

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2004 (Unaudited)

1. Accounting policies

The Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee. The Bank also complies with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. These interim condensed financial statements are prepared in accordance with International Accounting Standard No. 34 Interim Financial Reporting. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

Reclassification

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

2. Investments, net

The analysis of investments is as follows:

SAR'000	At 30 September 2004 (Unaudited)	At 31 December 2003 (Audited)	At 30 September 2003 (Unaudited)
Available for sale investments	7,027,476	6,902,239	10,467,458
Originated debt securities	7,158,015	8,340,486	8,387,650
Held to maturity investments	723,393	728,523	730,245
Total	14,908,884	15,971,248	19,585,353

3. Bonus share issue and earnings per share

A bonus issue of one share for every four shares held, was approved in the Annual General Meeting on 15 March 2004. The calculation of earnings per share for the periods ended 30 September 2003 has been adjusted to reflect the bonus share issue in 2004.

4. Interim dividend, zakat and taxation

Interim gross dividend of SAR 470.5 million (2003: SAR 374.0 million) was paid on 14 July 2004. Zakat relating to the Saudi shareholders, amounting to approximately SAR 12.4 million (2003: SAR 8.4 million), was deducted from their share of the dividend. This resulted in a net dividend to the Saudi shareholders of SAR 9 per share (2003: SAR 7.20, adjusted for the bonus share issue). The income tax liability of the foreign shareholder was deducted from its share of the dividend.

5. Cash and cash equivalents

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

SAR'000	At 30 September 2004 (Unaudited)	At 31 December 2003 (Audited)	At 30 September 2003 (Unaudited)
Cash and balances with SAMA excluding statutory deposits	368,252	1,069,315	610,758
Due from banks and other financial institutions within ninety days	4,806,299	338,483	1,180,767
Total	5,174,551	1,407,798	1,791,525

6. Derivatives

The table below sets out the positive and negative fair values of the Bank's 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 related future cash flows. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk nor to market risk.

SAR'000	At 30 September 2004 (Unaudited)			At 31 December 2003 (Audited)			At 30 September 2003 (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:									
Spot and forward foreign exchange contracts	37,342	(33,296)	16,616,699	90,086	(101,874)	9,144,696	41,664	(77,265)	10,322,265
Currency options	2,202	(2,202)	385,112	10,544	(10,544)	1,155,354	7,148	(7,148)	878,356
Special commission rate swaps	8,285	(7,916)	1,752,687	18,444	(18,382)	1,617,188	17,671	(17,600)	1,617,188
Special commission rate options	-	-	-	-	-	-	2,934	(2,934)	1,500,000
Derivatives held as fair value hedges:									
Special commission rate swaps	191	(64,558)	2,507,421	-	(27,891)	166,481	-	(30,490)	166,481
Derivatives held as cash flow hedges:									
Currency swaps	-	(1,351)	16,931	-	(1,941)	17,539	-	(1,933)	16,963
Special commission rate swaps	1,446	-	100,000	3,810	-	287,500	5,699	-	287,500
Total	49,466	(109,323)	21,378,850	122,884	(160,632)	12,388,758	75,116	(137,370)	14,788,753

7. Credit related commitments and contingencies

The analysis of credit related commitments and contingencies is as follows:

SAR'000	At 30 September 2004 (Unaudited)	At 31 December 2003 (Audited)	At 30 September 2003 (Unaudited)
Letters of credit	3,961,166	2,782,354	3,006,261
Guarantees	3,983,243	3,919,289	3,822,575
Acceptances	1,669,426	1,753,485	1,630,550
Irrevocable commitments to extend credit	1,409,756	1,140,856	1,293,251
Total	11,023,591	9,595,984	9,752,637

8. Business segments

The Bank is organised into the following main business segments:

Retail Banking – which caters primarily to the retail banking requirements of individuals.

Corporate Banking – which is responsible for products and services required by corporate entities.

Treasury – which manages the Bank's trading and investment portfolios and the Bank's liquidity, currency and special commission rate risks.

Other – which comprises investment banking and other residual business together with central services and pooled funds.

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 2004 and 2003, its total operating income and expenses, and its net income for the nine month periods then ended, by business segment, are as follows:

30 September 2004 (Unaudited)					
SAR'000	Retail Banking	Corporate Banking	Treasury	Other	Total
Total assets	8,404,684	16,609,393	17,145,936	10,143,967	52,303,980
Total liabilities	15,896,677	10,044,422	16,418,235	4,459,083	46,818,417
Total operating income	793,442	312,137	273,056	515,862	1,894,497
Total operating expenses	425,873	112,702	32,665	89,065	660,305
Net income	367,569	199,435	240,391	426,797	1,234,192

30 September 2003 (Unaudited)					
SAR'000	Retail Banking	Corporate Banking	Treasury	Other	Total
Total assets	7,271,287	15,670,727	18,572,725	6,638,079	48,152,818
Total liabilities	14,410,279	6,949,714	14,896,730	7,018,558	43,275,281
Total operating income	649,142	293,093	256,657	377,980	1,576,872
Total operating expenses	435,788	120,557	34,908	73,811	665,064
Net income	213,354	172,536	221,749	304,169	911,808