

**Interim Condensed
Consolidated Financial
Statements**

For the nine months ended
30 September 2016

The Saudi British Bank

SABB  **ساب**



KPMG Al Fozan & Partners
Certified Public Accountants



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF THE SAUDI BRITISH BANK (A SAUDI JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of The Saudi British Bank and its subsidiaries (collectively referred to as the "Bank"), as at 30 September 2016, and the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, and the related interim consolidated statements of changes in shareholders' equity and cash flows for the nine month period then ended, and the notes from (1) to (16), which form an integral part of these interim condensed consolidated financial statements. We have not reviewed note (15), nor the information related to "Disclosures under Basel III framework" cross-referenced therein, which is not required to be within the scope of our review. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34 "Interim Financial Reporting".



KPMG Al Fozan & Partners
Certified Public Accountants




**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF THE SAUDI BRITISH BANK (CONTINUED)
(A SAUDI JOINT STOCK COMPANY)**

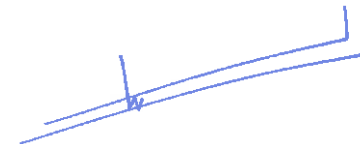
Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (13) of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (13) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

KPMG Al Fozan & Partners
Certified Public Accountants
P.O.Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

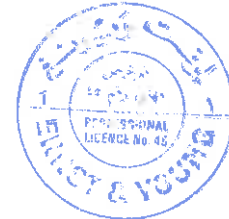
Ernst & Young
P.O.Box 2732
Riyadh 11461
Kingdom of Saudi Arabia


Abdullah Hamad Al Fozan
Certified Public Accountant
License No. 348


Fahad M. Al Toami
Certified Public Accountant
License No. 354



23 Muharram 1438H
(24 October 2016)



The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2016 Unaudited SAR' 000	31 December 2015 Audited SAR' 000	30 September 2015 Unaudited SAR' 000
	Notes			
ASSETS				
Cash and balances with SAMA		14,549,850	10,942,268	11,602,170
Due from banks and other financial institutions		10,802,229	11,452,978	8,157,695
Derivatives		814,404	872,865	834,873
Investments, net	4	29,034,158	35,527,045	43,481,503
Loans and advances, net	5	125,874,829	125,946,636	129,568,933
Investment in a joint venture and an associate	6	615,684	693,235	668,449
Property and equipment, net		1,039,880	991,455	965,807
Other assets		3,173,137	1,323,941	1,917,905
Total assets		185,904,171	187,750,423	197,197,335
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,895,046	1,834,906	2,317,139
Customers' deposits	7	144,083,838	148,887,178	155,850,080
Debt securities in issue		4,544,656	4,512,938	6,779,854
Borrowings		31,729	46,988	63,458
Derivatives		886,565	895,429	801,427
Other liabilities		4,314,284	3,398,447	3,986,081
Total liabilities		155,756,118	159,575,886	169,798,039
Shareholders' equity				
Share capital		15,000,000	15,000,000	15,000,000
Statutory reserve		8,156,989	7,583,656	7,064,131
Other reserves		(500,242)	(340,608)	(177,310)
Retained earnings		7,491,306	5,361,489	5,512,475
Proposed dividends		-	570,000	-
Total shareholders' equity		30,148,053	28,174,537	27,399,296
Total liabilities and shareholders' equity		185,904,171	187,750,423	197,197,335

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF INCOME

Unaudited

	Notes	Three months ended		Nine months ended	
		30 September 2016 SAR'000	30 September 2015 SAR'000	30 September 2016 SAR'000	30 September 2015 SAR'000
Special commission income		1,594,725	1,190,572	4,479,597	3,557,040
Special commission expense		372,368	111,561	958,735	379,514
Net special commission income		1,222,357	1,079,011	3,520,862	3,177,526
Fee and commission income, net		302,768	400,809	1,056,379	1,211,517
Exchange income, net		112,437	124,814	370,420	350,299
Income from FVIS financial instruments		62	-	6,994	3,750
Trading income, net		30,361	53,184	224,865	234,277
Dividend income		18,944	19,410	37,844	37,050
Gain on non-trading investments, net		364	11,948	26,583	66,692
Other operating gain, net		2	81	16	305
Total operating income		1,687,295	1,689,257	5,243,963	5,081,416
Salaries and employee related expenses		306,812	305,390	917,855	947,395
Rent and premises related expenses		36,177	33,650	105,758	96,681
Depreciation		28,660	24,260	83,402	70,113
General and administrative expenses		147,163	122,958	448,637	373,770
Provision for credit losses, net		189,529	88,004	437,784	316,641
Reversal of impairment of other financial assets		-	-	(460)	(9,632)
Total operating expenses		708,341	574,262	1,992,976	1,794,968
Net income from operating activities		978,954	1,114,995	3,250,987	3,286,448
Share in earnings of a joint venture and an associate	6	15,866	24,564	37,163	105,560
Net income for the period		994,820	1,139,559	3,288,150	3,392,008
Basic and diluted earnings per share (in SAR)	12	0.66	0.76	2.19	2.26

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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

	Three months ended		Nine months ended	
	30 September 2016 SAR' 000	30 September 2015 SAR' 000	30 September 2016 SAR' 000	30 September 2015 SAR' 000
Net income for the period	994,820	1,139,559	3,288,150	3,392,008
Other comprehensive income to be reclassified to statement of income in subsequent period				
Available for sale financial assets				
- Net change in fair value	(47,685)	(309,780)	(103,135)	(162,160)
- Transfer to interim consolidated statement of income	(364)	(11,947)	(26,583)	(66,692)
Cash flow hedges				
- Net change in fair value	(8,114)	2,346	(8,572)	780
- Transfer to interim consolidated statement of income	(199)	(397)	(5,880)	(591)
	(56,362)	(319,778)	(144,170)	(228,663)
Total comprehensive income for the period	938,458	819,781	3,143,980	3,163,345

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months 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
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 cash flow hedges	-	-	(8,572)	-	-	(8,572)
Net changes in fair value of available for sale investments	-	-	(103,135)	-	-	(103,135)
Transfer to interim consolidated statement of income	-	-	(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 Proposed interim dividend	-	-	-	(585,000)	585,000	-
2016 Interim dividend paid	-	-	-	-	(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>
2015						
Balance at beginning of the period	10,000,000	9,001,019	61,614	5,858,579	1,150,000	26,071,212
Total comprehensive income for the period						
Net income for the period	-	-	-	3,392,008	-	3,392,008
Net changes in fair value of cash flow hedges	-	-	780	-	-	780
Net changes in fair value of available for sale investments	-	-	(162,160)	-	-	(162,160)
Transfer to interim consolidated statement of income	-	-	(67,283)	-	-	(67,283)
			(228,663)	3,392,008		3,163,345
Bonus share issue	5,000,000	(2,500,000)	-	(2,500,000)	-	-
Employee share plan reserve	-	-	15,531	-	-	15,531
Treasury Shares	-	-	(25,792)	-	-	(25,792)
Transfer to statutory reserve	-	563,112	-	(563,112)	-	-
2014 Final dividend paid	-	-	-	-	(1,150,000)	(1,150,000)
2015 Proposed interim dividend	-	-	-	(675,000)	675,000	-
2015 Interim dividend paid	-	-	-	-	(675,000)	(675,000)
Balance at end of the period	<u>15,000,000</u>	<u>7,064,131</u>	<u>(177,310)</u>	<u>5,512,475</u>	<u>-</u>	<u>27,399,296</u>

Mathew Pearce



Chief Financial Officer

David Dew



Managing Director & Authorized Member

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months period ended 30 September

Unaudited

	2016 SAR' 000	2015 SAR' 000
	<u>Note</u>	
OPERATING ACTIVITIES		
Net income for the period	3,288,150	3,392,008
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Amortisation of premium on non-trading investments, net	32,190	38,460
Depreciation	83,402	70,113
Income from FVIS financial instruments	(6,994)	(3,750)
Gains on non-trading investments, net	(26,583)	(66,692)
Cash Flow Hedge gain transfer to interim consolidated statement of income	(5,880)	(591)
Share in earnings of a joint venture and an associate	(37,163)	(105,560)
Provision for credit losses, net	437,784	316,641
Employee share plan reserve	7,786	15,531
Reversal of impairment of other financial assets	(460)	(9,632)
	<u>3,772,232</u>	<u>3,646,528</u>
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA	797,835	(421,645)
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition	(420,684)	93,791
Loans and advances	(365,977)	(14,279,070)
Other assets and derivatives	(1,799,307)	740,401
Net increase (decrease) in operating liabilities:		
Due to banks and other financial institutions	60,140	(1,777,085)
Customers' deposits	(4,803,340)	9,816,582
Other liabilities and derivatives	660,041	(1,299,811)
Net cash used in operating activities	<u>(2,099,060)</u>	<u>(3,480,309)</u>
INVESTING ACTIVITIES		
Proceeds from sale of and maturities of non-trading investments	49,775,282	20,546,755
Purchase of non-trading investments	(43,410,266)	(18,803,318)
Purchase of property and equipment	(131,827)	(372,519)
Investment in a joint venture and an associate	114,714	88,785
Net cash from in investing activities	<u>6,347,903</u>	<u>1,459,703</u>
FINANCING ACTIVITIES		
Debt securities in issue	31,718	1,498,167
Borrowings	(15,259)	(14,856)
Dividends paid	(908,068)	(1,788,014)
Treasury Shares	(23,250)	(25,792)
Net cash used in financing activities	<u>(914,859)</u>	<u>(330,495)</u>
Net increase (decrease) in cash and cash equivalents	<u>3,333,984</u>	<u>(2,351,101)</u>
Cash and cash equivalents at beginning of the period	<u>13,338,227</u>	<u>13,012,041</u>
Cash and cash equivalents at end of the period	<u>10 16,672,211</u>	<u>10,660,940</u>
Special commission received during the period	<u>4,398,029</u>	<u>3,261,584</u>
Special commission paid during the period	<u>894,760</u>	<u>270,163</u>
Supplemental non cash information		
Net changes in fair value and transfer to interim consolidated statement of income	<u>(144,170)</u>	<u>(228,663)</u>

Matthew Pearce

Chief Financial Officer

David Dew

Managing Director & Authorized Member

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

1. General

The Saudi British Bank (SABB) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 83 branches (30 September 2015: 82) in the Kingdom of Saudi Arabia. SABB employed 3,317 staff as at 30 September 2016 (30 September 2015: 3,364). The address of SABB's head office is as follows:

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

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

SABB has 100% (2015:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi Limited Liability Company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jumada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The subsidiary is currently not carrying out any activity and is in the process of being liquidated.

SABB has 100% (2015:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in the 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 an insurance agent for SABB Takaful Company (an associate company of SABB - see note 6) within the Kingdom of Saudi Arabia.

SABB has 100% (2015:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purpose.

SABB has 100% (2015:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary's main purpose is the registration of real estates.

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

These interim condensed consolidated financial statements were approved by the Board of Directors on 23 Muharram 1438H (Corresponding to 24 October 2016).

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard 34 – Interim Financial Reporting. SABB prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015.

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended 31 December 2015.

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

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

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

2(i). Basis of consolidation

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

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

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

3. Accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the following new standards and other amendments to existing standards mentioned below, which has had an insignificant effect/no financial impact on the interim condensed consolidated interim financial statements of the Bank on the current period or prior period, and is not expected to have any significant effect in future periods:

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

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

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

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

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 September 2016 (Unaudited)	31 December 2015 (Audited)	30 September 2015 (Unaudited)
Investments:			
- Available for sale, net	21,865,625	31,857,402	41,457,679
- Held at amortised cost, net	7,168,533	3,669,643	2,023,824
Total	29,034,158	35,527,045	43,481,503

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	30 September 2016 (Unaudited)	31 December 2015 (Audited)	30 September 2015 (Unaudited)
Credit cards	2,463,654	2,172,280	2,254,071
Consumer loans	24,416,302	25,440,045	24,554,547
Commercial loans and overdrafts	99,989,387	99,303,586	103,669,274
Performing loans and advances, gross	126,869,343	126,915,911	130,477,892
Non-performing loans and advances, net	1,701,124	1,517,271	1,512,422
Total loans and advances	128,570,467	128,433,182	131,990,314
Provision for credit losses (specific and collective)	(2,695,638)	(2,486,546)	(2,421,381)
Loans and advances, net	125,874,829	125,946,636	129,568,933

Collateral

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

As of 30 September 2016, the net carrying amount of impaired loans and advances comprising commercial loans and overdrafts amounted to SAR 1,565 million (2015: SAR 1,423 million) and the value of identifiable collateral held against those loans and advances amount to SAR 973 million (2015: SAR 973 million).

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

	<u>September</u> <u>30, 2016</u> (Unaudited)	<u>December</u> <u>31, 2015</u> (Audited)	<u>Principal type of Collateral held</u>
<u>Credit Card and Consumer Loans</u>			
Mortgage Finance	100%	100%	Residential Property
Personal Finance	--	--	
Credit Cards	0.02%	0.03%	Cash
<u>Commercial Loans and Overdrafts</u>			
Commercial Real Estate	100%	100%	Commercial and Residential Property
Other Finance	42%	70%	Marketable securities, Property and Cash

6. Investment in associate and joint venture

SAR'000	30 September 2016 (Unaudited)	31 December 2015 (Audited)	30 September 2015 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	565,898	526,221	526,221
Share of profit for the period	36,066	128,461	104,016
Dividend received	(114,714)	(88,784)	(88,785)
	487,250	565,898	541,452
SABB Takaful			
Balance at beginning of the period	127,337	125,453	125,453
Share of profit for the period	1,097	1,884	1,544
	128,434	127,337	126,997
Total	615,684	693,235	668,449

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

SABB owns 32.5% (2015: 32.5%) of SABB Takaful, a listed 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 2016 is SAR 212.3 million (30 September 2015: SAR 448.1 million).

7. Customers' deposits

SAR'000	30 September 2016 (Unaudited)	31 December 2015 (Audited)	30 September 2015 (Unaudited)
Demand	78,654,086	87,284,903	92,767,845
Savings	7,275,032	7,545,422	7,267,961
Time	56,317,265	51,794,969	52,448,641
Margin deposits	1,837,455	2,261,884	3,365,633
Total	144,083,838	148,887,178	155,850,080

8. Derivatives

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

SAR'000	30 September 2016 (Unaudited)			31 December 2015 (Audited)			30 September 2015 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading:									
Special commission rate swaps	346,379	(307,028)	38,409,463	332,167	(259,396)	45,436,530	482,672	(383,340)	46,415,559
Special commission rate futures and options	72,781	(72,781)	6,773,426	34,088	(34,088)	2,858,426	28,948	(28,948)	1,944,550
Spot and forward foreign exchange contracts	62,554	(33,549)	18,237,721	56,989	(52,287)	12,446,528	39,518	(31,161)	22,140,732
Currency options	282,064	(288,683)	179,569,757	364,518	(380,808)	290,984,536	186,446	(193,699)	214,309,659
Currency swaps	22,791	(20,234)	1,423,750	73,874	(74,049)	421,414	79,434	(79,809)	417,262
Others	3,484	(3,482)	425,785	8,455	(8,455)	435,573	9,924	(9,924)	408,895
Derivatives held as fair value hedges:									
Special commission rate swaps	9,211	(107,190)	2,580,141	-	(51,608)	1,452,467	2,842	(70,237)	3,796,696
Derivatives held as cash flow hedges:									
Commission rate swaps	9,690	(53,618)	1,590,000	-	(33,474)	1,100,000	5,089	-	1,100,000
Currency swaps	5,450	-	187,500	2,774	(1,264)	585,938	-	(4,309)	304,688
Total	814,404	(886,565)	249,197,543	872,865	(895,429)	355,721,412	834,873	(801,427)	290,838,041

9. Credit related commitments and contingencies

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

SAR'000	30 September 2016 (Unaudited)	31 December 2015 (Audited)	30 September 2015 (Unaudited)
Letters of credit	11,026,713	13,353,368	15,610,655
Letters of guarantee	56,877,779	63,471,080	63,378,128
Acceptances	2,561,610	3,613,104	4,080,923
Irrevocable commitments to extend credit	3,782,319	4,095,708	2,592,317
Total	74,248,421	84,533,260	85,662,023

10. Cash and cash equivalents

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

SAR'000	30 September 2016 (Unaudited)	31 December 2015 (Audited)	30 September 2015 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	6,291,318	1,885,901	2,503,679
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	10,380,893	11,452,326	8,157,261
Total	16,672,211	13,338,227	10,660,940

11. Segment information

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

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

There have been no significant changes to the basis of segmentation or the measurement basis for the operating segment profit or loss since 31 December 2015.

The Bank is organised into the following main operating segments:

Retail Banking – caters mainly to the banking requirements of personal and private banking customers.

Corporate Banking – caters mainly to the banking requirements of commercial and corporate banking customers.

Treasury – manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and for managing the Bank's investment portfolio and liquidity position.

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

The Bank's total assets and liabilities as at 30 September 2016 and 2015, their total operating income and expenses, and the net income for the nine-month periods then ended, by operating segment, are as follows:

30 September 2016 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	33,456,264	96,859,241	54,972,982	615,684	185,904,171
Total liabilities	66,990,288	65,168,553	23,597,277	-	155,756,118
Total operating income	1,776,444	2,398,812	1,068,707	-	5,243,963
Total operating expenses	909,949	531,246	114,457	-	1,555,652
Share in earnings of a joint venture and an associate	-	-	-	37,163	37,163
Net income for the period	653,129	1,643,148	954,710	37,163	3,288,150
Credit losses and impairment provision (reversal), net	213,366	224,418	(460)	-	437,324

30 September 2015

(Unaudited)

SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	35,492,461	98,429,488	62,606,937	668,449	197,197,335
Total liabilities	64,095,002	80,407,490	25,295,547	-	169,798,039
Total operating income	1,740,445	2,277,455	1,063,516	-	5,081,416
Total operating expenses	881,673	498,443	107,843	-	1,487,959
Share in earnings of a joint venture and an associate	-	-	-	105,560	105,560
Net income for the period	662,237	1,658,906	965,305	105,560	3,392,008
Credit losses and impairment provision (reversal), net	196,535	120,106	(9,632)	-	307,009

Total operating income by operating segments

30 September 2016

SAR'000 (Unaudited)

External

Internal

Total operating income

	Retail Banking	Corporate Banking	Treasury	Total
External	1,662,653	3,051,582	529,728	5,243,963
Internal	113,791	(652,770)	538,979	-
Total operating income	1,776,444	2,398,812	1,068,707	5,243,963

30 September 2015

SAR'000 (Unaudited)

External

Internal

Total operating income

	Retail Banking	Corporate Banking	Treasury	Total
External	1,760,544	2,679,991	640,881	5,081,416
Internal	(20,099)	(402,536)	422,635	-
Total operating income	1,740,445	2,277,455	1,063,516	5,081,416

12. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended 30 September 2016 and 30 September 2015 is calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of issued shares of 1,500 million.

13. Capital adequacy

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

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

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

	30 September 2016 SAR'000 (Unaudited)	31 December 2015 SAR'000 (Audited)	30 September 2015 SAR'000 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	167,477,154	167,661,775	170,392,859
Operational Risk RWA	13,163,042	12,620,144	12,536,760
Market Risk RWA	808,000	2,844,213	1,832,750
Total RWA	181,448,196	183,126,132	184,762,369
Tier I Capital	30,148,053	28,174,537	27,399,296
Tier II Capital	3,896,576	4,082,996	4,382,209
Total I & II Capital	34,044,629	32,257,533	31,781,505
Capital Adequacy Ratio %			
Tier I ratio	16.62%	15.39%	14.83%
Tier I + Tier II ratio	18.76%	17.61%	17.20%

14. Fair values of financial instruments

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

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

Determination of fair value and fair value hierarchy

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

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

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

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

SAR' 000	Level 1	Level 2	Level 3	Total
30 September 2016 (Unaudited)				
<u>Financial assets</u>				
Derivative financial instruments	-	814,404	-	814,404
Financial investments available for sale	7,556,141	14,265,882	43,602	21,865,625
Investments held at amortised cost	-	7,168,533	-	7,168,533
Loans and advances	-	124,291,297	-	124,291,297
<u>Financial Liabilities</u>				
Customers deposits	-	144,218,028	-	144,218,028
Derivative financial instruments	-	886,565	-	886,565
Debt securities in issue	-	4,544,656	-	4,544,656
Borrowings	-	31,729	-	31,729

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

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

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

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

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

The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is positive SAR 52.42 million (2015: positive SAR 25.9 million).

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

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

15. Disclosures under Basel III framework

Certain additional disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website www.sabb.com within prescribed time as required by SAMA.

16. Comparative figures

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

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