

**Interim Condensed
Consolidated Financial
Statements**

For the six months ended
30 June 2012

The Saudi British Bank

SABB  **ساب**

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2012	31 December 2011	30 June 2011
	Unaudited SAR' 000	Audited SAR' 000	Unaudited SAR' 000
ASSETS	Notes		
Cash and balances with SAMA		22,380,625	15,287,735
Due from banks and other financial institutions		4,347,018	3,889,746
Investments, net	4	22,200,122	26,073,348
Loans and advances, net	5	84,811,287	79,817,692
Investment in associates	6	565,191	265,844
Property and equipment, net		536,922	546,240
Other assets		3,816,340	3,659,395
Total assets		138,657,505	129,540,000
		151,904,914	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions		5,894,056	4,501,997
Customers' deposits	7	105,576,542	99,153,547
Debt securities in issue	8	3,978,660	3,914,219
Borrowings		171,875	187,500
Other liabilities		5,870,171	5,803,647
Total liabilities		121,491,304	113,560,910
		133,444,628	
Shareholders' equity			
Share capital	13	7,500,000	7,500,000
Statutory reserve		6,180,972	5,458,863
Other reserves		(225,710)	(127,382)
Retained earnings		3,148,439	3,147,609
Proposed dividends		562,500	-
Total shareholders' equity		17,166,201	15,979,090
		18,460,286	
Total liabilities and shareholders' equity		138,657,505	129,540,000
		151,904,914	

The accompanying notes 1 to 15 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		Six months ended	
		30 June 2012 SAR'000	30 June 2011 SAR'000	30 June 2012 SAR'000	30 June 2011 SAR'000
Special commission income		971,526	876,063	1,889,199	1,714,475
Special commission expense		144,873	97,175	287,512	209,904
Net special commission income		826,653	778,888	1,601,687	1,504,571
Fee and commission income, net		380,673	329,610	693,387	657,907
Exchange income, net		54,902	107,977	100,518	160,087
Trading income, net		80,719	80,238	182,246	189,912
Dividend income		16,851	33,904	16,851	33,904
Gain on non-trading investments, net		17,924	-	17,924	-
Other operating income		5	17,178	154	20,920
Total operating income		1,377,727	1,347,795	2,612,767	2,567,301
Salaries and employee related expenses		233,193	240,285	476,851	514,873
Rent and premises related expenses		23,051	25,702	45,871	47,160
Depreciation and amortisation		23,200	23,667	46,928	48,918
Other general and administrative expenses		110,871	115,876	205,643	205,937
Provision for credit losses, net		115,098	126,054	151,721	197,283
Reversal of impairment of other financial assets		(884)	(1,561)	(1,048)	(5,554)
Total operating expenses		504,529	530,023	925,966	1,008,617
Net income from operating activities		873,198	817,772	1,686,801	1,558,684
Share in earnings of associates, net	6	41,789	33,800	82,372	44,312
Net income for the period		914,987	851,572	1,769,173	1,602,996
Basic and diluted earnings per share (in SAR)	13	0.91	0.85	1.77	1.60

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

	Three months ended		Six months ended	
	30 June 2012 SAR' 000	30 June 2011 SAR' 000	30 June 2012 SAR' 000	30 June 2011 SAR' 000
Net income for the period	914,987	851,572	1,769,173	1,602,996
Other comprehensive income				
Available for sale financial assets				
- Net change in fair value	(126,673)	(83,368)	99,541	(215,419)
- Transfer to interim consolidated statement of income	(17,924)	-	(17,924)	-
Cash flow hedges				
- Net change in fair value	9,244	(15,055)	10,075	(13,677)
- Transfer to interim consolidated statement of income	(2,140)	(2,140)	(4,280)	(4,257)
	(137,493)	(100,563)	87,412	(233,353)
Total comprehensive income for the period	777,494	751,009	1,856,585	1,369,643

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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	-	-	-	1,769,173	-	1,769,173
Other comprehensive income	-	-	87,412	-	-	87,412
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>(138,298)</u>	<u>2,417,612</u>	<u>-</u>	<u>18,460,286</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>

The accompanying notes 1 to 15 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>	<u>2012</u> <u>SAR' 000</u>	<u>2011</u> <u>SAR' 000</u>
OPERATING ACTIVITIES			
Net income for the period		1,769,173	1,602,996
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium (accretion of discounts) on non-trading investments, net		5,885	(3,994)
Gain on non-trading investments, net		(17,924)	-
Depreciation and amortisation		46,928	48,918
Share in earnings from associates, net		(82,372)	(44,312)
Provision for credit losses, net		151,721	197,283
Gain on disposal of property and equipment, net		(64)	(132)
Reversal of impairment of other financial assets		(1,048)	(5,554)
Change in carrying value of debt securities in issue		18,589	(86,238)
		1,890,888	1,708,967
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(677,941)	(305,397)
Investments held for trading		-	18,808
Loans and advances		(10,079,035)	(5,766,489)
Other assets		458,913	(473,996)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(691,736)	(159,181)
Customers' deposits		12,002,575	4,480,692
Other liabilities		140,519	602,300
Net cash from operating activities		3,044,183	105,704
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		7,450,110	12,691,279
Purchase of non-trading investments		(12,993,892)	(14,034,798)
Purchase of property and equipment		(43,576)	(36,623)
Proceeds from disposal of property and equipment		64	206
Net cash used in investing activities		(5,587,294)	(1,379,936)
FINANCING ACTIVITIES			
Debt securities in issue	8	500,000	(1,475,297)
Borrowings		(15,625)	-
Dividends paid		(563,498)	(564,785)
Net cash used in financing activities		(79,123)	(2,040,082)
Decrease in cash and cash equivalents		(2,622,234)	(3,314,314)
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	18,310,740	13,633,286
Special commission received during the period		1,767,537	1,771,616
Special commission paid during the period		326,358	300,249
Supplemental non cash information			
Other comprehensive income		87,412	(233,353)

The accompanying notes 1 to 15 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 3,060 staff as at 30 June 2012 (2011: 3,165). 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 objective is 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). 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 is in the process of being liquidated. The principal activities of the subsidiary were to engage in the business of custody and dealing as an agent excluding underwriting.

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 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 had 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). During 2012, SABB sold its entire investment in SABB Insurance Services Limited to Marsh Saudi Arabia. The principal activity of the SABB Insurance Services Limited is to act as an insurance broker and consultant to consumers operating within the Kingdom of Saudi Arabia.

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 consolidated 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 as its total assets, liabilities and its income and expenses are not significant to the Bank's overall interim condensed consolidated financial statements.

30 June 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 Bank's annual consolidated financial statements for the year ended 31 December 2011.

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 June 2012 (Unaudited)	31 December 2011 (Audited)	30 June 2011 (Unaudited)
Investments:			
- Held as FVIS	13,472	13,472	13,450
- Available for sale, net	26,680,285	20,597,179	24,469,577
- Other investments held at amortized cost, net	1,050,490	1,489,172	1,489,878
- Held to maturity	100,156	100,299	100,443
Total	27,844,403	22,200,122	26,073,348

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 2012 (Unaudited)	31 December 2011 (Audited)	30 June 2011 (Unaudited)
Credit cards	1,696,319	1,694,441	1,647,630
Consumer loans	16,211,133	14,538,498	13,581,907
Commercial loans and overdrafts	77,331,445	68,981,007	64,847,622
Performing loans and advances – gross	95,238,897	85,213,946	80,077,159
Non performing loans and advances, net	1,677,594	1,678,064	2,418,759
Total loans and advances	96,916,491	86,892,010	82,495,918
Provision for credit losses (specific and collective)	(2,177,890)	(2,080,723)	(2,678,226)
Total	94,738,601	84,811,287	79,817,692

30 June 2012

6. Investment in associates

SAR'000	30 June 2012 (Unaudited)	31 December 2011 (Audited)	30 June 2011 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period/year	453,689	113,000	113,000
Additional investment during the period/year	-	279,494	-
Share of undistributed profit	80,590	61,195	43,211
	534,279	453,689	156,211
SABB Takaful			
Balance at beginning of the period/year	111,502	108,532	108,532
Share of undistributed profit	1,782	2,970	1,101
	113,284	111,502	109,633
Total	647,563	565,191	265,844

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 in lieu of additional shares, resulting in an increased shareholding of SABB in HSBC Saudi Arabia Limited from 40% to 51%. 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	30 June 2012 (Unaudited)	31 December 2011 (Audited)	30 June 2011 (Unaudited)
Demand	58,411,603	50,741,519	49,501,678
Savings	5,843,480	5,221,507	5,308,650
Time	52,184,698	48,284,323	43,277,786
Other	1,139,336	1,329,193	1,065,433
Total	117,579,117	105,576,542	99,153,547

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 carry special commission at three month SIBOR plus 120 bps, are unsecured and are 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	30 June 2012 (Unaudited)			31 December 2011 (Audited)			30 June 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	1,117,596	(992,170)	52,871,308	1,199,241	(1,110,617)	47,494,269	1,256,754	(1,186,623)	49,682,918
Special commission rate futures and options	46,500	(46,500)	5,495,972	38,163	(38,163)	3,469,552	51,040	(51,040)	3,289,552
Spot and forward foreign exchange contracts	53,165	(39,551)	28,012,193	104,779	(107,555)	33,811,951	85,713	(67,890)	29,516,648
Currency options	764,189	(764,189)	39,849,064	537,050	(537,050)	15,417,386	450,167	(450,167)	14,602,560
Others	52,436	(52,436)	1,365,000	35,688	(35,688)	1,440,000	35,947	(35,947)	1,440,000
Derivatives held as fair value hedges:									
Special commission rate swaps	56,338	(62,413)	4,601,135	43,266	(62,987)	4,773,276	-	(82,074)	4,173,775
Derivatives held as cash flow hedges:									
Special commission rate swaps	2,668	(18,582)	1,500,000	1,575	(27,564)	1,343,750	3,815	(40,292)	1,343,750
Total	2,092,892	(1,975,841)	133,694,672	1,959,762	(1,919,624)	107,750,184	1,883,436	(1,914,033)	104,049,203

10. Credit related commitments and contingencies

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

SAR'000	30 June 2012 (Unaudited)	31 December 2011 (Audited)	30 June 2011 (Unaudited)
Letters of credit	15,434,482	13,735,894	12,262,399
Letters of guarantee	45,215,971	40,535,854	36,453,048
Acceptances	3,430,499	3,396,605	3,228,526
Irrevocable commitments to extend credit	2,827,935	1,954,810	2,445,462
Total	66,908,887	59,623,163	54,389,435

11. Cash and cash equivalents

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

SAR'000	30 June 2012 (Unaudited)	31 December 2011 (Audited)	30 June 2011 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	7,139,923	16,585,956	9,743,540
Due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.	11,170,817	4,347,018	3,889,746
Total	18,310,740	20,932,974	13,633,286

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 30 June 2012 and 2011, their total operating income and expenses, and the net income for the six-month periods then ended, by operating segment, are as follows:

30 June 2012
(Unaudited)
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	24,151,117	72,413,893	54,692,341	647,563	151,904,914
Total liabilities	45,550,767	60,377,505	27,516,356	-	133,444,628
Total operating income	796,795	1,255,984	559,988	-	2,612,767
Total operating expenses	497,373	374,571	54,022	-	925,966
Share in earnings of associates, net	-	-	-	82,372	82,372
Net income for the period	299,422	881,413	505,966	82,372	1,769,173
Credit losses and reversal of impairment provision, net	47,651	104,070	(1,048)	-	150,673

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 reversal of impairment provision, net	(43,155)	240,438	(5,554)	-	191,729

13. Share capital and basic and diluted 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 30 June 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.

	30 June 2012	31 December 2011	30 June 2011
	SAR'000	SAR'000	SAR'000
	(Unaudited)	(Audited)	(Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	121,735,850	109,505,348	105,932,871
Operational Risk RWA	9,919,927	9,864,886	9,803,236
Market Risk RWA	1,954,838	648,400	2,594,775
Total RWA	133,610,615	120,018,634	118,330,882
Tier I Capital	16,442,380	14,184,649	14,105,227
Tier II Capital	3,594,942	3,455,140	2,268,007
Total I & II Capital	20,037,322	17,639,789	16,373,234
Capital Adequacy Ratio %			
Tier I ratio	12.31%	11.82%	11.92%
Tier I + Tier II ratio	15.00%	14.70%	13.84%

15. 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 2012 as required by SAMA.