BALANCE SHEET
As at December 31, 2005 and 2004

SAR' 000	Notes	2005	2004
ASSETS			
Cash and balances with SAMA	3	2,317,293	2,009,263
Due from banks and other financial institutions	4	2,277,131	2,486,058
Investments, net	5	18,127,849	19,097,138
Loans and advances, net	6	42,978,702	34,463,424
Fixed assets, net	7	475,877	451,943
Other assets	8	1,324,528	1,161,657
Total assets		67,501,380	59,669,483
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	4,946,403	4,171,161
Customer deposits	11	51,093,385	47,704,152
Other liabilities	12	1,839,192	1,722,612
Term loan	13	2,437,500	-
Total liabilities		60,316,480	53,597,925
Shareholders' equity			
Share capital	14	2,250,000	2,250,000
Statutory reserve	15	2,250,000	2,250,000
General reserve	15	2,500,000	955,000
Other reserves	16	(102,428)	55,519
Retained earnings		31,725	1,765
Proposed dividend	26	255,603	559,274
Total shareholders' equity		7,184,900	6,071,558
Total liabilities and shareholders' equity		67,501,380	59,669,483

The accompanying notes 1 to 40 form an integral part of these financial statements

STATEMENT OF INCOME
For the years ended December 31, 2005 and 2004

SAR' 000	Notes	2005	2004
Special commission income	18	3,011,649	2,111,663
Special commission expense	18	1,305,881	521,567
Net special commission income		1,705,768	1,590,096
Fees from banking services, net	19	1,110,375	465,428
Exchange income		143,360	80,996
Trading income, net	20	109,820	110,245
Dividend income	21	1,552	1,247
Gains on non trading investments, net	22	12,936	3,955
Other operating income	23	9,819	8,860
Total operating income		3,093,630	2,260,827
Salaries and employee related expenses		394,900	350,124
Rent and premises related expenses		58,958	55,602
Depreciation and amortization	7	60,854	64,128
Other general and administrative expenses		221,605	175,894
Provision for credit losses, net	6	134,858	67,596
Other operating expenses	24	6,854	11,552
Total operating expenses		878,029	724,896
Net income		2,215,601	1,535,931
Earnings per share (in SAR)	25	49.24	34.13

The accompanying notes 1 to 40 form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2005 and 2004

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2005								
Balance at the beginning of the year, as adjusted	16	2,250,000	2,250,000	955,000	55,519	1,765	559,274	6,071,558
Net income for the year		-	-	-	-	2,215,601	-	2,215,601
Transfer to general reserve	15	-	-	1,545,000	-	(1,545,000)	-	-
Dividends paid		-	-	-	-	-	(944,312)	(944,312)
Proposed gross dividend	26	-	-	-	-	(640,641)	640,641	-
Net changes in fair value and cash flow hedges	16	-	-	-	(157,947)	-	-	(157,947)
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
2004								
Balance at the beginning of the year, as previously reported		2,250,000	2,100,000	505,000	185,989	9,376	-	5,050,365
Adjustments arising from application of revised IAS 10	2b				-	-	442,241	442,241
Adjustments arising from application of revised IAS 39	2b,16				5,131	(5,131)	-	-
Balance at the beginning of the year, as adjusted		2,250,000	2,100,000	505,000	191,120	4,245	442,241	5,492,606
Net income for the year		-	-	-	-	1,535,931	-	1,535,931
Transfer to statutory reserve	15	-	150,000	-	-	(150,000)	-	-
Transfer to general reserve	15	-	-	450,000	-	(450,000)	-	-
Dividends paid		-	-	-	-	-	(821,378)	(821,378)
Proposed gross dividend	26	-	-	-	-	(938,411)	938,411	-
Net changes in fair value and cash flow hedges	16	-	-	-	(135,601)	-	-	(135,601)
Balance at the end of the year, as adjusted		2,250,000	2,250,000	955,000	55,519	1,765	559,274	6,071,558

The accompanying notes 1 to 40 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the years ended December 31, 2005 and 2004

SAR' 000	Notes	2005	2004
OPERATING ACTIVITIES			
Net income		2,215,601	1,535,931
Adjustments to reconcile net income to net cash (used in) from operating activities:			
Amortization of premiums and (accretion of discounts) on investments, net		24,564	16,863
Gains on non trading investments, net		(12,936)	(3,955)
Depreciation and amortization		60,854	64,128
Losses on disposal of fixed assets, net		50	153
Provision for credit losses, net		134,858	67,596
		2,422,991	1,680,716
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(206,706)	(240,717)
Investments held as FVIS, trading		149,125	277,208
Loans and advances		(8,650,136)	(7,805,239)
Other assets		(306,169)	556,435
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		775,242	497,181
Customer deposits		3,389,233	5,069,856
Other liabilities		116,580	20,591
Net cash (used in) from operating activities		(2,309,840)	56,031
INVESTING ACTIVITIES			
Proceeds from sales and matured non trading investments		4,543,442	3,823,860
Purchase of non trading investments		(3,748,296)	(4,173,456)
Investments in associates		(1,259)	(6,528)
Purchase of fixed assets		(85,087)	(63,473)
Proceeds from sale of fixed assets		249	1,076
Net cash from (used in) investing activities		709,049	(418,521)
FINANCING ACTIVITIES			
Term loan		2,437,500	-
Dividends paid	26	(944,312)	(821,378)
Net cash from (used in) financing activities		1,493,188	(821,378)
Decrease in cash and cash equivalents		(107,603)	(1,183,868)
Cash and cash equivalents at the beginning of the year		2,771,240	3,955,108
Cash and cash equivalents at the end of the year	27	2,663,637	2,771,240
Supplemental non cash information			
Net changes in fair value and cash flow hedges		(157,947)	(135,601)

The accompanying notes 1 to 40 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

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 61 branches (2004: 60 branches) in the Kingdom of Saudi Arabia, employing 1,733 people (2004: 1,555). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are 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.", incorporated in Kingdom of Bahrain.

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 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). 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. Islamic products are accounted for using IFRS and in conformity with the accounting policies described in note 2.

In the ordinary course of business, the Bank makes certain estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

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

b) Changes in accounting policies

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

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

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

ii) The Bank has also implemented the revised version of International Accounting Standard (IAS) 10 "Events After the Balance Sheet Date" effective January 1, 2005 with retrospective effect.

Previously, the Bank recognized dividends proposed by the Bank's Board of Directors under other liabilities in the balance sheet. The Bank no longer recognizes a liability for such proposed dividends until approved by the Bank's General Assembly Meeting. Accordingly, the proposed gross dividends are disclosed under shareholders' equity. This change was applied retroactively to January 1, 2004.

c) 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.

d) 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.

e) 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 initially measured at cost (premium received for written options) and are subsequently re-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 generally 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. For all other cash flow hedges, gains or losses recognized initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

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.

f) 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 operating 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.

g) 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.

h) Revenue recognition

Special commission income and expense, as well as fees which are considered an integral part of the effective yield of a financial asset, 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 and exchange income from banking services are recognized when contractually earned. Dividend income is recognized when declared.

i) 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 financial assets held for trading, held as FVIS, held at amortized costs, other, available for sale and held to maturity investments. 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.

j) Investments

All investments securities are initially recognized at cost, being the fair value of the consideration given, including 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 the initial recognition of the various categories of investments, the subsequent period end reporting values 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. 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 arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments.

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 period. Available for sale investments where the fair value cannot be reliably measured are carried at amortized cost.

iii) Held at amortized costs, other

Investments with fixed or determinable payments that are not quoted in an active market are classified as held at amortized costs, other. Held at amortized costs, other investments 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.

iv) 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.

k) Loans and advances

All loans and advances are initially measured at cost.

Following the initial recognition of the various categories of loans and advances, the subsequent period end reporting values are determined as follows:

(i) Held at amortized costs, other

Loans and advances originated or acquired by the Bank that are not quoted in an active market for which fair value has not been hedged, are stated at cost less any amount written off and provisions for impairment.

(ii) 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.

l) Impairment of financial assets

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

iii) For assets carried at cost, impairment is determined based on the present value of future cash flows discounted at the current market rate of return for similar financial assets. The amount of adjustment is included in 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 on a periodic basis. 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 presentation purposes, the provision for credit losses is deducted from loans and advances.

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.

m) Other real estate

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

Properties 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.

n) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other fixed assets 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.

o) Deposits and money market placements

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

Subsequently all commission bearing customer deposits, money market deposits and placements, other than those held as FVIS or where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums are amortized and discounts are accreted on a systematic basis to maturity and taken to special commission income or expense.

Money market deposits, placements and commission bearing customer deposits 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 customer deposits, money market deposits and placements carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

p) 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 he obligation can be reliably measured or estimated.

q) 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 fixed assets. Income from operating lease is recognised on a straight-line basis over the period of the lease.

r) 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.

s) 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.

t) End of service benefits

The benefits payable to the employees of the Bank at the end of their services are provided in accordance with the guidelines set by the Saudi Arabian Labor Laws and included under other liabilities in the balance sheet.

3. Cash and balances with SAMA

SAR' 000	2005	2004
Cash in hand	374,307	279,081
Statutory deposit	1,930,787	1,724,081
Current account	12,199	6,101
Total	2,317,293	2,009,263

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	2005	2004
Current accounts	272,363	215,826
Money market placements	2,004,768	2,270,232
Total	2,277,131	2,486,058

5. Investments, net

a) These comprise the following:

	2005			2004		
SAR' 000	**Domestic**	**International**	**Total**	**Domestic**	**International**	**Total**
i) Held as FVIS						
Fixed rate securities	469,163	-	469,163	103,896	3,762	107,658
Floating rate notes	-	128,414	128,414	502,261	176,145	678,406
Other	-	493,064	493,064	-	453,702	453,702
Held as FVIS	469,163	621,478	1,090,641	606,157	633,609	1,239,766
ii) Available for sale						
Fixed rate securities	-	2,285,208	2,285,208	-	2,120,585	2,120,585
Floating rate notes	-	367,920	367,920	-	293,095	293,095
Equities	33,224	108,098	141,322	70,713	115,880	186,593
Other	1,591,542	-	1,591,542	1,498,649	-	1,498,649
Available for sale, net	1,624,766	2,761,226	4,385,992	1,569,362	2,529,560	4,098,922
iii) Held at amortized costs, other						
Fixed rate securities	6,800,492	36,763	6,837,255	8,053,794	-	8,053,794
Floating rate notes	3,728,466	337,525	4,065,991	3,609,000	337,545	3,946,545
Held at amortized costs, other, net	10,528,958	374,288	10,903,246	11,662,794	337,545	12,000,339
iv) Held to maturity						
Fixed rate securities	1,608,201	139,769	1,747,970	1,609,004	149,107	1,758,111
Held to maturity, net	1,608,201	139,769	1,747,970	1,609,004	149,107	1,758,111
Investments, net	14,231,088	3,896,761	18,127,849	15,447,317	3,649,821	19,097,138

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

	2005			2004		
SAR' 000	**Quoted**	**Unquoted**	**Total**	**Quoted**	**Unquoted**	**Total**
Fixed rate securities	2,424,978	8,914,618	11,339,596	2,273,453	9,766,695	12,040,148
Floating rate notes	496,334	4,065,991	4,562,325	469,240	4,448,806	4,918,046
Equities	35,201	106,121	141,322	71,585	115,008	186,593
Other	482,939	1,601,667	2,084,606	443,577	1,508,774	1,952,351
Investments, net	3,439,452	14,688,397	18,127,849	3,257,855	15,839,283	19,097,138

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

SAR' 000	2005				2004			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value
i) Held at amortized costs, other								
Fixed rate securities	6,837,255	90,439	(90,055)	6,837,639	8,053,794	274,060	(20,605)	8,307,249
Floating rate notes	4,065,991	12,865	-	4,078,856	3,946,545	7,588	-	3,954,133
Total	10,903,246	103,304	(90,055)	10,916,495	12,000,339	281,648	(20,605)	12,261,382
ii) Held to maturity								
Fixed rate securities	1,747,970	22,894	(8,444)	1,762,420	1,758,111	75,884	-	1,833,995
Total	1,747,970	22,894	(8,444)	1,762,420	1,758,111	75,884	-	1,833,995

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

SAR' 000	2005	2004
Government and quasi Government	12,854,642	14,140,934
Corporate	2,447,496	2,237,190
Banks and other financial institutions	2,825,711	2,719,014
Total	18,127,849	19,097,138

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 11 million (2004: SAR 11 million).

Available for sale investments include Islamic securities of SAR 36 million (2004: SAR 37 million). Other available for sale represents Islamic investments Musharaka of SAR 1,592 million (2004: SAR 1,499 million) that are carried at cost as their fair value cannot be reliably measured due to the absence of an active market and non availability of observable market prices for a similar transaction, except those 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 38 million (2004: SAR 36 million) and unquoted equity shares of SAR 68 million (2004: SAR 79 million) that are carried at cost as their fair value cannot be reliably measured.

Unquoted investments include principally Saudi Government Bonds and notes of SAR 12,606 million (2004: SAR 13,878 million).

Investments include SAR 3,104 million (2004: SAR 2,495 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 3,083 million (2004: SAR 2,486 million).

Subsequent to the implementation of the revised IAS 39 on January 1, 2005, investments previously carried at amortized cost of SAR 659 million in held at amortized costs, other, are carried at fair value of SAR 655 million in available for sale.

For investments re-designated as available for sale, the cumulative changes in fair value amounting to SAR 4 million have been recognised in other reserves.

Other reserves as at December 31, 2005 also include SAR 5 million (2004: SAR 5 million) relating to available for sale investments due to the effect of the first time implementation of IAS 39 on January 1, 2001, which will be transferred to the statement of income upon realization.

6. Loans and advances, net

a) These comprise the following:

SAR' 000	2005	2004
i) Available for sale loans and advances		
Performing commercial loans	231,034	470,327
Available for sale loans and advances	231,034	470,327
ii) Held at amortized costs, other, loans and advances		
Performing:		
Overdrafts	7,180,888	5,092,332
Credit cards	219,247	196,027
Commercial loans	27,339,819	23,347,128
Consumer loans	3,236,944	2,210,194
Other	5,203,873	3,514,199
Performing loans and advances, gross	43,180,771	34,359,880
Non performing loans and advances, net	529,278	479,787
	43,710,049	34,839,667
Provision for credit losses	(962,381)	(846,570)
Held at amortized costs, other, net	42,747,668	33,993,097
Loans and advances, net	42,978,702	34,463,424

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 51 million (2004: SAR 48 million).

Loans and advances, net include Islamic products of SAR 6,157 million (2004: SAR 3,650 million).

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

SAR' 000	2005	2004
Balance at the beginning of the year	846,570	803,045
Provided during the year	185,315	163,195
Bad debts written off	(19,047)	(24,071)
Recoveries of amounts previously provided	(50,457)	(95,599)
Balance at the end of the year	962,381	846,570

The net charge to income of SAR 135 million (2004: SAR 68 million) in respect of provision for credit losses for the year is net of recoveries of SAR 50 million (2004: SAR: 95 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
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
2004				
Government and quasi Government	2,557,868	7,766	(7,766)	2,557,868
Banks and other financial institutions	1,635,924	-	(7,110)	1,628,814
Agriculture and fishing	688,169	1,119	(2,839)	686,449
Manufacturing	4,497,221	17,971	(54,268)	4,460,924
Mining and quarrying	398,357	1,938	(1,938)	398,357
Electricity, water, gas and health services	582,116	27	(27)	582,116
Building and construction	3,567,318	178,642	(278,331)	3,467,629
Commerce	8,485,230	88,057	(145,250)	8,428,037
Transportation and communication	1,576,849	6,581	(12,589)	1,570,841
Services	2,746,703	73,449	(146,541)	2,673,611
Consumer loans and credit cards	2,406,221	78,547	(100,325)	2,384,443
Other	5,688,231	25,690	(89,586)	5,624,335
Total	34,830,207	479,787	(846,570)	34,463,424

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	2005	2004
Gross receivables from finance leases:		
Less than 1 year	62,138	30,809
1 to 5 years	53,339	121,326
	115,477	152,135
Unearned future finance income on finance leases	(3,975)	(7,030)
Net receivables from finance leases	111,502	145,105

7. Fixed assets, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2005 Total	2004 Total
Cost					
Balance at the beginning of the year	406,210	42,093	374,503	822,806	833,306
Additions	20,345	16,852	47,890	85,087	63,473
Disposals and retirements	-	(11,496)	(15,197)	(26,693)	(73,973)
Balance at the end of the year	426,555	47,449	407,196	881,200	822,806
Accumulated depreciation and amortization					
Balance at the beginning of the year	116,048	-	254,815	370,863	379,479
Charge for the year	11,533	11,496	37,825	60,854	64,128
Disposals and retirements	-	(11,496)	(14,898)	(26,394)	(72,744)
Balance at the end of the year	127,581	-	277,742	405,323	370,863
Net book value as at December 31, 2005	298,974	47,449	129,454	475,877	-
Net book value as at December 31, 2004	290,162	42,093	119,688	-	451,943

Land and buildings and leasehold improvements as at December 31, 2005 include work in progress amounting to SAR 1 million (2004: SAR Nil) and SAR 11 million (2004: SAR 3 million) respectively. Furniture, equipment and vehicles include information technology related assets.

8. Other assets

SAR' 000	2005	2004
Accrued commission receivable – banks and other financial institutions	584	335
– investments	243,398	258,020
– loans and advances	210,390	33,229
– other	1,350	1,538
Total accrued commission receivable	455,722	293,122
Accounts receivable	186,222	132,048
Positive fair value of derivatives (note 9)	619,765	690,874
Other real estate	5,186	5,186
Other	57,633	40,427
Total	1,324,528	1,161,657

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 futures 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 within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure 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 hedges.

The table below shows 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.

SAR' 000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
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
2004								
Held for trading								
Commission rate swaps	504,672	532,482	77,763,848	15,801,185	17,177,559	41,355,981	3,429,123	69,757,528
Commission rate futures and options	35,494	33,142	16,096,750	-	4,121,250	10,907,500	1,068,000	16,288,055
Forward rate agreements	204	1,541	642,500	-	642,500	-	-	832,604
Forward foreign exchange contracts	122,640	85,967	43,398,580	21,228,272	20,955,661	1,214,647	-	40,218,215
Currency options	88,453	86,238	3,602,742	729,798	2,872,944	-	-	1,893,920
Held as fair value hedges								
Commission rate swaps	69,736	84,139	11,988,352	1,852,713	3,456,996	6,317,855	360,788	11,324,150
Held as cash flow hedges								
Commission rate swaps	179,878	3,875	4,589,000	800,000	512,500	2,767,500	509,000	5,170,250
Total	1,001,077	827,384	158,081,772	40,411,968	49,739,410	62,563,483	5,366,911	145,484,722
Value of netting arrangements	(307,988)	(307,988)	(30,858,182)	(3,830,904)	(7,713,992)	(17,720,710)	(1,592,576)	(28,715,727)
Total after netting (notes 8 and 12)	693,089	519,396	127,223,590	36,581,064	42,025,418	44,842,773	3,774,335	116,768,995

Commission rate swaps include the notional amount of SAR 28,809 million (2004: SAR 30,858 million) with an aggregate positive fair value and a negative fair value of SAR 256 million (2004: SAR 308 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
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
2004						
Fixed commission rate investments	1,498,649	1,499,922	Fair Value	Commission rate swap	4,220	2,557
Fixed commission rate loans	3,539,515	3,449,814	Fair value	Commission rate swap	1,268	65,129
Fixed commission rate due to banks	402,891	400,000	Fair value	Commission rate swap	1,937	511
Fixed commission rate deposits	6,572,096	6,592,798	Fair value	Commission rate swap	62,311	15,942
Floating commission rate investments	4,239,251	4,239,251	Cash flow	Commission rate swap	179,878	3,875

Approximately 83.5% (2004: 86.5%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 24.2% (2004: 32.9%) 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	2005	2004
Current accounts	119,296	125,760
Money market deposits	4,827,107	4,045,401
Total	4,946,403	4,171,161

Money market deposits include deposits against sale of securities of SAR 2,217 million (2004: 1,909 million) with agreement to repurchase the same at fixed future dates.

11. Customer deposits

SAR' 000	2005	2004
Demand	18,467,242	18,732,911
Saving	310,283	358,862
Time	30,598,454	27,420,345
Other	1,717,406	1,192,034
Total	51,093,385	47,704,152

Time deposits include deposits against sale of securities of SAR 797 million (2004: SAR 565 million) with agreement to repurchase the same at fixed future dates. Other customer deposits include SAR 558 million (2004: SAR 616 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR 1,808 million (2004: SAR 742 million).

The above table includes foreign currency deposits as follows:

SAR' 000	2005	2004
Demand	2,740,060	3,043,115
Saving	32,377	37,074
Time	10,643,991	12,728,532
Other	202,963	226,092
Total	13,619,391	16,034,813

12. Other liabilities

SAR' 000	2005	2004
Accrued commission payable – banks and other financial institutions	35,613	18,923
– customer deposits	119,856	56,758
– term loan	28,851	-
– other	69,338	53,290
Total accrued commission payable	253,658	128,971
Accounts payable	418,228	719,783
Negative fair value of derivatives (note 9)	629,933	515,993
Other	537,373	357,865
Total	1,839,192	1,722,612

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

The authorized, issued and fully paid share capital of the Bank consists of 45 million shares (2004: 45 million shares) of SAR 50 each (2004: SAR 50). The ownership of the Bank's share capital is as follows:

SAR' 000	2005	2004
Saudi shareholders	1,550,000	1,550,000
CALYON Corporate and Investment Bank	700,000	700,000
Total	2,250,000	2,250,000

The Board of Directors has proposed on December 17, 2005 a bonus issue of 22.5 million shares of nominal value SAR 50 each effective March 5, 2006 to the existing shareholders on the basis of 1 bonus share for every 2 share held through the capitalization of general reserve 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. No further transfer is required since the limit has been attained in 2004. The statutory reserve is not currently available for distribution.

The appropriation of SAR 1,545 million (2004: SAR 450 million) is made to general reserve from current year net income.

16. Other reserves

SAR' 000	Cash flow hedges	Available for sale Investments	Total
2005			
Balance at the beginning of the year, as adjusted	65,565	(10,046)	55,519
Net change in fair value	(95,174)	(1,713)	(96,887)
Transfer to statement of income	(48,124)	(12,936)	(61,060)
Net movement during the year	(143,298)	(14,649)	(157,947)
Balance at the end of the year	(77,733)	(24,695)	(102,428)
2004			
Balance at the beginning of the year, as previously reported	202,558	(16,569)	185,989
Adjustments arising from application of revised IAS 39	-	5,131	5,131
Balance at the beginning of the year, as adjusted	202,558	(11,438)	191,120
Net change in fair value	43,122	5,336	48,458
Transfer to statement of income	(180,115)	(3,944)	(184,059)
Net movement during the year	(136,993)	1,392	(135,601)
Balance at the end of the year, as adjusted	65,565	(10,046)	55,519

SAR 4 million has been reduced from net change in fair value of available for sale investments for the year ended December 31, 2004 due to the effect of the implementation of revised IAS 39.

An amount of SAR 5 million, in respect of available for sale investments, included in retained earnings as at January 1, 2004 relating to first time implementation of IAS 39 on January 1, 2001 has been adjusted from retained earnings to other reserves.

17. Commitments and contingencies

a) Legal proceedings

As at December 31, 2005 there are 19 (2004: 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, 2005 the Bank has capital commitments of SAR 49 million (2004: SAR 23 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
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
2004					
Letters of credit	3,961,510	1,147,094	302,111	-	5,410,715
Letters of guarantee	2,801,645	4,128,930	2,998,845	42,415	9,971,835
Acceptances	626,891	620,484	70,340	-	1,317,715
Irrevocable commitments to extend credit	439,034	10,605	1,454,785	1,475,243	3,379,667
Other	6,750	-	-	-	6,750
Total	7,835,830	5,907,113	4,826,081	1,517,658	20,086,682

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2005, is SAR 25,402 million (2004: SAR 18,823 million).

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

SAR' 000	2005	2004
Government and quasi Government	1,051,358	1,421,805
Corporate	15,770,346	15,526,074
Banks and other financial institutions	4,461,362	2,876,277
Other	654,232	262,526
Total	21,937,298	20,086,682

d) Assets pledged

Assets pledged as collateral with other financial institutions for security deposits are as follows:

	2005		2004	
SAR' 000	Assets	Related liabilities	Assets	Related liabilities
Held at amortized cost, other investments (note 5)	796,295	797,370	1,024,391	1,026,774
Available for sale investments (note 5)	2,307,840	2,216,882	1,470,986	1,447,396
Total	3,104,135	3,014,252	2,495,377	2,474,170

e) Operating lease commitments

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

SAR' 000	2005	2004
Less than 1 year	18,802	15,071
1 to 5 years	46,553	35,379
Over 5 years	39,045	20,707
Total	104,400	71,157

18. Special commission income and expense

SAR' 000	2005	2004
Special commission income		
Investments – held as FVIS	19,041	30,167
– available for sale	160,396	90,504
– held at amortized cost, other	588,225	717,182
– held to maturity	96,540	102,181
	864,202	940,034
Due from banks and other financial institutions	105,250	51,934
Loans and advances	2,042,197	1,119,695
Total	3,011,649	2,111,663
Special commission expense		
Due to banks and other financial institutions	217,861	68,079
Customer deposits	1,034,917	453,488
Term loan	53,103	-
Total	1,305,881	521,567

19. Fees from banking services, net

SAR' 000	2005	2004
Fee income	1,251,556	507,280
Fee expense	141,181	41,852
Net Fee	1,110,375	465,428

20. Trading income, net

SAR' 000	2005	2004
Foreign exchange	(7,369)	3,937
Debt securities	5,778	3,280
Derivatives	72,048	83,339
Other	39,363	19,689
Total	109,820	110,245

21. Dividend income

SAR' 000	2005	2004
Available for sale investments	1,552	1,247
Total	1,552	1,247

22. Gains on non-trading investments, net

SAR' 000	2005	2004
Available for sale	12,936	3,944
Held at amortized cost, other	-	11
Total	12,936	3,955

23. Other operating income

SAR' 000	2005	2004
Gains on disposal of fixed assets	126	168
Other	9,693	8,692
Total	9,819	8,860

24. Other operating expenses

SAR' 000	2005	2004
Loss on disposal of fixed assets	176	321
Loss on disposal of other real estate	-	5,600
Other	6,678	5,631
Total	6,854	11,552

25. Earnings per share

Earnings per share are calculated based on the net income divided by 45 million shares, the total number of outstanding shares at the end of the year.

26. Proposed gross dividend, zakat and income tax

Gross dividend

SAR' 000	2005	2004
Interim dividend	385,038	379,137
Final proposed dividend	255,603	559,274
Total	640,641	938,411

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 38 million (2004: SAR 26 million) which will be deducted from their share of dividend. The net total dividend to Saudi shareholders is SAR 13 per share (2004: SAR 20 per share) out of which the interim dividend paid was SAR 8 per share (2004: SAR 8 per share).

ii) Income tax

The income tax payable in respect of the foreign shareholder on the current year's share of income is approximately SAR 138 million (2004: SAR 143 million) which will be deducted from its share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 61 million (2004: SAR 149 million).

27. Cash and cash equivalents

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

SAR' 000		2005	2004
Cash and balances with SAMA excluding statutory deposits	(note 3)	386,506	285,182
Due from banks and other financial institutions maturing within ninety days		2,277,131	2,486,058
Total		2,663,637	2,771,240

28. Business segments

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

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

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

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

Transactions between the business segments are reported according to the Bank's internal transfer pricing policy. The Bank's total assets and liabilities as at December 31, 2005 and 2004, its total operating income and expenses, and its net income for the years then ended by business segment are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
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
2004				
Total assets	5,590,311	30,746,893	23,332,279	59,669,483
Total liabilities	33,133,151	15,359,376	5,105,398	53,597,925
Total operating income	944,293	666,771	649,763	2,260,827
Total operating expenses	469,734	154,413	100,749	724,896
Net income	474,559	512,358	549,014	1,535,931

a) The Bank's credit exposure by business segment is as follows:

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
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
2004				
Balance sheet assets	5,293,379	30,682,267	21,801,156	57,776,802
Commitments and contingencies	626,714	8,452,271	-	9,078,985
Derivatives	-	307,589	2,786,692	3,094,281

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

29. 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 17.

30. Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
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
2004						
ASSETS						
Cash and balances with SAMA	1,984,548	331	7,722	16,662	-	2,009,263
Due from banks and other financial institutions	113,186	107,815	2,214,371	16,249	34,437	2,486,058
Investments, net	15,447,317	281,067	1,558,821	1,341,071	468,862	19,097,138
Loans and advances, net	30,934,169	1,784,338	1,163,247	144,142	437,528	34,463,424
Total	48,479,220	2,173,551	4,944,161	1,518,124	940,827	58,055,883
Liabilities						
Due to banks and other financial institutions	1,223,891	799,245	2,041,545	104,857	1,623	4,171,161
Customer deposits	47,526,007	29,816	24,065	643	123,621	47,704,152
Total	48,749,898	829,061	2,065,610	105,500	125,244	51,875,313
Commitments and contingencies	16,302,262	747,687	2,469,515	160,515	406,703	20,086,682
Credit exposure (credit equivalent value)						
Commitments and contingencies	7,336,903	366,751	1,146,160	56,255	172,916	9,078,985
Derivatives	969,768	75,523	1,716,155	326,835	6,000	3,094,281

The balances held under due from banks and other financial institutions for 2004 under the Kingdom of Saudi Arabia include money market placements of SAR 104 million (2005: Nil), on account of foreign branches of local banks.

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

SAR ' 000	2005 Non performing, net	2005 Provisions for credit losses	2004 Non performing, net	2004 Provisions for credit losses
Kingdom of Saudi Arabia	521,512	954,615	472,021	838,804
GCC and Middle East	7,766	7,766	7,766	7,766
Total	529,278	962,381	479,787	846,570

31. 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	2005 Long	2004 Long
US Dollar	551,895	81,476
Euro	70,902	68,506
Pound Sterling	18,309	2,415
Other	9,520	4,299

32. 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
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%
Fixed assets, 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	-	-	-
2004							
Assets							
Cash and balances with SAMA	-	-	-	-	2,009,263	2,009,263	-
Due from banks and other financial institutions	2,270,232	-	-	-	215,826	2,486,058	2.44%
Investments, net	4,646,426	1,931,018	9,757,794	2,121,605	640,295	19,097,138	4.69%
Loans and advances, net	23,495,804	7,658,913	2,012,039	1,274,536	22,132	34,463,424	3.95%
Fixed assets, net	-	-	-	-	451,943	451,943	-
Other assets	-	-	-	-	1,161,657	1,161,657	-
Total assets	30,412,462	9,589,931	11,769,833	3,396,141	4,501,116	59,669,483	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	3,736,475	218,177	90,749	-	125,760	4,171,161	2.35%
Customer deposits	21,797,977	3,765,588	4,033,361	-	18,107,226	47,704,152	2.25%
Other liabilities	-	-	-	-	1,722,612	1,722,612	-
Shareholders' equity	-	-	-	-	6,071,558	6,071,558	-
Total liabilities and shareholders' equity	25,534,452	3,983,765	4,124,110	-	26,027,156	59,669,483	-
On balance sheet gap	4,878,010	5,606,166	7,645,723	3,396,141	(21,526,040)	-	-
Off balance sheet gap	(6,123,241)	(61,975)	4,832,971	1,352,245	-	-	-
Total commission rate sensitivity gap	(1,245,231)	5,544,191	12,478,694	4,748,386	(21,526,040)	-	-
Cumulative commission rate sensitivity gap	(1,245,231)	4,298,960	16,777,654	21,526,040	-	-	-

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.

33. 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 and the availability of liquid funds. 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	Non 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
Fixed assets, 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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non fixed maturity	Total
2004						
Assets						
Cash and balances with SAMA	-	-	-	-	2,009,263	2,009,263
Due from banks and other financial institutions	2,270,232	-	-	-	215,826	2,486,058
Investments, net	690,168	2,038,543	12,132,767	3,595,365	640,295	19,097,138
Loans and advances, net	11,360,862	5,292,686	6,578,737	6,313,563	4,917,576	34,463,424
Fixed assets, net	-	-	-	-	451,943	451,943
Other assets	-	-	-	-	1,161,657	1,161,657
Total assets	14,321,262	7,331,229	18,711,504	9,908,928	9,396,560	59,669,483
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,736,475	218,177	90,749	-	125,760	4,171,161
Customer deposits	19,980,258	3,765,588	4,033,361	-	19,924,945	47,704,152
Other liabilities	-	-	-	-	1,722,612	1,722,612
Shareholders' equity	-	-	-	-	6,071,558	6,071,558
Total liabilities and shareholders' equity	23,716,733	3,983,765	4,124,110	-	27,844,875	59,669,483

34. Fair values of financial assets and liabilities

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

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

35. 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 performed 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	2005	2004
Credit Agricole Group		
Investments	547,610	467,549
Due from banks and other financial institutions	42,427	141,356
Due to banks and other financial institutions	290,253	70,146
Derivatives (at negative fair value, net)	6,668	143,810
Commitments and contingencies	1,152,984	482,535
Associates		
Investments	37,631	36,018
Due from banks and other financial institutions	993	-
Loans and advances	3,750	-
Due to banks and other financial institutions	72,345	140,537
Customer deposits	15,189	-
Commitments and contingencies	1,784	1,828
Directors, other major shareholders' and their affiliates		
Loans and advances	1,285,985	1,039,118
Customer deposits	3,887,418	3,287,650
Derivatives (at positive fair value)	9,825	28,477
Commitments and contingencies	257,682	127,457
Bank's mutual funds		
Loans and advances	2,402	921
Customer deposits	482,835	475,856

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	2005	2004
Special commission income	78,423	38,555
Special commission expense	150,555	84,310
Fee from banking services	61,765	21,151
Directors' remuneration	1,510	1,531
Other general and administrative expenses	198	99

The total amount of short term benefits paid to key management personnel during the year is SAR 34 million (2004: SAR 32 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.

36. 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.

	2005		2004	
SAR' 000	**Capital**	**Ratios %**	**Capital**	**Ratios %**
Tier 1	6,929,297	13.40	5,512,284	12.55
Tier 1 + Tier 2	7,184,900	13.89	6,071,558	13.82

	Risk weighted assets					
	2005			2004		
SAR' 000	**Carrying value or notional**	**Credit equivalent**	**Risk weighted assets**	**Carrying value or notional**	**Credit equivalent**	**Risk weighted assets**
Balance sheet assets						
0 %	22,942,247		-	22,075,506		-
20 %	2,916,102		583,220	3,183,776		636,754
100 %	41,643,031		41,643,031	34,410,201		34,410,201
Total	67,501,380		42,226,251	59,669,483		35,046,955
Commitments and contingencies						
0 %	-	-	-	45,147	22,574	-
20 %	3,046,666	1,428,945	285,789	2,276,879	1,101,884	220,376
100 %	18,890,632	8,435,857	8,435,857	17,764,656	7,954,527	7,954,527
Total	21,937,298	9,864,802	8,721,646	20,086,682	9,078,985	8,174,903
Derivatives						
0 %	10,872,255	64,107	-	14,653,786	87,145	-
20 %	94,386,867	2,523,035	504,608	102,616,821	2,686,590	537,318
50 %	14,904,800	527,458	263,729	9,952,983	320,546	160,274
Total	120,163,922	3,114,600	768,337	127,223,590	3,094,281	697,592
Total risk weighted assets			51,716,234			43,919,450

37. 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 FVIS 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.

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 2,571 million (2004: SAR 779 million).

38. Prospective changes in accounting standards

Certain new IFRS's and amendments and interpretations to existing IFRS's, International Accounting Standards (IAS) and International Financial Reporting Interpretation Committee (IFRIC) have been published and are mandatory for accounting period beginning on or after January 1, 2006. The Bank is currently assessing the impact of these standards on its future financial reporting. These include:

IAS 39 - Fair value option (effective from January 1, 2006)

IAS 7 - Financial instrument disclosure (effective January 1, 2007) and

IFRIC IV - Determining whether an arrangement contains a lease (effective from January 1, 2006)

39. Comparative figures

Certain prior year figures have been reclassified to conform with current year presentation.

40. Board of directors approval

The financial statements were approved by the Board of Directors on Dhu Al-Hijah 17, 1426H corresponding to January 17, 2006.