

Interim Condensed

Consolidated Financial Statements

For the six months ended
30 June 2011

The Saudi British Bank

SABB  ساب

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2011 Unaudited SAR' 000	31 December 2010 Audited SAR' 000	30 June 2010 Unaudited SAR' 000
	<u>Notes</u>			
ASSETS				
Cash and balances with SAMA		15,287,735	15,144,088	8,055,436
Due from banks and other financial institutions		3,889,746	7,042,310	7,440,207
Investments, net	4	26,073,348	24,972,442	25,984,912
Loans and advances, net	5	79,817,692	74,248,486	74,753,224
Investment in associates	6	265,844	221,532	194,986
Property and equipment, net		546,240	558,609	586,504
Other assets		3,659,395	3,185,399	3,293,962
Total assets		129,540,000	125,372,866	120,309,231
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		4,501,997	4,661,178	3,776,702
Customers' deposits	7	99,153,547	94,672,855	94,155,842
Debt securities in issue		3,914,219	5,475,754	3,202,599
Borrowings		187,500	187,500	187,500
Other liabilities		5,803,647	5,203,632	4,770,038
Total liabilities		113,560,910	110,200,919	106,092,681
Shareholders' equity				
Share capital		7,500,000	7,500,000	7,500,000
Statutory reserve		5,458,863	5,458,863	4,988,075
Other reserves		(127,382)	105,971	(33,849)
Retained earnings		3,147,609	1,544,613	1,762,324
Proposed dividends		-	562,500	-
Total shareholders' equity		15,979,090	15,171,947	14,216,550
Total liabilities and shareholders' equity		129,540,000	125,372,866	120,309,231

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

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENTS OF INCOME

Unaudited

	Notes	Three months ended		Six months ended	
		30 June 2011 SAR'000	30 June 2010 SAR'000	30 June 2011 SAR'000	30 June 2010 SAR'000
Special commission income		876,063	1,048,478	1,714,475	1,950,412
Special commission expense		97,175	105,629	209,904	237,425
Net special commission income		778,888	942,849	1,504,571	1,712,987
Fees and commission income, net		329,610	307,504	657,907	610,712
Exchange income, net		107,977	32,041	160,087	62,943
Trading income, net		80,238	74,573	189,912	160,265
Dividend income		33,904	638	33,904	1,948
Gains on non- trading investments, net		-	-	-	250
Other operating income		17,178	2,179	20,920	15,789
Total operating income		1,347,795	1,359,784	2,567,301	2,564,894
Salaries and employee related expenses		240,285	230,981	514,873	446,846
Rent and premises related expenses		25,702	21,091	47,160	43,682
Depreciation and amortisation		23,667	28,751	48,918	56,854
Other general and administrative expenses		115,876	138,435	205,937	283,976
Provision for credit losses, net		126,054	504,022	197,283	680,489
Impairment of other financial assets		(1,561)	-	(5,554)	-
Total operating expenses		530,023	923,280	1,008,617	1,511,847
Net income from operating activities		817,772	436,504	1,558,684	1,053,047
Share in earnings of associates, net	6	33,800	10,264	44,312	14,528
Net income for the period		851,572	446,768	1,602,996	1,067,575
Basic and diluted earnings per share (in SAR)	12	1.14	0.60	2.14	1.42

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

	Three months ended		Six months ended	
	30 June 2011 SAR' 000	30 June 2010 SAR' 000	30 June 2011 SAR' 000	30 June 2010 SAR' 000
Net income for the period	851,572	446,768	1,602,996	1,067,575
Other comprehensive income				
Available for sale financial assets				
- Net change in fair value	(83,368)	63,479	(215,419)	140,980
Cash flow hedges				
- Net change in fair value	(15,055)	(25,678)	(13,677)	(37,012)
- Transfer to interim consolidated statement of income	(2,140)	(282)	(4,257)	(282)
	(100,563)	37,519	(233,353)	103,686
Total comprehensive income for the period	751,009	484,287	1,369,643	1,171,261

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 CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June

Unaudited

	Share capital <u>SAR '000</u>	Statutory reserve <u>SAR '000</u>	Other reserves <u>SAR '000</u>	Retained earnings <u>SAR '000</u>	Proposed dividend <u>SAR '000</u>	Total <u>SAR '000</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	-	-	-	1,602,996	-	1,602,996
Other comprehensive income	-	-	(233,353)	-	-	(233,353)
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>(127,382)</u>	<u>3,147,609</u>	<u>-</u>	<u>15,979,090</u>
2010						
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	-	-	-	1,067,575	-	1,067,575
Other comprehensive income	-	-	103,686	-	-	103,686
Balance at end of the period	<u>7,500,000</u>	<u>4,988,075</u>	<u>(33,849)</u>	<u>1,762,324</u>	<u>-</u>	<u>14,216,550</u>

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 CASH FLOWS

For the six months ended 30 June

Unaudited

	<u>Notes</u>	2011 SAR' 000	2010 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		1,602,996	1,067,575
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Accretion of discounts on non trading investments, net		(3,994)	(3,584)
Gains on non trading investments, net		-	(250)
Depreciation and amortisation		48,918	56,854
Share in earnings from associates, net		(44,312)	(14,528)
Provision for credit losses, net		197,283	680,489
(Gains) losses on disposal of property and equipment , net		(132)	2
Impairment of other financial asset		(5,554)	-
Change in carrying value of debt securities in issue		(86,238)	(256,888)
		1,708,967	1,529,670
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(305,397)	29,334
Investments held for trading		18,808	322,228
Loans and advances		(5,766,489)	947,886
Other assets		(473,996)	(49,127)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(159,181)	(9,829,042)
Customers' deposits		4,480,692	4,968,981
Other liabilities		602,300	(327,202)
Net cash from (used in) operating activities		105,704	(2,407,272)
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		12,691,279	13,255,030
Purchase of non-trading investments		(14,034,798)	(15,637,100)
Purchase of property and equipment		(36,623)	(49,975)
Proceeds from disposal of property and equipment		206	657
Net cash used in investing activities		(1,379,936)	(2,431,388)
FINANCING ACTIVITIES			
Debt securities in issue		(1,475,297)	(2,250,000)
Dividends paid		(564,785)	(5,841)
Net cash used in financing activities		(2,040,082)	(2,255,841)
Decrease in cash and cash equivalents		(3,314,314)	(7,094,501)
Cash and cash equivalents at beginning of the period		16,947,600	17,456,914
Cash and cash equivalents at end of the period	10	13,633,286	10,362,413
Special commission received during the period		1,771,616	1,930,597
Special commission paid during the period		300,249	409,324
<u>Supplemental non cash information</u>			
Other comprehensive income		(233,353)	103,686

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 81 branches (2010: 78) and 25 exclusive ladies' sections (2010: 31) in the Kingdom of Saudi Arabia. SABB employed 3,165 staff as at 30 June 2011 (2010: 3,416). 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% (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 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% (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	30 June 2011 (Unaudited)	31 December 2010 (Audited)	30 June 2010 (Unaudited)
Investments:			
- Held as FVIS	13,450	32,258	32,160
- Available for sale	24,469,577	22,599,382	22,578,839
- Other investments held at amortized cost	1,489,878	2,240,215	3,273,182
- Held to maturity	100,443	100,587	100,731
Total	26,073,348	24,972,442	25,984,912

Investments classified under FVIS are all held for trading.

5. Loans and advances, net

Loans and advances are comprised of the following:

SAR'000	30 June 2011 (Unaudited)	31 December 2010 (Audited)	30 June 2010 (Unaudited)
Credit Cards	1,647,630	1,921,633	1,954,649
Consumer Loans	13,581,907	12,877,834	13,438,203
Commercial Loans and Overdrafts	64,847,622	59,449,025	58,257,019
Performing loans and advances - Gross	80,077,159	74,248,492	73,649,871
Non Performing Loans and advances, net	2,418,759	2,614,466	3,334,559
Total loans and advances	82,495,918	76,862,958	76,984,430
Provision for credit losses (specific and collective)	(2,678,226)	(2,614,472)	(2,231,206)
Loans and advances, net	79,817,692	74,248,486	74,753,224

6. Investment in associates

SAR'000	30 June 2011 (Unaudited)	31 December 2010 (Audited)	30 June 2010 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	113,000	70,126	70,126
Share of undistributed profit	43,211	42,874	15,951
	156,211	113,000	86,077
SABB Takaful			
Balance at beginning of the period	108,532	110,332	110,332
Share of undistributed profit / (losses)	1,101	(1,800)	(1,423)
	109,633	108,532	108,909
Total	265,844	221,532	194,986

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) 30 June 2011

7. Customers' deposits

SAR'000	30 June 2011 (Unaudited)	31 December 2010 (Audited)	30 June 2010 (Unaudited)
Demand	49,501,678	46,625,673	41,783,024
Savings	5,308,650	4,452,472	4,332,572
Time	43,277,786	42,514,025	46,619,377
Other	1,065,433	1,080,685	1,420,869
Total	99,153,547	94,672,855	94,155,842

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 June 2011 (Unaudited)			31 December 2010 (Audited)			30 June 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
Derivatives held for trading:									
Special commission rate swaps	1,256,754	(1,186,623)	49,682,918	1,336,516	(1,262,996)	49,742,259	1,688,763	(1,593,087)	59,099,292
Currency swaps	-	-	-	143,793	-	1,475,297	24,286	-	1,475,297
Special commission rate futures and options	51,040	(51,040)	3,289,552	52,355	(52,355)	2,887,500	51,487	(51,487)	2,887,500
Spot and forward foreign exchange contracts	85,713	(67,890)	29,516,648	87,661	(106,170)	28,329,060	89,924	(109,888)	39,315,709
Currency options	450,167	(450,167)	14,602,560	156,008	(156,008)	6,552,879	98,886	(98,886)	5,795,651
Others	35,947	(35,947)	1,440,000	8,165	(8,165)	780,000	2,165	(2,165)	725,000
Derivatives held as fair value hedges:									
Special commission rate swaps	-	(82,074)	4,173,775	-	(127,061)	4,058,719	-	(58,369)	1,917,966
Derivatives held as cash flow hedges:									
Special commission rate swaps	3,815	(40,292)	1,343,750	5,618	(28,417)	1,343,750	7,210	(33,569)	1,343,750
Total	1,883,436	(1,914,033)	104,049,203	1,790,116	(1,741,172)	95,169,464	1,962,721	(1,947,451)	112,560,165

9. Credit related commitments and contingencies

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

SAR'000	30 June 2011 (Unaudited)	31 December 2010 (Audited)	30 June 2010 (Unaudited)
Letters of credit	12,262,399	10,155,966	8,588,264
Letters of guarantee	36,453,048	32,627,359	29,526,431
Acceptances	3,228,526	2,799,085	2,388,893
Irrevocable commitments to extend credit	2,445,462	193,050	398,094
Total	54,389,435	45,775,460	40,901,682

10. Cash and cash equivalents

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

SAR'000	30 June 2011 (Unaudited)	31 December 2010 (Audited)	30 June 2010 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	9,743,540	9,905,290	2,922,206
Due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.	3,889,746	7,042,310	7,440,207
Total	13,633,286	16,947,600	10,362,413

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 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 30 June 2011 and 2010, their total operating income and expenses, and the net income for the six-month periods then ended, by business segment, are as follows:

The Saudi British Bank

Notes To The Interim Condensed Consolidated Financial Statements (continued) 30 June 2011

30 June 2011 (Unaudited) SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	20,913,495	60,816,301	47,539,283	270,921	129,540,000
Total liabilities	41,792,525	46,911,127	24,819,156	38,102	113,560,910
Total operating income	677,920	1,216,044	571,317	102,020	2,567,301
Total operating expenses	422,455	479,918	53,964	52,280	1,008,617
Share in earnings of associates, net	-	-	-	44,312	44,312
Net income for the period	255,465	736,126	517,353	94,052	1,602,996
Credit losses and impairment provision, net	(43,155)	240,438	(5,554)	-	191,729
30 June 2010 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	20,551,377	56,236,401	43,316,130	205,323	120,309,231
Total liabilities	37,082,213	40,294,476	28,692,154	23,838	106,092,681
Total operating income	787,806	1,210,215	476,156	90,717	2,564,894
Total operating expenses	922,667	499,758	50,668	38,754	1,511,847
Share in earnings of associates, net	-	-	-	14,528	14,528
Net income for the period	(134,861)	710,457	425,488	66,491	1,067,575
Credit losses and impairment provision, net	439,961	240,528	-	-	680,489

12. Basic and diluted earnings per share

Basic and fully diluted earnings per share for the period ended 30 June 2011 and 2010 is calculated by dividing the net income for the period attributable to the equity holders by 750 million shares.

13. Subsequent events

Subsequent to the quarter end SABB Securities Limited (SASL), a subsidiary of SABB, is in the process of being acquired by HSBC Saudi Arabia Limited, an associate of SABB. As a result of this transaction, SABB will receive an additional 1,122 shares, with a face value of SR 56.1 million, in HSBC Saudi Arabia Limited. SABB's shareholding in HSBC Saudi Arabia Limited will increase from 40% to 51% on the receipt of these shares. The business of SASL will be carried out by HSBC Saudi Arabia Limited from 1 July 2011.

Operating income and expenses of SASL are not material to the interim condensed consolidated financial statements of the Bank.

14. 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	June 2011 (Unaudited)		June 2010 (Unaudited)	
	Total capital ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio
Particulars	%		%	
Top consolidated level	13.84	11.92	13.62	12.01

15. Comparative figures

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

16. Capital adequacy – Basel II

Certain additional quantitative disclosures are required under Basel II Pillar 3. These disclosures will be published on the Bank's website www.sabb.com within 60 days after 30 June 2011 as required by SAMA.