

**Interim Condensed
Consolidated Financial
Statements**

For the six months period ended
30 June 2017
(Unaudited)

The Saudi British Bank

SABB  **ساب**

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 Unaudited SAR' 000	31 December 2016 Audited SAR' 000	30 June 2016 Unaudited SAR' 000
	<u>Notes</u>			
ASSETS				
Cash and balances with SAMA		25,163,603	24,121,821	13,950,773
Due from banks and other financial institutions		14,342,157	8,217,746	14,668,296
Derivatives	9	483,361	721,912	756,649
Investments, net	4	21,316,536	29,273,055	28,128,752
Loans and advances, net	5	117,883,379	120,964,815	131,101,160
Investment in an associate and a joint venture	6	606,099	642,297	599,817
Property and equipment, net		1,052,239	1,038,352	1,022,661
Other assets		1,671,138	1,075,896	1,642,487
Total assets		182,518,512	186,055,894	191,870,595
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,938,541	3,419,174	2,326,289
Customers' deposits	7	138,314,103	140,639,785	150,268,554
Debt securities in issue	8	2,997,904	4,517,636	4,515,958
Borrowings		1,683,418	1,709,958	31,321
Derivatives	9	458,928	604,793	789,190
Other liabilities		4,376,366	3,885,620	4,137,610
Total liabilities		149,769,260	154,776,966	162,068,922
Shareholders' equity				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		9,098,625	8,557,339	7,583,656
Other reserves		104,848	24,052	(436,802)
Retained earnings		8,545,779	7,127,537	7,654,819
Proposed dividends		-	570,000	-
Total shareholders' equity		32,749,252	31,278,928	29,801,673
Total liabilities and shareholders' equity		182,518,512	186,055,894	191,870,595

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

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INTERIM CONSOLIDATED STATEMENT OF INCOME

Unaudited

	Notes	Three months ended		Six months ended	
		30 June 2017 SAR'000	30 June 2016 SAR'000	30 June 2017 SAR'000	30 June 2016 SAR'000
Special commission income		1,507,157	1,514,898	3,032,352	2,884,872
Special commission expense		222,839	333,059	497,382	586,367
Net special commission income		1,284,318	1,181,839	2,534,970	2,298,505
Fee and commission income, net		322,157	348,988	666,821	753,611
Exchange income, net		106,863	127,635	213,989	257,983
Income from FVIS financial instruments		-	3,182	-	6,932
Trading income, net		64,154	74,123	178,502	194,504
Dividend income		21,000	18,900	21,000	18,900
Gain on non-trading investments, net		2,023	6,426	9,186	26,219
Other operating income, net		95	16	209	14
Total operating income		1,800,610	1,761,109	3,624,677	3,556,668
Salaries and employee related expenses		293,010	305,672	591,286	611,043
Rent and premises related expenses		36,642	34,880	72,417	69,581
Depreciation		30,333	27,733	59,586	54,742
General and administrative expenses		159,798	149,297	315,349	301,474
Provision for credit losses, net		164,903	103,289	391,197	248,255
(Reversal) / impairment of other financial assets		-	(460)	50,000	(460)
Total operating expenses		684,686	620,411	1,479,835	1,284,635
Income from operating activities		1,115,924	1,140,698	2,144,842	2,272,033
Share in earnings of an associate and a joint venture	6	13,240	10,956	20,302	21,297
Net income for the period		1,129,164	1,151,654	2,165,144	2,293,330
Basic and diluted earnings per share (in SAR)	13	0.75	0.77	1.44	1.53

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

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited

	Three months ended		Six months ended	
	30 June 2017 SAR' 000	30 June 2016 SAR' 000	30 June 2017 SAR' 000	30 June 2016 SAR' 000
Net income for the period	1,129,164	1,151,654	2,165,144	2,293,330
Other comprehensive income to be reclassified to statement of income in subsequent period:				
Available for sale financial assets				
- Net change in fair value	184,357	36,454	13,056	(55,450)
- Transfer to interim consolidated statement of income	(2,023)	(6,426)	40,814	(26,219)
Cash flow hedges				
- Net change in fair value	39,106	(18,206)	65,523	(458)
- Transfer to interim consolidated statement of income	(34,139)	(5,484)	(44,134)	(5,681)
Total other comprehensive income / (loss) for the period	187,301	6,338	75,259	(87,808)
Total comprehensive income for the period	1,316,465	1,157,992	2,240,403	2,205,522

The accompanying notes 1 to 17 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>
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	-	-	-	2,165,144	-	2,165,144
Net changes in fair value of cash flow hedges	-	-	65,523	-	-	65,523
Net changes in fair value of available for sale investments	-	-	13,056	-	-	13,056
Transfer to interim consolidated statement of income	-	-	(3,320)	-	-	(3,320)
			<u>75,259</u>	<u>2,165,144</u>		<u>2,240,403</u>
Treasury Shares	-	-	11,155	-	-	11,155
Employee share plan reserve	-	-	(5,618)	-	-	(5,618)
Transfer to statutory reserve	-	541,286	-	(541,286)	-	-
Zakat for the period (note 17)	-	-	-	(32,466)	(27,000)	(59,466)
Income tax for the period (note 17)	-	-	-	(173,150)	(131,068)	(304,218)
2016 final dividend paid net of zakat and income tax	-	-	-		(411,932)	(411,932)
Balance at end of the period	<u>15,000,000</u>	<u>9,098,625</u>	<u>104,848</u>	<u>8,545,779</u>	<u>-</u>	<u>32,749,252</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	-	-	-	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	-	-	(31,900)	-	-	(31,900)
			<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	-	-	-	-	(570,000)	(570,000)
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>

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

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 30 June

Unaudited

	Note	2017 SAR' 000	2016 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		2,165,144	2,293,330
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments, net		6,774	23,737
Income from FVIS financial instruments		-	(6,932)
Depreciation		59,586	54,742
Gains on non-trading investments, net		(9,186)	(26,219)
Cash flow hedge gain transfer to interim consolidated statement of income		(44,134)	(5,681)
Share in earnings of associate and joint venture		(20,302)	(21,297)
Provision for credit losses, net		391,197	248,255
Employee share plan reserve		5,537	4,864
Impairment / (reversal) of other financial assets		50,000	(460)
		2,604,616	2,564,339
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		790,366	351,724
Due from banks and other financial institutions		(997,483)	(372,116)
Loans and advances		2,690,239	(5,402,779)
Other assets and derivatives		(291,168)	(202,788)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,480,633)	491,383
Customers' deposits		(2,325,682)	1,381,376
Other liabilities and derivatives		35,635	558,008
Net cash from / (used in) operating activities		1,025,890	(630,853)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		16,674,312	32,319,873
Purchase of non-trading investments		(8,711,511)	(24,993,375)
Dividend received from investment in a joint venture	6	56,500	114,715
Purchase of property and equipment		(73,473)	(85,948)
Net cash from investing activities		7,945,828	7,355,265
FINANCING ACTIVITIES			
Debt securities in issue		(1,519,732)	3,020
Borrowings		(26,540)	(15,667)
Dividends paid		(466,369)	(495,084)
Treasury shares purchased		-	(13,250)
Net cash used in financing activities		(2,012,641)	(520,981)
Net increase in cash and cash equivalents		6,959,077	6,203,431
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	29,917,854	19,541,658
Special commission received during the period		3,059,469	2,757,624
Special commission paid during the period		594,513	507,147
Supplemental non cash information			
Total other comprehensive income / (loss)		75,259	(87,808)

The accompanying notes 1 to 17 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 (2016 : 84 branches) in the Kingdom of Saudi Arabia. SABB employed 3,247 staff as at 30 June 2017 (2016 : 3,362). 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 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 Arabian Real Estate Company Limited, 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 SABB Insurance Agency, a limited liability company 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 Arabian Real Estate Company Limited, a limited liability company 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 had 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). During the period, the subsidiary has been liquidated.

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 2 Dhul Qadah 1438H (Corresponding 25 July 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 on a quarterly basis 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 period ended 30 June 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 were applied to the annual consolidated financial statements as at and for the year ended 31 December 2016.

SABB 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:

- 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.

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 June 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Investments:			
- Available for sale, net	14,678,016	23,007,811	22,368,016
- Held at amortised cost, net	6,638,520	6,265,244	5,760,736
Total	21,316,536	29,273,055	28,128,752

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	30 June 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Credit cards	2,109,794	2,308,508	2,135,654
Consumer loans	23,258,433	24,380,165	24,728,620
Commercial loans and overdrafts	94,053,713	95,510,374	105,257,975
Performing loans and advances, gross	119,421,940	122,199,047	132,122,249
Non-performing loans and advances, net	1,591,439	1,655,479	1,548,284
Total loans and advances	121,013,379	123,854,526	133,670,533
Provision for credit losses (specific and collective)	(3,130,000)	(2,889,711)	(2,569,373)
Loans and advances, net	117,883,379	120,964,815	131,101,160

6. Investment in an associate and a joint venture

SAR'000	30 June 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2016 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period / year	513,678	565,898	565,898
Share of undistributed profit	19,702	62,495	20,494
Dividend received	(56,500)	(114,715)	(114,715)
	476,880	513,678	471,677
SABB Takaful			
Balance at beginning of the period / year	128,619	127,337	127,337
Share of undistributed profit	600	1,282	803
	129,219	128,619	128,140
Total	606,099	642,297	599,817

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 30 June 2017 is SAR 273.6 million (30 June 2016 : SAR 269.1 million).

7. Customers' deposits

SAR'000	30 June 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Demand	81,422,004	82,345,754	82,387,639
Savings	7,399,401	7,320,350	7,770,643
Time	48,591,747	49,386,046	58,277,470
Margin deposits	900,951	1,587,635	1,832,802
Total	138,314,103	140,639,785	150,268,554

8. Debt securities in issue

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

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 2017 (Unaudited)			31 December 2016 (Audited)			30 June 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	246,591	(189,087)	46,998,397	229,698	(206,844)	36,848,122	350,326	(253,735)	41,775,927
Special commission rate options	50,092	(50,092)	10,386,492	87,500	(87,500)	8,815,118	62,519	(62,519)	6,773,426
Forward foreign exchange contracts	82,878	(64,239)	13,588,449	116,874	(49,190)	19,420,843	75,043	(55,179)	20,319,042
Currency options	30,376	(30,859)	79,528,550	145,808	(148,103)	143,436,015	250,186	(255,496)	220,388,861
Currency swaps	17,593	(16,030)	3,017,454	14,028	(11,472)	1,423,750	14,794	(12,233)	1,423,750
Others	5,496	(5,496)	360,836	425	(425)	425,786	3,781	(3,782)	429,778
Derivatives held as fair value hedges:									
Special commission rate swaps	27,454	(62,737)	5,055,000	86,254	(54,188)	3,904,331	-	(107,905)	2,297,944
Derivatives held as cash flow hedges:									
Special commission rate swaps	15,795	(17,601)	1,640,000	32,875	(34,092)	2,465,000	-	(38,341)	1,300,000
Currency swaps	7,086	(22,787)	898,544	8,450	(12,979)	1,071,317	-	-	-
Total	483,361	(458,928)	161,473,722	721,912	(604,793)	217,810,282	756,649	(789,190)	294,708,728

10. Commitments and contingencies

a) Legal proceedings

As at 30 June 2017, there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) Credit related commitments and contingencies

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

SAR'000	30 June 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Letters of credit	9,896,406	11,219,310	10,995,292
Letters of guarantee	52,737,314	54,997,784	57,635,512
Acceptances	4,051,360	3,139,667	3,946,490
Irrevocable commitments to extend credit	3,250,872	2,363,594	3,699,773
Total	69,935,952	71,720,355	76,277,067

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 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	17,101,054	15,268,906	5,246,130
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	12,816,800	7,689,871	14,295,528
Total	29,917,854	22,958,777	19,541,658

12. Operating segments

The Bank's primary business is conducted in the Kingdom of 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 30 June 2017 and 2016, its total operating income and expenses, and the results for the six-month periods then ended, by operating segment, are as follows:

The Saudi British Bank

Notes To The Interim Condensed Consolidated Financial Statements (continued) 30 June 2017

30 June 2017 (Unaudited) SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	29,958,973	92,193,996	59,759,444	606,099	182,518,512
Total liabilities	60,969,568	69,858,951	18,940,741	-	149,769,260
Total operating income	1,280,610	1,650,335	693,732	-	3,624,677
Other operating expenses	821,427	584,533	73,875	-	1,479,835
Share in earnings of associate and joint venture	-	-	-	20,302	20,302
Net income for the period	459,183	1,065,802	619,857	20,302	2,165,144
Credit losses and impairment provision, net	209,220	227,125	4,852	-	441,197

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	736,798	471,921	75,916	-	1,284,635
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

b) Total operating income by operating segments

30 June 2017 SAR'000 (Unaudited)

	Retail Banking	Corporate Banking	Treasury	Total
External	1,072,718	2,237,903	314,056	3,624,677
Inter-segment	207,892	(587,568)	379,676	-
Total operating income	1,280,610	1,650,335	693,732	3,624,677

30 June 2016 SAR'000 (Unaudited)

	Retail Banking	Corporate Banking	Treasury	Total
External	1,148,186	2,095,578	312,904	3,556,668
Inter-segment	15,836	(469,838)	454,002	-
Total operating income	1,164,022	1,625,740	766,906	3,556,668

13. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 30 June 2017 and 30 June 2016 are calculated by dividing the net income for the periods attributable to the equity holders 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.

	30 June 2017 SAR'000 (Unaudited)	31 December 2016 SAR'000 (Audited)	30 June 2016 SAR'000 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	161,328,367	161,899,067	175,074,157
Operational Risk RWA	13,536,866	13,333,290	13,034,195
Market Risk RWA	2,411,488	2,514,488	1,735,813
Total RWA	177,276,721	177,746,845	189,844,165
Tier I Capital	32,749,252	31,278,928	29,801,673
Tier II Capital	3,755,831	3,600,244	3,913,516
Total I & II Capital	36,505,083	34,879,172	33,715,189
Capital Adequacy Ratio %			
Tier I ratio	18.47%	17.60%	15.70%
Tier I + Tier II ratio	20.59%	19.62%	17.76%

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.

SAR' 000

30 June 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivative financial instruments	-	483,361	-	483,361
Financial investments available for sale	1,087,364	13,555,501	35,151	14,678,016
Investments held at amortised cost	-	6,626,841	-	6,626,841
Loans and advances	-	116,466,534	-	116,466,534
<u>Financial Liabilities</u>				
Customers deposits	-	138,417,309	-	138,417,309
Derivative financial instruments	-	458,928	-	458,928
Debt securities in issue	-	2,997,904	-	2,997,904
Borrowings	-	1,683,418	-	1,683,418

31 December 2016 (Audited)	Level 1	Level 2	Level 3	Total
<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>				
Customers 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

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 29 million (2016 : positive SAR 49.4 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 interim 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. Interim dividend

An interim dividend of SAR 1,125 million from the net income for the six-month period ended 30 June 2017 (30 June 2016 : SAR 585 million) has been approved on 19 July 2017 for payment to shareholders. After deducting zakat, this interim dividend will result in a net payment of SAR 0.71 per share (30 June 2016 : SAR 0.35 per share) to the Saudi shareholders. The income tax liability of the foreign shareholders will be deducted from their share of the dividend.

17. Comparative figures

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.

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.

	30 June 2017 (Unaudited)	
SAR'000	Interim consolidated statement of changes in equity	Interim consolidated statement of financial position
	Retained earnings	Other Liabilities
Zakat for the period	32,466	32,466
Income tax for the period	173,150	173,150
Total	205,616	205,616

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