

Interim Condensed  
**Consolidated Financial  
Statements**

For the nine months ended  
30 September 2008

**The Saudi British Bank**

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The Saudi British Bank  
**CONSOLIDATED BALANCE SHEETS**

	<u>Notes</u>	<b>30 September 2008 Unaudited SAR' 000</b>	31 December 2007 Audited SAR' 000	30 September 2007 Unaudited SAR' 000
<b>ASSETS</b>				
Cash and balances with SAMA		<b>8,013,588</b>	16,643,746	12,752,300
Due from banks and other financial institutions		<b>1,940,800</b>	1,723,576	2,884,400
Investments, net	<b>4</b>	<b>35,994,436</b>	14,858,747	17,022,053
Loans and advances, net		<b>83,578,279</b>	62,000,858	54,185,285
Investment in associates	<b>5</b>	<b>136,157</b>	110,447	96,573
Property and equipment, net		<b>563,320</b>	551,840	541,843
Other assets		<b>2,393,375</b>	2,323,696	2,094,933
<b>Total assets</b>		<b>132,619,955</b>	98,212,910	89,577,387
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		<b>15,351,806</b>	8,045,047	2,030,286
Customer deposits		<b>95,734,722</b>	71,847,852	70,287,216
Debt securities in issue	<b>11</b>	<b>5,699,142</b>	4,038,367	3,984,374
Borrowings		<b>187,500</b>	187,500	187,500
Other liabilities		<b>4,697,212</b>	3,669,211	3,402,241
<b>Total liabilities</b>		<b>121,670,382</b>	87,787,977	79,891,617
<b>Shareholders' equity</b>				
Share capital	<b>10</b>	<b>6,000,000</b>	3,750,000	3,750,000
Statutory reserve		<b>4,315,801</b>	3,750,000	3,750,000
Other reserves		<b>(204,159)</b>	(16,220)	(50,551)
Retained earnings		<b>837,931</b>	2,050,528	2,236,321
Proposed dividends		<b>-</b>	890,625	-
<b>Total shareholders' equity</b>		<b>10,949,573</b>	10,424,933	9,685,770
<b>Total liabilities and shareholders' equity</b>		<b>132,619,955</b>	98,212,910	89,577,387

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		Nine months ended	
		30 September 2008 SAR'000	30 September 2007 SAR'000	30 September 2008 SAR'000	30 September 2007 SAR'000
Special commission income		1,508,251	1,377,127	4,210,962	3,796,518
Special commission expense		752,791	594,097	1,782,633	1,561,374
<b>Net special commission income</b>		<b>755,460</b>	<b>783,030</b>	<b>2,428,329</b>	<b>2,235,144</b>
Fees from banking services, net		307,240	201,276	969,295	608,140
Exchange income, net		32,903	30,031	102,952	80,819
(Losses) income from FVIS financial instruments, net		(5,752)	20,142	(45,083)	64,995
Trading income, net		86,988	42,888	243,794	89,302
Dividend income		-	-	600	2,979
(Losses) gains on non trading investments, net		-	20,373	(2,588)	70,453
Other operating income		747	2,304	2,018	3,068
<b>Total operating income</b>		<b>1,177,586</b>	<b>1,100,044</b>	<b>3,699,317</b>	<b>3,154,900</b>
Salaries and employee related expenses		227,542	197,792	682,431	525,687
Rent and premises related expenses		21,014	16,879	57,704	46,949
Depreciation and amortisation		27,079	25,859	80,056	77,863
Other general and administrative expenses		120,694	121,420	369,694	353,043
Provision for credit losses, net		91,773	103,279	276,831	291,811
Impairment of investments		-	-	60,950	-
Other operating expenses		-	-	77	1,513
<b>Total operating expenses</b>		<b>488,102</b>	<b>465,229</b>	<b>1,527,743</b>	<b>1,296,866</b>
<b>Net income from operating activities</b>		<b>689,484</b>	<b>634,815</b>	<b>2,171,574</b>	<b>1,858,034</b>
Share in earnings of associates, net	5	21,658	16,047	91,630	44,073
<b>Net income for the period</b>		<b>711,142</b>	<b>650,862</b>	<b>2,263,204</b>	<b>1,902,107</b>
<b>Basic and fully diluted earnings per share (in SAR)</b>	10	<b>1.19</b>	<b>1.08</b>	<b>3.77</b>	<b>3.17</b>

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 nine months ended 30 September

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>
<b>2008</b>						
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	-	-	(9,362)	-	-	(9,362)
Net changes in fair value of available for sale investments	-	-	(181,165)	-	-	(181,165)
Transfer to consolidated statement of income	-	-	2,588	-	-	2,588
Net loss recognised directly in equity	-	-	(187,939)	-	-	(187,939)
Net income for the period	-	-	-	2,263,204	-	2,263,204
Total recognised income and expense for the period	-	-	(187,939)	2,263,204	-	2,075,265
Bonus share issue	2,250,000	-	-	(2,250,000)	-	-
Transfer to statutory reserve	-	565,801	-	(565,801)	-	-
2007 final dividend paid	-	-	-	-	(890,625)	(890,625)
Interim gross dividend	-	-	-	(660,000)	660,000	-
Interim gross dividend paid	-	-	-	-	(660,000)	(660,000)
Balance at end of the period	<u>6,000,000</u>	<u>4,315,801</u>	<u>(204,159)</u>	<u>837,931</u>	<u>-</u>	<u>10,949,573</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	-	-	(2,091)	-	-	(2,091)
Net changes in fair value of available for sale investments	-	-	(62,587)	-	-	(62,587)
Transfer to consolidated statement of income	-	-	(56,258)	-	-	(56,258)
Net loss recognised directly in equity	-	-	(120,936)	-	-	(120,936)
Net income for the period	-	-	-	1,902,107	-	1,902,107
Total recognised income and expense for the period	-	-	(120,936)	1,902,107	-	1,781,171
2006 final dividend paid	-	-	-	-	(890,625)	(890,625)
Interim gross dividend	-	-	-	(609,375)	609,375	-
Interim gross dividend paid	-	-	-	-	(609,375)	(609,375)
Balance at end of the period	<u>3,750,000</u>	<u>3,750,000</u>	<u>(50,551)</u>	<u>2,236,321</u>	<u>-</u>	<u>9,685,770</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 nine months ended 30 September

Unaudited

	<u>Notes</u>	2008 SAR' 000	2007 SAR' 000
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>2,263,204</b>	1,902,107
<b>Adjustments to reconcile net income to net cash from (used in) operating activities:</b>			
Amortisation of premium , net		771	201
Losses from FVIS financial instruments		45,083	9,234
Losses (gains) on non trading investments, net		2,588	(70,453)
Depreciation and amortisation		80,056	77,863
Losses (gains) on disposal of property and equipment and other assets, net		23	(1,555)
Share in earnings from associates, net		(91,630)	(44,073)
Provision for credit losses, net		276,831	291,811
Impairment of investments		60,950	-
Change in fair value		(45,851)	129,987
		<b>2,592,025</b>	2,295,122
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		(3,249,259)	(293,448)
Investments held for trading		(191,733)	30,530
Loans and advances		(21,854,252)	(12,026,853)
Other assets		(69,679)	(603,261)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		7,306,759	(141,549)
Customer deposits		23,886,870	11,029,574
Other liabilities		831,538	1,069,210
<b>Net cash from operating activities</b>		<b>9,252,269</b>	1,359,325
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and maturities of non-trading investments		27,703,022	9,103,007
Purchase of non-trading investments		(48,752,156)	(4,539,972)
Dividend received from associates		65,920	52,209
Purchase of property and equipment		(91,559)	(102,983)
Proceeds from disposal of property and equipment		-	23,078
<b>Net cash (used in) from investing activities</b>		<b>(21,074,773)</b>	4,535,339
<b>FINANCING ACTIVITIES</b>			
Debt securities issued		1,705,000	-
Dividend paid		(1,544,689)	(1,483,942)
<b>Net cash from (used in) financing activities</b>		<b>160,311</b>	(1,483,942)
<b>(Decrease) Increase in cash and cash equivalents</b>		<b>(11,662,193)</b>	4,410,722
<b>Cash and cash equivalents at beginning of the period</b>		<b>15,046,057</b>	8,583,113
<b>Cash and cash equivalents at end of the period</b>	<b>8</b>	<b>3,383,864</b>	12,993,835
Special Commission received during the period		4,187,933	3,672,154
Special commission paid during the period		1,424,169	1,508,838
<b>Supplemental non-cash information</b>			
Net changes in fair value and cash flow hedges		(187,939)	(120,936)
Share in earnings of associates		91,630	44,073

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 68 branches (2007: 62) and 21 exclusive ladies' sections (2007: 12) in the Kingdom of Saudi Arabia. The Bank employed 3,303 staff as at 30 September 2008 (2007: 2,944). 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 a 100% (2007: 100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi Limited Liability Company formed in accordance with the 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 the 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 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 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.

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 income and expenses arising from inter-company transactions, are eliminated in preparing the interim condensed consolidated financial statements.

### 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 September 2008

### 4. Investments, net

Investment securities are classified as follows:

SAR'000	30 September 2008 (Unaudited)	31 December 2007 (Audited)	30 September 2007 (Unaudited)
<b>Investments:</b>			
- Held as FVIS	406,318	376,663	1,549,918
- Available for sale	30,252,430	8,259,955	9,099,512
- Held at amortized cost	4,829,374	5,713,077	5,861,733
- Held to maturity	506,314	509,052	510,890
<b>Total</b>	<b>35,994,436</b>	<b>14,858,747</b>	<b>17,022,053</b>

Investments included in held as FVIS include investments held for trading of SAR 358.5 million (31 December 2007: SAR 211.9 million, 30 September 2007: SAR 296.5 million).

### 5. Investment in associates

SAR'000	30 September 2008 (Unaudited)	31 December 2007 (Audited)	30 September 2007 (Unaudited)
<b>HSBC Saudi Arabia Limited</b>			
Balance at beginning of the period	90,411	72,209	72,209
Dividend received	(65,920)	(52,209)	(52,209)
Share of undistributed profit	93,020	70,411	48,073
	<b>117,511</b>	<b>90,411</b>	<b>68,073</b>
<b>SABB Takaful</b>			
Balance at beginning of the period	20,036	-	-
Cost of investment during the period	-	32,500	32,500
Share of losses	(1,390)	(12,464)	(4,000)
	<b>18,646</b>	<b>20,036</b>	<b>28,500</b>
<b>Total</b>	<b>136,157</b>	<b>110,447</b>	<b>96,573</b>

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 September 2008 (Unaudited)			31 December 2007 (Audited)			30 September 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
<b>Derivatives held for trading:</b>									
Special commission rate swaps	496,649	(378,641)	55,767,244	540,149	(456,580)	34,588,421	292,307	(218,096)	34,768,628
Currency swaps	284,883	-	1,475,297	322,790	-	1,475,297	265,767	-	1,475,297
Special commission rate futures and options	7,525	(7,525)	2,767,500	8	(8)	400,000	18	(18)	400,000
Spot and forward foreign exchange contracts	98,130	(150,973)	13,508,579	85,574	(128,594)	11,624,530	87,837	(101,842)	12,138,655
Currency options	76,189	(76,189)	3,649,978	6,984	(6,828)	2,138,699	937	(937)	433,236
Others	35,737	(35,737)	725,000	-	-	-	-	-	-
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	16,301	(19,144)	1,452,128	17,696	(13,278)	1,524,591	23,713	(11,143)	1,633,657
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	7,433	(9,044)	731,250	10,231	(2,990)	1,021,250	6,727	(1,733)	721,250
<b>Total</b>	<b>1,022,847</b>	<b>(677,253)</b>	<b>80,076,976</b>	<b>983,432</b>	<b>(608,278)</b>	<b>52,772,788</b>	<b>677,306</b>	<b>(333,769)</b>	<b>51,570,723</b>

**7. Credit related commitments and contingencies**

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

SAR'000	30 September 2008 (Unaudited)	31 December 2007 (Audited)	30 September 2007 (Unaudited)
Letters of credit	10,175,896	8,126,496	6,651,017
Letters of guarantee	18,333,564	13,429,588	12,069,598
Acceptances	3,345,497	3,060,584	2,876,734
Irrevocable commitments to extend credit	4,081,573	5,022,624	4,008,154
<b>Total</b>	<b>35,936,530</b>	<b>29,639,292</b>	<b>25,605,503</b>

## 8. Cash and cash equivalents

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

<b>SAR'000</b>	<b>30 September 2008</b> <b>(Unaudited)</b>	31 December 2007 <b>(Audited)</b>	30 September 2007 <b>(Unaudited)</b>
Cash and balances with SAMA excluding statutory deposit	<b>1,443,064</b>	13,322,481	10,109,435
Due from banks and other financial institutions maturing within three months of acquisition date	<b>1,940,800</b>	1,723,576	2,884,400
<b>Total</b>	<b>3,383,864</b>	15,046,057	12,993,835

## 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 September 2008 and 2007, their total operating income and expenses, and the net income for the nine-month periods then ended, by business segment, are as follows:

<b>30 September 2008</b> <b>(Unaudited)</b> <b>SAR' 000</b>	<b>Retail</b> <b>banking</b>	<b>Corporate</b> <b>banking</b>	<b>Treasury</b>	<b>Investment</b> <b>banking and</b> <b>brokerage</b>	<b>Others</b>	<b>Total</b>
Total assets	26,250,375	60,126,282	46,096,052	11,089	136,157	132,619,955
Total liabilities	31,936,557	48,948,650	40,769,593	15,582	-	121,670,382
Total operating income	1,512,668	1,375,235	460,565	350,849	-	3,699,317
Total operating expenses	1,020,530	317,311	106,509	83,393	-	1,527,743
Share in earnings of associates, net	-	-	-	-	91,630	91,630
Net income for the period	492,138	1,057,924	354,056	267,456	91,630	2,263,204
Credit losses and impairment provision, net	217,640	59,191	60,950	-	-	337,781

**9. Business segments (continued)**

30 September 2007 (Unaudited) SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Others	Total
Total assets	19,868,036	36,003,692	33,609,086	-	96,573	89,577,387
Total liabilities	30,077,887	34,231,334	15,582,396	-	-	79,891,617
Total operating income	1,495,763	1,343,558	315,579	-	-	3,154,900
Total operating expenses	1,008,196	246,674	41,996	-	-	1,296,866
Share in earnings of associates, net	-	-	-	-	44,073	44,073
Net income for the period	487,567	1,096,884	273,583	-	44,073	1,902,107
Credit losses and impairment provision, net	273,202	18,609	-	-	-	291,811

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 September 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. Debt securities in issue**

During the quarter ended 30 September 2008, the Bank issued SAR 1,705 million 5 year floating rate notes (the notes). The notes carry an interest rate of Sibor plus 80 basis points. The notes are non convertible and are unsecured, maturing in 2013.

**12. 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	11.6	8.4