

Interim Condensed  
**Financial Statements**  
For the nine months ended  
30 September 2006

**The Saudi British Bank**

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## BALANCE SHEETS

		<b>30 September 2006 (Unaudited) SAR' 000</b>	<b>31 December 2005 (Audited) SAR' 000</b>	<b>30 September 2005 (Unaudited) SAR' 000</b>
	<u>Notes</u>			
<b>ASSETS</b>				
Cash and balances with SAMA		<b>4,734,473</b>	3,029,348	2,411,039
Due from banks and other financial institutions		<b>12,617,042</b>	4,234,290	6,757,346
Investments, net	2	<b>16,585,896</b>	16,372,562	16,867,631
Investment in an associate	3	<b>46,474</b>	-	-
Loans and advances, net		<b>41,186,442</b>	40,846,592	39,646,876
Fixed assets, net		<b>559,475</b>	527,725	551,245
Other assets		<b>1,557,715</b>	917,410	1,118,158
<b>Total assets</b>		<b>77,287,517</b>	65,927,927	67,352,295

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Liabilities

Due to banks and other financial institutions		<b>1,712,419</b>	4,049,625	9,792,691
Customer deposits		<b>59,653,017</b>	48,534,075	45,600,149
Debt securities in issue	9	<b>3,789,700</b>	2,246,933	2,246,748
Borrowings		<b>187,500</b>	187,500	187,500
Other liabilities		<b>3,083,449</b>	3,416,642	2,687,093
<b>Total liabilities</b>		<b>68,426,085</b>	58,434,775	60,514,181

### Shareholders' equity

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>112,746</b>	302,843	278,132
Retained earnings		<b>2,046,421</b>	1,903,309	1,559,982
Proposed dividends		-	287,000	-
<b>Total shareholders' equity</b>		<b>8,861,432</b>	7,493,152	6,838,114
<b>Total liabilities and shareholders' equity</b>		<b>77,287,517</b>	65,927,927	67,352,295

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

**STATEMENTS OF INCOME**

**Unaudited**

	<b>Notes</b>	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>30 September 2006 SAR'000</b>	<b>30 September 2005 SAR'000</b>	<b>30 September 2006 SAR'000</b>	<b>30 September 2005 SAR'000</b>
Special commission income		<b>1,175,380</b>	857,898	<b>3,307,333</b>	2,265,056
Special commission expense		<b>472,542</b>	316,930	<b>1,323,776</b>	778,349
<b>Net special commission income</b>		<b>702,838</b>	540,968	<b>1,983,557</b>	1,486,707
Fees from banking services, net		<b>185,392</b>	400,806	<b>1,402,551</b>	1,068,326
Exchange income		<b>38,749</b>	50,118	<b>117,861</b>	130,791
Income / (loss) from FVIS investments		<b>4,798</b>	(800)	<b>7,386</b>	(3,288)
Trading income, net		<b>4,330</b>	21,051	<b>26,535</b>	35,236
Dividend income		-	-	<b>2,944</b>	3,457
Gains on non trading investments, net		<b>39,955</b>	3,048	<b>61,365</b>	34,109
Other operating income		<b>955</b>	127	<b>2,497</b>	999
<b>Total operating income</b>		<b>977,017</b>	1,015,318	<b>3,604,696</b>	2,756,337
Salaries and employee related expenses		<b>171,307</b>	173,261	<b>584,052</b>	486,971
Rent and premises related expenses		<b>15,843</b>	13,615	<b>42,574</b>	35,423
Depreciation and amortisation		<b>25,450</b>	37,564	<b>72,460</b>	71,308
Other general and administrative expenses		<b>102,192</b>	68,061	<b>348,072</b>	187,104
Provision for credit losses, net		<b>42,870</b>	48,394	<b>127,245</b>	101,010
Other operating expenses		<b>138</b>	409	<b>2,015</b>	533
<b>Total operating expenses</b>		<b>357,800</b>	341,304	<b>1,176,418</b>	882,349
<b>Net income from operating activities</b>		<b>619,217</b>	674,014	<b>2,428,278</b>	1,873,988
<b>Share in earnings of associate</b>		<b>26,474</b>	-	<b>26,474</b>	-
<b>Net income for the period</b>		<b>645,691</b>	674,014	<b>2,454,752</b>	1,873,988
<b>Earnings per share (in SAR)</b>	<b>8</b>	<b>1.72</b>	1.80	<b>6.55</b>	5.00

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the nine months ended 30 September**  
**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	-	-	-	2,454,752	-	2,454,752
Transfer to statutory reserve	-	452,265	-	(452,265)	-	-
2005 final dividend paid	-	-	-	-	(287,000)	(287,000)
Interim gross dividend	-	-	-	(609,375)	609,375	-
Interim gross dividend paid	-	-	-	-	(609,375)	(609,375)
Net changes in fair value and cash flow hedges	-	-	(190,097)	-	-	(190,097)
<b>Balance as at 30 September</b>	<b>3,750,000</b>	<b>2,952,265</b>	<b>112,746</b>	<b>2,046,421</b>	<b>-</b>	<b>8,861,432</b>
<b><u>2005 (SAR'000)</u></b>						
Balance as at 1 January	2,500,000	2,408,965	185,903	303,029	519,500	5,917,397
Net income for the period	-	-	-	1,873,988	-	1,873,988
Transfer to statutory reserve	-	91,035	-	(91,035)	-	-
2004 final dividend paid	-	-	-	-	(519,500)	(519,500)
Interim gross dividend	-	-	-	(526,000)	526,000	-
Interim gross dividend paid	-	-	-	-	(526,000)	(526,000)
Net changes in fair value and cash flow hedges	-	-	92,229	-	-	92,229
Balance as at 30 September	2,500,000	2,500,000	278,132	1,559,982	-	6,838,114

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

*The Saudi British Bank*  
*Saudi Joint Stock Company*

**STATEMENTS OF CASH FLOWS**  
**For the nine months ended 30 September**  
**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>2,454,752</b>	1,873,988
<b>Adjustments to reconcile net income to net cash from (used in) operating activities:</b>			
Amortisation of premium and (accretion of discounts)		<b>1,981</b>	(4,829)
(Income) / losses from FVIS financial instruments		<b>(7,386)</b>	3,288
Gains on non trading investments, net		<b>(61,365)</b>	(34,109)
Depreciation and amortisation		<b>72,460</b>	71,308
Losses on disposal of fixed and other assets, net		<b>262</b>	466
Share in earnings of associate		<b>(26,474)</b>	-
Provision for credit losses, net		<b>127,245</b>	101,010
Change in fair value		<b>(1,370)</b>	4,386
		<b>2,560,105</b>	2,015,508
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		<b>(452,250)</b>	(239,976)
Investments held for trading		<b>(110,190)</b>	(350,948)
Due from banks and other financial institutions after ninety days		<b>(3,750)</b>	-
Loans and advances		<b>(467,095)</b>	(8,120,828)
Other assets		<b>(640,305)</b>	(477,430)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		<b>(2,337,206)</b>	4,129,356
Customer deposits		<b>11,119,759</b>	934,701
Other liabilities		<b>(353,471)</b>	974,415
<b>Net cash from (used in) operating activities</b>		<b>9,315,597</b>	(1,135,202)
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and maturities of non-trading investments		<b>10,674,611</b>	2,132,557
Purchase of non-trading investments		<b>(10,901,978)</b>	(3,855,483)
Investment in associate		<b>(20,000)</b>	-
Purchase of fixed assets		<b>(105,204)</b>	(58,014)
Proceeds from disposal of fixed assets		<b>732</b>	121
<b>Net cash used in investing activities</b>		<b>(351,839)</b>	(1,780,819)
<b>FINANCING ACTIVITIES</b>			
Debt securities in issue		<b>1,541,419</b>	2,246,748
Borrowing		<b>-</b>	187,500
Dividend paid		<b>(873,300)</b>	(1,018,676)
<b>Net cash from financing activities</b>		<b>668,119</b>	1,415,572
<b>Increase (decrease) in cash and cash equivalents</b>		<b>9,631,877</b>	(1,500,449)
<b>Cash and cash equivalents at beginning of the period</b>		<b>5,388,091</b>	8,770,976
<b>Cash and cash equivalents at end of the period</b>	6	<b>15,019,968</b>	7,270,527
<b>Supplemental non-cash information</b>			
Net changes in fair value and cash flow hedges		<b>(190,097)</b>	92,229

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

**Notes To The Interim Condensed Financial Statements**  
**30 September 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 except for note 1(b) below.

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.

**b) Investment in an associate**

Investment in associate is accounted for using the equity method as per International Accounting Standard 28 – Investment in Associates. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in associate is carried in the balance sheet at cost plus post investment changes in the Bank's share of net assets of the associate. Losses in excess of the cost of the investment are recognised when the Bank has incurred obligations on its behalf. The income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associate and the Bank are identical and the associate's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associate are eliminated to the extent of the Bank's interest in the associate.

**Notes To The Interim Condensed Financial Statements - continued**  
**30 September 2006**

**2. Investments, net**

Investment securities are classified as follows:

SAR'000	30 September 2006 (Unaudited)	31 December 2005 (Audited)	30 September 2005 (Unaudited)
<b>Investments:</b>			
- Held as FVIS	<b>2,170,578</b>	1,995,186	2,085,030
- Available for sale	<b>7,538,676</b>	6,599,497	7,004,465
- Held at amortized cost, other	<b>6,363,023</b>	7,261,532	7,260,870
- Held to maturity	<b>513,619</b>	516,347	517,266
<b>Total</b>	<b>16,585,896</b>	16,372,562	16,867,631

Investments included in held as FVIS include investments held for trading of SAR 382.0 million (31 December 2005: SAR 270.4 million, 30 September 2005: SAR 74.3 million).

**3. Investment in an associate**

During the quarter ended 30 September 2006, the Bank made an investment of 40% in shares of HSBC Saudi Arabia Limited (the associate), which is involved in the investment banking services in the Kingdom of Saudi Arabia. The carrying amount of the investment has been arrived at as follows:

SAR'000	30 September 2006 (Unaudited)
Cost of Investment in an associate	<b>20,000</b>
Share of undistributed profit of an associate	<b>26,474</b>
<b>Total</b>	<b>46,474</b>

**Notes To The Interim Condensed Financial Statements - continued**  
**30 September 2006**

**4. 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 2006 (Unaudited)			31 December 2005 (Audited)			30 September 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	119,686	(88,411)	14,288,135	101,537	(81,082)	9,817,008	96,828	(77,428)	9,449,107
Currency swaps	46,624	(60,111)	1,475,297	-	(314)	15,931	-	(533)	16,597
Special commission rate futures and options	780	(780)	400,000	848	(848)	400,000	330	(330)	400,000
Spot and forward foreign exchange contracts	60,383	(32,017)	13,722,635	39,808	(90,040)	15,700,677	34,450	(84,699)	23,044,937
Currency options	2,087	(2,087)	340,456	3,251	(3,251)	479,392	4,454	(4,468)	630,840
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	22,760	(12,637)	2,194,287	30,062	(15,930)	1,912,476	30,148	(19,195)	2,255,107
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	5,340	(5,711)	727,500	4,392	(8,510)	577,500	2,039	(6,682)	577,500
<b>Total</b>	<b>257,660</b>	<b>(201,754)</b>	<b>33,148,310</b>	<b>179,898</b>	<b>(199,975)</b>	<b>28,902,984</b>	<b>168,249</b>	<b>(193,335)</b>	<b>36,374,088</b>

**5. Credit related commitments and contingencies**

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

SAR'000	30 September 2006 (Unaudited)	31 December 2005 (Audited)	30 September 2005 (Unaudited)
Letters of credit	5,042,838	4,383,491	4,662,879
Letters of guarantee	8,931,060	7,866,414	6,954,179
Acceptances	2,044,853	1,893,238	1,826,111
Irrevocable commitments to extend credit	1,815,500	1,694,099	1,772,752
<b>Total</b>	<b>17,834,251</b>	<b>15,837,242</b>	<b>15,215,921</b>

**Notes To The Interim Condensed Financial Statements - continued**  
**30 September 2006**

**6. 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 2006</b> <b>(Unaudited)</b>	<b>31 December 2005</b> <b>(Audited)</b>	<b>30 September 2005</b> <b>(Unaudited)</b>
Cash and balances with SAMA excluding statutory deposit	<b>2,406,676</b>	1,153,801	513,181
Due from banks and other financial institutions maturing within ninety days	<b>12,613,292</b>	4,234,290	6,757,346
<b>Total</b>	<b>15,019,968</b>	5,388,091	7,270,527

**7. 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 September 2006 and 2005, their total operating income and expenses, and the net income for the nine month periods then ended, by business segment, are as follows:

**30 September 2006 (Unaudited)**  
**SAR' 000**

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Total</b>
Total assets	<b>18,957,194</b>	<b>24,156,449</b>	<b>34,173,874</b>	<b>77,287,517</b>
Total liabilities	<b>26,109,022</b>	<b>29,442,670</b>	<b>12,874,393</b>	<b>68,426,085</b>
Total operating income (including share in earnings of an associate)	<b>2,371,200</b>	<b>964,269</b>	<b>295,701</b>	<b>3,631,170</b>
Total operating expenses	<b>957,616</b>	<b>178,312</b>	<b>40,490</b>	<b>1,176,418</b>
Net income for the period	<b>1,413,584</b>	<b>785,957</b>	<b>255,211</b>	<b>2,454,752</b>

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

	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>Treasury</b>	<b>Total</b>
Total assets	17,918,147	23,478,561	25,955,587	67,352,295
Total liabilities	23,429,934	14,222,770	22,861,477	60,514,181
Total operating income	1,838,832	603,790	313,715	2,756,337
Total operating expenses	645,211	203,181	33,957	882,349
Net income for the period	1,193,621	400,609	279,758	1,873,988

**Notes To The Interim Condensed Financial Statements - continued**  
**30 September 2006**

**8. 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 International Accounting Standard 33 - Earnings per Share.

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

**9. 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.

**10. Comparative figures**

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