

**Interim Condensed
Consolidated Financial
Statements**

For the nine month period ended
30 September 2017

(Unaudited)

The Saudi British Bank

SABB  **ساب**

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2017 Unaudited SAR' 000	31 December 2016 Audited SAR' 000	30 September 2016 Unaudited SAR' 000
	<u>Notes</u>			
ASSETS				
Cash and balances with SAMA		19,074,049	24,121,821	14,549,850
Due from banks and other financial institutions		15,385,665	8,217,746	10,802,229
Derivatives	9	476,068	721,912	814,404
Investments, net	4	25,251,708	29,273,055	29,034,158
Loans and advances, net	5	116,685,780	120,964,815	125,874,829
Investment in an associate and a joint venture	6	626,347	642,297	615,684
Property and equipment, net		1,061,199	1,038,352	1,039,880
Other assets		920,004	1,075,896	3,173,137
Total assets		179,480,820	186,055,894	185,904,171
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,658,753	3,419,174	1,895,046
Customers' deposits	7	134,565,021	140,639,785	144,083,838
Debt securities in issue	8	3,023,222	4,517,636	4,544,656
Borrowings		1,685,151	1,709,958	31,729
Derivatives	9	445,405	604,793	886,565
Other liabilities		5,357,733	3,885,620	4,314,284
Total liabilities		146,735,285	154,776,966	155,756,118
Shareholders' equity				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		9,098,625	8,557,339	8,156,989
Other reserves		41,766	24,052	(500,242)
Retained earnings		8,605,144	7,127,537	7,491,306
Proposed dividends		-	570,000	-
Total shareholders' equity		32,745,535	31,278,928	30,148,053
Total liabilities and shareholders' equity		179,480,820	186,055,894	185,904,171

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 INCOME

Unaudited

	Three months ended		Nine months ended	
	30	30	30	30
	September	September	September	September
	2017	2016	2017	2016
Notes	SAR'000	SAR'000	SAR'000	SAR'000
Special commission income	1,490,672	1,594,725	4,523,024	4,479,597
Special commission expense	232,397	372,368	729,779	958,735
Net special commission income	1,258,275	1,222,357	3,793,245	3,520,862
Fee and commission income, net	302,373	302,768	969,194	1,056,379
Exchange income, net	114,383	112,437	328,372	370,420
Income from FVIS financial instruments, net	-	62	-	6,994
Trading income, net	35,797	30,361	214,299	224,865
Dividend income	31,499	18,944	52,499	37,844
Gain on non-trading investments, net	21,532	364	30,718	26,583
Other operating income, net	32	2	241	16
Total operating income	1,763,891	1,687,295	5,388,568	5,243,963
Salaries and employee related expenses	312,887	306,812	904,173	917,855
Rent and premises related expenses	36,471	36,177	108,888	105,758
Depreciation	32,536	28,660	92,122	83,402
General and administrative expenses	150,841	147,163	466,190	448,637
Provision for credit losses, net	168,783	189,529	559,980	437,784
(Reversal) / impairment of other financial assets, net	(703)	-	49,297	(460)
Total operating expenses	700,815	708,341	2,180,650	1,992,976
Income from operating activities	1,063,076	978,954	3,207,918	3,250,987
Share in earnings of an associate and a joint venture	6	15,866	40,550	37,163
Net income for the period	1,083,324	994,820	3,248,468	3,288,150
Basic and diluted earnings per share (in SAR)	13	0.66	2.17	2.19

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

	Three months ended		Nine months ended	
	30 September 2017 SAR' 000	30 September 2016 SAR' 000	30 September 2017 SAR' 000	30 September 2016 SAR' 000
Net income for the period	1,083,324	994,820	3,248,468	3,288,150
Other comprehensive income for the periods – items that may be reclassified subsequently to consolidated statement of income:				
Available for sale financial assets:				
- Net change in fair value	(70,423)	(47,685)	(57,367)	(103,135)
- Transfer to interim consolidated statement of income, net	(22,235)	(364)	18,579	(26,583)
Cash flow hedges:				
- Net change in fair value	33,790	(8,114)	99,313	(8,572)
- Transfer to interim consolidated statement of income, net	(8,409)	(199)	(52,543)	(5,880)
Total other comprehensive (loss) / income for the period	(67,277)	(56,362)	7,982	(144,170)
Total comprehensive income for the period	1,016,047	938,458	3,256,450	3,143,980

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY For the nine month period ended 30 September Unaudited

	Share capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividends SAR '000	Total SAR '000
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	-	-	-	3,248,468	-	3,248,468
Net changes in fair value of available for sale investments	-	-	(57,367)	-	-	(57,367)
Net changes in fair value of cash flow hedges	-	-	99,313	-	-	99,313
Transfer to interim consolidated statement of income, net	-	-	(33,964)	-	-	(33,964)
	-	-	7,982	3,248,468	-	3,256,450
Treasury shares	-	-	11,155	-	-	11,155
Employee share plan reserve	-	-	(1,423)	-	-	(1,423)
Transfer to statutory reserve	-	541,286	-	(541,286)	-	-
Zakat for the period (note 17)	-	-	-	(54,000)	(27,000)	(81,000)
Income tax for the period (note 17)	-	-	-	(259,725)	(131,068)	(390,793)
2016 final dividend paid net of zakat and income tax	-	-	-	-	(411,932)	(411,932)
2017 interim dividend paid net of zakat and income tax (note 16)	-	-	-	(915,850)	-	(915,850)
Balance at end of the period	<u>15,000,000</u>	<u>9,098,625</u>	<u>41,766</u>	<u>8,605,144</u>	<u>-</u>	<u>32,745,535</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	-	-	-	3,288,150	-	3,288,150
Net changes in fair value of available for sale investments	-	-	(103,135)	-	-	(103,135)
Net changes in fair value of cash flow hedges	-	-	(8,572)	-	-	(8,572)
Transfer to interim consolidated statement of income, net	-	-	(32,463)	-	-	(32,463)
	-	-	(144,170)	3,288,150	-	3,143,980
Treasury shares	-	-	(11,307)	-	-	(11,307)
Employee share plan reserve	-	-	(4,157)	-	-	(4,157)
Transfer to statutory reserve	-	573,333	-	(573,333)	-	-
2015 final dividend paid	-	-	-	-	(570,000)	(570,000)
2016 Interim dividend paid (note 16)	-	-	-	(585,000)	-	(585,000)
Balance at end of the period	<u>15,000,000</u>	<u>8,156,989</u>	<u>(500,242)</u>	<u>7,491,306</u>	<u>-</u>	<u>30,148,053</u>

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 CASH FLOWS

For the nine month period ended 30 September

Unaudited

	<u>Notes</u>	<u>2017</u> SAR' 000	<u>2016</u> SAR' 000
OPERATING ACTIVITIES			
Net income for the period		3,248,468	3,288,150
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium on non-trading investments, net		8,578	32,190
Depreciation		92,122	83,402
Income from FVIS financial instruments, net		-	(6,994)
Gains on non-trading investments, net		(30,718)	(26,583)
Cash flow hedge gain transfer to interim consolidated statement of income		(52,543)	(5,880)
Share in earnings of an associate and a joint venture		(40,550)	(37,163)
Provision for credit losses, net		559,980	437,784
Employee share plan reserve		9,732	7,786
Impairment / (reversal) of other financial assets, net		49,297	(460)
		3,844,366	3,772,232
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		999,766	797,835
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		(1,138,733)	(420,684)
Loans and advances, net		3,719,055	(365,977)
Other assets and derivatives		501,049	(1,799,307)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,760,421)	60,140
Customers' deposits		(6,074,764)	(4,803,340)
Other liabilities and derivatives		799,298	660,041
Net cash from / (used in) operating activities		889,616	(2,099,060)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		18,255,079	49,775,282
Purchase of non-trading investments		(14,299,677)	(43,410,266)
Dividend received from investment in a joint venture	6	56,500	114,714
Purchase of property and equipment		(114,969)	(131,827)
Net cash from investing activities		3,896,933	6,347,903
FINANCING ACTIVITIES			
Debt securities in issue		(1,494,414)	31,718
Borrowings		(24,807)	(15,259)
Dividends paid		(1,286,147)	(908,068)
Treasury shares purchased		-	(23,250)
Net cash used in financing activities		(2,805,368)	(914,859)
Net increase in cash and cash equivalents		1,981,181	3,333,984
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	24,939,958	16,672,211
Special commission received during the period		4,462,765	4,216,203
Special commission paid during the period		797,838	866,638
Supplemental non cash information			
Total other comprehensive income / (loss)		7,982	(144,170)

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 82 branches (30 September 2016 : 83 branches) in the Kingdom of Saudi Arabia. SABB employed 3,221 staff as at 30 September 2017 (30 September 2016 : 3,317). 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.

On 17 May 2017, SABB established a Special Purpose Vehicle (“SPV”) SABB Markets Limited, a wholly owned subsidiary incorporated as a limited liability company under the laws of Cayman Islands. The subsidiary will engage in derivatives trading and repo activities. The subsidiary has not yet commenced operations.

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.

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.

These interim condensed consolidated financial statements were approved by the Board of Directors on 5 Safar 1439H (Corresponding 25 October 2017).

30 September 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 September 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 17 to the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements comply with the Banking Control Law and the Companies Law 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 interim consolidated 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 statement of income 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 standard 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 standard

- 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 IFRS 12, Disclosure of Interests in Other Entities: The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraph B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Investments:			
- Available for sale, net	16,493,820	23,007,811	21,865,625
- Held at amortised cost	8,757,888	6,265,244	7,168,533
Total	25,251,708	29,273,055	29,034,158

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Credit cards	2,348,565	2,308,508	2,463,654
Consumer loans	22,419,238	24,380,165	24,416,302
Commercial loans and overdrafts	93,484,582	95,510,374	99,989,387
Performing loans and advances, gross	118,252,385	122,199,047	126,869,343
Non-performing loans and advances, net	1,624,839	1,655,479	1,701,124
Total loans and advances	119,877,224	123,854,526	128,570,467
Provision for credit losses, net	(3,191,444)	(2,889,711)	(2,695,638)
Loans and advances, net	116,685,780	120,964,815	125,874,829

6. Investment in an associate and a joint venture

SAR'000	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period / year	513,678	565,898	565,898
Share in earnings	39,650	62,495	36,066
Dividend received	(56,500)	(114,715)	(114,715)
	<u>496,828</u>	<u>513,678</u>	<u>487,249</u>
SABB Takaful			
Balance at beginning of the period / year	128,619	127,337	127,337
Share in earnings	900	1,282	1,098
	<u>129,519</u>	<u>128,619</u>	<u>128,435</u>
Total	<u>626,347</u>	<u>642,297</u>	<u>615,684</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 also 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 September 2017 is SAR 320.7 million (30 September 2016 : SAR 212.3 million). On 17 August 2017, SABB entered into an agreement with HSBC Asia Holdings BV and certain other wholly-owned subsidiaries of HSBC Holdings plc (together HSBC) to purchase HSBC's combined 32.5% shareholding in SABB Takaful at a purchase price of SAR 10.66 per share, totaling SAR 117.8 million. This proposed transaction is currently subject to regulatory approval. Once the transaction completes, SABB will own 65% of the shares in SABB Takaful.

7. Customers' deposits

SAR'000	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Demand	79,815,754	82,345,754	78,654,086
Savings	6,982,681	7,320,350	7,275,032
Time	46,772,494	49,386,046	56,317,265
Margin deposits	994,092	1,587,635	1,837,455
Total	<u>134,565,021</u>	<u>140,639,785</u>	<u>144,083,838</u>

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 September 2017 (Unaudited)			31 December 2016 (Audited)			30 September 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	263,088	(234,561)	44,717,204	229,698	(206,844)	36,848,122	346,379	(307,028)	38,409,463
Special commission rate options	40,834	(40,834)	18,650,109	87,500	(87,500)	16,617,736	72,781	(72,781)	14,770,056
Forward foreign exchange contracts	57,887	(41,656)	11,889,475	116,874	(49,190)	19,420,843	62,554	(33,549)	18,237,721
Currency options	18,050	(18,442)	56,693,726	145,808	(148,103)	143,436,015	282,064	(288,683)	179,569,757
Currency swaps	15,749	(14,429)	3,018,857	14,028	(11,472)	1,423,750	22,791	(20,234)	1,423,750
Others	11,665	(11,665)	360,836	425	(425)	425,786	3,484	(3,482)	425,785
Derivatives held as fair value hedges:									
Special commission rate swaps	19,068	(57,597)	5,317,500	86,254	(54,188)	3,904,331	9,211	(107,190)	2,580,141
Derivatives held as cash flow hedges:									
Special commission rate swaps	22,932	(11,045)	1,390,000	32,875	(34,092)	2,465,000	9,690	(53,618)	1,590,000
Currency swaps	26,795	(15,176)	1,552,591	8,450	(12,979)	1,071,317	5,450	-	187,500
Total	476,068	(445,405)	143,590,298	721,912	(604,793)	225,612,900	814,404	(886,565)	257,194,173

10. Commitments and contingencies

a) Legal proceedings

As at 30 September 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 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Letters of credit	9,403,813	11,219,310	11,026,713
Letters of guarantee	53,320,694	54,997,784	56,877,779
Acceptances	3,937,868	3,139,667	2,561,610
Irrevocable commitments to extend credit	3,176,077	2,363,594	3,782,319
Total	69,838,452	71,720,355	74,248,421

11. Cash and cash equivalents

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

SAR'000	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	11,220,900	15,268,906	6,291,318
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	13,719,058	7,689,871	10,380,893
Total	24,939,958	22,958,777	16,672,211

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, an associate and equity investments.

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 September 2017 and 2016, its total operating income and expenses, and the results for the nine-month periods then ended, by operating segment, are as follows:

The Saudi British Bank

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

30 September 2017 (Unaudited) SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	28,850,037	90,885,386	58,077,153	1,668,244	179,480,820
Total liabilities	59,411,328	69,655,584	17,668,373	-	146,735,285
Total operating income	1,928,693	2,416,744	990,632	52,499	5,388,568
Other operating expenses	1,231,380	790,673	108,597	50,000	2,180,650
Share in earnings of an associate and a joint venture	-	-	-	40,550	40,550
Net income for the period	697,313	1,626,071	882,035	43,049	3,248,468
Credit losses and impairment provision (reversal), net	307,680	252,300	(703)	50,000	609,277

30 September 2016 (Unaudited) SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	33,316,341	96,321,558	54,866,536	1,399,736	185,904,171
Total liabilities	66,957,801	65,168,553	23,629,764	-	155,756,118
Total operating income	1,769,717	2,370,650	1,065,752	37,844	5,243,963
Other operating expenses	1,123,315	755,664	113,997	-	1,992,976
Share in earnings of an associate and a joint venture	-	-	-	37,163	37,163
Net income for the period	646,402	1,614,986	951,755	75,007	3,288,150
Credit losses and impairment provision (reversal), net	213,367	224,417	(460)	-	437,324

b) Total operating income by operating segments

30 September 2017 SAR'000 (Unaudited)

	Retail Banking	Corporate Banking	Treasury	Other	Total
External	1,598,028	3,276,712	461,329	52,499	5,388,568
Inter-segment	330,664	(859,968)	529,304	-	-
Total operating income	1,928,692	2,416,744	990,633	52,499	5,388,568

30 September 2016 SAR'000 (Unaudited)

	Retail Banking	Corporate Banking	Treasury	Other	Total
External	1,702,560	3,132,806	370,753	37,844	5,243,963
Inter-segment	67,157	(762,156)	694,999	-	-
Total operating income	1,769,717	2,370,650	1,065,752	37,844	5,243,963

13. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 30 September 2017 and 30 September 2016 are calculated by dividing the net income for the periods 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 September 2017 SAR'000 (Unaudited)	31 December 2016 SAR'000 (Audited)	30 September 2016 SAR'000 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	162,309,634	161,899,067	167,477,154
Operational Risk RWA	13,599,742	13,333,290	13,163,042
Market Risk RWA	2,504,775	2,514,488	808,000
Total RWA	178,414,151	177,746,845	181,448,196
Tier I Capital	32,745,535	31,278,928	30,148,053
Tier II Capital	4,327,820	3,600,244	3,896,576
Total I & II Capital	37,073,355	34,879,172	34,044,629
Capital Adequacy Ratio %			
Tier I ratio	18.35%	17.60%	16.62%
Tier I + Tier II ratio	20.78%	19.62%	18.76%

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 September 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Derivative financial instruments	-	476,068	-	476,068
Financial investments available for sale	1,007,985	15,451,923	33,912	16,493,820
Investments held at amortised cost	-	8,727,048	-	8,727,048
Loans and advances	-	-	115,415,314	115,415,314
<u>Financial Liabilities</u>				
Customers deposits	-	134,664,752	-	134,664,752
Derivative financial instruments	-	445,405	-	445,405
Debt securities in issue	-	3,023,222	-	3,023,222
Borrowings	-	1,685,151	-	1,685,151

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 options, 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. Loans and advances are classified as Level 3, the fair value of which is determined by discounting future cash flows using risk adjusted expected SIBOR rates.

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 32.72 million (2016 : positive SAR 54.42 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 (2016: SAR 585 million) has been approved on 19 July 2017 for payment to shareholders. After deducting zakat, this interim dividend resulted 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 was 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 September 2017 (Unaudited)	
	Interim consolidated statement of changes in equity	Interim consolidated statement of financial position
SAR'000	Retained earnings	Other Liabilities
Zakat for the period	54,000	54,000
Income tax for the period	259,725	259,725
Total	313,725	313,725

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