

Interim Condensed
**Consolidated Financial
Statements**

For the six months ended
30 June 2008

The Saudi British Bank

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The Saudi British Bank
CONSOLIDATED BALANCE SHEETS

	30 June 2008 Unaudited SAR' 000	31 December 2007 Audited SAR' 000	30 June 2007 Unaudited SAR' 000
<u>Notes</u>			
ASSETS			
Cash and balances with SAMA	9,898,493	16,643,746	16,790,472
Due from banks and other financial institutions	5,561,876	1,723,576	1,030,856
Investments, net	4 30,124,357	14,858,747	16,371,127
Loans and advances, net	77,541,102	62,000,858	48,620,158
Investment in associates	5 180,419	110,447	80,526
Property and equipment, net	551,021	551,840	546,251
Other assets	2,294,150	2,323,696	1,667,209
Total assets	126,151,418	98,212,910	85,106,599
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	17,159,324	8,045,047	3,465,692
Customer deposits	89,090,362	71,847,852	65,229,159
Debt securities in issue	4,167,683	4,038,367	3,895,477
Borrowings	187,500	187,500	187,500
Other liabilities	4,619,135	3,669,211	2,667,581
Total liabilities	115,224,004	87,787,977	75,445,409
Shareholders' equity			
Share capital	10 6,000,000	3,750,000	3,750,000
Statutory reserve	3,750,000	3,750,000	3,750,000
Other reserves	(175,176)	(16,220)	(33,644)
Retained earnings	1,352,590	2,050,528	2,194,834
Proposed dividends	-	890,625	-
Total shareholders' equity	10,927,414	10,424,933	9,661,190
Total liabilities and shareholders' equity	126,151,418	98,212,910	85,106,599

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENTS OF INCOME

Unaudited

	Notes	Three months ended		Six months ended	
		30 June 2008 SAR'000	30 June 2007 SAR'000	30 June 2008 SAR'000	30 June 2007 SAR'000
Special commission income		1,318,155	1,239,151	2,702,711	2,419,391
Special commission expense		499,703	498,276	1,029,842	967,277
Net special commission income		818,452	740,875	1,672,869	1,452,114
Fees from banking services, net		345,794	215,791	662,055	406,864
Exchange income, net		33,700	27,711	70,049	50,788
(Losses) income from FVIS financial instruments, net		(33,352)	18,211	(39,331)	44,853
Trading income, net		107,138	14,964	156,806	46,414
Dividend income		600	2,979	600	2,979
Gains (losses) on non trading investments, net		56,755	5,778	(2,588)	50,080
Other operating income		1,257	672	1,271	764
Total operating income		1,330,344	1,026,981	2,521,731	2,054,856
Salaries and employee related expenses		243,725	151,762	454,889	327,895
Rent and premises related expenses		20,142	15,792	36,690	30,070
Depreciation and amortisation		27,156	26,344	52,977	52,004
Other general and administrative expenses		142,146	122,590	249,000	231,623
Provision for credit losses, net		109,860	88,404	185,058	188,532
Impairment of other financial assets		44,075	-	60,950	-
Other operating (expenses) income		(2)	1,461	77	1,513
Total operating expenses		587,102	406,353	1,039,641	831,637
Net income from operating activities		743,242	620,628	1,482,090	1,223,219
Share in earnings of associates, net	5	51,810	14,307	69,972	28,026
Net income for the period		795,052	634,935	1,552,062	1,251,245
Basic and fully diluted earnings per share (in SAR)	10	1.33	1.06	2.59	2.09

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June

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	-	-	(14,336)	-	-	(14,336)
Net changes in fair value of available for sale investments	-	-	(147,208)	-	-	(147,208)
Transfer to consolidated statement of income	-	-	2,588	-	-	2,588
Net income recognised directly in equity	-	-	(158,956)	-	-	(158,956)
Net income for the period	-	-	-	1,552,062	-	1,552,062
Total recognised income and expense for the period	-	-	(158,956)	1,552,062	-	1,393,106
Bonus share issue	2,250,000	-	-	(2,250,000)	-	-
2007 final dividend paid	-	-	-	-	(890,625)	(890,625)
Balance at end of the period	<u>6,000,000</u>	<u>3,750,000</u>	<u>(175,176)</u>	<u>1,352,590</u>	<u>-</u>	<u>10,927,414</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	-	-	(349)	-	-	(349)
Net changes in fair value of available for sale investments	-	-	(64,178)	-	-	(64,178)
Transfer to consolidated statement of income	-	-	(39,502)	-	-	(39,502)
Net income recognised directly in equity	-	-	(104,029)	-	-	(104,029)
Net income for the period	-	-	-	1,251,245	-	1,251,245
Total recognised income and expense for the period	-	-	(104,029)	1,251,245	-	1,147,216
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>(33,644)</u>	<u>2,194,834</u>	<u>-</u>	<u>9,661,190</u>

The accompanying notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

The Saudi British Bank

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended 30 June

Unaudited

	<u>Notes</u>	2008 SAR' 000	2007 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		1,552,062	1,251,245
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortisation of premium , net		653	345
Losses from FVIS financial instruments		39,331	4,892
Losses (gains) on non trading investments, net		2,588	(50,080)
Depreciation and amortisation		52,977	52,004
Losses on disposal of property and equipment and other assets, net		23	749
Share in earnings from associate		(69,972)	(28,026)
Provision for credit losses, net		185,058	188,532
Impairment in other financial assets, net		60,950	-
Change in fair value		128,243	41,661
		1,951,913	1,461,322
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(3,362,945)	(30,300)
Investments held for trading		(191,568)	263,608
Loans and advances		(15,725,302)	(6,358,447)
Other assets		29,546	(175,772)
Net income (decrease) in operating liabilities:			
Due to banks and other financial institutions		9,114,277	1,293,857
Customer deposits		17,242,510	5,968,948
Other liabilities		780,743	346,733
Net cash from operating activities		9,839,174	2,769,949
INVESTING ACTIVITIES			
Proceeds from sale of and maturities of non-trading investments		8,282,343	8,085,977
Purchase of non-trading investments		(23,456,246)	(3,051,861)
Purchase of property and equipment		(52,181)	(81,532)
Proceeds from disposal of property and equipment		-	23,067
Net cash (used in) from investing activities		(15,226,084)	4,975,651
FINANCING ACTIVITIES			
Dividend paid		(882,988)	(887,102)
Net cash used in financing activities		(882,988)	(887,102)
(Decrease) Increase in cash and cash equivalents		(6,269,898)	6,858,498
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	8,776,159	15,441,611
Special Commission received during the period		2,837,434	2,431,197
Special commission paid during the period		904,539	975,650
<u>Supplemental non-cash information</u>			
Net changes in fair value and cash flow hedges		(158,956)	(104,029)
Share in earnings of associate		69,972	28,026

The accompanying notes 1 to 12 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 67 branches (2007: 61) and 15 exclusive ladies' sections (2007: 12) in the Kingdom of Saudi Arabia. The Bank employed 3,231 staff as at 30 June 2008 (2007: 2,841). 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% (June 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 30 June 2008

4. Investments, net

Investment securities are classified as follows:

SAR'000	30 June 2008 (Unaudited)	31 December 2007 (Audited)	30 June 2007 (Unaudited)
Investments:			
- Held as FVIS	418,433	376,663	1,358,053
- Available for sale	24,172,690	8,259,955	8,491,797
- Held at amortized cost, other	5,026,001	5,713,077	6,010,387
- Held to maturity	507,233	509,052	510,890
Total	30,124,357	14,858,747	16,371,127

Investments included in held as FVIS include investments held for trading of SAR 364.1 million (31 December 2007: SAR 211.9 million, 30 June 2007: SAR 99.0 million).

5. Investment in associates

SAR'000	30 June 2008 (Unaudited)	31 December 2007 (Audited)	30 June 2007 (Unaudited)
HSBC Saudi Arabia Limited			
Balance at beginning of the period	90,411	72,209	72,209
Dividend received	-	(52,209)	(52,209)
Share of undistributed profit	72,063	70,411	28,026
	162,474	90,411	48,026
SABB Takaful			
Balance at beginning of the period	20,036	32,500	32,500
Share of losses	(2,091)	(12,464)	-
	17,945	20,036	32,500
Total	180,419	110,447	80,526

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	30 June 2008 (Unaudited)			31 December 2007 (Audited)			30 June 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	507,889	(389,992)	48,264,603	540,149	(456,580)	34,588,421	211,749	(165,238)	23,622,149
Currency swaps	461,677	-	1,475,297	322,790	-	1,475,297	174,996	-	1,475,297
Special commission rate futures and options	9,588	(9,588)	3,396,132	8	(8)	400,000	280	(280)	400,000
Spot and forward foreign exchange contracts	87,172	(97,773)	13,977,835	85,574	(128,594)	11,624,530	57,744	(35,583)	14,816,207
Currency options	75,814	(75,814)	4,616,680	6,984	(6,828)	2,138,699	1,327	(1,327)	247,486
Others	62,297	(62,297)	675,000	-	-	-	-	-	-
Derivatives held as fair value hedges:									
Special commission rate swaps	26,021	(21,651)	2,208,458	17,696	(13,278)	1,524,591	31,558	(8,144)	2,110,692
Derivatives held as cash flow hedges:									
Special commission rate swaps	4,076	(10,660)	731,250	10,231	(2,990)	1,021,250	5,602	(2,885)	727,500
Total	1,234,534	(667,775)	75,345,255	983,432	(608,278)	52,772,788	483,256	(213,457)	43,399,331

7. Credit related commitments and contingencies

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

SAR'000	30 June 2008 (Unaudited)	31 December 2007 (Audited)	30 June 2007 (Unaudited)
Letters of credit	12,816,963	8,126,496	6,258,486
Letters of guarantee	15,584,186	13,429,588	11,376,376
Acceptances	3,232,323	3,060,584	2,759,424
Irrevocable commitments to extend credit	5,211,472	5,022,624	2,514,268
Total	36,844,944	29,639,292	22,908,554

8. Cash and cash equivalents

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

SAR'000	30 June 2008 (Unaudited)	31 December 2007 (Audited)	30 June 2007 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	3,214,283	13,322,481	14,410,755
Due from banks and other financial institutions maturing within three months of acquisition date	5,561,876	1,723,576	1,030,856
Total	8,776,159	15,046,057	15,441,611

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.

Investment banking and brokerage – investment management services and assets management activities related to dealing, managing, arranging, advising and custody of securities.

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 30 June 2008 and 2007, 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 2008 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Others	Total
Total assets	26,218,937	53,323,480	46,364,556	64,026	180,419	126,151,418
Total liabilities	33,794,903	42,939,126	38,475,749	14,226	-	115,224,004
Total operating income	1,065,360	921,071	282,624	252,676	-	2,521,731
Total operating expenses	670,829	220,191	92,958	55,663	-	1,039,641
Share in earnings of associates, net	-	-	-	-	69,972	69,972
Net income for the period	394,531	700,880	189,666	197,013	69,972	1,552,062
Credit losses and impairment provision, net	138,614	46,444	60,950	-	-	246,008

9. Business segments (continued)

30 June 2007 (Unaudited) SAR' 000	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Others	Total
Total assets	18,337,555	32,350,894	34,337,624	-	80,526	85,106,599
Total liabilities	28,714,401	31,739,698	14,991,310	-	-	75,445,409
Total operating income	988,095	872,349	194,412	-	-	2,054,856
Total operating expenses	653,014	151,255	27,368	-	-	831,637
Share in earnings of associates, net	-	-	-	-	28,026	28,026
Net income for the period	335,081	721,094	167,044	-	28,026	1,251,245
Credit losses and impairment provision, net	129,622	58,910	-	-	-	188,532

Prior period investment banking and brokerage operation was reported under retail and corporate banking.

10. Share capital and Earnings per share

The shareholders' of the Bank approved a bonus issue of three shares for every five shares in their Extraordinary General Meeting held on 27 April 2008. As a result 225 million shares of SAR 10 each were issued by capitalising retained earnings.

Basic and fully diluted earnings per share for the periods ended 30 June 2008 and 2007 is calculated by dividing the net income for the period attributable to the equity holders by 600 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

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	12.4	10.5

12. Capital Adequacy – Basel II

Certain quantitative disclosures as required by SAMA under Pillar 3 of Basel II, will be placed on the Bank's official website www.sabb.com.