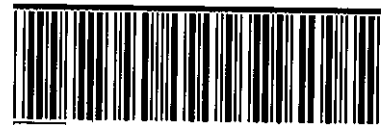


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Annual Report

1997

715 ARAB NATIONAL BANK



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COMPANIES HOUSE 04/07/98

COMPANIES HOUSE 24/08/98



Independent Auditors' Report

**Saba, Abulkhair
& Co.**



A member Firm of
Deloitte Touche Tohmatsu International

**ARTHUR
ANDERSEN**

& CO.



Member of Anderson Worldwide

**To: THE SHAREHOLDERS OF
ARAB NATIONAL BANK (SAUDI JOINT STOCK COMPANY)
RIYADH, SAUDI ARABIA**

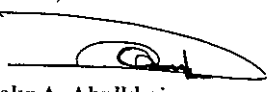
We have audited the statement of financial position of Arab National Bank as of December 31, 1997 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes. These financial statements, which have been derived from computerized accounting records maintained in Arabic in the Kingdom of Saudi Arabia, are the responsibility of the Bank's management and have been prepared in accordance with the provisions of the regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, taken as a whole:

- Present fairly, in all material respects, the financial position of Arab National Bank as of December 31, 1997 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency and with International Accounting Standards.
- Comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association with respect to the preparation and presentation of financial statements.

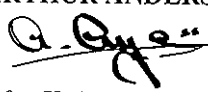
SABA, ABULKHAIR & CO.


Bakr A. Abulkhair
(Licence No. 101)

Riyadh, Ramadan 19, 1418H
(January 17, 1998G)



ARTHUR ANDERSEN & CO.


Arfan K. Ayass
(Licence No. 98)



Statements of Financial Position

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

	Notes	1997	1996
ASSETS			
Cash and Balances with			
Saudi Arabian Monetary Agency	3	1,901,219	3,289,489
Due from banks	4	7,613,785	10,180,163
Loans and advances to customers, net	5	8,518,772	8,865,736
Investment portfolio, net	6	14,517,502	9,942,139
Fixed Assets, net	7	328,004	362,643
Other real estate		276,321	269,812
Other assets	8	1,339,093	1,207,221
Total Assets	13,19	34,494,696	34,117,203
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Customer Deposits:	9		
Customers' demand, saving and time		20,705,689	20,253,457
Other		2,889,074	2,901,556
Total customer deposits		23,594,763	23,155,013
Due to banks	10	6,483,217	6,684,060
Other Liabilities	11	1,516,921	1,501,072
Total Liabilities	19	31,594,901	31,340,145
SHAREHOLDERS' EQUITY			
Share capital	1	1,500,000	1,200,000
Statutory reserve	12	1,324,000	1,200,000
General reserve	12	75,000	375,000
Retained earnings		795	2,058
Total shareholders' equity		2,899,795	2,777,058
Total liabilities and shareholders' equity	13	34,494,696	34,117,203
CONTRA ACCOUNTS			
1997: 18,458,173			
1996: 22,134,259			

The accompanying notes form an integral part of these financial statements

Statements of Income

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

	Notes	1997	1996
OPERATING INCOME			
Special commission Income		1,209,393	1,445,797
Gains on exchange		72,841	66,643
Investment securities		867,988	558,044
Banking services		163,336	133,555
Loan recoveries		3,652	---
Total operating income		2,317,210	2,204,039
OPERATING EXPENSES			
Special commission expenses		1,149,714	1,088,804
Provision for loan losses and bad debts	5	115,861	86,332
Salaries and employee related expenses		296,373	299,748
Rent and premises related expenses		34,719	33,879
Depreciation and amortization	7	103,209	108,762
General and administrative expenses		168,834	162,734
Directors' remuneration		1,876	1,927
Total operating expenses		1,870,586	1,782,186
Net income from operations		446,624	421,853
OTHER INCOME			
Gains on disposal of investment securities		45,088	34,857
Other		3,596	4,435
Net income for the year		495,308	461,145
Earnings per share	14	<u>SR 33.02</u>	<u>SR 30.74</u>

The accompanying notes form an integral part of these financial statements

Statements of Changes in Shareholders' Equity

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

	<u>Notes</u>	<u>Share Capital</u>	<u>Statutory Reserve</u>	<u>General Reserve</u>	<u>Retained Earnings</u>
<u>1997</u>					
Balance at the beginning of the year		1,200,000	1,200,000	375,000	2,058
Issue of bonus shares	1,12	300,000	-	(300,000)	-
Net income for the year		-	-	-	495,308
Transfer to statutory reserve	12	-	124,000	-	(124,000)
Proposed dividends	15	-	-	-	(372,571)
Balance at the end of the year		<u>1,500,000</u>	<u>1,324,000</u>	<u>75,000</u>	<u>795</u>
<u>1996</u>					
Balance at the beginning of the year		1,200,000	1,200,000	220,000	4,496
Net income for the year		-	-	-	461,145
Transfer to general reserve		-	-	155,000	(155,000)
Dividends	15	-	-	-	(308,583)
Balance at the end of the year		<u>1,200,000</u>	<u>1,200,000</u>	<u>375,000</u>	<u>2,058</u>

The accompanying notes form an integral part of these financial statements

Statements of Cash Flows

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

	1997	1996
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	495,308	461,145
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	115,861	86,332
Depreciation and amortization of fixed assests	103,209	108,762
Provision for investments	(1,284)	454
losses(gains) on sale of fixed assets and other estate	42	(1,702)
Gains on disposal of investment securities	(45,088)	(34,857)
Net decrease (increase) in operating assets	668,048	620,134
Statutory deposit	(37,962)	(75,851)
Due from banks	2,566,378	(1,659,383)
Loans and advances to customers	231,103	1,823,212
Other real estate	(6,509)	1,949
Other assets	(131,872)	(71,648)
Net increase (decrease) in operating liabilities		
Customer deposits	439,750	1,952,082
Due to banks	(200,843)	(624,960)
Other liabilities	(48,406)	213,424
Net cash flow from operating activities	3,479,687	2,178,959
CASH FLOW FROM INVESTING ACTIVITIES		
Investment portfolio, net	(4,528,991)	(1,435,754)
Fixed assets, net	(68,612)	(67,634)
Net cash flow used in investing activities	(4,597,603)	(1,503,388)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid during the year	(308,316)	(297,513)
Net cash flow used by financing activities	(308,316)	(297,513)
Net (decrease) increase in cash and balances with Saudi Arabian Monetary Agency	(1,426,232)	378,058
Cash and balances with Saudi Arabian Monetary Agency at beginning of the year	2,494,712	2,116,654
Cash and balances with Saudi Arabian Monetary Agency at end of the year (Note 3)	1,068,480	2,494,712

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

1. General

Arab National Bank (a Saudi Joint Stock Company) was formed pursuant to Royal Decree No. M/38 dated 18/7/1399H (June 13, 1979G). The Bank commenced business on February 2, 1980 when it took over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank Operates under commercial registration No. 1010027912 dated 1/3/1400H. (January 19, 1980G) through its 117 branches in the Kingdom of Saudi Arabia and one branch in the United Kingdom.

The objectives of the Bank are to provide a full range of banking services.

In an extra ordinary meeting, held on 15/11/1417H (corresponding to May 24, 1997G), the Bank's general assembly approved the proposed increase in share capital by transferring SR 300 million from the general reserve, thus increasing the share capital to SR 1,500 million. Accordingly, 3 million free shares were issued (one free share for every four outstanding shares) bringing the total issued, outstanding and fully paid shares as at December 31, 1997 to 15 million (1996: 12 million) of SR 100 each.

The share capital of the Bank at December 31, 1997 and 1996 is held 60% by Saudi nationals and 40% by a non-Saudi shareholder, the Arab Bank (PLC).

2. Summary of Significant Accounting Policies

a) Regulatory and accounting conventions

The Bank follows the accounting standards for commercial banks promulgated by the Saudi Arabian Monetary Agency (SAMA) and complies with the International Accounting Standards. The Bank also prepares its financial statements to comply with the Banking Control Regulations, Regulations for Companies in the Kingdom of Saudi Arabia and the financial statements presentation and disclosure requirements of the Saudi Arabian Ministry of Commerce.

b) Reserve for loan losses

Allocations to the reserve for loan losses are based on management's assessment of the adequacy of this reserve on a periodic basis. Such assessment takes into account the composition and volume of the portfolio, the general economic conditions at the collectibility of outstanding loans and advances.

The net required allocations are charged to operating expenses. Loans and advances are written off only in circumstances where effectively all possible means of recovery have been exhausted.

The reserve for loan losses is netted against loans and advances to customers for financial statement presentation

purposes.

c) Investment Portfolio

The Bank maintains a separate portfolio for securities acquired for investment purposes. These securities are stated at actual cost, net of accumulated amortization of premiums and accretion of discounts computed using the straight-line method over the remaining maturity period. Provision is made for other than temporary decline in value and adjusted against the actual cost.

Income from these investments is included in operating income. Gains or losses on the sale of investment securities are credited or charged to other income.

d) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, based on the following annual rates:

Buildings owned by the Bank	3%
Furniture, fixtures and equipment	2.5% to 25%
Preoperating expenses and	Shorter of 10% - 20% or
Leasehold improvements	the lease period

e) Other real estate

The Bank in the ordinary course of business acquires certain real estate against settlement of due loans and advances. Such real estate is stated at the lower of net realizable value of due loans and advances or the current fair market value of the related properties.

Gains or losses on disposal and unrealized losses on revaluation of other real estate are credited or charged to operating income.

f) Contra accounts

Contingencies and commitments incurred in the ordinary course of business are recorded as contra accounts and disclosed as off-balance sheet items. These include irrevocable commitments to extend credit, letters of guarantee, letters of credit, commitments to purchase and sell foreign currencies, special commissions and foreign exchange related swaps and other miscellaneous items.

Future commitments for the purchase and sale of foreign currencies, interest rate related contracts and special commission and exchange related swaps are recorded at gross values. These have not been offset to reflect net positions.

g) Income recognition

Income is recognized on the accrual basis except for certain loans and advances classified as non-performing, where income is not recognized after a predetermined period, but is transferred to a suspense account. Income on

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

such loans and advances is recognized on cash basis until they are reclassified as performing, when income is again recognized on the accrual basis.

Accumulated commission in suspense account is netted against loans and advances to customers for financial statement presentation purposes.

h) Foreign currencies

The financial statements are denominated in Saudi Riyals. Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at transaction dates. Assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date.

Forward foreign exchange contracts outstanding at year end are revalued using the forward rate for the remaining maturity of the contract.

Realized and unrealized gains or losses on exchange are credited or charged to operating income.

i) Financial Instruments

Financial instruments include both on and off balance sheet instruments.

-On-balance sheet financial instruments

On-balance sheet financial instruments comprise of cash, balances with SAMA, due from banks, loans and advances to customers, investment securities, certain other assets, deposits from customers, due to banks and certain other liabilities.

The fair values of on-balance sheet financial instruments, except for investment securities and loans and advances to customers, are not significantly different from the carrying values included in the financial statements. The estimated fair value of the investment securities is based on quoted market prices when available, or pricing models in the case of certain fixed rate bonds. Such fair value approximates the market value as disclosed in Note 6. It is not practical to determine the fair value on loans and advances to customers with sufficient reliability.

The maximum credit risk from on-balance sheet financial instruments is equal to the carrying value disclosed in the financial statements excluding fair values of collateral received.

-Off-balance sheet financial instruments (contra accounts)

Off-balance sheet financial instruments are comprised of letters of guarantee and credit, irrevocable commitments to extend credit, and derivative products such as futures,

forwards, swap and option transactions undertaken by the Bank in the foreign exchange and equity markets. The notional amounts of these financial instruments are included in the accompanying statements of financial position under contra accounts.

According for derivative financial instruments is dependent upon whether the financial instruments are for trading or non-trading purposes. Off-balance sheet trading financial instruments include transactions undertaken to service customers' needs and also for the Bank's own trading purposes. Off-balance sheet non-trading financial instruments are undertaken for hedging purposes and are part of the Bank's risk management strategy.

Off-balance sheet trading financial instruments are marked-to-market. Realized and unrealized gains and losses from such instruments are included under special commission income or expense in the statements of income.

Off-balance sheet non-trading financial instruments are accounted for on the accrual basis, equivalent to the basis for the underlying assets, liabilities or net positions being hedged. Commission receivable/payable from such instruments is included in special commission income/expense or income from investment securities as appropriate in the statements of income.

The fair value of off-balance sheet financial instrument is determined on the basis of market values.

The maximum credit risk from off-balance sheet financial instrument is not significantly different from the carrying values in the statements of financial position excluding fair values of collateral received.

-Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the accompanying statement of financial position when a legally enforceable right to set off the amount exists or when the Bank intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

-Risk management

Management controls risks associated with financial instruments by hedging risk exposures, avoidance of undue concentration of risk and requirements for collateral to mitigate credit risks.

j) End of service indemnities

Indemnities payable to employees of the Bank at the end of their services are provided for as required by the Saudi Arabian Labor Law using actuarial valuation. Provision for indemnities is included under other liabilities.

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

3. Cash and Balances with Saudi Arabian Monetary Agency

These are comprised of the following:

	1997	1996
(a) Cash on hand	246,553	213,400
(b) Balances with Saudi Arabian Monetary Agency:		
Demand deposits	6,284	4,984
Other deposits	815,679	2,276,328
Statutory deposit	832,739	794,777
	<u>1,654,666</u>	<u>3,076,089</u>
Total	<u>1,901,219</u>	<u>3,289,489</u>

In accordance with the Banking Control Regulations, the Bank is required to maintain a statutory deposit with the Saudi Arabian Monetary Agency (SAMA) at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month.

Statutory deposit held with SAMA does not form part of "cash and cash equivalents" for the purpose of statements of cash flows.

4. Due From Banks

These are comprised of the following:

	1997	1996
(a) Domestic:		
Demand deposits	12,708	28,926
Time deposits	1,081,100	2,335,750
	<u>1,093,808</u>	<u>2,364,676</u>
(b) Foreign branches of domestic banks:		
Time deposits	220,000	396,250
(c) International:		
Demand deposits	139,342	99,615
Time deposits	6,160,635	7,319,622
	<u>6,299,977</u>	<u>7,419,237</u>
Total	<u>7,613,785</u>	<u>10,180,163</u>

5. Loans and Advances to Customers, Net

(a) Loans and advances to customers are comprised of the following:

	1997	1996
Loans & advances to customers	9,168,728	9,514,342
Less: Accumulated commission		
in suspense	(209,389)	(160,876)
Reserve for loan losses	(440,567)	(487,730)
Loans and advances		
to customers, net	<u>8,518,772</u>	<u>8,865,736</u>

The aforementioned reserve for loan losses does not include SR 50.7 million of banking risk provision included under other liabilities (Note 11).

(b) Gross loans and advances are comprised of the following sectors:

	1997	1996
Domestic		
Agriculture	230,436	307,354
Trading and Contracting	4,052,699	4,263,359
Manufacturing	1,076,731	874,151
Real Estate	440,647	410,184
Transportation, Utilities and Services	1,718,089	1,697,157
Other	1,460,547	1,781,121
	<u>8,979,150</u>	<u>9,333,326</u>
International		
Trading and Contracting	5,856	491
Manufacturing	62,326	76,442
Real Estate	114,250	87,571
Transportation, Utilities and Services	5,172	15,184
Other	1,974	1,328
	<u>189,578</u>	<u>181,016</u>
	<u>9,168,728</u>	<u>9,514,342</u>

As at the end of the year, non-performing loans and advances, net of accumulated commission suspended, amounted to SR 723.8 Million (1996: SR 762.6 million). Commission suspended during the year ended December 31, 1997 increased by SR 48.5 million (1996: SR 25.8 million) from SR 160.8 million as at December 31, 1996 to SR 209.4 million as at December 31, 1997.

(c) The following is an analysis of the movements in the reserve for loan losses account during the year:

	1997	1996
Balance, beginning of the year	487,730	587,143
Loans and advances		
Written-off and released	(138,367)	(157,870)
Additions during the year	91,204	58,457
Balance, end of the year	<u>440,567</u>	<u>487,730</u>

(d) Charges to income against provision for loan losses are comprised of the following:

	1997	1996
Additions to provision	91,204	58,457
Loans and advances written-off by a direct charge to income	24,657	27,875
Charge to income	<u>115,861</u>	<u>86,332</u>

6. Investment Portfolio, Net

The major categories of the investment portfolio are comprised of the following:

	1997	1996
(a) Domestic:		
	12,341	11,047

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

Fixed rate bonds and payment certificates	11,743,300	8,630,042
Floating rate notes	1,300,000	---
Other investments	18,750	---
Total	<u>13,074,391</u>	<u>8,641,089</u>
(b) International		
Fixed rate bonds	562,821	563,281
Floating rate notes	880,290	737,769
Total	<u>1,443,111</u>	<u>1,301,050</u>
Investment portfolio, net	<u>14,517,502</u>	<u>9,942,139</u>

The market value of the investment portfolio at December 31, 1997 amounted to SR 14.671 million (1996: SR 9,935 million). Except for shares, the cost of these investments would be recovered at maturity with no losses upon redemption.

7. Fixed Assets, Net

These are comprised of the following:

	1997	1996
Cost:		
Land	57,125	54,482
Buildings, owned by the Bank	178,941	178,611
Furniture, fixtures & equipment	509,338	474,479
Leasehold improvements, net	58,669	66,734
Projects under construction	7,328	-
	<u>811,401</u>	<u>774,306</u>
Less: Accumulated depreciation	<u>(483,397)</u>	<u>(411,663)</u>
Net book value	<u>328,004</u>	<u>362,643</u>

Depreciation and amortization charged during 1997 and 1996 amounted to SR 103.2 million and SR 108.8 million, respectively.

8. Other Assets

These are comprised of the following:

	1997	1996
Customers' acceptance liabilities	451,798	595,258
Accrued commission	384,379	291,222
Other	502,916	320,741
Total	<u>1,339,093</u>	<u>1,207,221</u>

9. Customer Deposits

Customer deposits are comprised of the following:

(a) Domestic:		
Private Sector		
Demand and current	8,114,826	7,934,282
Saving	257,224	245,256
Time	9,749,049	9,524,182
Other	2,740,526	2,759,852
	<u>20,861,625</u>	<u>20,463,572</u>

Government, Government Agencies, Quasi Government and other public Institutions:	1997	1996
Demand and Current	200,510	88,467
Time	<u>2,221,947</u>	<u>2,160,899</u>
	<u>2,422,457</u>	<u>2,249,366</u>

(b) Foreign:

Private sector		
Demand and current	6,155	4,680
Saving	8,591	4,846
Time	147,387	290,845
Other	219	555
	<u>162,352</u>	<u>300,926</u>

(c) Accrued Commission:	148,329	141,149
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Total Customer Deposits	<u>23,594,763</u>	<u>23,155,013</u>
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The above deposit include foreign currency deposits of SR 4,029 million (1996: SR 4,921 million) and deposits against REPO sale of fixed rate bonds of SR 1,361 million (1996: SR 1,274 million).

10. Due To Banks

These are comprised of the following:

	1997	1996
(a) Domestic:		
Time deposits	4,793,446	5,304,996
Accrued commission	84,590	53,695
	<u>4,878,036</u>	<u>5,358,691</u>
(b) Foreign branches of domestic banks:		
Time deposits	140,625	131,250
(c) International:		
Demand deposits	100,223	119,092
Time deposits	1,353,853	1,065,809
Accrued commission	10,480	9,218
	<u>1,464,556</u>	<u>1,194,119</u>
Total	<u>6,483,217</u>	<u>6,684,060</u>

11. Other Liabilities

These are comprised of the following:

	1997	1996
Acceptances outstanding	451,798	595,258
Dividends payable	404,215	339,960
Provision for indemnities	91,775	105,799
Banking risk provisions	50,729	50,729
Other	518,404	409,326
	<u>1,516,921</u>	<u>1,501,072</u>

12. Reserves

(a) Statutory reserve:

In accordance with Saudi Arabian Banking Control Regulations and the Articles of Association of the Bank,

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SR 124 million has been transferred from 1997 profits. This reserve is not available for dividend distribution.

(b) General reserve:

In accordance with the resolution of the extra ordinary meeting of the general assembly held on 15/11/1417H (corresponding March 24, 1997), SR 300 million was transferred from the general reserve to share capital bringing the balance of the general reserve to SR 75 million.

13. Financial Instruments

On-balance sheet financial instruments - commission rate risk

Commission rate risk is the uncertainty of future earnings

resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets, liabilities and off-balance sheet positions which are subject to commission rate adjustment within a specified period. The most important source of such rate risk is the Bank's lending, funding and investment activities, where fluctuations in commission rates are reflected in commission margins and earnings.

Commission rate gap is a common measure of rate risk. A positive gap occurs when more assets than liabilities are subject to rate changes during a prescribed period of time. A negative gap occurs when liabilities exceed assets during a prescribed period of time.

The commission rate gap position and terms to maturity for on-balance sheet financial instruments, as of December 31, 1997 and 1996, are as follows:

Term to maturity 1997

(SR in Thousands)

	Commission Sensitive			Non-Commission Sensitive	Total
	Within 3 months	4 to 12 months	Over 1 Year		
ASSETS					
Cash and balances with SAMA	660,000	165,000		1,076,219	1,901,219
Due from banks	7,162,849	257,486		193,450	7,613,785
Loans and advances, net	4,186,605	984,604	570,426	2,777,137	8,518,772
Investment securities, net	124,470	3,351,947	11,028,744	12,341	14,517,502
Fixed assets, net				328,004	328,004
Other real estate				276,321	276,321
Other assets				1,339,093	1,339,093
Total assets	12,133,924	4,759,037	11,599,170	6,002,565	34,494,696
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	10,530,863	3,150,669	316,413	9,596,818	23,594,763
Due to banks	5,773,918	614,229		95,070	6,483,217
Other liabilities				1,516,921	1,516,921
Shareholders' equity				2,899,795	2,899,795
Total liabilities and shareholders' equity	16,304,781	3,764,898	316,413	14,108,604	34,494,696
On-balance sheet gap position	(4,170,857)	994,139	11,282,757	(8,106,039)	
Off-balance sheet gap position	(42,664)	67,039	(24,375)		
Combined on and off-balance sheet gap position	(4,213,521)	1,061,178	11,258,382	(8,106,039)	
Cumulative gap position	(4,213,521)	(3,152,343)	8,106,039		

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

Term to maturity 1996

(SR in Thousands)

	Commission Sensitive			Non-Commission Sensitive	Total
	Within 3 months	4 to 12 months	Over 1 Year		
ASSETS					
Cash and balances with SAMA	2,208,931	75,000		1,005,558	3,289,489
Due from banks	10,031,772	19,850		128,541	10,180,163
Loans and advances, net	6,516,708	1,463,108	690,233	195,687	8,865,736
Investment securities, net	433,73	1,388,645	8,108,710	11,047	9,942,139
Fixed assets, net				362,643	362,643
Other real estate				269,812	269,812
Other assets				1,207,221	1,207,221
Total assets	19,191,148	2,946,603	8,798,943	3,180,509	34,117,203
LIABILITIES AND SHAREHOLDERS EQUITY					
Deposits from customers	10,354,120	3,292,929	240,449	9,267,515	23,155,013
Due to banks	5,814,092	807,056		62,912	6,684,060
Other liabilities				1,501,072	1,501,072
Shareholders' equity				2,777,058	2,777,058
Total liabilities and shareholders' equity	16,168,212	4,099,985	240,449	13,608,557	34,117,203
On-balance sheet gap position	3,022,936	(1,153,382)	8,558,494	(10,428,048)	
Off-balance sheet gap position	(275,000)	275,000			
Combined on and off-balance sheet gap position	2,747,936	(878,382)	8,558,494	(10,428,048)	
Cumulative gap position	2,747,936	1,869,554	10,428,048		

The maturities set out in the above tables are based on contractual re-pricing or maturity date whichever is earlier.

The off-balance, sheet gap position represents the net notional amount of off-balance sheet instruments, which are used to manage commission rate risk.

Off-balance sheet financial instruments (contra account)

Terms to maturity for off-balance sheet items, as of December 31, 1997, will be shown in next page.

The maturities set out in the below table are based on contractual re-pricing or maturity date whichever is earlier.

The fair value of off-balance sheet financial instruments is equal to their book value.

In respect of commitments for forward foreign exchange and commission rate related contracts, the amounts recorded are gross values and do not reflect the extent to which positions may offset one another. The amounts subject to market and credit risks are substantially smaller than gross values. Management does not anticipate any material loss as a result of these contingencies and commitments.

The Bank had a net open foreign exchange position, principally in US Dollars, of SR 516 million as of December 31, 1997 (1996: SR 1,227 million).

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

Maturity for off-balance sheet items for 1997 (Notional amounts)

(SR in Thousands)

Financial Instrument	Within 3 months	4 to 12 months	Over 1 year	Total
Letters of Credit	892,601	746,661	924	1,640,186
Letters of Guarantee	1,393,767	1,074,998	325,931	2,794,696
Forward foreign exchange contract	5,567,554	3,822,255	4,038	9,393,847
Commission rate contracts	187,500	120,461	24,375	332,336
Commitment to extend credit	4,050,322			4,050,322
Other contingent liabilities	33,750	95,345	117,691	246,786
Total	12,125,494	5,859,720	472,959	18,458,173

Maturity for off-balance sheet items for 1996 (Notional amounts)

(SR in Thousands)

Financial Instrument	Within 3 months	4 to 12 months	Over 1 year	1997 Total
Letters of Credit	1,125,199	1,143,286	189	2,268,674
Letters of Guarantee	241,170	789,552	2,013,284	3,044,006
Forward foreign exchange contract	7,894,287	4,807,626		12,701,913
Commission rate contracts	278,500	303,852	51,707	634,059
Commitment to extend credit	2,940,003			2,940,003
Other contingent liabilities	233,926	311,678		545,604
Total	12,713,085	7,355,994	2,065,180	22,134,259

14. Earnings per Share

Earnings per share are calculated based on the net income which amounted to SR 495.3 million (1996: SR461.1 million) divided by the total number of shares outstanding at the end of the year. The prior year figure for earnings per shares has been restated accordingly.

15. Proposed Dividends, Zakat and Income Tax

The proposed dividends for 1997 amounted to SR 372.6 million (1996: SR 308.6 million) included in other liabilities. Net Zakat relating to the Saudi shareholders amounting to SR 7.5 million (1996: SR 5.1 million), is deducted from their share of the dividends.

Under the provisions of Ministry of Finance and National

Economy Resolution No. 3/918 dated 20/5/1412H (26/11/1991 G) as subsequently amended by resolution No. 3/1399 dated 27/5/1413H (23/10/1992 G), the non Saudi shareholder is required to settle his income tax liability on his share of adjusted net income, in addition to a fixed installment relating to previously deferred income taxes, subject to a maximum of 75% of dividends declared. Taxes in excess of this percentage are deferred to the following year. Deferred income tax at December 31, 1997, amounted to 59 million. Furthermore, Ministry of Finance Resolution No. 3/3231 dated 18/12/1413 (8/6/1993) granted the non-Saudi shareholder an income tax exemption for a period of five years, against the 1993 increase in the share capital. This has resulted in an income tax exemption against 50%

Notes to the Financial Statements

December 31, 1997 and 1996

(Saudi Riyals in Thousands)

of the non-saudi shareholder's share of net income effective May 23, 1993. The 1997 income tax payable of SR 72 million (1996: SR 61 million) will be deducted from his share of dividends.

16. Related Party Transactions

In the ordinary course of its activities, the Bank transacts business with related parties. The year end balances resulting from such transactions are as follows:

Non-Saudi shareholder:	1997	1996
Due from banks	1,452,695	1,481,557
Due to banks	108,605	91,913
Foreign exchange contracts	17,215	235,348
Letters of credit	213,159	226,532
Letters of guarantee	115,192	225,800

Directors, major shareholders and their affiliates:

Loans and advances	128,433	186,246
Contra accounts	139,008	131,158

17. Investment services

The Bank offers investment management services to its customers. These services include investment funds in association with professional investment advisors. The financial statements of these funds are not consolidated with the financial statements of the Bank.

18. Lease commitments

Rental commitments under non-cancelable operating leases for Banks premises in excess of one year as at December 31, 1997 amounted to SR 58.6 million (1996: SR 49.1 million)

19. Maturities Of Assets And Liabilities

The maturities of assets and liabilities as at December 31, were as follows:

In Million Saudi Riyals					
1997	Total	Up To Three Months	4-6 Months	7-12 Months	Over 12 Months
Total assets	32,551	16,358	1,637	2,957	11,599
Total liabilities	30,078	25,997	1,657	2,108	316

1996	Total	Up To Three Months	4-6 Months	7-12 Months	Over 12 Months
Total assets	32,278	20,532	933	2,014	8,799
Total liabilities	29,839	25,499	2,135	1,965	240

The above reflects the contractual maturities of assets and liabilities and as such does not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

The above mentioned total assets and liabilities do not include fixed assets, other real estate assets and other liabilities, due to the nature of these accounts.

20. Year 2000 compliance

The Bank has made significant strides in computerization over the past five years and is currently heavily dependent on the use of computer systems in running its day-to-day business. In order to ensure that its business will not be adversely affected or dedicated to this issue, guided by external consultants, and has set itself a deadline to ensure Year 2000 Compliance by the end of 1998.

The cost relating to the year 2000 issue will be charged to expense as and when incurred. The related cost over the next two years would not have a material impact on the financial statements.