

Interim Condensed

Consolidated Financial Statements

For the three months ended
31 March 2008

The Saudi British Bank

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The Saudi British Bank
CONSOLIDATED BALANCE SHEETS

	31 March 2008 Unaudited SAR' 000	31 December 2007 Audited SAR' 000	31 March 2007 Unaudited SAR' 000
<u>Notes</u>			
ASSETS			
Cash and balances with SAMA	8,611,497	16,643,746	13,700,209
Due from banks and other financial institutions	3,738,988	1,723,576	3,274,259
Investments, net	4 23,659,243	14,858,747	17,578,771
Loans and advances, net	66,621,422	62,000,858	42,748,231
Investment in associates	5 128,609	110,447	118,428
Property and equipment, net	549,276	551,840	561,606
Other assets	3,099,698	2,323,696	1,551,488
Total assets	106,408,733	98,212,910	79,532,992
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	8,326,782	8,045,047	3,012,094
Customer deposits	78,407,442	71,847,852	59,834,676
Debt securities in issue	4,172,206	4,038,367	3,872,537
Borrowings	187,500	187,500	187,500
Other liabilities	4,973,114	3,669,211	3,541,484
Total liabilities	96,067,044	87,787,977	70,448,291
Shareholders' equity			
Share capital	3,750,000	3,750,000	3,750,000
Statutory reserve	3,750,000	3,750,000	3,750,000
Other reserves	34,151	(16,220)	24,802
Retained earnings	2,807,538	2,050,528	1,559,899
Proposed dividend	-	890,625	-
Total shareholders' equity	10,341,689	10,424,933	9,084,701
Total liabilities and shareholders' equity	106,408,733	98,212,910	79,532,992

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENTS OF INCOME

For the three months ended 31 March

Unaudited

	Notes	2008 SAR' 000	2007 SAR' 000
Special commission income		1,384,556	1,180,240
Special commission expense		530,139	469,001
Net special commission income		854,417	711,239
Fees from banking services, net		316,261	191,073
Exchange income, net		36,349	23,077
(Losses) Income from FVIS Financial Instruments, net		(5,979)	26,642
Trading income, net		49,668	31,450
(Losses) Gains on non-trading investments, net		(59,343)	44,302
Other operating income		14	92
Total operating income		1,191,387	1,027,875
Salaries and employee related expenses		211,164	176,133
Rent and premises related expenses		16,548	14,278
Depreciation and amortisation		25,821	25,660
Other general and administrative expenses		106,854	109,033
Provision for credit losses, net		75,198	100,128
Impairment of other financial assets		16,875	-
Other operating expenses		79	52
Total operating expenses		452,539	425,284
Net income from operating activities		738,848	602,591
Share in earnings of associates	5	18,162	13,719
Net income for the period		757,010	616,310
Basic and fully diluted earnings per share (in SAR)	10	2.02	1.64

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The Saudi British Bank

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended 31 March

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>
2008						
Balance at beginning of the period	3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933
Net changes in fair value of cash flow hedges	-	-	15,035	-	-	15,035
Net changes in fair value of available for sale investments	-	-	(24,007)	-	-	(24,007)
Transfer to consolidated statement of income	-	-	59,343	-	-	59,343
Net income recognised directly in equity	-	-	50,371	-	-	50,371
Net income for the period	-	-	-	757,010	-	757,010
Total recognised income and expense for the period	-	-	50,371	757,010	-	807,381
2007 final dividend paid	-	-	-	-	(890,625)	(890,625)
Balance at end of the period	<u>3,750,000</u>	<u>3,750,000</u>	<u>34,151</u>	<u>2,807,538</u>	<u>-</u>	<u>10,341,689</u>
2007						
Balance at beginning of the period	3,750,000	3,750,000	70,385	943,589	890,625	9,404,599
Net changes in fair value of cash flow hedges	-	-	(126)	-	-	(126)
Net changes in fair value of available for sale investments	-	-	(5,955)	-	-	(5,955)
Transfer to consolidated statement of income	-	-	(39,502)	-	-	(39,502)
Net income recognised directly in equity	-	-	(45,583)	-	-	(45,583)
Net income for the period	-	-	-	616,310	-	616,310
Total recognised income and expense for the period	-	-	(45,583)	616,310	-	570,727
2006 final dividend paid	-	-	-	-	(890,625)	(890,625)
Balance at end of the period	<u>3,750,000</u>	<u>3,750,000</u>	<u>24,802</u>	<u>1,559,899</u>	<u>-</u>	<u>9,084,701</u>

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended 31 March

Unaudited

	<u>Notes</u>	2008 SAR' 000	2007 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		757,010	616,310
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium, net		498	171
Losses (income) from FVIS financial instruments		5,979	(26,642)
Losses (gains) on non trading investments, net		59,343	(44,302)
Depreciation and amortisation		25,821	25,660
Losses (gains) on disposal of property and equipment and other assets, net		77	(8)
Share in earnings from associates		(18,162)	(13,719)
Provision for credit losses, net		75,198	100,128
Impairment of other financial assets, net		16,875	-
Change in fair value		133,308	18,492
		1,055,947	676,090
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(816,870)	(10,573)
Investments held for trading		(269,896)	27,642
Loans and advances		(4,695,762)	(398,116)
Other assets		(776,002)	(60,747)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		281,735	840,259
Customer deposits		6,559,590	576,229
Other liabilities		408,162	480,222
Net cash from operating activities		1,746,904	2,131,006
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		2,140,115	5,965,006
Purchase of non-trading investments		(10,693,536)	(1,873,372)
Purchase of property and equipment		(23,334)	(46,090)
Proceeds from disposal of property and equipment		-	67
Net cash (used in) from investing activities		(8,576,755)	4,045,611
FINANCING ACTIVITIES			
Dividends paid		(3,856)	(145,252)
Net cash used in financing activities		(3,856)	(145,252)
(Decrease) Increase in cash and cash equivalents		(6,833,707)	6,031,365
Cash and cash equivalents at beginning of the period		15,046,057	8,583,113
Cash and cash equivalents at end of the period	8	8,212,350	14,614,478
Special commission received during the period		1,309,223	1,209,470
Special commission paid during the period		457,828	467,082
Supplemental non-cash information			
Net changes in fair value and cash flow hedges		50,371	(45,583)
Share in earnings of associate		18,162	13,719

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements.

1. General

The Saudi British Bank (the Bank) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank 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. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 63 branches (2007: 61) and 14 exclusive ladies' sections (2007: 12) in the Kingdom of Saudi Arabia. The Bank employed 3,160 staff as at 31 March 2008 (2007: 2,781). The address of the Bank's head office is as follows:

The Saudi British Bank
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia

The objectives of the Bank are to provide a range of banking services. The Bank also provides Non-interest bearing products, which are approved and supervised by an independent Shariah Board.

The Bank has 100% (March 2007 : Nil) 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 Jamada II 1428 H (25 June 2007) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428 H (22 July 2007). The Bank 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). Activities of subsidiary are to engage in business of Custody and Dealing as an agent excluding underwriting.

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. The Bank also 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 should be read in conjunction with the annual financial statements for the year ended 31 December 2007. 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 "The Saudi British Bank" and its subsidiary, SABB Securities Limited. The financial statements of the subsidiary are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiary to align them with the Bank's financial statements.

A subsidiary is an entity over which the Bank 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 the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Balances between the Bank and its subsidiary, and any unrealised income and expenses arising from inter-company transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2007, as described in the annual consolidated financial statements for the year ended 31 December 2007.

The Saudi British Bank

Notes To The Interim Condensed Consolidated Financial Statements 31 March 2008

4. Investments, net

Investment securities are classified as follows:

SAR'000	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
Investments:			
- Held as FVIS	592,952	376,663	1,552,055
- Available for sale	17,034,309	8,259,955	9,200,788
- Other investments held at amortized cost	5,523,840	5,713,077	6,314,128
- Held to maturity	508,142	509,052	511,800
Total	23,659,243	14,858,747	17,578,771

Investments included in held as FVIS include investments held for trading of SAR 475.8 million (31 December 2007: SAR 211.9 million, 31 March 2007: SAR 289.0 million).

5. Investment in associates

SAR'000	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	90,411	72,209	72,209
Dividend received	-	(52,209)	-
Share of undistributed profit	22,782	70,411	13,719
	113,193	90,411	85,928
SABB Takaful			
Balance at beginning of the period	20,036	32,500	32,500
Share of losses	(4,620)	(12,464)	-
	15,416	20,036	32,500
Total	128,609	110,447	118,428

The Bank owns 40% of the shares of HSBC Saudi Arabia Limited, which is involved in investment banking services in the Kingdom of Saudi Arabia.

The Bank owns 32.5% of the equity of SABB Takaful, a Saudi Joint Stock Company. SABB Takaful carries out Shariah compliant insurance activities and offers family and general Takaful products.

6. 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 2008 (Unaudited)			31 December 2007 (Audited)			31 March 2007 (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	1,019,996	(934,432)	37,988,274	540,149	(456,580)	34,588,421	159,837	(105,785)	23,497,217
Currency swaps	460,397	-	1,475,297	322,790	-	1,475,297	151,530	-	1,475,297
Special commission rate futures and options	729	(729)	400,000	8	(8)	400,000	186	(186)	400,000
Spot and forward foreign exchange contracts	121,636	(175,627)	11,894,820	85,574	(128,594)	11,624,530	49,324	(38,284)	16,094,095
Currency options	81,730	(82,236)	3,555,411	6,984	(6,828)	2,138,699	937	(937)	150,736
Derivatives held as fair value hedges:									
Special commission rate swaps	10,164	(28,668)	2,405,517	17,696	(13,278)	1,524,591	23,285	(12,221)	2,793,742
Derivatives held as cash flow hedges:									
Special commission rate swaps	29,224	(6,437)	921,250	10,231	(2,990)	1,021,250	5,844	(3,075)	727,500
Total	1,723,876	(1,228,129)	58,640,569	983,432	(608,278)	52,772,788	390,943	(160,488)	45,138,587

7. Credit related commitments and contingencies

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

SAR'000	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
Letters of credit	9,787,987	8,126,496	5,557,117
Letters of guarantee	14,181,642	13,429,588	10,706,048
Acceptances	3,297,731	3,060,584	2,745,117
Irrevocable commitments to extend credit	4,507,102	5,022,624	1,968,798
Total	31,774,462	29,639,292	20,977,080

8. Cash and cash equivalents

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

SAR'000	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	4,473,362	13,322,481	11,340,219
Due from banks and other financial institutions maturing within three months of acquisition date	3,738,988	1,723,576	3,274,259
Total	8,212,350	15,046,057	14,614,478

9. Business segments

The Bank's primary business is conducted in Kingdom of Saudi Arabia. Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

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.

Others – represents investment in associates assets and its income.

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 2008 and 2007, 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 2008 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	24,262,930	44,647,284	37,369,910	128,609	106,408,733
Total liabilities	33,424,206	33,582,548	29,060,290	-	96,067,044
Total operating income	643,290	470,574	77,523	-	1,191,387
Total operating expenses	333,481	93,401	25,657	-	452,539
Share in earnings of associates, net	-	-	-	18,162	18,162
Net income for the period	309,809	377,173	51,866	18,162	757,010
Credit losses and impairment provision, net	61,590	13,608	16,875	-	92,073

9. Business segments (continued)

31 March 2007 (Unaudited)
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	17,882,282	26,846,487	34,685,795	118,428	79,532,992
Total liabilities	29,381,393	28,164,738	12,902,160	-	70,448,291
Total operating income	526,229	403,731	97,915	-	1,027,875
Total operating expenses	325,628	85,156	14,500	-	425,284
Share in earnings of associates, net	-	-	-	13,719	13,719
Net income for the period	200,601	318,575	83,415	13,719	616,310
Credit losses and impairment provision, net	93,247	6,881	-	-	100,128

10. Share capital and Earnings per share

Basic and fully diluted earnings per share for the period ended 31 March 2008 and 2007 is calculated by dividing the net income for the period attributable to the equity holders by 375 million shares.

The Board of Directors has recommended on 18 Shawwal 1428H (30 October 2007) a bonus issue of 225 million shares of nominal value SAR 10 each to the existing shareholders on the basis of 3 bonus shares for every 5 shares held through the capitalization of retained earnings which is subject to approval of shareholders at Extraordinary General Meeting. The Saudi Arabian Monetary Agency and Capital Market Authority has given their approval as on 27 Safar 1429H (5 March 2008) and 9 Rabi I 1429H (17 March 2008) respectively.

11. Capital Adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Saudi Arabian Monetary Agency in supervising the Bank.

SAMA has issued guidance regarding implementation of Basel II disclosures effective 1 January 2008, consequently the following disclosures have been made for the first period and comparatives have not been presented.

Capital Adequacy Ratios		
Particulars	Total capital ratio	Tier 1 capital ratio
	%	
Top consolidated level	13	11