

The Saudi British Bank

*Annual Report
and Accounts*

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

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

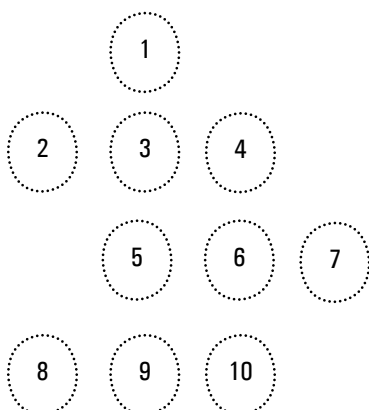


Custodian of the Two Holy Mosques
King Abdullah Bin Abdulaziz Al Saud



His Royal Highness
Prince Sultan Bin Abdulaziz Al Saud
The Crown Prince, Deputy Premier,
Minister of Defense and Aviation and Inspector General

Board of Directors

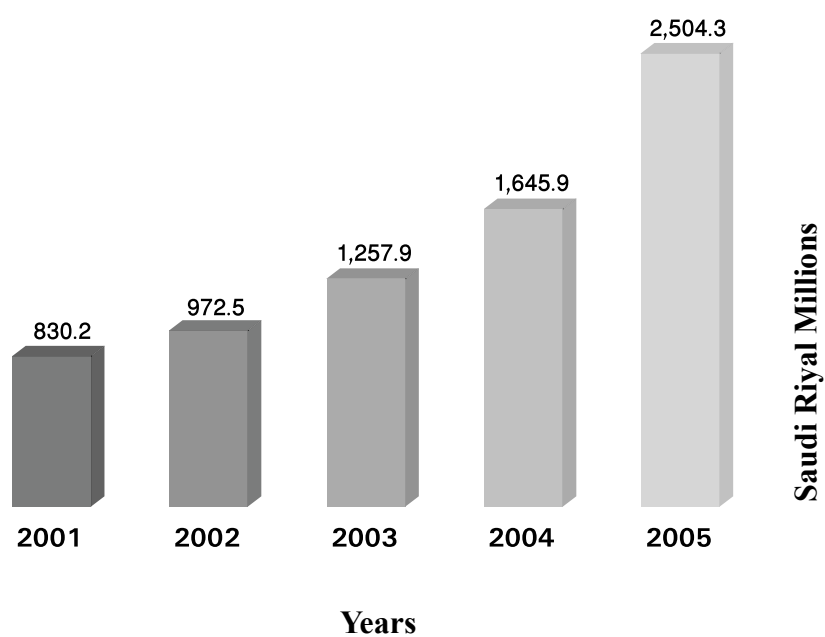


- 1. Abdullah Mohamed Al Hugail (Chairman)
- 2. John Edward Coverdale (Managing Director)
- 3. Khalid Sulaiman Olayan
- 4. Fouad Abdulwahab Bahrawi
- 5. Khalid Abdullah Al Molhem
- 6. David Howard Hodgkinson
- 7. Iqbal Ahmad Khan
- 8. John Lowood Richards, OBE
- 9. Sulaiman Abdulkader Al Muhaidib
- 10.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

Financial Highlights

	Years					Saudi Riyal Millions
	2001	2002	2003	2004	2005	
Customer Deposit	31,538.8	34,980.1	36,089.9	44,665.8	48,534.1	
Shareholders' Equity	3,956.1	4,283.0	4,746.2	5,917.4	7,493.2	
Investments, Net	21,768.4	20,399.7	15,971.2	14,676.0	16,372.6	
Loans & Advances, Net	16,020.4	20,359.2	26,116.6	31,627.1	40,846.6	
Total Assets	41,920.7	46,226.5	46,061.6	57,937.8	65,927.9	
Net Income	830.2	972.5	1,257.9	1,645.9	2,504.3	
Gross Dividend	581.6	664.8	832.0	990.0	813.0	

Net Income



Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report of The Saudi British Bank (SABB) for the financial year ending 31st December 2005.

2005 was a landmark year for your bank. SABB achieved record profits for the eleventh year in succession. Net profits of SAR2,504 million represent a very strong 52.2% increase over 2004 and a Return on Average Equity of 38.9%. This key measure of performance and efficiency has shown continuous improvement over the same eleven year period. Such success has only been possible through SABB's clarity of vision and a firm commitment to a customer-focused strategy.

The financial sector as a whole has benefited from Saudi Arabia's robust economic growth and a buoyant stock market during 2005. In this environment SABB was well placed to take advantage of the opportunities arising but nevertheless maintained an unwavering focus on core fundamentals whilst achieving balanced growth across all business segments.

Amanah Islamic Banking has again led the way in product development, achieving rapid business growth as a result, and is now firmly established as a leading provider of Shariah-compliant financial services for both personal and corporate customers. Customer assets saw yet further extremely robust growth during 2005, especially in Personal Banking, as a result of highly significant changes in the Saudi banking market for individuals. Private Banking has also grown business volumes strongly during the year and now offers a complete range of specialised domestic and global wealth management products.

In an increasingly competitive business environment, our Corporate Bank retains its edge as the established market leader and continues to serve the growing needs of an increasing customer base. It managed several notable and value-added transactions for leading public and private sector corporations and continued to introduce innovative global solutions to the Saudi Arabian marketplace.

One of SABB's major successes during 2005 was the outstanding performance of our Investment Banking business, which has established SABB as a market leader for corporate finance and advisory services. It managed several complex and significant transactions, including IPOs and structured solutions, and has also positioned SABB as a benchmark for mutual funds, asset management and brokerage services. Our application to the Capital Market Authority to establish a joint venture investment bank with HSBC has been received positively and, subject to completion of the other formalities, we anticipate the new company will commence business during 2006.

The year has also seen SABB undergo a comprehensive rebranding evidenced visually by a new logo with our abbreviated name, SABB, in both English and Arabic, alongside the Hexagon logo of HSBC. In making this change we are seeking to add an international dimension to our brand whilst reflecting the longstanding association with HSBC.

The Bank proposes to utilise the excellent results of 2005 to further strengthen its capital base and recommends a one-for-two bonus issue of shares. SABB also seeks to maintain a competitive dividend payout. Following the SAR10 per share interim dividend paid during the year, a final dividend of SAR5 per share is proposed, making the total for the year of SAR15 per share. Both the bonus issue and the final dividend payment are subject to approval by shareholders at the next Annual General Meeting in 2006.

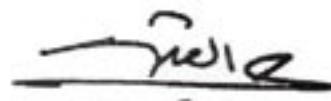
SABB takes great pride in active and responsible corporate citizenship. In addition to ongoing support of domestic education and welfare programs, the Bank has also followed the initiative of the Custodian of the Two Holy Mosques and donated generously to the victims of the South Asia earthquake tragedy. SABB will remain committed to serving our community and nation.

2005 was also a landmark year for our nation. It saw the accession in August of a new Custodian of the Two Holy Mosques and we are grateful for the continuity in leadership which is so necessary for our national stability and progress. Furthermore, the Kingdom became a full member of the World Trade Organisation in December, which will have a major impact on our business in the years to come.

Strong economic indicators, a very positive business outlook and continued expansion of the financial sector will provide significant opportunities and your management will do its utmost to ensure that SABB is well positioned for balanced and sustainable growth in the years ahead.

On behalf of the Board of Directors, I congratulate you for an outstanding year and express sincere thanks for your loyalty. I also extend deep appreciation to the Bank's staff, whose consistent and committed effort has made these results possible, and to our customers for their continued confidence and support.

The Board would also like to express its gratitude to the Saudi government, and especially the Ministries of Finance and Commerce & Industry and the Saudi Arabian Monetary Agency, as well as to the Capital Market Authority for their continued guidance and help to the Saudi Arabian banking sector. As part of the financial and banking community, we are committed to the growth and development of the Saudi economy under the direction of the Custodian of the Two Holy Mosques and the Crown Prince.



Abdullah Mohammed Al Hugail

Directors' Report

The Board of Directors is pleased to submit to shareholders the Annual Report of The Saudi British Bank (SABB) for the financial year ending 31st December 2005

Highlights:

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

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

Last Five Years Financial Highlights:

	Years				
	2001	2002	2003	2004	2005
Customer Deposits	31,539	34,980	36,090	44,666	48,534
Shareholder's Equity	3,956	4,283	4,746	5,917	7,493
Investments, Net	21,768	20,400	15,971	14,676	16,373
Loans and Advances, Net	16,020	20,359	26,117	31,627	40,847
Total Assets	41,921	46,227	46,062	57,938	65,928
Net Income	830	973	1,258	1,646	2,504
Gross Dividend	582	665	832	990	813

Saudi Riyal Millions

Business Environment:

For a second year in succession the Saudi economy has been a major beneficiary of the higher price of oil on world markets. Revenues during 2005 were the highest ever recorded and enabled the government to increase spending significantly whilst still maintaining a budget surplus. Strong economic activity has prevailed throughout the year and the banking sector as a whole has seen substantial growth as it has actively supported expansion of the economy. We have also seen an increasing level of competition between financial institutions in the Kingdom, whose number continue to grow in the light of Saudi Arabia's accession to the World Trade Organisation (WTO) and the implementation of the regulations introduced by the Capital Market Authority.

The considerable strength of the local economy, where GDP growth in 2005 has been estimated by the Government to be 6.54% year-on-year at constant prices, is reflected in the Bank's performance during the year. SABB's profits, deposits, loans and total assets have grown strongly whilst the Bank's capital base and liquidity ratios have continued to evidence strength. With the on-going focus of enhancing customer service, further conventional and Shariah-compliant products and services have been introduced during the year.

Integral to attainment of a high level of customer service has been reinforcement of the professionalism of staff through specially designed training programmes. This has enabled

SABB to maintain its status as a leading Saudi financial institution. Considerable attention has also been given to enhancing the Bank's corporate image and to raising its profile within Saudi Arabia and to the establishment, in association with HSBC, of the first full-service, independent investment bank licensed in the Kingdom under the new Capital Market Law.

A Landmark Year:

2005 has proved to be a landmark year for your Bank. With record profits being achieved for the 11th successive year and a Return on Average Equity (ROE) that has shown continuous improvement over the same period, SABB has established a firm base and built up momentum for further growth in 2006 and well into the future.

Profits for the year have risen to an historic high of SAR2,504 million as compared to SAR1,646 million a year earlier, a rise of SAR858 million. This increased level of profit translates into Earnings per Share of SAR50.09, an increase of 52.2% over the figure of SAR32.92 at the end of 2004 and to an ROE of 38.9%, which has risen from 32.5% a year earlier. These figures are particularly impressive given the increased level of competition within the Saudi banking sector.

As at 31st December 2005, total deposits amounted to SAR48,534 million, an increase of SAR3,868 million or 8.7% over the figure of SAR44,666 million at the end of 2004. SABB has also grown its portfolio of loans and advances by SAR9,220 million to SAR40,847 million from SAR31,627 million the year before. Total assets as at the end of the year had reached SAR65,928 million, 13.8% or SAR7,990 million higher than a year earlier.

During 2005 the following factors have been critical in the achievement of our excellent results:

- The introduction of new conventional and Shariah-compliant products and services, the latter under the Amanah brand, for both personal and corporate customers.
- Constant attention to staff training and service quality improvement.
- Maintenance of prudent credit policies and a diversified asset portfolio.
- Robust and full compliance with all applicable laws and regulations allied to close cooperation with the Saudi Arabian Monetary Agency and the Capital Market Authority.
- Successful implementation of a three-year strategic plan, 2005-2007, designed to transform a traditional bank into a leading financial services company.
- Ongoing development of the Bank's technology infrastructure to ensure adequate capacity and uninterrupted service.

As a result the Bank has maintained its leading status within the Saudi banking sector and is strongly positioned for the opportunities and challenges that lie ahead.

There were two events of special importance this year. The first of these occurred in March when SABB became the first Saudi bank to issue an international bond – a US\$600 million floating rate note with a five-year maturity under the Bank's new Euro Medium Term Note (EMTN) programme. The second event was the application made to the Capital Market Authority for a licence to operate a joint venture investment bank in Saudi Arabia with HSBC. After completion of the outstanding formalities the new investment bank, which will be called HSBC Saudi Arabia Limited, will commence business once other necessary formalities have been completed.

Bonus Share Issue And Cash Dividends:

In the light of the results declared your Board of Directors is proposing a strengthening of the Bank's capital base, from SAR2.5 billion to SAR3.75 billion, by recommending a bonus issue of shares on the basis of one new share for every two already held, as well as a final net dividend of SAR5 per share. The proposed final dividend, together with the interim net dividend of SAR10 per share paid during the year, makes a total of SAR15 net per share for 2005.

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 37.9 million (2004: SAR 24.1 million), and is deducted from their share of the dividend. Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 199.2 million (2004: SAR 197.0 million), and is deducted from its share of the dividend.

Shareholders' approval for both the bonus issue and the dividend will be sought at the next Annual General Meeting to be held early in 2006.

Property And Branches:

Continuous attention has been given during 2005 to ensuring maximum customer satisfaction at all branches by providing a pleasant, welcoming, efficient and safe working environment. Particular attention has been paid to providing greater access for female customers, with Ladies' Lounges now open in all three of the Bank's regions, with plans in hand to extend these to all branches Kingdom-wide. To enable further development of the Premier and Al Imtiaz portfolios, Premier Centres have been launched in the three regions, each with experienced managers and dedicated and knowledgeable staff available to provide assistance.

The Head Office expansion project has continued apace and is expected to be ready for occupation in the second quarter of 2006. Additionally, 2 branches have been expanded or renovated during the year; 4 investment centres and 15 ladies' lounges have been constructed; 2 new Tadawul units have been established across the Kingdom; and a Private Banking Facility has been opened in the Eastern Province. Meanwhile, the Western Province Regional Management Building has undergone a complete restructuring in accordance with the Bank's "Open Space Planning Policy", resulting in maximum space utilisation and better workplace synergy.

At the year end SABB had a network of 72 branches, including 12 sections or branches for ladies; a total of 249 ATM machines, a further 17 having been installed during the year; 4232 Point of Sale (POS) machines; 15 cash deposit machines; and 264 self-service terminals.

A continuous review of SABB's security and safety has been undertaken over the twelve months, with measures being taken to ensure the protection of both customers and staff as well as the Bank's properties.

Customers Always Come First:

SABB's policy of putting the "Customer First" has proved markedly rewarding over the years as the Bank's customer base and level of business transacted has grown considerably across all of the corporate, commercial and personal sectors. Of particular note this year has been the increase in the Bank's portfolio of Shariah-compliant products and services under the "Amanah" sub-brand, which have been particularly well-received. As the Bank has embarked on a new, three-

year strategic plan, 2005 to 2007, the “Customer First” focus remains firmly in place alongside HSBC’s “Managing for Growth” strategy.

Corporate, Commercial and Investment Banking:

Corporate and Commercial Banking:

2005 has been a very busy and successful year for SABB’s Corporate and Commercial Banking. Operating in what has been a highly buoyant economy throughout the year allied to a private sector taking full advantage of that situation, the loans and advances portfolio has risen substantially to SAR22,828 million as at 31st December, an increase of 16.3% or SAR3,204 million over the figure for the previous year. Shariah-compliant financing has been wholly integral to that increase.

SABB maintained its leading role throughout the year in the debt and Islamic structured finance markets, either as a financial advisor or as an arranger of finance, especially for large, capital-intensive projects, which have included the two largest in value undertaken during the year. Major roles performed by the Bank have included mandated lead arranger of a term-loan facility for Saudi Electric Company; a project finance transaction for SABIC’s Sharq III expansion; a major domestic Sukuk issue for SABIC, which will be the first of its kind under the Capital Market Authority’s new regulations when it is brought to the market, which is expected during 2006, at which time it will provide evidence of SABB’s and HSBC’s leadership role in the development of the Saudi capital markets; and an Islamically-structured syndicated transaction for Fawaz AlHokair’s Mall of Arabia project. Your Bank also co-led managed a major 12 year syndicated loan for Saudi Arabian Airlines (Saudia), to fund the purchase of regional jet aircraft, whilst also providing an inter-related interest rate swap for the duration of the loan. An Ijara facility had also been granted to Hafil Transport Establishment to finance the company’s Haj transport operations and Islamically-structured treasury solutions for managing a wide range of customer risks have now been introduced.

Corporate Finance:

SABB has been one of the most active banks in the Kingdom in 2005 as a financial advisor, lead manager and/or placement agent for equity issues.

In January, the Bank, together with HSBC, handled the first government privatisation offering for two years when it brought The Company for Cooperative Insurance (NCCI) to the local market. This was followed in June by the Initial Public Offering (IPO) for Almarai Company, a first of its kind as the company concurrently converted from a limited liability company to a joint stock company and the issue was the first ever to be underwritten by a syndicate of Saudi banks and, late in the year, by an IPO for Al Drees Petroleum and Transport Services Company. SABB also managed rights issues for a number of local companies including National Industrialisation Company, Saudi Cable Company, Saudi Industrial Services Company, Etihad Etisalat/Mobily and Taiba Investment & Real Estate Development Company and acted as financial advisor on a private exempt offering of shares in Al Mowasat Medical Services Company.

As the year came to an end SABB and HSBC had together established a leading position in the provision of project finance advisory services and were acting as financial advisors to the sponsors of three of the largest private sector petrochemical projects being considered for implementation in the Kingdom.

Asset Management:

Assets managed as discretionary portfolios had reached SAR9,212 million by the end of 2005, an increase of 618% over those under management at the end of 2004. These portfolios, many of which are now managed in accordance with the requirements of the Islamic Shariah, all outperformed the Benchmark index during the year.

Three new equity funds were launched in 2005 increasing SABB's in-house managed funds to 28, excluding the discretionary portfolios. Funds under management also grew, by over 324%, to SAR26,260 million. This placed SABB third in terms of market share of the overall retail fund market and first in terms of local equity retail funds. Moreover, the Bank's Shariah-compliant funds, Amanah Saudi Equity Fund and Amanah Fund of Funds, were the leading funds based on performance. In addition a new Amanah Saudi Industrial Fund was launched during the year. This had received investments totalling SAR2.2 billion by the year end becoming the largest of its kind in the market.

Equity Brokerage:

To cater to a marked rise in demand for the Bank's brokerage services, further investment centres were established across the Kingdom. For those seeking to trade over the Internet a new platform known as "SABB-Mubasher" was introduced and, for those wishing to trade on regional markets, SABB has expanded its service to include the exchanges in Abu Dhabi, Dubai, Egypt, Oman and Qatar.

Securities Services:

Strong business growth was seen in the provision of securities services during the year as increased interest was shown in the Saudi equity market by regional and global institutional investors. This translated into revenue growth in excess of 28% year-on-year.

Personal Banking:

Considerable growth and innovation has been seen in retail banking during the year, which is particularly impressive given the intensifying level of competition. The cornerstone of this success has been SABB's commitment to excellent service. Of particular note has been the continuing rise in demand for Shariah-compliant products and services, where the Bank enjoys a leadership position under the highly-regarded Amanah brand.

During 2005 a wide range of products and services have been developed and introduced for all customer groups, including offerings designed exclusively for female customers. Of particular note are the tailored set of solutions for small businesses, a first for SABB in the local market.

Over the year banking and finance in accordance with the Islamic Shariah has seen markedly increased demand. In the light of this SABB's Islamic personal financing products have seen further development and now provide financing without assignment of salaries. The Bank's Islamic consumer finance proposition, "EasyBuy", is another first in the market as it provides funding for the purchase of household goods on an unsecured basis with instant decision-making available at a retailer's point-of-sale. The Islamic home financing product remains popular and is expected to be supplemented by Takaful home insurance in the near future.

To fund the home financing portfolio SABB successfully completed the first ever Islamic long-term financing by the International Finance Corporation (IFC), a facility which is the longest Saudi Riyal-based fixed rate institutional funding provided to a Saudi bank.

The Bank's credit card business continues to grow with SABB now being the leading issuer of Visa "Classic" cards, the largest volume card in Saudi Arabia. Additionally an Islamic credit card has been introduced. The year has also seen increased participation of retailers in the "ICSABB" loyalty programme and a growing demand by them for participation in joint promotions with SABB such as a scheme to offer "cash pre-loaded" MasterCards to purchasers of motor vehicles.

The Premier and Al Imtiaz services retain their popularity with affluent customers, with the former of these being upgraded and relaunched in 2005 to bring together high quality local services with the international reach of the HSBC network in 77 countries across the globe.

Given SABB's "Customer First" approach considerable attention has been paid throughout the year to service delivery. The result is evidenced by more ladies' sections around the Kingdom; further enhancement to the already popular and highly regarded 24 x 7 telephone banking service; the supplementing of existing e-services by the addition of Internet share trading; increased numbers of ATM and Cash Deposit machines; and the expansion and development of specialist sales forces which now include financial planning consultants. Technical innovation has also been a feature with SABB becoming the first bank in the GCC to offer IPO application through its ATM network as an addition to other existing application processes.

Private Banking has had another good year as evidenced by a marked rise in profitability. Following the opening of a new private banking centre in the Eastern Province and commencement of a service dedicated to lady clients, the level of business generated has increased considerably, especially that conforming to the Shariah. To raise further awareness of the services offered a new Private Banking website is under development ready for launch in 2006.

SABB is also seeking to take advantage of the new Cooperative Insurance Law by forming a joint venture with HSBC to provide Shariah-compliant Takaful products for its customers. As at the year end our application for a licence was at an advanced stage.

Operations:

Considerable attention has been paid during 2005 to upgrading the Bank's operational platform, from which new and innovative products can be launched with the highest level of service. The system now provides new facilities for front line banking such as uninterrupted system availability at teller counters. Additionally, SABB has been a pilot site for implementation of

Islamic systems designed to enhance the Bank's services to all customer segments and has established a unit dedicated to managing implementation of Basel II, as required by SAMA.

First Independent Investment Bank:

In November 2005 the Capital Market Authority gave its approval to SABB and HSBC to establish what will be the first full-service, independent investment bank in the Kingdom established under the recently introduced Capital Market Law. The major new venture, which is expected to be known as HSBC Saudi Arabia Limited, will be established as a limited liability company with its headquarters in Riyadh and with an authorised and paid-up share capital of SAR50 million, owned 40% by SABB and 60% by a wholly-owned subsidiary of HSBC.

On completion of all the necessary formalities the new bank will provide corporate finance and asset management advisory services to corporations and institutions in Saudi Arabia as well as investment advisory services to individual investors. The new company will also manage SABB's domestic and international equity brokerage and securities services businesses, building on your Bank's leading position in the distribution of listed Saudi shares and IPOs and on its distribution platform, which is already one of the most active in the Kingdom.

This new venture will bring to SABB's clients in the Kingdom a broader level of global expertise in investment banking, including services related to IPOs, rights issues, private placements and Islamic and conventional debt securities. Project and Islamic structured finance, privatisation and merger and acquisition advice will also be made available.

International Recognition:

During 2005 the Bank was pleased to be assigned a raised long-term foreign currency rating of "A-" by Standard & Poor's and a higher long-term rating of "A" by Fitch, two of the world's leading credit rating agencies. SABB is particularly proud of attaining such excellent ratings, especially the latter as it is the highest assigned to any local bank in the Kingdom, clearly evidencing the Bank's sound capital structure and excellent profitability.

Furthermore the year also saw SABB honoured with the Euromoney award for "Best Equities House in Saudi Arabia". This was a major achievement in what has been a rapidly growing and increasingly competitive environment that has seen stock markets across the region rise to all-time highs and unprecedented growth in the number of shareholders in the Kingdom to in excess of 5 million, compared to just a tenth of that number in the very recent past.

Community Support:

As an active and responsible corporate citizen, philanthropy and care for the environment in Saudi Arabia are key issues for SABB. In pursuit of these the Bank has continued to provide encouragement to Saudis to pursue higher education, specifically under the SABB Scholarship Scheme, and by maintaining its financing of the Chair of Finance at the King Fahd University of Petroleum and Minerals in Dhahran. Donations have also been made to worthy causes in Saudi Arabia as well as to the victims of the South Asia earthquake tragedy.

On the business front SABB co-sponsored the Second Riyadh Economic Forum. Organised

by the Riyadh Chamber of Commerce and Industry the Forum is one of the most important economic gatherings in the Kingdom as it promotes economic interaction between Saudi Arabia and the rest of the world. It is attended by top businessmen and businesswomen, Saudi officials and delegations from a number of other countries and therefore provides maximum exposure for SABB.

Late in the year SABB sponsored a United Nations Development Programme workshop entitled “Saudi Women in the Millennium”, which addressed a number of themes related to the UN’s millennium development goals including education, environment, labour policies and leadership.

Corporate Communications:

Considerable attention has been given during the year to the development of the Bank’s new corporate image, which seeks to ensure differentiation of the SABB brand in the increasingly competitive local marketplace. The comprehensive rebranding that has been undertaken aims to capitalise fully on the close relationship between the Bank and its foreign partner and is evidenced visually by a new corporate logo depicting SABB’s seal adjacent to HSBC’s Hexagon.

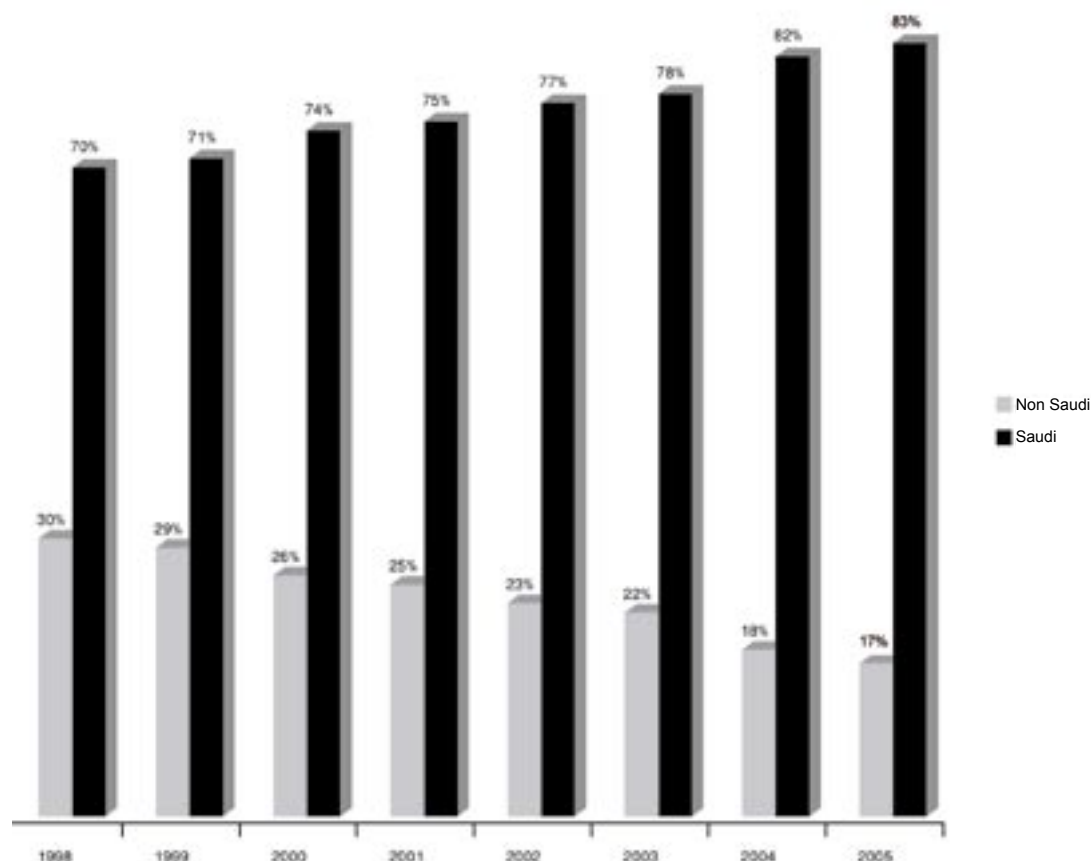
Human Resources:

The ongoing development of our human resources remains a high priority for SABB in order to ensure every employee is able to attain his or her full potential and that professionalism prevails throughout the Bank, especially at the interface with customers.

To these ends, extensive training has again been provided to all staff, including the ladies, at every level within the Bank. Included in the programmes offered have been those on management, leadership, performance management, sales and marketing, information technology, commercial credit, trade services, systems and operations and Takaful or Islamic insurance. In total 4524 individuals attended 20,407 days of internal and external training, all of which was conducted using the latest techniques and programmes to ensure the desired level of excellence. Furthermore, encouragement continued to be given to all staff to attain professional qualifications in their chosen field of activity and to all network staff to attain accreditation in Islamic banking and finance.

The staff development programmes initiated in earlier years continued to be implemented, including those on talent management and career development. Detailed succession plans are also in place, supported by the balanced scorecard appraisal system and the Superperformance Incentive Scheme, which are utilised on an on-going basis.

Saudisation remains of importance to SABB. Therefore recruitment drives have been carried out during 2005 seeking local individuals with varying educational backgrounds. In addition, to assist in the retention of employees, non-executive training and junior officer development programmes have been held, whilst mid-career Saudi executives, who are able to bring specialised non-banking knowledge and expertise to the Bank, continued to be sought. The net result of this has been a further rise in SABB’s Saudisation ratio as at 31st December 2005 to 83.47%, being 1879 out of a total staff complement of 2251, which includes 318 Saudi ladies.

Directors' Report (continued)**Saudisation Percentage and Growth:****Directors:**

On 1st January 2005 Mr. Iqbal Khan was appointed a director of the Bank in place of the late Sir David Gore-Booth and, on 31st July 2005, Mr. John Coverdale was appointed Managing Director in succession to Mr. Geoff Calvert.

In the light of these changes the Board of Directors as at 31st December 2005 comprised:

- Mr. Abdullah Mohamed Al Hugail (Chairman)
- Mr. John Edward Coverdale (Managing Director)
- Mr. Khalid Sulaiman Olayan
- Mr. Fouad Abdulwahab Bahrawi
- Mr. Khalid Abdullah Al Molhem
- Mr. David Howard Hodgkinson
- Mr. Iqbal Ahmad Khan
- Mr. John Lowood Richards, OBE
- Mr. Sulaiman Abdulkader Al Muhaidib
- Mr. Ahmed Sulaiman Banaja

Audit Committee:

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

Directors' Remuneration And Meetings:

Directors' fees during 2005 totalled SAR1,556,000, including SAR256,000 in attendance fees at Board of Directors and Executive Committee meetings.

Remuneration of Directors in their capacity as employees of the Bank during the year amounted to SAR3,514,861.

The Board of Directors conducted five meetings during 2005 at which attendance was as follows:

Date	Number of attendees
14 March 2005	9
18 May 2005	7
21 July 2005	8
19 October 2005	10
12 December 2005	8

Related Party Transactions:

As at the year end there were no contracts of any material interest, nor have there been any in the course of 2005, between the Bank and any member of the Board of Directors, the Managing Director, the Chief Financial Officer or any of their relatives.

Staff Benefits And Schemes:

According to the Labour Law of The Kingdom of Saudi Arabia and to the Bank's internal policies, staff benefits are due for payment during or at the end of an employee's service period. The end of service benefit outstanding at the end of 2005 amounted to SAR 158.1 million.

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

Directors' Report (continued)**Board Of Directors' Assurance:**

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

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

Donations:

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

Auditors:

The Ordinary General Meeting held in March 2005 reaffirmed the appointment of Messrs. KPMG AlFozan & Bannaga and Ernst & Young as the Bank's auditors.

Expressions Of Gratitude:

2005 has been another excellent year for your Bank, which has again ensured close attention to customers and shareholders alike by maintaining a policy of continuous development and introduction of new products and services whilst enhancing shareholder value. Such achievements would not be possible without the full support of many people and organisations within Saudi Arabia. This is especially true of the Bank's loyal staff, whose commitment, professionalism and contribution to SABB's on-going success are fully appreciated.

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

The accompanying financial statements and notes, together with this directors' report, form an integral part of the 2005 Annual Report of The Saudi British Bank. The disclosures required under Article (27) of the Listing Rules promulgated by the Capital Market Authority are included in the accompanying financial statements and notes or within this report where applicable.

AUDITORS' REPORT**TO: THE SHAREHOLDERS OF THE SAUDI BRITISH BANK
(SAUDI JOINT STOCK COMPANY)**

We have audited the balance sheet of The Saudi British Bank (the Bank) as at 31 December 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.

Our audit was conducted 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 degree of assurance to enable us to express an opinion on the financial statements.

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

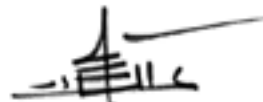
- present fairly, in all material respects, the financial position of the Bank as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards, and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

Ernst & Young
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Riyadh 11461
Kingdom of Saudi Arabia

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Riyadh 11663
Kingdom of Saudi Arabia



Dr. Abdullah A Baeshen
Registration No. 66



Abdelgadir Bannaga PhD/FCCA
Licence No. 22



Riyadh: 21 Dhul Hijjah 1426H
(21 January 2006)

Balance Sheet

As at 31 December		2005	2004
	Notes	SAR'000	SAR'000
ASSETS			
Cash and balances with SAMA	3	3,029,348	2,242,651
Due from banks and other financial institutions	4	4,234,290	8,186,207
Investments, net	5	16,372,562	14,676,034
Loans and advances, net	6	40,846,592	31,627,058
Fixed assets, net	7	527,725	565,074
Other assets	8	917,410	640,780
Total assets		65,927,927	57,937,804
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	4,049,625	5,663,335
Customer deposits	11	48,534,075	44,665,767
Debt securities in issue	12	2,246,933	-
Borrowings	13	187,500	-
Other liabilities	14	3,416,642	1,691,305
Total liabilities		58,434,775	52,020,407
Shareholders' equity			
Share capital	15	2,500,000	2,500,000
Statutory reserve	16	2,500,000	2,408,965
Other reserves	17	302,843	185,903
Retained earnings		1,903,309	303,029
Proposed dividend	27	287,000	519,500
Total shareholders' equity		7,493,152	5,917,397
Total liabilities and shareholders' equity		65,927,927	57,937,804

The accompanying notes 1 to 41 form an integral part of these financial statements.

Statement of Income

For the years ended 31 December

	Notes	2005 SAR'000	2004 SAR'000
Special commission income	19	3,241,903	2,146,387
Special commission expense	19	1,196,861	466,591
Net special commission income		2,045,042	1,679,796
Fees from banking services, net	20	1,531,549	674,316
Exchange income, net		178,342	125,261
(Loss) / income from FVIS Financial Instruments		(12,368)	10,029
Trading income, net	21	34,952	241
Dividend income	22	5,583	2,497
Gains on non-trading investments, net	23	36,256	63,975
Other operating income	24	1,062	9,017
Total operating income		3,820,418	2,565,132
Salaries and employee related expenses		716,033	542,299
Rent and premises related expenses		50,532	45,717
Depreciation and impairment	7	121,809	65,480
Other general and administrative expenses		319,343	202,717
Provision for credit losses, net	6	107,765	60,623
Other operating expenses	25	621	2,424
Total operating expenses		1,316,103	919,260
Net income		2,504,315	1,645,872
Earnings per share (in SAR)	26	50.09	32.92

The accompanying notes 1 to 41 form an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

For the years ended 31 December	Notes	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Proposed dividends SAR'000	Total SAR'000
2005							
Balance at the beginning of the year, as previously reported		2,500,000	2,408,965	166,308	310,011	-	5,385,284
Adjustments arising from application of revised IAS 39	2b	-	-	19,595	(6,982)	-	12,613
Adjustments arising from application of revised IAS 10	2b	-	-	-	-	519,500	519,500
Balances at beginning of the year, as adjusted		2,500,000	2,408,965	185,903	303,029	519,500	5,917,397
Net income for the year		-	-	-	2,504,315	-	2,504,315
Transfer to statutory reserve	16	-	91,035	-	(91,035)	-	-
Proposed gross dividend	27	-	-	-	(813,000)	813,000	-
Dividend distributed during the year	27	-	-	-	-	(1,045,500)	(1,045,500)
Net changes in fair value and cash flow hedges	17	-	-	116,940	-	-	116,940
Balance at the end of the year		2,500,000	2,500,000	302,843	1,903,309	287,000	7,493,152
2004							
Balance at the beginning of the year, as previously reported		2,000,000	2,000,000	176,826	569,387	-	4,746,213
Adjustments arising from application of revised IAS 39	2b	-	-	15,215	(13,265)	-	1,950
Adjustments arising from application of revised IAS 10	2b	-	-	-	-	458,000	458,000
Balances at beginning of the year, as adjusted		2,000,000	2,000,000	192,041	556,122	458,000	5,206,163
Bonus share issue		500,000	-	-	(500,000)	-	-
Net income for the year		-	-	-	1,645,872	-	1,645,872
Transfer to statutory reserve	16	-	408,965	-	(408,965)	-	-
Proposed gross dividend	27	-	-	-	(990,000)	990,000	-
Dividend distributed during the year	27	-	-	-	-	(928,500)	(928,500)
Net changes in fair value and cash flow hedges	17	-	-	(6,138)	-	-	(6,138)
Balance at the end of the year, as adjusted		2,500,000	2,408,965	185,903	303,029	519,500	5,917,397

The accompanying notes 1 to 41 form an integral part of these financial statements.

Statement of Cash Flows

For the years ended 31 December

	Notes	2005 SAR'000	2004 SAR'000
OPERATING ACTIVITIES			
Net income		2,504,315	1,645,872
Adjustments to reconcile net income to net cash from (used in) operating activities			
Amortisation of premiums on investments, net		5,321	6,595
Loss (gains) from FVIS financial instruments		12,368	(10,029)
Gains on investments, net		(36,256)	(63,975)
Depreciation and impairment		121,809	65,480
Gains on disposal of fixed and other assets, net		(17)	(6,195)
Provision for credit losses, net		107,765	60,623
Change in fair value		10,035	(30,267)
		<u>2,725,340</u>	<u>1,668,104</u>
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(217,665)	(371,163)
Investments held for trading		(270,126)	-
Loans and advances		(9,359,238)	(5,555,603)
Other assets		(153,592)	86,720
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,613,710)	2,243,126
Customer deposits		3,867,578	8,576,802
Other liabilities		1,535,840	319,362
Net cash (used in) from operating activities		<u>(3,485,573)</u>	<u>6,967,348</u>
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		2,818,295	4,893,789
Purchase of non-trading investments		(4,030,403)	(3,521,808)
Purchase of fixed assets		(84,576)	(91,599)
Proceeds from disposal of fixed assets		133	15,400
Net cash (used in) from investing activities		<u>(1,296,551)</u>	<u>1,295,782</u>
FINANCING ACTIVITIES			
Debt securities in issue		2,246,933	-
Borrowings		187,500	-
Dividends paid		(1,035,194)	(899,952)
Net cash from (used in) financing activities		<u>1,399,239</u>	<u>(899,952)</u>
(Decrease) increase in cash and cash equivalents		(3,382,885)	7,363,178
Cash and cash equivalents at the beginning of the year		8,770,976	1,407,798
Cash and cash equivalents at the end of the year	28	<u>5,388,091</u>	<u>8,770,976</u>
Supplemental non cash information			
Net changes in fair value and cash flow hedges		116,940	(6,138)

The accompanying notes 1 to 41 form an integral part of these financial statements.

Notes To The Financial Statement

1. General:

The Saudi British Bank (the Bank) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 60 branches (2004: 61) and 12 exclusive ladies' sections (2004: 12) in the Kingdom of Saudi Arabia. The Bank employed 2,251 staff as at 31 December 2005 (2004: 2,020). The address of the Bank's head office is as follows:

The Saudi British Bank
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia

The objectives of the Bank are to provide a range of banking services. The Bank also provides Non-interest bearing products, which are supervised by an independent Shariah Board.

2. Summary of significant accounting policies:

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

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

All Non-interest bearing products are accounted for using International Financial Reporting Standards and are in conformity with the accounting policies described below.

a) Basis of preparation:

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

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

In the ordinary course of business, the Bank makes certain estimates and assumptions

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

These financial statements have been expressed in Saudi Arabian Riyals (SAR) rounded off to the nearest thousand.

b) Change in accounting policies and reporting:

The Bank has implemented the revised versions of International Accounting Standard (IAS) 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IAS 10 Events after the balance sheet date effective 1 January 2005 with retrospective effect, with respect to the recognition and measurement 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 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 recognised in the statement of income. This new classification includes financial assets and liabilities held for trading and items that are designated as FVIS at the time of initial recognition. Following initial recognition, transfers between the various classifications of financial assets or liabilities are not ordinarily permissible.

Following the above, certain investments previously classified as Held at amortised cost and Available-for-sale as at 1 January 2004 have been reclassified as a one-time option as FVIS investments. The opening balance of retained earnings as at 1 January 2004 has been adjusted accordingly with the difference between amortised cost and fair value of these investments. For investments purchased during 2004 and outstanding as at 31 December 2004, and reclassified as FVIS, fair value changes as at 31 December 2004 have been taken to net income. As a result of above changes, the net impact on shareholders’ equity as at 1 January 2004 was SAR 1.9 million and to the statement of income for the year ended 31 December 2004 was SAR 10 million.

In addition, the Bank has changed its reporting of proposed dividends. Previously the Bank recognised dividends proposed by the Bank’s Board of Directors as a liability with a corresponding charge to retained earnings. The Bank no longer recognises a liability for such proposed dividends until the Bank’s general assembly votes to approve the payment. This change in reporting was applied retroactively to 1 January 2004.

c) Change in accounting estimate:

During the year, the Bank’s Executive Committee has reviewed and revised the estimated useful life of certain classes of fixed assets based on the experience of the Bank with similar fixed assets. The depreciation rates have been revised with effect from 1 January

Notes To The Financial Statement (continued)

2005. The effect of such revision resulted in an additional depreciation charge of SAR 29.5 million for the year ended 31 December 2005.

d) Trade date accounting:

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

e) Derivative financial instruments and hedging:

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

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

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

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

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

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the statement of income. The related portion of the hedged item is also recognised in the statement of income. Where the fair value hedge of a special

commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the statement of income over the remaining life of the instrument.

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

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

f) Foreign currencies:

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

g) Offsetting:

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

h) Revenue recognition:

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

Notes To The Financial Statement (continued)

Dividend income is recognised when declared.

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

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

i) Sale and repurchase agreements:

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

j) Investments:

All investment securities are initially recognised at cost, being the fair value of the consideration given. With the exception of FVIS and trading investments, these include transaction costs and premiums and discounts which are amortised or accreted using the effective yield method and are taken to special commission income.

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

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

Following the initial recognition of the various classes of investment securities, the subsequent period-end reporting values are determined on the basis as set out in the following paragraphs.

i) Held at fair value through income statement (FVIS):

Investments in this category are classified as either investment held for trading or those designated at fair value through income statement at inception or on adoption of the revised International Accounting Standard 39 as at 1 January 2004. Classification of investments as fair value through income statement depends on how management monitor the performance of these investments. When they are not classified as held for trading but readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through statement of income. Investments classified in this category are acquired principally for the purpose of sale or repurchase in the short term (trading) or if designated as such by the management. After initial recognition, investments are measured at fair value and any change in the fair value is recognised in the statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission earned or dividends received are included in special commission and similar income and dividend income respectively.

ii) Available for sale:

Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. Investments, which are classified as available for sale are subsequently measured at fair value. For an available for sale unhedged investment, and for those under cash flow hedging relationships any gain or loss arising from a change in its fair value is recognised directly in “other reserves” under shareholders’ equity. On derecognition or impairment the cumulative gain or loss previously reported as “other reserves” within equity is included in the income statement for the period.

Available for sale investments whose fair value cannot be reliably measured are measured at cost less impairment.

iii) Held at amortised cost:

Securities with fixed or determinable payments that are not quoted in an active market, and are not held as available for sale, are classified as held at amortised cost. Held at amortised cost 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 recognised in the statement of income when the investment is derecognised or impaired.

iv) Held to maturity:

Investments, with fixed or determinable payments and fixed maturity, that the Bank

Notes To The Financial Statement (continued)

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

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

k) Loans and advances:

All loans and advances are initially measured at cost, being the fair value of the consideration given. In subsequent period end reporting loans and advances originated or acquired by the Bank that are not quoted in an active market for which fair value has not been hedged are stated at cost less any amount written off and provision for impairment.

l) Impairment of financial assets:

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

- i)** For financial assets at amortised cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and
- ii)** For financial assets at fair value, where a loss has been recognised directly under shareholders' equity as a result of the write-down of the asset to fair value, the cumulative net loss recognised in shareholders' equity is transferred to the statement of income.
- iii)** For assets carried at cost, impairment is the present value of future cash flows discounted at the current market rate of return for similar financial assets. The amount of adjustment is included in statement of income.

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

Provisions for credit losses, including those arising from sovereign risk exposures, are based upon the management's assessment of the adequacy of the provisions on a periodic basis. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions, and the collectibility of the

outstanding loans and advances.

The Bank reviews its problem loans and advances on a quarterly basis to assess whether specific provisions for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

In addition to specific provisions against individually significant loans, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loans since it was granted or acquired. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

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

For presentation purposes, provisions for credit losses are deducted from loans and advances.

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

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The share valuations are reviewed weekly by senior management. The impairment loss cannot be reversed through the statement of income as long as the asset continues to be recognised and any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the statement of income for the period.

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

m) Fixed assets:

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

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

Notes To The Financial Statement (continued)

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

Fixed assets 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.

n) Money market placements, deposits and debt securities in issue:

All money market placements, customer deposits and debt securities in issue are initially recognised at cost, being the fair value of the consideration received.

Subsequently all commission-bearing money market placements, deposits and debt securities in issue, other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on acquisition. Premiums are amortised and discounts accreted on a systematic basis to maturity and taken to special commission expense.

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

o) Provisions:

Provisions are recognised 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 has been reliably estimated.

p) Accounting for leases:

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

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

q) Cash and cash equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents comprise

cash, balances with SAMA excluding the statutory deposit, and due from banks and other financial institutions maturing within ninety days of acquisition.

r) Derecognition of Financial Instruments:

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

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

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

s) End of service benefits:

A provision for end of service benefits is made in the manner prescribed by the Saudi Arabian Labour and Workmen's Law, and is adjusted for any shortfall calculated upon periodic actuarial valuation using the projected unit credit method.

t) Assets held in trust or in fiduciary capacity:

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

3. Cash and balances with SAMA:

	2005 SAR'000	2004 SAR'000
Cash in hand	557,499	370,373
Statutory deposit	1,875,547	1,657,882
Reverse repos	25,997	-
Other balances	570,305	214,396
Total	3,029,348	2,242,651

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

Notes To The Financial Statement (continued)

4. Due from banks and other financial institutions:

	2005 SAR'000	2004 SAR'000
Current accounts	402,592	679,311
Money market placements	3,831,698	7,506,896
Total	4,234,290	8,186,207

5. Investments, net:

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000	2005 SAR'000	2004 SAR'000
(i) Held as FVIS						
Fixed rate securities	70,142	-	8,073	18,791	78,215	18,791
Floating rate securities	200,232	-	1,716,739	1,868,534	1,916,971	1,868,534
Held as FVIS	270,374	-	1,724,812	1,887,325	1,995,186	1,887,325
Investments included above includes investments held for trading of SAR 270.4 million (2004:SAR nil)						
(ii) Available for sale						
Fixed rate securities	531,683	987,357	1,359,790	911,951	1,891,473	1,899,308
Floating rate securities	2,884,235	3,303,067	1,402,181	913,578	4,286,416	4,216,645
Equities	211,076	84,732	18,347	11,727	229,423	96,459
Other	192,185	123,168	-	-	192,185	123,168
Available for sale investments, gross	3,819,179	4,498,324	2,780,318	1,837,256	6,599,497	6,335,580
Accumulated provision for impairment	-	-	-	(74,910)	-	(74,910)
Available for sale investments, net	3,819,179	4,498,324	2,780,318	1,762,346	6,599,497	6,260,670
(iii) Held at amortised cost						
Fixed rate securities	6,040,532	5,581,460	-	93,681	6,040,532	5,675,141
Floating rate securities	1,221,000	-	-	131,228	1,221,000	131,228
Held at amortised cost	7,261,532	5,581,460	-	224,909	7,261,532	5,806,369
(iv) Held to maturity						
Fixed rate securities	516,347	721,670	-	-	516,347	721,670
Held to maturity investments, net	516,347	721,670	-	-	516,347	721,670
Investments, net	11,867,432	10,801,454	4,505,130	3,874,580	16,372,562	14,676,034

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

	2005			2004		
	Quoted SAR'000	Unquoted SAR'000	Total SAR'000	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	1,359,790	7,166,777	8,526,567	1,005,318	7,309,592	8,314,910
Floating rate securities	762,298	6,662,089	7,424,387	1,250,727	4,965,680	6,216,407
Equities	202,212	27,211	229,423	75,868	20,591	96,459
Other	186,068	6,117	192,185	117,382	5,786	123,168
Accumulated provision for impairment	-	-	-	(74,910)	-	(74,910)
Investments, net	2,510,368	13,862,194	16,372,562	2,374,385	12,301,649	14,676,034

Unquoted investments include securities of SAR 11,464.6 million (2004: SAR 10,593.6 million) issued by the Saudi Arabian Government and its agencies.

c) The analysis of unrealised gains and losses and the fair values of held at amortised cost, is as follows:

	2005				2004			
	SAR'000				SAR'000			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
(i) Held at amortised cost								
Fixed rate securities	6,040,532	152,254	(50,745)	6,142,041	5,675,141	330,937	(6,689)	5,999,389
Floating rate securities	1,221,000	3,616	(2,863)	1,221,753	131,228	943	(129)	132,042
Total	7,261,532	155,870	(53,608)	7,363,794	5,806,369	331,880	(6,818)	6,131,431
(ii) Held to maturity								
Fixed rate securities	516,347	19,914	(1,366)	534,895	721,670	45,768	-	767,438
Total	516,347	19,914	(1,366)	534,895	721,670	45,768	-	767,438

Notes To The Financial Statement (continued)**d) The analysis of investments by counter-party is as follows:**

	2005	2004
	SAR'000	SAR'000
Government and quasi Government	13,170,300	11,847,629
Corporate	2,163,197	2,142,330
Banks and other financial institutions	809,420	562,907
Other	229,645	123,168
Total	16,372,562	14,676,034

Equities reported under available for sale investments include unquoted shares of SAR 27.2 million (2004: SAR 20.6 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR 185.8 million (2004: SAR 3,178.1million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 183.7 million (2004: SAR 3,229.3 million).

Subsequent to the implementation of the revised IAS 39 on 1 January 2004, investments previously carried at amortised cost, of SAR 1,650.0 million under “held at amortised cost”, are now carried at their fair value of SAR 1,660.4 million (2004: SAR 1,662.6 million) in held at FVIS. Furthermore, SAR 224.7 million of available for sale (AFS) securities were also transferred to “held at FVIS” on 1 January 2004.

Other reserves within equity as at 31 December 2005 also include SAR 11.3 million (2004: SAR 18.8 million) related to AFS investments due to the initial implementation of IAS 39 on 1 January 2001. During 2005, an amount of SAR7.5 million (2004: SAR 3.7 million) relating to the AFS investments was transferred to the statement of income.

The remaining balance relating to the AFS investments will be transferred to the statement of income upon derecognition or impairment.

6. Loans and advances, net:

a) Loans and advances are classified as follows:

	2005 SAR'000	2004 SAR'000
Performing:		
Overdrafts	8,601,202	6,519,785
Credit cards	708,798	526,749
Commercial loans	21,595,896	16,775,558
Consumer loans	9,663,401	7,266,610
Other	464,594	669,053
Performing loans and advances, gross	41,033,891	31,757,755
Non performing loans and advances, net	198,621	365,572
	41,232,512	32,123,327
Provision for possible credit losses	(385,920)	(496,269)
Loans and advances, net	40,846,592	31,627,058

Loans and advances, net include Non-interest bearing products totalling SAR 17,680.4 million (2004: SAR 10,486.8 million) which are stated at cost less provision for credit losses, of SAR 86.3 million (2004: SAR 48.5 million).

Provision for credit losses charged to statement of income related to Non-interest bearing products is SAR 25.0 million (2004: SAR 5.0 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 1,678.0 million (2004: SAR 2,145.4 million). The negative mark to market of these loans is SAR 14.3 million (2004: positive SAR 15.5 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 83.2 million (2004: SAR 133.2 million).

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

	2005 SAR'000	2004 SAR'000
Balance at the beginning of the year	496,269	609,311
Provided during the year	209,061	124,974
Bad debts written off	(224,494)	(216,700)
Recoveries of amounts previously provided	(94,916)	(21,061)
Special commission income on impaired loans	-	(255)
Balance at the end of the year	385,920	496,269

The net charge to income on account of provision for credit losses is SAR 107.8 million (2004: SAR 60.6 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off of SAR 6.4 million (2004: SAR 43.3 million).

Notes To The Financial Statement (continued)**c) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:**

2005 SAR'000	Performing	Non performing, net	Credit loss provision	Loans and advances, net
Government and quasi Government	1,139,471	-	-	1,139,471
Banks and other financial institutions	140,625	-	-	140,625
Agriculture and fishing	913,390	10	-	913,400
Manufacturing	5,336,534	56,148	(52,119)	5,340,563
Mining and quarrying	32,973	-	-	32,973
Electricity, water, gas and health services	62,969	7,128	(7,128)	62,969
Building and construction	1,168,213	58,008	(30,843)	1,195,378
Commerce	6,798,989	37,545	(37,647)	6,798,887
Transportation and communication	668,329	5,725	(5,727)	668,327
Services	2,159,406	1,256	(1,256)	2,159,406
Consumer loans and credit cards	10,372,199	20,981	(80,367)	10,312,813
Other	12,240,793	11,820	(19,465)	12,233,148
Collective impairment provision	-	-	(151,368)	(151,368)
Loans and advances	41,033,891	198,621	(385,920)	40,846,592

2004 SAR'000	Performing	Non performing, net	Credit loss provision	Loans and advances, net
Government and quasi Government	893,039	-	-	893,039
Banks and other financial institutions	136,875	-	-	136,875
Agriculture and fishing	572,587	-	-	572,587
Manufacturing	4,255,676	242,305	(227,002)	4,270,979
Mining and quarrying	48,804	-	-	48,804
Electricity, water, gas and health services	55,705	-	-	55,705
Building and construction	1,234,596	30,788	(35,137)	1,230,247
Commerce	5,510,722	45,643	(45,547)	5,510,818
Transportation and communication	420,579	6,586	(8,840)	418,325
Services	2,623,651	1,279	(1,285)	2,623,645
Consumer loans and credit cards	7,793,359	16,316	(55,800)	7,753,875
Other	8,212,162	22,655	(19,134)	8,215,683
Collective impairment provision	-	-	(103,524)	(103,524)
Loans and advances	31,757,755	365,572	(496,269)	31,627,058

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

Notes To The Financial Statement (continued)

7. Fixed assets, net:

	Land and Buildings SAR'000	Leasehold improvements SAR'000	Equipment, furniture and vehicles SAR'000	2005 Total SAR'000	2004 Total SAR'000
Cost					
As at 1 January	603,369	193,239	369,899	1,166,507	1,097,959
Additions	24,580	18,029	41,967	84,576	91,599
Disposals	-	(1,040)	(14,007)	(15,047)	(23,051)
As at 31 December	627,949	210,228	397,859	1,236,036	1,166,507
Accumulated depreciation					
As at 1 January	230,345	130,246	240,842	601,433	550,039
Charge for the year	24,351	17,034	55,997	97,382	65,480
Impairment charge	24,427	-	-	24,427	(3,000)
Disposals	-	(1,040)	(13,891)	(14,931)	(11,086)
As at 31 December	279,123	146,240	282,948	708,311	601,433
Net book value					
As at 31 December 2005	348,826	63,988	114,911	527,725	
As at 31 December 2004	373,024	62,993	129,057	565,074	

Land and buildings and leasehold improvements and equipment include work in progress as at 31 December 2005 amounting to SAR 35.0 million (2004: SAR 15.5 million), SAR 18.6 million (2004: SAR 9.9 million) and SAR 5.0 million (2004:nil), respectively. Equipment, furniture and vehicles include information technology related assets.

8. Other assets:

	2005 SAR'000	2004 SAR'000
Accrued special commission income – banks and other financial institutions	3,474	6,047
– investments	180,766	168,350
– loans and advances	328,138	210,875
Total accrued special commission income	512,378	385,272
Accounts receivable	134,690	42,289
Other real estate	13,699	21,630
Positive fair value of derivatives (note 9)	179,898	125,935
Other	76,745	65,654
Total	917,410	640,780

9. Derivatives:

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

a) Forwards and futures:

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

b) Options:

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

c) Swaps:

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

d) Forward rate agreements:

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

Derivatives held for trading:

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

Derivatives held for hedging:

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

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

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

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

Notional amounts by term to maturity

2005 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Special commission rate swaps	101,537	(81,082)	9,817,008	-	140,000	4,063,813	5,613,195	6,630,599
Special commission rate futures and options	848	(848)	400,000	-	-	400,000	-	400,000
Spot and forward foreign exchange contracts	39,808	(90,040)	15,700,677	8,584,063	6,971,414	145,200	-	17,663,455
Currency options	3,251	(3,251)	479,392	316,742	162,650	-	-	469,664
Currency swaps	-	(314)	15,931	-	15,931	-	-	16,392
Derivatives held as fair value hedges:								
Special commission rate swaps	30,062	(15,930)	1,912,476	100,000	-	1,662,810	149,666	2,229,219
Currency swaps	-	-	-	-	-	-	-	17,779
Derivatives held as cash flow hedges:								
Special commission rate swaps	4,392	(8,510)	577,500	-	-	577,500	-	435,625
Total	179,898	(199,975)	28,902,984	9,000,805	7,289,995	6,849,323	5,762,861	27,862,733

Notes To The Financial Statement (continued)

Notional amounts by term to maturity

2004 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Special commission rate swaps	11,978	(11,608)	1,900,687	-	-	1,900,687	-	705,626
Special commission rate futures and options	-	-	-	-	-	-	-	1,679,729
Spot and forward foreign exchange contracts	110,766	(59,823)	17,037,941	8,866,407	8,024,396	147,138	-	14,279,897
Currency options	2,941	(2,941)	510,102	510,102	-	-	-	-
Derivatives held as fair value hedges:								
Special commission rate swaps	-	(40,296)	2,773,330	-	471,000	2,144,256	158,074	1,608,905
Derivatives held as cash flow hedges:								
Currency swaps	-	(1,248)	18,069	-	-	18,069	-	17,427
Special commission rate swaps	250	(1,334)	200,000	-	-	200,000	-	171,354
Total	125,935	(117,250)	22,440,129	9,376,509	8,495,396	4,410,150	158,074	18,462,938

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

2005 (SAR'000)							
Description of the hedged items:	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value	
Fixed commission rate investments	172,693	149,666	Fair value	Special commission rate swap	-	(15,727)	
Fixed commission rate loans	1,678,017	1,692,301	Fair value	Special commission rate swap	30,062	-	
Fixed commission rate deposits	100,202	100,000	Fair value	Special commission rate swap	-	(203)	
Floating commission rate investments	391,383	390,588	Cash flow	Special commission rate swap	-	(8,510)	
Floating commission rate debt securities in issue	186,450	187,244	Cash flow	Special commission rate swap	4,392	-	
2004 (SAR'000)							
Description of the hedged items:	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value	
Fixed commission rate investments	238,035	208,074	Fair value	Special commission rate swap	-	(24,060)	
Fixed commission rate loans	2,145,382	2,129,925	Fair value	Special commission rate swap	-	(15,303)	
Fixed commission rate deposits	470,067	471,000	Fair value	Special commission rate swap	-	(933)	
Fixed commission rate investments	19,777	18,069	Cash Flow	Currency swap	-	(1,248)	
Floating commission rate investments	201,984	200,900	Cash Flow	Special commission rate swap	250	(1,334)	

Approximately 82% (2004: 92%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 52% (2004: 62%) of the total of the positive fair value contracts are with any single counterparty at the balance sheet date.

10. Due to banks and other financial institutions:

	2005	2004
	SAR'000	SAR'000
Current accounts	477,292	239,364
Money market deposits	3,572,333	5,423,971
Total	4,049,625	5,663,335

Money market deposits include deposits against sales of securities of SAR 181.8 million (2004: SAR 471.5million) with agreements to repurchase the same at fixed future dates. Furthermore, money market deposits also include deposits placed by SAMA of SAR 950.0 million (2004: SAR 870.0 million).

Notes To The Financial Statement (continued)**11. Customer deposits:**

	2005	2004
	SAR'000	SAR'000
Demand	18,506,748	16,538,992
Savings	1,836,471	1,572,033
Time	27,628,108	26,067,491
Other	562,748	487,251
Total	48,534,075	44,665,767

Time deposits include SAR 6,011.2 million (2004: SAR 8,791.5 million) deposits taken under Non-interest bearing product contracts.

Time deposits include deposits against sales of securities of SAR 4.0 million (2004: SAR 2,706.6 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 559.7 million (2004: SAR 484.2 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2005	2004
	SAR'000	SAR'000
Demand	1,467,818	1,296,060
Savings	127,971	120,225
Time	7,746,185	6,699,250
Other	184,548	176,917
Total	9,526,522	8,292,452

12. Debt securities in issue:

During the year, the Bank issued USD 600 million 5 year floating rate notes (the notes) under its Euro Medium Term Note programme. The notes carry a special commission rate of Libor plus 37.5 basis points. The notes are non-convertible, are unsecured, and are listed on the Luxembourg Stock Exchange.

13. Borrowings:

During the year, the Bank borrowed SAR 187.5 million under a 12 year floating rate loan. The loan carries a special commission rate of Libor plus 65 basis points.

14. Other liabilities:

	2005 SAR'000	2004 SAR'000
Accrued special commission payable – banks and other financial institutions	51,036	27,567
– customer deposits	249,173	147,800
– debt securities in issue	14,496	-
– borrowing	452	-
Total accrued special commission payable	315,157	175,367
Accounts payable	921,190	387,362
Negative fair value of derivatives (note 9)	199,975	117,250
Subscriptions received on IPO	300,394	148,017
Other	1,679,926	863,309
Total	3,416,642	1,691,305

15. Share capital:

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

	2005	2004
Saudi shareholders	60%	60%
HSBC Holdings BV	40%	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

16. Statutory reserve:

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 91.0 million (2004: SAR 409.0 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

Notes To The Financial Statement (continued)**17. Other reserves:**

2005 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year as previously reported	(969)	167,277	166,308
Effect of implementing revised IAS 39	-	19,595	19,595
Opening balance, as adjusted	(969)	186,872	185,903
Net change in fair value	(1,787)	142,040	140,253
Transfer to statement of income	(476)	(22,837)	(23,313)
Net movement during the year	(2,263)	119,203	116,940
Balance at end of the year	(3,232)	306,075	302,843

2004 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year as previously reported	1,869	174,957	176,826
Effect of implementing revised IAS 39	-	15,215	15,215
Opening balance, as adjusted	1,869	190,172	192,041
Net change in fair value	(3,174)	57,636	54,462
Effect of implementing revised IAS 39 for the year	-	4,380	4,380
Transfer to statement of income	336	(65,316)	(64,980)
Net movement during the year	(2,838)	(3,300)	(6,138)
Balance at end of the year	(969)	186,872	185,903

18. Commitments and contingencies:**a) Legal proceedings:**

As at 31 December 2005 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b) Capital commitments:

The Bank has capital commitments of SAR 56.5 million (2004: SAR 51.7 million) in respect of buildings and equipment purchases. In addition, the Bank has made a commitment to ensure subscription of SAR 52.5 million (2004: SAR 50 million) capital to joint ventures.

c) Credit related commitments and contingencies:

Credit related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in

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

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

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

2005 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	3,512,098	698,601	172,792	-	4,383,491
Guarantees	2,543,294	3,294,839	1,984,707	43,574	7,866,414
Acceptances	1,446,362	440,091	6,785	-	1,893,238
Irrevocable commitments to extend credit	149,432	-	1,544,667	-	1,694,099
Total	7,651,186	4,433,531	3,708,951	43,574	15,837,242

2004 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,452,070	1,277,781	218,242	-	3,948,093
Guarantees	1,603,517	1,720,245	971,086	33,442	4,328,290
Acceptances	1,527,535	384,981	4,593	-	1,917,109
Irrevocable commitments to extend credit	80,641	78,646	1,350,021	-	1,509,308
Total	5,663,763	3,461,653	2,543,942	33,442	11,702,800

The unutilised portion of non-firm commitments, which can be revoked at any time, is SAR 21,581.2 million (2004: SAR 19,328.7 million).

Notes To The Financial Statement (continued)

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

	2005	2004
	SAR'000	SAR'000
Government and quasi Government	771,119	401,901
Corporate	12,595,000	10,247,411
Banks and other financial institutions	2,179,090	704,025
Other	292,033	349,463
Total	15,837,242	11,702,800

d) Operating lease commitments:

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

	2005	2004
	SAR'000	SAR'000
Less than 1 year	27,585	22,573
1 to 5 years	67,218	56,749
Over 5 years	56,563	25,633
Total	151,366	104,955

19. Net special commission income:

	2005	2004
	SAR'000	SAR'000
Special commission income		
Investments – available for sale investments	267,949	138,862
– held at amortised cost	373,368	393,188
– held to maturity investments	36,087	41,741
– held as FVIS	71,447	49,503
	748,851	623,294
Due from banks and other financial institutions	185,181	65,077
Loans and advances	2,307,871	1,458,016
Total	3,241,903	2,146,387
Special commission expense		
Due to banks and other financial institutions	158,467	76,122
Customer deposits	960,078	390,469
Debt securities in issue	73,220	-
Borrowings	5,096	-
Total	1,196,861	466,591
Net special commission income	2,045,042	1,679,796

20. Fees from banking services, net:

	2005 SAR'000	2004 SAR'000
Fee income	1,599,429	740,400
Fee expenses	(67,880)	(66,084)
Fees from banking services, net	1,531,549	674,316

21. Trading income, net:

	2005 SAR'000	2004 SAR'000
Debt instruments	857	(8)
Derivatives	34,749	249
Others	(654)	-
Total	34,952	241

22. Dividend income:

	2005 SAR'000	2004 SAR'000
Available for sale investments	5,583	2,497

23. Gains on non-trading investments, net:

	2005 SAR'000	2004 SAR'000
Available for sale investments	36,256	61,571
Held at amortised cost	-	2,404
Total	36,256	63,975

24. Other operating income:

	2005 SAR'000	2004 SAR'000
Gains on disposal of fixed assets	17	8,619
Other	1,045	398
Total	1,062	9,017

25. Other operating expenses:

	2005 SAR'000	2004 SAR'000
Loss on disposal of fixed assets	-	2,184
Other	621	240
Total	621	2,424

Notes To The Financial Statement (continued)**26. Earnings per share:**

Earnings per share is calculated by dividing the net income attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

27. Gross dividend, zakat and income tax:

The proposed gross dividend for the year is SAR 813.0 million (2004: SAR 990.0 million). The proposed gross dividend includes an interim dividend of SAR 526.0 million (2004: 470.5 million). Dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Zakat:

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 37.9 million (2004: SAR 24.1 million), and is deducted from their share of the dividend. The net total dividend for the year to the Saudi shareholders is SAR 450.0 million (2004: SAR 570.0 million) representing SAR 15.0 per share (2004: SAR 19.0 per share) of which SAR 10.0 (2004: SAR 9.0) was paid on an interim basis.

Income tax:

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 199.2 million (2004: SAR 197.0 million), and is deducted from its share of the dividend. The net total dividend for the year to the foreign shareholder is SAR 126.0 million (2004: SAR 199.0 million) representing SAR 6.3 per share (2004: SAR 9.95 per share) of which SAR 5.7 (2004: SAR 4.41) was paid on an interim basis.

28. Cash and cash equivalents:

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

	2005 SAR'000	2004 SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	1,153,801	584,769
Due from banks and other financial institutions maturing within ninety days of acquisition (note 34)	4,234,290	8,186,207
Total	5,388,091	8,770,976

29. Business segments:**a) The Bank is organised into the following main business segments:**

Retail Banking – which caters mainly to the banking requirements of personal and private banking customers.

Corporate Banking – which caters mainly to the banking requirements of commercial and corporate banking customers.

Treasury – which manages the Bank’s liquidity, currency and special commission rate risks. It is also responsible for funding the Bank’s operations and managing the Bank’s investment portfolio and balance sheet.

Transactions between the business segments are reported as recorded by the Bank’s transfer pricing system. The Bank’s total assets and liabilities as at 31 December 2005 and 2004, its total operating income and expenses, and the results for the years then ended, by business segment, are as follows:

2005 SAR’000	Retail Banking	Corporate Banking	Treasury	Total
Total assets	18,910,463	23,118,768	23,898,696	65,927,927
Total liabilities	25,274,678	13,340,302	19,819,795	58,434,775
Total operating income	2,548,863	889,120	382,435	3,820,418
Total operating expenses	1,044,270	225,501	46,332	1,316,103
Net income	1,504,593	663,619	336,103	2,504,315

2004 SAR’000	Retail Banking	Corporate Banking	Treasury	Total
Total assets	12,979,422	19,873,726	25,084,656	57,937,804
Total liabilities	20,433,163	13,856,175	17,731,069	52,020,407
Total operating income	1,435,759	606,896	522,477	2,565,132
Total operating expenses	681,839	191,251	46,170	919,260
Net income	753,920	415,645	476,307	1,645,872

b) The Bank’s credit exposure by business segment is as follows:

2005 SAR’000	Retail Banking	Corporate Banking	Treasury	Total
Balance sheet assets	17,574,893	22,827,780	23,522,620	63,925,293
Commitments and contingencies	126,603	5,448,723	385,560	5,960,886
Derivatives	-	-	1,114,823	1,114,823
Total	17,701,496	28,276,503	25,023,003	71,001,002

2004 SAR’000	Retail Banking	Corporate Banking	Treasury	Total
Balance sheet assets	12,003,753	19,623,305	24,734,519	56,361,577
Commitments and contingencies	158,489	3,853,707	-	4,012,196
Derivatives	-	-	752,690	752,690
Total	12,162,242	23,477,012	25,487,209	61,126,463

Notes To The Financial Statement (continued)

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

30. Credit risk:

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

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

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

- Establishment of credit policies and procedures which are embodied within standards, the compliance of which is monitored by Credit and Risk.
- Establishment and maintenance of a large credit exposures policy, which sets controls on the level of exposure to customers, customer groups, and other risk concentrations.
- An independent review and objective assessment of all credit facilities over designated limits.
- Maintenance of the grading process. The Bank's grading structure in respect of the credit risk of customers contains seven grades, of which the first three are applied to different levels of satisfactory risk, and the last two relate to non performing loans and advances. In respect of bank counterparties, the grading structure has ten tiers, of which the first six cover satisfactory risk. Facility grades are subject to frequent review and, where considered necessary, amendments are required to be undertaken promptly.
- Reporting on aspects of the loan portfolio. Reports are produced for senior management, including the Executive Committee, the Audit Committee, and the Board of Directors.

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

The composition of loans and advances is provided in note 6. Information on credit risk relating to derivative instruments is set out in note 9 and for commitments and contingencies is included in note 18.

31. Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure:

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

2005 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Assets						
Cash and balances with SAMA	2,996,973	-	9,640	22,735	-	3,029,348
Due from banks and other financial institutions	625,000	459,832	3,086,541	40,294	22,623	4,234,290
Investments, net	11,867,432	469,886	2,204,061	1,551,633	279,550	16,372,562
Loans and advances, net	40,612,742	97,232	136,618	-	-	40,846,592
Total	56,102,147	1,026,950	5,436,860	1,614,662	302,173	64,482,792
Liabilities						
Due to banks and other financial institutions	2,919,282	343,178	571,785	204,390	10,990	4,049,625
Customer deposits	48,517,632	16,175	-	3	265	48,534,075
Debt securities in issue	-	-	2,246,933	-	-	2,246,933
Borrowings	-	-	187,500	-	-	187,500
Total	51,436,914	359,353	3,006,218	204,393	11,255	55,018,133
Commitments and contingencies	15,118,548	204,388	175,349	30,986	307,971	15,837,242
Credit exposure (stated at credit equivalent amounts)						
Balance sheet assets	55,577,023	1,026,950	5,427,220	1,591,927	302,173	63,925,293
Commitments and contingencies	5,694,894	65,106	85,348	15,493	100,045	5,960,886
Derivatives	528,681	900	198,841	349,195	37,206	1,114,823
Total credit exposure	61,800,598	1,092,956	5,711,409	1,956,615	439,424	71,001,002

Notes To The Financial Statement (continued)

2004 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Assets						
Cash and balances with SAMA	2,223,281	-	6,888	12,482	-	2,242,651
Due from banks and other financial institutions	5,798,500	805,620	1,062,547	484,654	34,886	8,186,207
Investments, net	10,801,330	282,063	2,190,756	1,166,293	235,592	14,676,034
Loans and advances, net	31,292,346	206,515	128,197	-	-	31,627,058
Total	50,115,457	1,294,198	3,388,388	1,663,429	270,478	56,731,950
Liabilities						
Due to banks and other financial institutions	3,842,913	716,232	1,064,935	24,101	15,154	5,663,335
Customer deposits	43,449,259	49,219	1,151,020	-	16,269	44,665,767
Total	47,292,172	765,451	2,215,955	24,101	31,423	50,329,102
Commitments and contingencies	10,669,008	344,361	257,464	103,450	328,517	11,702,800
Credit exposure (stated at credit equivalent amounts)						
Balance sheet assets	49,764,454	1,294,198	3,381,500	1,650,947	270,478	56,361,577
Commitments and contingencies	3,639,526	115,058	117,272	51,468	88,872	4,012,196
Derivatives	323,039	13,271	268,031	138,974	9,375	752,690
Total credit exposure	53,727,019	1,422,527	3,766,803	1,841,389	368,725	61,126,463

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

32. Currency risk:

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

	2005 SAR'000 Long (short)	2004 SAR'000 Long (short)
US Dollar	(1,153,185)	(490,879)
Euro	(1,211)	(709)
Pounds Sterling	(2,738)	341
Other	17,501	2,476

33. Special commission rate risk:

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

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

2005 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total	Effective rate %
Assets							
Cash and balances with SAMA	25,997	-	-	-	3,003,351	3,029,348	4.3
Due from banks and other financial institutions	3,831,698	-	-	-	402,592	4,234,290	4.0
Investments, net	6,073,224	2,593,356	4,725,437	2,541,472	439,073	16,372,562	5.0
Loans and advances, net	20,983,445	5,932,944	13,930,203	-	-	40,846,592	4.6
Fixed assets, net	-	-	-	-	527,725	527,725	-
Other assets	-	-	-	-	917,410	917,410	-
Total assets	30,914,364	8,526,300	18,655,640	2,541,472	5,290,151	65,927,927	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	2,485,734	1,086,599	-	-	477,292	4,049,625	4.6
Customer deposits	23,255,777	5,705,982	130,934	-	19,441,382	48,534,075	1.5
Debt Securities in issue	-	-	2,246,933	-	-	2,246,933	4.9
Borrowings	-	-	187,500	-	-	187,500	5.1
Other liabilities	-	-	-	-	3,416,642	3,416,642	-
Shareholders' equity	-	-	-	-	7,493,152	7,493,152	-
Total liabilities and shareholders' equity	25,741,511	6,792,581	2,565,367	-	30,828,468	65,927,927	-
On balance sheet gap	5,172,853	1,733,719	16,090,273	2,541,472	(25,538,317)	-	-
Off balance sheet gap	1,724,976	(145,000)	(3,230,310)	1,650,334	-	-	-
Total special commission rate sensitivity gap	6,897,829	1,588,719	12,859,963	4,191,806	(25,538,317)	-	-
Cumulative special commission rate sensitivity gap	6,897,829	8,486,548	21,346,511	25,538,317	-	-	-

Notes To The Financial Statement (continued)

2004 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 Years	Non special commission bearing	Total	Effective rate %
Assets							
Cash and balances with SAMA	-	-	-	-	2,242,651	2,242,651	-
Due from banks and other financial institutions	7,506,896	-	-	-	679,311	8,186,207	2.4
Investments, net	4,300,214	2,753,203	3,844,142	3,546,235	232,240	14,676,034	3.3
Loans and advances, net	16,907,946	3,518,718	11,200,394	-	-	31,627,058	5.4
Fixed assets, net	-	-	-	-	565,074	565,074	-
Other assets	-	-	-	-	640,780	640,780	-
Total assets	28,715,056	6,271,921	15,044,536	3,546,235	4,360,056	57,937,804	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	4,730,971	693,000	-	-	239,364	5,663,335	2.6
Customer deposits	21,860,509	5,165,967	328,104	-	17,311,187	44,665,767	0.8
Other liabilities	-	-	-	-	1,691,305	1,691,305	-
Shareholders' equity	-	-	-	-	5,917,397	5,917,397	-
Total liabilities and shareholders' equity	26,591,480	5,858,967	328,104	-	25,159,253	57,937,804	-
On balance sheet gap	2,123,576	412,954	14,716,432	3,546,235	(20,799,197)	-	-
Off balance sheet gap	1,994,256	108,074	(1,944,256)	(158,074)	-	-	-
Total special commission rate sensitivity gap	4,117,832	521,028	12,772,176	3,388,161	(20,799,197)	-	-
Cumulative special commission rate sensitivity gap	4,117,832	4,638,860	17,411,036	20,799,197	-	-	-

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

34. Liquidity risk:

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

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

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

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

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

2005 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	1,153,801	-	-	-	1,875,547	3,029,348
Due from banks and other financial institutions	4,234,290	-	-	-	-	4,234,290
Investments, net	81,648	1,537,206	11,165,254	3,167,773	420,681	16,372,562
Loans and advances, net	19,429,945	6,895,611	14,521,036	-	-	40,846,592
Fixed assets, net	-	-	-	-	527,725	527,725
Other assets	-	-	-	-	917,410	917,410
Total assets	24,899,684	8,432,817	25,686,290	3,167,773	3,741,363	65,927,927
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,896,026	1,153,599	-	-	-	4,049,625
Customer deposits	42,376,807	5,956,637	200,631	-	-	48,534,075
Debt securities in issue	-	-	2,246,933	-	-	2,246,933
Borrowings	-	-	-	187,500	-	187,500
Other liabilities	-	-	-	-	3,416,642	3,416,642
Shareholders' equity	-	-	-	-	7,493,152	7,493,152
Total liabilities and shareholders' equity	45,272,833	7,110,236	2,447,564	187,500	10,909,794	65,927,927

Notes To The Financial Statement (continued)

2004 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 Years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	584,769	-	-	-	1,657,882	2,242,651
Due from banks and other financial institutions	8,186,207	-	-	-	-	8,186,207
Investments, net	162,873	1,164,817	9,108,331	4,020,386	219,627	14,676,034
Loans and advances, net	15,235,835	5,101,695	10,721,803	567,725	-	31,627,058
Fixed assets, net	-	-	-	-	565,074	565,074
Other assets	-	-	-	-	640,780	640,780
Total assets	24,169,684	6,266,512	19,830,134	4,588,111	3,083,363	57,937,804
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,970,335	693,000	-	-	-	5,663,335
Customer deposits	38,852,619	5,412,748	400,400	-	-	44,665,767
Other liabilities	-	-	-	-	1,691,305	1,691,305
Shareholders' equity	-	-	-	-	5,917,397	5,917,397
Total liabilities and shareholders' equity	43,822,954	6,105,748	400,400	-	7,608,702	57,937,804

35. Fair values of financial assets and liabilities:

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

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

The fair values of derivatives and other off-balance sheet financial instruments are based on quoted market prices.

36. Related party transactions:

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

In the ordinary course of its activities, the Bank transacts business with related parties. In

the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

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

	2005 SAR'000	2004 SAR'000
The HSBC Group:		
Due from banks and other financial institutions	368,005	738,103
Investments	230,891	153,577
Derivatives (at fair value)	(34,720)	57,936
Due to banks and other financial institutions	517,004	134,364
Other liabilities	183,447	15,183
Commitments and contingencies	325,824	201,892
Directors, audit committee, major shareholders and their affiliates:		
Loans and advances	1,197,107	981,632
Customer deposits	4,322,016	4,149,118
Derivatives (at fair value)	(128)	9,643
Commitments and contingencies	268,579	188,049

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

Bank's mutual funds:

Investments	192,185	123,168
Loans and advances	73,360	1,276
Customer Deposits	1,661,054	1,730,703

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

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

	2005 SAR'000	2004 SAR'000
Special commission income	74,918	21,401
Special commission expense	(221,689)	(126,876)
Fees from banking services	10,304	25,313
Profit share arrangement relating to investment banking activities	(168,264)	(15,183)
Directors' remuneration	1,559	1,601

Notes To The Financial Statement (continued)

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

	2005	2004
	SAR'000	SAR'000
Short-term employee benefits (Salaries and allowances)	41,363	36,382
Post-employment benefits (End of service indemnity and social security)	1,728	822

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2005. The details of these schemes have not been separately disclosed in these financial statements as they do not have a significant effect on the results and financial position of the Bank.

37. Capital adequacy:

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

	Capital		Ratio %	
	2005	2004		
	SAR'000	SAR'000	2005	2004
Tier 1	7,493,152	5,917,397	15.3	15.4
Tier 1 + Tier 2	7,638,844	6,015,245	15.6	15.6

<u>Risk weighted assets</u>						
	2005			2004		
	SAR'000			SAR'000		
	Carrying value/ notional amount	Credit equivalent	Risk weighted assets	Carrying value/ notional amount	Credit equivalent	Risk weighted assets
Balance sheet assets						
0%	14,825,737		-	13,402,471		-
20%	9,272,784		1,854,557	12,089,268		2,417,854
100%	41,829,406		41,823,730	32,446,065		32,446,065
Total	65,927,927		43,678,287	57,937,804		34,863,919
Commitments and contingencies						
0%	918,235	294,455	-	759,343	219,125	-
20%	2,038,654	910,923	182,185	964,606	362,380	72,476
100%	12,880,353	4,755,508	4,755,508	9,978,851	3,430,691	3,430,691
Total	15,837,242	5,960,886	4,937,693	11,702,800	4,012,196	3,503,167
Derivatives						
0%	2,792,925	-		1,579,372	-	-
20%	18,591,795	731,481	146,296	18,208,334	655,488	131,098
50%	7,518,264	383,342	191,671	2,652,423	97,202	48,601
Total	28,902,984	1,114,823	337,967	22,440,129	752,690	179,699
Total risk weighted assets			48,953,947			38,546,785

38. Investment management services:

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

The Bank offers Non-interest bearing investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, with net assets value of SAR 19,979.8 million (2004: SAR 1,967.9 million). The Bank also manages private investment portfolios on behalf of customers with managed assets totalling of SAR 9,212.6 million (2004: SAR 1,283.6 million) out of which Non-interest bearing portfolio totalling of SAR 2,560.1 million (2004: nil).

Notes To The Financial Statement (continued)**39. Prospective changes in accounting standards:**

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

- IAS 39 – Fair value option (effective 1 January 2006)
- IFRS 7 – Financial instrument disclosure (effective 1 January 2007) and
- IFRIC IV – Determining whether an arrangement contains a lease (effective 1 January 2006).

40. Comparative figures:

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

41. Board of Directors' approval:

The financial statements were approved by the Board of Directors on 21 Dhul Hijjah 1426H (21 January 2006).

SABB Branches

Head Office (Riyadh):

Prince Abdulaziz Bin Mossaad Bin Jalawi Street
(Dabaab).

P.O. Box 9084, Riyadh 11413, Saudi Arabia.
Tel: +966 (1) 405-0677
Fax: +966 (1) 405-0660

Telegram: SABRIT RIYADH.
Treasury: Tel: +966 (1) 405-0020
Fax: +966 (1) 405-8652

SABB Direct: Toll Free Number: 800-124-8888
Website: www.sabb.com

Area Management Offices:

Central Province: Riyadh: Salah Al-Din Al-Ayubi
Road (Sitteen),

P.O. Box 2907, Riyadh 11461, Saudi Arabia.
Tel: +966 (1) 479-4400 Fax: +966 (1) 479-2438

Western Province: Jeddah: Ali Bin Abi Talib Street,
Sharafiah.

P.O. Box 109, Jeddah 21411, Saudi Arabia.
Tel: +966 (2) 651-2121 Fax: +966 (2) 653-2816

Eastern Province: Al-Khobar: King Abdulaziz
Boulevard.

P.O. Box 394, Al-Khobar 31952, Saudi Arabia.
Tel: +966 (3) 882-6000 Fax: +966 (3) 882-1669

Branch	Telephone No.
Riyadh:	
Riyadh Main	01 479-4400
King Faisal Street	01 404-3196
Dabaab	01 405-0677
Olaya	01 465-7171
Sinnaiyah	01 446-5849
Al-Hassa Street	01 476-9028
Al-Hassa Street-Ladies Branch	01 477-4007
Riyadh Super Branch	01 470-6515
Riyadh Super Branch-Ladies Branch	01 470-6511
Al-Rabwa	01 493-2439
Dharat Al-Badia	01 431-1250
Dharat Al-Badia-Ladies Branch	01 432-7610
Al-Warood District	01 456-5125
Al-Takhassusi	01 464-9446
Al-Rawdah	01 230-0101
Al-Suwaidi	01 426-3961
Al-Shifa	01 421-3178
Al-Nozha	01 456-4441
Al-Naseem	01 230-2090
Shumaisi	01 434-1115
Al-Faisalyiah	01 273-4459

SABB Branches (continued)

Branch	Telephone No.
Al-Kharj:	
Al-Kharj	01 544-4000
Buraidah:	
Buraidah	06 324-5494
Onaizah:	
Onaizah	06 362-0490
Al-Rass:	
Al-Rass City	06 333-7060
Jeddah:	
Jeddah Main	02 651-2121
King Abdulaziz Street, Jeddah	02 642-7008
Makkah Road	02 687-7643
Palestine Street	02 660-2728
Palestine Street-Ladies Branch	02 668-2254
Prince Mutaib Street	02 672-9046
Sary Street	02 683-2416
Sary Street-Ladies Section	02 698-1802
Al-Tahlia Super Branch	02 667-9000
Al-Tahlia Super Branch-Ladies Section	02 664-1666
Hera Street	02 699-1356
Hera Street-Ladies Section	02 622-6007
Balad	02 647-1145
Al Safa District	02 679-2424
Al Amir Fahd Street	02 655-0862
Makkah:	
Makkah	02 545-9191
Makkah-Ladies Section	02 548-2925
Makkah Al Aziziah	02 557-0395
Taif:	
Taif	02 740-0182
Abha:	
Abha	07 224-4628

Branch	Telephone No.
Medinah Al-Munawwrah:	
Medinah	04 826-7472
Medinah-Ladies Section	04 823-2530
Amanah Islamic Branch	04 838-5984
Khamis Mushait:	
Khamis Mushait	07 222-2302
Yanbu:	
Yanbu Industrial City	04 325-4445
Dammam:	
Dammam Main	03 833-1553
Bin Khildoun	03 842-5242
Al-Jalawiah	03 842-4105
Al-Anoud	03 834-1087
Dammam Super Branch	03 830-1000
Dammam Super Branch - Ladies Section	03 830-1000
Al-Khobar:	
King Abdulaziz Street	03 882-1395
King Abdulaziz St.-Ladies Section	03 882-1395
Al-Agrabiah	03 899-7300
Al-Qatif:	
Taroot	03 823-2444
Safwa	03 664-2620
Saihat	03 856-0008
Ras Tanura	03 667-0056
Ohud	03 854-1100
Ohud-Ladies Section	03 852-0526
Jubail:	
Jubail Main	03 362-0250
Jubail Industrial City	03 341-9147
Al-Hassa:	
Hoffuf	03 586-6000
Mubarraz	03 587-2269
Al-Khaldiah	03 580-5186
Al-Khaldiah-Ladies Section	03 580-0092
Al-Jafr	03 539-3156