

BALANCE SHEET  
As at

SAR' 000	Note	30-06-2005 (Unaudited)	31-12-2004 (Audited)	30-06-2004 (Unaudited)
<b><u>ASSETS</u></b>				
Cash and balances with SAMA		2,815,152	2,009,263	1,911,955
Due from banks and other financial institutions		5,202,099	2,486,058	1,762,294
Investments, net	2	18,779,044	19,097,138	19,844,749
Loans and advances, net		37,748,509	34,463,424	28,489,482
Fixed assets, net		461,365	451,943	454,232
Other assets		1,307,379	1,161,657	1,223,291
<b>Total assets</b>		<b>66,313,548</b>	<b>59,669,483</b>	<b>53,686,003</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>				
<b><u>Liabilities</u></b>				
Due to banks and other financial institutions		5,529,697	4,171,161	3,077,959
Customer deposits		50,446,163	47,704,152	43,830,477
Other liabilities		1,817,029	2,281,886	1,499,279
Term loan	3	2,437,500	-	-
<b>Total liabilities</b>		<b>60,230,389</b>	<b>54,157,199</b>	<b>48,407,715</b>
<b><u>Shareholders' equity</u></b>				
Share capital		2,250,000	2,250,000	2,250,000
Statutory reserve		2,250,000	2,250,000	2,250,000
General reserve		955,000	955,000	505,000
Other reserves	5	2,055	50,388	31,598
Retained earnings		626,104	6,896	241,690
<b>Total shareholders' equity</b>		<b>6,083,159</b>	<b>5,512,284</b>	<b>5,278,288</b>
<b>Total liabilities and shareholders' equity</b>		<b>66,313,548</b>	<b>59,669,483</b>	<b>53,686,003</b>

The accompanying notes 1 to 9 form an integral part of these interim condensed financial statements

STATEMENT OF INCOME  
(Unaudited)

SAR' 000	For the three months ended		For the six months ended	
	30-06-2005	30-06-2004	30-06-2005	30-06-2004
Special commission income	707,470	502,074	1,336,510	982,504
Special commission expense	288,248	96,595	498,807	197,626
Net special commission income	419,222	405,479	837,703	784,878
Fees from banking services, net	269,043	125,856	412,171	209,175
Exchange income	33,949	18,304	57,906	36,645
Trading income, net	45,611	40,354	73,444	62,214
Dividend income	290	148	290	148
Gains on non trading investments, net	16,596	-	42,241	-
Other operating income	1,767	3,222	4,315	5,176
Total operating income	786,478	593,363	1,428,070	1,098,236
Salaries and employee related expenses	96,819	82,984	186,735	170,986
Rent and premises related expenses	14,176	13,319	27,168	26,056
Depreciation and amortization	15,036	16,080	30,548	31,734
Other general and administrative expenses	50,589	46,307	98,475	81,625
Provision for possible credit losses	35,328	2,863	80,539	25,839
Other operating expenses	212	522	359	545
Total operating expenses	212,160	162,075	423,824	336,785
Net income for the period	574,318	431,288	1,004,246	761,451
Weighted average number of outstanding shares	45,000	45,000	45,000	45,000
Earnings per share for the period (in SAR)	12.77	9.58	22.32	16.92

The accompanying notes 1 to 9 form an integral part of these interim condensed financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

SAR' 000	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total
<u>For the six months ended June 30, 2005</u>						
Balance at the beginning of the year, as restated (note 5)	2,250,000	2,250,000	955,000	50,388	6,896	5,512,284
Net income for the period	-	-	-	-	1,004,246	1,004,246
Interim gross dividend (note 9)	-	-	-	-	(385,038)	(385,038)
Net changes in fair value and cash flow hedges	-	-	-	(48,333)	-	(48,333)
Balance at the end of the period	2,250,000	2,250,000	955,000	2,055	626,104	6,083,159
<u>For the six months ended June 30, 2004</u>						
Balance at the beginning of the year	2,250,000	2,100,000	505,000	185,989	9,376	5,050,365
Net income for the period	-	-	-	-	761,451	761,451
Transfer to statutory reserve	-	150,000	-	-	(150,000)	-
Interim gross dividend (note 9)	-	-	-	-	(379,137)	(379,137)
Net changes in fair value and cash flow hedges	-	-	-	(154,391)	-	(154,391)
Balance at the end of the period	2,250,000	2,250,000	505,000	31,598	241,690	5,278,288

The accompanying notes 1 to 9 form an integral part of these interim condensed financial statements

STATEMENT OF CASH FLOWS  
(Unaudited)

SAR' 000	Note	For the six months ended	
		30-06-2005	30-06-2004
<b><u>OPERATING ACTIVITIES</u></b>			
Net income for the period		1,004,246	761,451
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Amortization of premiums and (accretion of discounts) on non trading investments, net		11,715	5,985
Gains on non trading investments, net		(42,241)	-
Depreciation and amortization		30,548	31,734
Gains on disposal of fixed assets, net		(23)	(152)
Provision for possible credit losses, net		80,539	25,839
		1,084,784	824,857
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(190,013)	(138,324)
Due from banks and other financial institutions maturing after ninety days		-	(75,000)
FVIS investments held for trading		(136,982)	41,452
Loans and advances		(3,365,624)	(1,789,540)
Other assets		(182,622)	513,622
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,358,536	(596,021)
Customer deposits		2,742,011	1,196,181
Other liabilities		(290,621)	(581,879)
Net cash from (used in) operating activities		1,019,469	(604,652)
<b><u>INVESTING ACTIVITIES</u></b>			
Proceeds from sales and matured non trading investments		2,006,948	1,664,556
Purchase of non trading investments		(1,532,779)	(2,563,223)
Purchase of fixed assets		(39,992)	(32,163)
Proceeds from sale of fixed assets		45	176
Net cash from (used in) investing activities		434,222	(930,654)
<b><u>FINANCING ACTIVITIES</u></b>			
Term loan		2,437,500	-
Dividends paid		(559,274)	(442,241)
Cash from (used in) financing activities		1,878,226	(442,241)
Increase (decrease) in cash and cash equivalents		3,331,917	(1,977,547)
Cash and cash equivalents at the beginning of the year		2,771,240	3,955,108
Cash and cash equivalents at the end of the period	7	6,103,157	1,977,561
<b><u>Supplemental non cash information</u></b>			
Net changes in fair value and cash flow hedges		(48,333)	(154,391)

The accompanying notes 1 to 9 form an integral part of these interim condensed financial statements

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS For the six months ended June 30, 2005 and 2004

### 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 Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. These interim condensed financial statements are prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting, and comply with the Banking Control Laws and 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, and investments held for trading, available for sale and FVIS (fair value through income statement).

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 December 31, 2004 except for the changes set out in note 1(b) below.

The interim condensed financial statements are expressed in Saudi Arabian Riyals (SAR).

#### 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 January 1, 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 recognized 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.

Certain investments previously classified as held at amortized costs, other, and having an active market, have been reclassified effective January 1, 2004 to available for sale investments at fair value through other reserves.

#### c) Comparative figures

Certain prior period amounts have been reclassified to conform with the current period presentation due to the adoption of the revised IAS 39 and 32.

## 2. Investments, net

The investments are classified as follows:

SAR' 000	30-06-2005 (Unaudited)	31-12-2004 (Audited)	30-06-2004 (Unaudited)
Held at FVIS	1,376,748	1,239,766	1,475,522
Available for sale	4,414,000	4,098,922	3,554,499
Held at amortized costs, other	11,235,196	12,000,339	12,908,402
Held to maturity	1,753,100	1,758,111	1,906,326
Total	18,779,044	19,097,138	19,844,749

Subsequent to the implementation of the revised IAS 39 on January 1, 2005, investments previously carried at amortized cost of SAR 659 million in held at amortized costs, other, are carried now at fair value of SAR 655 million (June 30, 2004: SAR 474 million at fair value of SAR 464 million) in available for sale.

For investments re-designated as available for sale, the cumulative changes in fair value amounting to SAR 5 million has been recognised in other reserves.

Investments held at FVIS represent investments held for trading.

## 3. Term loan

On June 29, 2005, the Bank entered into a five year syndicated term loan facility agreement for an amount of USD 650 million for general banking purposes. The facility has been drawn down in full and is repayable in 2010. However, the Bank has an option to effect early repayment subject to the terms and conditions of the related syndicated agreement.

## 4. Derivatives

The table below show 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	30-06-2005 (Unaudited)			31-12-2004 (Audited)			30-06-2004 (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
<b>Held for trading:</b>									
Commission rate swaps	532,221	565,130	82,393,176	504,672	532,482	77,763,848	636,463	716,427	75,191,788
Commission rate futures and options	12,167	6,996	15,654,250	35,494	33,142	16,096,750	42,664	36,167	15,610,000
Forward rate agreements	-	-	-	204	1,541	642,500	293	1,385	1,267,500
Forward foreign exchange contracts	136,143	112,530	34,101,556	122,640	85,967	43,398,580	107,388	46,716	40,957,904
Currency options	19,229	12,686	5,801,102	88,453	86,238	3,602,742	15,454	14,934	1,364,248
<b>Held as fair value hedges:</b>									
Commission rate swaps	112,391	51,293	13,157,224	69,736	84,139	11,988,352	182,282	90,894	11,524,921
Forward foreign exchange contracts	-	-	-	-	-	-	1,088	-	188,118
<b>Held as cash flow hedges:</b>									
Commission rate swaps	108,830	7,012	4,651,500	179,878	3,875	4,589,000	224,172	11,460	5,079,000
Total	920,981	755,647	155,758,808	1,001,077	827,384	158,081,772	1,209,804	917,983	151,183,479
Value of netting arrangements	(262,218)	(262,218)	(32,221,448)	(307,988)	(307,988)	(30,858,182)	(397,718)	(397,718)	(28,059,412)
Total after netting	658,763	493,429	123,537,360	693,089	519,396	127,223,590	812,086	520,265	123,124,067

#### 4. Derivatives (continued)

Commission rate swaps include the notional amount of SAR 32,221 million (December 31, 2004: SAR 30,858 million and June 30, 2004: SAR 28,059 million), with an aggregate positive fair value and a negative fair value of SAR 262 million (December 31, 2004: SAR 308 million and June 30, 2004: SAR 398 million) which are netted out for credit exposure purposes, as the Bank intends to settle these on a net basis.

#### 5. Other reserves

SAR' 000	30-06-2005 (Unaudited)			31-12-2004 (Audited)			30-06-2004 (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
Balance at the beginning of the year	65,565	(15,177)	50,388	202,558	(16,569)	185,989	202,558	(16,569)	185,989
Net change in fair value	(178)	30,808	30,630	43,122	5,336	48,458	(10,847)	(36,219)	(47,066)
Transfer to statement of income	(36,722)	(42,241)	(78,963)	(180,115)	(3,944)	(184,059)	(107,325)	-	(107,325)
Net movement during the period	(36,900)	(11,433)	(48,333)	(136,993)	1,392	(135,601)	(118,172)	(36,219)	(154,391)
Balance at the end of the period	28,665	(26,610)	2,055	65,565	(15,177)	50,388	84,386	(52,788)	31,598

SAR 4 million has been reduced from net change in fair value for December 31, 2004 due to the effect of the implementation of revised IAS 39 (June 30, 2004: reduced SAR 10 million).

#### 6. Credit related commitments and contingencies

The credit related commitments and contingencies are classified as follows:

SAR' 000	30-06-2005 (Unaudited)	31-12-2004 (Audited)	30-06-2004 (Unaudited)
Letters of credit	5,759,753	5,410,715	5,378,922
Letters of guarantees	11,048,659	9,971,835	9,862,841
Acceptances	1,449,570	1,317,715	890,985
Irrevocable commitments to extend credit	2,947,424	3,379,667	3,224,889
Other	6,750	6,750	11,250
Total	21,212,156	20,086,682	19,368,887

#### 7. Cash and cash equivalents

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

SAR' 000	30-06-2005 (Unaudited)	31-12-2004 (Audited)	30-06-2004 (Unaudited)
Cash and balances with SAMA excluding statutory deposits	901,058	285,182	290,267
Due from banks and other financial institutions maturing within ninety days	5,202,099	2,486,058	1,687,294
Total	6,103,157	2,771,240	1,977,561

## 8. Business segments

The Bank is organized 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, retail investments products, consumer loans, international and local shares brokerage services, funds management, insurance (brokerage) 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.

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 June 30, 2005 and 2004, its total operating income and expenses, and its net income for the six months then ended, by business segment, are as follows:

(Unaudited) SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
<u>30-06-2005</u>				
Total assets	7,006,901	33,226,261	26,080,386	66,313,548
Total liabilities	32,171,075	19,076,672	8,982,642	60,230,389
Total operating income	686,680	367,596	373,794	1,428,070
Total operating expenses	269,887	104,389	49,548	423,824
Net income for the period	416,793	263,207	324,246	1,004,246
<u>30-06-2004</u>				
Total assets	4,057,745	25,765,572	23,862,686	53,686,003
Total liabilities	30,591,710	13,452,086	4,363,919	48,407,715
Total operating income	442,482	318,864	336,890	1,098,236
Total operating expenses	218,277	72,877	45,631	336,785
Net income for the period	224,205	245,987	291,259	761,451

## 9. Interim dividend, zakat and taxation

The Board of Directors has declared interim gross dividend for the six months period ended June 30, 2005 of SAR 385 million (June 30, 2004: SAR 379 million). Zakat attributable to Saudi shareholders for the period amounted to approximately SAR 17 million (June 30, 2004: SAR 13 million). This will be deducted from their share of the dividend, resulting in net dividend to Saudi shareholders of SAR 8 per share (June 30, 2004: 8 per share). The income tax liability of the foreign shareholders will be deducted from their share of the dividend.