

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
31 March 2005 Unaudited**

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), International Financial Reporting Standards (IFRS), and the interpretations issued by the International Accounting Standard Board (IASB). 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 as modified for the measurement at fair value of derivatives, investments held for trading, available for sale investments, and fair value through income statement investments (FVIS).

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

Except for the changes explained in note 1b) below, 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 2004.

b) Change in accounting policies

The Bank has implemented the revised versions of International Accounting Standard (IAS) 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2005 with retrospective effect, wherever applicable, with respect to the recognition, measurement and disclosure of financial instruments.

The revised IAS 39 has introduced a new classification “Fair Value through Income Statement (FVIS)” under which financial assets and liabilities, except for investments for equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured, can be classified and carried at fair value, with the changes in fair values recognised in the statement of income. This new classification includes financial assets and liabilities held for trading, and items that are designated as FVIS at the time of initial recognition. Following initial recognition, transfers between the various classifications of financial assets or liabilities are not ordinarily permissible.

Following the above changes, certain investments previously classified as originated debt securities, and, available for sale as at 1 January 2004 have been reclassified as a one time option as FVIS investments. The opening balance of retained earnings as at 1 January 2004 has been adjusted accordingly, with the difference between the amortised cost and the fair value of these investments. For investments purchased during 2004, and outstanding as at 31 December 2004 and reclassified as FVIS, fair value changes as at 31 December 2004 have been taken to net income. As a result of the above changes, the amount transferred to the retained earnings as at 1 January 2004, was SAR 1.8 million, and to the statement of income for the three months ended 31 March 2004, was 5.1 million (for the year ended 31 December 2004, was SAR 10.0 million).

2. Investments, net

Investment securities are classified as follows:

SAR'000	31 March 2005 (Unaudited)	31 December 2004 (Audited)	31 March 2004 (Unaudited)
Investments:			
Held at FVIS	1,883,578	1,887,325	1,676,157
Available for sale	7,041,531	6,260,671	6,749,234
Held at amortised cost, other	6,762,410	5,806,368	8,284,361
Held to maturity	719,985	721,670	726,819
Total	16,407,504	14,676,034	17,436,571

Subsequent to the implementation of the revised IAS 39 on 1 January 2005, investments previously carried at amortised cost of SAR 1,650.0 million in held at amortised cost, other, are now carried at fair value of SAR 1,660.1 million (31 March 2004: SAR 1,657.1 million, and 31 December 2004: SAR 1,662.6 million) in held at FVIS, and investments of SAR 223.4 million previously included in available for sale, have been reclassified as held at FVIS. As a result of the reclassifications, SAR 0.2 million has been transferred from other reserves to retained earnings as at 31 March 2004. The cumulative impact as on 31 December 2004 amounted to SAR 0.8 million (note 5).

3. Debt securities in issue

During the quarter ended 31 March 2005, the Bank issued USD600 million 5 year floating rate notes (the notes) under its Euro Medium Term Note programme. The notes carry an interest rate of Libor plus 37.5 basis points. The notes are non convertible, are unsecured, and are listed on the Luxembourg Stock Exchange.

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 to market risk.

SAR'000	31 March 2005 (Unaudited)			31 December 2004 (Audited)			31 March 2004 (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	52,507	(57,648)	18,029,884	110,766	(59,823)	17,037,941	40,364	(65,391)	12,255,852
Currency options	2,292	(2,292)	261,852	2,941	(2,941)	510,102	12,093	(12,093)	1,427,106
Special commission rate swaps	31,176	(29,109)	2,357,250	11,978	(11,608)	1,900,687	5,858	(5,752)	1,542,187
Derivatives held as fair value hedges:									
Currency swaps	-	(995)	17,557	-	-	-	-	-	-
Special commission rate swaps	17,636	(18,881)	2,712,692	-	(40,296)	2,773,330	-	(32,278)	162,278
Derivatives held as cash flow hedges:									
Currency swaps	-	-	-	-	(1,248)	18,069	-	(1,773)	18,063
Special commission rate swaps	-	(4,700)	200,000	250	(1,334)	200,000	10,187	-	287,500
Total	103,611	(113,625)	23,579,235	125,935	(117,250)	22,440,129	68,502	(117,287)	15,692,986

5. Other reserves

SAR'000	31 March 2005 (Unaudited)			31 December 2004 (Audited)			31 March 2004 (Unaudited)		
	Cash flow hedges	Available for sale investments	Total	Cash flow hedges	Available for sale investments	Total	Cash flow hedges	Available for sale investments	Total
Opening balance	(969)	167,277	166,308	1,869	174,957	176,826	1,869	174,957	176,826
Effect of implementation of revised IAS 39 on opening balance	-	19,595	19,595	-	15,215	15,215	-	15,215	15,215
Opening balance, as restated	(969)	186,872	185,903	1,869	190,172	192,041	1,869	190,172	192,041
Net change in fair value	(2,602)	22,118	19,516	(3,174)	57,636	54,462	6,545	36,002	42,547
Effect of implementing revised IAS 39 for the period	-	-	-	-	4,380	4,380	-	2,163	2,163
Transfer to statement of income	117	(4,087)	(3,970)	336	(65,316)	(64,980)	-	(8,381)	(8,381)
Net movement during the period	(2,485)	18,031	15,546	(2,838)	(3,300)	(6,138)	6,545	29,784	36,329
Ending balance	(3,454)	204,903	201,449	(969)	186,872	185,903	8,414	219,956	228,370

In accordance with the revised IAS 39, the unrecycled amount remaining in retained earnings relating to the fair values of available for sale investments, arising on the initial adoption of IAS 39, has been reclassified from retained earnings to other reserves. This adjustment results in a restatement of the opening balances at 1 January 2005 and 1 January 2004 by SAR 18.8 million and SAR 15.0 million, respectively.

6. Credit related commitments and contingencies

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

SAR'000	31 March 2005 (Unaudited)	31 December 2004 (Audited)	31 March 2004 (Unaudited)
Letters of credit	4,143,450	3,948,093	3,728,511
Letters of guarantee	5,284,918	4,328,290	3,806,112
Acceptances	1,544,046	1,917,109	1,491,105
Irrevocable commitments to extend credit	1,446,121	1,509,308	1,130,592
Total	12,418,535	11,702,800	10,156,320

7. Cash and cash equivalents

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

SAR'000	At 31 March 2005 (Unaudited)	At 31 December 2004 (Audited)	At 31 March 2004 (Unaudited)
Cash and balances with SAMA excluding statutory deposits	654,643	584,769	530,259
Due from banks and other financial institutions maturing within ninety days	5,118,722	8,186,207	2,140,787
Total	5,773,365	8,770,976	2,671,046

8. Business segments

a) 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 31 March 2005 and 2004, their total operating income and expenses, and the net income for the three month periods then ended, by business segment, are as follows:

31 March 2005 (Unaudited) SAR'000	Retail Banking	Corporate Banking	Treasury	Total
Total assets	13,471,018	20,612,465	23,587,611	57,671,094
Total liabilities	21,604,852	11,371,539	18,825,368	51,801,759
Total operating income	420,228	153,075	132,841	706,144
Total operating expenses	195,289	43,235	11,728	250,252
Net income	224,939	109,840	121,113	455,892
31 March 2004 (Unaudited) SAR'000	Retail Banking	Corporate Banking	Treasury	Total
Total assets	11,218,262	17,508,154	21,090,162	49,816,578
Total liabilities	18,855,253	10,186,192	15,626,335	44,667,780
Total operating income	316,827	116,191	145,592	578,610
Total operating expenses	160,834	42,199	11,271	214,304
Net income	155,993	73,992	134,321	364,306

9. Comparative figures

Other than the reclassifications required by the adoption of the revised IAS 32 and 39, certain prior period figures have been reclassified to conform with the presentation in the current period.