2006

Annual Report and Accounts
The Saudi British Bank

SABB ساب

Local vision, international expertise

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This report is issued by SABB (The Saudi British Bank)

To get a copy of this report, please contact:

Corporate Communication

SABB

Head Office:
P.O. Box 9084
Riyadh 11413
Saudi Arabia
Tel: +966 (1) 276 4779
Fax: +966 (1) 276 4809
Email: prsabb@sabb.com

or visit our website at:
www.sabb.com

بِسْمِ ٱللَّهِ ٱلرَّحْمَٰنِ ٱلرَّحِيمِ

Custodian of The Two Holy Mosques

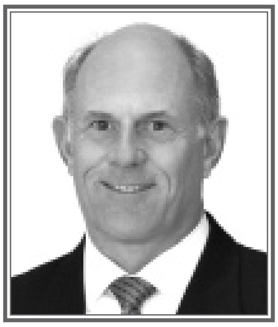
King Abdullah Bin Abdulaziz Al Saud

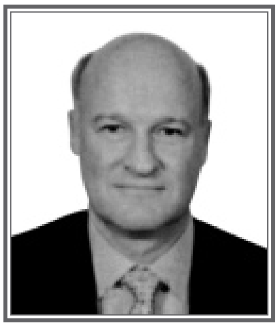
His Royal Highness

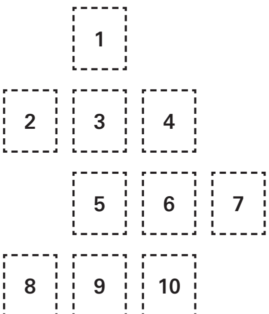
Prince Sultan Bin Abdulaziz Al Saud

The Crown Prince, Deputy Premier,
Minister of Defense and Aviation and Inspector General

Board of Directors







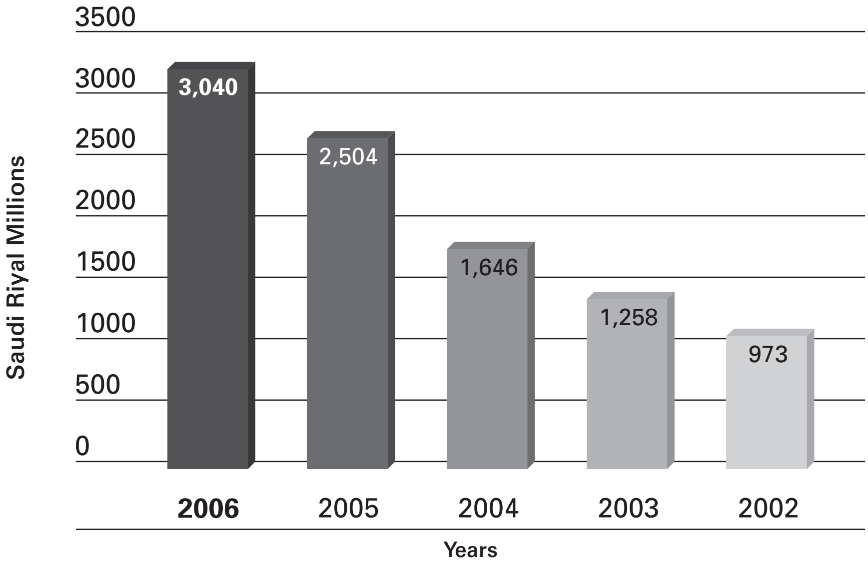
1. Abdullah Mohamed Al Hugail (Chairman)
2. John Edward Coverdale (Managing Director)
3. Khalid Sulaiman Olayan
4. Fouad Abdulwahab Bahrawi
5. Khalid Abdullah Al Molhem
6. David Howard Hodgkinson
7. Niall Booker
8. John Lowood Richards, OBE
9. Sulaiman Abdulkader Al Muhaidib
10. Ahmed Sulaiman Banaja

Financial Highlights

	Years				
	2006	2005	2004	2003	2002
Customer Deposit	**59,258**	48,534	44,666	36,090	34,980
Shareholders' Equity	**9,405**	7,493	5,917	4,746	4,283
Investments, Net	**21,702**	16,373	14,676	15,971	20,400
Loans and Advances, Net	**42,450**	40,847	31,627	26,117	20,359
Total Assets	**77,189**	65,928	57,938	46,062	46,227
Net Income	**3,040**	2,504	1,646	1,258	973
Gross Dividend	**1,500**	813	990	832	665

Saudi Riyal Millions

Net Income



Chairman's Statement

On behalf of the Board of Directors I am pleased to present the Annual Report of SABB (The Saudi British Bank) for the financial year ending 31st December 2006.

2006 has been another very successful year for SABB with net profit rising for the twelfth year in a row to a new record high of SAR3,040 million, an increase of 21.4 per cent over the SAR 2,504 million earned during the previous twelve months. The Return on Average Equity (RoE) did however fall slightly to 36.0 from 38.9 in 2005 in the light of the capital increase made this year. The success of your Bank over so many years reflects our dedicated attention to the needs of customers and our well-defined strategy for diversifying our business away from banking into the broader field of financial services.

SABB, as with other members of the Kingdom's financial sector, has been a beneficiary of the healthy growth seen in the Saudi economy in the recent past, despite the decline seen in the Saudi Stock Market. In what has been a vibrant economic environment SABB has sought to derive maximum benefit from the opportunities available whilst ensuring balanced growth across all sectors of our business.

A major event of the year was the formal establishment of HSBC Saudi Arabia Ltd, the investment banking affiliate of SABB, following receipt of a licence to operate from the Capital Market Authority (CMA). Other events of special importance have been the receipt of an operating licence for SABB Takaful, which enables the Bank to offer Shariah-compliant insurance products, and the comprehensive re-branding of SABB to reflect more closely the strategic association with HSBC.

In pursuing our "Customer First" policy SABB has broadened its exposure across the Kingdom not only opening new branches, ladies lounges, investment centres and a Premier lounge but also introducing more ATMs, Cash Deposit and Point-of-Sale Machines and, in a new approach, Direct Sales Teams to bring the products and services of the Bank to a wider audience.

Corporate and Commercial Banking has seen its portfolio of customer loans and advances rise further during the year and has participated increasingly in major deals in the structured debt and Islamic finance markets. Investment Banking saw a considerable increase in equity brokerage as SABB introduced an increasing array of delivery channels to facilitate trading by customers, and further success in offering Securities Services, becoming recognised as a leader in the provision of IPO Management Services.

Asset Management introduced two new funds and retained its nearly 16% market share of the mutual funds market whilst earning 26 awards for fund performance during the year. In Corporate Finance SABB and HSBC Saudi Arabia Ltd were together the most active providers of financial advisory, lead management and placing agent services for equity issues and advising on and lead arranging Islamic finance transactions.

Personal Banking grew apace, especially in offering Shariah-compliant products and services under the SABB Amanah brand, where the Bank further strengthened its leading position in the marketplace. Of particular note was the rising demand for Home Loans and the popularity of "EasyBuy", the Bank's Islamic consumer finance product that provides instant authorisation for the financing of purchases at points of sale. Private Banking also enjoyed another good year focusing closely on the provision of specialised banking services to an increasingly sophisticated customer base.

Of particular pride is SABB's role as an active and responsible corporate citizen. During the year we continued to serve the Saudi community and nation, particularly in the fields of education and social services.

In the light of the increased level of activity and the excellent results attained, a final net dividend on the Bank's increased capital base of SAR 2.25 net per share is proposed for payment during the coming year, subject to shareholders approval at the Annual General Meeting in March 2007. Together with the interim dividend of SAR 1.5 net per share paid during the year this will make a total of SAR 3.75 net per share for 2006.

Saudi Arabia's strong economy, its healthy commercial environment and the ongoing growth of the domestic financial sector all combine to inspire confidence in the future of the country. Your management continues to do its utmost to ensure that the Bank remains well-placed to derive maximum benefit from the prevailing opportunities and to ensure balanced and sustainable growth of SABB in the years to come.

This leaves me with the pleasure, on behalf of the Board of Directors, to congratulate you for another most successful year and to express my sincere thanks to our shareholders for your loyalty; to our dedicated staff, whose commitment and professionalism make such good results possible; and to our customers for their continued confidence and support. The Board would also like to express its gratitude to the Saudi government, especially the Ministries of Finance and Commerce & Industry and the Saudi Arabian Monetary Agency, and to the Capital Market Authority, for their continued guidance and help to the Saudi Arabian banking and financial sectors. As a leading member of the Saudi financial community, we reiterate our commitment to the ongoing growth and development of Saudi Arabia under the leadership of the Custodian of the Two Holy Mosques and the Crown Prince.

Abdullah Mohammad Al Hugail
Chairman

Directors' Report

The Board of Directors is pleased to submit to shareholders the Annual Report of The Saudi British Bank (SABB) for the financial year ending 31st December 2006

Highlights

The Saudi British Bank (the Bank) was established by Royal Decree No. M/4 Dated 12th Safar 1398(H) (21st January 1978). Its main objective is to provide a range of banking services to both the retail and corporate sectors such as depository and lending services, import and export services and loans to corporate customers and investment solutions and financial advisory services to its personal customers.

The Bank has no subsidiaries outside The Kingdom of Saudi Arabia.

Last five years' financial highlights

	Years					
	2006	2005	2004	2003	2002	
Customer Deposit	**59,258**	48,534	44,666	36,090	34,980	Saudi Riyal Millions
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Total Assets	**77,189**	65,928	57,938	46,062	46,227	
Net Income	**3,040**	2,504	1,646	1,258	973	
Gross Dividend	**1,500**	813	990	832	665	

The business environment

Saudi Arabia's economy witnessed a third year of healthy economic growth in 2006, with estimates suggesting an increase in real GDP during the year of 4.2%. Inflation, as measured by the cost of living index, increased just 1.8% over the same period, whilst by the year end the Kingdom's current account was considered likely to record a surplus of SAR 358 billion compared to a figure of SAR 337.7 billion a year earlier. Looking ahead the Kingdom's foreign assets are expected to grow yet further in 2007 to reach new highs.

The country's public finances are firm, a situation enhanced considerably by the near tripling of oil prices since 2001 that has enabled a substantial reduction in public debt from a peak of 119% of GDP in the late 1990s to 28% in 2006. The Kingdom's strong economic position enabled the announcement late in the year under review of the largest budget in the country's history for 2007, with expenditure projected at SAR 380 billion and revenues at SAR 400 billion.

Most importantly the private sector, fully supported by a vibrant banking sector, has been a key agent of growth, participating fully in major infrastructure and industrial projects. In 2007 expenditure on infrastructure projects alone is budgeted at SAR 140 billion, a figure that is expected to have a considerable impact on the sector's contribution to GDP over the course of the year. Estimates suggest that private sector GDP growth will reach 6.3% at constant prices during 2006, with non-oil industrial growth anticipated at 10.1%, as the diversification process deepens.

The considerable strength of the national economy has had a positive impact on the performance of the banking sector as a whole in 2006, a situation clearly reflected in SABB's performance despite the marked decline in the Tadawul, the Saudi Stock Market, during the year. The Bank's profits, deposits, loans and total assets have again witnessed significant growth and its capital base and liquidity ratios have maintained their historical strength. Such achievements are in large part due to the Bank's continuous desire to provide improved customer services, its increased focus on core banking products and services and the pursuit of the excellence and professionalism of all staff through their participation in first-class, purpose-designed training programmes. Such activities, allied to the excellent results achieved, confirm both SABB's leading presence within the Kingdom's banking community and that the Bank is well-positioned for long-term growth.

Record profits for the twelfth year in a row

2006 has been a year of further success for the Bank. A record net profit was again attained for the twelfth year in a row, with the Return on Average Equity (RoE) also seeing a continued rise over the same period.

Profits for the year reached their highest ever level at SAR 3,040 million (USD 811 million), an increase of 21.4 per cent over the SAR 2,504 million (USD 668 million) attained a year earlier. This translates into Earnings per Share of SAR 8.11 (USD 2.16) in 2006, a figure adjusted to reflect the 1 for 2-bonus share issue approved at the Annual General Meeting on 21st March 2006 and the subsequent 5 for 1 share split effective 8th April 2006, and up 21.4 per cent over that for 2005 of SAR 6.68 (USD 1.78). These outstanding figures were attained during a period of severe turbulence in the Saudi Stock Market and clearly evidence the Bank's strength in absorbing the impact of such events.

As at the end of 2006, customer deposits totalled SAR 59.3 billion (USD 15.8 billion), a rise of 22.3 per cent or SAR 10.8 billion (USD 2.9 billion) over the figure of SAR 48.5 billion (USD 12.9 billion) at 31st December 2005. Loans and advances to customers increased by SAR 1.7 billion (USD 0.5 billion) during 2006 from SAR 40.8 billion (USD 10.9 billion) a year earlier. Total assets at 31st December 2006 had reached SAR 77.2 billion (USD 20.6 billion), up SAR 11.3 billion (USD 3.0 billion) or 17.1 per cent over the figure of SAR 65.9 billion (USD 17.6 billion) at the end of December 2005.

The factors that have ensured such good results have been the effectiveness of SABB's strategy in deriving maximum benefit from the many opportunities available during the past year and its ability to confront with confidence the increasingly competitive local banking environment. Of special note have been the Bank's:

- Sound corporate governance;
- Full compliance with all applicable local and international laws and regulations;
- Increased focus on core banking products and services, both conventional and Shariah-compliant under the Amanah brand;
- Implementation of sound credit policies;
- Maintenance of a diversified portfolio of assets; and
- Expansion into new market sectors.

A number of events of special importance occurred during 2006. The first of these was the formal establishment of HSBC Saudi Arabia Limited in the third quarter of the year as an investment banking affiliate of SABB, the first independent investment bank in the Kingdom. The second event was the award of an insurance operating licence for SABB Takaful, one of fourteen such licences issued, allowing the company to offer a comprehensive range of Shariah-compliant Takaful products for both personal and corporate customers. The third event was the closing of the first ever Euro currency international bond by a Middle Eastern issuer, yet another pioneering move by the Bank amongst its peers in Saudi Arabia. This was a Euro 325 million five-year Floating Rate Note (FRN) under the Bank's recently increased US$ 1 billion Euro Medium Term Note (EMTN) Programme, a second FRN issue for SABB.

Cash dividends

In the light of the results declared your Board of Directors is proposing a final net dividend on the increased capital of SAR 2.25 (USD 0.60) net per share. This, together with the interim net dividend of SAR 1.5 (USD 0.40) net per share paid during the year, makes a total of SAR 3.75 (USD 1.00) net per share for 2006.

Zakat attributable to Saudi shareholders for the year amounted to approximately SAR 56.2 million (2005: SAR 37.9 million) and income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 276.5 million (2005 : SAR 199.2 million). Deductions of these amounts will be made prior to distribution of the dividend.

Shareholders' approval for the dividend will be sought at the Annual General Meeting to be held early in 2007.

Directors' Report (continued)

Property and branches

The major event of the year was the completion during the year of the ten-storey expansion project adjacent to the existing Head Office building in Riyadh and the extensive rehabilitation and remodelling programme of the older premises. Already fully occupied following the relocation of all staff from outlying buildings elsewhere in Riyadh, including the offices and staff of Central Province Management, the two buildings are linked by an atrium with bridges at every one of the ten floor levels. Head Office now has double its previous office space, a state-of-the-art dealing room and extra parking facilities below ground for employees to cater for its continued growth.

Shortly before this all bank premises and ATMs were re-branded with updated SABB signage over a 48-hour period to ensure maximum impact on Saturday, 11th February, when the Bank revealed its new corporate identity. Since that time six SABB branches have undergone full-scale internal re-branding.

As the Bank's business has continued to diversify and grow so has the demand for premises from which to operate. During 2006 new premises constructed, leased or under construction at the year end included:

- A purpose-designed branch in Najran;
- Nine new branches Kingdom-wide, five of which are relocations;
- Three new Ladies Lounges;
- Three new Investment Centres and expansion of a fourth;
- A new Premier Lounge;
- Three new Central Cash Centres in each of the main centres;
- Four new premises for Direct Sales Teams, one in each main centre and a fourth in AlHasa;

In addition a new site has been secured for the Head Office of HSBC Saudi Arabia Limited; designs have been completed for a new fully-fledged Central Processing Centre; and a further 52 ATM machines and five Cash Deposit Machines have been installed.

In the light of this considerable activity SABB had at the end of the year a network of 73 branches, including 12 sections or branches for ladies; a total of 278 ATM machines; 4,983 point-of-sale (POS) machines; and 30 cash deposit machines.

To ensure the protection of customers, staff and the Bank's premises further in-depth attention was given during the year to fire, health, safety and security measures across the branch network.

Customer First

SABB's "Customer First" policy at the heart of the Bank's three-year strategic plan, 2005 to 2007, has proved highly rewarding as the Bank has been able to grow its business in all of the corporate, commercial, investment and personal sectors. Of particular note is the high rate of success of HSBC Saudi Arabia Limited in receiving and fulfilling a wide range of mandates from clients in what was a burgeoning market for corporate finance – and this in the Bank's first year of operation.

Corporate and Commercial Banking

2006 has been another successful year for Corporate and Commercial Banking at SABB. With a buoyant Saudi economy throughout the year and a private sector seeking to take maximum benefit from the opportunities available, the Bank's loans and advances portfolio saw a rise of SAR 1.7 billion (USD 0.5 billion) or 4.2 per cent to SAR 42.5 billion (USD 11.3 billion), a figure which includes Shariah-compliant financing.

The Bank continued to play a leading role in the debt and Islamic finance structured markets, frequently working closely with HSBC Saudi Arabia Limited. The main activities in which SABB participated included being sole underwriter of the Emaar The Economic City IPO; lead manager, book runner and Shariah coordinator of the SABIC Sukuk, the first fully tradable Sukuk to be issued in Saudi Arabia and settled or cleared through Tadawul; coordinator of the entire interest rate swap and foreign exchange hedge for AlWaha, Sahara Petrochemical Co; sole underwriter of the Al Drees Group IPO; lead manager of the Al Babtain Power and Telecommunication Company IPO; and sole underwriter of the Fawaz Abdulaziz Al Hokair and Company IPO.

Small and Medium Enterprises (SME):

The SME segment was established in 2003 under the Personal Banking management; as part of the alignment of initiatives the responsibility for the SME segment was assigned to Commercial Banking in 2006 inline with the existing structure within the HSBC Group. A number of initiatives have been completed in 2006 to focus this growing business segment; we list below a few of the initiatives:

1. Corporate Pods as a delivery channel for SME & Commercial Banking.
2. SABB received the first Finance Guarantee amongst all banks in KSA.
3. The launch of the Trade Finance Package to assist SME businesses in obtaining Trade Facilities.

Investment Banking

SABB Businesses (managed by Investment Banking)

Equity Brokerage

To meet customer needs, the Bank expanded the coverage of its investment centres whilst also opening two new centres in Al-Madinah and Al-Hofuf. To facilitate the trading in the stocks on regional bourses SABB has now added access to the Bahrain and Kuwait exchanges to those in the UAE, Oman, Qatar and Egypt.

Looking to the future as part of SABB's commitment to providing an even better service to customers, a new market leading online trading system is being developed in early 2007.

Securities Services

2006 has been a very successful year for Securities Services (SCS) with business growth in excess of 100% over the previous year. Such an achievement results in large part from the increased size and diversity of SCS's core business offerings, which now include custody and clearing, IPO/rights issue management, institutional fund services, escrow agent services and non-bank financial institution services – the latter two of which were introduced for the first time during the year. Of particular note is the recognition of SABB in the local marketplace as a key provider of IPO Management Services due to its innovative approach in introducing direct subscription channels.

HSBC Saudi Arabia Limited Businesses (Owned by Investment Banking)

Asset Management

In 2006, HSBC/SABB mutual funds received 26 awards, eleven of them in the first rank, for the best-performing mutual funds in the industry for the year 2005 and the "Best Fund Manager Award" for its one-year performance. The year also saw HSBC/SABB's Amanah Saudi Equity Fund win the "Failaka International Award for the Best Islamic GCC Equity Fund in the Region" for the same year.

To promote increased knowledge of investment, HSBC Saudi Arabia Limited sponsored nine educational investment workshops Kingdom-wide that had been organised by the Capital Markets Authority (CMA).

Directors' Report (continued)

Corporate Finance

Introduction

HSBC Saudi Arabia Limited continues to be the Kingdom's most active bank in terms of financial advisory, lead manager and/or placing agent for equity issues in 2006. This year was also a defining year for Islamic Finance transactions whereby HSBC Saudi Arabia Limited and SABB lead the way in advising on and lead arranging the major Islamic Financings within the Kingdom. Following on from our success of last year, we further developed the Project Finance Advisory, Debt & Capital Markets, and Loan Syndications business in the Kingdom. In recognition of its accomplishments this year, HSBC Saudi Arabia Limited was awarded "Best Investment Bank, Saudi Arabia (2006)" by Euromoney, which commented that HSBC was the investment bank of choice for leading issuers in the Kingdom, especially in ground-breaking and complex financings. A brief summary of these notable transactions is provided below.

1. Within the first quarter of 2006 HSBC Saudi Arabia Limited as Islamic Finance Advisor completed an Islamic financing for Saudi Aramco and Sumitomo Chemical for the SAR 37 bn PetroRabigh integrated refinery and petrochemical complex. The project financing was ground-breaking in many respects, not least due to the inclusion in the multi-sourced financing of the SAR 2.25 bn Islamic finance tranche, which was the largest Islamic project finance tranche at that time. In addition, SABB and HSBC acted as Mandated Lead Arranger in this landmark project financing.

2. During the first half of 2006 HSBC Saudi Arabia Limited acting as Financial Advisor successfully closed financing on the USD 2.5 billion Saudi Ethylene and Polypropylene Company sponsored by Tasnee and Basell, the largest private petrochemical project in Saudi Arabia to date, with successful participation from European Export Credit Agencies, Saudi/Regional/International Commercial Banks, SIDF and PIF.

3. In July 2006 HSBC Saudi Arabia acted as Financial Adviser, Lead Manager and SABB acted as Lead Underwriter for the SAR 2.55 bn Initial Public Offering (IPO) of Emaar The Economic City (EEC). EEC is responsible for the entire development of the King Abdullah Economic City (KAEC), a unique and strategic development located on the coast of the Red Sea.

4. During the second half of 2006 HSBC Saudi Arabia Limited acted as sole Lead Manager and sole 'Book Runner' for the issuance of the Sabic Sukuk, the first ever Sukuk to be issued in Saudi Arabia under the new CMA offering rules for public securities offerings. The Sabic Sukuk, which was approved by the SABB Amanah Shariah Committee and was very well received by the market, raising over SAR 4.3 bn in only 10 days from a diverse Saudi investor base. This was the first ever capital markets issuance of its kind in Saudi Arabia and demonstrates HSBC's capabilities.

5. In October HSBC Saudi Arabia Limited also acted as Sole Financial Adviser, Lead Manager and SABB acted as Sole Underwriter for the SAR1.32bn Initial Public Offering (IPO) of Fawaz Abdulaziz AlHokair and Company.

Summary

The above transactions continue to reinforce HSBC Saudi Arabia Limited's leading investment banking position in the Kingdom, while considering the astonishing 51% market share in the Saudi equity market (IPO and Rights Issues), the pioneering transactions noted above and the recent Euromoney Award for "Best Investment Bank in Saudi Arabia", HSBC is well placed for a successful 2007 in the Kingdom.

Personal Banking

Personal Banking continues to grow apace despite the intensifying competition. This has been especially true in the provision of Shariah-compliant services under SABB Amanah brand, where the Bank has strengthened its leading position amongst its peers. Enhanced service delivery and continuous retail product development have been major features, which have ensured the retention of existing customers and the attraction of new accounts to the Bank.

SABB’s Home Loan portfolio continued to grow. The more affluent Premier and Al Imtiaz customers received special attention during the year, including invitations to attend annual gatherings with specially designed agendas in seven localities around the Kingdom at which presentations were made by prominent members of the business community local to each event. For the first time Lady Premier and Al-Mutamayaza Gold customers had their own events in the same locations.

SABB’s credit card market share continued to grow at higher than industry rates in 2006 such that the Bank is now officially the leading card issuer in the Kingdom, a situation due in considerable part to the effectiveness of the in-house Direct Sales Teams in what was their first year of activity. Integral to the growth were the launches during the year of a new Twin Visa/MasterCard with a raised credit limit; a Virtual Internet card, to ensure more secure e-commerce transactions by customers; and an invitation-only Platinum card for high net worth individuals.

ICSABB, the Bank’s unique loyalty programme continues its unrivalled success with record levels of certificate redemptions during the year and the broadening of the merchant base to include a wider range of businesses recommended by customers.

SABB’s Islamic Consumer Finance product, “EasyBuy”, has proved extremely popular with customers of the leading fifteen retailers who offer the service as instant decisions on the financing of purchases at the point of sale can be made. The considerable growth seen in 2006 is expected to continue into the coming year.

Direct banking over SABBNet has remained popular with customers, as has telephone banking via SABBDirect. Prime reasons for this are the significantly enhanced services they and the ATMs now offer, including IPO subscription, with more than 80 per cent of all subscriptions passing through the system, mutual fund management and online account opening.

Private Banking has seen another profitable year as a result of the emphasis placed on first class relationship management and the provision of increasingly specialised, often tailor-made, banking services and investment products that have ensured further expansion in the high net worth customer base.

A reflection of the success of the Bank’s Personal Banking services was the receipt of awards from Global Finance magazine, where SABB has acquired the following awards:

- Best Bank Internet Investment Management Services.
- Best Bank Internet Bill Payment.
- Best Bank Online Consumer Credit.

Operations

The Bank’s operational platform has again seen major upgrading during the year with an ultimate aim of ensuring better customer service. Specifically a new front-end system has been installed in replacement of the previous teller functions; a customer relationship management system has been launched with the objective of developing wealth management services amongst personal customers; an enhanced system enabling customers to process mutual fund transactions via SABBNet and IPOs and rights issues through SABBDirect has been introduced; and the “Instant Package” to meet evolving business requirements and to reduce the time required for opening new accounts has been introduced.

Close attention has also been given to operational risk management and to implementation of Basel II.

Directors' Report (continued)

International, local and regional recognition

During 2006 Standard & Poor's raised SABB's long-term counter-party rating to A from A-, a rating which reflects the quality of the Bank's assets, its strong financial performance, its strong position in the local marketplace, whose robust economic environment is also recognised in the rating, and its ability to meet its international financial liabilities.

In the course of the year SABB was awarded the benchmark Euromoney award for "Best Local Bank in Saudi Riyal Foreign Exchange" and the "Best Investment Funds Manager 2006" award by the SAMA Investment Products Committee. Additionally, HSBC Saudi Arabia Ltd became the first recipient of the new Euromoney award for "Best Investment Bank in Saudi Arabia". SABB also won first place among Saudi banks in the "Basic Investment Essentials Certificate" Programme offered by the Institute of Banking in Riyadh, an affiliate of SAMA, following the success of the Bank's employees in acquiring the certificate.

Community support

SABB is an active and responsible corporate citizen. During 2006, as part of its "SABB in the Community" policy the Bank made a number of humanitarian gestures including the provision of support to needy local families and to the Prince Salman Disability Centre, the Orphan Care Charitable Society (INSAN), the Down's Syndrome Charitable Association and the Taiba Charitable Association.

The Bank maintained pursuit of its long-term effort to encourage Saudi citizens to enhance their personal value to the local community by continuing to offer scholarships for MBA courses in the United Kingdom; by maintaining its sponsorship of the Chair of Finance at King Fahd University of Petroleum and Minerals in Dhahran; and by providing ongoing support to post-graduate and research students under the United Kingdom's Chevening Scholarship Programme.

Training in Saudi Arabia received close attention as well through the Cooperative Training Programme, which is undertaken in coordination with a number of local universities and institutes to provide students with practical experience as part of their graduation requirements, and through the Al-Masrafi Programme, which is supervised by SAMA and enables Saudi graduates to acquire skills enabling them to play effective roles in the domestic banking sector.

In addition SABB provides support to the Centennial Foundation, which was established to assist young Saudi entrepreneurs to attain economic independence by becoming successfully self-employed, and to the Saudi-British Farasan Archaeology Project, which seeks to investigate the archaeology and pre-history of the Red Sea coastline over the past one million years in collaboration with King Saud University in Riyadh and the University of York in the United Kingdom.

Corporate communications

SABB entered a new era in 2006 with the unveiling of its new image, which reflects the depth of the strategic association between the Bank and HSBC. Under the proposition "Local vision, international expertise" the international experience and expertise of the Bank's staff and their utilisation of the latest banking techniques and technology are made available to the local community in Saudi Arabia, whilst recognising fully local particularities and traditions.

During the year SABB hosted a Transaction Banking Seminar highlighting the latest developments in cash management and trade finance and participated in a training course organised by SAMA for judges from the Ministry of Justice and The Bureau of Grievances on the important subject of "Fighting Money Laundering, Terrorist Financing and Economic Crimes in the Kingdom".

The Bank also sponsored the "10th Graduate and Career Day" to stress its commitment to implementation of an effective strategy for Saudisation.

Human resources

The personal development of all members of SABB's staff continues to be a major focus, with the ultimate aim of ensuring each individual attains his or her full potential and that the services provided to customers are highly professional.

To attain such aims comprehensive training programmes are developed and presented on a regular basis to staff at every level throughout the Bank. Thus sales, service and accreditation programmes; management, English language, systems and operations; and commercial, corporate and credit training are all provided. Additionally group training is offered in the fields of leadership, sales management, information technology and Takaful, all designed to enhance the knowledge and skills of the participants and to ensure their place as a valuable member of the Bank's team serving customers.

The staff development programmes such as career development and succession plans, the executive development review and the balanced scorecard appraisal system remain useful tools in ensuring staff remain well-motivated as they rise through the Bank to attain positions of responsibility and authority.

To ensure a continuous flow of Saudis into SABB recruitment drives continued throughout the year seeking individuals from different educational backgrounds. Thus summer students continue to be sought and ongoing support is given to local universities and institutes under the Co-op Programme to provide students with practical experience as part of their degree courses. Junior Officer Development Programmes remain in place as does the search for mid-career executives with business experience who can bring to the Bank specialist areas of commercial and professional knowledge and expertise.

The net result of all these activities has been that a total of 6,093 individuals attended 23,957 days of training and that SABB saw a further rise in its Saudisation ratio by the end of the year to 85.79% being 2,331 out of a total staff complement of 2,717, which includes 420 Saudi ladies.

Board of Directors and Subsidiary Committees:
Directors

On 11th October 2006 Mr. Niall Booker was appointed as a director of the bank in place of Mr. Iqbal Khan.

In the light of this change the Board of Directors as at 31st December 2006 comprised:

S.No	Name	Nationality	Current Position	Name of other companies
1	Mr. Abdullah Mohammad Al Hugail	Saudi	Chairman (Independent)	President, Trading & Development Partners Company. Member, Disabled Children Association. Member, Prince Fahd Bin Salman Charity & Head of the Finance
2	Mr. Fouad Abdulwahab Bahrawi	Saudi	Board Member (Independent)	Partner in Al-Bahrawi Trading Company. Board Member SABB Takaful Company. Board Member, Watani Trading Company.

Directors' Report (continued)

S.No	Name	Nationality	Current Position	Name of other companies
3	Mr. Khalid Abdullah Al Molhem	Saudi	Board Member (Independent)	Board Member, HSBC Saudi Arabia limited. Board Member, Saudi Airlines (Government owned Company). Board Member, Emaar Economic City (Public Stock Company). Board Member Asseer Company for Trading, Tourism and Industry (Public Stock Company). Board Member, Riyadh Cement (Closed Stock Company)
4	Mr. Khalid Sulaiman Olayan	Saudi	Board Member (Independent)	Board Member, Al-Zamil Industrial Investment Company (Public Stock Company). Board Member, Saudi Research and Marketing Company. Chairman, Arabian Manufacturing Company.
5	Mr. Sulaiman Abdulkader Al Muhaidib	Saudi	Board Member (Independent)	Chairman, Abdulkhader Al Muhaidib Company. Chairman, Jubar International Contracting. Chairman,Communication Solution Company. Chairman, Middle East Paper (MEPCO). Chairman, Dar Chemicals Ltd. Chairman, Amwal Al-Khaleej Commercial Investment Company. Chairman, Al-Shamiyah Urban Development Company. Chairman, Al-Oula Development Company. Board Member, Riyadh Chamber of Commerce & Industry. Board Member, Riyadh Cables Group. Board Member, Al-Azizia Investments Co. Board Member, Yamamah Steel Co. Board Member, Arabian Pipes Co.

S.No	Name	Nationality	Current Position	Name of other companies
6	Mr. Ahmed Sulaiman Banaja	Saudi	Board Member (Independent)	Board Member, Emaar Economic City (Public Stock Company) Board Member, Jeddah Real Estate Development Company. Board Member, Aluminium Products Company.
7	Mr. John Coverdale	British	Managing Director	Board Member, HSBC Bank Middle East. Board Member, HSBC Bank Egypt. Board Member, HSBC Saudi Arabia Limited. Board Member, SABB Takaful Company.
8	Mr. John Richards	British	Managing Director	No other Directorships.
9	Mr. David Hodgkinson	British	Non-independent	Board Member, HSBC Middle East Limited. Board Member, British Arab Commercial Bank. Board Member, HSBC Egypt. Chairman, HSBC Middle East Finance Company Limited.
10	Mr. Niall Booker	British	Non-independent	Deputy Chairman, HSBC bank Middle East,UAE. Deputy Chairman, HSBC Bank Egypt SAE. Board Member, British Arab Commercial Bank. CEO, HSBC India. Board Member, HSBC Middle East Finance Company. Regional Director, Master Card Worldwide.

Directors' Report (continued)

Executive Committee

The Board of Directors formed an Executive Committee comprising Managing Director and another four members to be elected among the Board Members. The Managing Director shall be the Chairman of the Committee. The Executive Committee shall assist the Managing Director within the limits of the powers conferred to it by the Board and handle matters referred thereto by the Managing Director and the Board of Directors. Mr. John E Coverdale is the Chairman of the Committee and Mr. Fouad Abdulwahab Bahrawi, Mr. Khalid Abdullah Al Molhem, Mr. Ahmed Sulaiman Banaja and Mr. John Richards are members of Committee.

Audit Committee

The Saudi British Bank Audit Committee was formed in 1992. Reporting directly to the Board of Directors, the Committee monitors the Bank's internal and external audit functions and reviews control weaknesses and system deficiencies. It is also responsible for ensuring all financial information is of the highest quality, concentrating on critical business issues, which enables the Bank's external auditors and management to focus on those areas of greatest risk to the business. Mr. Ahmed Sulaiman Banaja is the President of the Committee and Mr. Yousef Ahmed Al Borshid and Mr. Peter Poland are members of the Committee.

Property Committee

The Board of Directors formed a Property Committee comprising four members of the Board of Directors. The Committee shall consider approvals of the Bank's expenditures and liabilities in respect of properties including rentals, project costs and support expenses such as safety and security. The Committee is presided by Mr. Abdullah Mohammed Al Hugail and Mr Sulaiman Abdulkader Al Muhaidib, Mr. John E Coverdale & Mr. John L Richards are members of the committee.

Corporate Governance

The Bank is generally in compliance with the corporate governance guidelines issued by the Capital Market Authority. The management has formed a team, which is currently in the process of reviewing the Bank's compliance with the rest of the guidelines according to the best international practices.

Directors' remuneration and meetings

Directors' fees during 2006 totalled SAR 1,584,000, including SAR 290.000 in attendance fees at Board of Directors and Executive Committee meetings.

Remuneration of Directors in their capacity as employees of the Bank during the year amounted to SAR 3,198,124.00.

The Board of Directors conducted SIX meetings during 2006 at which attendance was as follows:

Date	Number of attendees
21 March	Nine
30 May	Nine
26 July	Seven
10 October	Nine
18 November	Nine
11 December	Nine

Related party transactions

As at the year-end there were no contracts of any material interest, nor have there been any in the course of 2006, between the Bank and any member of the Board of Directors, the Managing Director, the Chief Financial Officer or any of their relatives.

Staff benefits and schemes

According to the Labour Law of The Kingdom of Saudi Arabia and to the Bank's internal policies, staff benefits are due for payment during or at the end of an employee's service period. The end of service benefit outstanding at the end of 2006 amounted to SAR 191.7 million.

The Bank operates three equity-settled, share-based plans that entitle eligible staff to purchase shares in the Bank at a pre-determined strike price that approximates to the market price of the shares at the date of the grant.

Board of directors' assurance

The Board of Directors assures shareholders and other interested parties that to the best of its knowledge and in all material aspects:

- The Bank has maintained accurate books of account;
- The Bank has a sound financial system that has been audited by the Bank's Internal Audit Department, which submits its reports to the Bank's Audit Committee.
- It has no evidence that might cast significant doubt on the Bank's ability to continue as a going concern.

Donations

During the year the Bank made a number of donations to authorised charitable societies and organisations. Given the Bank's continued commitment to philanthropic support of the wider Saudi community, the Board recommends an amount of SAR 6,000,000 be allocated for this purpose for the coming year.

Auditors

The Ordinary General Meeting held in March 2006 reaffirmed the appointment of Messrs KPMG AlFozan & Banaga and Ernst & Young as the Bank's auditors.

Expressions of gratitude

The success, which SABB has enjoyed during 2006, would not be possible without the full support of many people and organisations within Saudi Arabia. This is especially true of the Bank's loyal staff, whose commitment, professionalism and contribution to SABB's ongoing success are fully appreciated.

In addition to acknowledging the vital role of the Bank's staff, the Board of Directors would also like to take the opportunity to express its appreciation and gratitude to the Bank's customers and shareholders for their continued confidence in and support; to the members of the Amanah Sharia Supervisory Committee for their continued encouragement and guidance; to various government departments, especially the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency; and to the Capital Market Authority, for their continued cooperation, encouragement and support of the banking sector in the Kingdom, enabling it to make a major contribution to the Saudi economy under the direction of the Custodian of the Two Holy Mosques and the Crown Prince.

The accompanying financial statements and notes, together with this directors' report, form an integral part of the 2006 Annual Report of SABB. The disclosures required under Article (27) of the Listing Rules promulgated by the Capital Market Authority are included in the accompanying financial statements and notes or within this report where applicable.

Board of Directors

Auditors' Report

To: The shareholders of The Saudi British Bank (Saudi joint stock company)

We have audited the balance sheet of The Saudi British Bank (the Bank) as at 31 December 2006 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 are the responsibility of the Bank's management and have been prepared by them 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.

Our audit was conducted in accordance with generally accepted auditing standards in Saudi Arabia and International Standards on Auditing. 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 degree of assurance to enable us to express an opinion on the financial statements.

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

- present fairly, in all material respects, the financial position of the Bank as at 31 December 2006 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards, and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

ERNST & YOUNG

Ernst & Young
P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277

Riyadh: 3 Muharram 1428H
(22 January 2007)

KPMG Al Fozan & Bannaga

KPMG Al Fozan & Bannaga
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Abdullah H Al Fozan
Certified Public Accountant
Licence No. 348

Balance Sheet

As at 31 December

	Notes	2006 SAR'000	2005 SAR'000
ASSETS			
Cash and balances with SAMA	*3*	**7,795,020**	3,029,348
Due from banks and other financial institutions	*4*	**3,137,510**	4,234,290
Investments, net	*5*	**21,702,420**	16,372,562
Loans and advances, net	*6*	**42,450,243**	40,846,592
Investment in an associate	*7*	**72,209**	–
Property and equipment, net	*8*	**541,235**	527,725
Other assets	*9*	**1,490,741**	917,410
Total assets		**77,189,378**	65,927,927
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	*11*	**2,171,835**	4,049,625
Customers' deposits	*12*	**59,257,642**	48,534,075
Debt securities in issue	*13*	**3,853,194**	2,246,933
Borrowings	*14*	**187,500**	187,500
Other liabilities	*15*	**2,314,608**	3,416,642
Total liabilities		**67,784,779**	58,434,775
SHAREHOLDERS' EQUITY			
Share capital	*16*	**3,750,000**	2,500,000
Statutory reserve	*17*	**3,750,000**	2,500,000
Other reserves		**70,385**	302,843
Retained earnings		**943,589**	1,903,309
Proposed dividend	*28*	**890,625**	287,000
Total shareholders' equity		**9,404,599**	7,493,152
Total liabilities and shareholders' equity		**77,189,378**	65,927,927

The accompanying notes 1 to 42 form an integral part of these financial statements.

Statement of Income

For the years ended 31 December

	Notes	**2006** SAR'000	2005 SAR'000
Special commission income	*19*	**4,436,721**	3,170,456
Special commission expense	*19*	**1,852,899**	1,196,861
Net special commission income		**2,583,822**	1,973,595
Fees from banking services, net	*20*	**1,650,483**	1,531,549
Exchange income, net		**160,544**	178,342
Income from FVIS financial instruments, net	*21*	**133,317**	59,079
Trading income, net	*22*	**16,668**	34,952
Dividend income	*23*	**5,042**	5,583
Gains on non-trading investments, net	*24*	**64,721**	36,256
Other operating income	*25*	**2,093**	1,045
Total operating income		**4,616,690**	3,820,401
Salaries and employee-related expenses		**778,907**	716,033
Rent and premises-related expenses		**58,857**	50,532
Depreciation and impairment	*8*	**97,604**	121,809
Other general and administrative expenses		**466,675**	319,343
Provision for credit losses, net	*6*	**224,563**	107,765
Other operating expenses	*26*	**2,013**	604
Total operating expenses		**1,628,619**	1,316,086
Income from operating activities		**2,988,071**	2,504,315
Share in earnings of an associate	*7*	**52,209**	–
Net income for the year		**3,040,280**	2,504,315
Basic and fully diluted earnings per share (in SAR)	*27*	**8.11**	6.68

The accompanying notes 1 to 42 form an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

	Notes	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Proposed dividend SAR'000	Total SAR'000
For the year ended 31 December 2006							
Balance at beginning of the year		**2,500,000**	**2,500,000**	**302,843**	**1,903,309**	**287,000**	**7,493,152**
Net changes in fair value of cash flow hedges		–	–	**5,391**	–	–	**5,391**
Net changes in fair value of available for sale investments		–	–	**(112,084)**	–	–	**(112,084)**
Transfer to statement of income		–	–	**(125,765)**	–	–	**(125,765)**
Net income recognised directly in equity		–	–	**(232,458)**	–	–	**(232,458)**
Net income for the year		–	–	–	**3,040,280**	–	**3,040,280**
Total recognised income and expense for the year		–	–	**(232,458)**	**3,040,280**	–	**2,807,822**
Bonus shares issued		**1,250,000**	–	–	**(1,250,000)**	–	–
Transfer to statutory reserve		–	**1,250,000**	–	**(1,250,000)**	–	–
2005 final dividend paid		–	–	–	–	**(287,000)**	**(287,000)**
2006 interim dividend paid	*28*	–	–	–	**(609,375)**	–	**(609,375)**
2006 final proposed dividend	*28*	–	–	–	**(890,625)**	**890,625**	–
Balance at end of the year		**3,750,000**	**3,750,000**	**70,385**	**943,589**	**890,625**	**9,404,599**
For the year ended 31 December 2005							
Balance at beginning of the year		2,500,000	2,408,965	185,903	303,029	519,500	5,917,397
Net changes in fair value of cash flow hedges		–	–	(2,263)	–	–	(2,263)
Net changes in fair value of available for sale investments		–	–	142,516	–	–	142,516
Transfer to statement of income		–	–	(23,313)	–	–	(23,313)
Net income recognised directly in equity		–	–	116,940	–	–	116,940
Net income for the year		–	–	–	2,504,315	–	2,504,315
Total recognised income and expense for the year		–	–	116,940	2,504,315	–	2,621,255
Transfer to statutory reserve		–	91,035	–	(91,035)	–	–
2004 final dividend paid		–	–	–	–	(519,500)	(519,500)
2005 interim dividend paid	28	–	–	–	(526,000)	–	(526,000)
2005 final proposed dividend	28	–	–	–	(287,000)	287,000	–
Balance at end of the year		2,500,000	2,500,000	302,843	1,903,309	287,000	7,493,152

The accompanying notes 1 to 42 form an integral part of these financial statements.

Statement of Cash Flows

For the years ended 31 December

	Notes	2006 SAR'000	2005 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**3,040,280**	2,504,315
Adjustments to reconcile net income to net cash from (used in) operating activities:			
(Accretion of discount) and amortisation of premiums on non-trading investments, net		**2,546**	5,321
Gains from FVIS financial instruments		**(133,317)**	(59,079)
Gains on investments, net		**(64,721)**	(36,256)
Depreciation and impairment		**97,604**	121,809
Losses/(gains) on disposal of property and equipment and other assets, net		**268**	(17)
Share in earnings of an associate		**(52,209)**	–
Provision for credit losses, net		**224,563**	107,765
Change in fair value		**(1,162)**	10,035
		3,113,852	2,653,893
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	*3*	**(473,870)**	(217,665)
Investments held for trading		**(64,218)**	(270,126)
Loans and advances		**(1,828,214)**	(9,359,238)
Other assets		**(447,677)**	(82,145)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(1,877,790)**	(1,613,710)
Customers' deposits		**10,724,384**	3,867,578
Other liabilities		**(1,105,204)**	1,535,840
Net cash from (used in) operating activities		**8,041,263**	(3,485,573)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**11,025,608**	2,818,295
Purchase of non-trading investments		**(16,466,850)**	(4,030,403)
Investment in an associate		**(20,000)**	–
Purchase of property and equipment		**(112,114)**	(84,576)
Proceeds from disposal of property and equipment		**732**	133
Net cash used in investing activities		**(5,572,624)**	(1,296,551)
FINANCING ACTIVITIES			
Debt securities in issue		**1,604,480**	2,246,933
Borrowing		**–**	187,500
Dividends paid		**(878,097)**	(1,035,194)
Net cash from financing activities		**726,383**	1,399,239
Increase (decrease) in cash and cash equivalents		**3,195,022**	(3,382,885)
Cash and cash equivalents at the beginning of the year		**5,388,091**	8,770,976
Cash and cash equivalents at the end of the year	*29*	**8,583,113**	5,388,091
Special commission received during the year		**4,380,737**	3,114,797
Special commission paid during the year		**1,841,861**	1,057,071
Supplemental Non Cash Information			
Net changes in fair value and cash flow hedges		**(232,458)**	116,940
Share in earnings of an associate		**52,209**	–

The accompanying notes 1 to 42 form an integral part of these financial statements.

Notes to the Financial Statements (31 December 2006)

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 61 branches (2005 : 60) and 12 exclusive ladies' sections (2005 : 12) in the Kingdom of Saudi Arabia. The Bank employed 2,717 staff as at 31 December 2006 (2005 : 2,251). 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.

2 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

Except for the change in accounting policies as referred to in note 2 (b) below, the accounting policies are consistent with those used in the previous year.

a *Basis of preparation*

The financial statements have been prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its financial statements to comply with the Banking Control Law and the Regulations for Companies in The Kingdom of Saudi Arabia.

These financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets and liabilities held at fair value through income statement (FVIS) and available for sale. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair values attributable to the risks that are being hedged.

These financial statements are expressed in Saudi Arabian Riyals (SAR) rounded off to the nearest thousand, which is the functional currency of the Bank.

b *Change in accounting policies*

The Bank has implemented the amendments to International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement – The Fair Value Option – effective 1 January 2006 with retrospective effect, wherever applicable. Following this amendment, the revised IAS 39 requires that the use of the FVIS classification be restricted and shall be used only if permitted by the IAS. The financial assets classified as FVIS comply with these changes, therefore there is no impact on the financial statements.

c *Critical accounting judgements and estimates*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Notes to the Financial Statements (31 December 2006) (continued)

2 Summary of significant accounting policies *(continued)*

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of available-for-sale equity investments

The Bank exercises judgement to consider impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

d *Trade date accounting*

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date i.e. the date on which the Bank commits to purchase or sell the assets. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

e *Derivative financial instruments and hedging*

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, currency and special commission rate options (both written and purchased), are measured at fair value (premium received for written options). All derivatives are carried at their fair value as assets where the fair value is positive, and as liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models, as is appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to statement of income for the period and are disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories; (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the effectiveness of the hedge is assessed on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the statement of income. The related portion of the hedged item is also recognised in the statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges, which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in other reserves under shareholders' equity. The ineffective portion, if any, is recognised in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction or firm commitment results in the recognition of a non-financial asset or a liability, then at the time that the non-financial asset or liability is recognised, the associated gains or losses that had previously been recognised in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the non financial asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other reserves is transferred to the statement of income for the period.

f *Foreign currencies*

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income except when deferred in equity as qualifying cash flow hedges.

g *Offsetting*

Financial assets and liabilities are offset and are reported net in the balance sheet when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements (31 December 2006) (continued)

2 Summary of significant accounting policies *(continued)*

h *Revenue recognition*

Special commission income and expense, as well as fees which are considered an integral part of the effective yield of a financial asset and premiums and discounts, are recognised in the statement of income using the effective yield method, unless collectibility is in doubt. Exchange income is recognised when contractually earned. Dividend income is recognised when declared.

Fees and commission are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fee received on the asset management, wealth management, financial planning, custody services and other similar services that are provided in extended period of time are recognised rateably over the period when the service is being provided.

Notional special commission is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

When the Bank enters into a special commission rate swap to change special commission from fixed to floating (or vice versa) the amount of special commission income or expense is adjusted by the net special commission on the swap.

i *Sale and repurchase agreements*

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with related accounting policies for the underlying financial assets held as FVIS, available for sale, held to maturity and other investments held at amortised cost. The counter-party liability for amounts received under these agreements is included in "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and amortised over the life of the repo agreement, using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the balance sheet, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and amortised over the life of the reverse repo agreement, using the effective yield method.

j *Investments*

All investment securities are initially recognised at fair value, including acquisition charges associated with the investment except for investments held as FVIS. Premiums are amortised and discounts accreted using the effective yield method and are taken to special commission income.

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS at inception or on adoption of the revised International Accounting Standard 39 as at January 1, 2005. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

An investment may be designated as FVIS by the management if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income received on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in the statement of income.

(ii) Available for sale

Investments, which are classified as “available for sale”, are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in “Other reserves” under shareholders’ equity. On derecognition, any cumulative gain or loss previously recognised in shareholders’ equity is included in the statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at amortised cost.

(iii) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of “held at amortised cost” are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank’s ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments. All investment securities are initially recognised at fair value.

(iv) Held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as “held at amortised cost”. Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Any gain or loss is recognised in the statement of income when the investment is derecognised or impaired.

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k *Investment in an associate*

Investment in an associate is accounted for using the equity method in accordance with International Accounting Standard 28 – Investment in Associates. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is carried in the balance sheet at cost plus post investment changes in the Bank’s share of net assets of the associate. Losses in excess of the cost of the investment are recognised when the Bank has incurred obligations on its behalf. The income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associate and the Bank are identical and the associate’s accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associate are eliminated to the extent of the Bank’s interest in the associate.

Notes to the Financial Statements (31 December 2006) (continued)

2 Summary of significant accounting policies *(continued)*

l *Loans and advances*

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held as FVIS.

Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible. The subsequent period-end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs.

The Banks loans and advances are classified as held at amortised cost. Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, and those that are to be held to maturity, are stated at cost less any amount written off and provisions for impairment.

For loans and advances, which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

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m *Impairment of financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts as follows:

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

Once a financial asset has been written down to its estimated recoverable amount, commission income is thereafter recognised based on the rate of commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(i) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost, including those arising from sovereign risk exposures, is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective commission rate.

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

For financial assets at amortised cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income.

2 Summary of significant accounting policies *(continued)*

(ii) Impairment of financial assets held at fair value

For financial assets at fair value, where a loss has been recognised directly under shareholders' equity, the cumulative net loss recognised in shareholders' equity is transferred to the statement of income when the asset is considered to be impaired.

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in statement of income for the period.

n *Property and equipment*

Property and equipment are stated at cost and presented net of accumulated depreciation and amortisation. Freehold land is not depreciated.

The cost of other property and equipment is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 years
Leasehold improvements	over the period of the lease contract.
Furniture, equipment and vehicles	3 to 4 years

Gains and losses on disposals are included in the statement of income.

The assets' residual values and useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

o *Liabilities*

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at fair value.

Subsequently all commission bearing financial liabilities, or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the statement of income. For deposits and money market placements carried at amortised cost, any gain or loss is recognised in the statement of income when derecognised or impaired.

p *Provisions*

Provisions are recognised when a reliable estimate can be made by the Bank to a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation.

q *Accounting for leases*

Leases entered into by the Bank as a lessee are all operating leases. Payments made under these operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2 Summary of significant accounting policies *(continued)*

r *Cash and cash equivalents*

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA excluding the statutory deposit, and due from banks and other financial institutions with original maturity of ninety days of acquisition.

s *Derecognition of financial instruments*

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

t *Assets held in trust or in fiduciary capacity*

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the accompanying financial statements.

u *Zakat and income taxes*

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders' share of net income for the year.

Zakat and income taxes are not charged to the Bank's statement of income as they are deducted from the dividends paid to the shareholders.

v *Non-interest based banking products*

In addition to the conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shariah Board.

All non-interest based banking products are accounted for using IFRS and are in conformity with the accounting policies described in these financial statements.

3 Cash and balances with SAMA

	2006	2005
	SAR'000	SAR'000
Cash in hand	**757,506**	557,499
Statutory deposit	**2,349,417**	1,875,547
Reverse repos	**4,442,200**	25,997
Other balances	**245,897**	570,305
Total	**7,795,020**	3,029,348

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at stipulated percentages of its demand, time, savings and other deposits, calculated at the end of each month.

4 Due from banks and other financial institutions

	2006	2005
	SAR'000	SAR'000
Current accounts	**608,153**	402,592
Money market placements	**2,529,357**	3,831,698
Total	**3,137,510**	4,234,290

5 Investments, net

a *Investment securities are classified as follows:*

	Domestic		**International**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
i Held as FVIS						
Fixed rate securities	**69,956**	70,142	**18,804**	8,073	**88,760**	78,215
Floating rate securities	**239,054**	200,232	**1,788,807**	1,716,739	**2,027,861**	1,916,971
Held as FVIS	**309,010**	270,374	**1,807,611**	1,724,812	**2,116,621**	1,995,186

FVIS investments above includes investments held for trading of SAR 327.8 million (2005:SAR 270.4 million).

ii Available for sale						
Fixed rate securities	**5,638,206**	531,683	**2,118,901**	1,359,790	**7,757,107**	1,891,473
Floating rate securities	**3,144,204**	2,884,235	**1,597,372**	1,402,181	**4,741,576**	4,286,416
Equities	**146,170**	211,076	**18,836**	18,347	**165,006**	229,423
Other	**45,826**	192,185	–	–	**45,826**	192,185
Available for sale investments, net	**8,974,406**	3,819,179	**3,735,109**	2,780,318	**12,709,515**	6,599,497
iii Held at amortised cost						
Fixed rate securities	**5,142,585**	6,040,532	–	–	**5,142,585**	6,040,532
Floating rate securities	**1,221,000**	1,221,000	–	–	**1,221,000**	1,221,000
Held at amortised cost, net	**6,363,585**	7,261,532	–	–	**6,363,585**	7,261,532
iv Held to maturity						
Fixed rate securities	**512,699**	516,347	–	–	**512,699**	516,347
Held to maturity investments, net	**512,699**	516,347	–	–	**512,699**	516,347
Investments, net	**16,159,700**	11,867,432	**5,542,720**	4,505,130	**21,702,420**	16,372,562

Notes to the Financial Statements (31 December 2006) (continued)

5 Investments, net *(continued)*

b *The analysis of the composition of investment securities is as follows:*

	2006			2005		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Fixed rate securities	**2,118,901**	**11,382,250**	**13,501,151**	1,359,790	7,166,777	8,526,567
Floating rate securities	**867,412**	**7,123,025**	**7,990,437**	762,298	6,662,089	7,424,387
Equities	**104,344**	**60,662**	**165,006**	202,212	27,211	229,423
Other	**45,826**	**–**	**45,826**	186,068	6,117	192,185
Investments, net	**3,136,483**	**18,565,937**	**21,702,420**	2,510,368	13,862,194	16,372,562

Unquoted investments include securities of SAR 15,787.5 million (2005: SAR 11,464.6 million) issued by the Saudi Arabian Government and its agencies.

c *The analysis of unrealised gains and losses and the fair values of held at amortised cost and held to maturity investments, are as follows:*

	2006				2005			
	Carrying value	**Gross unrealised gain**	**Gross unrealised loss**	**Fair value**	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000	SAR'000
i Held at amortised cost								
Fixed rate securities	**5,142,585**	**93,288**	**(64,446)**	**5,171,427**	6,040,532	152,254	(50,745)	6,142,041
Floating rate securities	**1,221,000**	**3,858**	**(1,223)**	**1,223,635**	1,221,000	3,616	(2,863)	1,221,753
Total	**6,363,585**	**97,146**	**(65,669)**	**6,395,062**	7,261,532	155,870	(53,608)	7,363,794
ii Held to maturity								
Fixed rate securities	**512,699**	**12,433**	**(3,425)**	**521,707**	516,347	19,914	(1,366)	534,895
Total	**512,699**	**12,433**	**(3,425)**	**521,707**	516,347	19,914	(1,366)	534,895

d *The analysis of investments by counter-party is as follows:*

	2006	2005
	SAR'000	SAR'000
Government and quasi-Government	**17,581,767**	13,170,300
Corporate	**2,569,037**	2,163,197
Banks and other financial institutions	**1,476,621**	809,420
Other	**74,995**	229,645
Total	**21,702,420**	16,372,562

Equities reported under available for sale investments include unquoted shares of SAR 61.7 million (2005: SAR 27.2 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR 4.0 million (2005: SAR 185.8 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 4.2 million (2005: SAR 183.7 million).

6 Loans and advances, net

a *Loans and advances are classified as follows:*

	2006	2005
	SAR'000	SAR'000
Performing:		
Overdrafts	**4,101,347**	8,601,202
Credit cards	**1,372,877**	708,798
Commercial loans	**27,008,578**	21,595,896
Consumer loans	**9,862,385**	9,663,401
Other	**437,638**	464,594
Performing loans and advances, gross	**42,782,825**	41,033,891
Non-performing loans and advances, net	**165,098**	198,621
	42,947,923	41,232,512
Provision for credit losses	**(497,680)**	(385,920)
Loans and advances, net	**42,450,243**	40,846,592

Loans and advances, net include non-interest bearing products totalling SAR 21,547.0 million (2005: SAR 17,680.4 million) which are stated at cost less provision for credit losses, of SAR 146.8 million (2005: SAR 86.3 million).

Provision for credit losses charged to statement of income related to non-interest bearing products is SAR 16.6. million (2005: SAR 25.0 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 1,220.4 million (2005: SAR 1,678.0 million). The negative mark to market of these loans is SAR 6.3 million (2005: positive SAR 14.3 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 103.0 million (2005: SAR 83.2 million).

b *Movements in provision for credit losses are as follows:*

	2006	2005
	SAR'000	SAR'000
Balance at the beginning of the year	**385,920**	496,269
Provided during the year	**194,087**	209,061
Bad debts written off	**(57,158)**	(224,494)
Recoveries of amounts previously provided	**(25,169)**	(94,916)
Balance at the end of the year	**497,680**	385,920

The net charge to income on account of provision for credit losses is SAR 224.6 million (2005: SAR 107.8 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off of SAR 1.4 million (2005: SAR 6.4 million).

Notes to the Financial Statements (31 December 2006) (continued)

6 Loans and advances, net *(continued)*

c *Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:*

	2006			
	Performing	**Non performing, net**	**Credit loss provision**	**Loans and advances, net**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Government and quasi-Government	**1,581,228**	–	–	**1,581,228**
Banks and other financial institutions	**142,500**	–	–	**142,500**
Agriculture and fishing	**833,140**	–	–	**833,140**
Manufacturing	**5,379,819**	**45,670**	**(43,339)**	**5,382,150**
Mining and quarrying	**37,079**	–	–	**37,079**
Electricity, water, gas and health services	**58,636**	**7,128**	**(7,128)**	**58,636**
Building and construction	**1,289,248**	**31,142**	**(33,981)**	**1,286,409**
Commerce	**9,518,089**	**24,568**	**(24,737)**	**9,517,920**
Transportation and communication	**995,097**	**4,716**	**(5,727)**	**994,086**
Services	**2,232,731**	**1,222**	**(1,224)**	**2,232,729**
Consumer loans and credit cards	**13,455,544**	**41,380**	**(194,941)**	**13,301,983**
Other	**7,259,714**	**9,272**	**(33,255)**	**7,235,731**
Collective impairment provision	–	–	**(153,348)**	**(153,348)**
Total	**42,782,825**	**165,098**	**(497,680)**	**42,450,243**

	2005			
Government and quasi-Government	1,139,471	–	–	1,139,471
Banks and other financial institutions	140,625	–	–	140,625
Agriculture and fishing	913,390	10	–	913,400
Manufacturing	5,336,534	56,148	(52,119)	5,340,563
Mining and quarrying	32,973	–	–	32,973
Electricity, water, gas and health services	62,969	7,128	(7,128)	62,969
Building and construction	1,168,213	58,008	(30,843)	1,195,378
Commerce	6,798,989	37,545	(37,647)	6,798,887
Transportation and communication	668,329	5,725	(5,727)	668,327
Services	2,159,406	1,256	(1,256)	2,159,406
Consumer loans and credit cards	10,372,199	20,981	(80,367)	10,312,813
Other	12,240,793	11,820	(19,465)	12,233,148
Collective impairment provision	–	–	(151,368)	(151,368)
Total	41,033,891	198,621	(385,920)	40,846,592

The credit loss provision on the consumer loans and advances is calculated on a collective basis.

The collective impairment provision is based on an asset quality matrix, which includes the grading structure in respect of the credit risk of the customers and the general economic outlook.

7 Investment in an associate

During the year, the Bank made an investment of 40% in shares of HSBC Saudi Arabia Limited (the associate), which carries out investment banking services in The Kingdom of Saudi Arabia. The carrying amount of the investment has been arrived at as follows:

	2006	2005
	SAR'000	SAR'000
Cost of investment	**20,000**	–
Share of undistributed profit	**52,209**	–
Total	**72,209**	–
Share of the associate's financial statements:		
Total Assets	**109,143**	–
Total Liabilities	**36,934**	–
Total Equity	**72,209**	–
Total Income	**77,735**	–
Total Expenses	**25,526**	–

8 Property and equipment, net

	Land and buildings	**Leasehold improvements**	**Equipment, furniture and vehicles**	**2006 Total**	2005 Total
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	SAR'000
Cost					
As at 1 January	627,949	210,228	397,859	1,236,036	1,166,507
Additions	23,017	13,674	75,423	112,114	84,576
Disposals	–	–	(8,900)	(8,900)	(15,047)
As at 31 December	**650,966**	**223,902**	**464,382**	**1,339,250**	1,236,036
Accumulated depreciation					
As at 1 January	279,123	146,240	282,948	708,311	601,433
Charge for the year	24,276	17,541	55,787	97,604	97,382
Impairment charge	–	–	–	–	24,427
Disposals	–	–	(7,900)	(7,900)	(14,931)
As at 31 December	**303,399**	**163,781**	**330,835**	**798,015**	708,311
Net book value					
As at 31 December 2006	**347,567**	**60,121**	**133,547**	**541,235**	
As at 31 December 2005	348,826	63,988	114,911		527,725

Land and buildings and leasehold improvements and equipment include work in progress as at 31 December 2006 amounting to SAR 55.8 million (2005 : SAR 35.0 million), SAR 10.8 million (2005 : SAR 18.6 million) and SAR 6.7 million (2005 SAR 5.0 million), respectively. Equipment, furniture and vehicles include information technology related assets.

Notes to the Financial Statements (31 December 2006) (continued)

9 Other assets

	2006	2005
	SAR'000	SAR'000
Accrued special commission receivable		
— banks and other financial institutions	**3,225**	3,474
— investments	**221,359**	180,766
— loans and advances	**469,432**	328,138
Total accrued special commission receivable	**694,016**	512,378
Accounts receivable	**128,306**	134,690
Other real estate	**13,449**	13,699
Positive fair value of derivatives (note 10)	**337,704**	179,898
Advance Tax	**153,422**	–
Other	**163,844**	76,745
Total	**1,490,741**	917,410

10 Derivatives

In the ordinary course of business, the Bank utilises the following derivative financial instruments for both trading and hedging purposes:

a *Forwards and futures*

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardised amounts on regulated exchanges, and changes in futures contract values are settled daily.

b *Options*

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a predetermined price.

c *Swaps*

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal, fixed and floating special commission payments are exchanged in different currencies.

d *Forward rate agreements*

Forward rate agreements are over-the-counter negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

Derivatives held for trading

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Derivatives held for hedging

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special

10 Derivatives *(continued)*

commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

As part of its asset and liability management process, the Bank uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against overall balance sheet exposures. Strategic hedging other than portfolio hedging does not qualify for hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity and the monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to market risk or credit risk, which is generally limited to the positive fair value of the derivatives.

2006 SAR'000	Positive fair value	Negative fair value	National amount total	Notional amounts by term to maturity Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Monthly average
Derivatives held for trading								
Special commission rate swaps	**124,500**	**(90,606)**	**14,058,291**	**219,571**	**539,380**	**10,334,320**	**2,965,020**	**11,766,417**
Special commission rate futures and options	**396**	**(396)**	**400,000**	**–**	**–**	**400,000**	**–**	**421,875**
Spot and forward foreign exchange contracts	**50,290**	**(41,181)**	**21,449,674**	**11,479,053**	**9,172,450**	**798,171**	**–**	**18,410,284**
Currency options	**1,046**	**(1,046)**	**407,136**	**263,899**	**128,430**	**14,807**	**–**	**469,406**
Currency swaps	**130,913**	**–**	**1,475,297**	**–**	**–**	**1,475,297**	**–**	**1,113,249**
Derivatives held as fair value hedges								
Special commission rate swaps	**23,848**	**(12,308)**	**3,106,820**	**540,705**	**1,374,947**	**799,514**	**391,654**	**2,098,738**
Currency swaps	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives held as cash flow hedges								
Special commission rate swaps	**6,711**	**(3,818)**	**727,500**	**–**	**100,000**	**477,500**	**150,000**	**627,500**
Total	**337,704**	**(149,355)**	**41,624,718**	**12,503,228**	**11,315,207**	**14,299,609**	**3,506,674**	

Notes to the Financial Statements (31 December 2006) (continued)

10 Derivatives *(continued)*

2005 SAR'000	Positive fair value	Negative fair value	National amount total	Notional amounts by term to maturity Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Monthly average
Derivatives held for trading								
Special commission rate swaps	101,537	(81,082)	9,817,008	–	140,000	4,063,813	5,613,195	6,630,599
Special commission rate futures and options	848	(848)	400,000	–	–	400,000	–	400,000
Spot and forward foreign exchange contracts	39,808	(90,040)	15,700,677	8,584,063	6,971,414	145,200	–	17,663,455
Currency options	3,251	(3,251)	479,392	316,742	162,650	–	–	469,664
Currency swaps	–	(314)	15,931	–	15,931	–	–	16,392
Derivatives held as fair value hedges								
Special commission rate swaps	30,062	(15,930)	1,912,476	100,000	–	1,662,810	149,666	2,229,219
Currency swaps	–	–	–	–	–	–	–	17,779
Derivatives held as cash flow hedges								
Special commission rate swaps	4,392	(8,510)	577,500	–	–	577,500	–	435,625
Total	179,898	(199,975)	28,902,984	9,000,805	7,289,995	6,849,323	5,762,861	

The tables below show a summary of the hedged items, the nature of the risk being hedged, the hedging instruments and their fair values.

2006 **SAR'000**	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Description of the hedged items						
Fixed commission rate investments	**451,417**	**446,497**	Fair value	Special commission rate swap	**6,749**	**(12,271)**
Fixed commission rate loans	**1,220,396**	**1,226,739**	Fair value	Special commission rate swap	**16,097**	**–**
Fixed commission rate deposits	**1,444,838**	**1,446,000**	Fair value	Special commission rate swap	**1,002**	**(37)**
Floating commission rate investments	**541,200**	**540,276**	Cash flow	Special commission rate swap	**1,776**	**(3,818)**
Floating commission rate debt securities in issue	**186,720**	**187,306**	Cash flow	Special commission rate swap	**4,935**	**–**

10 Derivatives *(continued)*

2005 SAR'000	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of the hedged items						
Fixed commission rate investments	172,693	149,666	Fair value	Special commission rate swap	–	(15,727)
Fixed commission rate loans	1,678,017	1,692,301	Fair value	Special commission rate swap	30,062	–
Fixed commission rate deposits	100,202	100,000	Fair value	Special commission rate swap	–	(203)
Floating commission rate investments	391,383	390,588	Cash flow	Special commission rate swap	–	(8,510)
Floating commission rate debt securities in issue	186,450	187,244	Cash flow	Special commission rate swap	4,392	–

Approximately 83% (2005: 82%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 59% (2005: 52%) of the total of the positive fair value contracts are with any single counterparty at the balance sheet date.

11 Due to banks and other financial institutions

	2006 **SAR'000**	2005 SAR'000
Current accounts	**965,132**	477,292
Money market deposits	**1,206,703**	3,572,333
Total	**2,171,835**	4,049,625

Money market deposits include deposits against sales of securities of SAR nil (2005: SAR 181.8 million) with agreements to repurchase the same at fixed future dates. Furthermore, money market deposits also include deposits placed by SAMA of SAR 510.0 million (2005: SAR 950.0 million).

12 Customers' deposits

	2006 **SAR'000**	2005 SAR'000
Demand	**20,797,507**	18,506,748
Savings	**2,362,130**	1,836,471
Time	**35,568,576**	27,628,108
Other	**529,429**	562,748
Total	**59,257,642**	48,534,075

Time deposits include SAR19,871.4 million (2005: SAR 6,011.2 million) deposits taken under Non-interest bearing product contracts.

Notes to the Financial Statements (31 December 2006) (continued)

12 Customers' deposits *(continued)*

Time deposits include deposits against sales of securities of SAR 4.0 million (2005: SAR 4.0 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 526.4 million (2005: SAR 559.7 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2006	2005
	SAR'000	SAR'000
Demand	**1,141,293**	1,467,818
Savings	**124,826**	127,971
Time	**12,294,164**	7,746,185
Other	**254,138**	184,548
Total	**13,814,421**	9,526,522

13 Debt securities in issue

During the year, the Bank issued EUR 325 million 5-year floating rate notes (the notes) under its Euro Medium Term Note programme. The notes carry an interest rate of Euribor plus 30.0 basis points. The notes are non convertible, are unsecured, and are listed on the Luxembourg Stock Exchange.

14 Borrowings

This represents a 12-year floating rate loan. The loan carries special commission rate of Libor plus 65 basis points.

15 Other liabilities

	2006	2005
	SAR'000	SAR'000
Accrued special commission payable		
— banks and other financial institutions	**43,778**	51,036
— customers' deposits	**259,370**	249,173
— debt securities in issue	**22,127**	14,496
— borrowings	**920**	452
Total accrued special commission payable	**326,195**	315,157
Accounts payable	**615,688**	921,190
Negative fair value of derivatives (note 10)	**149,355**	199,975
Subscriptions received on IPO	–	300,394
Other	**1,223,370**	1,679,926
Total	**2,314,608**	3,416,642

16 Share capital

The shareholders of the Bank approved a bonus issue of one share for every two shares held during their Extraordinary General Meeting held on 21 March 2006. As a result of the bonus issue, 25 million shares of SAR 50 each were issued by capitalising retained earnings.

The authorised, issued and fully paid share capital of the Bank consists of 375 million shares of SAR 10 each (2005: 50 million shares of SAR 50 each). The ownership of the Bank's share capital is as follows:

	2006	2005
Saudi shareholders	**60%**	60%
HSBC Holdings BV	**40%**	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

17 Statutory reserve

In accordance with the Banking Control Law of The Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 1,250 million (2005: SAR 91.0 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18 Commitments and contingencies

a *Legal proceedings*

As at 31 December 2006 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b *Capital commitments*

The Bank has capital commitments of SAR 51.5 million (2005: SAR 56.5 million) in respect of buildings and equipment purchases. In addition, the Bank has made a commitment to ensure subscription of SAR nil (2005: SAR 52.5 million) capital to joint ventures.

c *Credit-related commitments and contingencies*

Credit-related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The cash requirement under these instruments is considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfil their primary obligation.

Commitments to extend credit represent the unutilised portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unutilised commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unutilised commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or be terminated without being funded.

Notes to the Financial Statements (31 December 2006) (continued)

18 Commitments and contingencies *(continued)*

d *The maturity structure for the Bank's credit-related commitments and contingencies is as follows:*

2006	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Letters of credit	**3,739,014**	**1,414,655**	**131,261**	**–**	**5,284,930**
Guarantees	**3,545,045**	**3,864,235**	**2,358,328**	**44,572**	**9,812,180**
Acceptances	**1,466,276**	**824,635**	**18,043**	**–**	**2,308,954**
Irrevocable commitments to extend credit	**150,040**	**783,648**	**760,172**	**–**	**1,693,860**
Total	**8,900,375**	**6,887,173**	**3,267,804**	**44,572**	**19,099,924**
2005					
Letters of credit	3,512,098	698,601	172,792	–	4,383,491
Guarantees	2,543,294	3,294,839	1,984,707	43,574	7,866,414
Acceptances	1,446,362	440,091	6,785	–	1,893,238
Irrevocable commitments to extend credit	149,432	–	1,544,667	–	1,694,099
Total	7,651,186	4,433,531	3,708,951	43,574	15,837,242

The unutilised portion of non-firm commitments, which can be revoked at any time, is SAR 27,940.1 million (2005: SAR 21,581.2 million).

e *The analysis of commitments and contingencies by Counterparty is as follows:*

	2006	2005
	SAR'000	SAR'000
Government and quasi Government	**346,260**	771,119
Corporate	**15,731,020**	12,595,000
Banks and other financial institutions	**2,759,774**	2,179,090
Other	**262,870**	292,033
Total	**19,099,924**	15,837,242

f *Operating lease commitments*

The future minimum lease payments under non-cancellable leases where the Bank is the lessee are as follows:

	2006	2005
	SAR'000	SAR'000
Less than 1 year	**29,345**	27,585
1 to 5 years	**145,635**	67,218
Over 5 years	**66,740**	56,563
Total	**241,720**	151,366

19 Net special commission income

	2006	2005
	SAR'000	SAR'000
Special commission income		
Investments — available for sale investments	**395,351**	267,949
— held at amortised cost	**357,995**	373,368
— held to maturity investments	**29,645**	36,087
	782,991	677,404
Due from banks and other financial institutions	**556,308**	185,181
Loans and advances	**3,097,422**	2,307,871
Total	**4,436,721**	3,170,456
Special commission expense		
Due to banks and other financial institutions	**115,094**	158,467
Customers' deposits	**1,563,082**	960,078
Debt securities in issue	**164,440**	73,220
Borrowing	**10,283**	5,096
Total	**1,852,899**	1,196,861
Net special commission income	**2,583,822**	1,973,595

20 Fees from banking services, net

	2006	2005
	SAR'000	SAR'000
Fees income:		
Share trading and fund management	**1,223,018**	1,179,928
Trade finance	**167,672**	134,847
Corporate finance and advisory	**79,831**	77,202
Other banking services	**233,233**	196,835
Total fees income	**1,703,754**	1,588,812
Fees expense:		
Cards	**(17,478)**	(4,257)
Custodial services	**(712)**	(645)
Other banking services	**(35,081)**	(52,361)
Total fees expense	**(53,271)**	(57,263)
Fees from banking services, net	**1,650,483**	1,531,549

21 Income from FVIS Financial Instruments, net

	2006	2005
	SAR'000	SAR'000
Changes in fair value of financial instruments held as FVIS	**7,663**	(12,368)
Special commission income on FVIS financial instruments	**125,654**	71,447
	133,317	59,079

Notes to the Financial Statements (31 December 2006) (continued)

22 Trading income, net

	2006	2005
	SAR'000	SAR'000
Debt instruments	**3,409**	857
Derivatives	**9,867**	34,749
Others	**3,392**	(654)
Total	**16,668**	34,952

23 Dividend income

	2006	2005
	SAR'000	SAR'000
Available for sale investments	**5,042**	5,583

24 Gains on non-trading investments, net

	2006	2005
	SAR'000	SAR'000
Available for sale investments	**64,721**	36,256

25 Other operating income

	2006	2005
	SAR'000	SAR'000
Other	**2,093**	1,045

26 Other operating expenses

	2006	2005
	SAR'000	SAR'000
Losses/(gains) on disposal of property and equipment	**268**	(17)
Others	**1,745**	621
Total	**2,013**	604

27 Basic and fully diluted earnings per share

In accordance with the Capital Market Authority's announcement dated 27 March 2006, the shares of the Bank were split into five shares for every one share effective 8 April 2006. Accordingly, the number of shares of the Bank has now increased from 75 million ordinary shares of SAR 50 each to 375 million ordinary shares of SAR 10 each. The calculation of earnings per share has been adjusted retrospectively as required by International Accounting Standard 33 - Earnings per Share.

Basic earnings per share for the year ended 31 December 2006 and 2005 is calculated by dividing the net income for the period attributable to the equity holders by 375 million shares.

Diluted earnings per share is the same as basic earnings per share as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

28 Gross dividend, zakat and income tax

The proposed gross dividend for the year is SAR 1,500 million (2005: SAR 813.0 million). The proposed gross dividend includes an interim dividend of SAR 609.4 million (2005: SAR 526.0 million). Dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Zakat

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 56.2 million (2005: SAR 37.9 million), and is deducted from their share of the dividend. The net total dividend for the year to the Saudi shareholders is 843.8 million (2005: SAR 450.0 million) representing SAR 3.75 per share (2005: SAR 2.0 per share) of which SAR 1.50 (2005 : SAR 1.3) was paid on an interim basis.

Income tax

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 276.5 million (2005: SAR 199.2 million), and is deducted from its share of the dividend. The net total dividend for the year to the foreign shareholder is SAR 323.5 million (2005: SAR 126.0 million) representing SAR 2.16 per share (2005: SAR 0.84 per share) of which SAR 0.56 per share (2005: SAR 0.76 per share) was paid on an interim basis.

29 Cash and cash equivalents

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

	2006	2005
	SAR'000	SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	**5,445,603**	1,153,801
Due from banks and other financial institutions with original maturity of ninety days of acquisition (note 35)	**3,137,510**	4,234,290
Total	**8,583,113**	5,388,091

30 Business segments

The Bank's primary segment reporting format is determined to be business segment. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are distinct from those of other business segments.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Special commission charged for these funds is based on inter-bank rates.

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.

Notes to the Financial Statements (31 December 2006) (continued)

30 Business segments *(continued)*

Treasury

Which manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and 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 December 2006 and 2005, its total operating income and expenses, and the results for the years then ended, by business segment, are as follows:

2006	**Retail Banking**	**Corporate Banking**	**Treasury**	**Total**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Total assets	**17,360,371**	**26,998,786**	**32,830,221**	**77,189,378**
Total liabilities	**29,327,331**	**27,912,528**	**10,544,920**	**67,784,779**
Total operating income	**2,846,480**	**1,391,060**	**431,359**	**4,668,899**
Total operating expenses	**1,348,315**	**225,302**	**55,002**	**1,628,619**
Net income	**1,498,165**	**1,165,758**	**376,357**	**3,040,280**
2005				
Total assets	18,910,463	23,118,768	23,898,696	65,927,927
Total liabilities	25,274,678	13,340,302	19,819,795	58,434,775
Total operating income	2,548,846	889,120	382,435	3,820,401
Total operating expenses	1,044,253	225,501	46,332	1,316,086
Net income	1,504,593	663,619	336,103	2,504,315

b *The Bank's credit exposure by business segment is as follows:*

2006	**Retail Banking**	**Corporate Banking**	**Treasury**	**Total**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Balance sheet assets	**15,923,095**	**26,599,357**	**31,877,444**	**74,399,896**
Commitments and contingencies	**114,600**	**6,690,354**	**–**	**6,804,954**
Derivatives	**–**	**–**	**1,530,379**	**1,530,379**
Total	**16,037,695**	**33,289,711**	**33,407,823**	**82,735,229**
2005				
Balance sheet assets	17,574,893	22,827,780	23,522,620	63,925,293
Commitments and contingencies	126,603	5,448,723	385,560	5,960,886
Derivatives	–	–	1,114,823	1,114,823
Total	17,701,496	28,276,503	25,023,003	71,001,002

Credit exposure comprises the carrying value of balance sheet assets excluding cash, property and equipment and other assets, and the credit equivalent value for commitments, contingencies and derivatives.

31 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation causing financial loss. The Bank controls credit risk by monitoring credit exposures, limiting the transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition, the Bank manages the credit exposure relating to its derivative activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Bank manages its concentration of credit risk exposure through the diversification of its lending portfolio in terms of country, industry sector, and single borrower exposures. The Bank also takes security when appropriate.

The Credit and Risk function is mandated to provide centralised management of credit risk. Credit and Risk is headed by a General Manager, and its responsibilities include the following:

- Establishment of credit policies and procedures that are embodied within standards, the compliance of which is monitored by Credit and Risk.
- Establishment and maintenance of a large credit exposures policy, which sets controls on the level of exposure to customers, customer groups, and other risk concentrations.
- An independent review and objective assessment of all credit facilities over designated limits.
- Maintenance of the Facility Grading Process and introduction of Customer Risk Ratings. Historically the Bank’s Facility Grading Structure in respect of the credit risk of customers has contained seven grades, of which the first three are applied to different levels of satisfactory risk, and the last two relate to non-performing loans and advances. In compliance with Basel 2 legislation being introduced by SAMA, the Bank has established a ten-grade Customer Risk Rating system that, in due course, will move to 22 grades in order to achieve the granularity required by the new legislation. Customer Risk Ratings from 1.1 to 5.3 range from extremely strong to acceptable and Customer Risk Ratings from 6.1 to 10.0 range from marginally acceptable to loss. In respect of bank counterparties, the grading structure has ten tiers, of which the first six cover satisfactory risk. Facility grades are subject to frequent review and, where considered necessary, amendments are required to be undertaken promptly.
- Reporting on aspects of the loan portfolio. Reports are produced for senior management, including the Executive Committee, the Audit Committee, and the Board of Directors.

The debt instruments included in the investment portfolio are mainly sovereign risk. An analysis of investments by counterparty is provided in note 5.

The composition of loans and advances is provided in note 6. Information on credit risk relating to derivative instruments is set out in note 10 and for commitments and contingencies is included in note 18.

32 Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure

The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies, and credit exposure, is as follows:

Notes to the Financial Statements (31 December 2006) (continued)

32 Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure *(continued)*

2006	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
ASSETS						
Cash and balances with SAMA	**7,795,020**	–	–	–	–	**7,795,020**
Due from banks and other financial institutions	**178,957**	**14,042**	**585,661**	**2,342,032**	**16,818**	**3,137,510**
Investments, net	**16,459,968**	**700,823**	**2,787,004**	**1,473,131**	**281,494**	**21,702,420**
Loans and advances, net	**42,335,329**	–	**114,914**	–	–	**42,450,243**
Investment in an associate	**72,209**	–	–	–	–	**72,209**
Total	**66,841,483**	**714,865**	**3,487,579**	**3,815,163**	**298,312**	**75,157,402**
LIABILITIES						
Due to banks and other financial institutions	**1,085,058**	**202,732**	**160,132**	**720,035**	**3,878**	**2,171,835**
Customer deposits	**58,976,858**	**23,873**	**16,501**	–	**240,410**	**59,257,642**
Debt securities in issue	–	–	**3,853,194**	–	–	**3,853,194**
Borrowings	–	–	**187,500**	–	–	**187,500**
Total	**60,061,916**	**226,605**	**4,217,327**	**720,035**	**244,288**	**65,470,171**
Commitments and contingencies	**17,990,187**	**257,425**	**335,115**	**46,149**	**471,048**	**19,099,924**
CREDIT EXPOSURE (stated at credit equivalent amounts)						
Balance sheet assets	**66,083,977**	**714,865**	**3,487,579**	**3,815,163**	**298,312**	**74,399,896**
Commitments and contingencies	**6,374,974**	**77,660**	**158,386**	**21,289**	**172,645**	**6,804,954**
Derivatives	**601,955**	**13,988**	**695,616**	**186,886**	**31,934**	**1,530,379**
Total credit exposure	**73,060,906**	**806,513**	**4,341,581**	**4,023,338**	**502,891**	**82,735,229**

2005	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
ASSETS						
Cash and balances with SAMA	3,029,348	–	–	–	–	3,029,348
Due from banks and other financial institutions	625,000	459,832	3,086,541	40,294	22,623	4,234,290
Investments, net	11,867,432	469,886	2,204,061	1,551,633	279,550	16,372,562
Loans and advances, net	40,612,742	97,232	136,618	–	–	40,846,592
Total	56,134,522	1,026,950	5,427,220	1,591,927	302,173	64,482,792
LIABILITIES						
Due to banks and other financial institutions	2,919,282	343,178	571,785	204,390	10,990	4,049,625
Customer deposits	48,517,632	16,175	–	3	265	48,534,075
Debt securities in issue	–	–	2,246,933	–	–	2,246,933
Borrowings	–	–	187,500	–	–	187,500
Total	51,436,914	359,353	3,006,218	204,393	11,255	55,018,133
Commitments and contingencies	15,118,548	204,388	175,349	30,986	307,971	15,837,242
CREDIT EXPOSURE (stated at credit equivalent amounts)						
Balance sheet assets	55,577,023	1,026,950	5,427,220	1,591,927	302,173	63,925,293
Commitments and contingencies	5,694,894	65,106	85,348	15,493	100,045	5,960,886
Derivatives	528,681	900	198,841	349,195	37,206	1,114,823
Total credit exposure	61,800,598	1,092,956	5,711,409	1,956,615	439,424	71,001,002

All non-performing loans and advances relate to customers in The Kingdom of Saudi Arabia.

33 Currency risk

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency, and in total for both overnight and intra-day positions, which are monitored daily. The Bank had the following significant net exposures denominated in foreign currencies:

	2006	2005
	Long (short)	Long (short)
	SAR'000	SAR'000
US Dollar	**(681,345)**	(1,153,185)
Euro	**(600)**	(1,211)
Sterling Pounds	**176**	(2,738)
Other	**8,419**	17,501

34 Special commission rate risk

Special commission sensitivity of assets, liabilities and off balance sheet items

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or the maturity dates. The Bank is exposed to special commission rate risks as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that reprice or mature in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

2006	**Within 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Non special commission bearing**	**Total**	**Effective rate**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**%**
ASSETS							
Cash and balances with SAMA	**4,688,097**	–	–	–	**3,106,923**	**7,795,020**	**4.4**
Due from banks and other financial institutions	**2,529,357**	–	–	–	**608,153**	**3,137,510**	**5.2**
Investments, net	**7,107,112**	**7,124,491**	**4,972,441**	**2,093,948**	**404,428**	**21,702,420**	**5.4**
Loans and advances, net	**20,376,281**	**7,203,116**	**14,602,575**	–	**268,271**	**42,450,243**	**5.2**
Investment in an associate	–	–	–	–	**72,209**	**72,209**	–
Property and equipment, net	–	–	–	–	**541,235**	**541,235**	–
Other assets	–	–	–	–	**1,490,741**	**1,490,741**	–
Total assets	**34,700,847**	**14,327,607**	**19,575,016**	**2,093,948**	**6,491,960**	**77,189,378**	
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to banks and other financial institutions	**732,595**	–	**607,500**	–	**831,740**	**2,171,835**	**5.2**
Customer deposits	**32,593,723**	**5,130,735**	**206,248**	–	**21,326,936**	**59,257,642**	**2.4**
Debt Securities in issue	**3,853,194**	–	–	–	–	**3,853,194**	**5.0**
Borrowings	–	–	–	**187,500**	–	**187,500**	**5.1**
Other liabilities	–	–	–	–	**2,314,608**	**2,314,608**	–
Shareholders' equity	–	–	–	–	**9,404,599**	**9,404,599**	–
Total liabilities and shareholders' equity	**37,179,512**	**5,130,735**	**813,748**	**187,500**	**33,877,883**	**77,189,378**	
On balance sheet gap	**(2,478,665)**	**9,196,872**	**18,761,268**	**1,906,448**	**(27,385,923)**	–	
Off balance sheet gap	**2,575,403**	**(1,213,055)**	**(1,064,194)**	**(298,154)**	–	–	
Total special commission rate sensitivity gap	**96,738**	**7,983,817**	**17,697,074**	**1,608,294**	**(27,385,923)**	–	
Cumulative special commission rate sensitivity gap	**96,738**	**8,080,555**	**25,777,629**	**27,385,923**	–	–	

Notes to the Financial Statements (31 December 2006) (continued)

34 Special commission rate risk *(continued)*

2005	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non special commission bearing	Total	Effective rate
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	%
ASSETS							
Cash and balances with SAMA	25,997	–	–	–	3,003,351	3,029,348	4.3
Due from banks and other financial institutions	3,831,698	–	–	–	402,592	4,234,290	4.0
Investments, net	6,073,224	2,593,356	4,725,437	2,541,472	439,073	16,372,562	5.0
Loans and advances, net	20,983,445	5,932,944	13,930,203	–	–	40,846,592	4.6
Property and equipment, net	–	–	–	–	527,725	527,725	–
Other assets	–	–	–	–	917,410	917,410	–
Total assets	30,914,364	8,526,300	18,655,640	2,541,472	5,290,151	65,927,927	
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to banks and other financial institutions	2,485,734	1,086,599	–	–	477,292	4,049,625	4.6
Customer deposits	23,255,777	5,705,982	130,934	–	19,441,382	48,534,075	1.5
Debt Securities in issue	2,246,933	–	–	–	–	2,246,933	4.9
Borrowings	–	–	187,500	–	–	187,500	5.1
Other liabilities	–	–	–	–	3,416,642	3,416,642	–
Shareholders' equity	–	–	–	–	7,493,152	7,493,152	–
Total liabilities and shareholders' equity	27,988,444	6,792,581	318,434	–	30,828,468	65,927,927	
On balance sheet gap	2,925,920	1,733,719	18,337,206	2,541,472	(25,538,317)	–	
Off balance sheet gap	1,724,976	(145,000)	(3,230,310)	1,650,334	–	–	
Total special commission rate sensitivity gap	4,650,896	1,588,719	15,106,896	4,191,806	(25,538,317)	–	
Cumulative special commission rate sensitivity gap	4,650,896	6,239,615	21,346,511	25,538,317	–	–	

The off balance sheet gap represents the net notional amounts of off balance sheet financial instruments, which are used to manage the special commission rate risk.

35 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. The Bank monitors and manages the liquidity structure of its assets and liabilities to ensure that cash flows are sufficiently balanced and that sufficient liquid funds are maintained to meet liquidity requirements.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 2% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds, or assets, which can be converted into cash within a period not exceeding thirty days.

The Bank may also raise additional funds through repo facilities available with SAMA against its holdings of Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The tables below summarise the maturity profile of the Bank's assets, liabilities and shareholders' equity. The contractual maturities have been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

35 Liquidity risk *(continued)*

The maturity profile of the assets, liabilities and shareholders' equity is as follows:

2006	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	No fixed maturity	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
ASSETS						
Cash and balances with SAMA	**5,445,603**	**–**	**–**	**–**	**2,349,417**	**7,795,020**
Due from banks and other financial institutions	**3,137,510**	**–**	**–**	**–**	**–**	**3,137,510**
Investments, net	**1,430,265**	**9,175,010**	**7,715,710**	**3,170,603**	**210,832**	**21,702,420**
Loans and advances, net	**18,510,868**	**8,512,155**	**14,462,172**	**965,048**	**–**	**42,450,243**
Investment in an associate	**–**	**–**	**–**	**–**	**72,209**	**72,209**
Property and equipment, net	**–**	**–**	**–**	**–**	**541,235**	**541,235**
Other assets	**–**	**–**	**–**	**–**	**1,490,741**	**1,490,741**
Total assets	**28,524,246**	**17,687,165**	**22,177,882**	**4,135,651**	**4,664,434**	**77,189,378**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to banks and other financial institutions	**1,747,735**	**424,100**	**–**	**–**	**–**	**2,171,835**
Customer deposits	**53,482,406**	**5,481,172**	**294,064**	**–**	**–**	**59,257,642**
Debt securities in issue	**–**	**–**	**3,853,194**	**–**	**–**	**3,853,194**
Borrowings	**–**	**–**	**–**	**187,500**	**–**	**187,500**
Other liabilities	**–**	**–**	**–**	**–**	**2,314,608**	**2,314,608**
Shareholders' equity	**–**	**–**	**–**	**–**	**9,404,599**	**9,404,599**
Total liabilities and shareholders' equity	**55,230,141**	**5,905,272**	**4,147,258**	**187,500**	**11,719,207**	**77,189,378**

2005	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	No fixed maturity	Total
ASSETS						
Cash and balances with SAMA	1,153,801	–	–	–	1,875,547	3,029,348
Due from banks and other financial institutions	4,234,290	–	–	–	–	4,234,290
Investments, net	81,648	1,537,206	11,165,254	3,167,773	420,681	16,372,562
Loans and advances, net	19,429,945	6,895,611	14,521,036	–	–	40,846,592
Property and equipment, net	–	–	–	–	527,725	527,725
Other assets	–	–	–	–	917,410	917,410
Total assets	24,899,684	8,432,817	25,686,290	3,167,773	3,741,363	65,927,927
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to banks and other financial institutions	2,896,026	1,153,599	–	–	–	4,049,625
Customer deposits	42,376,807	5,956,637	200,631	–	–	48,534,075
Debt securities in issue	–	–	2,246,933	–	–	2,246,933
Borrowings	–	–	–	187,500	–	187,500
Other liabilities	–	–	–	–	3,416,642	3,416,642
Shareholders' equity	–	–	–	–	7,493,152	7,493,152
Total liabilities and shareholders' equity	45,272,833	7,110,236	2,447,564	187,500	10,909,794	65,927,927

Notes to the Financial Statements (31 December 2006) (continued)

36 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of on balance sheet financial instruments, except for held at amortised cost, held to maturity investments, loans and advances and customer deposits, are not significantly different from the carrying values included in the financial statements. The estimated fair values of the held at amortised cost and held to maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair value of these investments is disclosed in note 5. It is not practical to determine the fair value of loans and advances and customer deposits with sufficient reliability.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation models.

37 Related party transactions

Managerial and specialised expertise is provided under a technical services agreement with the parent company of one of the shareholders, HSBC Holdings BV. This agreement was renewed on 30 September 2002 for a period of five years.

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related-party transactions are performed on an arm's length basis. The related-party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

The year-end balances included in the financial statements resulting from such transactions are as follows:

	2006	2005
	SAR'000	SAR'000
The HSBC Group		
Due from banks and other financial institutions	**2,433,918**	368,005
Investments	**622,635**	230,891
Other assets	**22,076**	–
Derivatives (at fair value)	**179,021**	(34,720)
Due to banks and other financial institutions	**986,599**	517,004
Other liabilities	**7,656**	183,447
Commitments and contingencies	**618,917**	325,824

Above investments include investment in an associate, HSBC Saudi Arabia Limited amounting to SAR 72.2 million (2005: nil).

Directors, audit committee, major shareholders and their affiliates:		
Loans and advances	**1,345,568**	1,197,107
Customers' deposits	**3,474,176**	4,322,016
Derivatives (at fair value)	**2,247**	(128)
Commitments and contingencies	**195,675**	268,579

Shareholders who hold more than 5% of the Bank's share capital are classified as major shareholders.

Bank's mutual funds:		
Investments	**45,826**	192,185
Loans and advances	**10,701**	73,360
Customers' deposits	**1,316,218**	1,661,054

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

37 Related-party transactions *(continued)*

Income and expense pertaining to transactions with related parties included in the financial statements are as follows:

	2006	2005
	SAR'000	SAR'000
Special commission income	**52,658**	74,918
Special commission expense	**(263,235)**	(221,689)
Fees from banking services	**6,849**	10,304
Profit share arrangement relating to investment banking activities	**(37,562)**	(168,264)
Share in earnings of an associate	**52,209**	–
Directors' remuneration	**1,584**	1,559

The total amount of compensation paid to key management personnel during the year is as follows:

Short-term employee benefits (Salaries and allowances)	**29,182**	41,363
Post-employment benefits (End of service indemnity and social security)	**6,460**	1,728

Key management personnel are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

The Bank offers share-based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2006. The details of these schemes have not been separately disclosed in these financial statements as they do not have a significant effect on the results and financial position of the Bank.

38 Capital adequacy

The Bank monitors the adequacy of its capital using the methodology and ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

	2006		2005	
	Capital	**Ratio**	Capital	Ratio
	SAR'000	**%**	SAR'000	%
Tier 1	**9,404,599**	**17.9**	7,493,152	15.3
Tier 1 + Tier 2	**9,552,271**	**18.2**	7,638,844	15.6

	Risk Weighted Assets					
	2006			2005		
	Carrying value / national amount	**Credit equivalent**	**Risk Weighted assets**	Carrying value / national amount	Credit equivalent	Risk Weighted assets
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Balance sheet assets						
0%	**24,182,796**		**–**	14,825,737		–
20%	**8,247,202**		**1,649,441**	9,272,784		1,854,557
100%	**44,759,380**		**44,753,704**	41,829,406		41,823,730
Total	**77,189,378**		**46,403,145**	65,927,927		43,678,287
Commitments and contingencies						
0%	**1,571,348**	**211,916**	**–**	918,235	294,455	–
20%	**2,816,319**	**1,273,349**	**254,670**	2,038,654	910,923	182,185
100%	**14,712,257**	**5,319,688**	**5,319,688**	12,880,353	4,755,508	4,755,508
Total	**19,099,924**	**6,804,953**	**5,574,358**	15,837,242	5,960,886	4,937,693

Notes to the Financial Statements (31 December 2006) (continued)

38 Capital adequacy *(continued)*

	2006			2005		
	Carrying value / national amount	**Credit equivalent**	**Risk Weighted assets**	Carrying value / national amount	Credit equivalent	Risk Weighted assets
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Derivatives						
0%	**2,713,832**	**–**	**–**	2,792,925	–	–
20%	**29,015,979**	**940,385**	**188,077**	18,591,795	731,481	146,296
50%	**9,796,292**	**466,064**	**233,032**	7,518,264	383,342	191,671
Total	**41,526,103**	**1,406,449**	**421,109**	28,902,984	1,114,823	337,967
Total risk weighted assets			**52,398,612**			48,953,947

39 Investment management services

The Bank offers investment services to its customers, which include the management of certain investment funds, in consultation with professional investment advisors. The financial statements of these funds are not consolidated with the financial statements of the Bank. However, the Bank's holdings in such funds are included in available for sale investments, and fees earned are disclosed under related-party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in these financial statements.

40 Prospective changes in accounting standards

Certain new IFRS and IAS have been published in their final form and are mandatory for compliance for the Bank's accounting year beginning January 1, 2007, which the Bank has opted not to adopt earlier. These include:

Amendments to IAS 1 – Capital Disclosures

Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the Bank's objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the Bank's financial position and performance and information about exposure to risks arising from financial instruments.

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Bank discloses information about its operating segments.

IFRIC Interpretations

During 2006 IFRIC issued the following interpretations:

- IFRIC Interpretation 8 Scope of IFRS 2
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC Interpretation 11 of IFRS 2 – Group and Treasury Share Transactions

Management do not expect these interpretations to have a significant impact on the Bank's financial statements when implemented in 2007.

41 Comparative figures

Certain prior-year figures have been reclassified to conform with the current year's presentation.

42 Board of Directors' approval

The financial statements were approved by the Board of Directors on 3 Muharram 1428H (corresponding 22 January 2007).

Address & Contact Numbers

The Saudi British Bank (SABB)
SAUDI ARABIA
Head Office
Prince Abdulaziz Bin
Mossaad Bin Jalawi Street (Dabaab)
P.O. Box 9084, Riyadh 11431
Telephone: +966 1 405 0677
Facsimile: +966 1 405 0660
Telegram: SABRIT RIYADH

TREASURY
Telephone: +966 1 405 0020
Facsimile: +966 1 405 8652

CUSTOMER SERVICE CENTER
Toll Free Number: 800 124 8888
Website: www.sabb.com

Area Management Offices:
CENTRAL PROVINCE
Riyadh
Prince Abdulaziz Bin
Mossaad Bin Jalawi Street (Dabaab)
P.O. Box 9084, Riyadh 11431
Telephone: +966 1 405 0677
Facsimile: +966 1 405 8418

WESTERN PROVINCE
Jeddah
Ali Bin Abi Talib Street
Sharafiah
P.O. Box 109, Jeddah 21411
Telephone: +966 2 651 2121
Facsimile: +966 2 653 2816

EASTERN PROVINCE
Al-Khobar
King Abdulaziz Boulevard
P.O. Box 394, Al-Khobar 31952
Telephone: +966 3 882 6000
Facsimile: +966 3 882 1669

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Al-Nasher Al-Arabi Printing Press
P.O. Box 65793, Riyadh 11566,
Kingdom of Saudi Arabia
Admin & Sales
Tel: +966 (1) 416 0650
Fax: +966 (1) 416 1017
E-mail: nasher33@hotmail.com