

**Interim Condensed
Consolidated Financial
Statements**

For the three months ended
31 March 2012

The Saudi British Bank

SABB  **ساب**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 March 2012 Unaudited SAR' 000	31 December 2011 Audited SAR' 000	31 March 2011 Unaudited SAR' 000
<u>Notes</u>			
ASSETS			
Cash and balances with SAMA	15,633,725	22,380,625	12,506,372
Due from banks and other financial institutions	9,068,537	4,347,018	8,522,897
Investments, net	4 23,597,040	22,200,122	24,530,690
Loans and advances, net	5 91,190,366	84,811,287	76,241,757
Investment in associates	6 605,774	565,191	232,044
Property and equipment, net	531,500	536,922	548,515
Other assets	3,420,653	3,816,340	3,432,587
Total assets	144,047,595	138,657,505	126,014,862
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	4,029,313	5,894,056	3,010,966
Customers' deposits	7 111,617,196	105,576,542	96,873,386
Debt securities in issue	8 4,481,479	3,978,660	5,589,429
Borrowings	171,875	171,875	187,500
Other liabilities	6,064,940	5,870,171	5,125,500
Total liabilities	126,364,803	121,491,304	110,786,781
Shareholders' equity			
Share capital	13 10,000,000	7,500,000	7,500,000
Statutory reserve	6,180,972	6,180,972	5,458,863
Other reserves	(805)	(225,710)	(26,819)
Retained earnings	1,502,625	3,148,439	2,296,037
Proposed dividends	-	562,500	-
Total shareholders' equity	17,682,792	17,166,201	15,228,081
Total liabilities and shareholders' equity	144,047,595	138,657,505	126,014,862

The accompanying notes 1 to 14 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	2012 SAR' 000	2011 SAR' 000
Special commission income		917,673	838,412
Special commission expense		142,639	112,729
Net special commission income		775,034	725,683
Fees and commission income, net		312,714	328,297
Exchange income, net		45,616	52,110
Trading income, net		101,527	109,674
Other operating income		149	3,742
Total operating income		1,235,040	1,219,506
Salaries and employee related expenses		243,658	274,588
Rent and premises related expenses		22,820	21,458
Depreciation and amortisation		23,728	25,251
Other general and administrative expenses		94,772	90,061
Provision for credit losses, net		36,623	71,229
Reversal of impairment of other financial assets		(164)	(3,993)
Total operating expenses		421,437	478,594
Net income from operating activities		813,603	740,912
Share in earnings of associates, net	6	40,583	10,512
Net income for the period		854,186	751,424
Basic and diluted earnings per share (in SAR)	13	0.85	0.75

The accompanying notes 1 to 14 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

	2012	2011
	SAR' 000	SAR' 000
Net income for the period	854,186	751,424
Other comprehensive income		
Available for sale financial assets		
- Net change in fair value	226,214	(132,051)
Cash flow hedges		
- Net change in fair value	831	1,378
- Transfer to interim consolidated statement of income	(2,140)	(2,117)
	224,905	(132,790)
Total comprehensive income for the period	1,079,091	618,634

The accompanying notes 1 to 14 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>
2012						
Balance at beginning of the period	7,500,000	6,180,972	(225,710)	3,148,439	562,500	17,166,201
Total comprehensive income for the period						
Net income for the period	-	-	-	854,186	-	854,186
Other comprehensive income	-	-	224,905	-	-	224,905
Bonus share issue (note 13)	2,500,000	-	-	(2,500,000)	-	-
2011 final dividend paid	-	-	-	-	(562,500)	(562,500)
Balance at end of the period	<u>10,000,000</u>	<u>6,180,972</u>	<u>(805)</u>	<u>1,502,625</u>	<u>-</u>	<u>17,682,792</u>
2011						
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>

The accompanying notes 1 to 14 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March

Unaudited

	<u>Notes</u>	2012 SAR' 000	2011 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		854,186	751,424
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium (accretion of discounts) on non trading investments, net		831	(2,177)
Depreciation and amortisation		23,728	25,251
Share in earnings from associates, net		(40,583)	(10,512)
Provision for credit losses, net		36,623	71,229
Gain on disposal of property and equipment , net		-	(67)
Reversal of impairment of other financial assets		(164)	(3,993)
Change in carrying value of debt securities in issue		2,819	113,675
		877,440	944,830
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(368,881)	(93,130)
Investments held for trading		(6)	18,782
Loans and advances		(6,415,702)	(2,064,500)
Other assets		395,687	(247,188)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,864,743)	(1,650,212)
Customers' deposits		6,040,654	2,200,531
Other liabilities		194,582	(142,636)
Net cash used in operating activities		(1,140,969)	(1,033,523)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		5,029,911	7,023,829
Purchase of non-trading investments		(6,202,585)	(6,727,479)
Purchase of property and equipment		(18,306)	(15,157)
Proceeds from disposal of property and equipment		-	67
Net cash (used in) from investing activities		(1,190,980)	281,260
FINANCING ACTIVITIES			
Debt securities in issue	8	500,000	-
Dividends paid		(562,313)	(497,996)
Net cash used in financing activities		(62,313)	(497,996)
Decrease in cash and cash equivalents		(2,394,262)	(1,250,259)
Cash and cash equivalents at beginning of the period		20,932,974	16,947,600
Cash and cash equivalents at end of the period	11	18,538,712	15,697,341
Special commission received during the period		809,750	838,432
Special commission paid during the period		132,121	149,866
<u>Supplemental non cash information</u>			
Other comprehensive income		224,905	(132,790)

The accompanying notes 1 to 14 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 80 branches (2011: 81) in the Kingdom of Saudi Arabia. SABB employed 3,071 staff as at 31 March 2012 (2011: 3, 263). The address of SABB's head office is as follows:

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

SABB's objectives 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% (2011: 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 principal activities of the subsidiary were to engage in the business of custody and dealing as an agent excluding underwriting. However, effective 1 July 2011 the assets and liabilities of the Company have been transferred to HSBC Saudi Arabia Limited, an associate company of SABB in lieu of additional shares (see note 6). The Company will be liquidated once the legal formalities for transfer of business have been completed.

SABB has 100% (2011 : 100 %) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a limited liability company 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- see note 6) 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% (2011 : 51 %) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity of the subsidiary 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). SABB is in the process of selling its entire investment in SABB Insurance Services Limited to Marsh Saudi Arabia. The transaction is expected to be completed in 2012.

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 2011. 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 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.

31 March 2012

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 2011.

4. Investments, net

Investment securities are classified as follows:

SAR'000	31 March 2012 (Unaudited)	31 December 2011 (Audited)	31 March 2011 (Unaudited)
Investments:			
- Held as FVIS	13,478	13,472	13,476
- Available for sale	22,332,519	20,597,179	22,426,500
- Other investments held at amortized cost	1,150,815	1,489,172	1,990,198
- Held to maturity	100,228	100,299	100,516
Total	23,597,040	22,200,122	24,530,690

Investments classified under FVIS are all held for trading.

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	31 March 2012 (Unaudited)	31 December 2011 (Audited)	31 March 2011 (Unaudited)
Credit cards	1,641,746	1,694,441	1,752,385
Consumer loans	15,300,220	14,538,498	13,006,771
Commercial loans and overdrafts	74,675,019	68,981,007	61,541,254
Performing loans and advances – gross	91,616,985	85,213,946	76,300,410
Non Performing Loans and advances, net	1,661,385	1,678,064	2,562,972
Total loans and advances	93,278,370	86,892,010	78,863,382
Provision for credit losses (specific and collective)	(2,088,004)	(2,080,723)	(2,621,625)
Loans and advances, net	91,190,366	84,811,287	76,241,757

6. Investment in associates

SAR'000	31 March 2012 (Unaudited)	31 December 2011 (Audited)	31 March 2011 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	453,689	113,000	113,000
Additional investment during the period/year	-	279,494	-
Share of undistributed profit	40,963	61,195	10,294
	<u>494,652</u>	<u>453,689</u>	<u>123,294</u>
SABB Takaful			
Balance at beginning of the period	111,502	108,532	108,532
Share of undistributed (losses) profit	(380)	2,970	218
	<u>111,122</u>	<u>111,502</u>	<u>108,750</u>
Total	<u>605,774</u>	<u>565,191</u>	<u>232,044</u>

SABB Securities Limited, a subsidiary of SABB, is in the process of being liquidated by SABB. During 2011 the assets and liabilities of SABB Securities Limited have been transferred to HSBC Saudi Arabia Limited effective 1 July 2011, resulting in an increased shareholding of SABB in HSBC Saudi Arabia Limited from 40% to 51%. However, the share transfer will only take place when the legal formalities are completed. The Bank is not consolidating HSBC Saudi Arabia Limited as it does not have the power to govern the financial and operating policies of HSBC Saudi Arabia Limited.

HSBC Saudi Arabia Limited is involved in investment banking services in addition to being engaged in the business of custody and dealing as an agent excluding underwriting 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.

7. Customers' deposits

SAR'000	31 March 2012 (Unaudited)	31 December 2011 (Audited)	31 March 2011 (Unaudited)
Demand	57,769,237	50,741,519	48,961,818
Savings	5,688,724	5,221,507	5,109,005
Time	46,954,034	48,284,323	41,789,080
Other	1,205,201	1,329,193	1,013,483
Total	<u>111,617,196</u>	<u>105,576,542</u>	<u>96,873,386</u>

8. Debt securities in issue

These include SAR 1,500 million five year SAR subordinated sukuk (the “sukuk”) issued by SABB on 28 March 2012 maturing in March 2017. The sukuk were issued as partial commercial exchange from senior to subordinated debt to the extent of SAR 1,000 million against existing SAR floating rate note issuance of SAR 1,705 million maturing on 21 July 2013. The remaining portion of SAR 500 million was fully subscribed in cash.

The sukuk carries special commission at three month SIBOR plus 120 bps, is unsecured and is registered on Tadawul.

9. Derivatives

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

SAR’000	31 March 2012 (Unaudited)			31 December 2011 (Audited)			31 March 2011 (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	1,107,032	(1,005,519)	50,152,252	1,199,241	(1,110,617)	47,494,269	1,195,210	(1,109,103)	50,482,346
Currency swaps	-	-	-	-	-	-	260,983	-	1,475,297
Special commission rate futures and options	54,224	(54,224)	4,458,302	38,163	(38,163)	3,469,552	52,637	(52,637)	3,197,500
Spot and forward foreign exchange contracts	47,886	(47,725)	30,408,601	104,779	(107,555)	33,811,951	97,664	(98,485)	33,413,329
Currency options	714,887	(714,887)	33,183,268	537,050	(537,050)	15,417,386	48,974	(48,974)	8,515,248
Others	71,761	(71,761)	1,365,000	35,688	(35,688)	1,440,000	6,834	(6,834)	1,470,000
Derivatives held as fair value hedges:									
Special commission rate swaps	42,851	(60,475)	4,676,254	43,266	(62,987)	4,773,276	-	(120,701)	4,005,567
Derivatives held as cash flow hedges:									
Special commission rate swaps	844	(26,002)	1,593,750	1,575	(27,564)	1,343,750	4,671	(26,092)	1,343,750
Total	2,039,485	(1,980,593)	125,837,427	1,959,762	(1,919,624)	107,750,184	1,666,973	(1,462,826)	103,903,037

10. Credit related commitments and contingencies

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

SAR'000	31 March 2012 (Unaudited)	31 December 2011 (Audited)	31 March 2011 (Unaudited)
Letters of credit	16,537,274	13,735,894	11,332,689
Letters of guarantee	41,803,325	40,535,854	34,106,602
Acceptances	3,051,336	3,396,605	3,153,243
Irrevocable commitments to extend credit	1,587,891	1,954,810	730,630
Total	62,979,826	59,623,163	49,323,164

11. Cash and cash equivalents

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

SAR'000	31 March 2012 (Unaudited)	31 December 2011 (Audited)	31 March 2011 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	9,470,175	16,585,956	7,174,444
Due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.	9,068,537	4,347,018	8,522,897
Total	18,538,712	20,932,974	15,697,341

12. 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 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 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 2011.

The Bank is organised into the following main operating 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 2012 and 2011, their total operating income and expenses, and the net income for the three-month periods then ended, by operating segment, are as follows:

31 March 2012
(Unaudited)
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	23,136,135	70,024,363	50,281,323	605,774	144,047,595
Total liabilities	44,932,538	57,067,341	24,364,924	-	126,364,803
Total operating income	381,970	584,900	268,170	-	1,235,040
Total operating expenses	254,264	137,956	29,217	-	421,437
Share in earnings of associates, net	-	-	-	40,583	40,583
Net income for the period	127,706	446,944	238,953	40,583	854,186
Credit losses and impairment provision, net	35,617	1,006	(164)	-	36,459

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

13. Share capital and earnings per share

The shareholders of SABB approved a bonus issue of one share for every three shares in their Extra Ordinary General Meeting held on 13 March 2012. As a result 250 million shares of SAR 10 each were issued by capitalising retained earnings.

Basic and fully diluted earnings per share for the period ended 31 March 2012 and 2011 is calculated by dividing the net income for the period attributable to the equity holders by 1,000 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

14. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

	31 March 2012	31 December 2011	31 March 2011
	SAR'000	SAR'000	SAR'000
	(Unaudited)	(Audited)	(Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	115,712,803	109,505,348	102,087,617
Operational Risk RWA	9,868,114	9,864,886	9,689,624
Market Risk RWA	1,424,725	648,400	2,480,550
Total RWA	127,005,642	120,018,634	114,257,791
Tier I Capital	16,651,167	14,184,649	14,199,512
Tier II Capital	2,664,631	3,455,140	1,395,568
Total I & II Capital	19,315,798	17,639,789	15,595,080
Capital Adequacy Ratio %			
Tier I ratio	13.11%	11.82%	12.43%
Tier I + Tier II ratio	15.21%	14.70%	13.65%