669,643
Loans and advances	-	124,560,927	-	124,560,927
<u>Financial Liabilities</u>				
Customers deposits	-	148,841,203	-	148,841,203
Derivative financial instruments	-	895,429	-	895,429
Debt securities in issue	-	4,512,938	-	4,512,938
Borrowings	-	46,988	-	46,988

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.

Investments held at amortised cost classified as Level 2 include bonds which are not traded in the secondary market. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

30 June 2016

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 and capital repayment 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 49.4 million (2015: positive SAR 60.1 million).

The values obtained from valuation model may be different from the transaction price of financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discounts rates, bond and equity prices and foreign currency exchange rates.

The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market process and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

15. Disclosures under Basel III framework

Certain disclosures on the Bank's capital structure are required to be published on Bank's website. These disclosures will be published on the Bank's website www.sabb.com as required by SAMA.

16. Comparative figures

The Accrued Special Commission Receivable or Payable on Financial Assets or Financial Liabilities, which was previously shown under "Other Assets" or "Other Liabilities" respectively, has now been shown together with the related asset or liability as required by IFRS.

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