



# BANQUE SAUDI FRANSI

INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2008

**BANQUE SAUDI FRANSI**  
**CONSOLIDATED BALANCE SHEETS**  
**As at**

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SAR '000	Notes	Sep 30, 2008 (Unaudited)	Dec 31, 2007 (Audited)	Sep 30, 2007 (Unaudited)
<b>ASSETS</b>				
Cash and balances with SAMA		6,140,813	10,152,190	6,989,591
Due from banks and other financial institutions		3,495,720	3,224,062	4,621,824
Investments, net	3	27,988,933	22,376,149	18,357,084
Loans and advances, net		79,118,810	59,849,952	57,046,862
Investment in associates	4	165,440	124,595	92,094
Property and equipment, net		611,690	577,318	577,644
Other assets		3,489,836	3,503,844	2,594,147
<b>Total assets</b>		<b>121,011,242</b>	<b>99,808,110</b>	<b>90,279,246</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		15,174,058	8,122,713	7,506,030
Customer deposits		83,960,638	74,007,251	66,484,110
Other liabilities		3,912,496	4,000,011	3,268,742
Term loans	5	4,956,638	2,437,500	2,437,500
<b>Total liabilities</b>		<b>108,003,830</b>	<b>88,567,475</b>	<b>79,696,382</b>
<b>Equity attributable to equity holders of the Bank</b>				
Share capital		5,625,000	5,625,000	5,625,000
Statutory reserve		4,052,780	4,052,780	3,729,370
General reserve		1,200,000	1,200,000	250,000
Other reserves		(198,176)	(19,619)	(36,868)
Retained earnings		2,302,670	68,339	1,015,362
Proposed dividends		-	314,135	-
<b>Total equity attributable to the equity holders of the Bank</b>		<b>12,982,274</b>	<b>11,240,635</b>	<b>10,582,864</b>
Minority interest		25,138	-	-
<b>Total equity</b>		<b>13,007,412</b>	<b>11,240,635</b>	<b>10,582,864</b>
<b>Total liabilities and equity</b>		<b>121,011,242</b>	<b>99,808,110</b>	<b>90,279,246</b>

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

BANQUE SAUDI FRANSI  
CONSOLIDATED STATEMENTS OF INCOME  
Unaudited

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SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2008	Sep 30, 2007	Sep 30, 2008	Sep 30, 2007
Special commission income	1,313,253	1,263,625	3,745,901	3,615,945
Special commission expense	629,411	685,524	1,740,120	1,928,878
<b>Net special commission income</b>	<b>683,842</b>	<b>578,101</b>	<b>2,005,781</b>	<b>1,687,067</b>
Fees from banking services, net	192,810	219,306	653,098	704,865
Exchange income, net	69,035	39,591	174,381	120,987
Trading income, net	121,078	54,207	465,991	253,414
Dividend income	219	2,613	1,790	3,302
Gains (losses) on non-trading investments, net	65,027	(30)	(106,625)	-
Other operating income	646	2,592	41,550	4,680
<b>Total operating income</b>	<b>1,132,657</b>	<b>896,380</b>	<b>3,235,966</b>	<b>2,774,315</b>
Salaries and employee related expenses	181,051	135,575	455,061	395,585
Rent and premises related expenses	19,270	19,930	66,519	57,115
Depreciation and amortization	21,179	20,012	62,989	56,614
Other general and administrative expenses	53,320	63,366	199,269	177,397
Impairment charge/(deficit) for credit losses, net	(15,286)	10,747	15,424	22,859
Impairment of investments	145,125	-	201,375	-
Other operating expenses	258	331	2,021	848
<b>Total operating expenses</b>	<b>404,917</b>	<b>249,961</b>	<b>1,002,658</b>	<b>710,418</b>
<b>Net operating income</b>	<b>727,740</b>	<b>646,419</b>	<b>2,233,308</b>	<b>2,063,897</b>
Share in earnings of associates, net	-	6,691	1,023	6,691
<b>Net income attributable to equity holders of the Bank</b>	<b>727,740</b>	<b>653,110</b>	<b>2,234,331</b>	<b>2,070,588</b>
<b>Income attributable to minority interest</b>	<b>824</b>	<b>-</b>	<b>1,498</b>	<b>-</b>
<b>Net income for the period</b>	<b>728,564</b>	<b>653,110</b>	<b>2,235,829</b>	<b>2,070,588</b>
Weighted average number of outstanding shares	562,500	562,500	562,500	562,500
<b>Basic and diluted earnings per share (SAR) - Note 10</b>	<b>1.30</b>	<b>1.16</b>	<b>3.97</b>	<b>3.68</b>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended Sep 30, 2008 and 2007

Unaudited

	Attributable to equity holders' of the Bank							Minority interest	Total
SAR '000	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividends	Total		
<u>For the nine months period ended September 30, 2008</u>									
Balance at the beginning of the year	5,625,000	4,052,780	1,200,000	(19,619)	68,339	314,135	11,240,635	-	11,240,635
Net changes in fair value of cash flow hedges	-	-	-	(27,252)	-	-	(27,252)	-	(27,252)
Net changes in fair value of available for sale investments	-	-	-	(69,999)	-	-	(69,999)	-	(69,999)
Transfers to consolidated statement of income	-	-	-	(81,306)	-	-	(81,306)	-	(81,306)
Net income recognized directly in equity	-	-	-	(178,557)	-	-	(178,557)	-	(178,557)
Net income for the period	-	-	-	-	2,234,331	-	2,234,331	1,498	2,235,829
Total recognised income and expense for the period	-	-	-	(178,557)	2,234,331	-	2,055,774	-	2,057,272
Final dividend paid for 2007	-	-	-	-	-	(314,135)	(314,135)	-	(314,135)
Minority interest share capital in subsidiary	-	-	-	-	-	-	-	23,640	23,640
Balance at the end of period	5,625,000	4,052,780	1,200,000	(198,176)	2,302,670	-	12,982,274	25,138	13,007,412
<u>For the nine months period ended September 30, 2007</u>									
Balance at the beginning of the year	3,375,000	3,375,000	2,500,000	(85,159)	37,997	201,943	9,404,781	-	9,404,781
Net changes in fair value of cash flow hedges	-	-	-	41,556	-	-	41,556	-	41,556
Net changes in fair value of available for sale investments	-	-	-	(11,046)	-	-	(11,046)	-	(11,046)
Transfers to consolidated statement of income	-	-	-	17,781	-	-	17,781	-	17,781
Net income recognized directly in equity	-	-	-	48,291	-	-	48,291	-	48,291
Net income for the period	-	-	-	-	2,070,588	-	2,070,588	-	2,070,588
Total recognized income and expense for the period	-	-	-	48,291	2,070,588	-	2,118,879	-	2,118,879
Bonus shares issued	2,250,000	-	(2,250,000)	-	-	-	-	-	-
Transfer to statutory reserve	-	354,370	-	-	(354,370)	-	-	-	-
Final dividend paid for 2006	-	-	-	-	-	(201,943)	(201,943)	-	(201,943)
Interim gross dividend for 2007	-	-	-	-	(738,853)	-	(738,853)	-	(738,853)
Balance at the end of period	5,625,000	3,729,370	250,000	(36,868)	1,015,362	-	10,582,864	-	10,582,864

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2008 and 2007

Unaudited

SAR '000	Note	For the nine months ended	
		Sep 30, 2008	Sep 30, 2007
<b><u>OPERATING ACTIVITIES</u></b>			
Net income for the period attributable to equity holders of the Bank		2,234,331	2,070,588
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts on non trading investments, net		(307,036)	(101,722)
Gains on non trading investments, net		106,625	30
Depreciation and amortization		62,989	56,614
Losses (gains) on disposal of property and equipment, net		444	(41)
Impairment charge for investment		201,375	-
Impairment charge for credit losses, net		15,424	22,859
Share in earnings of associates, net		(1,023)	(6,691)
Change in fair value		(52,804)	32,080
		2,260,325	2,073,717
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(2,480,165)	(273,684)
Due from banks and other financial institutions maturing after three months of acquisition date		200,000	34,000
Investments held as FVIS, trading		391,699	(1,253,394)
Loans and advances		(19,243,671)	(5,953,431)
Other assets		(220,218)	(530,567)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		7,041,901	4,056,524
Customer deposits		10,192,976	4,706,204
Other liabilities		(99,909)	1,010,048
Net cash (used in) from operating activities		(1,957,062)	3,869,417
<b><u>INVESTING ACTIVITIES</u></b>			
Proceeds from sales and matured non-trading investments		25,882,823	4,320,175
Purchase of non-trading investments		(32,038,160)	(5,279,300)
Investment in associates		(39,819)	(130,240)
Purchase of property and equipment, net		(98,507)	(81,885)
Proceeds from sale of property and equipment		700	50
Net cash used in investing activities		(6,292,963)	(1,171,200)
<b><u>FINANCING ACTIVITIES</u></b>			
Net movement in minority interest		25,138	-
Term loans		2,519,138	-
Dividends paid		(314,135)	(940,796)
Net cash from (used in) financing activities		2,230,141	(940,796)
(Decrease) increase in cash and cash equivalents		(6,019,884)	1,757,421
Cash and cash equivalents at the beginning of the year		10,074,745	7,433,071
Cash and cash equivalents at the end of the period	8	4,054,861	9,190,492
Special commission received during the period		3,765,736	3,591,587
Special commission paid during the period		1,800,894	1,875,098
<b><u>Supplemental non-cash information</u></b>			
Net changes in fair value and transfers to consolidated statements of income		(178,557)	48,291

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the nine months ended September 30, 2008 and 2007****1. GENERAL**

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree numbered M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration number 1010073368 dated Safar 4, 1410H, corresponding to September 5, 1989, through its 75 branches (2007: 71 branches) in the Kingdom of Saudi Arabia, employing 2,323 people (2007: 2,172). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

In accordance with the Capital Market Authority (CMA) directive, the Bank has established subsidiaries, Fransi Tadawul Company (99% direct and 1% indirect share in equity beneficially held by a director of the Bank) and CAAM Saudi Fransi (60% share in equity), and associates Sofinco Saudi Fransi (50% share in equity) and CALYON Saudi Fransi (45% share in equity), which are incorporated in the Kingdom of Saudi Arabia. These companies have been established to comply with the CMA requirement of spinning off brokerage, asset management, consumer lease finance and corporate financial advisory activities from the Bank's core business.

The subsidiaries commenced their commercial operations during 2008.

The Bank holds 27% shareholding in an associate Banque BEMO Saudi Fransi, a bank incorporated in Syria and a 50% shareholding in "InSaudi Insurance Co.", incorporated in Kingdom of Bahrain. The Bank also owns 32.5% equity share in Allianz Saudi Fransi, an associate incorporated in the Kingdom of Saudi Arabia.

**2. 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 Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard 34 - Interim Financial Reporting, and complies with the Banking Control Law and Regulations for Companies in the Kingdom of Saudi Arabia.

These interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2007.

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

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Bank's annual financial statements for the year ended December 31, 2007, as described in those financial statements.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2008 and 2007

**b) Basis of consolidation**

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries Fransi Tadawul Company and CAAM Saudi Fransi. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made wherever necessary in the financial statements of the subsidiaries to make them in line with the Bank's consolidated financial statements.

Subsidiaries are all entities 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 year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Minority interests represent the portion of net income and net assets which are not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from equity attributable to the equity holders of the Bank.

Balances between the Bank and its subsidiaries and associates, and any income and expenses arising from intra-group transactions, are eliminated in preparing the 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. INVESTMENTS, NET**

Investment securities are classified as follows:

<b>SAR '000</b>	<b>Sep 30, 2008 (Unaudited)</b>	<b>Dec 31, 2007 (Audited)</b>	<b>Sep 30, 2007 (Unaudited)</b>
Held at FVIS	1,813,818	2,205,517	2,249,598
Available for sale	5,136,789	6,568,248	5,410,233
Held to maturity	2,759,907	3,046,362	3,319,039
Other investments held at amortised cost	18,278,419	10,556,022	7,378,214
<b>Total</b>	<b>27,988,933</b>	<b>22,376,149</b>	<b>18,357,084</b>

Investments held as FVIS represent investments held for trading.

#### 4. INVESTMENT IN ASSOCIATES

SAR '000	Sep 30, 2008 (Unaudited)	Dec 31, 2007 (Audited)	Sep 30, 2007 (Unaudited)
Cost	163,063	123,241	90,740
Share of earnings , net	2,377	1,354	1,354
<b>Total</b>	<b>165,440</b>	<b>124,595</b>	<b>92,094</b>

#### 5. TERM LOANS

Apart from the syndicated term loan of USD 650 million entered in the year 2005 (repayable in 2010), the Bank entered into a five year term loan agreement on June 25, 2008 for Euro 100 million (repayable in 2013) for general banking purposes. Both loans have been drawn down in full. In addition, the Bank entered into another term loan agreement on September 22, 2008 for USD 525 million, which has been drawn down in full and comprises three year tranche (USD 183 million) and five year tranche (USD 342 million) to have general banking purposes. However, the Bank has an option to repay all these loans before their maturity subject to terms and conditions of the respective agreements.

#### 6. DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments held, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of 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 to market risk.

SAR '000	Sep 30, 2008 (Unaudited)			Dec 31, 2007 (Audited)			Sep 30, 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>Held for trading</b>									
Special commission rate swaps	1,666,635	1,674,602	141,026,320	1,900,245	2,061,361	98,747,269	1,026,266	1,212,663	88,253,982
Special commission rate futures and options	6,253	2,438	7,909,911	5,242	5,197	10,230,224	5,550	4,772	6,636,514
Forward rate agreements	-	122	50,000	-	-	-	761	200	600,000
Forward foreign exchange contracts	586,749	398,924	80,423,505	183,371	217,602	54,097,887	130,824	126,605	65,037,526
Currency options	281,900	160,720	13,611,385	221,411	108,917	12,509,716	216,055	104,906	12,706,003
Others	8,462	-	1,163,694	237	2,768	155,290	621	7,216	245,274
<b>Held as fair value hedges</b>									
Special commission rate swaps	89,423	110,495	10,004,970	184,407	66,107	10,303,569	82,617	40,149	8,779,951
Forward foreign exchange contracts	6,267	-	278,188	-	-	-	-	-	-
<b>Held as cash flow hedges</b>									
Special commission rate swaps	77,916	36,433	6,902,450	148,389	1,863	5,452,450	163,045	5,384	5,521,200
<b>Total</b>	<b>2,723,605</b>	<b>2,383,734</b>	<b>261,370,423</b>	<b>2,643,302</b>	<b>2,463,815</b>	<b>191,496,405</b>	<b>1,625,739</b>	<b>1,501,895</b>	<b>187,780,450</b>
Value of netting arrangements	(229,439)	(229,439)	(24,795,502)	(225,803)	(225,803)	(17,400,780)	(146,981)	(146,981)	(15,340,289)
<b>Total after netting</b>	<b>2,494,166</b>	<b>2,154,295</b>	<b>236,574,921</b>	<b>2,417,499</b>	<b>2,238,012</b>	<b>174,095,625</b>	<b>1,478,758</b>	<b>1,354,914</b>	<b>172,440,161</b>

Special commission rate swaps include the notional amount of SAR 24,796 million (December 31, 2007: SAR 17,401 million and September 30, 2007: SAR 15,340 million), with an aggregate positive fair value and a negative fair value of SAR 229 million (December 31, 2007: SAR 226 million and September 30, 2007: SAR 147 million) which are netted out for credit exposure purposes, as the Bank intends to settle these on a net basis.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2008 and 2007

## 7. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

SAR '000	Sep 30, 2008 (Unaudited)	Dec 31, 2007 (Audited)	Sep 30, 2007 (Unaudited)
Letters of credit	16,971,977	12,727,331	10,941,489
Letters of guarantee	29,824,762	29,787,286	28,048,096
Acceptances	2,162,265	2,836,832	2,245,560
Irrevocable commitments to extend credit	5,252,424	7,140,053	4,484,982
Other	6,750	6,750	6,750
<b>Total</b>	<b>54,218,178</b>	<b>52,498,252</b>	<b>45,726,877</b>

## 8. CASH AND CASH EQUIVALENTS

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

SAR '000	Sep 30, 2008 (Unaudited)	Dec 31, 2007 (Audited)	Sep 30, 2007 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	559,141	7,050,683	4,684,668
Due from banks and other financial institutions maturing within three months of acquisition date	3,495,720	3,024,062	4,505,824
<b>Total</b>	<b>4,054,861</b>	<b>10,074,745</b>	<b>9,190,492</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2008 and 2007

## 9. BUSINESS SEGMENTS

The Bank is organised into the following main business segments:

**Retail Banking** – incorporating private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, and certain forex products.

**Corporate Banking** – incorporating corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

**Treasury Banking** – incorporating treasury services, trading activities, investment securities, money market, the Bank's funding operation and derivative products.

**Investment banking and brokerage** – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, international and local shares brokerage services, insurance (brokerage) .

Transactions between the business segments are reported according to the Bank's internal transfer pricing policy.

The Bank's total assets and liabilities as at September 30, 2008 and 2007, together with total operating income, total operating expenses, share in earnings of associates and net income attributable to equity holders of the Bank for the nine months then ended, by business segments, are as follows:

(Unaudited) SAR '000	Retail banking	Corporate banking	Treasury banking	Investment banking and brokerage	Total
<b><u>September 30, 2008</u></b>					
Total assets	15,738,889	67,603,239	37,387,011	282,103	121,011,242
Total liabilities	39,547,167	45,299,964	23,101,692	55,007	108,003,830
Total operating income	1,093,659	1,124,892	814,977	202,438	3,235,966
Total operating expenses	602,416	33,027	322,850	44,365	1,002,658
Share in earnings of associates, net	-	-	1,023	-	1,023
Net income attributable to equity holders of the Bank	491,243	1,091,865	493,150	158,073	2,234,331
<b><u>September 30, 2007</u></b>					
Total assets	11,778,332	48,453,056	30,047,858	-	90,279,246
Total liabilities	38,483,836	28,272,290	12,940,256	-	79,696,382
Total operating income	1,264,206	866,006	650,794	-	2,781,006
Total operating expenses	559,611	59,833	90,974	-	710,418
Net income attributable to equity holders of the Bank	704,648	806,173	559,767	-	2,070,588

During September 30, 2007 investment banking and brokerage operation was reported under retail and corporate banking

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2008 and 2007

**10. Earnings per share**

Basic and diluted earnings per share for the period ended September 30, 2008 and 2007 are calculated by dividing the net income for the period attributable to the equity holders' of the Bank by 562.5 million shares.

**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 January 1, 2008. Consequently, the following disclosures have been made for the first period and comparatives have not been presented.

Total Capital Adequacy Ratio	10.17%
Tier 1 Capital Adequacy Ratio	9.64%