NCB الأهلي

Annual Report 2005

بسم الله الرحمن الرحيم

Custodian of the Two Holy Mosques

King Abdullah Bin Abdulaziz Al-Saud

His Royal Highness Prince Sultan Bin Abdulaziz Al-Saud

Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation, and Inspector General

Financial Highlights

Return on Average Assets
Improved to 3.6 percent in 2005.

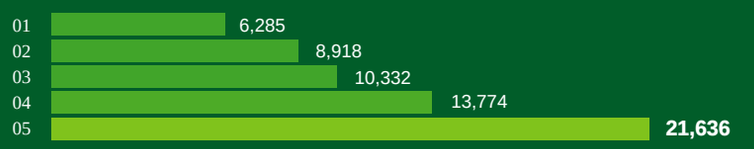
Ratio of Shareholders' Equity to Assets
Improved to 14.8 percent in 2005.

Capital Adequacy Ratios
Tier 1 (core capital) 25.1 percent and Tier 2 (core and supplementary capital) 26.3 percent.

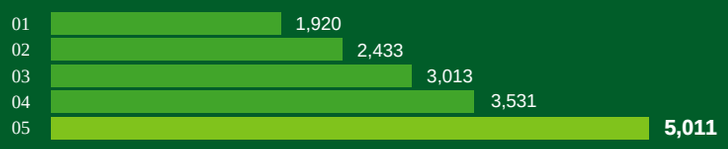
Ratings
In 2005 Fitch upgraded NCB's long-term rating to the sovereign ceiling of *A*. Standard & Poor's raised its rating to *A-*.

Customer Deposits SR millions

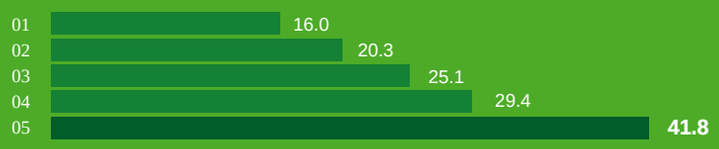
Total Assets SR millions



Shareholders' Equity SR millions



Net Income SR millions



Earnings Per Share Saudi Riyals

Return on Average Equity Percent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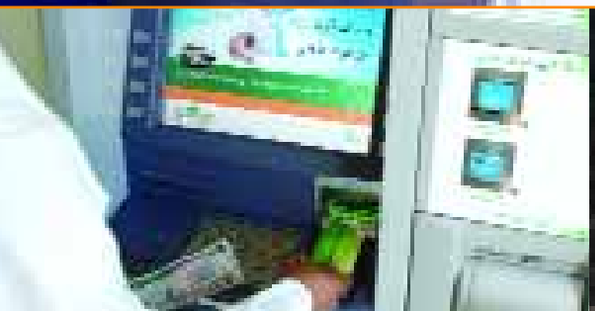

Operational Highlights

The Bank focused strongly on growth of the customer base across all business sectors.

Expansion continued of the branch network and the range of electronic channels.

Conversion of the retail network to Islamic banking neared completion by the year-end.

The Bank retained its status as the fastest growing credit card issuer in Saudi Arabia.

NCB lead-managed and underwrote the successful IPO for Sadafco. This was the first time an IPO has been fully underwritten by a single Saudi bank.

AlAhli Tadawul was launched for trading shares via the Internet – more than half of all share trading is now conducted by customers online.

Two new mutual funds were launched, investing in the Saudi and GCC equity markets.

Two new alternative investment products were introduced, both firsts for a Saudi bank. NCB now has the most comprehensive range of Shariah-compliant structured products in the region.

Saudization reached 86 percent, following further efforts to encourage Saudis to pursue careers in the financial sector.

NCB's Vision

NCB is the premier financial group in the region, providing services in selected markets:

The leading Islamic retail bank
delivering service quality, convenience and innovation for highest customer satisfaction

The market leader in consumer finance
excelling in risk management, innovative marketing, distribution and processing

The preferred provider of financial solutions for targeted business clients
leading in risk management, products, speed and quality

The trusted wealth manager
offering a comprehensive product range, expert advice and service quality

The first choice investment house
excelling in performance, innovation and placement

NCB's purpose is to increase total shareholder return and support the development of the country

NCB's core values focus on people, customers, and flawless execution

People

We insist on personal integrity

We value and recognize teamwork and collaboration

We practice open communication

We commit ourselves to learning and self-development

We reward for performance

Customers

We are market-oriented and customer-driven

We deliver superior customer service

We anticipate and meet customer needs better than competitors

We maintain absolute confidentiality

Execution

We insist on flawless execution in everything we do

We insist on personal ownership and accountability

We fight complacency and act with a sense of urgency

We improve productivity continuously

Managers lead by example

Chairman's Statement

On behalf of the Board of Directors, I am pleased to report that The National Commercial Bank (NCB) has again attained record results during 2005. These have been achieved in a dynamic economic environment in Saudi Arabia that has ensured higher levels of business for the Bank in all its main areas of activity. Our vibrant new identity has undoubtedly raised awareness of NCB and this, allied to our expanding branch network, especially in Riyadh, and a growing array of electronic channels, has resulted in marked growth of our customer base. Today NCB is increasingly recognized as a pre-eminent financial institution in the region, well placed to further grow its business and continuing to serve the Saudi nation.

The Bank's net income improved to its highest ever level, SR 5.0 billion, in 2005. This is an increase of 42 percent over the previous year, and more than double the figure in 2002. However, in order to enhance shareholders' equity, the Board decided not to pay an interim dividend in the course of the year and, as a result, at the end of 2005 shareholders' equity stood at SR 21.6 billion, an increase of 57 percent. Earnings per share rose to SR 41.8, from SR 29.4 in 2004. The return on average equity remained strong at 28.3 percent, and the return on average assets continued to improve, rising to 3.6 percent.

During the year NCB has focused on expanding all customer segments. We have therefore concentrated on enhancing the professionalism of our staff by providing specially developed training programs.

In our branches we have continued to implement the new design concept first introduced in 2004. This has created a more attractive and efficient environment for customers and staff alike.

Corporate governance has been another area of focus, part of the ongoing process to build a compliance culture throughout the Bank to ensure maximum protection of our assets, revenue streams and returns to shareholders.

Demand for Shariah-compliant financial services continues to grow. NCB has responded by pursuing a policy of converting the branch network to be fully Shariah-compliant, a process now nearing completion. We have also developed an ever widening portfolio of products and services responding to the needs of our rapidly expanding customer base.

On behalf of the Board, I would like to extend my thanks to you, our shareholders, for your unwavering support, to NCB's customers, who are a continual source of strength and confidence, and to our management and staff for their dedication and professionalism.

I would also like to thank the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency, and the Capital Market Authority for their unfailing support and encouragement to the Saudi banking and financial services sectors.

The Bank is fully committed to adhering to proper policies and standards in order to achieve a higher degree of transparency and increasingly better performance in the Saudi financial services sector.

In conclusion, I would like to take this opportunity to express our sincere appreciation to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud, whom we congratulate on his succession and wish every success in leading the nation for many years to come. I also thank His Royal Highness Prince Sultan Bin Abdulaziz Al-Saud, the Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation, and Inspector General, along with all government ministers for their ongoing support for the Saudi economy and especially the financial sector.

Abdullah Salim Bahamdan
Chairman

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Board of Directors

Abdullah S. Bahamdan
Chairman
Chairman of the Executive Committee
Board Member: The National Gas and Industrialization Company; Yamama Saudi Cement Company; Saudi Petrochemicals Company; The Saudi Research and Marketing Group, LLC; and Al-Jazirah Corporation for Press, Printing and Publishing.

Abdulaziz A. Al-Zaid
Director and Member of
the Executive Committee
Assistant Governor for Investment, General Organization for Social Insurance (GOSI). Chairman of the Board, Granada Center. Board & Executive Committee Member, Al-Qassim Cement Company.

Mutlaq A. Al-Mutlaq
Director
and Member of
the Executive Committee
President, Al-Mutlaq Group. Chairman, Al-Jazirah Corporation for Press, Printing & Publishing. Board Member, The Middle East Battery Company.

Abdullah M. Al-Gholaikah
Director and Member of
the Audit Committee
Former Governor of the Saline Water Conversion Corporation. Member, Majlis Al Shoura (The Consultative Council).






Mohamed H. Al-Mady
Director
Vice Chairman & CEO, Saudi Basic Industries Corporation (SABIC). Chairman and Managing Director, Saudi Arabian Fertilizer Company (SAFCO). Chairman of the Supervisory Board, SABIC Europe B.V. Board Member, Aluminium Bahrain (ALBA). Member: Economic Offset Committee; US-Saudi Business Council.

Abdullah M. Rehaimy
Director
President of General Authority for Civil Aviation. Board Member: Saudi Arabian Airlines; The Saudi Arabian Turkish Investment Company. Board Member & Chairman of the Executive Credit Committee, The Saudi Credit Bank. Board Member & Chairman of the Audit Committee: The Eastern Cement Company; The National Company for Cooperative Insurance. Advisory Board Member, Saudi Entrepreneurship Development Institute. Board Member of Saudi Arabian Airlines, Member of Advisory Board to Singapore Aviation Academy.

Ibrahim M. Shams
Director and Member of the Audit Committee
Chairman, Al-Kamal Import Office Company. Board Member and Chairman of the Audit Committee, Arabian Cement Company Limited.

Abdulhadi A. Shayif
Director and Member of the Executive Committee
General Manager up to September 2005
Board Member: Saudi Railways Organization; The Saudi Cables Company. Member, Board of Directors and Executive Committee: Amwal Invest (an investment bank in Jordan); The Union of Arab Banks (Beirut, Lebanon); The Arab Academy for Banking & Financial Studies (Amman, Jordan). Member, Board of Trustees of The Institute of Banking (KSA) and Board Member of Jeddah Marketing Board. Recipient of the Grand Cordon of the Order of Al-Istiqlal (Independence) from HM King Abdullah II, The King of Jordan.

Abdallah Y. Al-Mouallimi
Director and Member of the Audit Committee
President, Dar Al-Mouallimi Consulting, Chairman, Jeddah Chamber of Commerce and Industry, Advisor to the Olayan Group, Former Mayor of Jeddah, Former Member of Majlis Al Shoura (The Consultative Council).

Abdulaziz I. Al-Omar
Director and Member of the Executive Committee
Financial Advisor, Public Investment Fund (PIF). Board and Member of the Executive Committee, Stusid Bank (Tunis). Member of the Audit Committee, Saudi Telecom Company (STC).

Board of Directors' Report
(key extracts)

Financial results

NCB witnessed substantial improvement in all financial performance indicators during 2005. Total operating income increased by 25.5 percent to reach SR 7,491 million in 2005. Net income increased by 41.9 percent to reach SR 5,011 million, and earnings per share rose from SR 29.4 in 2004 to SR 41.8 in 2005. The Bank continued to maintain its high profitability ratios as return on average shareholders' equity reached 28.3 percent and, excluding proposed dividend, this ratio would have been 29.3 percent. Return on average assets reached its highest level of 3.6 percent in 2005.

The principal factors that contributed to these achievements were the following:

- 16 percent growth in net special commission income (SR 726 million) as a result of expansion in lending activities.
- 69 percent growth in fee income from banking services of SR 685 million.
- SR 549 million in doubtful loan and bad debt recoveries resulting in a substantial drop of 61 percent in the provision expense for credit losses, compared to 2004.
- Improved operational efficiency which drove improvement in the profit margin (net profit to operating income) from 59.2 percent in 2004 to 66.9 percent in 2005, and asset productivity (operating income to average assets) from 4.8 percent in 2004 to 5.4 percent in 2005. The revenue to expense ratio improved from 3.05 times in 2004 to 3.24 times in 2005.

At year-end 2005, NCB maintained its leadership position among Saudi banks in terms of balance sheet volume. Total assets grew by 11.8 percent to SR 145,789 million; asset growth was driven principally by a rise in loans and advances, which grew by SR 11,824 million (18.6 percent) to reach SR 75,336 million, followed by an increase in investments of SR 4,033 million (8.2 percent). Customer deposits increased by SR 6,206 million (6.3 percent) to reach SR 104,959 million by the year-end.

Strong earnings performance coupled with revaluation gains of available for sale investments enabled the Bank to continue to build its capital base. Shareholders' equity reached SR 21,636 million, an increase of SR 7,862 million (57 percent); excluding the proposed dividend, the increase in shareholders' equity would have been SR 6,662 million (48.4 percent). As a result, the Bank's capital adequacy ratio (core and supplementary capital) reached 26.3 percent, which compares favorably with local and international standards and reflects the robust financial condition of the Bank.

Appropriation of income

The Board of Directors recommends that net income for the year 2005 be appropriated and distributed as follows:

	SR '000
Net income for the year	5,011,008
Appropriated/distributed as follows:	
Transfer to Statutory Reserve (25% of net income)	1,252,752
Transfer to Statutory Reserve - Lebanon branch	676
Transfer to General Banking Risks - Lebanon branch	162
Transfer to General Reserve	2,400,000
Proposed dividend (SR 10 per share)	1,200,000
Zakat	126,046
Transfer to retained earnings	31,372
Total	**5,011,008**

Directors' remuneration

Remuneration of the Board of Directors and Audit committee for the year totaled SR 1,080 thousand (2004: SR 1,200 thousand). Attendance allowance fees for Directors, the Executive committee and the Audit committee totaled SR 399 thousand (2004: SR 477 thousand). Their travel and related allowance expenses were SR 136 thousand (2004: SR 148 thousand).

Compensation of Directors in their capacity as Executive Directors of the Bank for 2005 amounted to SR 28,803 thousand (2004: SR 19,597 thousand).

Auditors

At the Annual Ordinary General Meeting of shareholders held on 25 April 2005 (corresponding to 16/3/1426) Messrs KPMG Al Fozan & Bannaga and Messrs Ernst & Young were reappointed as the Bank's joint external auditors (domestic and overseas) for the fiscal year ending on 31 December 2005.

Change in executive management

Abdulhadi Shayif, who has served as the Bank's General Manager since 1999, elected to retire from his executive duties as of 30 September 2005. He continues to serve on NCB's Board of Directors.

Abdulkareem Abu Alnasr, who had served as the Bank's Deputy General Manager since 2002, was appointed as General Manager as of 1 October 2005.

On 31 December 2005, pursuant to the Board of Directors' implementation of comprehensive new Corporate Governance measures, Abdulkareem Abu Alnasr was appointed to the newly created post of Chief Executive Officer, effective 1 January 2006. The posts of Managing Director and General Manager were cancelled. Shaikh Abdullah Bahamdan continues to serve as the Bank's Chairman of the Board.

As part of the Corporate Governance initiative, three new Board committees were also created: The Credit, Risk Management, and Nomination and Compensation committees. These new committees are in addition to the two existing Board committees, namely, the Executive and Audit committees.

The Board of Directors takes this opportunity to express its appreciation and gratitude to the Bank's customers, correspondents, shareholders and staff for their support of the Bank. The Board also extends its thanks to the Ministry of Finance, the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority for their continuous support and backing of all that contributes to the development of the Saudi banking sector, the results of which were reflected in the economic growth that is being realized in the Kingdom under the guidance and direction of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud, and His Royal Highness Prince Sultan Bin Abdulaziz Al-Saud, the Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation, and Inspector General.

Board of Directors

Abdulkareem A. Abu Alnasr Chief Executive Officer

2005 was an excellent year for the Saudi Arabian economy with robust growth witnessed across all sectors. In this environment NCB completed another successful year, as demonstrated by our outstanding results. These clearly confirm both the success of our customer oriented approach and our leading status in Saudi Arabia.

Throughout the year we maintained our focus on the needs of customers by expanding our branch and ATM networks, developing our electronic channels and expanding our call center, establishing three Regional Corporate Service centers, and introducing *AlAhli Tadawul* to enable investors to trade on the Saudi stock market over the Internet. In addition to pursuing these activities we have worked to enhance the capabilities of our employees to create excellent value for shareholders and to strengthen our balance sheet. Our overall aim has been to build further on our reputation as the pre-eminent financial services group in Saudi Arabia.

People

Success in 2005 was a direct consequence of the NCB team's commitment to satisfying the needs of customers. The Bank's human resource program centers on a philosophy of managing talent. This is seen as a three-part process: identifying talent, both existing and new; developing talent through coaching and training; and recognizing and rewarding exceptional performance.

NCB constantly searches for new, highly skilled people, especially those with knowledge and experience of the local and international financial environment. The Human Resource Management System and the People Review Process, introduced in the last two years, assist in identifying existing staff with specific skills and abilities, positioning them to optimize their innate abilities and meeting the Bank's strategic objectives. The carefully chosen candidates derive maximum benefit from our customized programs that develop management skills and prepare them to assume leadership positions within the Bank.

In the past year, 18,775 man-days of training were provided to staff. The comprehensive program of courses ensures that our people constantly acquire greater product knowledge and develop a sales and customer service oriented performance culture. The courses also help staff to achieve their career aspirations, equipping them with a level of professionalism appropriate to a major Saudi financial institution. Subject areas also encompass legal and regulatory issues including all SAMA and international guidelines such as compliance, and know-your-customer.

In association with INSEAD Business School, the Bank developed the REACH Executive Development Programme to further hone the capabilities of exceptional individuals who show leadership potential.

Recognizing achievement and creating a supportive, rewarding and ultimately productive work environment is integral to the Bank's human resources philosophy which provides motivation, instills loyalty and encourages the pursuit of long-term careers with the Bank.

At 31st December, NCB employed 4,796 staff. Of these, 86.1 percent are Saudi nationals, and 832 of them were recruited during 2005. We were honored early in the year to receive the Prince Naif Award for Saudization, recognizing NCB's pioneering role in this field and its achievements in employing and training Saudi nationals.

Customers

NCB is committed to the drive towards becoming a customer focused organization. This strategic re-orientation is being implemented to build upon the goodwill created between the Bank and its customers over the last five decades.

The beginning of this process was marked by the introduction of the Bank's new corporate identity in 2004, which received outstanding response from the marketplace. The new corporate identity encompasses a sense of the unity and partnership that has long existed between NCB and its customers. The corporate campaign *Together as One* under the banner of 'One Nation, One Bank, One Family' proved highly successful in raising market awareness of NCB and its distinct offering.

These customer initiatives helped to stimulate strong growth of our customer base during 2005, both individuals and corporations, and contributed to an increase in activity across all business lines. Keeping pace with increasing demand, we also continued to enhance the Bank's range and quality of services, and to grow our portfolio of innovative products.

Focusing on the customer

NCB has brought together a strong team of marketers to spearhead the Bank's reorientation towards a truly customer-centric culture, applying holistic marketing strategies based on insights into the needs and wants of our customers.

The expanded and decentralized marketing function is now better positioned to act proactively in meeting the rapid pace of change and greater customer sophistication. The Customer Management Group has been reorganized to identify customer needs, develop products and services, and deliver these to market in the most timely and efficient way. Advertising of the Bank's products and services has been restructured and improved, as have product literature and merchandising material. In-depth market research has also been undertaken to improve our understanding of customers and to assist in formulating the Bank's response to their current and future needs.

Individual banking

The Bank took critical steps during the year to improve its service and to introduce new products designed specially for individual customers. Retail staffing increased by 450 people, 42 branches were opened or refurbished incorporating the new customer friendly design format, and we expanded our ATM and POS networks. The process of converting all branches to being Shariah-compliant is nearing completion. Our share trading facilities have been expanded in line with demand, as has our sales activity. In short, we have continued to increase capacity and capability so that our customers are better served.

A third-year Business student at King Saud University in Riyadh, Abdulrahman Al Kosier finds that Ajyal AlAhli Youth Banking program allows him to control his finances at this key time of life. Benefits include a free pre-paid credit card, 24-hour access to AlAhli PhoneBank and discounts at leading retailers.

Wessam AlAhli, the premium service for affluent customers, provides Essam Jameel with the special attention he expects as a dynamic entrepreneur. He can invest in a range of mutual funds and dedicated relationship officers are on hand to provide the highest level of personal service, allowing him to conduct his business quickly and confidentially.

The Bank's personal finance portfolio, one of the highest credit quality, continued to grow during the year in response to customer demand, and a new Shariah-compliant Auto Leasing product was launched in another innovation that shows exciting potential. Continued growth in this area is expected as the offering expands further to meet the needs of different customer segments with innovative, customer-friendly and Shariah-compliant products.

Wessam AlAhli, the Bank's priority banking package for the affluent customers, was revamped during 2005 with a new image and incorporating a number of improved features, including customer relationship managers.

The year saw NCB's Islamic credit card relaunched with more customer-friendly features, and the new Intilak credit card introduced with a new upmarket image, providing entry into valuable new markets. These developments will ensure that NCB continues to have the fastest growing credit card portfolio in Saudi Arabia.

Our progress in providing customers with a full range of convenient channels was significant in 2005. NCB gained a greater and more visible presence with 255 branches, an increase of nine over 2004. The new branch design caters more effectively to the needs of targeted customer segments. It conveys a modern image while retaining the essence of NCB's Saudi heritage, providing sophisticated tools for managing customer relationships, emphasizing electronic channels, and enabling more effective merchandising.

While total financial transactions climbed to 113.3 million in 2005, 78.8 percent were performed via the Bank's various electronic channels. The number of POS (point-of-sale) machines was expanded to 6,950 and by year-end ATM machines numbered 942, of which 118 incorporate the automated cash deposit service and allow for the settlement of utility bills. ATMs now handle over half of all cash deposits, supporting our drive to provide customers with a convenient service 24-hours a day, seven days a week.

In 2005 NCB was honored with a number of awards for its e-banking services, including the *Saudi Business Awards* for 'Best Electronic Services' and 'Best IT Manager' and the *Datamatix* award for 'Best e-Initiative Bank in Saudi Arabia'. At the *Middle East Banking and Finance Awards* ceremony in Dubai during September, NCB received the 'Middle East e-Banking Country Award' for Saudi Arabia. Such external recognition is a notable achievement at a time when the electronic banking environment is becoming increasingly demanding and competitive.

During the year NCB was also recognized by *Euromoney* as the 'Best Islamic Service Provider Bank in the Middle East', the 'Best Bank in the Middle East' by *The Banker*, and the 'Best Retail Bank in Saudi Arabia' by *ITP*.

Corporate banking

Corporate clients received substantial attention during the year. NCB improved its penetration of the local corporate market and expanded the level of business transacted by providing financing and tailored solutions in meeting different clients' requirements.

The Bank's project finance activities, both Islamic and conventional, have again seen a marked increase as clients initiated a number of new infrastructure and industrial projects. These included the landmark Shouaiba power and water plant, the first government sponsored, independent power and water project to be undertaken in the Kingdom, as well as a number of new petrochemical developments.

The year saw growth in advisory business for companies such as Sadafco and Tasnee. NCB subsequently brought the first of these to the Saudi market by way of an IPO, which the Bank fully underwrote. This was the first time an underwriting of this nature had been undertaken by a single bank in the Kingdom. We were also mandated to advise on several other IPOs that will come to the market during the next year, including Saudi International Petrochemical Co. (Sipchem) and United International Transportation Co. (UITC).

The International division was restructured during the year to improve market coverage with the focus on trade related business for clients within the Kingdom. For our correspondents worldwide, a dedicated customer service unit was created within the International division, enhancing service quality.

In light of the growing number of corporate clients pursuing their business activities in accordance with Islamic Shariah, we introduced a number of new products and services including specialized real estate financing backed by rental proceeds or real estate assets, and non-recourse asset backed Islamic finance for auto receivables.

In line with our strategy and the government's focus on strengthening Saudi Arabia's small to medium size enterprise (SME) segment, the Business Banking division was restructured during 2005 with a dedicated Business Development unit formed in each region to expand the Bank's reach and capability to serve this important and growing market.

During the year NCB established three new Regional Corporate Service centers and restructured the Trade Services customer support units. The first of these offers commercial customers dedicated counter services in Jeddah, Riyadh and Dammam. The Trade Services desks have been restructured to be more client-oriented and are now in all three regions.

AlAhli e-Corp, the Internet-based cash management system, was enhanced during 2005 with added solutions for defined market segments. We also worked on increasing customer awareness and cross-selling of the Bank's products and services, especially structured treasury, retail and investment products.

In the coming year it is our aim to further expand the Bank's corporate client base, especially in the manufacturing and contracting sectors, in pursuing our objective to become the Kingdom's preferred provider of financial solutions and in continuing to lead the banking sector in supporting the growth and development of the economy.

Ahmed Al Marzouki is Managing Director of Sadafco (Saudi Dairy and Foodstuffs Company). This year he worked closely with NCB when the Bank provided corporate financing advice, and Sadafco's subsequent IPO raised SR 507 million. Oversubscribed 6.5 times, the offering was managed and fully underwritten by NCB in a significant first for a Saudi bank.

Dr Aisha Nato has banked with NCB since opening her optometry business in 1990. NCB understands the challenges faced by small businesses and provides a wide range of skills and services to support them as they grow. Today her company, Eye2Eye, has eight retail outlets in the cities of Jeddah and Mecca, in addition to a hi-tech laboratory that cuts lenses and assembles spectacles to order.

Asset management

As a response to the new Capital Market Authority regulations, and in accordance with NCB's strategy, our investment related activities were reorganized during the year. This resulted in investment services, capital markets and brokerage activities being brought together within a single Asset Management sector. At the same time, the prevailing economic growth in the Kingdom has created opportunities for unprecedented wealth creation amongst the Bank's clients.

Investment Services had an innovative and successful year. Stimulated by the continuing rise in the Saudi stock market, the Bank's assets under management increased 39 percent to SR 32.8 billion, the number of customers more than doubled. In addition, all underlying processes have been enhanced in an effort to improve service standards as we seek to become the region's asset management house of choice.

Two new mutual funds were launched – *AlAhli Dynamic Saudi Trading Fund* and *AlAhli GCC Trading Equity Fund* – designed to provide customers with capital growth opportunities from equities listed on the stock markets of Saudi Arabia and the wider GCC region.

NCB's treasury business, which includes spot and forward foreign exchange transactions and time deposits, areas of business that have continued to grow as a result of the marked increase in our corporate client base and the level of funds held by our existing customers.

Alternative investments were a particular focus and NCB recorded two firsts for a Saudi bank – the launch of capital protected notes linked to the performance of its *Oryx Multi-Strategy Hedge Fund of Funds*, and the European Collateralized Loan Obligation (CLO) targeted at private banking clients. The first of the Bank's CLO deals – the Oryx-ING CLO launched in 2001 – was called at this time, generating an internal rate of return of 16.31 percent for investors.

Structured Products group now provides over 35 offerings and the most comprehensive range of Shariah-compliant products in the region. The customer base grew considerably during 2005 and growth tripled in the number of trades and assets under management.

Brokerage activity during 2005 rose to record levels as more people participated in a record number of IPOs and the booming local and regional share markets. The Bank worked to expand, construct or renovate trading lounges – including those exclusively for ladies – equipping them with state-of-the-art technology providing access to the local and international markets. Additional lounges will be opened during 2006. Specialist regional centers were also established for VIP clients and were well received by existing and new customers.

A number of innovative services were introduced, the most notable being *AlAhli Tadawul* for Internet share trading. Other developments included the installation of *AlAhli Mubasher*, providing real-time market information and a new in-house trading system to improve customer service.

Internal processes

Continuous attention has been given to upgrading the Bank's internal processes and technologies. In 2005 this effort served to enhance and accelerate services to customers whilst facilitating the implementation of various strategic initiatives. Work included implementing the IAS 39 project to ensure full compliance with international accounting standards, and rolling-out the new Customer Relationship Management System. In addition, the ambitious project to introduce an Enterprise Resource Planning (ERP) infrastructure is nearing completion, including modules covering financials, procurement, purchasing, assets management, budgeting and planning.

To improve the interface with customers, we also centralized all customer records; introduced Sadad for utility bill payment; implemented *AlAhli eCorp* as an Internet banking tool for corporate customers; installed a specialized system for the Bank's Treasury; and expanded facilities at the Regional Operations Centers to encompass a wider range of customer and branch service functions.

Effective risk management is vital in every area of the Bank's activities to protect NCB's assets and revenue streams, and to safeguard the interests of all customers, especially depositors, whilst maximizing returns to shareholders. It is also an important element in corporate governance, accountability and the pursuit of transparency. A risk-aware culture in line with global best practice is being instilled across the Bank, from the most senior manager to the newest recruit.

In seeking to achieve full compliance with the regulations laid down by SAMA, including standards defined in the proposed Basel II Capital Accords, Risk Management has fully aligned itself with all internal business units to cover all operations, processes, policies, procedures, the people involved, and systems and technology. As well as managing the Bank's exposure to risk, the process provides for more efficient services and faster response times. This ultimately benefits our customers, and enhances profitability by lowering costs.

Financial performance

During 2005 NCB maintained its status as one of the region's most profitable banks, with strong growth resulting in record earnings of SR 5.0 billion, an increase of SR 1.5 billion or 42 percent over the previous year. This achievement is due in large part to an improvement in the Bank's revenue mix, the containment of costs, and a reduction in the level of provisions.

Total operating income grew by 25 percent to SR 7.5 billion, from SR 6.0 billion in 2004. Net commission income rose to SR 5.3 billion from SR 4.5 billion, an increase of 16 percent. Fee income increased by 70 percent to SR 1.7 billion, from SR 1 billion the previous year, as a result of marked growth in local share brokerage volumes and in the level of local equity mutual fund assets under management.

NCB's new branch at Aramco's Dhahran complex has proved to be highly convenient for Zakaria Abou Al-Saud. An IT engineer working shifts, he personally visits the Bank to review his mutual funds with an investments officer and to use the automated cash deposit facility. He also invests from home using AlAhli Tadawul, NCB's popular Internet share trading tool introduced during 2005.

Areej Nour adores the membership privileges of Mazaya AlAhli, NCB's Shariah-compliant banking program for ladies. These include discounted rates for various banking services and preferential offers at retailers throughout the Kingdom. Her son and daughter are members of Ashbal AlAhli, NCB's savings program for children, which teaches them to be financially self-dependent.

Consumer financing rose 33 percent year-on-year to SR 26.9 billion. Consequently, loans and advances rose 19 percent over 2004, from SR 63.5 billion to SR 75.3 billion.

Expenses (before provisions) were contained at SR 2.3 billion, just SR 0.3 billion higher than 2004, indicating improvement in the core revenue (total operating income less dividend income and gain on non-traded investments) to expense ratio to a multiple of 3.24, from 3.05 in 2004. A lower figure for provisions also ensured that costs were contained, reflecting the high quality of NCB's lending portfolio and the excellent level of recoveries made during the year.

The Bank launched a US$ 700 million five-year bond, a first draw-down under a recently established US$1.5 billion Euro Medium Term Note (EMTN) program. Its primary purpose is to bolster the Bank's liquidity whilst improving the maturity match between assets and liabilities. This is the largest issue by a Saudi bank on the international capital markets and we were particularly pleased as more than 80 percent of the bonds were taken up by financial institutions in Europe and the Far East. On issuance, Standard & Poor's and Fitch granted the bonds high ratings of *A*- and *A* respectively. The issue was twice over-subscribed and its success among the global financial community is a clear reflection of NCB's strong franchise and sustainable financial excellence, as well as the Kingdom's robust economy.

As part of the process to strengthen its capital base, the Bank decided not to pay an interim dividend during the year. As a result, at 31st December 2005 shareholders' equity had grown to SR 21.6 billion from SR 13.8 billion a year earlier.

The equity ratio improved from 10.6 percent to 14.8 percent; we achieved our target equity to asset ratio of 11 percent to 12 percent; and the return on average assets improved from 2.8 percent to 3.6 percent. Additionally, the Tier 1 capital adequacy ratio improved from 19.2 percent to 25.1 percent, considerably in excess of both SAMA's mandated minimum requirements and international capital standards. The increased capital base resulted in the return on average equity falling slightly, from 29.3 percent to 28.3 percent. These trends all provide a solid base on which to build for the future.

In light of the profits generated, the Board of Directors is proposing a further strengthening of the Bank's balance sheet by recommending a bonus issue of shares on the basis of one new share for every two already held. A final dividend of SR 10 per share is also proposed.

NCB received international recognition throughout the year for healthy profitability, a strong domestic franchise, low-cost funding, sound capitalization, and increased financial strength. Fitch upgraded NCB's long-term rating in January from *BBB* to *A*-, and again in September to the sovereign ceiling of *A*. Standard & Poor's raised NCB's rating from *BBBpi* to *A*-. No other Saudi bank was accorded higher ratings by either agency in 2005.

Serving society

Having played a central role in Saudi life and the community for over fifty years, NCB considers corporate social responsibility a duty rather than an obligation. We never forget that the support NCB receives from all levels of Saudi society is testimony to our position today, and integral to our future success. One demonstration of this long-standing commitment during 2005 was the Bank's formation of a dedicated Corporate Social Responsibility (CSR) unit to coordinate NCB's numerous societal initiatives under four priorities: health, education, career opportunities and social.

Health: 2005 saw the Bank's ongoing involvement with various programs including the Help and Hearing Centers in Jeddah, national blood donation campaigns and local cancer organizations, as well as establishing new health centers, presenting medical equipment to hospitals, and establishing mobile clinics to help underprivileged people in outlying villages.

Education: During the year NCB extended assistance to nine universities through the donation of computer labs and established a higher education scholarship for girls at Dar Alhekma College. In addition, we assumed a leadership role in the Million Computer Initiative and established a SR 100 million fund for the project. By partnering with the government in this landmark program, we aim to contribute to creating a more certain future and improved prospects for young Saudis by providing them with access to modern technology at a reasonable cost.

Career opportunities: The Bank worked in alliance with the Saudi Entrepreneur Development Institute (SEDI) to help entrepreneurs develop business skills and start their own small businesses, and with the Chambers of Commerce and Industry across the Kingdom to assist Saudi women wishing to establish businesses from home. New training programs were also funded, equipping the nation's youth with skills required for the work environment and leading to employment at a number of private sector companies. During 2005, the Bank's efforts helped 173 young nationals to find suitable full-time jobs.

Social: During the Holy Month of Ramadan and the Eid celebration we helped 1,000 orphan children, providing new clothes and toys, and NCB employees were encouraged to make personal donations to the needy. The Bank also sponsored several events with the potential to improve the economic environment for the well-being of society.

Expressions of gratitude

Such excellent results would not have been possible without the patronage of our loyal customers, to whom I extend my sincere gratitude. Despite the success enjoyed by the Bank in recent years, we remain fully committed to further enhancing the quality of service offered in meeting their needs. We will always strive to exceed customer expectations by providing increasingly sophisticated products and improved services.

On behalf of the management team I would also like to thank the Board of Directors for their wisdom and continued support, and shareholders for their loyalty and commitment to realizing the Bank's vision.

In achieving continued growth, our well-trained and professional staff are integral to the Bank's ongoing progress. Therefore, in closing, I express my personal gratitude to every employee, from the most senior member of the management team to the newest recruit, for their diligence, hard work and attention to detail in serving our customers and enhancing shareholder value.

Abdulkareem A. Abu Alnasr
Chief Executive Officer

Executive Management

From left:

Ahmed Farid Al Aulaqi
Asset Management Sector Head

Sami A. Bin Mahfouz
Head of Risk Management

Donald P. Hill
Chief Financial Officer

Taha A. Al-Kuwaiz
Deputy General Manager –
Support Sector Head

Abdulkareem A. Abu Alnasr
Chief Executive Officer

Louis Myers
Individual Banking Sector Head

Abdulrahman R. Addas
Corporate Banking Sector Head

Saud S. Sabban
Head of Human Resources

Chet Galpin
Head of Marketing

The second economic boom

Not since the 1970s has Saudi Arabia experienced such a dramatic upsurge in economic activity. The rapid growth of recent years continued in 2005 as nominal Gross Domestic Product (GDP) registered even greater increase, 22.7 percent, reaching SR 1,153 billion (US$ 307 billion). Consequently, real GDP growth amounted to 6.5 percent to reach SR 768 billion (US$ 205 billion). The expansion was widespread with private sector GDP advancing by 6.7 percent, the non-oil industrial sector by 8.4 percent, construction by 6.0 percent, utilities by 4.9 percent, communication and transportation by 9.9 percent, and the services sector by 6.2 percent.

The current economic boom is fueled by a combination of factors including high oil prices, larger oil production, strong domestic consumption, buoyant investment, economic reforms, and prudent macroeconomic policies. These coincide with a number of major financial developments in the Kingdom, manifested by the Saudi stock market index reaching an all-time high of 16,712 points by the end of 2005. In addition, the Saudi equity market witnessed the issuance of a number of IPOs, all of which were substantially oversubscribed, reflecting a rise in liquidity and the strong appetite of Saudi investors. The culmination of all these developments was the Kingdom's accession to the World Trade Organization (WTO), stimulating further confidence in the local economy.

Despite sustained efforts to diversify the Kingdom's sources of income, oil remains the major contributor to economic activity. Attributed to growing global demand for petroleum combined with tightening excess production capacity by major producers, oil prices reached new heights in 2005 with Brent crude averaging US$ 56 a barrel over the year. Meanwhile, due to the rising share of heavy crude in the Saudi export mix, the Brent-Saudi margin has widened, thus the average Saudi export price is estimated to have reached US$ 46 a barrel, up 28 percent from its 2004 level and approximately US$ 20 higher than the original assumption in the 2005 government budget.

SR 214 billion fiscal surplus

The Kingdom posted an impressive SR 214 billion (US$ 57 billion) fiscal surplus in 2005 as a result of the sharp rise in oil revenues which amounted to SR 500 billion (US$ 133 billion). This represented about 90 percent of the SR 555 billion (US$ 148 billion) total government revenues.

Of the total surplus, SR 75 billion (US$ 20 billion) is believed to have been used to build foreign reserves while the remaining SR 139 billion (US$ 37 billion) was directed towards retirement of public debt. Hence public debt declined to SR 475 billion (US$ 126 billion), bringing the debt to GDP ratio to 41 percent by the end of fiscal year 2005, down from 66 percent in 2004.

Actual government expenditure amounted to SR 341 billion (US$ 91 billion) in 2005, surpassing the original allocation by 22 percent, with current expenditure estimated at SR 266 billion ($71 billion), accounting for 78 percent of the total. The remaining SR 75 billion (US$ 20 billion) is assumed to have been spent on development projects. As a result, overall budgetary expenditures in 2005 are estimated to have reached 29.5 percent of nominal GDP.

SR 326 billion current account surplus

The Kingdom's current account balance recorded a surplus of SR 326 billion (US$ 87 billion) in 2005, an increase of almost 68 percent over 2004's current account balance of SR 195 billion (US$ 52 billion), mainly as a result of higher oil exports. In particular, the trade balance is estimated to have recorded a surplus of SR 460 billion (US$ 122 billion) in 2005, compared to SR 317 billion (US$ 84 billion) the year before, an increase of 45 percent. Non-oil exports are projected to have increased by 21 percent to SR 69 billion (US$ 18.4 billion) in 2005, representing almost 10.5 percent of total exports.

Saudi banks benefited from the ample liquidity generated by the oil market boom with the broadest money supply (M3) growing by more than 11.4 percent in 2005. At the same time, total bank deposits improved by 12 percent to SR 482 billion (US$ 128 billion), with the share of demand deposits to total deposits declining to 45 percent, compared to 49 percent in 2004, due mainly to the rise in interest rates that encouraged Saudi investors to place their funds in time deposits and saving accounts.

Indeed, Saudi Riyal interest rates rose substantially during the year, in line with those of the US Dollar. They reached 4.94 percent by the end of 2005 on the three-month Saudi Riyal deposit and averaged 3.75 percent for the year, compared to 1.73 percent in 2004. Reflecting this increase, time and saving deposits expanded to SR 165 billion (US$ 44 billion), thereby increasing their share to 34.3 percent of total deposits in 2005, compared to 32.0 percent the year before.

Bank claims on the private sector expanded to 90.4 percent of total deposits in 2005, with Saudi banks lending at the rate of nearly SR 10 billion (US$ 2.6 billion) per month, compared to around SR 7 billion (US$ 1.8 billion) per month in 2004. Saudi banks have continued to strengthen their balance sheets, with the ratio of capital and reserves to total deposits rising to 13.82 percent in 2005, up from 12.14 percent in 2004.

104 percent gain in the Saudi stock market

On the back of corporate profitability and abundant liquidity, the Saudi bourse soared to record highs in 2005, ending the year 104 percent higher than 2004. The Tadawul All-Share index hit an all-time high of 16,712 points by the end of December. Growth was widespread, with the agricultural and industrial sectors posting substantial gains of 285 percent and 154 percent respectively. Bank stocks also performed very well gaining 105 percent, while the electricity sector was the lowest performer with a 9 percent rise over twelve months.

The rising profitability of listed companies contributed to a deepening of the stock market, with corporate profits estimated to have reached SR 66 billion (US$ 17.6 billion) in 2005 compared to SR 44.7 billion (US$ 11.9 billion) the year before. This was reflected in the increase of market capitalization as a percentage of GDP to 210 percent by the end of 2005, while the value of traded shares as a percentage of market capitalization (turnover ratio) exceeded 171 percent during the same period.

The equity market was further enhanced by the listings of a number of companies on the stock exchange in 2005, including Bank Al-Bilad, Sadafco and Al-Marai Dairy. With the total amount sought by these three offerings of SR 4.3 billion, the total subscribed by investors reached SR 91 billion, thereby producing an average over-subscription ratio of 21 times. Bank Al-Bilad was the most attractive IPO with a 51 times over-subscription ratio for the 30 million shares offered to the public.

Economic reforms and WTO accession

The Saudi government continued to pursue appropriate structural policies and initiatives with the aim of enhancing the business environment and strengthening efforts to diversify the economy through development of new industrial cities, primarily in petro-chemical and energy intensive industries.

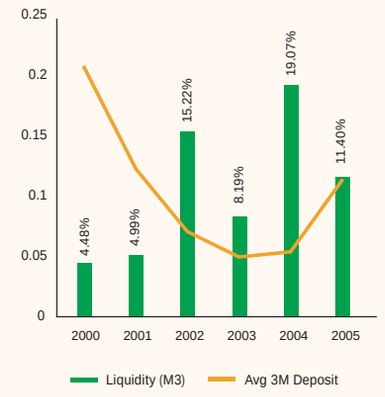
The Capital Market Authority (CMA) regulates and monitors the capital market with the objectives of enhancing efficiency and transparency in securities transactions. During 2005 the CMA formalized by-laws necessary to implement the Capital Market Law and issued seven licenses for consultancy and portfolio management companies.

Promoting a favorable environment for small to medium enterprises (SMEs) is among the government's key development efforts. This includes streamlining administrative procedures for business operations and setting-up a loan guarantee fund to help finance SME business opportunities.

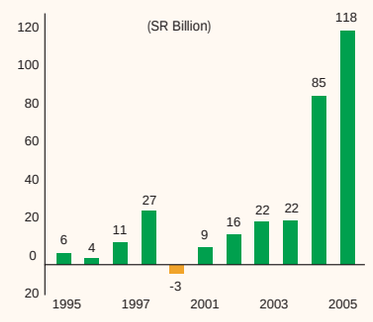
To broaden public partnership with the private sector, another major development in 2005 was the signing of a Build Operate and Own (BOO) project with the private sector in Shouaiba to produce power and water. This is the first of four similar endeavors including the Shukaik, Jubail and Ras Azour projects. The Saudi Post and Civil Aviation commissions have been restructured to operate on a commercial basis.

In 2005, culminating its efforts at legal and institutional reforms, Saudi Arabia acceded to the World Trade Organization as the 149th member of that body. Clearly this has set the stage for the Kingdom to assume a more significant role in global trade and commerce. Although the economy will face many challenges in the future, undoubtedly this represents a cornerstone for diversification of the national economic structure, thus generating tremendous new opportunities for the country.

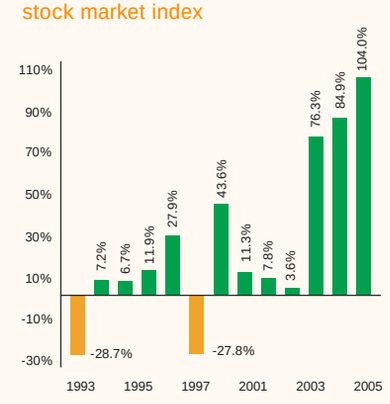
Ample liquidity continues to finance economic activities



Banks' incremental lending rose sharply in 2005



Corporate profitability and abundant liquidity underpins rising stock market index



Auditors' Report

Ernst & Young
P.O. Box 1994
Jeddah 21441
Saudi Arabia

KPMG Al Fozan & Bannaga
P.O. Box 6659
Jeddah 21452
Saudi Arabia

To the Shareholders of The National Commercial Bank:

We have audited the balance sheet of The National Commercial Bank (the Bank), a Saudi Joint Stock Company, as at 31 December 2005 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes. These financial statements are the responsibility of the Bank's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

i) present fairly, in all material respects, the financial position of the Bank as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with the Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and

ii) comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

For Ernst & Young

Dr. Abdullah Abdulrahman Baeshen
Registration No. 66

1 Dhul Hijjah 1426H
24 January 2006

Jeddah

For KPMG Al Fozan & Bannaga

Abdelqadir Bannaga, PhD/FCCA
Registration No. 22

Financial Statements

Balance Sheet

As at 31 December 2005 and 2004

	Note	2005 SR '000	2004 SR '000
ASSETS			
Cash and balances with SAMA	3	**5,867,448**	5,561,954
Due from banks and other financial institutions	4	**6,699,260**	7,590,938
Investments, net	5	**52,994,924**	48,962,293
Loans and advances, net	6	**75,336,433**	63,512,856
Investment in associate and subsidiary, net	7	**903,740**	982,547
Other real estate, net	8	**412,582**	522,994
Fixed assets, net	9	**1,534,893**	1,448,552
Other assets	10	**2,039,597**	1,831,971
Total assets		**145,788,877**	130,414,105
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**10,852,674**	13,974,209
Customers' deposits	13	**104,958,588**	98,752,102
Debt securities issued	14	**2,621,627**	-
Other liabilities	15	**5,719,630**	3,913,332
Total liabilities		**124,152,519**	116,639,643
Shareholders' Equity			
Share capital	16	**6,000,000**	6,000,000
Statutory reserve	17	**4,990,680**	3,737,252
General reserve		**3,900,000**	1,500,000
Other reserves (cumulative changes in fair values)	18	**4,843,698**	1,866,602
Retained earnings		**701,980**	670,608
Proposed dividend	28	**1,200,000**	-
Total shareholders' equity		**21,636,358**	13,774,462
Total liabilities and shareholders' equity		**145,788,877**	130,414,105

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

Statement of Income

For the years ended 31 December 2005 and 2004

	Note	2005 SR '000	2004 SR '000
Special commission income	20	**7,336,613**	5,645,183
Special commission expense	20	**(2,075,066)**	(1,110,128)
Net special commission income		**5,261,547**	4,535,055
Fees from banking services, net	21	**1,671,542**	986,836
Exchange income		**171,438**	155,474
Income from FVIS financial instruments	22	**280,347**	208,132
Trading income, net	23	**10,887**	33,160
Dividend income	24	**78,781**	48,933
Gains on non-trading investments, net	25	**16,678**	1,653
Total operating income		**7,491,220**	5,969,243
Salaries and employee related expenses		**1,253,492**	1,075,128
Rent and premises related expenses		**159,251**	128,227
Depreciation	9	**149,265**	160,221
Other general and administrative expenses		**721,334**	576,649
Provision for credit losses, net	6	**149,745**	383,179
(Reversal of) provision for impairment for other financial assets		**(20,590)**	7,076
Total operating expenses		**2,412,497**	2,330,480
Income from operations		**5,078,723**	3,638,763
Other expenses			
Donations		**(26,992)**	(15,908)
Other non-operating expenses, net	26	**(40,723)**	(91,747)
Net other expenses		**(67,715)**	(107,655)
Net income for the year		**5,011,008**	3,531,108
Earnings per share	27	**SR 41.8**	SR 29.4

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

Statement of Changes in Shareholders' Equity

For the years ended 31 December 2005 and 2004

	Note	Share capital SR' 000	Statutory reserve SR' 000	General reserve SR' 000	Other reserves (cumulative changes in fair values) SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Total SR' 000
2005								
Balance as at 1 January 2005		**6,000,000**	**3,737,252**	**1,500,000**	**1,812,018**	**725,192**	**-**	**13,774,462**
Adjustment arising from revised IAS 39		**-**	**-**	**-**	**54,584**	**(54,584)**	**-**	**-**
		6,000,000	**3,737,252**	**1,500,000**	**1,866,602**	**670,608**	**-**	**13,774,462**
Net income for the year		**-**	**-**	**-**	**-**	**5,011,008**	**-**	**5,011,008**
Transfer to statutory reserve	17	**-**	**1,252,752**	**-**	**-**	**(1,252,752)**	**-**	**-**
Transfer to general reserve		**-**	**-**	**2,400,000**	**-**	**(2,400,000)**	**-**	**-**
Transfer to statutory reserve – Lebanon branch	17	**-**	**676**	**-**	**-**	**(676)**	**-**	**-**
Transfer to general banking risks – Lebanon branch (included in other liabilities)		**-**	**-**	**-**	**-**	**(162)**	**-**	**(162)**
Proposed net dividend	28	**-**	**-**	**-**	**-**	**(1,200,000)**	**1,200,000**	**-**
Zakat (included in other liabilities)	28	**-**	**-**	**-**	**-**	**(126,046)**	**-**	**(126,046)**
Fair value adjustments – net movement	18	**-**	**-**	**-**	**2,977,096**	**-**	**-**	**2,977,096**
Balance as at 31 December 2005		**6,000,000**	**4,990,680**	**3,900,000**	**4,843,698**	**701,980**	**1,200,000**	**21,636,358**
2004								
Balance as at 1 January 2004		6,000,000	2,854,003	-	852,910	624,821	-	10,331,734
Adjustment arising from revised IAS 39		-	-	-	52,961	(52,961)	-	-
		6,000,000	2,854,003	-	905,871	571,860	-	10,331,734
Net income for the year		-	-	-	-	3,531,108	-	3,531,108
Transfer to statutory reserve	17	-	882,777	-	-	(882,777)	-	-
Transfer to general reserve		-	-	1,500,000	-	(1,500,000)	-	-
Transfer to statutory reserve – Lebanon branch	17	-	472	-	-	(472)	-	-
Transfer to general banking risks – Lebanon branch (included in other liabilities)	-	-	-	-	-	(99)	-	(99)
Net dividend	28	-	-	-	-	(960,000)	-	(960,000)
Zakat (included in other liabilities)	28	-	-	-	-	(89,012)	-	(89,012)
Fair value adjustments – net movement	18	-	-	-	960,731	-	-	960,731
Balance as at 31 December 2004		6,000,000	3,737,252	1,500,000	1,866,602	670,608	-	13,774,462

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

Statement of Cash Flows

For the years ended 31 December 2005 and 2004

	Note	2005 SR' 000	2004 SR' 000
OPERATING ACTIVITIES			
Net income for the year		**5,011,008**	3,531,108
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium on non-trading investments, net		**14,543**	42,048
(Gains) on non-trading investments, net		**(16,678)**	(1,653)
(Gains) on disposal of fixed assets, net		**(2,834)**	(629)
(Gains) on disposal of other real estate, net		**(53,053)**	(23,185)
Depreciation of fixed assets		**149,265**	160,221
Depreciation of other real estate		**4,063**	4,594
Provision for credit losses, net		**149,745**	383,179
Bank's share in unconsolidated subsidiary's losses		**47,127**	20,049
Impairment of investment in associate		**31,680**	104,316
(Reversal of) provision for impairment of other financial assets		**(20,590)**	7,076
Provision for (reversal of) unrealized revaluation losses of other real estate		**18,565**	(6,848)
		5,332,841	4,220,276
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA	3	**156,075**	(883,793)
Due from banks and other financial institutions maturing after ninety days		**(177,010)**	(42,844)
Held for trading investments		**(299,137)**	(56,440)
Investment at fair value through income statement		**(1,512,559)**	(2,291,880)
Loans and advances		**(11,973,322)**	(14,146,035)
Other real estate		**140,837**	229,195
Other assets		**(207,626)**	(293,571)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(3,121,535)**	1,667,363
Customers' deposits		**6,206,486**	8,304,557
Other liabilities		**1,680,252**	374,543
Net cash (used in) operating activities		**(3,774,698)**	(2,918,629)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**12,798,343**	49,278,614
Purchase of non-trading investments		**(12,019,619)**	(47,111,554)
Purchase of fixed assets		**(255,254)**	(91,889)
Proceeds from disposal of fixed assets		**22,482**	4,733
Net cash from investing activities		**545,952**	2,079,904
FINANCING ACTIVITIES			
Debt securities issued		**2,621,627**	-
Dividends paid		**-**	(1,856,000)
Cash from (used in) financing activities		**2,621,627**	(1,856,000)
Net (decrease) in cash and cash equivalents		**(607,119)**	(2,694,725)
Cash and cash equivalents at the beginning of the year		**8,689,688**	11,384,413
Cash and cash equivalents at the end of the year	29	**8,082,569**	8,689,688
Supplemental non-cash information			
Fair value adjustments–net movements	18	**2,977,096**	960,731

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

1 GENERAL

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company. The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 255 branches (2004: 246 branches) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). The Bank employed 4,796 staff as at 31 December 2005 (2004: 4,424 staff). The Bank's Head Office is located at the following address:

The National Commercial Bank, Head Office, P.O. Box 3555, Jeddah 21481, Saudi Arabia, http://www.alahli.com,
Telex : 404231/605571 NCBH SJ

The objective of the Bank is to provide a full range of banking services. The Bank also provides Islamic financing products including, inter alia, murabaha, mudaraba, bai al-salam, istisna'a in accordance with Shariah rules. These products, which are supervised by an independent Shariah board, are included in loans and advances.

The Bank has a 60% (2004: 60%) ownership interest in a subsidiary, the Commercial Real Estates Markets Company, which is a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration no. 4030073863, issued on 5 Rabi Thani 1411H (24 October 1990), and is engaged in owning, maintaining and managing the Jamjoom Center in Jeddah.

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 preparation

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

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives, trading securities, available for sale and FVIS (Fair Value through Income Statement) investments.

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 judgments 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.

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

These financial statements are expressed in Saudi Riyals (SR) and are rounded off to the nearest thousand.

b) Change in accounting policies

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

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

Following the above-mentioned implementation, certain investments previously classified as Held-to-Maturity and Available-for-sale as at 1 January 2005 have been reclassified with retrospective effect. Certain investments previously classified as Originated debt investments and having an active market, have also been reclassified and the remaining balance has been categorized under "Held at amortized cost-others".

In the case of available for sale equity investment, the reversal of previously recognized impairment losses are no longer recorded through the statement of income but as increases in cumulative changes in fair value under other reserves. There was no impact on the statement of income for 2005 as there were no such reversals during the year.

c) Investment in associate and subsidiary

Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power and/or over which it exercises a significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or the recoverable amount.

A subsidiary is an entity over which the Bank exert control. Control is defined as the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting capital. Where the Bank does not have effective control but has significant influence, the investment in a subsidiary is accounted for under the equity method and the financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements.

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 delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. 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 foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, swaptions, currency and commission rate options (both written and purchased) are initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value in other assets where the fair value is positive and in other 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 income for the year 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, (or assets or liabilities in case of portfolio hedging), or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; 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, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At 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 remeasuring the hedging instruments to fair value is recognized immediately in the statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

e) Derivative financial instruments and hedging continued

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. 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 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 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.

The Bank also classifies some compound debt instruments as Fair Value through Income Statement (FVIS). Under this option the Bank fair values the entire instrument instead of separating the embedded derivative from the host contract and carrying the host at amortized cost.

f) Foreign currencies

The financial statements are denominated and presented in Saudi Riyals which is also the functional currency of the Bank. Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date. Realized and unrealized gains or losses on exchange are credited or charged to the statement of income.

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 and 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 are recognized in the statement of income on the accrual basis and include premiums amortized and discounts accreted during the year. Fees and exchange income from banking services are recognized when contractually earned. Dividend income is recognized when declared.

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

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for financial assets held as FVIS, Held at amortised costs-others, available for sale and held to maturity investments. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) 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 which is accrued over the life of the reverse repo agreement.

j) Investments

All investment securities are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the investment at that date (acquisition date). Premiums are amortised and discounts are accreted using the effective yield method and are taken to special commission income.

For securities that are traded in organised financial markets, the 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 classes of investment securities, the subsequent period-end reporting values are determined as follows:

(i) Held for trading
Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the statement of income in the period in which it arises.

(ii) Held at fair value through income statement (FVIS)
Investments in this category are those designated at fair value through income statement at inception or on adoption of the revised International Accounting Standard 39 as at 1 January 2005. After initial recognition, investments are measured at fair value and any change in the fair value is recognized 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.

(iii) Available for sale
Investments which are classified as available for sale are subsequently measured at fair value. For available for sale investments where the fair value has not been hedged, any gain or loss arising from a change in their fair value is recognized directly in other reserves under shareholders' equity until the investments are 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 fair value cannot be reliably measured are carried at amortized cost.

(iv) Held at amortised costs-others
Securities with fixed or determinable payments that are not quoted in an active market are classified as Held at amortised costs-other investments. Held at amortised costs-other investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

(v) Held to maturity
Investments, which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of Held at amortised costs-others, are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized 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 interest rate or prepayment risk, reflecting the intention to hold these investments to maturity.

k) Loans and advances

Loans and advances are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, loans and advances 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.

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

The provision for credit losses, including those arising from sovereign risk exposures, is based upon the management's assessment of the adequacy of the provision on a periodic basis. The 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 a 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 amount as follows:

i) For financial assets 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 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 financial assets carried at cost (such as unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured) - impairment is the difference between the carrying amount of the financial asset and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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.

Specific provisions are evaluated individually for all the different types of loans and advances. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

In addition to specific provisions, the bank also makes additional portfolio provisions, which are evaluated on a group basis and are created for probable losses, where there is objective evidence that the group of loans have a greater risk of default than when originally granted. These are based on any deterioration in the internal grade (downward migration of risk ratings) of the loan since it was granted. The amount of the portfolio provision is estimated based on the historical default patterns for the credit gradings allocated to the borrower or group of borrowers, adjusted for the current economic climate in which the borrowers operate.

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 recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized 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.

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 net realizable value of due loans and advances or the current fair value of such related assets and adjusted for any subsequent provision for unrealized revaluation losses.

Rental income, gains and losses on disposal, depreciation of acquired buildings and unrealized losses on the annual revaluation of other real estate are credited or charged to other non-operating income and expense.

n) Fixed assets

Fixed assets are stated at cost and presented net of accumulated depreciation.

Freehold land is not depreciated. The cost of other fixed assets is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

o) Deposits, money market placements and debt securities issued

All money market deposits, placements, customers' deposits and debt securities issued are initially recognized at cost, being the fair value of the consideration received. Subsequently, all commission bearing deposits, money market placements and debt securities issued, other than those held for trading and as FVIS or where fair values have been hedged, if any, 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 and expense.

Deposits and money market placements, which are held for trading and as FVIS, are subsequently measured at fair value and any gain or loss from a change in fair value is included in the statement of income in the period in which it arises.

Deposits and money market placements in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged and the resultant gain or loss is recognized in the statement of income. For deposits and money market placements carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

p) Provisions for commitments and contingencies

Provisions, other than impairment provisions, are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The specific and portfolio provisions for letter of credit, guarantees and acceptances are also included and presented under other liabilities.

q) Accounting for leases - where the Bank is the lessee

All leases entered into by the Bank are 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.

r) Zakat

Zakat is the liability of the shareholders. Zakat is paid by the Bank on their behalf and is charged to retained earnings.

s) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor and Workmen Law and on the local statutory requirements of foreign branches and representative offices and are included in other liabilities in the balance sheet.

t) 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.

u) Derecognition of financial instruments

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

In instances where the bank is assessed to have transferred a financial asset, the asset is 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 derecognized 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 derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

3 CASH AND BALANCES WITH SAMA

	2005 SR '000	2004 SR '000
Cash in hand	**1,524,562**	1,110,632
Balances with SAMA:		
Statutory deposit	**4,217,281**	4,373,356
Current accounts	**123,605**	77,966
Reverse repos	**2,000**	-
Total	**5,867,448**	5,561,954

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month.

4 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005 SR '000	2004 SR '000
Current accounts	**1,174,576**	708,009
Money market placements	**5,524,684**	6,882,929
Total	**6,699,260**	7,590,938

5 INVESTMENTS, NET

a) Investments are classified as follows:

i) **Held for trading**

	Domestic		International		Total	
	2005 SR '000	2004 SR '000	2005 SR '000	2004 SR '000	2005 SR '000	2004 SR '000
Mutual funds	680,370	379,253	628	2,608	680,998	381,861

ii) **Held as FVIS**

	Domestic		International		Total	
	2005 SR '000	2004 SR '000	2005 SR '000	2004 SR '000	2005 SR '000	2004 SR '000
Externally managed portfolio	-	-	**6,746,594**	5,308,829	**6,746,594**	5,308,829
Compound debt instruments	-	-	**74,794**	-	**74,794**	-
Held as FVIS	-	-	**6,821,388**	5,308,829	**6,821,388**	5,308,829

iii) **Available for sale**

	Domestic		International		Total	
	2005 SR '000	2004 SR '000	2005 SR '000	2004 SR '000	2005 SR '000	2004 SR '000
Fixed rate securities	-	391,346	**198,779**	347,894	**198,779**	739,240
Floating rate notes	-	910,569	**4,788,424**	3,236,178	**4,788,424**	4,146,747
Mutual funds	**353,566**	221,280	**109,666**	74,621	**463,232**	295,901
Equities	**5,529,598**	2,647,085	**41,930**	36,642	**5,571,528**	2,683,727
Musharaka	**199,412**	186,593	-	-	**199,412**	186,593
Available for sale, gross	**6,082,576**	4,356,873	**5,138,799**	3,695,335	**11,221,375**	8,052,208
Accumulated provision for impairment	**(189,413)**	(189,104)	**(31,622)**	(44,361)	**(221,035)**	(233,465)
Available for sale, net	**5,893,163**	4,167,769	**5,107,177**	3,650,974	**11,000,340**	7,818,743

iv) Held at amortized costs-others

	Domestic		International		Total	
	2005 SR '000	2004 SR '000	**2005 SR '000**	2004 SR '000	**2005 SR '000**	2004 SR '000
Fixed rate securities	**30,500,861**	27,552,876	**74,640**	98,895	**30,575,501**	27,651,771
Floating rate notes	**1,081,000**	960,148	**2,426,477**	3,969,201	**3,507,477**	4,929,349
Musharaka	**3,330**	7,940	**-**	-	**3,330**	7,940
Held at amortized costs-others, gross	**31,585,191**	28,520,964	**2,501,117**	4,068,096	**34,086,308**	32,589,060
Accumulated provision for impairment	**-**	-	**(17,214)**	(25,195)	**(17,214)**	(25,195)
Held at amortized costs-others, net	**31,585,191**	28,520,964	**2,483,903**	4,042,901	**34,069,094**	32,563,865

v) Held to maturity

	Domestic		International		Total	
	2005 SR '000	2004 SR '000	**2005 SR '000**	2004 SR '000	**2005 SR '000**	2004 SR '000
Fixed rate securities	**-**	-	**70,420**	91,618	**70,420**	91,618
Floating rate notes	**-**	-	**351,758**	797,180	**351,758**	797,180
Islamic investment portfolio	**-**	-	**2,267**	2,004,158	**2,267**	2,004,158
Held to maturity, gross	**-**	-	**424,445**	2,892,956	**424,445**	2,892,956
Accumulated provision for impairment	**-**	-	**(1,341)**	(3,961)	**(1,341)**	(3,961)
Held to maturity, net	**-**	-	**423,104**	2,888,995	**423,104**	2,888,995
Investments, net	**38,158,724**	33,067,986	**14,836,200**	15,894,307	**52,994,924**	48,962,293

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

	2005			2004		
	Quoted SR '000	**Unquoted SR '000**	**Total SR '000**	Quoted SR '000	Unquoted SR '000	Total SR '000
Fixed rate securities	**273,561**	**30,571,139**	**30,844,700**	277,485	28,205,144	28,482,629
Floating rate notes	**2,611,912**	**6,035,747**	**8,647,659**	4,867,930	5,005,346	9,873,276
Externally managed portfolio	**-**	**6,746,594**	**6,746,594**	-	5,308,829	5,308,829
Mutual funds	**-**	**1,144,230**	**1,144,230**	-	677,762	677,762
Equities	**5,254,344**	**317,184**	**5,571,528**	2,366,028	317,699	2,683,727
Islamic investment portfolio	**-**	**2,267**	**2,267**	-	2,004,158	2,004,158
Compound debt instruments	**-**	**74,794**	**74,794**	-	-	-
Musharaka	**-**	**202,742**	**202,742**	-	194,533	194,533
Investments, gross	**8,139,817**	**45,094,697**	**53,234,514**	7,511,443	41,713,471	49,224,914
Accumulated provision for impairment	**-**	**(239,590)**	**(239,590)**	-	(262,621)	(262,621)
Investments, net	**8,139,817**	**44,855,107**	**52,994,924**	7,511,443	41,450,850	48,962,293

The above unquoted fixed rate securities and floating rate notes mainly comprise Government Development Bonds.

The accumulated provision for impairment includes credit-related specific provision of SR 26 million (2004: SR 35 million) and an additional portfolio provision of SR 9 million (2004: SR 23 million).

5 INVESTMENTS, NET continued

c) The analysis of unrealized gains/losses and fair values of Held at amortized costs-others, net of hedging and held to maturity investments is as follows:

i) **Held at amortized costs-others**

	2005				2004			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**30,575,501**	**675,582**	**(141,325)**	**31,109,758**	27,651,771	677,076	(25,589)	28,303,258
Floating rate notes	**3,507,477**	**8,602**	**(3,044)**	**3,513,035**	4,929,349	12,917	(3,541)	4,938,725
Musharaka	**3,330**	**-**	**-**	**3,330**	7,940	-	-	7,940
Held at amortized costs-others, gross	**34,086,308**	**684,184**	**(144,369)**	**34,626,123**	32,589,060	689,993	(29,130)	33,249,923
Accumulated provision for impairment	**(17,214)**	**-**	**-**	**(17,214)**	(25,195)	-	-	(25,195)
Total	**34,069,094**	**684,184**	**(144,369)**	**34,608,909**	32,563,865	689,993	(29,130)	33,224,728

ii) **Held to maturity**

	2005				2004			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**70,420**	**7,863**	**(4)**	**78,279**	91,618	22,398	(6,015)	108,001
Floating rate notes	**351,758**	**1,493**	**(681)**	**352,570**	797,180	3,349	(630)	799,899
Islamic investment portfolio	**2,267**	**-**	**-**	**2,267**	2,004,158	-	-	2,004,158
Held to maturity, gross	**424,445**	**9,356**	**(685)**	**433,116**	2,892,956	25,747	(6,645)	2,912,058
Accumulated provision for impairment	**(1,341)**	**-**	**-**	**(1,341)**	(3,961)	-	-	(3,961)
Total	**423,104**	**9,356**	**(685)**	**431,775**	2,888,995	25,747	(6,645)	2,908,097

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

	2005 SR '000	2004 SR '000
Government and quasi Government	**32,178,191**	30,420,549
Corporate	**14,837,106**	14,364,417
Banks and other financial institutions	**5,966,277**	4,132,912
Others	**13,350**	44,415
Investments, net	**52,994,924**	48,962,293

Equities reported under available for sale investments include unquoted shares of SR 179 million (2004: SR 179 million), net of impairment provision, that are carried at cost as their fair values cannot be reliably measured.

Available for sale investments include Musharaka of SR 148 million (2004: SR 135 million), net of impairment provision, where applicable, that are carried at cost as their fair values cannot be reliably measured due to the absence of an active market and non-availability of observable market prices for a similar transaction.

Investments include SR 1,745 million (2004: SR 2,194 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SR 1,762 million (2004: SR 2,290 million).

In accordance with the revised version of IAS 39, Held-to-maturity investment with an amortized cost of SR 994 million, as at 1 January 2005, has been reclassified to Held at amortized cost-others. Furthermore, available for sale investments, with fair-value of SR 2,109 million on 1 January 2005 have also been reclassified to Held at amortized cost - others at an amortized cost of SR 2,102 million on 1 January 2005. Investment previously classified as Originated debt with amortized cost of SR 1,295 million has been reclassified to available for sale at fair-value of SR 1,298 million on 1 January 2005. The above reclassifications have been done retrospectively. The net impact of the above reclassifications amounting to SR 3.9 million, which is the difference between amortized cost and fair value at 1 January 2005, has been transferred to other reserves (cumulative changes in fair values).

Externally managed portoflio previously classified as "Trading securities" at fair value have been redesignated as "Investments carried at fair value through income statement". There was no impact on the income satemement as the gains and losses arising from fair valuing these investments were already recognised in the statement of income.

6 LOANS AND ADVANCES, NET

a) Loans and advances

	2005 SR '000	2004 SR '000
Performing:		
Overdrafts	**21,014,623**	17,828,497
Commercial loans	**25,817,270**	23,932,032
Consumer loans	**26,207,848**	19,664,558
Credit cards	**726,307**	576,524
Others	**2,902,790**	2,436,445
Performing loans and advances, gross	**76,668,838**	64,438,056
Non-performing loans and advances, net of accumulated special commission in suspense	**1,125,559**	1,592,058
Loans and advances, gross	**77,794,397**	66,030,114
Provision for credit losses	**(2,457,964)**	(2,517,258)
Loans and advances, net	**75,336,433**	63,512,856

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SR 134 million (2004: SR 171 million).

Loans and advances, net include Islamic products mainly Murabaha and Tayseer, which are stated at cost less provision for credit losses, of SR 29,261 million (2004: SR 22,059 million).

Provision for credit losses related to the Islamic products is SR 750 million (2004: SR 631 million).

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

	2005 SR '000	2004 SR '000
Balance at beginning of the year	**2,517,258**	4,381,875
Provided during the year	**699,316**	721,585
Bad debts written off	**(375,469)**	(2,284,802)
Recoveries of amounts previously provided	**(383,141)**	(301,400)
Balance at end of the year	**2,457,964**	2,517,258

The provision for credit losses above includes an additional portfolio provision amounting to SR 1,371 million (2004: SR 1,006 million) related to the performing portfolio.

6 LOANS AND ADVANCES, NET continued

Charge for the year in the statement of income:

	2005 SR '000	2004 SR '000
Addition during the year against loans and advances	699,316	721,585
Recoveries of amounts previously provided	(383,141)	(301,400)
	316,175	420,185
(Recovery) provision against indirect facilities (included in other liabilities)	(1,716)	12,479
Recoveries of debts previously written off	(166,213)	(52,363)
Direct write-offs	1,499	2,878
Net charge for the year	149,745	383,179

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

	Performing SR' 000	Non-performing, net SR' 000	Specific provision for credit losses SR' 000	Loans and advances, net SR' 000
2005				
1. Government and quasi Government	21,756,457	-	-	21,756,457
2. Banks and other financial institutions	3,529,796	-	-	3,529,796
3. Agriculture and fishing	429,775	36	(36)	429,775
4. Manufacturing	2,105,943	209,846	(208,629)	2,107,160
5. Electricity, gas and health services	517,568	16,047	(16,047)	517,568
6. Building and construction	5,300,074	84,549	(76,889)	5,307,734
7. Commerce	11,256,286	441,891	(422,899)	11,275,278
8. Transportation and communication	1,182,175	9,463	(9,463)	1,182,175
9. Services	753,819	14,566	(4,492)	763,893
10. Consumer and credit cards	26,934,155	171,160	(170,167)	26,935,148
11. Others	2,902,790	178,001	(178,001)	2,902,790
	76,668,838	1,125,559	(1,086,623)	76,707,774
Additional portfolio provision				(1,371,341)
Loans and advances, net				75,336,433

	Performing SR' 000	Non-performing, net SR' 000	Specific provision for credit losses SR' 000	Loans and advances, net SR' 000
2004				
1. Government and quasi Government	17,855,922	-	-	17,855,922
2. Banks and other financial institutions	3,884,532	-	-	3,884,532
3. Agriculture and fishing	222,346	47	(47)	222,346
4. Manufacturing	1,465,107	234,256	(227,510)	1,471,853
5. Electricity, gas and health services	475,071	461	(461)	475,071
6. Building and construction	6,040,558	77,257	(77,257)	6,040,558
7. Commerce	9,790,661	597,218	(534,398)	9,853,481
8. Transportation and communication	1,229,869	119,325	(119,325)	1,229,869
9. Services	796,463	26,700	(15,354)	807,809
10. Consumer and credit cards	20,241,082	190,627	(190,627)	20,241,082
11. Others	2,436,445	346,167	(346,167)	2,436,445
	64,438,056	1,592,058	(1,511,146)	64,518,968
Additional portfolio provision				(1,006,112)
Loans and advances, net				63,512,856

7 INVESTMENT IN ASSOCIATE AND SUBSIDIARY, NET

a) Investment in associate, net:

	2005 SR '000	2004 SR '000
Cost	**473,682**	473,682
Provision for impairment	**(253,682)**	(222,002)
Investment in associate, net	**220,000**	251,680

b) Investment in unconsolidated subsidiary, net:

	2005 SR '000	2004 SR '000
Cost	**960,000**	960,000
Bank's share in subsidiary's accumulated losses	**(276,260)**	(229,133)
Investment in unconsolidated subsidiary, net (note 2 c)	**683,740**	730,867
Investment in associate and subsidiary, net	**903,740**	982,547

8 OTHER REAL ESTATE, NET

	2005 SR '000	2004 SR '000
Cost:		
Cost as at 1 January	**731,433**	1,025,167
Additions	**19,362**	17,432
Disposals	**(125,747)**	(311,166)
Cost as at 31 December	**625,048**	731,433
Accumulated depreciation:		
Balance as at 1 January	**57,353**	53,535
Charge for the year	**4,063**	4,594
Disposals	**(8,274)**	(776)
Balance as at 31 December	**53,142**	57,353
Net book value	**571,906**	674,080
Provision for unrealized revaluation losses	**(159,324)**	(151,086)
Total	**412,582**	522,994

9 FIXED ASSETS, NET

	Land and building SR '000	Furniture, equipment and vehicle SR '000	Total SR '000
Cost:			
Balance as at 1 January 2005	2,063,864	1,315,185	3,379,049
Additions	128,979	126,275	255,254
Disposals and retirement	(29,543)	(569,724)	(599,267)
Balance as at 31 December 2005	**2,163,300**	**871,736**	**3,035,036**
Accumulated depreciation:			
Balance as at 1 January 2005	855,478	1,075,019	1,930,497
Charge for the year	57,575	91,690	149,265
Disposals and retirement	(12,339)	(567,280)	(579,619)
Balance as at 31 December 2005	**900,714**	**599,429**	**1,500,143**
Net book value:			
As at 31 December 2005	**1,262,586**	**272,307**	**1,534,893**
As at 31 December 2004	1,208,386	240,166	1,448,552

Furniture, equipment and vehicles include information technology related assets.

10 OTHER ASSETS

	2005 SR '000	2004 SR '000
Accrued special commission income receivable - banks and other financial institutions	**9,695**	8,968
- investments	**655,289**	769,508
- loans and advances	**211,285**	105,769
- others	**23,762**	15,808
Total accrued special commission income receivable	**900,031**	900,053
Positive fair value of derivatives (note 11)	**441,596**	211,129
Others	**697,970**	720,789
Total	**2,039,597**	1,831,971

11 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 and 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. 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, based 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 a 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.

e) Swaptions

Swaptions are options on swaps and entail an option on the fixed rate component of a swap. An option on a swap provides the purchaser or holder of the option with the right, but not the obligation to enter into a swap where it pays fixed rates against receipt of a floating rate index as at a future date.

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 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 profiting from price differentials between markets or products.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and 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 levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gaps to 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, other than portfolio hedges for commission rate risk, 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 and currency swaps 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 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 tables below show the positive and negative fair values of derivative financial instruments, together with the 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.

11 DERIVATIVES continued

Held for hedging purposes continued

	Positive fair value SR '000	Negative fair value SR '000	Notional amount total SR '000	Notional amounts by term to maturity: Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	Monthly average SR '000
2005								
Held for trading:								
Commission rate swaps	271,489	(273,354)	10,023,440	-	626,280	8,146,041	1,251,119	10,289,445
Commission rate options and futures	26,499	(24,836)	2,038,526	-	510,000	1,528,526	-	4,325,880
Forward foreign exchange contracts	80,982	(59,529)	17,995,782	11,466,848	6,297,723	231,211	-	18,452,733
Currency options	64,518	(63,824)	2,820,873	-	2,802,425	18,448	-	3,375,108
Held as fair value hedges:								
Commission rate swaps	4,597	(4,225)	614,758	37,500	142,655	434,603	-	614,758
Held as cash flow hedges:								
Commission rate swaps	486	(69,915)	2,310,000	-	-	2,310,000	-	943,550
Total	448,571	(495,683)	35,803,379	11,504,348	10,379,083	12,668,829	1,251,119	
Fair values of netting arrangements	(6,975)	6,975						
Fair values after netting (note 10, 15)	441,596	(488,708)						

	Positive fair value SR '000	Negative fair value SR '000	Notional amount total SR '000	Notional amounts by term to maturity: Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	Monthly average SR '000
2004								
Held for trading:								
Commission rate swaps	165,979	(162,675)	8,085,759	37,250	550,355	7,290,779	207,375	5,843,129
Commission rate options and futures	16,340	(17,411)	10,767,686	-	10,767,686	-	-	14,134,735
Forward foreign exchange contracts	9,062	(9,418)	22,916,834	14,828,361	7,931,989	156,484	-	24,032,425
Currency options	18,854	(20,145)	4,160,059	-	4,160,059	-	-	6,867,883
Held as fair value hedges:								
Commission rate swaps	806	(25,502)	1,298,308	250,000	275,632	772,676	-	1,298,308
Held as cash flow hedges:								
Commission rate swaps	894	(36,061)	1,390,551	40,551	-	1,350,000	-	1,315,551
Total	211,935	(271,212)	48,619,197	15,156,162	23,685,721	9,569,939	207,375	
Fair values of netting arrangements	(806)	806						
Fair values after netting (note 10, 15)	211,129	(270,406)						

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

	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
2005						
Description of hedged items						
Fixed commission rate investments	**844,603**	**835,481**	**Fair value**	**Commission rate swap**	**4,597**	**4,225**
Floating commission rate investments	**2,347,759**	**2,313,109**	**Cash flow**	**Commission rate swap**	**486**	**69,915**

	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
2004						
Description of hedged items						
Fixed commission rate investments	1,291,426	1,250,531	Fair value	Commission rate swap	806	25,502
Floating commission rate investments	1,410,578	1,408,504	Cash flow	Commission rate swap	894	36,061

Approximately 84% (2004: 52%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 16% (2004: 48%) of the positive fair value contracts are with non-financial institutions at the balance sheet date. Derivative activities are mainly carried out under the Bank's Asset Management segment.

12 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005 SR '000	2004 SR '000
Current accounts	**2,482,384**	1,892,194
Repo	**-**	698,912
Money market deposits	**8,370,290**	11,383,103
Total	**10,852,674**	13,974,209

13 CUSTOMERS' DEPOSITS

	2005 SR '000	2004 SR '000
Current accounts	**49,757,909**	47,261,303
Savings	**255,890**	313,345
Time	**49,009,810**	42,209,170
Others	**5,934,979**	8,968,284
Total	**104,958,588**	98,752,102

Time deposits include deposits against the sale of securities of SR 1,745 million (2004: SR 1,520 million) with an agreement to repurchase the same at fixed future dates. Other customers' deposits include SR 1,317 million (2004: SR 1,094 million) of margins held for irrevocable commitments and contingencies.

13 CUSTOMERS' DEPOSITS continued

Foreign currency deposits included in customers' deposits:

	2005 SR '000	2004 SR '000
Current accounts	**3,539,990**	1,905,262
Savings	**6,691**	8,771
Time	**12,030,286**	7,250,747
Others	**423,889**	565,246
Total	**16,000,856**	9,730,026

14 DEBT SECURITIES ISSUED

Under its Euro Medium Term Note programme, the Bank issued senior unsecured, non-convertible 5 year floating rate notes in the amount of USD 700 million during the fourth quarter of 2005. The notes are listed on the London Stock Exchange carrying an all inclusive rate of 3 months LIBOR plus 35 basis points.

15 OTHER LIABILITIES

	2005 SR '000	2004 SR '000
Accrued special commission expense payable – banks and other financial institutions	**64,164**	53,100
– customers' deposits	**453,673**	232,463
– debt securities issued	**24,497**	-
– others	**122,812**	230,122
Total accrued special commission expense payable	**665,146**	515,685
Negative fair value of derivatives (note 11)	**488,708**	270,406
Zakat (note 28)	**126,046**	89,012
Provision for staff end of service benefits	**529,271**	503,436
Deposits received for subscriptions in Initial Public Offerings (IPO)	**1,359,485**	269,215
Others	**2,550,974**	2,265,578
Total	**5,719,630**	3,913,332

16 SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 120 million shares (2004: 120 million shares) of SR 50 each, wholly owned by Saudi shareholders.

At a Board of Directors' meeting held on 24 October 2005, the Board recommended an increase in the Bank's share capital from SR 6 billion to SR 9 billion through a one for two bonus share dividend subject to the final approval of the shareholders at their extraordinary general assembly meeting to be held during the first quarter of 2006.

17 STATUTORY RESERVE

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

Pursuant to Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The statutory reserves are not currently available for distribution under both laws.

18 OTHER RESERVES (cumulative changes in fair values)

	2005			2004		
	Cash flow hedges SR '000	Available for sale investments SR '000	Total SR '000	Cash flow hedges SR '000	Available for sale investments SR '000	Total SR '000
Opening balance	**(29,100)**	**1,841,118**	**1,812,018**	27	852,883	852,910
Adjustment arising from revised IAS 39	-	**54,584**	**54,584**	-	52,961	52,961
	(29,100)	**1,895,702**	**1,866,602**	27	905,844	905,871
Net change in fair value	**(40,330)**	**3,008,479**	**2,968,149**	(29,127)	991,184	962,057
Transfer to statement of income	**4,727**	**4,220**	**8,947**	-	(1,326)	(1,326)
Net movement during the year	**(35,603)**	**3,012,699**	**2,977,096**	(29,127)	989,858	960,731
Ending balance	**(64,703)**	**4,908,401**	**4,843,698**	(29,100)	1,895,702	1,866,602

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges and available for sale investments. These reserves are not available for distribution.

In accordance with the revised IAS 39, the unrecycled adjustment to retained earnings relating to fair values of available for sale investments, arising on the initial adoption of IAS 39, has been reclassified from retained earnings to other reserves (cumulative changes in fair values).

19 COMMITMENTS AND CONTINGENCIES

a) Legal proceeding

The Bank is one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States. Most of these lawsuits have been consolidated in a federal court in New York for preliminary pre-trial purposes. During 2004, the Bank filed motions to dismiss the lead law suits and asserted a number of threshold jurisdictional and legal defenses. In January 2005, the federal court issued a decision that denied the Bank's motion to dismiss the lead lawsuit following a limited factual inquiry (discovery) into issues governing the Bank's entitlement to the threshold jurisdictional defenses. The Bank thereafter made a motion to reconsider the Court's ruling and dismiss the claims as legally insufficient without first resolving the Bank's jurisdictional defenses, or alternatively, to adjust the sequence and scope of jurisdictional discovery. On 21 September 2005, the court granted the Bank's motion for reconsideration in part.

In addition to its threshold jurisdictional and legal defenses, the Bank's management has been advised by U.S. legal counsel handling the cases that it has other valid defenses to the litigation. Consequently, the Bank's management and counsel believe that the claims made against the Bank can be defended successfully.

b) Capital commitments

The Bank's capital commitments as at 31 December 2005 in respect of building and equipment purchases are not material to the financial position of the Bank.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that customers cannot meet their 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 normally considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfill their primary obligation.

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.

19 COMMITMENTS AND CONTINGENCIES continued

c) Credit related commitments and contingencies continued

Commitments to extend credit represent the 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 the commitments could expire or terminate without being funded.

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

	Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	Total SR '000
2005					
Guarantees	**4,026,022**	**3,280,854**	**3,500,476**	**14,404**	**10,821,756**
Letter of credit	**7,814,509**	**1,333,143**	**699,394**	**410**	**9,847,456**
Acceptances	**1,249,974**	**850,325**	**34,073**	**-**	**2,134,372**
Commitments to extend credit (irrevocable)	**-**	**753,543**	**1,065,010**	**1,428**	**1,819,981**
Total	**13,090,505**	**6,217,865**	**5,298,953**	**16,242**	**24,623,565**

	Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	Total SR '000
2004					
Guarantees	3,358,685	2,767,986	1,625,526	6,381	7,758,578
Letter of credit	5,878,354	2,171,416	914,377	300	8,964,447
Acceptances	1,292,017	903,942	32,317	-	2,228,276
Commitments to extend credit (irrevocable)	-	84,375	1,357,621	72,471	1,514,467
Total	10,529,056	5,927,719	3,929,841	79,152	20,465,768

The outstanding unused portion of commitments, which can be revoked unilaterally at any time by the Bank, as at 31 December 2005 amounted to SR 13,562 million (2004: SR 11,018 million).

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

	2005 SR '000	2004 SR '000
Government and quasi Government	**1,353,978**	1,482,914
Corporate and establishments	**12,697,860**	12,049,687
Banks and other financial institutions	**8,844,317**	6,091,522
Others	**1,727,410**	841,645
Total	**24,623,565**	20,465,768

d) Operating lease commitments

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

	2005 SR '000	2004 SR '000
Less than 1 year	**4,107**	4,511
1 to 5 years	**37,161**	30,772
Over 5 years	**32,011**	18,966
Total	**73,279**	54,249

20 NET SPECIAL COMMISSION INCOME

	2005 SR '000	2004 SR '000
Special commission income		
Investments – Held for trading	-	508
– Available for sale	11,472	66,908
– Held at amortized cost-others	1,762,738	1,677,535
– Held to maturity	185,881	154,966
	1,960,091	1,899,917
Due from banks and other financial institutions	259,536	214,617
Loans and advances	5,116,986	3,530,649
Total	7,336,613	5,645,183
Special commission expense		
Due to banks and other financial institutions	418,225	214,371
Customers' deposits	1,632,200	895,757
Debt securities issued	24,641	-
Total	2,075,066	1,110,128
Net special commission income	5,261,547	4,535,055

21 FEES FROM BANKING SERVICES, NET

	2005 SR '000	2004 SR '000
Fee income	1,962,153	1,096,784
Fee (expenses)	(290,611)	(109,948)
Fees from banking services, net	1,671,542	986,836

22 INCOME FROM FVIS FINANCIAL INSTRUMENTS

	2005 SR '000	2004 SR '000
Fair value change on financial assets held as FVIS	280,347	208,132

23 TRADING INCOME, NET

	2005 SR '000	2004 SR '000
Foreign exchange	(12,610)	22,841
Mutual funds	16,348	-
Debt securities (loss)	-	(347)
Derivatives	7,149	10,666
Total	10,887	33,160

24 DIVIDEND INCOME

	2005 SR '000	2004 SR '000
Available for sale investments	78,781	48,933

25 GAINS ON NON-TRADING INVESTMENT, NET

	2005 SR '000	2004 SR '000
Gain (loss) on available for sale	**2,321**	(5,857)
Gain on held at amortised costs-others	**14,357**	7,510
Total	**16,678**	1,653

26 OTHER NON-OPERATING EXPENSES, NET

	2005 SR '000	2004 SR '000
Income (expense) from other real estate		
Rental income, net	**5,081**	4,447
Disposal gain, net	**53,053**	23,185
(Provision for) reversal of unrealized revaluation loss	**(18,565)**	6,848
Depreciation	**(4,063)**	(4,594)
Net income from other real estate	**35,506**	29,886
Bank's share in unconsolidated subsidiary's losses	**(47,127)**	(20,049)
Impairment expense of investment in associate	**(31,680)**	(104,316)
Gain on disposal of fixed assets	**2,834**	629
Net other (expenses) income	**(256)**	2,103
Total	**(40,723)**	(91,747)

27 EARNINGS PER SHARE

Earnings per share is calculated by dividing the net income for the year by the number of shares outstanding during the year of 120 million shares (2004: 120 million shares) (see note 16).

28 NET DIVIDEND AND ZAKAT

The Board of Directors proposed a final net dividend for the year of SR 1,200 million (2004: SR Nil) at the rate of SR 10 per share (2004: SR Nil), net of Zakat. During the year, there was no interim dividend (2004: interim net dividend of SR 960 million was paid, net of Zakat). Zakat attributable to the shareholders amounting to SR 126 million (2004: SR 89 million) has been deducted from the gross dividend. Thus, the total gross dividend for the year was SR 1,326 million (2004: SR 1,049 million).

29 CASH AND CASH EQUIVALENTS

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

	2005 SR '000	2004 SR '000
Cash and balances with SAMA excluding statutory deposits (note 3)	**1,650,167**	1,188,598
Due from banks and other financial institutions maturing within ninety days	**6,432,402**	7,501,090
Total	**8,082,569**	8,689,688

30 BUSINESS SEGMENTS

The Bank is organized into the following major business segments:

Consumer – Provides banking services, including consumer lending and current accounts in addition to the Islamic products in compliance with Shariah rules and supervised by the independent Shariah Board, to individuals and small sized businesses.

Corporate – Provides banking services including all conventional credit related products and Islamic financial products to medium and large establishments and companies. It also includes international banking services.

Asset Management – Provides a full range of treasury products and services, including money market and foreign exchange, to the Bank's clients, in addition to carrying out investment and trading activities and managing liquidity and market risk (local and international). It also includes investment management services and share brokerage services (local and international).

Others – Comprise Head Office accounts, particularly management of a portfolio of equity holdings, other real estate, and the bank premises.

Transactions between the business segments are recorded as per the Bank's transfer pricing system.

In line with the organizational changes, certain segments have been realigned. Consequently, asset management emerged as a segment. This segment includes the activities previously included under the treasury segment. In addition, the activities related to investment management services and share brokerage services (local and international) have also been reclassified from the consumer segment to the asset management segment. International activities (inter-bank mainly Nostro & Vostro) have been reclassified from treasury to the corporate segment. Prior year figures have been reclassified to conform with the presentation in the current year.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia. The Bank has two international branches (Lebanon and Bahrain), where total assets and net profit of both branches represent 14% and 5% (2004: 16% and 9%), respectively, of the Bank's totals.

a) The Bank's total assets and liabilities at year end, its operating income and expenses and net income for the year, by business segments, are as follows:

	Consumer SR '000	Corporate SR '000	Asset Management SR '000	Others SR '000	Total SR '000
2005					
Total assets	**34,769,557**	**47,480,321**	**55,213,217**	**8,325,782**	**145,788,877**
Total liabilities	**64,710,611**	**41,620,205**	**15,179,570**	**2,642,133**	**124,152,519**
Total operating income	**3,755,216**	**1,313,596**	**2,137,562**	**284,846**	**7,491,220**
Total operating expenses	**1,971,706**	**73,152**	**342,731**	**24,908**	**2,412,497**
Net income	**1,765,964**	**1,236,865**	**1,797,108**	**211,071**	**5,011,008**

	Consumer SR '000	Corporate SR '000	Asset Management SR '000	Others SR '000	Total SR '000
2004					
Total assets	28,485,542	42,874,564	53,580,194	5,473,805	130,414,105
Total liabilities	67,553,384	33,764,507	12,817,593	2,504,159	116,639,643
Total operating income	3,276,466	1,074,642	1,453,889	164,246	5,969,243
Total operating expenses	1,743,174	327,447	241,409	18,450	2,330,480
Net income	1,526,004	748,785	1,207,166	49,153	3,531,108

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

	Consumer SR '000	Corporate SR '000	Asset Management SR '000	Others SR '000	Total SR '000
2005					
Balance sheet assets	**29,990,031**	**46,743,319**	**54,129,794**	**5,509,100**	**136,372,244**
Commitments and contingencies (credit equivalent)	**3,197,225**	**7,041,676**	**412,303**	**-**	**10,651,204**
Derivatives (credit equivalent)	**-**	**-**	**774,404**	**-**	**774,404**

	Consumer SR '000	Corporate SR '000	Asset Management SR '000	Others SR '000	Total SR '000
2004					
Balance sheet assets	24,636,075	37,895,773	56,029,886	2,615,535	121,177,269
Commitments and contingencies (credit equivalent)	2,288,679	6,531,742	-	-	8,820,421
Derivatives (credit equivalent)	-	-	797,202	-	797,202

30 BUSINESS SEGMENTS continued

The credit exposure of balance sheet assets comprises the carrying value of due from banks and other financial institutions, investments, loans and advances, accrued special commission income and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

31 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, setting limits for transactions with specific counterparties and 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 the 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.

The debt securities included in investments are mainly sovereign risk. Analysis of investments by counterparty is provided in note (5). For details of the composition of the loans and advances refer to note (6). Information on credit risk relating to derivative instruments is provided in note (11) and for commitments and contingencies in note (19).

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at obligor, transaction and portfolio levels. The classification system includes ten grades, of which eight grades relate to the performing portfolio and two grades relate to the non-performing portfolio. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The associated loss estimate norms for each grade have been developed based on the Bank's historical default rates for each rating. These risk ratings are reviewed on a regular basis.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Bank's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made by comparing the present value of expected future cash flows for each such exposure with its carrying amount on the basis of criteria prescribed by IAS 39. An additional portfolio provision is allocated over the performing loans and advances as well as investments based on historical default pattern adjusted to reflect current general economic and market conditions, where there is objective evidence that the group of loans or investments have a greater risk of default than when originally granted or acquired.

32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

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

	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Other countries SR '000	Total SR '000
2005					
Assets					
Cash and balances with SAMA	5,497,574	2,725	4,102	363,047	5,867,448
Due from banks and other financial institutions	2,389,221	186,554	3,674,677	448,808	6,699,260
Investments, net	38,158,724	862,781	5,191,833	8,781,586	52,994,924
Loans and advances, net	71,756,381	3,281,241	151,233	147,578	75,336,433
Investment in associate and subsidiary, net	903,740	-	-	-	903,740
Total	118,705,640	4,333,301	9,021,845	9,741,019	141,801,805
Liabilities					
Due to banks and other financial institutions	2,211,901	5,657,298	1,171,810	1,811,665	10,852,674
Customers' deposits	101,150,079	260,097	3,534,458	13,954	104,958,588
Debt securities issued	-	-	2,621,627	-	2,621,627
Total	103,361,980	5,917,395	7,327,895	1,825,619	118,432,889
Commitments and contingencies	15,420,467	1,017,656	1,667,875	6,517,567	24,623,565
Credit exposure (credit equivalent)					
Commitments and contingencies	7,363,764	289,840	621,047	2,376,553	10,651,204
Derivatives	338,925	128,124	200,051	107,304	774,404

	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Other countries SR '000	Total SR '000
2004					
Assets					
Cash and balances with SAMA	5,123,478	315	86,759	351,402	5,561,954
Due from banks and other financial institutions	2,853,776	1,017,533	3,458,288	261,341	7,590,938
Investments, net	33,067,986	2,746,703	6,123,072	7,024,532	48,962,293
Loans and advances, net	59,628,409	3,273,769	342,379	268,299	63,512,856
Investment in associate and subsidiary, net	982,547	-	-	-	982,547
Total	101,656,196	7,038,320	10,010,498	7,905,574	126,610,588
Liabilities					
Due to banks and other financial institutions	4,976,007	5,793,500	2,242,688	962,014	13,974,209
Customers' deposits	91,677,050	302,454	6,634,795	137,803	98,752,102
Total	96,653,057	6,095,954	8,877,483	1,099,817	112,726,311
Commitments and contingencies	14,303,469	952,695	881,569	4,328,035	20,465,768
Credit exposure (credit equivalent)					
Commitments and contingencies	6,901,586	298,402	400,682	1,219,751	8,820,421
Derivatives	375,826	16,126	301,507	103,743	797,202

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

32 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE continued

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

	Non-performing loans and advances, net		Specific provision for credit losses	
	2005 SR '000	2004 SR '000	**2005 SR '000**	2004 SR '000
The Kingdom of Saudi Arabia	**1,125,559**	1,592,058	**(1,086,623)**	(1,511,146)

33 CURRENCY RISK

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

	2005 SR '000 Long (short)	2004 SR '000 Long (short)
US Dollar	**(69,739)**	1,206,523
Japanese Yen	**42,684**	319,048
Euro	**(63,108)**	64,074
Pound Sterling	**103,536**	(75,214)
Others	**122,354**	144,938

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

34 COMMISSION RATE RISK

Commission sensitivity of assets, liabilities and off-balance sheet items

The Bank manages exposure to various risks associated with fluctuations in the levels of market commission rates. 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 the contractual re-pricing or the maturity dates. The Bank manages exposure 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.

	Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	Non-commission bearing SR '000	Total SR '000	Effective commission rate
2005							
Assets							
Cash and balances with SAMA	2,000	-	-	-	5,865,448	5,867,448	-
Due from banks and other financial institutions	5,624,945	266,858	-	-	807,457	6,699,260	4.35%
Investments, net	12,366,700	3,540,279	8,703,866	15,537,545	12,846,534	52,994,924	4.98%
Loans and advances, net	35,799,435	10,683,946	10,309,281	18,399,627	144,144	75,336,433	6.16%
Investment in associate and subsidiary, net	-	-	-	-	903,740	903,740	-
Other real estate, net	-	-	-	-	412,582	412,582	-
Fixed assets, net	-	-	-	-	1,534,893	1,534,893	-
Other assets	-	-	-	-	2,039,597	2,039,597	-
Total assets	53,793,080	14,491,083	19,013,147	33,937,172	24,554,395	145,788,877	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	5,803,389	3,768,626	-	-	1,280,659	10,852,674	4.84%
Customers' deposits	40,325,887	8,627,941	269,217	-	55,735,543	104,958,588	5.07%
Debt securities issued	2,621,627	-	-	-	-	2,621,627	-
Other liabilities	401,738	113,062	1,689	-	5,203,141	5,719,630	-
Shareholders' equity	-	-	-	-	21,636,358	21,636,358	-
Total liabilities and shareholders' equity	49,152,641	12,509,629	270,906	-	83,855,701	145,788,877	
On-balance sheet gap	4,640,439	1,981,454	18,742,241	33,937,172	(59,301,306)		
Off-balance sheet gap	(1,406,571)	(1,192,906)	2,522,327	77,150	-		
Total commission rate sensitivity gap	3,233,868	788,548	21,264,568	34,014,322	(59,301,306)		
Cumulative commission rate sensitivity gap	3,233,868	4,022,416	25,286,984	59,301,306	-		

34 COMMISSION RATE RISK continued

	Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	Non-commission bearing SR '000	Total SR '000	Effective commission rate
2004							
Assets							
Cash and balances with SAMA	-	-	-	-	5,561,954	5,561,954	-
Due from banks and other financial institutions	7,072,991	89,848	-	-	428,099	7,590,938	2.50%
Investments, net	11,983,352	5,155,596	10,647,514	12,901,547	8,274,284	48,962,293	4.95%
Loans and advances, net	30,022,189	10,985,172	10,952,497	11,374,861	178,137	63,512,856	5.00%
Investment in associate and subsidiary, net	-	-	-	-	982,547	982,547	-
Other real estate, net	-	-	-	-	522,994	522,994	-
Fixed assets, net	-	-	-	-	1,448,552	1,448,552	-
Other assets	-	-	-	-	1,831,971	1,831,971	-
Total assets	49,078,532	16,230,616	21,600,011	24,276,408	19,228,538	130,414,105	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	11,446,515	640,458	-	-	1,887,236	13,974,209	2.89%
Customers' deposits	30,904,137	11,147,733	605,591	4,838	56,089,803	98,752,102	2.45%
Other liabilities	221,745	59,824	3,995	-	3,627,768	3,913,332	-
Shareholders' equity	-	-	-	-	13,774,462	13,774,462	-
Total liabilities and shareholders' equity	42,572,397	11,848,015	609,586	4,838	75,379,269	130,414,105	
On-balance sheet gap	6,506,135	4,382,601	20,990,425	24,271,570	(56,150,731)		
Off-balance sheet gap	(351,961)	(246,450)	578,536	19,875	-		
Total commission rate sensitivity gap	6,154,174	4,136,151	21,568,961	24,291,445	(56,150,731)		
Cumulative commission rate sensitivity gap	6,154,174	10,290,325	31,859,286	56,150,731	-		

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.

35 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 be less readily available. 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.

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.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 2% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days.

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

The maturity profile of the assets and liabilities is as follows:

	Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	No-fixed maturity SR '000	Total SR '000
2005						
Assets						
Cash and balances with SAMA	5,867,448	-	-	-	-	5,867,448
Due from banks and other financial institutions	6,432,402	266,858	-	-	-	6,699,260
Investments, net	5,017,487	2,307,139	13,340,067	19,994,334	12,335,897	52,994,924
Loans and advances, net	10,838,871	32,774,420	12,274,557	19,409,648	38,937	75,336,433
Investment in associate and subsidiary, net	-	-	-	-	903,740	903,740
Other real estate, net	-	-	-	-	412,582	412,582
Fixed assets, net	-	-	-	-	1,534,893	1,534,893
Other assets	-	-	-	-	2,039,597	2,039,597
Total assets	28,156,208	35,348,417	25,614,624	39,403,982	17,265,646	145,788,877
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,084,611	3,768,063	-	-	-	10,852,674
Customers' deposits	96,061,429	8,627,941	269,218	-	-	104,958,588
Debt securities issued	-	-	2,621,627	-	-	2,621,627
Other liabilities	401,695	113,105	1,689		5,203,141	5,719,630
Shareholders' equity	-	-	-	-	21,636,358	21,636,358
Total liabilities and shareholders' equity	103,547,735	12,509,109	2,892,534	-	26,839,499	145,788,877

35 LIQUIDITY RISK continued

	Within 3 months SR '000	3 – 12 months SR '000	1 – 5 years SR '000	Over 5 years SR '000	No-fixed maturity SR '000	Total SR '000
2004						
Assets						
Cash and balances with SAMA	5,561,954	-	-	-	-	5,561,954
Due from banks and other financial institutions	7,501,090	89,848	-	-	-	7,590,938
Investments, net	3,533,873	5,190,728	15,561,201	16,770,749	7,905,742	48,962,293
Loans and advances, net	10,046,418	25,871,418	15,992,564	11,521,544	80,912	63,512,856
Investment in associate and subsidiary, net	-	-	-	-	982,547	982,547
Other real estate, net	-	-	-	-	522,994	522,994
Fixed assets, net	-	-	-	-	1,448,552	1,448,552
Other assets	-	-	-	-	1,831,971	1,831,971
Total assets	26,643,335	31,151,994	31,553,765	28,292,293	12,772,718	130,414,105
Liabilities and shareholders' equity						
Due to banks and other financial institutions	10,152,550	640,458	3,181,201	-	-	13,974,209
Customers' deposits	86,912,984	11,147,733	686,547	4,838	-	98,752,102
Other liabilities	200,212	59,824	25,527	-	3,627,769	3,913,332
Shareholders' equity	-	-	-	-	13,774,462	13,774,462
Total liabilities and shareholders' equity	97,265,746	11,848,015	3,893,275	4,838	17,402,231	130,414,105

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

The fair values of on-balance sheet financial instruments, except for those held at amortized cost-others and held to maturity investments, loans and advances and customers' deposits which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements. The estimated fair value of held at amortized costs-others 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 customers' deposits with sufficient reliability.

The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation models. The fair value of unquoted derivatives is determined either by discounted cash flows, internal pricing valuation models or by reference to brokers' quotes. The total amount of the changes in fair value recognized in the statement of income, which was estimated using valuation models, is SR 32 million (2004: SR 15 million).

37 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 the limits set by the Banking Control Law and the regulations issued by SAMA. The balances as at 31 December resulting from such transactions included in the financial statements are stated below, including balances resulting from transactions with Governmental shareholders. All other Government transactions are at market rates.

	2005 SR '000	2004 SR '000
Board of Directors, key management personnel and major shareholders		
Loans and advances	**184,856**	103,496
Customers' deposits	**13,153,983**	9,251,993
Commitment and contingencies	**22,188**	18,368
Other liabilities - end of service benefits	**22,899**	26,037
Bank's mutual funds:		
Investments	**680,998**	388,872
Customers' deposits	**9,538,587**	8,597,583

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

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

	2005 SR '000	2004 SR '000
Special commission income	**10,660**	8,570
Special commission expense	**607,843**	267,011
Board of Directors' remuneration	**1,080**	1,200
Board of Directors' allowances and expenses	**535**	625

Board of Directors include the Board, executive committee and audit committee.

The total cost of compensation of executive directors and key management personnel during the year is as follows:

	2005 SR '000	2004 SR '000
Short-term employee benefits	**57,747**	45,859
Post-employment benefits - end of service benefits	**1,987**	1,444

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

38 CAPITAL ADEQUACY

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

	Regulatory capital		Capital adequacy ratio	
	2005	2004	**2005**	2004
	SR '000	SR '000	**%**	%
Core capital (Tier 1)	**21,636,358**	13,774,462	**25.1**	19.2
Core and supplementary capital (Tier 1 and Tier 2)	**22,714,562**	14,673,432	**26.3**	20.4

Tier 1 capital of the Bank comprises share capital, statutory, general and other reserves, retained earnings and proposed dividend as at the year end. Tier 2 capital comprises a prescribed amount of eligible portfolio provisions.

Risk weighted assets

	2005			2004		
	Carrying value/ notional SR '000	**Credit equivalent SR '000**	**Risk weighted assets SR '000**	Carrying value/ notional SR '000	Credit equivalent SR '000	Risk weighted assets SR '000
Balance sheet assets						
0 %	**60,920,577**	-	-	57,072,552	-	-
20 %	**8,443,371**	-	**1,688,674**	10,614,097	-	2,122,819
100 %	**77,805,244**	-	**77,805,244**	63,756,807	-	63,756,807
Sub-total	**147,169,192**	-	**79,493,918**	131,443,456	-	65,879,626
Commitment and contingencies						
0 %	**1,351,557**	**1,351,454**	-	1,482,914	1,480,779	-
20 %	**9,248,816**	**3,320,455**	**664,091**	6,100,643	1,873,502	374,700
100 %	**12,557,128**	**5,979,295**	**5,979,295**	11,637,536	5,466,140	5,466,140
Sub-total	**23,157,501**	**10,651,204**	**6,643,386**	19,221,093	8,820,421	5,840,840
Derivatives						
0 %	-	-	-	-	-	-
20 %	**32,400,666**	**703,361**	**140,672**	41,326,844	671,450	134,290
50 %	**3,402,713**	**71,043**	**35,522**	7,292,353	125,752	62,876
Sub-total	**35,803,379**	**774,404**	**176,194**	48,619,197	797,202	197,166
Total	**206,130,072**	**11,425,608**	**86,313,498**	199,283,746	9,617,623	71,917,632

39 INVESTMENT SERVICES

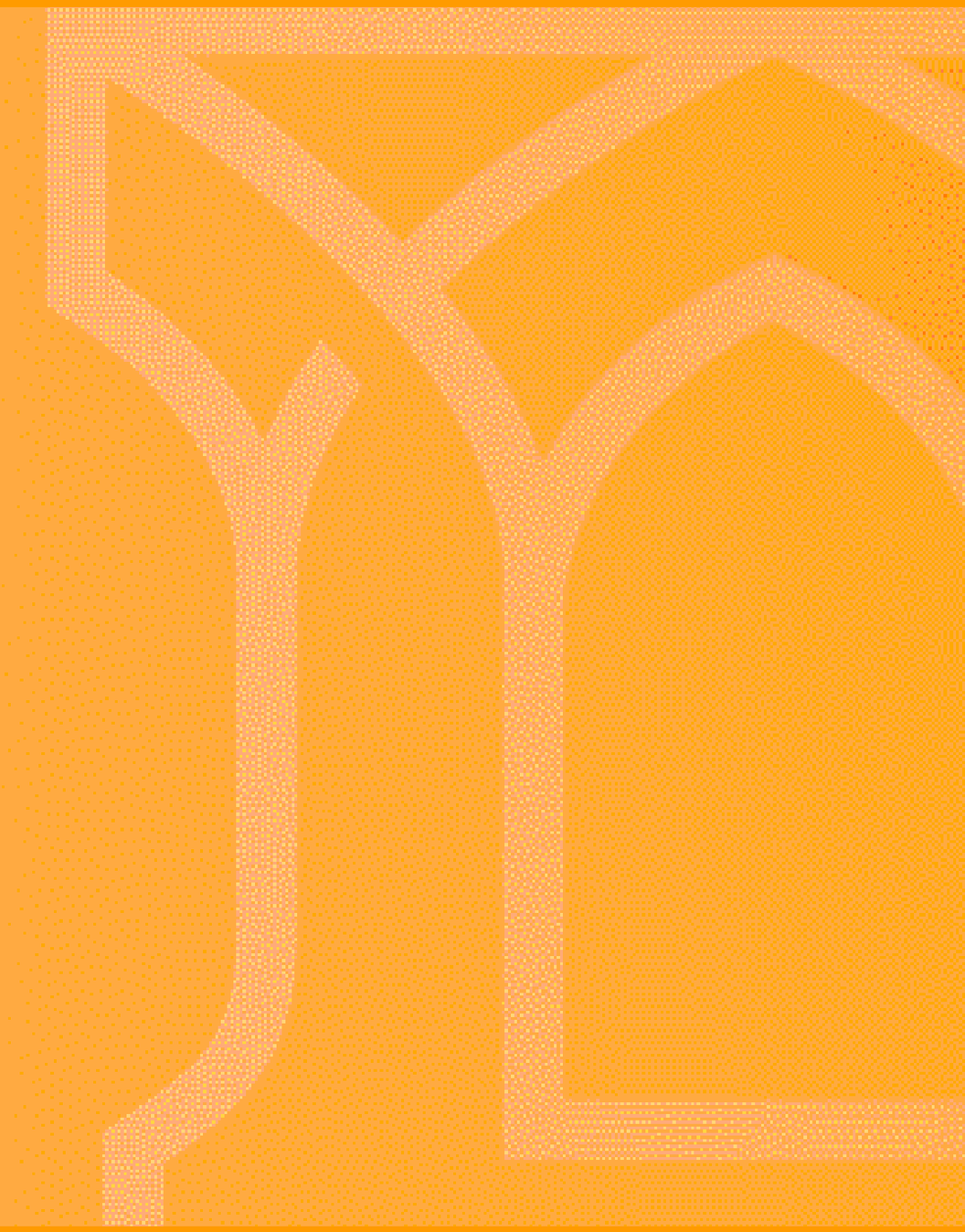
The Bank offers investment management services to its customers. These services include the management of mutual funds with assets totaling SR 32,812 million (2004: SR 23,527 million). All but three of these funds comply with Shariah rules and are subject to Shariah control on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.
The Bank also manages private investment portfolios on behalf of customers. The financial statements of these funds and private portfolios are not included in the financial statements of the Bank. However, the transactions between the bank and the funds are disclosed under related party transactions (see note 37); the Bank's share of these funds is included in the Held-for-trading or Available-for-sale investments.

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 of the Bank.

40 BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 24 January 2006.

Network



Domestic Branches





Group Headquarters
The National Commercial Bank
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www.alahli.com

Central Region Head Office
The National Commercial Bank
PO Box 22216, Riyadh 11495
Kingdom of Saudi Arabia
Tel: +966 1 478 4877
Fax: +966 1 472 7508

Branch Locations
Khalid Bin Al Waleed St.
Al Morsalat
Al Wadi 13
Ghornatha Street
Al Nuzha
Al Salil
Al Batha
Okbah Bin Nafeh
Hassan Bin Hussain
Al Dirah
Al Maliaz
Al Shemaiseh
Al Naseria
Terminal Airport
Industrial
Airport Road
Al Hijaz Road
Al Kharj
Al Dereiah
Military Hospital
Al Khazan
Prince Abdulmuhsen Street
Omar Al Mokhtar Street
Al Fiha
Al Nasseem
Al Swaidi
Al Olaya Talateen
Al Montazah
University Street
Al Rayd
Al Ghobirah
New Industrial Area
Al Khaleej
Al Rabwah
Al Shafa
Al Rahmaniyah
Al Aziziyah
Zahrat Al Badiah
Airforce Base
Airforce Headquarters
Al Rawda
King Abdulaziz Road
Al Sulaimania
Wadi Al Dawaser
Al Maseef District
Um Al Hamam
Al Moaikaliah
Al Selial
Badr District
Al Araijaa
Al Muruj
Al Takhassusi
Al Rayyan
Al Mohammedia
King Fahad District
West Al Nassem
Al Ihsaa Street
King Faisal Street
Al Aqeeq
Prince Sultan Air Base
Al Hamra
Aishah Bint Abubaker

Western Region Head Office
The National Commercial Bank
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Branch Locations
Makkah Main
King Khalid Street
AL Misfalah
Al Aziziah
Al Otiybyiah
Al Gomaizah
Al Siteen Street
Al Zaher
Al Sheshah
Al Mansour Street
Jarwal
Al Hajj Street
Al Resaifah
Al Shobikah
Al Misyal
Al Jamoom
Jeddah Main
Bab Sharif
Makkah Road - Kilo 3
Palestine Road
Sharafiah Branch
Al Hindawiah
Bab Makkah
Industrial Estate
King Khalid Street
Mahjer Road
Airpot Terminal
Al Khalidiah
Jeddah Islamic Seaport
University Road
Prince Sultan Road, Jeddah
Al Hamra Ladies Branch
Air Force, Jeddah
Onikesh, Sitteen Street
Al Madinah Road
Al Eskan
Planned Area No. 5
Al Balad
Al Rawdah, Jeddah
Al Tahliah Street
Al Daraja
King Fahed Street
Binladen Street
Jeddah Air Base
Al Nuzha
Musaidia District
Khalid Bin Waleed
Branch King Road
Om Alqura
Al Naeem, District
Hail Street
Al Safa
Bani Malik
Al Kandarah
Al Makaroonah
Rabigh
Bahra
Makkah Road - Kilo 10
Al Leith
Al Taif
Balgorashee
Ranya
Al Khormah
Al Faisaliah
Shahaar
King Fahad Air Base - Taif
Roboa Quraysh
Al Aqeeq
Qalwah
Al Hawyah Al Sitteen St.
Al Balad
Al Hada Hospital








Eastern Region Head Office
The National Commercial Bank
PO Box 5558,
Dammam 31432
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Tel: +966 3 834 0088
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Branch Locations
Al Khobar Main
Dammam Main
Aramco Dhahran
Al Thoqbah
King Abdulaziz Street
Dammam Industrial Area
Al Ahsa Main
Al Khamis Square
Hafr Al Baten
Al Jubail
Al Mabaraz
King Fahd Airport
Jubail Industrial City
Hafr Al-Baten Military City
Al Qaisomah
Labour City
King Saud Street
Al Naireya
King Faisal University
Al Qatif
Al Halilah
Abqeeq
King Abdulaziz Airbase
Al Khafji
Al Doha District
Dahran Steet, Al Khobar
AlGaloiah
Plan (71)
Talal District
Al Asher Street
Al Khaldiah District
Sayhat
Al Adhailiyah

Northern Region Head Office
The National Commercial Bank
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Kingdom of Saudi Arabia
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Branch Locations
Al Madinah Main
King Abdulaziz Street
Al Siteen Street
Airport Street
Al Awalee
Sultanah
Yanbu Main
Yanbu Royal Commission
Al Wajh Branch
Tabouk Main
King Abdulaziz Base
King Faisal Air Base
Haql
Taima
Dhiba
Prince Fahd Bin Sultan St.
Tabouk
Al-Badah
Al Asyah
Airforce Tabuk
Turaif
Al Qurriyat
Rafha
Skaka
Tabarjal
Al Owaigela
Hail Main
Barzan, Hail
Sajer
Al Ashrafiah
South Boraidah
Al Safra
Boraidah Main
Onaizah Main
Buraidah
Al Majma'a
Al Rass
Al Bakerieya
Afif
Al Dawadmi
Al Jordah
Al Badai
Arar
Qaara

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Branch Locations
Al Baha
Al Shohadaa
Al Leith
Al Mandaq
Al Mekhwah
Abha Main
Khamees Meshait
Sharourah
Beeshah
Ahad Refaidah
Mahaiel Aseer
Al Namass
Tanoomah
King Khalid Base
Balasmer
Najran Al Balad
Najran Al Faisaliah
South Dahran
Surat Obaidah
King Faisal Abha
Al Senaiah
Al Bashaaer
Tathleeth
Al Majardah
Al Areesah
Gizan Main
Al Qonfodah
Sebiah
Abo Aresh
Samtah
Farasan
Beesh
Al Darb
Al Shaaben
Prince Sultan Street
Al Shaqeeq
Al Sareh
Damad
Al Harjah
Nemrah
Al Qouz
Safwan
Al Wadeen

International

International Branches

Kingdom of Bahrain
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