BALANCE SHEET
As at December 31, 2006 and 2005

SAR' 000	Notes	2006	2005
ASSETS			
Cash and balances with SAMA	3	3,398,836	2,317,293
Due from banks and other financial institutions	4	6,223,277	2,277,131
Investments, net	5	16,012,954	18,127,849
Loans and advances, net	6	51,130,195	42,978,702
Property and equipment, net	7	552,382	475,877
Other assets	8	2,263,366	1,324,528
Total assets		79,581,010	67,501,380
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	3,456,313	4,946,403
Customer deposits	11	61,998,107	51,093,385
Other liabilities	12	2,284,309	1,839,192
Term loan	13	2,437,500	2,437,500
Total liabilities		70,176,229	60,316,480
Shareholders' equity			
Share capital	14	3,375,000	2,250,000
Statutory reserve	15	3,375,000	2,250,000
General reserve	15	2,500,000	2,500,000
Other reserves		(85,159)	(102,428)
Retained earnings		37,997	31,725
Proposed dividend	25	201,943	255,603
Total shareholders' equity		9,404,781	7,184,900
Total liabilities and shareholders' equity		79,581,010	67,501,380

The accompanying notes 1 to 39 form an integral part of these financial statements

STATEMENT OF INCOME
For the years ended December 31, 2006 and 2005

SAR' 000	Notes	2006	2005
Special commission income	17	4,257,134	3,011,649
Special commission expense	17	2,240,267	1,305,881
Net special commission income		2,016,867	1,705,768
Fees from banking services, net	18	1,571,961	1,110,375
Exchange income, net		144,345	143,360
Trading income, net	19	189,332	109,820
Dividend income	20	1,641	1,552
Gains on non trading investments, net	21	9,375	12,936
Other operating income	22	5,311	9,819
Total operating income		3,938,832	3,093,630
Salaries and employee related expenses		462,923	394,900
Rent and premises related expenses		68,980	58,958
Depreciation and amortization	7	68,138	60,854
Other general and administrative expenses		236,388	221,605
Provision for credit losses, net	6	90,484	134,858
Other operating expenses	23	4,971	6,854
Total operating expenses		931,884	878,029
Net income		3,006,948	2,215,601
Basic and diluted earnings per share (in SAR)	24	8.91	6.56

The accompanying notes 1 to 39 form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2006 and 2005

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2006								
Balance at the beginning of the year		2,250,000	2,250,000	2,500,000	(102,428)	31,725	255,603	7,184,900
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	84,328	-	-	84,328
Net changes in fair value of available for sale investments		-	-	-	(83,506)	-	-	(83,506)
Transfers to statement of income		-	-	-	16,447	-	-	16,447
Net income recognized directly in equity		-	-	-	17,269	-	-	17,269
Net income for the year		-	-	-	-	3,006,948	-	3,006,948
Total recognized income & expense for the year		-	-	-	17,269	3,006,948	-	3,024,217
Issue of bonus shares	14	1,125,000	-	(1,125,000)	-	-	-	-
Transfer to statutory reserve	15	-	1,125,000	(1,125,000)	-	-	-	-
Transfer to general reserve	15	-	-	2,250,000	-	(2,250,000)	-	-
2005 Final dividend paid		-	-	-	-	-	(255,603)	(255,603)
2006 Interim dividend paid	25	-	-	-	-	(548,733)	-	(548,733)
Proposed gross final dividend	25	-	-	-	-	(201,943)	201,943	-
Balance at the end of the year		3,375,000	3,375,000	2,500,000	(85,159)	37,997	201,943	9,404,781

The accompanying notes 1 to 39 form an integral part of these financial statements

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2005								
Balance at the beginning of the year		2,250,000	2,250,000	955,000	55,519	1,765	559,274	6,071,558
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	(95,174)	-	-	(95,174)
Net changes in fair value of available for sale investments		-	-	-	(1,713)	-	-	(1,713)
Transfers to statement of income		-	-	-	(61,060)	-	-	(61,060)
Net income recognized directly in equity		-	-	-	(157,947)	-	-	(157,947)
Net income for the year		-	-	-	-	2,215,601	-	2,215,601
Total recognized income & expense for the year		-	-	-	(157,947)	2,215,601	-	2,057,654
Transfer to general reserve	15	-	-	1,545,000	-	(1,545,000)	-	-
2004 Final dividend paid		-	-	-	-	-	(559,274)	(559,274)
2005 Interim dividend paid	25	-	-	-	-	(385,038)	-	(385,038)
Proposed gross final dividend	25	-	-	-	-	(255,603)	255,603	-
Balance at the end of the year		2,250,000	2,250,000	2,500,000	(102,428)	31,725	255,603	7,184,900

The accompanying notes 1 to 39 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the years ended December 31, 2006 and 2005

SAR' 000	Notes	2006	2005
OPERATING ACTIVITIES			
Net income		3,006,948	2,215,601
Adjustments to reconcile net income to net cash (used in) from operating activities:			
Amortization of premiums and (accretion of discounts) on non trading investments, net		11,129	24,564
Gains on non trading investments, net		(9,375)	(12,936)
Depreciation and amortization		68,138	60,854
(Gain) losses on disposal of property and equipment, net		(1)	50
Provision for credit losses, net		90,484	134,858
Change in fair value of financial instruments		16,103	(21,739)
		3,183,426	2,401,252
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(100,452)	(206,706)
Due from banks and other financial institutions maturing after 90 days		(150,000)	-
Investments held as FVIS, trading		94,437	149,125
Loans and advances		(8,202,360)	(8,672,150)
Other assets		(644,518)	(219,138)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,494,732)	775,968
Customer deposits		10,668,927	3,310,912
Other liabilities		418,427	162,445
Net cash from (used in) operating activities		3,773,155	(2,298,292)
INVESTING ACTIVITIES			
Proceeds from sales and matured non trading investments		3,049,316	4,531,894
Purchase of non trading investments		(1,104,059)	(3,748,296)
Investments in associates		-	(1,259)
Purchase of property and equipment		(144,742)	(85,087)
Proceeds from sale of property and equipment		100	249
Net cash from investing activities		1,800,615	697,501
FINANCING ACTIVITIES			
Term loan		-	2,437,500
Dividends paid	25	(804,336)	(944,312)
Net cash (used in) from financing activities		(804,336)	1,493,188
Increase (decrease) in cash and cash equivalents		4,769,434	(107,603)
Cash and cash equivalents at the beginning of the year		2,663,637	2,771,240
Cash and cash equivalents at the end of the year	26	7,433,071	2,663,637
Special Commission Received		4,102,986	2,849,049
Special Commission Paid		2,118,742	1,181,194
Supplemental non cash information			
Net changes in fair value and cash flow hedges		17,269	(157,947)

The accompanying notes 1 to 39 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2006 and 2005

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H, corresponding to September 5, 1989, through its 68 branches (2005: 61 branches) in the Kingdom of Saudi Arabia, employing 1,998 people (2005: 1,733). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank holds a 27% shareholding in a foreign associated bank "Banque BEMO Saudi Fransi", incorporated in Syria, and a 50% shareholding in "InSaudi Insurance Co."

2. Summary of significant accounting policies

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

a) Basis of presentation

The Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS), and complies with the Banking Control Law and The Regulations for Companies in the Kingdom of Saudi Arabia.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, available for sale and Fair Value through Income Statement (FVIS) financial instruments. In addition, as explained fully in the related notes, assets and liabilities that are hedged (in a fair value hedging relationship) are carried at fair value to the extent of the risk being hedged.

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous year except for the changes set out in note 2 (b) below.

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

b) Change in accounting policy

The Bank has adopted the revised International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement – The Fair Value Option effective January 1, 2006 with retrospective effect. The adoption has no impact on the Bank's financial statements and accordingly no investments have been reclassified.

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:

(i) Impairment losses on loans & 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 values 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) Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power or over which it exercises significant influence.

e) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

f) Derivative financial instruments and hedging

Derivative financial instruments including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are measured at fair value. 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 obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to statement of income 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 recognized 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 recognized asset or liability, or to 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 the 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 hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the statement of income. Where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized 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 recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the statement of income.

For cash flow hedges affecting future transactions, the gains or losses recognized 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 results in the recognition of an asset or a liability, then at the time that the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur, or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized 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 recognized in other reserves is transferred to the statement of income for the period.

g) Foreign currencies

The financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Realized and unrealized gains or losses on exchange are credited or charged to exchange income.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value was determined. Translation differences on non-monetary items, such as equities at Fair Value through Income Statement (FVIS), are reported as a part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale, are included in the other reserves in equity.

h) Offsetting

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

i) 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, are recognized in the statement of income using the effective yield method, unless collectibilty is in doubt and include premiums amortized and discount accreted during the year. Fees, commissions and exchange income from banking services are recognized when contractually earned or accrued when the service has been provided, as appropriate. Dividend income is recognized when declared.

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

j) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for Investments held for trading, held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The counter-party liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between sale and repurchase price is treated as special commission expense and is accrued 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 repos), are not recognized 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 is amortized over the life of the reverse repo agreement, using the effective yield method.

k) Investments

All investments securities are initially recognized at fair value, and, with the exception of FVIS investments include acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield method and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

For securities that are traded in organized 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 categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

i) Held as fair value through income statement (FVIS)

Investments held as FVIS are classified as either investments held for trading or designated as fair value through income statement at the time of initial recognition. Investments classified in this category are acquired principally for the purpose of selling or repurchasing in the short term (trading) or if designated as such by the management in accordance with IAS 39. After initial recognition, investments 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 occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense in the statement of income.

ii) Available for sale

'Available for sale' investments are those investments that are designated as available for sale or are not classified in any of other three categories. These investments 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 recognized directly in 'other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the year.

iii) Held to maturity

Investments which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, are classified as 'held to maturity'. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in their value. Any gain or loss on such investments is recognized in the statement of income when the investment is de-recognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer term nature of these investments.

iv) Other investments held at amortized costs

Investments with fixed or determinable payments that are not quoted in an active market are classified as 'other investments held at amortized costs'. Other investments held at amortized costs, where the fair value has not been hedged are stated at amortized cost, less provision for impairment. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

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.

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values are determined as follows:

(i) Available for sale

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in 'other reserves' under shareholders' equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

(ii) Loans and advances held at amortized costs

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which the fair value has not been hedged, 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.

For presentation purposes, provision for credit losses is deducted from loans and advances.

m) Impairment of financial assets

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.

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 recognized for changes in its carrying amounts as follows:

i) For financial assets carried at amortized 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; and

ii) For financial assets carried at fair value, where a loss has been recognized directly under shareholders' equity as a result of the write down of the asset to recoverable amount, the cumulative net loss recognized in shareholders' equity is transferred to the statement of income.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission.

Provisions for credit losses, including those arising from sovereign risk exposure, are based upon the management's judgement of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectibility of the outstanding loans and advances. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Specific provisions are evaluated individually for all different types of loans and advances, whereas the additional provisions are evaluated based on collective impairment of loans and advances, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the balance sheet date. The collective provision is based upon deterioration in the internal gradings or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

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 de-recognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the statement of income for the period.

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, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

n) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is stated as assets held for sale at the lower of the carrying value of due loans and advances and the current fair value of the related properties.

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other Property and equipment is depreciated and amortized using the straight line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in statement of income.

p) Liabilities

All money market deposits, placements, customer deposits and term loans are initially recognized at cost, being the fair value of the consideration received.

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

Financial liabilities for which there is an associated fair value hedge relationship are adjusted for fair value to the extent of the risk being hedged, and the resultant gain or loss is recognized in the statement of income. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

q) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

r) Accounting for leases

i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under 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 recognized as an expense in the period in which termination takes place.

ii) Where the Bank is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable and is disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the financial statements as property and equipment. Income from operating lease is recognised on a straight-line basis over the period of the lease.

s) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within ninety days.

t) Derecognition of Financial Instruments

A financial asset or a part of financial assets, or a part of group of similar financial assets is derecognized 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 expires.

u) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity and / or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholders share of net income for the year.

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

v) Investment management services

The Bank offers investment services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in the 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 the financial statements.

w) Islamic banking products

The Bank offers its customers certain Islamic banking products, which are approved by its Shariah Board.

All Islamic banking products are accounted for in accordance with IFRS and are in conformity with the accounting policies described in these financial statements.

3. Cash and balances with SAMA

SAR' 000	2006	2005
Cash in hand	496,972	374,307
Statutory deposit	2,031,239	1,930,787
Current account	1,759	12,199
Money market placements	868,866	-
Total	3,398,836	2,317,293

Money market placements represent deposits against the purchase of fixed rate bonds with agreement to resell the same at fixed future dates.

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

4. Due from banks and other financial institutions

SAR' 000	2006	2005
Current accounts	956,395	272,363
Money market placements	5,266,882	2,004,768
Total	6,223,277	2,277,131

5. Investments, net

a) These comprise the following:

SAR' 000	2006 Domestic	2006 International	2006 Total	2005 Domestic	2005 International	2005 Total
i) Held as FVIS						
Fixed rate securities	371,470	-	371,470	469,163	-	469,163
Floating rate notes	3,252	93,614	96,866	-	128,414	128,414
Other	-	527,868	527,868	-	493,064	493,064
Held as FVIS	374,722	621,482	996,204	469,163	621,478	1,090,641
ii) Available for sale						
Fixed rate securities	-	2,236,134	2,236,134	-	2,285,208	2,285,208
Floating rate notes	-	367,889	367,889	-	367,920	367,920
Equities	73,293	103,219	176,512	33,224	108,098	141,322
Other	1,636,472	-	1,636,472	1,591,542	-	1,591,542
Available for sale, net	1,709,765	2,707,242	4,417,007	1,624,766	2,761,226	4,385,992
iii) Held to maturity						
Fixed rate securities	1,142,235	93,058	1,235,293	1,608,201	139,769	1,747,970
Held to maturity, net	1,142,235	93,058	1,235,293	1,608,201	139,769	1,747,970
iv) Other investments held at amortized cost						
Fixed rate securities	5,299,774	36,686	5,336,460	6,800,492	36,763	6,837,255
Floating rate notes	3,727,990	300,000	4,027,990	3,728,466	337,525	4,065,991
Other investments held at amortized cost, net	9,027,764	336,686	9,364,450	10,528,958	374,288	10,903,246
Investments, net	12,254,486	3,758,468	16,012,954	14,231,088	3,896,761	18,127,849

b) The analysis of the composition of investments is as follows:

SAR' 000	2006 Quoted	2006 Unquoted	2006 Total	2005 Quoted	2005 Unquoted	2005 Total
Fixed rate securities	2,329,192	6,850,165	9,179,357	2,424,978	8,914,618	11,339,596
Floating rate notes	461,503	4,031,242	4,492,745	496,334	4,065,991	4,562,325
Equities	80,994	95,518	176,512	35,201	106,121	141,322
Other	517,743	1,646,597	2,164,340	482,939	1,601,667	2,084,606
Investments, net	3,389,432	12,623,522	16,012,954	3,439,452	14,688,397	18,127,849

c) The analysis of unrealized gains and losses and the fair values of held to maturity investments and other investments held at amortized costs, are as follows:

SAR' 000	2006				2005			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value
i) Held to maturity								
Fixed rate securities	1,235,293	15,343	(2,996)	1,247,640	1,747,970	22,894	(8,444)	1,762,420
Total	1,235,293	15,343	(2,996)	1,247,640	1,747,970	22,894	(8,444)	1,762,420
ii) Other investments held at amortized cost								
Fixed rate securities	5,336,460	73,227	(45,914)	5,363,773	6,837,255	90,439	(90,055)	6,837,639
Floating rate notes	4,027,990	15,811	-	4,043,801	4,065,991	12,865	-	4,078,856
Total	9,364,450	89,038	(45,914)	9,407,574	10,903,246	103,304	(90,055)	10,916,495

d) The analysis of investments by counterparty is as follows:

SAR' 000	2006	2005
Government and quasi Government	10,738,790	12,854,642
Corporate	2,463,632	2,447,496
Banks and other financial institutions	2,754,797	2,825,711
Others	55,735	-
Total	16,012,954	18,127,849

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 15 million (2005: SAR 11 million).

Available for sale investments include Islamic securities of SAR 37 million (2005: SAR 36 million). Other available for sale represents Musharaka investments which are hedged and measured at fair value to the extent of the risk being hedged.

Equities reported under available for sale include the Bank's investment in its associates, Banque BEMO Saudi Fransi and InSaudi Insurance Company aggregating SAR 35 million (2005: SAR 38 million), Saudi Istithmar mutual fund SAR 56 million (2005: Nil) and unquoted equity shares of SAR 60 million (2005: SAR 68 million) which are carried at cost as their fair value cannot be reliably measured.

Unquoted investments include principally Saudi Government Bonds and notes of SAR 10,541 million (2005: SAR 12,606 million).

Investments include SAR 309 million (2005: SAR 3,104 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 305 million (2005: SAR 3,083 million).

6. Loans and advances, net

a) These comprise the following:

SAR' 000	2006	2005
i) Available for sale loans and advances		
Performing commercial loans	111,223	231,034
Available for sale loans and advances	111,223	231,034
ii) Other loans and advances held at amortized cost		
Performing:		
Overdrafts	5,972,904	7,180,888
Credit cards	321,206	219,247
Commercial loans	33,743,113	27,339,819
Consumer loans	3,581,092	3,236,944
Other	7,691,485	5,203,873
Performing loans and advances, gross	51,309,800	43,180,771
Non performing loans and advances, net	602,601	529,278
	51,912,401	43,710,049
Provision for credit losses	(893,429)	(962,381)
Other loans and advances held at amortized cost, net	51,018,972	42,747,668
Loans and advances, net	51,130,195	42,978,702

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 43 million (2005: SAR 51 million).

Loans and advances, net include Islamic products of SAR 10,474 million (2005: SAR 6,157 million).

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

SAR' 000	2006	2005
Balance at the beginning of the year	962,381	846,570
Provided during the year	155,553	185,315
Bad debts written off	(159,436)	(19,047)
Recoveries of amounts previously provided	(65,069)	(50,457)
Balance at the end of the year	893,429	962,381

The net charge to income of SAR 90 million (2005: SAR 135 million) in respect of provision for credit losses for the year is net of recoveries of SAR 65 million (2005: SAR: 50 million).

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

SAR' 000	Performing	Non Performing, net	Provision for Credit losses	Loans and advances, net
2006				
Government and quasi Government	1,991,524	-	-	1,991,524
Banks and other financial institutions	745,754	-	(7,722)	738,032
Agriculture and fishing	901,370	133	(4,001)	897,502
Manufacturing	6,176,403	2,337	(40,350)	6,138,390
Mining and quarrying	615,180	-	-	615,180
Electricity, water, gas and health services	965,645	18	(18)	965,645
Building and construction	6,019,091	103,568	(201,453)	5,921,206
Commerce	12,466,448	97,583	(175,569)	12,388,462
Transportation and communication	3,052,021	5,920	(12,445)	3,045,496
Services	3,745,119	65,002	(143,114)	3,667,007
Consumer loans and credit cards	3,902,298	112,983	(138,819)	3,876,462
Other	10,840,170	215,057	(169,938)	10,885,289
Total	51,421,023	602,601	(893,429)	51,130,195
2005				
Government and quasi Government	1,854,851	7,766	(7,766)	1,854,851
Banks and other financial institutions	1,227,928	-	(7,722)	1,220,206
Agriculture and fishing	809,334	1,146	(5,014)	805,466
Manufacturing	4,962,272	28,108	(51,136)	4,939,244
Mining and quarrying	795,266	1,938	(1,938)	795,266
Electricity, water, gas and health services	847,077	18	(18)	847,077
Building and construction	4,452,914	171,769	(270,153)	4,354,530
Commerce	10,689,577	108,324	(196,326)	10,601,575
Transportation and communication	1,440,596	6,451	(12,976)	1,434,071
Services	3,322,430	81,071	(154,684)	3,248,817
Consumer loans and credit cards	3,456,191	97,371	(123,281)	3,430,281
Other	9,553,369	25,316	(131,367)	9,447,318
Total	43,411,805	529,278	(962,381)	42,978,702

The provision for credit losses include provisions made against non performing commitments and contingencies and provisions evaluated on collective impairment basis.

d) The loans and advances include finance lease receivables, which are analyzed as follows:

SAR' 000	2006	2005
Gross receivables from finance leases:		
Less than 1 year	72,612	62,138
1 to 5 years	49,773	53,339
More than 5 years	66,667	-
	189,052	115,477
Unearned future finance income on finance leases	(9,298)	(3,975)
Net receivables from finance leases	179,754	111,502

7. Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2006 Total	2005 Total
Cost					
Balance at the beginning of the year	426,555	47,449	407,196	881,200	822,806
Additions	31,157	30,981	82,604	144,742	85,087
Disposals and retirements	-	(13,738)	(14,610)	(28,348)	(26,693)
Balance at the end of the year	457,712	64,692	475,190	997,594	881,200
Accumulated depreciation and amortization					
Balance at the beginning of the year	127,581	-	277,742	405,323	370,863
Charge for the year	11,937	13,738	42,463	68,138	60,854
Disposals and retirements	-	(13,738)	(14,511)	(28,249)	(26,394)
Balance at the end of the year	139,518	-	305,694	445,212	405,323
Net book value as at December 31, 2006	318,194	64,692	169,496	552,382	-
Net book value as at December 31, 2005	298,974	47,449	129,454	-	475,877

Land and buildings and leasehold improvements as at December 31, 2006 include work in progress amounting to SAR 5 million (2005: SAR1 million) and SAR 15 million (2005: SAR 11 million) respectively. Furniture, equipment and vehicles include information technology related assets.

8. Other assets

SAR' 000	2006	2005
Accrued special commission receivable – banks and other financial institutions	8,297	584
– investments	216,147	243,398
– loans and advances	383,706	210,390
– other	1,720	1,350
Total accrued special commission receivable	609,870	455,722
Accounts receivable	502,056	186,222
Positive fair value of derivatives (note 9)	927,960	621,129
Other real estate	4,800	5,186
Other	218,680	56,269
Total	2,263,366	1,324,528

9. Derivatives

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

a) Swaps

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

b) 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 customized contracts transacted in the over the counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

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

d) 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 pre-determined price.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and other banks 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 favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

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 commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors in accordance with 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 positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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

The Bank uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses 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 instrument are formally documented and the transactions are accounted for as fair value or cash flow hedge.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts analyzed by the term to maturity and 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 credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

			Notional amounts by term to maturity					
SAR' 000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2006								
Held for trading								
Commission rate swaps	775,484	984,634	107,502,568	23,765,793	22,559,463	54,049,772	7,127,540	94,139,294
Commission rate futures and options	5,215	4,361	3,652,750	-	1,031,250	1,596,250	1,025,250	10,797,562
Forward rate agreements	-	-	-	-	-	-	-	799,188
Forward foreign exchange contracts	76,067	75,650	60,984,865	25,120,603	35,067,107	797,155	-	52,278,305
Currency options	42,248	16,265	6,120,080	1,542,730	1,603,582	2,973,768	-	5,702,714
Held as fair value hedges								
Commission rate swaps	340,926	64,964	10,492,124	3,271,067	4,606,185	2,553,372	61,500	12,494,363
Held as cash flow hedges								
Commission rate swaps	133,218	10,760	6,318,500	275,000	1,300,000	2,981,000	1,762,500	5,791,417
Total	1,373,158	1,156,634	195,070,887	53,975,193	66,167,587	64,951,317	9,976,790	182,002,843
Value of netting arrangements	(445,198)	(445,198)	(27,393,248)	(4,662,134)	(11,812,370)	(10,918,744)	-	(31,485,784)
Total after netting (notes 8 and 12)	927,960	711,436	167,677,639	49,313,059	54,355,217	54,032,573	9,976,790	150,517,059
2005								
Held for trading								
Commission rate swaps	544,913	686,725	87,162,363	13,982,766	13,873,050	53,046,058	6,260,489	80,005,590
Commission rate futures and options	12,954	6,410	12,665,500	187,500	3,075,000	8,447,500	955,500	15,705,188
Forward rate agreements	128	266	691,000	-	691,000	-	-	210,396
Forward foreign exchange contracts	102,549	94,422	28,288,650	14,928,571	12,644,025	716,054	-	34,482,092
Currency options	21,256	15,624	3,953,512	1,741,983	2,211,529	-	-	5,013,509
Held as fair value hedges								
Commission rate swaps	156,767	38,274	11,381,103	1,272,668	3,136,162	6,843,879	128,394	12,430,917
Held as cash flow hedges								
Commission rate swaps	38,725	44,994	4,831,000	-	200,000	3,922,000	709,000	4,804,417
Total	877,292	886,715	148,973,128	32,113,488	35,830,766	72,975,491	8,053,383	152,652,109
Value of netting arrangements	(256,163)	(256,163)	(28,809,206)	(2,545,336)	(5,922,324)	(18,801,758)	(1,539,788)	(31,160,958)
Total after netting (notes 8 and 12)	621,129	630,552	120,163,922	29,568,152	29,908,442	54,173,733	6,513,595	121,491,151

Commission rate swaps include the notional amount of SAR 27,393 million (2005: SAR 28,809 million) with an aggregate positive fair value and a negative fair value of SAR 445 million (2005: SAR 256 million) which are netted out for credit exposure purposes as the Bank intends to settle these on a net basis.

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

SAR' 000 Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
2006						
Fixed commission rate due from banks	157,803	150,000	Fair Value	Commission rate swap	-	6,719
Fixed commission rate investments	1,381,197	1,374,573	Fair value	Commission rate swap	3,757	8,633
Fixed commission rate loans	1,386,525	1,306,253	Fair value	Commission rate swap	3,058	32,749
Fixed commission rate due to banks	156,807	150,000	Fair value	Commission rate swap	5,735	-
Fixed commission rate deposits	7,767,589	7,474,209	Fair value	Commission rate swap	328,376	16,863
Floating commission rate investments	4,395,879	4,395,879	Cash flow	Commission rate swap	55,889	10,760
Floating commission rate loans	1,287,857	1,287,857	Cash flow	Commission rate swap	77,329	-
2005						
Fixed commission rate investments	795,594	808,414	Fair Value	Commission rate swap	13,096	-
Fixed commission rate loans	1,139,047	1,098,391	Fair value	Commission rate swap	7,504	3,635
Fixed commission rate due to banks	152,165	150,000	Fair value	Commission rate swap	1,337	117
Fixed commission rate deposits	9,344,413	9,286,794	Fair value	Commission rate swap	134,830	34,522
Floating commission rate investments	4,433,911	4,433,911	Cash flow	Commission rate swap	38,725	44,994

Approximately 89.3% (2005: 83.5%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 30.6% (2005: 24.2%) of the net positive fair values of the derivatives are with any single counterpart group at the balance sheet date. The derivative activities are mainly carried out under Bank's treasury banking segment.

10. Due to banks and other financial institutions

SAR' 000	2006	2005
Current accounts	126,217	119,296
Money market deposits	3,330,096	4,827,107
Total	3,456,313	4,946,403

Money market deposits for 2005 include deposits against sale of securities of SAR 2,217 million with agreement to repurchase the same at fixed future dates.

11. Customer deposits

SAR' 000	2006	2005
Demand	18,764,459	18,467,242
Saving	300,907	310,283
Time	41,273,044	30,598,454
Other	1,659,697	1,717,406
Total	61,998,107	51,093,385

Time deposits include deposits against sale of securities of SAR 305 million (2005: SAR 797 million) with agreement to repurchase the same at fixed future dates. Other customer deposits include SAR 689 million (2005: SAR 558 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR 7,267 million (2005: SAR 1,808 million).

Customer deposits include foreign currency deposits as follows:

SAR' 000	2006	2005
Demand	2,849,791	2,740,060
Saving	21,231	32,377
Time	16,367,619	10,643,991
Other	287,162	202,963
Total	19,525,803	13,619,391

12. Other liabilities

SAR' 000	2006	2005
Accrued special commission payable – banks and other financial institutions	15,162	35,613
– customer deposits	242,600	119,856
– term loan	36,417	28,851
– other	81,004	69,338
Total accrued special commission payable	375,183	253,658
Accounts payable	1,006,997	418,228
Negative fair value of derivatives (note 9)	711,436	630,552
Other	190,693	536,754
Total	2,284,309	1,839,192

13. Term Loan

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

14. Share capital

During the year, in accordance with the shareholders' resolution passed at the General Assembly Meeting held on March 5, 2006, a bonus issue of 22.5 million shares at a nominal value SAR 50 each was approved to the existing shareholders, on the basis of 1 bonus share for every 2 shares held, through the capitalization of general reserve.

In accordance with the Council of Ministers resolution dated 27/2/1427H (corresponding to March 27, 2006) and the Capital Market Authority directive dated 29/2/1427H (corresponding to March 29, 2006), the nominal value of the Bank's shares were split from SAR 50 per share to SAR 10 per share effective from 10/3/1427H (corresponding to April 08, 2006) without changing the Bank's paid up capital. Accordingly, the number of shares of the Bank have now increased from 67.5 million shares to 337.5 million shares.

SAR' 000	%	2006	2005
Saudi shareholders	68.9	2,325,000	1,550,000
CALYON Corporate and Investment Bank	31.1	1,050,000	700,000
Total	100	3,375,000	2,250,000

The Board of Directors has proposed on December 17, 2006 a bonus issue of 225 million shares of nominal value SAR 10 each to the existing shareholders on the basis of 2 bonus shares for every 3 shares held through the capitalization of general reserve and a dividend of SAR 0.5 per share which is subject to the approval of the shareholders at the Annual General Assembly Meeting and regulatory agencies.

15. Statutory and general reserves

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

An amount of SAR 1,125 million (2005: SAR Nil) was transferred from general reserve to statutory reserve to equal the Bank's share capital. No further transfer is required since the limit has been attained. This reserve is currently not available for distribution.

The appropriation of SAR 2,250 million (2005: SAR 1,545 million) is made to general reserve from net income for the year.

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2006 there are 16 (2005: 19) legal proceedings outstanding against the Bank. No material provision has been made as related professional advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2006 the Bank has capital commitments of SAR 66 million (2005: SAR 49 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrecoverable 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent unused portion of authorizations 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 unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused 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 these commitments could expire or terminate without being funded.

i) The maturity structure for the Bank's commitments and contingencies is as follows:

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2006					
Letters of credit	4,991,578	1,600,074	742,224	-	7,333,876
Letters of guarantee	3,369,243	5,946,889	5,319,331	416,284	15,051,747
Acceptances	1,045,766	651,232	31,325	-	1,728,323
Irrevocable commitments to extend credit	425,228	26,454	577,027	2,262,091	3,290,800
Other	6,750	-	-	-	6,750
Total	9,838,565	8,224,649	6,669,907	2,678,375	27,411,496
2005					
Letters of credit	4,481,773	1,115,136	617,620	30	6,214,559
Letters of guarantee	3,487,359	4,694,632	3,922,128	106,039	12,210,158
Acceptances	998,899	457,508	64,634	-	1,521,041
Irrevocable commitments to extend credit	-	141,595	243,485	1,599,710	1,984,790
Other	6,750	-	-	-	6,750
Total	8,974,781	6,408,871	4,847,867	1,705,779	21,937,298

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2006, is SAR 27,483 million (2005: SAR 25,402 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

SAR' 000	2006	2005
Government and quasi Government	502,986	1,051,358
Corporate	22,129,485	15,770,346
Banks and other financial institutions	4,332,493	4,461,362
Other	446,532	654,232
Total	27,411,496	21,937,298

d) Assets pledged

Assets pledged as collateral with other financial institutions are as follows:

SAR' 000	2006		2005	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost (note 5)	308,980	304,650	796,295	797,370
Available for sale investments (note 5)	-	-	2,307,840	2,216,882
Total	308,980	304,650	3,104,135	3,014,252

e) Operating lease commitments

The future lease payments under non cancelable operating leases where the Bank is the lessee, are as follows:

SAR' 000	2006	2005
Less than 1 year	21,680	18,802
1 to 5 years	58,406	46,553
Over 5 years	49,894	39,045
Total	129,980	104,400

17. Special commission income and expense

SAR' 000	2006	2005
Special commission income		
Investments – held as FVIS – trading	25,534	19,041
– available for sale	216,648	160,396
– held to maturity	82,390	96,540
– other investments held at amortized cost	501,403	588,225
	825,975	864,202
Due from banks and other financial institutions	269,309	105,250
Loans and advances	3,161,850	2,042,197
Total	4,257,134	3,011,649
Special commission expense		
Due to banks and other financial institutions	267,601	217,861
Customer deposits	1,840,628	1,034,917
Term loan	132,038	53,103
Total	2,240,267	1,305,881

18. Fees from banking services, net

SAR' 000	2006	2005
Fees and commission income		
- Share trading and fund management	1,501,725	954,413
- Trade finance	159,381	128,563
- Corporate finance and advisory	101,304	105,676
- Card products	61,342	48,162
- Other banking services	17,180	14,742
Total fees and commission income	1,840,932	1,251,556
Fees and commission expense		
- Share trading and brokerage	235,234	121,540
- Custodial services	3,274	2,671
- Other banking services	30,463	16,970
Total fees and commission expense	268,971	141,181
Fees from banking services, net	1,571,961	1,110,375

19. Trading income, net

SAR' 000	2006	2005
Foreign exchange	4,232	(7,369)
Debt securities	26,363	5,778
Derivatives, net	123,933	72,048
Other	34,804	39,363
Total	189,332	109,820

20. Dividend income

SAR' 000	2006	2005
Available for sale investments	1,641	1,552

21. Gains on non-trading investments, net

SAR' 000	2006	2005
Available for sale	9,385	12,936
Other investments held at amortized cost	(10)	-
Total	9,375	12,936

22. Other operating income

SAR' 000	2006	2005
Gains on disposal of property and equipment	63	126
Other	5,248	9,693
Total	5,311	9,819

23. Other operating expenses

SAR' 000	2006	2005
Loss on disposal of property and equipment	62	176
Loss on disposal of other real estate	186	-
Other	4,723	6,678
Total	4,971	6,854

24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2006 and 2005 is calculated by dividing the net income for the year by 337.5 million shares, to give a retrospective effect for the change in the number of shares which increased as a result of the share split and issuance of bonus shares as set in Note 14.

25. Proposed gross dividend, zakat and income tax

Gross dividend

SAR' 000	2006	2005
Interim dividend	548,733	385,038
Final proposed dividend – note 14	201,943	255,603
Total	750,676	640,641

The dividends are paid to the Saudi and foreign shareholders after deduction of zakat and income tax, respectively, as follows:

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 52 million (2005: SAR 38 million) which will be deducted from their share of dividend. The net total dividend to Saudi shareholders is SAR 2 per share (2005: SAR 1.73 per share) out of which the interim dividend paid was SAR 1.50 per share (2005: SAR 1.07 per share). The net dividend per share has been recalculated retrospectively to give effect for the increased number of shares as a result of bonus issue and share split during the current year.

ii) Income tax

Income tax payable in respect of foreign shareholder's current year's share of income is approximately SAR 188 million (2005: SAR 138 million) which will be deducted from their share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 45 million (2005: SAR 61 million).

26. Cash and cash equivalents

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

SAR' 000	2006	2005
Cash and balances with SAMA excluding statutory deposits – note 3	1,367,597	386,506
Due from banks and other financial institutions maturing within ninety days	6,065,474	2,277,131
Total	7,433,071	2,663,637

27. 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.

The Bank's primary business is conducted in Saudi Arabia.

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 intra-bank rates.

a) The Bank is organized into the following main business segments:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, retail investments products, consumer loans, international and local shares brokerage services, funds management, insurance (brokerage) and certain forex products.

Corporate Banking – incorporates corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury Banking – incorporates treasury services, trading activities, investment securities, money market, bank's funding operations and derivative products.

Transactions between the business segments are reported according to the Bank's internal transfer pricing policy. The Bank's total assets and liabilities as at December 31, 2006 and 2005, its total operating income and expenses, and its net income for the years then ended by business segments are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2006				
Total assets	11,125,690	42,582,170	25,873,150	79,581,010
Total liabilities	33,474,509	28,942,247	7,759,473	70,176,229
Total operating income	2,261,628	978,810	698,394	3,938,832
Total operating expenses	619,193	184,081	128,610	931,884
Net income	1,642,435	794,729	569,784	3,006,948
2005				
Total assets	9,980,808	35,269,104	22,251,468	67,501,380
Total liabilities	32,741,089	18,913,959	8,661,432	60,316,480
Total operating income	1,667,231	763,444	662,955	3,093,630
Total operating expenses	570,091	204,138	103,800	878,029
Net income	1,097,140	559,306	559,155	2,215,601

b) The Bank's credit exposure by business segments is as follows:

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2006				
Balance sheet assets	10,536,112	42,176,884	23,555,294	76,268,290
Commitments and contingencies	788,853	11,580,894	-	12,369,747
Derivatives	18,245	573,244	3,899,194	4,490,683
2005				
Balance sheet assets	9,552,063	34,964,057	20,810,548	65,326,668
Commitments and contingencies	694,777	9,170,025	-	9,864,802
Derivatives	9,211	499,964	2,605,425	3,114,600

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

28. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit 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. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. The Risk Department is set up in such a way so as to assure independence of the Credit Division from the business lines. Common risk management procedures are adapted to the changes in the Bank's activities and updated on a regular basis. Business lines submit the credit applications to the Credit Division which in turn acts as Secretary of the Credit Committee. The principle of dual signature by the business line and Credit Division applies for all commitments. Above a certain limit, the files are submitted to the Executive Committee for their approval.

Risk rating is used to classify borrowing customers according to the Bank's assessment of the intrinsic risk quality of a customer. The Bank uses an automated rating system to assign the rating of customers, which takes into consideration the quantitative financial data as well as qualitative elements assigned by the business lines. The system uses a scale of 14 grades and allows comparison with ratings of international rating agencies. Corporate and commercial customers are assigned specific ratings accordingly.

The loans and advances portfolio is reviewed periodically, with the annual credit application review, which assists to maintain and improve the quality of assets. When a customer defaults on commission payment or repayment of principal, the customer is downgraded to the non performing portfolio. The non performing portfolio is dealt with by the Remedial Department within the Credit Division. Provisions for credit losses are allocated and monitored regularly.

The debt securities included in investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to note 5 and 6, respectively. Information on credit risk relating to derivative instruments is provided in note 9 and for commitments and contingencies in note 16.

29. Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2006						
Assets						
Cash and balances with SAMA	3,356,820	141	13,955	27,920	-	3,398,836
Due from banks and other financial institutions	1,110,194	620,485	3,243,211	634,732	614,655	6,223,277
Investments, net	12,254,486	274,922	1,527,697	1,456,241	499,608	16,012,954
Loans and advances, net	48,750,962	1,116,233	842,333	53,067	367,600	51,130,195
Total	65,472,462	2,011,781	5,627,196	2,171,960	1,481,863	76,765,262
Liabilities						
Due to banks and other financial institutions	1,475,063	665,617	1,233,618	3,527	78,488	3,456,313
Customer deposits	61,778,988	35,156	37,177	677	146,109	61,998,107
Term loan	75,000	496,875	1,453,125	168,750	243,750	2,437,500
Total	63,329,051	1,197,648	2,723,920	172,954	468,347	67,891,920
Commitments and contingencies	22,646,253	428,528	3,189,064	84,080	1,063,571	27,411,496
Credit exposure (credit equivalent value)						
Commitments and contingencies	10,327,748	177,741	1,525,483	24,381	314,396	12,369,749
Derivatives	1,506,967	162,908	2,520,373	294,436	6,000	4,490,684
2005						
Assets						
Cash and balances with SAMA	2,288,645	554	6,346	21,748	-	2,317,293
Due from banks and other financial institutions	375,400	311,769	1,353,857	198,539	37,566	2,277,131
Investments, net	14,231,088	326,262	1,647,625	1,459,203	463,671	18,127,849
Loans and advances, net	40,303,120	1,501,871	719,014	56,700	397,997	42,978,702
Total	57,198,253	2,140,456	3,726,842	1,736,190	899,234	65,700,975
Liabilities						
Due to banks and other financial institutions	2,215,165	406,742	2,290,629	29,708	4,159	4,946,403
Customer deposits	50,951,948	25,973	31,288	237	83,939	51,093,385
Term loan	75,000	410,625	1,567,500	187,500	196,875	2,437,500
Total	53,242,113	843,340	3,889,417	217,445	284,973	58,477,288
Commitments and contingencies	17,648,079	354,930	2,571,972	98,772	1,263,545	21,937,298
Credit exposure (credit equivalent value)						
Commitments and contingencies	8,197,121	170,844	1,111,973	31,727	353,137	9,864,802
Derivatives	981,280	54,750	1,754,358	318,212	6,000	3,114,600

b) The distribution by geographical concentration of non performing loans and advances and provision for credit losses are as follows:

SAR ' 000	2006		2005	
	Non performing, net	Provisions for credit losses	Non performing, net	Provisions for credit losses
Kingdom of Saudi Arabia	602,601	893,429	521,512	954,615
GCC and Middle East	-	-	7,766	7,766
Total	602,601	893,429	529,278	962,381

30. Currency risk

The Bank manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. 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. At the end of the year, the Bank has the following significant net exposures denominated in foreign currencies:

SAR' 000	2006 Long (short)	2005 Long
US Dollar	(160,716)	551,895
Euro	71,205	70,902
Pound Sterling	13,053	18,309
Other	7,175	9,520

31. Commission rate risk

Commission sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
2006							
Assets							
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836	4.70%
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277	5.51%
Investments, net	4,994,025	1,446,680	7,749,153	1,118,716	704,380	16,012,954	4.59%
Loans and advances, net	35,750,007	9,286,637	3,782,292	2,150,854	160,405	51,130,195	5.95%
Property and equipment, net	-	-	-	-	552,382	552,382	-
Other assets	-	-	-	-	2,263,366	2,263,366	-
Total assets	46,729,780	10,883,317	11,531,445	3,269,570	7,166,898	79,581,010	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313	5.68%
Customer deposits	33,482,629	8,936,680	1,005,327	-	18,573,471	61,998,107	4.89%
Other liabilities	-	-	-	-	2,284,309	2,284,309	-
Term loan	2,437,500	-	-	-	-	2,437,500	5.72%
Shareholders' equity	-	-	-	-	9,404,781	9,404,781	-
Total liabilities and shareholders' equity	38,755,975	9,430,930	1,005,327	-	30,388,778	79,581,010	-
On balance sheet gap	7,973,805	1,452,387	10,526,118	3,269,570	(23,221,880)	-	-
Off balance sheet gap	(4,327,682)	(361,099)	2,844,406	1,844,375	-	-	-
Total commission rate sensitivity gap	3,646,123	1,091,288	13,370,524	5,113,945	(23,221,880)	-	-
Cumulative commission rate sensitivity gap	3,646,123	4,737,411	18,107,935	23,221,880	-	-	-
2005							
Assets							
Cash and balances with SAMA	-	-	-	-	2,317,293	2,317,293	-
Due from banks and other financial institutions	2,004,768	-	-	-	272,363	2,277,131	3.81%
Investments, net	4,401,432	2,513,048	8,858,180	1,720,803	634,386	18,127,849	5.14%
Loans and advances, net	29,149,636	8,761,905	2,579,088	2,475,196	12,877	42,978,702	5.43%
Property and equipment, net	-	-	-	-	475,877	475,877	-
Other assets	-	-	-	-	1,324,528	1,324,528	-
Total assets	35,555,836	11,274,953	11,437,268	4,195,999	5,037,324	67,501,380	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	4,666,022	161,085	-	-	119,296	4,946,403	4.19%
Customer deposits	22,768,323	4,712,072	5,497,637	-	18,115,353	51,093,385	4.40%
Other liabilities	-	-	-	-	1,839,192	1,839,192	-
Term loan	2,437,500	-	-	-	-	2,437,500	4.53%
Shareholders' equity	-	-	-	-	7,184,900	7,184,900	-
Total liabilities and shareholders' equity	29,871,845	4,873,157	5,497,637	-	27,258,741	67,501,380	-
On balance sheet gap	5,683,991	6,401,796	5,939,631	4,195,999	(22,221,417)	-	-
Off balance sheet gap	(9,857,014)	991,454	7,496,299	1,369,261	-	-	-
Total commission rate sensitivity gap	(4,173,023)	7,393,250	13,435,930	5,565,260	(22,221,417)	-	-
Cumulative commission rate sensitivity gap	(4,173,023)	3,220,227	16,656,157	22,221,417	-	-	-

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

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

32. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

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 customer demand deposits, and 2% of due to banks and other financial institutions (excluding balances due to SAMA and non resident foreign currency deposits), saving, time deposits, margins of letters of credit and guarantee, excluding all type of repo 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, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at 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. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2006						
Assets						
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277
Investments, net	745,081	2,478,665	10,966,112	1,118,716	704,380	16,012,954
Loans and advances, net	21,457,595	6,929,360	10,390,940	6,553,571	5,798,729	51,130,195
Property and equipment, net	-	-	-	-	552,382	552,382
Other assets	-	-	-	-	2,263,366	2,263,366
Total assets	28,188,424	9,558,025	21,357,052	7,672,287	12,805,222	79,581,010
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313
Customer deposits	31,925,357	8,936,680	1,005,327	-	20,130,743	61,998,107
Other liabilities	-	-	-	-	2,284,309	2,284,309
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	9,404,781	9,404,781
Total liabilities and shareholders' equity	34,761,203	9,430,930	3,442,827	-	31,946,050	79,581,010

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2005						
Assets						
Cash and balances with SAMA	-	-	-	-	2,317,293	2,317,293
Due from banks and other financial institutions	2,004,768	-	-	-	272,363	2,277,131
Investments, net	102,341	2,295,573	12,513,281	2,582,268	634,386	18,127,849
Loans and advances, net	14,664,303	5,799,190	8,356,342	7,212,950	6,945,917	42,978,702
Property and equipment , net	-	-	-	-	475,877	475,877
Other assets	-	-	-	-	1,324,528	1,324,528
Total assets	16,771,412	8,094,763	20,869,623	9,795,218	11,970,364	67,501,380
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,666,022	161,085	-	-	119,296	4,946,403
Customer deposits	20,756,646	4,712,072	5,497,637	-	20,127,030	51,093,385
Other liabilities	-	-	-	-	1,839,192	1,839,192
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	7,184,900	7,184,900
Total liabilities and shareholders' equity	25,422,668	4,873,157	7,935,137	-	29,270,418	67,501,380

33. 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.

The fair values of on balance sheet financial instruments, except for held to maturity and other financial instruments held at amortized cost are not significantly different from the carrying values included in the financial statements.

The estimated fair values of the held to maturity investments and other investments held at amortized cost, is based on quoted market prices when available or pricing models. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 5.

34. Related party transactions

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 carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at December 31 resulting from such transactions included in the financial statements are as follows:

SAR' 000	2006	2005
Credit Agricole Group		
Investments	502,442	547,610
Due from banks and other financial institutions	739,549	42,427
Due to banks and other financial institutions	1,298,616	290,253
Derivatives (at positive fair value, net)	85,478	6,668
Commitments and contingencies	1,493,960	1,152,984
Associates		
Investments	35,403	37,631
Due from banks and other financial institutions	-	993
Loans and advances	3,750	3,750
Due to banks and other financial institutions	90,217	72,345
Customer deposits	12,091	15,189
Commitments and contingencies	24,420	1,784
Directors, other major shareholders' and their affiliates		
Loans and advances	1,347,959	1,285,985
Customer deposits	3,512,905	3,887,418
Derivatives (at positive fair value)	2,377	9,825
Commitments and contingencies	176,313	257,682
Bank's mutual funds		
Investments	55,735	-
Loans and advances	-	2,402
Customer deposits	457,570	482,835

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital.

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

SAR' 000	2006	2005
Special commission income	68,132	78,423
Special commission expense	213,359	150,555
Fees from banking services	86,410	61,765
Directors' fees	1,480	1,510
Other general and administrative expenses	144	198

The total amount of short term benefits paid to key management personnel during the year is SAR 37 million (2005: SAR 34 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

35. Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by the 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	
SAR' 000	Capital	Ratios %	Capital	Ratios %
Tier 1	9,404,781	14.38%	7,184,900	13.89%
Tier 1 + Tier 2	9,404,781	14.38%	7,184,900	13.89%

	Risk weighted assets					
	2006			2005		
SAR' 000	Carrying value or notional	Credit equivalent	Risk weighted assets	Carrying value or notional	Credit equivalent	Risk weighted assets
Balance sheet assets						
0 %	21,253,730		-	22,942,247		-
20 %	6,474,928		1,294,985	2,916,102		583,220
100 %	51,852,352		51,852,352	41,643,031		41,643,031
Total	79,581,010		53,147,337	67,501,380		42,226,251
Commitments and contingencies						
0 %	-	-	-	-	-	-
20 %	3,278,859	1,544,741	308,947	3,046,666	1,428,945	285,789
100 %	24,132,637	10,825,006	10,825,006	18,890,632	8,435,857	8,435,857
Total	27,411,496	12,369,747	11,133,953	21,937,298	9,864,802	8,721,646
Derivatives						
0 %	3,300,321	36,531	-	10,872,255	64,107	-
20 %	145,848,406	3,715,419	743,085	94,386,867	2,523,035	504,608
50 %	18,528,912	738,733	369,367	14,904,800	527,458	263,729
Total	167,677,639	4,490,683	1,112,452	120,163,922	3,114,600	768,337
Total risk weighted assets			65,393,742			51,716,234

36. Investment management services

The Bank offers investment services to its customers which include 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 share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

The Bank also offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, with net asset values totalling SAR 1,874 million (2005: SAR 2,571 million).

37. Prospective changes in International Financial Reporting Framework

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 Interpretation 11 *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.

38. Comparative figures

Prior year figures have been reclassified wherever necessary to conform to current year presentation.

39. Board of directors approval

The financial statements were approved by the Board of Directors on Muharram 2, 1428H corresponding to January 20, 2007.