



**BALANCE SHEETS**

	<b>30 June 2006</b>	31 December 2005	30 June 2005
	<b>Unaudited SAR' 000</b>	Audited SAR' 000	Unaudited SAR' 000
<b>Notes</b>			
<b>ASSETS</b>			
Cash and balances with SAMA	<b>10,288,922</b>	3,029,348	3,242,144
Due from banks and other financial institutions	<b>6,129,558</b>	4,234,290	3,310,192
Investments, net	<b>15,262,746</b>	16,372,562	16,969,290
Loans and advances, net	<b>39,118,169</b>	40,846,592	35,423,650
Fixed assets, net	<b>549,673</b>	527,725	566,028
Other assets	<b>1,430,362</b>	917,410	986,719
<b>Total assets</b>	<b>72,779,430</b>	65,927,927	60,498,023
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	<b>2,190,600</b>	4,049,625	5,012,061
Customer deposits	<b>55,109,435</b>	48,534,075	44,459,628
Debt securities in issue	<b>3,772,978</b>	2,246,933	2,246,563
Borrowings	<b>187,500</b>	187,500	-
Other liabilities	<b>2,638,106</b>	3,416,642	2,638,196
<b>Total liabilities</b>	<b>63,898,619</b>	58,434,775	54,356,448
<b>Shareholders' equity</b>			
Share capital	<b>3,750,000</b>	2,500,000	2,500,000
Statutory reserve	<b>2,952,265</b>	2,500,000	2,500,000
Other reserves	<b>168,441</b>	302,843	255,607
Retained earnings	<b>2,010,105</b>	1,903,309	885,968
Proposed dividends	<b>-</b>	287,000	-
<b>Total shareholders' equity</b>	<b>8,880,811</b>	7,493,152	6,141,575
<b>Total liabilities and shareholders' equity</b>	<b>72,779,430</b>	65,927,927	60,498,023

The accompanying notes 1 to 10 form an integral part of these interim condensed financial statements.

**STATEMENTS OF INCOME**  
**Unaudited**

	<u>Notes</u>	<b>Three months ended</b>		<b>Six months ended</b>	
		<b>30 June 2006 SAR'000</b>	<b>30 June 2005 SAR'000</b>	<b>30 June 2006 SAR'000</b>	<b>30 June 2005 SAR'000</b>
Special commission income		<b>1,089,739</b>	748,500	<b>2,131,953</b>	1,407,158
Special commission expense		<b>423,867</b>	251,646	<b>851,234</b>	461,419
<b>Net special commission income</b>		<b>665,872</b>	496,854	<b>1,280,719</b>	945,739
Fees from banking services, net		<b>484,818</b>	450,587	<b>1,217,159</b>	667,520
Exchange income		<b>39,992</b>	43,089	<b>79,112</b>	80,673
Income / (loss) from FVIS investments		<b>4,004</b>	1,259	<b>2,588</b>	(2,488)
Trading income, net		<b>7,499</b>	11,823	<b>22,205</b>	14,185
Dividend income		<b>2,944</b>	3,457	<b>2,944</b>	3,457
Gains on non trading investments, net		<b>581</b>	26,974	<b>21,410</b>	31,061
Other operating income		<b>1,187</b>	832	<b>1,542</b>	872
<b>Total operating income</b>		<b>1,206,897</b>	1,034,875	<b>2,627,679</b>	1,741,019
Salaries and employee related expenses		<b>192,534</b>	165,153	<b>412,745</b>	313,710
Rent and premises related expenses		<b>15,360</b>	11,242	<b>26,731</b>	21,808
Depreciation and amortisation		<b>24,360</b>	16,836	<b>47,010</b>	33,744
Other general and administrative expenses		<b>114,940</b>	64,629	<b>245,880</b>	119,043
Provision for possible credit losses, net		<b>36,692</b>	32,853	<b>84,375</b>	52,616
Other operating expenses		<b>128</b>	80	<b>1,877</b>	124
<b>Total operating expenses</b>		<b>384,014</b>	290,793	<b>818,618</b>	541,045
<b>Net income for the period</b>		<b>822,883</b>	744,082	<b>1,809,061</b>	1,199,974
<b>Earnings per share (in SAR)</b>	<b>7</b>	<b>2.19</b>	1.98	<b>4.82</b>	3.20

The accompanying notes 1 to 10 form an integral part of these interim condensed financial statements.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the six months ended 30 June**  
**Unaudited**

<b><u>2006 (SAR'000)</u></b>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Proposed dividend</b>	<b>Total</b>
Balance as at 1 January	2,500,000	2,500,000	302,843	1,903,309	287,000	7,493,152
Bonus share issue	1,250,000	-	-	(1,250,000)	-	-
Net income for the period	-	-	-	1,809,061	-	1,809,061
Transfer to statutory reserve	-	452,265	-	(452,265)	-	-
2005 Final dividend paid	-	-	-	-	(287,000)	(287,000)
Net changes in fair value and cash flow hedges	-	-	(134,402)	-	-	(134,402)
<b>Balance as at 30 June</b>	<b>3,750,000</b>	<b>2,952,265</b>	<b>168,441</b>	<b>2,010,105</b>	<b>-</b>	<b>8,880,811</b>
<b><u>2005 (SAR'000)</u></b>						
Balance at the beginning of the period, as restated	2,500,000	2,408,965	185,903	303,029	519,500	5,917,397
Net income for the period	-	-	-	1,199,974	-	1,199,974
Transfer to statutory reserve	-	91,035	-	(91,035)	-	-
2004 Final dividend paid	-	-	-	-	(519,500)	(519,500)
Interim gross dividend	-	-	-	(526,000)	-	(526,000)
Net changes in fair value and cash flow hedges	-	-	69,704	-	-	69,704
<b>Balance as at 30 June</b>	<b>2,500,000</b>	<b>2,500,000</b>	<b>255,607</b>	<b>885,968</b>	<b>-</b>	<b>6,141,575</b>

The accompanying notes 1 to 10 form an integral part of these interim condensed financial statements.

**STATEMENTS OF CASH FLOWS**  
**For the six months ended 30 June**  
**Unaudited**

	<u>Notes</u>	<u>2006</u> <u>SAR' 000</u>	<u>2005</u> <u>SAR' 000</u>
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>1,809,061</b>	1,199,974
<b>Adjustments to reconcile net income to net cash from (used in) operating activities:</b>			
Amortisation of premium and (accretion of discounts on) investments, net		1,446	4,335
(Gains) losses from FVIS financial instruments		(2,588)	2,488
Gains on non trading investments, net		(21,410)	(31,061)
Depreciation and amortisation		47,010	33,744
Losses (gains) on disposal of fixed and other assets, net		115	(60)
Provision for credit losses, net		84,375	52,616
Change in fair value		(2,746)	3,466
		<u>1,915,263</u>	<u>1,265,502</u>
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		(584,138)	(251,731)
Investments held for trading		195,000	(37,431)
Due from banks and other financial institutions after ninety days		-	(375,000)
Loans and advances		1,646,310	(3,849,315)
Other assets		(512,952)	(345,939)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		(1,859,025)	(651,274)
Customer deposits		6,575,447	(206,114)
Other liabilities		(770,923)	411,096
<b>Net cash from (used in) operating activities</b>		<u><b>6,604,982</b></u>	<u>(4,040,206)</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and maturities of non-trading investments		9,534,404	1,039,401
Purchase of non-trading investments		(8,742,493)	(3,204,668)
Purchase of fixed assets		(69,101)	(34,759)
Proceeds from disposal of fixed assets		28	121
<b>Net cash from (used in) investing activities</b>		<u>722,838</u>	<u>(2,199,905)</u>
<b>FINANCING ACTIVITIES</b>			
Debt securities in issue		1,526,939	2,246,563
Dividend paid		(284,055)	(509,705)
<b>Net cash from financing activities</b>		<u>1,242,884</u>	<u>1,736,858</u>
<b>Increase (decrease) in cash and cash equivalents</b>		<u>8,570,704</u>	<u>(4,503,253)</u>
<b>Cash and cash equivalents at beginning of the period</b>		<u>5,388,091</u>	<u>8,770,976</u>
<b>Cash and cash equivalents at end of the period</b>	<b>5</b>	<u><u>13,958,795</u></u>	<u><u>4,267,723</u></u>
<b>Supplemental non-cash information</b>			
Net changes in fair value and cash flow hedges		(134,402)	69,704

The accompanying notes 1 to 10 form an integral part of these interim condensed financial statements.

**Notes To The Interim Condensed Financial Statements**  
**30 June 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.

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.

## 2. Investments, net

Investment securities are classified as follows:

SAR'000	30 June 2006 (Unaudited)	31 December 2005 (Audited)	30 June 2005 (Unaudited)
<b>Investments:</b>			
- Held as FVIS	1,802,620	1,995,186	1,772,216
- Available for sale	6,233,097	6,599,497	7,255,732
- Held at amortized cost, other	6,712,491	7,261,532	7,223,060
- Held to maturity	514,538	516,347	718,282
<b>Total</b>	<b>15,262,746</b>	<b>16,372,562</b>	<b>16,969,290</b>

Investments included in held as FVIS include investments held for trading of SAR 75.0 million (31 December 2005: SAR 270.4 million, 30 June 2005: SAR 37.4 million).

## 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	30 June 2006 (Unaudited)			31 December 2005 (Audited)			30 June 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	129,739	(103,228)	9,801,694	101,537	(81,082)	9,817,008	42,411	(28,316)	10,058,562
Currency swaps	33,963	(38,736)	1,475,297	-	(314)	15,931	-	-	-
Special commission rate futures and options	1,569	(1,569)	400,000	848	(848)	400,000	-	-	-
Spot and forward foreign exchange contracts	80,284	(56,956)	18,792,169	39,808	(90,040)	15,700,677	48,925	(92,326)	13,470,156
Currency options	3,512	(3,512)	370,910	3,251	(3,251)	479,392	2,983	(2,912)	493,374
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	35,395	(8,448)	1,935,502	30,062	(15,930)	1,912,476	-	(24,033)	586,870
Currency swaps	-	-	-	-	-	-	-	-	-
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	9,622	(10,112)	577,500	4,392	(8,510)	577,500	-	(3,943)	387,500
<b>Total</b>	<b>294,084</b>	<b>(222,561)</b>	<b>33,353,072</b>	<b>179,898</b>	<b>(199,975)</b>	<b>28,902,984</b>	<b>94,319</b>	<b>(151,530)</b>	<b>24,996,462</b>

#### 4. Credit related commitments and contingencies

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

<b>SAR'000</b>	<b>30 June 2006 (Unaudited)</b>	31 December 2005 (Audited)	30 June 2005 (Unaudited)
Letters of credit	5,269,633	4,383,491	4,140,642
Letters of guarantee	8,346,741	7,866,414	6,317,263
Acceptances	1,993,043	1,893,238	1,779,198
Irrevocable commitments to extend credit	1,610,213	1,694,099	2,009,684
<b>Total</b>	<b>17,219,630</b>	<b>15,837,242</b>	<b>14,246,787</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>30 June 2006 (Unaudited)</b>	31 December 2005 (Audited)	30 June 2005 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	7,829,237	1,153,801	1,332,531
Due from banks and other financial institutions maturing within ninety days	6,129,558	4,234,290	2,935,192
<b>Total</b>	<b>13,958,795</b>	<b>5,388,091</b>	<b>4,267,723</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 30 June 2006 and 2005, their total operating income and expenses, and the net income for the six month periods then ended, by business segment, are as follows:

#### **30 June 2006 (Unaudited)** **SAR' 000**

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Total</b>
Total assets	18,247,517	22,610,360	31,921,553	72,779,430
Total liabilities	28,132,728	22,935,602	12,830,289	63,898,619
Total operating income	1,767,105	675,588	184,986	2,627,679
Total operating expenses	642,634	149,073	26,911	818,618
Net income for the period	1,124,471	526,515	158,075	1,809,061

## 6. Business segments (continued)

**30 June 2005 (Unaudited)**  
**SAR' 000**

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Total</b>
Total assets	15,380,136	21,749,500	23,368,387	60,498,023
Total liabilities	22,990,354	12,957,915	18,408,179	54,356,448
Total operating income	1,092,659	439,668	208,692	1,741,019
Total operating expenses	405,250	113,278	22,517	541,045
Net income for the period	687,409	326,390	186,175	1,199,974

## 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.

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.

Basic earnings per share for the six months ended 30 June 2006 and 2005 is calculated by dividing the net income for the period attributable to the equity holders by 375 million shares.

## 8. Debt securities in issue

During the quarter ended 30 June 2006, the Bank issued EUR 325 million 5 year floating rate notes (the notes) under its Euro Medium Term Note programme. The notes carry an interest rate of Euribor plus 30.0 basis points. The notes are non convertible, are unsecured, and are listed on the Luxembourg Stock Exchange.

## 9. Subsequent events

Subsequent to the period end, the Board of Directors has declared an interim gross dividend in respect of 2006 of SAR 609.4 million. Zakat relating to the Saudi shareholders, amounting to approximately SAR 28.1 million will be deducted from their share of the dividend. This will result in a net dividend to the Saudi shareholders of SAR 1.5 per share. The income tax liability of the foreign shareholder will be deducted from its share of the dividend.

## 10. Comparative figures

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