

Interim Condensed

# **Consolidated Financial Statements**

For the six months ended  
30 June 2009

The Saudi British Bank

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>30 June 2009 Unaudited SAR' 000</b>	31 December 2008 Audited SAR' 000	30 June 2008 Unaudited SAR' 000
	<b>Notes</b>			
<b>ASSETS</b>				
Cash and balances with SAMA		<b>8,797,406</b>	11,328,253	9,898,493
Due from banks and other financial institutions		<b>5,517,656</b>	6,200,466	5,561,876
Investments, net	<b>4</b>	<b>24,380,458</b>	29,604,346	30,124,357
Loans and advances, net		<b>78,718,005</b>	80,236,757	77,541,102
Investment in associates	<b>5</b>	<b>161,833</b>	148,356	180,419
Property and equipment, net		<b>557,110</b>	561,460	551,021
Other assets		<b>3,824,782</b>	3,581,055	2,294,150
<b>Total assets</b>		<b>121,957,250</b>	131,660,693	126,151,418
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		<b>6,189,388</b>	16,069,492	17,159,324
Customer deposits		<b>91,536,307</b>	92,677,537	89,090,362
Debt securities in issue		<b>5,673,937</b>	5,656,800	4,167,683
Borrowings		<b>187,500</b>	187,500	187,500
Other liabilities		<b>5,268,771</b>	5,435,533	4,619,135
<b>Total liabilities</b>		<b>108,855,903</b>	120,026,862	115,224,004
<b>Shareholders' equity</b>				
Share capital	<b>10</b>	<b>7,500,000</b>	6,000,000	6,000,000
Statutory reserve		<b>4,480,005</b>	4,480,005	3,750,000
Other reserves		<b>(145,142)</b>	(176,716)	(175,176)
Retained earnings		<b>1,266,484</b>	1,330,542	1,352,590
<b>Total shareholders' equity</b>		<b>13,101,347</b>	11,633,831	10,927,414
<b>Total liabilities and shareholders' equity</b>		<b>121,957,250</b>	131,660,693	126,151,418

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 2009 SAR'000	30 June 2008 SAR'000	30 June 2009 SAR'000	30 June 2008 SAR'000
Special commission income		1,153,478	1,318,155	2,527,015	2,702,711
Special commission expense		259,408	499,703	752,020	1,029,842
<b>Net special commission income</b>		<b>894,070</b>	<b>818,452</b>	<b>1,774,995</b>	<b>1,672,869</b>
Fees from banking services, net		327,311	345,794	604,036	662,055
Exchange income, net		31,701	33,700	65,641	70,049
Income (loss) from FVIS financial instruments, net		2,346	(33,352)	5,688	(39,331)
Trading income, net		74,649	107,138	165,053	156,806
Dividend income		1,000	600	1,049	600
Gains (losses) on non- trading investments, net		33,036	56,755	33,044	(2,588)
Other operating income		18,780	1,257	19,637	1,271
<b>Total operating income</b>		<b>1,382,893</b>	<b>1,330,344</b>	<b>2,669,143</b>	<b>2,521,731</b>
Salaries and employee related expenses		232,756	243,725	459,448	454,889
Rent and premises related expenses		20,252	20,142	40,125	36,690
Depreciation and amortisation		27,853	27,156	55,957	52,977
Other general and administrative expenses		118,286	142,146	260,466	249,000
Provision for credit losses, net		314,372	109,860	430,664	185,058
Impairment of other financial assets		-	44,075	-	60,950
Other operating expenses (income)		2	(2)	18	77
<b>Total operating expenses</b>		<b>713,521</b>	<b>587,102</b>	<b>1,246,678</b>	<b>1,039,641</b>
<b>Net income from operating activities</b>		<b>669,372</b>	<b>743,242</b>	<b>1,422,465</b>	<b>1,482,090</b>
Share in earnings of associates, net	5	6,616	51,810	13,477	69,972
<b>Net income for the period</b>		<b>675,988</b>	<b>795,052</b>	<b>1,435,942</b>	<b>1,552,062</b>
<b>Basic and diluted earnings per share (in SAR)</b>	10	<b>0.90</b>	<b>1.06</b>	<b>1.91</b>	<b>2.07</b>

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

	Three months ended		Six months ended	
	30 June 2009 SAR' 000	30 June 2008 SAR' 000	30 June 2009 SAR' 000	30 June 2008 SAR' 000
<b>Net income for the period</b>	<b>675,988</b>	795,052	<b>1,435,942</b>	1,552,062
<b>Other comprehensive income</b>				
Available for sale financial assets				
- Net change in fair value	872	(123,201)	77,456	(147,208)
- Transfer to consolidated statement of income	(33,036)	(56,755)	(33,044)	2,588
	<b>(32,164)</b>	(179,956)	<b>44,412</b>	(144,620)
Cash flow hedge				
- Net change in fair value	(24,757)	(29,371)	(12,838)	(14,336)
	<b>(56,921)</b>	(209,327)	<b>31,574</b>	(158,956)
<b>Total comprehensive income for the period</b>	<b>619,067</b>	585,725	<b>1,467,516</b>	1,393,106

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**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**For the six months ended 30 June**
**Unaudited**

	Notes	Share Capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividend SAR '000	Total SAR '000
<b>2009</b>							
Balance at beginning of the period		6,000,000	4,480,005	(176,716)	1,330,542	-	11,633,831
Total comprehensive income for the period		-	-	31,574	1,435,942	-	1,467,516
Bonus share issue	10	1,500,000	-	-	(1,500,000)	-	-
Balance at end of the period		<u>7,500,000</u>	<u>4,480,005</u>	<u>(145,142)</u>	<u>1,266,484</u>	<u>-</u>	<u>13,101,347</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
Total comprehensive income 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>

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

# The Saudi British Bank

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

Unaudited

	<u>Notes</u>	<u>2009</u> <u>SAR' 000</u>	<u>2008</u> <u>SAR' 000</u>
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		<b>1,435,942</b>	1,552,062
<b>Adjustments to reconcile net income to net cash from (used in) operating activities:</b>			
(Accretion of discounts) amortisation of premium, net		(1,089)	653
(Income) loss from FVIS financial instruments		(5,688)	39,331
(Gains) losses on non trading investments, net		(33,044)	2,588
Depreciation and amortisation		55,957	52,977
Losses on disposal of property and equipment, net		14	23
Share in earnings from associates, net		(13,477)	(69,972)
Provision for credit losses, net		430,664	185,058
Impairment of other financial assets, net		-	60,950
Change in fair value		16,631	128,243
		<b>1,885,910</b>	1,951,913
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		(17,717)	(3,362,945)
Investments held for trading		17,899	(191,568)
Loans and advances		1,088,088	(15,725,302)
Other assets		(243,727)	29,546
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		(9,880,104)	9,114,277
Customer deposits		(1,141,230)	17,242,510
Other liabilities		(129,204)	780,743
<b>Net cash (used in) from operating activities</b>		<b>(8,420,085)</b>	9,839,174
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of and maturities of non-trading investments		12,368,944	8,282,343
Purchase of non-trading investments		(7,122,628)	(23,456,246)
Purchase of property and equipment		(51,655)	(52,181)
Proceeds from disposal of property and equipment		34	-
<b>Net cash from (used in) investing activities</b>		<b>5,194,695</b>	(15,226,084)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(5,984)	(882,988)
<b>Net cash used in financing activities</b>		<b>(5,984)</b>	(882,988)
<b>Decrease in cash and cash equivalents</b>		<b>(3,231,374)</b>	(6,269,898)
<b>Cash and cash equivalents at beginning of the period</b>		<b>12,701,229</b>	15,046,057
<b>Cash and cash equivalents at end of the period</b>	<b>8</b>	<b>9,469,855</b>	8,776,159
Special commission received during the period		2,811,620	2,837,434
Special commission paid during the period		1,034,132	904,539

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 69 branches (2008: 67) and 31 exclusive ladies' sections (2008: 15) in the Kingdom of Saudi Arabia. The Bank employed 3,393 staff as at 30 June 2009 (2008: 3,231). 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 established by the Bank.

The Bank has 100% (June 2008: 100%) 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 1428H (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 2008. 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 subsidiaries to align 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.

### 3. Accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2008, as described in the annual consolidated financial statements for the year ended 31 December 2008 except for the adoption of IFRS 8 Operating Segments and amendments to existing standards, as mentioned below. The Bank has adopted the standard and amendments with retrospective effect which had no impact on the financial position and financial performance of the Bank. The comparative information has been restated, where required, to conform to current period presentation.

- IFRS 8 Operating Segments, which supersedes IAS 14 Segment Reporting and requires disclosure of information about the Bank's operating segments; and
- the revisions and amendments to IAS 1 Presentation of Financial Statements.

### 4. Investments, net

Investment securities are classified as follows:

SAR'000	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
<b>Investments:</b>			
- Held as FVIS	401,205	401,295	418,433
- Available for sale	18,783,927	23,906,848	24,172,690
- Other investments held at amortized cost	4,691,741	4,790,809	5,026,001
- Held to maturity	503,585	505,394	507,233
<b>Total</b>	<b>24,380,458</b>	<b>29,604,346</b>	<b>30,124,357</b>

Investments held as FVIS include investments held for trading amounting to SAR 345.8 million (31 December 2008: SAR 350.9 million, 30 June 2008: SAR 364.1 million).

### 5. Investment in associates

SAR'000	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
<b>HSBC Saudi Arabia Limited</b>			
Balance at beginning of the period	130,150	90,411	90,411
Dividend received	-	(70,412)	-
Share of undistributed profit	16,660	110,151	72,063
	<b>146,810</b>	<b>130,150</b>	<b>162,474</b>
<b>SABB Takaful</b>			
Balance at beginning of the period	18,206	20,036	20,036
Share of losses	(3,183)	(1,830)	(2,091)
	<b>15,023</b>	<b>18,206</b>	<b>17,945</b>
<b>Total</b>	<b>161,833</b>	<b>148,356</b>	<b>180,419</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 shares 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 2009 (Unaudited)			31 December 2008 (Audited)			30 June 2008 (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	1,659,564	(1,563,398)	52,465,481	1,650,294	(1,542,308)	54,598,298	507,889	(389,992)	48,264,603
Currency swaps	249,388	-	1,475,297	235,304	-	1,475,297	461,677	-	1,475,297
Special commission rate futures and options	10,875	(10,875)	2,887,500	12,416	(12,416)	2,767,500	9,588	(9,588)	3,396,132
Spot and forward foreign exchange contracts	122,278	(85,600)	15,100,243	88,279	(147,072)	9,046,726	87,172	(97,773)	13,977,835
Currency options	137,837	(137,837)	3,672,256	142,941	(142,941)	3,045,939	75,814	(75,814)	4,616,680
Others	2,600	(2,600)	725,000	6,337	(6,337)	725,000	62,297	(62,297)	675,000
<b>Derivatives held as fair value hedges:</b>									
Special commission rate swaps	6,145	(30,154)	748,919	851	(28,420)	1,319,505	26,021	(21,651)	2,208,458
<b>Derivatives held as cash flow hedges:</b>									
Special commission rate swaps	27,092	(3,682)	581,250	40,369	(4,632)	731,250	4,076	(10,660)	731,250
<b>Total</b>	<b>2,215,779</b>	<b>(1,834,146)</b>	<b>77,655,946</b>	<b>2,176,791</b>	<b>(1,884,126)</b>	<b>73,709,515</b>	<b>1,234,534</b>	<b>(667,775)</b>	<b>75,345,255</b>

## 7. Credit related commitments and contingencies

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

SAR'000	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
Letters of credit	7,117,311	8,713,407	12,816,963
Letters of guarantee	23,871,081	20,019,780	15,584,186
Acceptances	3,186,470	3,142,116	3,232,323
Irrevocable commitments to extend credit	2,493,913	4,570,379	5,211,472
<b>Total</b>	<b>36,668,775</b>	<b>36,445,682</b>	<b>36,844,944</b>

## 8. Cash and cash equivalents

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

<b>SAR'000</b>	<b>30 June 2009</b> <b>(Unaudited)</b>	31 December 2008 <b>(Audited)</b>	30 June 2008 <b>(Unaudited)</b>
Cash and balances with SAMA excluding statutory deposit	<b>3,952,199</b>	6,500,763	3,214,283
Due from banks and other financial institutions maturing within three months of acquisition date	<b>5,517,656</b>	6,200,466	5,561,876
<b>Total</b>	<b>9,469,855</b>	12,701,229	8,776,159

## 9. Business segments

The Bank's primary business is conducted in the 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 statement of financial position.

**Securities** – activities related to dealing 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 2009 and 2008, their total operating income and expenses, and the net income for the six-month periods then ended, by business segment, are as follows:

<b>30 June 2009 (Unaudited)</b> <b>SAR' 000</b>	<b>Retail</b> <b>Banking</b>	<b>Corporate</b> <b>Banking</b>	<b>Treasury</b>	<b>Securities</b>	<b>Others</b>	<b>Total</b>
Total assets	<b>20,370,896</b>	<b>60,208,047</b>	<b>41,159,174</b>	<b>57,300</b>	<b>161,833</b>	<b>121,957,250</b>
Total liabilities	<b>35,912,320</b>	<b>34,256,604</b>	<b>38,657,620</b>	<b>29,359</b>	-	<b>108,855,903</b>
Total operating income	<b>987,400</b>	<b>1,142,841</b>	<b>416,640</b>	<b>122,262</b>	-	<b>2,669,143</b>
Total operating expenses	<b>717,176</b>	<b>438,424</b>	<b>28,203</b>	<b>62,875</b>	-	<b>1,246,678</b>
Share in earnings of associates, net	-	-	-	-	<b>13,477</b>	<b>13,477</b>
Net income for the period	<b>270,224</b>	<b>704,417</b>	<b>388,437</b>	<b>59,387</b>	<b>13,477</b>	<b>1,435,942</b>
Credit losses, net	<b>175,826</b>	<b>254,838</b>	-	-	-	<b>430,664</b>
Provision for impairment of investments, net	-	-	-	-	-	-

# The Saudi British Bank

## Notes To The Interim Condensed Consolidated Financial Statements 30 June 2009

30 June 2008 (Unaudited)  
SAR' 000

	Retail Banking	Corporate Banking	Treasury	Securities	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, net	138,614	46,444	-	-	-	185,058
Provision for impairment of investments, net	-	-	60,950	-	-	60,950

### 10. Share capital and earnings per share

The shareholders' of the Bank approved a bonus issue of one share for every four shares in their Extra Ordinary General Meeting held on 10 March 2009. As a result 150 million shares of SAR 10 each were issued by capitalising retained earnings.

Basic and diluted earnings per share for the period ended 30 June 2009 and 2008 is calculated by dividing the net income for the period attributable to the equity holders by 750 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.

Capital Adequacy Ratios	June 2009		June 2008	
Particulars	Total capital ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 capital ratio
	%		%	
Top consolidated level	12.6	10.5	12.4	10.5

### 12. Capital adequacy – Basel II

Certain additional quantitative disclosures are required under Basel II Pillar 3. These disclosures will be published on the Bank's website [www.sabb.com](http://www.sabb.com) within 60 days after June 30, 2009 as required by SAMA.