

**Notes To The Interim Condensed Financial Statements**  
**31 March 2006**

**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), and International Financial Reporting Standards (IFRS). 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 except for the measurement at fair value of derivatives, financial assets and liabilities held for trading, held at Fair value through income statement (FVIS) and available for sale. In addition, assets or liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

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

Except for the changes explained in note 1(b) below, the accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the Bank's annual financial statements for the year ended 31 December 2005.

All Shariah approved (or non – interest based) banking products are accounted for using IFRS and are in conformity with the accounting policies used in the preparation of the Bank's annual financial statements for the year ended 31 December 2005.

**b) Change in accounting policies**

The Bank has implemented the amendments to International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement - The Fair Value Option - effective 1 January 2006 with retrospective effect, wherever applicable. Following this amendment, the revised IAS 39 requires that the use of the FVIS classification be restricted and shall be used only if permitted by the IAS. The financial assets classified as FVIS comply with these changes, therefore there is no impact on the financial statements.

## 2. Investments, net

Investment securities are classified as follows:

SAR'000	31 March 2006 (Unaudited)	31 December 2005 (Audited)	31 March 2005 (Unaudited)
<b>Investments:</b>			
- Held as FVIS	1,928,572	1,995,186	1,883,578
- Available for sale	8,627,976	6,599,497	7,041,531
- Held at amortized cost, other	7,262,179	7,261,532	6,762,410
- Held to maturity	515,447	516,347	719,985
<b>Total</b>	<b>18,334,174</b>	<b>16,372,562</b>	<b>16,407,504</b>

Investments included in held as FVIS include investments held for trading of SAR 205.2 million (31 December 2005: SAR 270.4 million, 31 March 2005: nil).

## 3. 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 2006 (Unaudited)			31 December 2005 (Audited)			31 March 2005 (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
<b>Derivatives held for trading:</b>									
Special commission rate swaps	187,841	(157,349)	11,599,920	101,537	(81,082)	9,817,008	31,176	(29,109)	2,357,250
Currency swaps	-	(133)	15,981	-	(314)	15,931	-	-	-
Special commission rate futures and options	1,452	(1,452)	400,000	848	(848)	400,000	-	-	-
Spot and forward foreign exchange contracts	30,639	(56,765)	19,427,161	39,808	(90,040)	15,700,677	52,507	(57,648)	18,029,884
Currency options	4,640	(4,640)	565,266	3,251	(3,251)	479,392	2,292	(2,292)	261,852
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	35,138	(12,713)	1,747,301	30,062	(15,930)	1,912,476	17,636	(18,881)	2,712,692
Currency swaps	-	-	-	-	-	-	-	(995)	17,557
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	6,153	(9,857)	577,500	4,392	(8,510)	577,500	-	(4,700)	200,000
<b>Total</b>	<b>265,863</b>	<b>(242,909)</b>	<b>34,333,129</b>	<b>179,898</b>	<b>(199,975)</b>	<b>28,902,984</b>	<b>103,611</b>	<b>(113,625)</b>	<b>23,579,235</b>

#### 4. Credit related commitments and contingencies

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

<b>SAR'000</b>	<b>31 March 2006 (Unaudited)</b>	31 December 2005 (Audited)	31 March 2005 (Unaudited)
Letters of credit	5,535,706	4,383,491	4,143,450
Letters of guarantee	8,283,043	7,866,414	5,284,918
Acceptances	1,826,781	1,893,238	1,544,046
Irrevocable commitments to extend credit	1,909,821	1,694,099	1,446,121
<b>Total</b>	<b>17,555,351</b>	<b>15,837,242</b>	<b>12,418,535</b>

#### 5. Cash and cash equivalents

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

<b>SAR'000</b>	<b>31 March 2006 (Unaudited)</b>	31 December 2005 (Audited)	31 March 2005 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	5,948,312	1,153,801	654,643
Due from banks and other financial institutions maturing within ninety days	5,552,769	4,234,290	5,118,722
<b>Total</b>	<b>11,501,081</b>	<b>5,388,091</b>	<b>5,773,365</b>

#### 6. Business segments

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 31 March 2006 and 2005, their total operating income and expenses, and the net income for the three month periods then ended, by business segment, are as follows:

#### **31 March 2006 (Unaudited)** **SAR' 000**

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Total</b>
Total assets	20,961,774	20,032,406	32,671,663	73,665,843
Total liabilities	28,417,311	21,074,113	16,015,745	65,507,169
Total operating income	985,645	297,667	137,470	1,420,782
Total operating expenses	316,332	100,619	17,653	434,604
Net income for the period	669,313	197,048	119,817	986,178

**6. Business segments (continued)**

**31 March 2005 (Unaudited)**  
**SAR' 000**

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Total</b>
Total assets	13,471,018	20,612,465	23,587,611	57,671,094
Total liabilities	21,604,852	11,371,539	18,825,368	51,801,759
Total operating income	420,228	153,075	132,841	706,144
Total operating expenses	195,289	43,235	11,728	250,252
Net income for the period	224,939	109,840	121,113	455,892

**7. Share capital and Earnings per share**

The shareholders' of the Bank approved a bonus issue of one share for every two shares held during their Extraordinary General Meeting held on 21 March 2006. As a result of the bonus issue, 25 million shares of SAR 50 each were issued by capitalising retained earnings.

Basic earnings per share for the period ended 31 March 2006 and 2005 is calculated by dividing the net income for the period attributable to the equity holders by 375 million shares to give a retrospective effect of the change in the number of shares which increased as a result of the share split on 8 April 2006 (note 8).

**8. Subsequent Event**

In accordance with the Capital Market Authority's announcement dated 27 March 2006, the shares of the Bank were split into five shares for every one share effective 8 April 2006. Accordingly, the number of shares of the Bank has now increased from 75 million ordinary shares of SAR 50 each to 375 million ordinary shares of SAR 10 each. The calculation of earnings per share has been adjusted retrospectively as required by IAS 33 - Earnings per Share.