

**Interim Condensed
Consolidated Financial
Statements**

For the nine months ended
30 September 2012

The Saudi British Bank

SABB  **ساب**

The Saudi British Bank

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2012 Unaudited SAR' 000	31 December 2011 Audited SAR' 000	30 September 2011 Unaudited SAR' 000
<u>Notes</u>			
ASSETS			
Cash and balances with SAMA	10,513,608	22,380,625	13,232,308
Due from banks and other financial institutions	13,493,165	4,347,018	7,670,458
Investments, net	4 29,337,212	22,200,122	24,057,060
Loans and advances, net	5 97,800,730	84,811,287	82,354,076
Investment in associates	6 662,292	565,191	557,717
Property and equipment, net	529,287	536,922	539,229
Other assets	3,900,354	3,816,340	3,522,321
Total assets	156,236,648	138,657,505	131,933,169
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	6,638,854	5,894,056	4,779,381
Customers' deposits	7 119,697,567	105,576,542	100,752,180
Debt securities in issue	8 4,510,491	3,978,660	3,984,586
Borrowings	156,250	171,875	187,500
Other liabilities	6,034,413	5,870,171	5,768,138
Total liabilities	137,037,575	121,491,304	115,471,785
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	(55,253)	(225,710)	(275,244)
Retained earnings	3,073,354	3,148,439	3,777,765
Proposed dividends	-	562,500	-
Total shareholders' equity	19,199,073	17,166,201	16,461,384
Total liabilities and shareholders' equity	156,236,648	138,657,505	131,933,169

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

Unaudited

	Notes	Three months ended		Nine months ended	
		30 September 2012 SAR'000	30 September 2011 SAR'000	30 September 2012 SAR'000	30 September 2011 SAR'000
Special commission income		1,014,808	893,793	2,904,007	2,608,268
Special commission expense		173,145	106,826	460,657	316,730
Net special commission income		841,663	786,967	2,443,350	2,291,538
Fee and commission income, net		330,286	278,669	1,023,673	936,576
Exchange income, net		66,714	55,751	167,232	215,838
Trading income, net		71,489	64,090	253,735	254,002
Dividend income		16,017	15,859	32,868	49,763
(Losses) gains on non-trading investments, net		(994)	6,698	16,930	6,698
Other operating income		319	1,481	473	22,401
Total operating income		1,325,494	1,209,515	3,938,261	3,776,816
Salaries and employee related expenses		245,082	255,726	721,933	770,599
Rent and premises related expenses		25,547	23,175	71,418	70,335
Depreciation and amortisation		29,181	22,853	76,109	71,771
Other general and administrative expenses		98,759	91,062	304,402	296,999
Provision for credit losses, net		288,247	196,568	439,968	393,851
Reversal of impairment of other financial assets		(541)	(1,188)	(1,589)	(6,742)
Total operating expenses		686,275	588,196	1,612,241	1,596,813
Net income from operating activities		639,219	621,319	2,326,020	2,180,003
Share in earnings of associates, net	6	16,523	8,837	98,895	53,149
Net income for the period		655,742	630,156	2,424,915	2,233,152
Basic and diluted earnings per share (in SAR)	13	0.66	0.63	2.42	2.23

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

	Three months ended		Nine months ended	
	30 September 2012 SAR' 000	30 September 2011 SAR' 000	30 September 2012 SAR' 000	30 September 2011 SAR' 000
Net income for the period	655,742	630,156	2,424,915	2,233,152
Other comprehensive income				
Available for sale financial assets				
- Net change in fair value	76,377	(145,678)	175,918	(361,097)
- Transfer to interim consolidated statement of income	994	(1,395)	(16,930)	(1,395)
Cash flow hedges				
- Net change in fair value	6,134	1,375	16,209	(12,302)
- Transfer to interim consolidated statement of income	(460)	(2,164)	(4,740)	(6,421)
	83,045	(147,862)	170,457	(381,215)
Total comprehensive income for the period	738,787	482,294	2,595,372	1,851,937

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 nine months ended 30 September

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	-	-	-	2,424,915	-	2,424,915
Other comprehensive income	-	-	170,457	-	-	170,457
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>(55,253)</u>	<u>3,073,354</u>	<u>-</u>	<u>19,199,073</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	-	-	-	2,233,152	-	2,233,152
Other comprehensive income	-	-	(381,215)	-	-	(381,215)
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>(275,244)</u>	<u>3,777,765</u>	<u>-</u>	<u>16,461,384</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 nine months ended 30 September

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		2,424,915	2,233,152
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium (accretion of discounts) on non-trading investments, net		11,840	(5,491)
Gain on non-trading investments, net		(16,930)	(6,698)
Depreciation and amortisation		76,109	71,771
Share in earnings from associates, net		(98,895)	(53,149)
Provision for credit losses, net		439,968	393,851
(Gain) losses on disposal of property and equipment, net		(70)	214
Reversal of impairment of other financial assets		(1,589)	(6,742)
Change in carrying value of debt securities in issue		31,831	(15,871)
		<u>2,867,179</u>	<u>2,611,037</u>
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(1,218,059)	(355,325)
Investments held for trading		12,454	18,795
Loans and advances		(13,429,411)	(8,499,441)
Other assets		(84,014)	(336,922)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		744,798	118,203
Customers' deposits		14,121,025	6,079,325
Other liabilities		166,158	566,953
Net cash from operating activities		<u>3,180,130</u>	<u>202,625</u>
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		9,189,371	17,585,651
Purchase of non-trading investments		(16,161,779)	(17,051,348)
Investment in associates		1,794	(283,036)
Purchase of property and equipment		(68,478)	(52,819)
Proceeds from disposal of property and equipment		74	214
Net cash (used in) from investing activities		<u>(7,039,018)</u>	<u>198,662</u>
FINANCING ACTIVITIES			
Debt securities in issue	8	500,000	(1,475,297)
Borrowings		(15,625)	-
Dividends paid		(564,416)	(564,947)
Net cash used in financing activities		<u>(80,041)</u>	<u>(2,040,244)</u>
Decrease in cash and cash equivalents during the period		<u>(3,938,929)</u>	<u>(1,638,957)</u>
Cash and cash equivalents at beginning of the period		<u>20,932,974</u>	<u>16,947,600</u>
Cash and cash equivalents at end of the period	11	<u>16,994,045</u>	<u>15,308,643</u>
Special commission received during the period		<u>2,703,139</u>	<u>2,650,075</u>
Special commission paid during the period		<u>401,275</u>	<u>321,805</u>
<u>Supplemental non cash information</u>			
Other comprehensive income		<u>170,457</u>	<u>(381,215)</u>

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 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 79 branches (2011: 82) in the Kingdom of Saudi Arabia. SABB employed 3,035 staff as at 30 September 2012 (2011: 3,053). 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 SABB Insurance Services Limited was 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 September 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 except for the adoption of amendments to IAS 1 "Presentation of Financial Statements" with respect to presentation of items of other comprehensive income which has had no financial impact on these interim condensed financial statements.

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 September 2012 (Unaudited)	31 December 2011 (Audited)	30 September 2011 (Unaudited)
Investments:			
- Held as FVIS	1,018	13,472	13,463
- Available for sale, net	28,185,946	20,597,179	22,453,698
- Other investments held at amortized cost, net	1,050,165	1,489,172	1,489,527
- Held to maturity	100,083	100,299	100,372
Total	29,337,212	22,200,122	24,057,060

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 September 2012 (Unaudited)	31 December 2011 (Audited)	30 September 2011 (Unaudited)
Credit cards	1,783,260	1,694,441	1,745,965
Consumer loans	16,786,049	14,538,498	14,147,586
Commercial loans and overdrafts	79,998,655	68,981,007	66,841,785
Performing loans and advances – gross	98,567,964	85,213,946	82,735,336
Non performing loans and advances, net	1,671,741	1,678,064	2,380,756
Total loans and advances	100,239,705	86,892,010	85,116,092
Provision for credit losses (specific and collective)	(2,438,975)	(2,080,723)	(2,762,016)
Total	97,800,730	84,811,287	82,354,076

6. Investment in associates

SAR'000	30 September 2012 (Unaudited)	31 December 2011 (Audited)	30 September 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	283,036
Adjustments	(1,794)	-	-
Share of undistributed profit	95,817	61,195	51,170
	<u>547,712</u>	<u>453,689</u>	<u>447,206</u>
SABB Takaful			
Balance at beginning of the period/year	111,502	108,532	108,532
Share of undistributed profit	3,078	2,970	1,979
	<u>114,580</u>	<u>111,502</u>	<u>110,511</u>
Total	<u>662,292</u>	<u>565,191</u>	<u>557,717</u>

SABB Securities Limited, a subsidiary of SABB, is in the process of being liquidated. 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 does not consolidate 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 September 2012 (Unaudited)	31 December 2011 (Audited)	30 September 2011 (Unaudited)
Demand	59,490,287	50,741,519	48,485,404
Savings	5,830,139	5,221,507	5,111,087
Time	53,234,372	48,284,323	46,008,972
Other	1,142,769	1,329,193	1,146,717
Total	<u>119,697,567</u>	<u>105,576,542</u>	<u>100,752,180</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. The remaining portion of SAR 500 million was fully subscribed in cash.

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 September 2012 (Unaudited)			31 December 2011 (Audited)			30 September 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	1,136,483	(1,020,887)	43,913,243	1,199,241	(1,110,617)	47,494,269	1,374,355	(1,279,922)	48,701,804
Special commission rate futures and options	36,062	(36,062)	5,495,972	38,163	(38,163)	3,469,552	48,078	(48,078)	3,469,552
Spot and forward foreign exchange contracts	43,322	(36,531)	25,948,430	104,779	(107,555)	33,811,951	109,293	(83,933)	31,397,064
Currency options	803,488	(803,488)	43,069,716	537,050	(537,050)	15,417,386	500,530	(500,530)	17,449,362
Others	72,309	(72,309)	1,365,000	35,688	(35,688)	1,440,000	35,039	(35,039)	1,440,000
Derivatives held as fair value hedges:									
Special commission rate swaps	67,558	(63,244)	4,505,693	43,266	(62,987)	4,773,276	41,558	(70,402)	4,366,253
Derivatives held as cash flow hedges:									
Special commission rate swaps	-	(13,556)	1,250,000	1,575	(27,564)	1,343,750	2,662	(37,763)	1,343,750
Total	2,159,222	(2,046,077)	125,548,054	1,959,762	(1,919,624)	107,750,184	2,111,515	(2,055,667)	108,167,785

10. Credit related commitments and contingencies

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

SAR'000	30 September 2012 (Unaudited)	31 December 2011 (Audited)	30 September 2011 (Unaudited)
Letters of credit	15,308,227	13,735,894	12,942,741
Letters of guarantee	44,796,517	40,535,854	39,809,164
Acceptances	3,387,009	3,396,605	3,192,096
Irrevocable commitments to extend credit	2,183,005	1,954,810	2,593,433
Total	65,674,758	59,623,163	58,537,434

11. Cash and cash equivalents

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

SAR'000	30 September 2012 (Unaudited)	31 December 2011 (Audited)	30 September 2011 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	3,500,880	16,585,956	7,638,185
Due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.	13,493,165	4,347,018	7,670,458
Total	16,994,045	20,932,974	15,308,643

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

30 September 2012
(Unaudited)
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	25,267,014	74,622,085	55,685,257	662,292	156,236,648
Total liabilities	46,964,246	59,251,428	30,821,901	-	137,037,575
Total operating income	1,206,706	1,895,933	835,622	-	3,938,261
Total operating expenses	803,293	728,251	80,697	-	1,612,241
Share in earnings of associates, net	-	-	-	98,895	98,895
Net income for the period	403,413	1,167,682	754,925	98,895	2,424,915
Credit losses and reversal of impairment provision, net	114,551	325,417	(1,589)	-	438,379

30 September 2011
(Unaudited)
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	20,825,587	63,376,230	47,173,635	557,717	131,933,169
Total liabilities	41,099,739	47,541,826	26,830,220	-	115,471,785
Total operating income	1,044,631	1,818,449	811,716	102,020	3,776,816
Total operating expenses	679,603	781,919	83,011	52,280	1,596,813
Share in earnings of associates, net	-	-	-	53,149	53,149
Net income for the period	365,028	1,036,530	728,705	102,889	2,233,152
Credit losses and reversal of impairment provision, net	(10,355)	404,206	(6,742)	-	387,109

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 September 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 a minimum level of 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 September 2012 SAR'000 (Unaudited)	31 December 2011 SAR'000 (Audited)	30 September 2011 SAR'000 (Unaudited)
Risk Weighted Assets (RWA)			
Credit Risk RWA	124,877,698	109,505,348	107,101,704
Operational Risk RWA	9,983,349	9,864,886	9,871,732
Market Risk RWA	1,565,388	648,400	2,518,313
Total RWA	136,426,435	120,018,634	119,491,749
Tier I Capital	16,484,770	14,184,649	13,932,798
Tier II Capital	4,276,611	3,455,140	2,778,808
Total I & II Capital	20,761,381	17,639,789	16,711,606
Capital Adequacy Ratio %			
Tier I ratio	12.08%	11.82%	11.66%
Tier I + Tier II ratio	15.22%	14.70%	13.99%