

**Interim Condensed
Consolidated Financial
Statements**

For the three months period ended
31 March 2017

The Saudi British Bank

SABB  ساب

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 March 2017	31 December 2016	31 March 2016
	Unaudited	Audited	Unaudited
<u>Notes</u>	<u>SAR' 000</u>	<u>SAR' 000</u>	<u>SAR' 000</u>
ASSETS			
Cash and balances with SAMA	25,200,572	24,121,821	12,614,905
Due from banks and other financial institutions	12,990,948	8,217,746	15,300,480
Derivatives	9 524,000	721,912	800,267
Investments, net	4 23,832,515	29,273,055	28,684,429
Loans and advances, net	5 119,489,954	120,964,815	130,562,630
Investment in a joint venture and an associate	6 649,359	642,297	703,576
Property and equipment, net	1,058,551	1,038,352	1,009,318
Other assets	1,518,074	1,075,896	2,118,870
Total assets	185,263,973	186,055,894	191,794,475
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	2,289,655	3,419,174	1,889,149
Customers' deposits	7 141,570,768	140,639,785	151,878,436
Debt securities in issue	8 3,033,828	4,517,636	4,533,295
Borrowings	1,710,330	1,709,958	47,480
Derivatives	9 515,973	604,793	851,078
Other liabilities	4,198,505	3,885,620	3,954,031
Total liabilities	153,319,059	154,776,966	163,153,469
Shareholders' equity			
Share capital	15,000,000	15,000,000	15,000,000
Statutory reserve	8,557,339	8,557,339	7,583,656
Other reserves	(85,066)	24,052	(445,815)
Retained earnings	8,060,709	7,127,537	6,503,165
Proposed dividends	16 411,932	570,000	-
Total shareholders' equity	31,944,914	31,278,928	28,641,006
Total liabilities and shareholders' equity	185,263,973	186,055,894	191,794,475

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months period ended 31 March

Unaudited

	Notes	2017 SAR' 000	2016 SAR' 000
Special commission income		1,525,195	1,369,974
Special commission expense		274,543	253,308
Net special commission income		1,250,652	1,116,666
Fees and commission income, net		344,664	404,623
Exchange income, net		107,126	130,348
Income from FVIS financial instruments		-	3,750
Trading income, net		114,348	120,381
Gains on non-trading investments, net		7,163	19,793
Other operating income (loss), net		114	(2)
Total operating income		1,824,067	1,795,559
Salaries and employee related expenses		298,276	305,371
Rent and premises related expenses		35,775	34,701
Depreciation		29,253	27,009
General and administrative expenses		155,551	152,177
Provision for credit losses, net		226,294	144,966
Impairment of other financial assets		50,000	-
Total operating expenses		795,149	664,224
Income from operating activities		1,028,918	1,131,335
Share in earnings of a joint venture and an associate	6	7,062	10,341
Net income for the period		1,035,980	1,141,676
Basic and diluted earnings per share for the period (in SAR)	13	0.69	0.76

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months period ended 31 March

Unaudited

	2017	2016
	SAR' 000	SAR' 000
Net income for the period	1,035,980	1,141,676
Other comprehensive income/(loss) to be reclassified to statement of income in subsequent periods		
Available for sale financial assets		
- Net change in fair value	(171,301)	(91,904)
- Transfer to interim consolidated statement of income	42,837	(19,793)
Cash flow hedges		
- Net change in fair value	26,417	17,748
- Transfer to interim consolidated statement of income	(9,995)	(197)
Other comprehensive loss for the period	(112,042)	(94,146)
Total comprehensive income for the period	923,938	1,047,530

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months period ended 31 March

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>
2017						
Balance at beginning of the period	15,000,000	8,557,339	24,052	7,127,537	570,000	31,278,928
Total comprehensive income for the period						
Net income for the period	-	-	-	1,035,980	-	1,035,980
Net changes in fair value of cash flow hedges	-	-	26,417	-	-	26,417
Net changes in fair value of available for sale investments	-	-	(171,301)	-	-	(171,301)
Transfer to interim consolidated statement of income	-	-	32,842	-	-	32,842
			<u>(112,042)</u>	<u>1,035,980</u>		<u>923,938</u>
Zakat for the period (note 16)	-	-	-	(16,233)	(27,000)	(43,233)
Income tax for the period (note 16)	-	-	-	(86,575)	(131,068)	(217,643)
Employee share plan reserve	-	-	2,924	-	-	2,924
Balance at end of the period	<u>15,000,000</u>	<u>8,557,339</u>	<u>(85,066)</u>	<u>8,060,709</u>	<u>411,932</u>	<u>31,944,914</u>
2016						
Balance at beginning of the period	15,000,000	7,583,656	(340,608)	5,361,489	570,000	28,174,537
Total comprehensive income for the period						
Net income for the period	-	-	-	1,141,676	-	1,141,676
Net changes in fair value of cash flow hedges	-	-	17,748	-	-	17,748
Net changes in fair value of available for sale investments	-	-	(91,904)	-	-	(91,904)
Transfer to interim consolidated statement of income	-	-	(19,990)	-	-	(19,990)
			<u>(94,146)</u>	<u>1,141,676</u>		<u>1,047,530</u>
Treasury shares	-	-	(13,000)	-	-	(13,000)
Employee share plan reserve	-	-	1,939	-	-	1,939
2015 final dividend paid	-	-	-	-	(570,000)	(570,000)
Balance at end of the period	<u>15,000,000</u>	<u>7,583,656</u>	<u>(445,815)</u>	<u>6,503,165</u>	<u>-</u>	<u>28,641,006</u>

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months period ended 31 March

Unaudited

	Notes	2017 SAR' 000	2016 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		1,035,980	1,141,676
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments, net		5,868	12,622
Income from FVIS financial instruments		-	(3,750)
Depreciation		29,253	27,009
Gains on non-trading investments, net		(7,163)	(19,793)
Cash Flow Hedge gain transfer to interim consolidated statement of income		(9,995)	(197)
Share in earnings of a joint venture and associate		(7,062)	(10,341)
Provision for credit losses, net		226,294	144,966
Employee share plan reserve		2,924	1,939
Impairment of other financial assets		50,000	-
		1,326,099	1,294,131
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		772,484	350,597
Due from banks and other financial institutions with an original maturity of more than three months from the date of acquisition		(1,686,752)	(234,271)
Loans and advances		1,248,567	(5,289,638)
Other assets and derivatives		(217,849)	(74,447)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,129,519)	62,351
Customers' deposits		930,983	3,000,813
Other liabilities and derivatives		(36,345)	135,316
Net cash from (used in) operating activities		1,207,668	(755,148)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		11,041,032	14,077,097
Purchase of non-trading investments		(5,777,661)	(7,436,063)
Purchase of property and equipment		(49,452)	(44,872)
Net cash from investing activities		5,213,919	6,596,162
FINANCING ACTIVITIES			
Treasury shares purchased		-	(13,000)
Debt securities in issue		(1,483,808)	-
Borrowings		372	-
Dividends paid		(466)	(190,897)
Net cash used in financing activities		(1,483,902)	(203,897)
Net increase in cash and cash equivalents		4,937,685	5,637,117
Cash and cash equivalents at beginning of the period		22,958,777	13,338,227
Cash and cash equivalents at end of the period	11	27,896,462	18,975,344
Special commission received during the period		1,154,932	1,150,881
Special commission paid during the period		285,907	172,089
Supplemental non cash information			
Other comprehensive income		(112,042)	(94,146)

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements 31 March 2017

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 (2016: 84 branches) in the Kingdom of Saudi Arabia. SABB employed 3,289 staff as at 31 March 2017 (2016: 3,412). 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% (2016:100%) 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% (2016:100%) 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% (2016:100%) 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% (2016:100%) 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 and to hold and manage collaterals on behalf of the Bank.

SABB has participated in three Structured Entities for the purpose of effecting syndicated loan transactions and to secure collateral rights over specific assets of the borrowers under Islamic financing structures. The entities have no other business operations.

1. Saudi Kayan Assets Leasing Company.
2. Rabigh Asset Leasing Company.
3. Yanbu Asset Leasing Company.

SABB owns 50% (2016: 50%) share in each entity. SABB does not consolidate the entities as it does not have the right to variable returns from its involvement with the entities and ability to affect those returns through its power over the entities. The related underlying funding to the borrower is recorded on SABB’s books.

These interim condensed consolidated financial statements were approved by the Board of Directors on 19 Sha’ban 1438H (Corresponding 15 May 2017).

Notes to The Interim Condensed Consolidated Financial Statements (continued)

31 March 2017

2. Basis of preparation

Effective 2017, SAMA issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax, with the following implications:

- the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- zakat and income tax are accrued and recognized in the consolidated statement of changes in shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position.

Applying the above framework, the interim condensed consolidated financial statements of the Bank as at and for the quarter ended 31 March 2017 have been prepared using International Accounting Standard (IAS) 34 – Interim Financial Reporting and SAMA guidance on accounting for zakat and income tax.

Until 2016, the consolidated financial statements of the Bank were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and IFRS. This change in framework resulted in a change in accounting policy for zakat and income tax as disclosed in note 16 to the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements 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 disclosures 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 2016.

The preparation of these 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 interim 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 2016.

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

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

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

(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 these 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 2016, except for:

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

- a) the change in the accounting policy in relation to accounting for zakat and income tax as prescribed by SAMA effective 1 January 2017 (see note 2); and
- b) the adoption of the following amendments to existing standards mentioned below, which had an insignificant effect/no financial impact on the interim condensed consolidated financial statements of the Bank on the current period or prior period, and is not expected to have any significant effect in future periods.

Amendments to existing standards

- Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses: Applicable for annual periods beginning on or after 1 January 2017.

These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

4. Investments, net

Investment securities are classified as follows:

SAR'000	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Available for sale	17,568,426	23,007,811	23,517,173
Held at amortised cost	6,264,089	6,265,244	5,167,256
Total	23,832,515	29,273,055	28,684,429

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Credit cards	2,210,738	2,308,508	2,126,310
Consumer loans	23,095,285	24,380,165	24,877,925
Commercial loans and overdrafts	95,593,564	95,510,374	104,571,864
Performing loans and advances – gross	120,899,587	122,199,047	131,576,099
Non performing loans and advances, net	1,612,695	1,655,479	1,523,201
Total loans and advances	122,512,282	123,854,526	133,099,300
Provision for credit losses (specific and collective)	(3,022,328)	(2,889,711)	(2,536,670)
Loans and advances, net	119,489,954	120,964,815	130,562,630

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

6. Investment in a joint venture and an associate

SAR'000	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	513,678	565,898	565,898
Share of undistributed profit	6,762	62,495	9,961
Dividend received	-	(114,715)	-
Balance at end of the period	<u>520,440</u>	<u>513,678</u>	<u>575,859</u>
SABB Takaful			
Balance at beginning of the period	128,619	127,337	127,337
Share of undistributed profit	300	1,282	380
Balance at end of the period	<u>128,919</u>	<u>128,619</u>	<u>127,717</u>
Total	<u>649,359</u>	<u>642,297</u>	<u>703,576</u>

SABB owns 51% (2016: 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% (2016: 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 March 2017 is SAR 314.8 million (31 March 2016: SAR 288.0 million).

7. Customers' deposits

SAR'000	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Demand	83,223,466	82,345,754	85,439,202
Savings	7,692,597	7,320,350	7,832,904
Time	49,600,107	49,386,046	56,515,971
Margin deposits	1,054,598	1,587,635	2,090,359
Total	<u>141,570,768</u>	<u>140,639,785</u>	<u>151,878,436</u>

8. Debt securities in issue

During the period, a SAR 1,500 million Sukuk issued by SABB in 2012 matured in March 2017.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

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	31 March 2017 (Unaudited)			31 December 2016 (Audited)			31 March 2016 (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	259,123	(263,106)	42,858,207	229,698	(206,844)	36,848,122	296,087	(262,654)	43,723,445
Special commission rate futures and options	81,300	(81,300)	9,631,492	87,500	(87,500)	8,815,118	45,159	(45,159)	4,108,426
Forward foreign exchange contracts	50,681	(33,816)	19,408,771	116,874	(49,190)	19,420,843	79,255	(54,557)	19,837,417
Currency options	32,414	(32,865)	111,645,109	145,808	(148,103)	143,436,015	363,090	(371,374)	265,272,325
Currency swaps	6,703	(5,333)	1,673,750	14,028	(11,472)	1,423,750	-	-	-
Others	3,152	(3,152)	360,836	425	(425)	425,786	7,224	(7,224)	431,579
Derivatives held as fair value hedges:									
Special commission rate swaps	16,041	(43,868)	3,262,500	86,254	(54,188)	3,904,331	-	(86,442)	1,644,413
Derivatives held as cash flow hedges:									
Special commission rate swaps	41,977	(25,139)	2,415,000	32,875	(34,092)	2,465,000	1,638	(20,006)	1,300,000
Currency swaps	32,609	(27,394)	1,815,623	8,450	(12,979)	1,071,317	7,814	(3,662)	1,234,753
Total	524,000	(515,973)	193,071,288	721,912	(604,793)	217,810,282	800,267	(851,078)	337,552,358

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

10. Commitments and contingencies

a) Legal proceedings

The Bank is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings during the period ended March 31, 2017.

b) Credit related commitments and contingencies

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

SAR'000	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Letters of credit	11,559,436	11,219,310	13,384,976
Letters of guarantee	54,096,280	54,997,784	59,914,767
Acceptances	3,914,878	3,139,667	3,735,086
Irrevocable commitments to extend credit	3,014,467	2,363,594	3,944,617
Total	72,585,061	71,720,355	80,979,446

11. Cash and cash equivalents

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

SAR'000	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	17,120,141	15,268,906	3,909,135
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	10,776,321	7,689,871	15,066,209
Total	27,896,462	22,958,777	18,975,344

12. 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 March 2017 and 2016, its total operating income and expenses, and the results for the three-month periods then ended, by operating segment, are as follows:

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

31 March 2017
(Unaudited)
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	30,698,395	92,693,849	61,222,370	649,359	185,263,973
Total liabilities	61,803,342	70,514,902	21,000,815	-	153,319,059
Total operating income	629,323	820,933	373,811	-	1,824,067
Total operating expenses	413,091	341,892	40,166	-	795,149
Share in earnings of joint venture and associate	-	-	-	7,062	7,062
Net income for the period	216,232	479,041	333,645	7,062	1,035,980
Credit losses and impairment provision, net	110,543	162,312	3,439	-	276,294

31 March 2016
(Unaudited)
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	34,140,875	100,813,308	56,136,716	703,576	191,794,475
Total liabilities	62,783,627	78,221,397	22,148,445	-	163,153,469
Total operating income	567,446	809,690	418,423	-	1,795,559
Total operating expenses	371,022	256,322	36,880	-	664,224
Share in earnings of joint venture and associate	-	-	-	10,341	10,341
Net income for the period	196,424	553,368	381,543	10,341	1,141,676
Credit losses and impairment provision (reversal), net	65,804	79,162	-	-	144,966

b) Total operating income by operating segments

31 March 2017
SAR'000 (Unaudited)

	Retail Banking	Corporate Banking	Treasury	Total
External	522,769	1,125,362	175,936	1,824,067
Internal	106,554	(304,429)	197,875	-
Total operating income	629,323	820,933	373,811	1,824,067

31 March 2016
SAR'000 (Unaudited)

	Retail Banking	Corporate Banking	Treasury	Total
External	569,572	1,044,423	181,564	1,795,559
Internal	(2,126)	(234,733)	236,859	-
Total operating income	567,446	809,690	418,423	1,795,559

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

13. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 31 March 2017 and 2016 are calculated by dividing the net income for the periods attributable to the equity holders of the Bank by 1,500 million shares.

14. 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.

	31 March 2017	31 December 2016	31 March 2016
	SAR'000	SAR'000	SAR'000
	(Unaudited)	(Audited)	(Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	165,006,256	161,899,067	176,807,363
Operational Risk RWA	13,458,577	13,333,290	12,859,788
Market Risk RWA	2,471,463	2,514,488	1,638,463
Total RWA	180,936,296	177,746,845	191,305,614
Tier I Capital	31,944,914	31,278,928	28,641,006
Tier II Capital	3,713,205	3,600,244	3,903,383
Total I & II Capital	35,658,119	34,879,172	32,544,389
Capital Adequacy Ratio %			
Tier I ratio	17.66%	17.60%	14.97%
Tier I + Tier II ratio	19.71%	19.62%	17.01%

15. 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

SAR' 000	Level 1	Level 2	Level 3	Total
31 March 2017 (Unaudited)				
<u>Financial assets</u>				
Derivative financial instruments	-	524,000	-	524,000
Financial investments available for sale	901,307	16,631,998	35,121	17,568,426
Investments held at amortised cost	-	6,238,354	-	6,238,354
Loans and advances	-	117,974,272	-	117,974,272
<u>Financial Liabilities</u>				
Customer deposits	-	141,663,449	-	141,663,449
Derivative financial instruments	-	515,973	-	515,973
Debt securities in issue	-	3,033,828	-	3,033,828
Borrowings	-	1,710,330	-	1,710,330

SAR' 000	Level 1	Level 2	Level 3	Total
31 December 2016 (Audited)				
<u>Financial assets</u>				
Derivative financial instruments	-	721,912	-	721,912
Financial investments available for sale	1,022,685	21,949,953	35,173	23,007,811
Investments held at amortised cost	-	6,269,003	-	6,269,003
Loans and advances	-	119,380,837	-	119,380,837
<u>Financial Liabilities</u>				
Customer deposits	-	140,760,543	-	140,760,543
Derivative financial instruments	-	604,793	-	604,793
Debt securities in issue	-	4,517,636	-	4,517,636
Borrowings	-	1,709,958	-	1,709,958

Notes to the Interim Condensed Consolidated Financial Statements (continued) 31 March 2017

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 and capital repayment movement only.

The total amount of the changes in fair value recognised in the interim consolidated statement of income, which was estimated using valuation technique, is positive SAR 15.4 million (2016: positive SAR 25.7 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.

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 for the period ended 31 March 2016, has now been shown together with the related asset or liability as required by IFRS.

Effective 1 January 2017, SAMA issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax, with the following implications:

- the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- zakat and income tax are accrued and recognized in the consolidated statement of changes in shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position.

Consequently, the Bank amended its accounting policy to accrue zakat and income tax and charge to retained earnings. Previously, zakat and income tax were deducted from the payment of dividend. When dividends were proposed, zakat and income tax were initially recorded as part of the proposed dividends apportioned from retained earnings and disclosed within equity. Subsequently upon approval of dividends by the shareholders at the general assembly, they were reclassified to other liabilities. The impact of the change in the accounting policy was not considered material and hence comparative information has not been restated.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
31 March 2017

The cumulative adjustment due to change in accounting policy has been recorded in the current period interim condensed consolidated financial statements as disclosed in the table below.

SAR'000	March 31, 2017 (Unaudited)		
	Interim consolidated statement of changes in equity		Interim consolidated statement of financial position
	Retained earnings	Proposed dividends	Other Liabilities
Zakat for the period	16,233	27,000	43,233
Income tax for the period	86,575	131,068	217,643
Total	102,808	158,068	260,876

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

17. Post balance sheet event

Subsequent to the reporting period end, the board of directors of SABB, in its meeting dated 25 April 2017, resolved to enter into preliminary discussions with AlAwwal Bank, a bank listed in Kingdom of Saudi Arabia, to study the possibility of merging the two banks. The entry into these discussions does not mean that the merger will happen between the two banks. If the merger is agreed, it will be subject to various conditions including, without limitation, approval at the Extra Ordinary general assembly of each bank and approval of the Saudi Arabian regulatory authorities.