

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 September 2005 (Unaudited)

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these interim condensed financial statements are set out below:

a) Basis of preparation

The Saudi British Bank (the Bank) prepares these interim condensed financial statements in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS), and the interpretations issued by the International Accounting Standard Board (IASB). The Bank also prepares its interim condensed financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

These interim condensed financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives, available for sale investments, and fair value through income statement investments (FVIS).

The interim condensed financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand.

Except for the changes explained in note (1b) below, the accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004.

b) Change in accounting policies

The Bank has implemented the revised versions of International Accounting Standard (IAS) 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2005 with retrospective effect, wherever applicable, with respect to the recognition, measurement and disclosure of financial instruments.

The revised IAS 39 has introduced a new classification Fair Value through Income Statement (FVIS) under which financial assets and liabilities, except for investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, can be classified and carried at fair value, with the changes in fair values recognised in the statement of income. This new classification includes financial assets and liabilities held for trading, and items that are designated as FVIS at the time of initial recognition. Following initial recognition, transfers between the various classifications of financial assets or liabilities are not ordinarily permissible.

Following the above changes, certain investments previously classified as originated debt securities, and, available for sale as at 1 January 2004 have been reclassified as a one time election as FVIS investments. The opening balance of retained earnings as at 1 January 2004 has been adjusted accordingly, with the difference between the amortised cost and the fair value of these investments. For investments purchased during 2004, and outstanding as at 31 December 2004 and reclassified as FVIS, fair value changes as at 31 December 2004 have been taken to net income. As a result of the above changes, the amount transferred to the retained earnings as at 1 January 2004, was SAR 1.8 million, and to the statement of income for the nine months ended 30 September 2004, was SAR 7.5 million (for the year ended 31 December 2004, was SAR 10.0 million).

c) Change in accounting estimate

During September 2005, the Bank's Executive Committee reviewed and revised depreciation rates for certain asset categories to better align these to the expected useful lives of these assets. The depreciation rates were revised with effect from 1 January 2005. The effect of such revision resulted in an additional depreciation charge of SAR 21.0 million for the nine months ended 30 September 2005.

2. Investments, net

Investment securities are classified as follows:

SAR'000	30 September 2005 (Unaudited)	31 December 2004 (Audited)	30 September 2004 (Unaudited)
Investments:			
Held at FVIS	2,085,030	1,887,325	1,884,789
Available for sale	7,004,465	6,260,671	6,802,165
Held at amortised cost, other	7,260,870	5,806,368	5,508,015
Held to maturity	517,266	721,670	723,393
Total	16,867,631	14,676,034	14,918,362

Subsequent to the implementation of the revised IAS 39 on 1 January 2005, investments previously carried at amortised cost of SAR 1,650.0 million in held at amortised cost, other, are now carried at fair value of SAR 1,659.5 million (30 September 2004: SAR 1,659.5 million, and 31 December 2004: SAR 1,662.6 million) in held at FVIS, and investments of SAR 74.3 million previously included in available for sale, have been reclassified as held at FVIS. As a result of the reclassifications, SAR 0.2 million has been transferred from other reserves to retained earnings as at 30 September 2004. The cumulative impact as on 31 December 2004 amounted to SAR 0.8 million (note 6).

Investments included in FVIS include investments held for trading of SAR 350.9 million (30 September 2004: nil, 31 December 2004: nil)

3. Debt securities in issue

During the quarter ended 31 March 2005, the Bank issued USD 600 million 5 year floating rate notes (the notes) under its Euro Medium Term Note programme. The notes carry an interest rate of Libor plus 37.5 basis points. The notes are non-convertible, are unsecured, and are listed on the Luxembourg Stock Exchange.

4. Borrowings

During the quarter ended 30 September 2005, the Bank borrowed SAR 187.5 million under a 12 year floating rate loan (the loan). The loan carries an interest rate of Libor plus 65 basis points.

5. Derivatives

The table below sets out the positive and negative fair values of the Bank's 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 related future cash flows. These notional amounts, therefore, are not indicative of the Bank's exposure to credit risk or to market risk.

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SAR'000	30 September 2005 (Unaudited)			31 December 2004 (Audited)			30 September 2004 (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:									
Spot and forward foreign exchange contracts	34,450	(84,699)	23,044,937	110,766	(59,823)	17,037,941	37,342	(33,296)	16,616,699
Currency options	4,454	(4,468)	630,840	2,941	(2,941)	510,102	2,202	(2,202)	385,112
Special commission rate swaps	96,828	(77,428)	9,449,107	11,978	(11,608)	1,900,687	8,285	(7,916)	1,752,687
Special commission rate option	330	(330)	400,000	-	-	-	-	-	-
Currency swaps	-	(533)	16,597	-	-	-	-	-	-
Derivatives held as fair value hedges:									
Special commission rate swaps	30,148	(19,195)	2,255,107	-	(40,296)	2,773,330	191	(64,558)	2,507,421
Derivatives held as cash flow hedges:									
Currency swaps	-	-	-	-	(1,248)	18,069	-	(1,351)	16,931
Special commission rate swaps	2,039	(6,682)	577,500	250	(1,334)	200,000	1,446	-	100,000
Total	168,249	(193,335)	36,374,088	125,935	(117,250)	22,440,129	49,466	(109,323)	21,378,850

6. Other reserves

SAR'000	30 September 2005 (Unaudited)			31 December 2004 (Audited)			30 September 2004 (Unaudited)		
	Cash flow hedges	Available for sale investments	Total	Cash flow hedges	Available for sale investments	Total	Cash flow hedges	Available for sale investments	Total
Opening balance	(969)	167,277	166,308	1,869	174,957	176,826	1,869	174,957	176,826
Effect of implementation of revised IAS 39 on opening balance	-	19,595	19,595	-	15,215	15,215	-	15,215	15,215
Opening balance, as restated	(969)	186,872	185,903	1,869	190,172	192,041	1,869	190,172	192,041
Net change in fair value	(2,311)	116,744	114,433	(3,174)	57,636	54,462	(1,774)	60,909	59,135
Effect of implementing revised IAS 39 for the period	-	-	-	-	4,380	4,380	-	10,467	10,467
Transfer to statement of income	(356)	(21,848)	(22,204)	336	(65,316)	(64,980)	1,483	(95,392)	(93,909)
Net movement during the period	(2,667)	94,896	92,229	(2,838)	(3,300)	(6,138)	(291)	(24,016)	(24,307)
Ending balance	(3,636)	281,768	278,132	(969)	186,872	185,903	1,578	166,156	167,734

In accordance with the revised IAS 39, the unrecycled amount remaining in retained earnings relating to the fair values of available for sale investments, arising on the initial adoption of IAS 39, has been reclassified from retained earnings to other reserves. This adjustment results in a restatement of the opening balances at 1 January 2005 and 1 January 2004 by SAR 18.8 million and SAR 15.0 million, respectively.

7. Interim dividend, zakat and taxation

The Board of Directors declared an interim gross dividend in respect of 2005 of SAR 526.0 million (2004: SAR 470.5 million). Zakat relating to the Saudi shareholders, amounting to approximately SAR 15.6 million (2004: SAR 12.4 million), was deducted from their share of the dividend and income tax relating to foreign shareholders amounting to approximately SAR 102.0 million (2004: SAR 99.0 million), was deducted from their share of dividend. This resulted in a net dividend to the Saudi shareholders of SAR 10.0 per share (2004: SAR 9.00 per share, adjusted for the bonus share issue) and a net dividend to the foreign shareholders of SAR 5.4 per share (2004: SAR 4.4 per share, adjusted for the bonus share issue).

8. Credit related commitments and contingencies

The analysis of credit related commitments and contingencies is as follows:

SAR'000	30 September 2005 (Unaudited)	31 December 2004 (Audited)	30 September 2004 (Unaudited)
Letters of credit	4,662,879	3,948,093	3,961,166
Guarantees	6,954,179	4,328,290	3,983,243
Acceptances	1,826,111	1,917,109	1,669,426
Irrevocable commitments to extend credit	1,772,752	1,509,308	1,409,756
Total	15,215,921	11,702,800	11,023,591

9. Cash and cash equivalents

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

SAR'000	30 September 2005 (Unaudited)	31 December 2004 (Audited)	30 September 2004 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	513,181	584,769	368,252
Due from banks and other financial institutions within ninety days	6,757,346	8,186,207	4,806,299
Total	7,270,527	8,770,976	5,174,551

10. Business segments

a) 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 balance sheet.

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 30 September 2005 and 2004, their total operating income and expenses, and the net income for the nine month periods then ended, by business segment, are as follows:

30 Sep 2005 (Unaudited) SAR'000	Retail Banking	Corporate Banking	Treasury	Total
Total assets	17,918,147	23,478,561	25,955,587	67,352,295
Total liabilities	23,429,934	14,222,770	22,861,477	60,514,181
Total operating income	1,838,832	603,790	313,715	2,756,337
Total operating expenses	645,211	203,181	33,957	882,349
Net income	1,193,621	400,609	279,758	1,873,988

**The Saudi British Bank
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30 Sep 2004 (Unaudited) SAR'000	Retail Banking	Corporate Banking	Treasury	Total
Total assets	12,345,844	18,347,081	21,620,533	52,313,458
Total liabilities	19,892,383	10,310,669	16,614,638	46,817,690
Total operating income	1,067,401	432,704	402,612	1,902,717
Total operating expenses	495,932	131,714	32,659	660,305
Net income	571,469	300,990	369,953	1,242,412

11. Comparative figures

Other than the reclassifications required by the adoption of the revised IAS 32 and 39, certain prior period figures have been reclassified to conform with the presentation in the current period.