

Interim Condensed

# **Consolidated Financial Statements**

For the three months ended  
31 March 2011

The Saudi British Bank

SABB  ساب

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>31 March 2011 Unaudited SAR' 000</b>	31 December 2010 Audited SAR' 000	31 March 2010 Unaudited SAR' 000
<u>Notes</u>			
<b>ASSETS</b>			
Cash and balances with SAMA	<b>12,506,372</b>	15,144,088	13,644,430
Due from banks and other financial institutions	<b>8,522,897</b>	7,042,310	4,577,457
Investments, net	<b>4 24,530,690</b>	24,972,442	22,389,462
Loans and advances, net	<b>76,241,757</b>	74,248,486	75,699,090
Investment in associates	<b>5 232,044</b>	221,532	184,722
Property and equipment, net	<b>548,515</b>	558,609	583,661
Other assets	<b>3,432,587</b>	3,185,399	3,452,329
<b>Total assets</b>	<b>126,014,862</b>	125,372,866	120,531,151
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	<b>3,010,966</b>	4,661,178	8,453,100
Customers' deposits	<b>96,873,386</b>	94,672,855	90,016,177
Debt securities in issue	<b>5,589,429</b>	5,475,754	3,347,508
Borrowings	<b>187,500</b>	187,500	187,500
Other liabilities	<b>5,125,500</b>	5,203,632	4,794,603
<b>Total liabilities</b>	<b>110,786,781</b>	110,200,919	106,798,888
<b>Shareholders' equity</b>			
Share capital	<b>7,500,000</b>	7,500,000	7,500,000
Statutory reserve	<b>5,458,863</b>	5,458,863	4,988,075
Other reserves	<b>(26,819)</b>	105,971	(71,368)
Retained earnings	<b>2,296,037</b>	1,544,613	1,315,556
Proposed dividends	<b>-</b>	562,500	-
<b>Total shareholders' equity</b>	<b>15,228,081</b>	15,171,947	13,732,263
<b>Total liabilities and shareholders' equity</b>	<b>126,014,862</b>	125,372,866	120,531,151

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF INCOME

For the three months ended 31 March

Unaudited

	Notes	2011 SAR' 000	2010 SAR' 000
Special commission income		838,412	901,934
Special commission expense		112,729	131,796
<b>Net special commission income</b>		<b>725,683</b>	770,138
Fees and commission income, net		328,297	303,208
Exchange income, net		52,110	30,902
Trading income, net		109,674	85,692
Dividend income		-	1,310
Gains on non-trading investments, net		-	250
Other operating income		3,742	13,610
<b>Total operating income</b>		<b>1,219,506</b>	1,205,110
Salaries and employee related expenses		274,588	215,865
Rent and premises related expenses		21,458	22,591
Depreciation and amortisation		25,251	28,103
Other general and administrative expenses		90,061	145,536
Provision for credit losses, net		71,229	176,467
Impairment of other financial assets		(3,993)	-
Other operating expenses		-	5
<b>Total operating expenses</b>		<b>478,594</b>	588,567
<b>Net income from operating activities</b>		<b>740,912</b>	616,543
<b>Share in earnings of associates, net</b>	5	<b>10,512</b>	4,264
<b>Net income for the period</b>		<b>751,424</b>	620,807
<b>Basic and diluted earnings per share (in SAR)</b>	10	<b>1.00</b>	0.83

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements

The Saudi British Bank

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the three months ended 31 March

Unaudited

	<b>2011</b>	2010
	<b>SAR' 000</b>	SAR' 000
<b>Net income for the period</b>	<b>751,424</b>	620,807
<b>Other comprehensive income</b>		
Available for sale financial assets		
- Net change in fair value	(132,051)	77,501
Cash flow hedge		
- Net change in fair value	1,378	(11,334)
- Transfer to interim consolidated statement of income	(2,117)	-
	<u>(132,790)</u>	<u>66,167</u>
<b>Total comprehensive income for the period</b>	<b><u>618,634</u></b>	<b><u>686,974</u></b>

The accompanying notes 1 to 12 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 three months ended 31 March

Unaudited

	Share capital <u>SAR '000</u>	Statutory reserve <u>SAR '000</u>	Other reserves <u>SAR '000</u>	Retained earnings <u>SAR '000</u>	Proposed dividend <u>SAR '000</u>	Total <u>SAR '000</u>
<b>2011</b>						
Balance at beginning of the period	7,500,000	5,458,863	105,971	1,544,613	562,500	15,171,947
Total comprehensive income for the period						
Net income for the period	-	-	-	751,424	-	751,424
Other comprehensive income	-	-	(132,790)	-	-	(132,790)
2010 final dividend paid	-	-	-	-	(562,500)	(562,500)
Balance at end of the period	<u>7,500,000</u>	<u>5,458,863</u>	<u>(26,819)</u>	<u>2,296,037</u>	<u>-</u>	<u>15,228,081</u>
<b>2010</b>						
Balance at beginning of the period	7,500,000	4,988,075	(137,535)	694,749	-	13,045,289
Total comprehensive income for the period						
Net income for the period	-	-	-	620,807	-	620,807
Other comprehensive income	-	-	66,167	-	-	66,167
Balance at end of the period	<u>7,500,000</u>	<u>4,988,075</u>	<u>(71,368)</u>	<u>1,315,556</u>	<u>-</u>	<u>13,732,263</u>

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# The Saudi British Bank

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March

Unaudited

	<u>Notes</u>	<b>2011</b> <b>SAR' 000</b>	2010 SAR' 000
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>751,424</b>	620,807
<b>Adjustments to reconcile net income to net cash from (used in) operating activities:</b>			
Accretion of discounts on non trading investments, net		(2,177)	(1,294)
Gains on non trading investments, net		-	(250)
Depreciation and amortisation		25,251	28,103
Share in earnings from associates, net		(10,512)	(4,264)
Provision for credit losses, net		71,229	176,467
Gain on disposal of property and equipment , net		(67)	-
Impairment of other financial asset		(3,993)	-
Change in carrying value of debt securities in issue		113,675	(111,979)
		<b>944,830</b>	707,590
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		(93,130)	33,880
Investments held for trading		18,782	303,535
Loans and advances		(2,064,500)	506,042
Other assets		(247,188)	(207,494)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		(1,650,212)	(5,152,644)
Customers' deposits		2,200,531	829,316
Other liabilities		(142,636)	(241,050)
<b>Net cash used in operating activities</b>		<b>(1,033,523)</b>	(3,220,825)
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and maturities of non-trading investments		7,023,829	9,839,407
Purchase of non-trading investments		(6,727,479)	(8,713,310)
Purchase of property and equipment		(15,157)	(18,222)
Proceeds from disposal of property and equipment		67	500
<b>Net cash from investing activities</b>		<b>281,260</b>	1,108,375
<b>FINANCING ACTIVITIES</b>			
Debt securities in issue		-	(2,250,000)
Dividends paid		(497,996)	(1,261)
<b>Net cash used in financing activities</b>		<b>(497,996)</b>	(2,251,261)
<b>Decrease in cash and cash equivalents</b>		<b>(1,250,259)</b>	(4,363,711)
<b>Cash and cash equivalents at beginning of the period</b>		<b>16,947,600</b>	17,456,914
<b>Cash and cash equivalents at end of the period</b>	<b>8</b>	<b>15,697,341</b>	13,093,203
Special commission received during the period		838,432	914,473
Special commission paid during the period		149,866	276,399
<b><u>Supplemental non cash information</u></b>			
Other comprehensive income		(132,790)	66,167

The accompanying notes 1 to 12 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 81 branches (2010: 75) and 25 exclusive ladies' sections (2010: 31) in the Kingdom of Saudi Arabia. SABB employed 3,263 staff as at 31 March 2011 (2010: 3,473). The address of the SABB's head office is as follows:

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

The objectives of the 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% (2010: 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 Jamada 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). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in the Kingdom of Saudi Arabia). The principal activities of the subsidiary are to engage in the business of custody and dealing as an agent excluding underwriting.

SABB has 100% (2010: 100%) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activity is to act as a sole insurance agent for SABB Takaful Company (an associate company- see note 5) within the Kingdom of Saudi Arabia as per the agreement between them. However, the articles of association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 51% (2010: 51%) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

### 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 IAS 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 financial statements for the year ended 31 December 2010. These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

The interim condensed consolidated financial statements comprise the financial statements of SABB and its subsidiary, SABB Securities Limited (collectively referred to as "the Bank"). The financial statements of the subsidiary are prepared for the same reporting period as that of the Bank, using consistent accounting policies. The Bank has not consolidated SABB Insurance Agency Company Limited and SABB Insurance Services Limited as their total assets, liabilities and their income and expenses are not significant to the Bank's overall interim condensed consolidated financial statements.

A subsidiary is an entity over which SABB has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. 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.

Intercompany transactions and balances have been eliminated upon consolidation.

### 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 2010 except for the adoption of following amendments and revisions to existing standards mentioned below which has had no financial impact on the consolidated financial statements of the Bank:

#### - IAS 24 Related Party Disclosures (revised 2009)

The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

#### - Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures

The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

#### - Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements

IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented in the financial statements, but is permitted to be presented either in the statement of changes in equity or in the notes.

#### - Improvements to IFRSs 2010 – IAS 34 Interim Financial Reporting

These amendments emphasises the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report and clarifies how to apply this principle in respect of financial instruments and their fair values. The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.

Other amendments resulting from the improvements to the IFRSs to the following standards did not have any material impact on the accounting policies, financial position and performance of the Bank:

- IFRS 7
- IAS 1
- IAS 27
- IAS 32



**4. Investments, net**

Investment securities are classified as follows:

SAR'000	31 March 2011 (Unaudited)	31 December 2010 (Audited)	31 March 2010 (Unaudited)
<b>Investments:</b>			
- Held as FVIS	13,476	32,258	50,563
- Available for sale	22,426,500	22,599,382	18,145,057
- Other investments held at amortized cost	1,990,198	2,240,215	3,792,941
- Held to maturity	100,516	100,587	400,901
<b>Total</b>	<b>24,530,690</b>	<b>24,972,442</b>	<b>22,389,462</b>

Investments classified under FVIS are all held for trading.

**5. Investment in associates**

SAR'000	31 March 2011 (Unaudited)	31 December 2010 (Audited)	31 March 2010 (Unaudited)
<b>HSBC Saudi Arabia Limited</b>			
Balance at beginning of the period	113,000	70,126	70,126
Share of undistributed profit	10,294	42,874	5,132
	<b>123,294</b>	<b>113,000</b>	<b>75,258</b>
<b>SABB Takaful</b>			
Balance at beginning of the period	108,532	110,332	110,332
Share of undistributed profit / (losses)	218	(1,800)	(868)
	<b>108,750</b>	<b>108,532</b>	<b>109,464</b>
<b>Total</b>	<b>232,044</b>	<b>221,532</b>	<b>184,722</b>

SABB owns 40% of the shares of HSBC Saudi Arabia Limited, which is involved in investment banking services in the Kingdom of Saudi Arabia.

SABB owns 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 Saudi British Bank

## Notes To The Interim Condensed Consolidated Financial Statements (continued) 31 March 2011

### 6. Derivatives

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

SAR'000	31 March 2011 (Unaudited)			31 December 2010 (Audited)			31 March 2010 (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
<b>Derivatives held for trading:</b>									
Special commission rate swaps	1,195,210	(1,109,103)	50,482,346	1,336,516	(1,262,996)	49,742,259	1,494,875	(1,393,680)	58,209,736
Currency swaps	260,983	-	1,475,297	143,793	-	1,475,297	170,677	-	1,475,297
Special commission rate futures and options	52,637	(52,637)	3,197,500	52,355	(52,355)	2,887,500	10,034	(10,034)	2,887,500
Spot and forward foreign exchange contracts	97,664	(98,485)	33,413,329	87,661	(106,170)	28,329,060	64,461	(67,904)	34,929,313
Currency options	48,974	(48,974)	8,515,248	156,008	(156,008)	6,552,879	76,816	(76,816)	5,678,818
Others	6,834	(6,834)	1,470,000	8,165	(8,165)	780,000	3,239	(3,239)	725,000
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	-	(120,701)	4,005,567	-	(127,061)	4,058,719	1,982	(32,722)	968,370
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	4,671	(26,092)	1,343,750	5,618	(28,417)	1,343,750	24,611	(7,486)	1,643,750
<b>Total</b>	<b>1,666,973</b>	<b>(1,462,826)</b>	<b>103,903,037</b>	<b>1,790,116</b>	<b>(1,741,172)</b>	<b>95,169,464</b>	<b>1,846,695</b>	<b>(1,591,881)</b>	<b>106,517,784</b>

### 7. Credit related commitments and contingencies

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

SAR'000	31 March 2011 (Unaudited)	31 December 2010 (Audited)	31 March 2010 (Unaudited)
Letters of credit	11,332,689	10,155,966	8,169,247
Letters of guarantee	34,106,602	32,627,359	28,971,949
Acceptances	3,153,243	2,799,085	2,601,502
Irrevocable commitments to extend credit	730,630	193,050	671,256
<b>Total</b>	<b>49,323,164</b>	<b>45,775,460</b>	<b>40,413,954</b>

## 8. Cash and cash equivalents

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

SAR'000	31 March	31 December 2010	31 March 2010
	2011 (Unaudited)	(Audited)	(Unaudited)
Cash and balances with SAMA excluding statutory deposit	7,174,444	9,905,290	8,515,746
Due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.	8,522,897	7,042,310	4,577,457
<b>Total</b>	<b>15,697,341</b>	<b>16,947,600</b>	<b>13,093,203</b>

## 9. 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 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 business segments are on normal commercial terms and conditions. There are no material items of income or expense between the business segments. Revenue from external parties is measured in a manner consistent with that in the interim consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2010.

The Bank is organised into the following main business segments:

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

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

**Treasury** – which 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 financial position.

**Others** – includes activities of SABB Securities Limited and investment in associates

The Bank's total assets and liabilities as at 31 March 2011 and 2010, their total operating income and expenses, and the net income for the three-month periods then ended, by business segment, are as follows:

31 March 2011 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	21,533,261	57,170,396	47,068,005	243,200	126,014,862
Total liabilities	41,822,839	42,359,821	26,573,763	30,358	110,786,781
Total operating income	350,782	549,661	274,214	44,849	1,219,506
Total operating expenses	204,994	224,858	21,148	27,594	478,594
Share in earnings of associates, net	-	-	-	10,512	10,512
Net income for the period	145,788	324,803	253,066	27,767	751,424
Credit losses and impairment provision, net	(40,052)	111,281	(3,993)	-	67,236

# The Saudi British Bank

## Notes To The Interim Condensed Consolidated Financial Statements (continued) 31 March 2011

31 March 2010  
(Unaudited)  
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	20,971,050	56,714,272	42,652,508	193,321	120,531,151
Total liabilities	37,423,159	38,490,514	30,861,353	23,862	106,798,888
Total operating income	403,764	511,213	246,577	43,556	1,205,110
Total operating expenses	352,253	194,563	23,078	18,673	588,567
Share in earnings of associates, net	-	-	-	4,264	4,264
Net income for the period	51,511	316,650	223,499	29,147	620,807
Credit losses and impairment provision, net	107,218	69,254	(5)	-	176,467

### 10. Basic and diluted earnings per share

Basic and fully diluted earnings per share for the period ended 31 March 2011 and 2010 is calculated by dividing the net income for the period attributable to the equity holders by 750 million shares.

### 11. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Saudi Arabian Monetary Agency in supervising the Bank.

Capital Adequacy Ratios	March 2011		March 2010	
	Total capital ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio
	%		%	
Top consolidated level	<b>13.65</b>	<b>12.43</b>	13.30	12.09

### 12. Comparative figures

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