

AUDITORS' REPORT

**TO: THE SHAREHOLDERS OF ARAB NATIONAL BANK
(SAUDI JOINT STOCK COMPANY)**

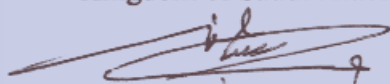
We have audited the balance sheet of Arab National Bank (the Bank) as of December 31, 2005 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes. These financial statements are the responsibility of the Bank's management 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 December 31, 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 financial statements.

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Riyadh: Dhul-Hijja 16, 1426H
(January 16, 2006)

Balance Sheet

As at December 31, 2005 and 2004

	Notes	2005 SAR' 000	2004 SAR' 000
ASSETS			
Cash and balances with SAMA	3	2,495,186	7,061,456
Due from banks and other financial institutions	4	3,933,675	4,731,873
Investments, net	5	20,422,650	21,187,466
Loans and advances, net	6	38,778,556	28,557,967
Other real estate		158,865	191,899
Fixed assets, net	7	418,108	382,415
Other assets	8	1,285,039	1,211,967
Total assets		67,492,079	63,325,043
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	8,376,934	9,820,827
Customer deposits	11	48,832,464	46,315,710
Other liabilities	12	2,633,502	2,218,886
Term Loan	13	1,312,500	-
Total liabilities		61,155,400	58,355,423
Shareholders' equity			
Share capital	14	2,500,000	2,000,000
Statutory reserve	15	2,500,000	2,000,000
General reserve	15	780,000	550,000
Other reserves	16	217,690	226,759
Retained earnings		64,242	17,659
Proposed dividend	27	274,747	175,202
Total shareholders' equity		6,336,679	4,969,620
Total liabilities and shareholders' equity		67,492,079	63,325,043

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

Statement of Income

For the years ended December 31, 2005 and 2004

	Notes	2005 SAR' 000	2004 SAR' 000
Special commission income	18	3,445,180	2,456,310
Special commission expense	18	1,256,051	570,032
Net special commission income		2,189,129	1,886,278
Fees from banking services, net	19	693,915	422,207
Exchange income		113,956	93,106
Income from FVIS financial instruments	20	259	-
Trading income, net	21	17,614	9,182
Dividend income	22	2,396	1,140
Gains on non-trading investments, net	23	90,670	8,416
Other operating income	24	33,753	7,601
Total operating income		3,141,692	2,427,930
Salaries and employee related expenses		657,689	568,857
Rent and premises related expenses		62,146	56,297
Depreciation and amortization	7	75,544	60,065
Other general and administrative expenses		251,339	247,945
Provision for credit losses	6	248,390	321,221
Impairment of other financial assets		18,750	6,545
Other operating expenses	25	202	199
Total operating expenses		1,314,060	1,261,129
Net income		1,827,632	1,166,801
Earnings per share (Expressed in SAR per share)	26	36.55	23.34

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

Statement of Changes in Shareholders' Equity

For the years ended December 31, 2005 and 2004

	Notes	Share capital SAR' 000	Statutory reserve SAR' 000	General reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000
2005								
Balance at beginning of the year, as adjusted		2,000,000	2,000,000	550,000	226,759	17,659	175,202	4,969,620
Bonus share issue	15	500,000	-	(500,000)	-	-	-	-
Net income		-	-	-	-	1,827,632	-	1,827,632
Transfer to statutory reserve	15	-	500,000	-	-	(500,000)	-	-
Transfer to general reserve	15	-	-	730,000	-	(730,000)	-	-
Dividend paid	27	-	-	-	-	(272,941)	(175,202)	(448,143)
Proposed gross final dividend	27	-	-	-	-	(274,747)	274,747	-
Net changes in fair value and cash flow hedges	16	-	-	-	(9,069)	(3,361)	-	(12,430)
Balance at end of the year		2,500,000	2,500,000	780,000	217,690	64,242	274,747	6,336,679
2004								
Balance at beginning of the year, as previously reported		1,800,000	1,800,000	200,000	170,728	6,613	-	3,977,341
Adjustment arising from the application of revised IAS 10	2b	-	-	-	-	-	415,651	415,651
Balance at the beginning of the year, as adjusted		1,800,000	1,800,000	200,000	170,728	6,613	415,651	4,392,992
Bonus share issue	15	200,000	-	(200,000)	-	-	-	-
Net income		-	-	-	-	1,166,801	-	1,166,801
Transfer to statutory reserve	15	-	200,000	-	-	(200,000)	-	-
Transfer to general reserve	15	-	-	550,000	-	(550,000)	-	-
Dividend paid	27	-	-	-	-	(214,830)	(415,651)	(630,481)
Proposed gross final dividend	27	-	-	-	-	(175,202)	175,202	-
Net changes in fair value and cash flow hedges	16	-	-	-	56,031	(15,723)	-	40,308
Balance at end of the year, as adjusted	39	2,000,000	2,000,000	550,000	226,759	17,659	175,202	4,969,620

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

Statement of Cash Flows

For the years ended December 31, 2005 and 2004

	Notes	2005 SAR' 000	2004 SAR' 000
OPERATING ACTIVITIES			
Net income		1,827,632	1,166,801
Adjustments to reconcile net income to net cash (used in) from operating activities:			
Accretion of discounts on investments		(15,931)	(32,094)
Gains on non-trading investments, net		(90,670)	(8,416)
Depreciation and amortization		75,544	60,065
(Gains) losses on disposal of fixed assets, net		(1,151)	35
Provision for credit losses		248,390	321,221
Impairment of other financial assets		18,750	6,545
		2,062,564	1,514,157
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(185,039)	(370,172)
Investments held for trading		(14,092)	(101,107)
Loans and advances		(10,456,303)	(8,701,423)
Other real estate		33,034	6,630
Other assets		(231,055)	(257,409)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,443,893)	712,258
Customer deposits		2,513,257	12,592,346
Other liabilities		564,747	463,365
Net cash (used in) from operating activities		(7,156,780)	5,858,645
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		6,483,432	2,128,306
Purchase of non trading investments		(5,607,313)	(1,695,979)
Purchase of fixed assets		(119,256)	(138,489)
Proceeds from sale of fixed assets		9,170	15,282
Net cash from investing activities		766,033	309,120
FINANCING ACTIVITIES			
Term loan	13	1,312,500	-
Dividends paid		(471,260)	(617,124)
Net cash from (used in) financing activities		841,240	(617,124)
(Decrease) increase in cash and cash equivalents		(5,549,507)	5,550,641
Cash and cash equivalents at the beginning of the year		10,187,697	4,637,056
Cash and cash equivalents at the end of the year	28	4,638,190	10,187,697
Supplemental non-cash information			
Net changes in fair value and cash flow hedges		(12,430)	40,308

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

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (January 19, 1980) through its 116 branches (2004: 114 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services.

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

a) Basis of preparation

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

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives, available for sale and fair value through income statement (FVIS) financial instruments. The carrying values of recognized assets and liabilities that are hedged through fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair values attributed to 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 judgments 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 are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

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 and IAS 39 Financial Instruments: Recognition and Measurement and IAS 10 Events after the Balance Sheet Date effective January 1, 2005 with retrospective effect wherever applicable, with respect to the recognition, measurement and disclosure of financial instruments.

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

Upon the implementation of the revised IAS 32 and 39, the Bank was not required to reclassify any of its assets and liabilities.

In accordance with the revised IAS 10, the Bank has changed its reporting for proposed final dividend. Previously the Bank recognized final dividend proposed by the Bank's Board of Directors as a liability with a corresponding charge to retained earnings. The Bank no longer recognizes a liability for such proposed dividend until approved by the Bank's general assembly. This change in reporting was applied retroactively to January 1, 2004.

c) Trade date accounting

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

d) Derivative financial instruments and hedging

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options are initially measured at cost and are subsequently re-measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

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

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

In relation to fair value hedges which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the statement of income. The corresponding change in fair value of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the statement of income. Where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any,

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition and related costs of the asset or liability. For all other cash flow hedges, gains or losses recognized initially in other reserves are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income.

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

e) Foreign currencies

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

Transactions in foreign currencies are translated into Saudi Arabian Riyals at 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 recognized in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

f) Offsetting

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

g) Revenue recognition

Special commission income and expense are recognized in the statement of income on the accrual basis and include premiums amortized and discounts accreted during the year. Fees and exchange income from banking services are recognized when contractually earned. Dividend income is recognized when declared. When the bank enters into a commission rate swap for hedging purpose, special commission income or expense of hedged items is adjusted by the net commission accrued on the swap.

h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for financial assets held as FVIS, held at amortized 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

recognized in the balance sheet, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement using the effective yield method.

i) Investments

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

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

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

Following the initial recognition of the various 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. Investments are classified in this category if their fair value can be reliably measured and are acquired principally for the purpose of selling or repurchasing in 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 recognized in the statement of income for the period in which it arises. Transaction cost, if any, are not added to the fair value measurement at initial recognition of FVIS investments.

(ii) Available for sale

Available for sale investments are those designated as available for sale or are not classified in any of the other three investment categories. Investments, which are classified as "available for sale", are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in "other reserves" under shareholders' equity. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the income statement for the year.

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

(iii) Held at amortized cost, other

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 amortized cost, other. Held at amortized cost, other investments whose fair values have not been hedged are stated at amortized cost, less provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

2. Summary of significant accounting policies (continued)

(iv) Held to maturity

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

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

j) Loans and advances

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

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

(i) Held at amortized cost, other and held to maturity

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, and those that are to be held to maturity, are stated at cost less any amount written off and provisions for impairment.

(ii) Available for sale

Loans and advances classified as available for sale are subsequently measured at fair value. Any changes in fair value, other than those relating to hedged risks, are recognized directly in "other reserves" under shareholders' equity until these are derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the period.

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.

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

k) Impairment of financial assets

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

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

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

iii) For assets carried at cost, impairment is the difference between carrying amount of the asset and the present value of expected future cash flows discounted at the original rate of return. 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.

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

The Bank reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment 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 judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

In addition to specific provisions against individually significant loans and advances (and investment in debt instruments), the Bank also makes a collective impairment provision against loans and advances (and investment in debt instruments) 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 loan (or the internal/external grade of the investment) since it was granted (acquired). The amount of the provision is based on the historical loss pattern for loans (and investments) 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, as well as identified structural weaknesses or deterioration in cash flows.

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

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

l) Other real estate

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

Properties are revalued on a periodic basis and unrealized losses on revaluation and losses or gains on disposal are charged or credited to operating income or expense.

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

m) Fixed assets

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

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

Buildings	33 years
Leasehold improvements	Over lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	2.5 to 5 years

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

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

Assets subject to amortization 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) Liabilities

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

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

Financial liabilities classified as FVIS, if any, include (i) liabilities held for trading and (ii) liabilities designated as FVIS on initial recognition or on adoption of the revised IAS 39. After initial recognition, these liabilities are measured at fair value and the resulting gain or loss is included in the statement of income.

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

o) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

p) Accounting for leases

i) Where the Bank is the lessee

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

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

ii) Where the Bank is the lessor

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

q) Cash and cash equivalents

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

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 derecognized, when the contractual rights to the cash flows from the financial asset expires.

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

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

s) End of service benefits

Indemnities payable to employees of the Bank at the end of their services are provided for as required by the Saudi Arabian Labor Law using actuarial valuation. Provision for indemnities is included in other liabilities

t) Prospective changes in accounting policies

Certain new IFRS and amendments and interpretations to existing IFRS, have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2006 which the Bank has opted not to adopt earlier. These include:

IAS 39	Fair Value Options (effective from January 1, 2006)
IFRIC IV	Determining whether an arrangement contains a lease (effective from January 1, 2006)
IFRS 7	Financial Instrument Disclosure (effective from January 1, 2007)

Management anticipates the impact of these standards on its future financial reporting to be minimal.

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For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

3. Cash and balances with SAMA

	2005	2004
Cash in hand	680,372	421,300
Statutory deposit	1,790,671	1,605,632
Special deposit with SAMA	-	5,027,371
Other balance	24,143	7,153
Total	2,495,186	7,061,456

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

4. Due from banks and other financial institutions

	2005	2004
Current accounts	476,498	369,244
Money market placements	3,457,177	4,362,629
Total	3,933,675	4,731,873

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2005	2004	2005	2004	2005	2004
i) Held as fair value through income statement						
Other	-	-	307,159	199,059	307,159	199,059
Held as fair value through income statement	-	-	307,159	199,059	307,159	199,059
ii) Available for sale						
Fixed rate securities	317,296	389,787	3,507,115	1,311,285	3,824,411	1,701,072
Floating rate notes	59,999	-	147,032	301,414	207,031	301,414
Equities	4,516	121,281	-	-	4,516	121,281
Other	169,433	91,485	940,474	743,981	1,109,907	835,466
Available for sale, net	551,244	602,553	4,594,621	2,356,680	5,145,865	2,959,233
iii) Held at amortized cost, other						
Fixed rate securities	8,974,464	11,810,513	123,464	93,750	9,097,928	11,904,263
Floating rate notes	2,165,000	2,165,000	2,014,275	2,075,555	4,179,275	4,240,555
Other	-	-	712,196	-	712,196	-
Held at amortized cost, other, gross	11,139,464	13,975,513	2,849,935	2,169,305	13,989,399	16,144,818
Accumulated provision for impairment	-	-	(18,750)	-	(18,750)	-
Held at amortized cost, other, net	11,139,464	13,975,513	2,831,185	2,169,305	13,970,649	16,144,818
iv) Held to maturity						
Fixed rate securities	998,977	1,884,356	-	-	998,977	1,884,356
Held to maturity, net	998,977	1,884,356	-	-	998,977	1,884,356
Investments, net	12,689,685	16,462,422	7,732,965	4,725,044	20,422,650	21,187,466

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

	2005			2004		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	1,838,783	12,082,533	13,921,316	1,253,399	14,236,292	15,489,691
Floating rate notes	83,933	5,014,569	5,098,502	149,086	4,392,883	4,541,969
Equities	-	4,516	4,516	120,281	1,000	121,281
Other	19,880	1,397,186	1,417,066	-	1,034,525	1,034,525
Accumulated provision for impairment	-	(18,750)	(18,750)	-	-	-
Investments, net	1,942,596	18,480,054	20,422,650	1,522,766	19,664,700	21,187,466

Unquoted fixed and floating rate investments are mainly Saudi Government Development Bonds.

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

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

	2005				2004			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
i) Held at amortized cost, other								
Fixed rate securities	9,068,214	117,555	69,989	9,115,780	11,915,007	310,792	8,888	12,216,911
Floating rate notes	4,921,185	5,747	34,717	4,892,215	4,240,555	5,160	1,012	4,244,703
Accumulated provision for impairment	(18,750)	-	-	(18,750)				
Total	13,970,649	123,302	104,706	13,989,245	16,155,562	315,952	9,900	16,461,614
ii) Held to maturity								
Fixed rate securities	998,977	42,157	28	1,041,106	1,884,356	99,523	-	1,983,879
Total	998,977	42,157	28	1,041,106	1,884,356	99,523	-	1,983,879

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

	2005	2004
Government and quasi government	16,043,916	16,919,859
Corporate	222,708	183,456
Banks and other financial institutions	3,982,077	3,874,776
Other	173,949	209,375
Total	20,422,650	21,187,466

Investments include SAR 6,140 million (2004: SAR 9,422 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 6,113 million (2004: SAR 9,629 million).

During 2005, an impairment charge of SAR 18.8 millions was computed on securities classified as "Held at amortized cost, other".

6. Loans and advances, net

a) Loans and advances are comprised of the following:

	2005	2004
Performing:		
Overdrafts	4,122,916	3,653,489
Credit cards	440,869	156,285
Commercial loans	19,795,679	16,331,057
Consumer loans	15,260,444	9,129,828
Other	10,671	14,843
Performing loans and advances, gross	39,630,579	29,285,502
Non-performing loans and advances, net	846,626	890,233
	40,477,205	30,175,735
Provision for credit losses	(1,698,649)	(1,617,768)
Loans and advances, net	38,778,556	28,557,967

Non-performing loans and advances are disclosed net of accumulated commission in suspense of SAR 471.9 million (2004: SAR 528.6) million.

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

	2005	2004
Balance at beginning of the year	1,617,768	1,387,803
Provided during the year	248,390	321,221
Bad debts written off	(167,509)	(91,256)
Balance at end of the year	1,698,649	1,617,768

Recoveries of loans and advances previously written off are included in other operating income (note 24).

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

6. Loans and advances, net (continued)

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

	Performing gross	Non performing, net	Credit loss provision	Loans advances, net
2005				
1. Government and quasi government	69,643	-	-	69,643
2. Banks and other financial institutions	2,726,815	-	-	2,726,815
3. Agriculture and fishing	425,362	7,371	(12,718)	420,015
4. Manufacturing	4,910,616	227,400	(335,482)	4,802,534
5. Mining and quarrying	40,140	29	(201)	39,968
6. Electricity, water, gas and health services	1,409,553	-	-	1,409,553
7. Building and construction	2,387,471	298,993	(234,547)	2,451,917
8. Commerce	4,541,275	172,758	(321,811)	4,392,222
9. Transportation and communication	917,271	7,148	(10,724)	913,695
10. Services	639,921	21,990	(24,080)	637,831
11. Consumer loans and credit cards	15,686,689	34,460	(32,467)	15,688,682
12. Other	5,875,823	76,477	(80,848)	5,871,452
	39,630,579	846,626	(1,052,878)	39,424,327
13. Portfolio provision	-	-	(645,771)	(645,771)
Total	39,630,579	846,626	(1,698,649)	38,778,556
2004				
1. Government and quasi government	37,500	-	-	37,500
2. Banks and other financial institutions	3,205,130	-	-	3,205,130
3. Agriculture and fishing	319,554	3,352	(9,059)	313,847
4. Manufacturing	4,650,578	164,709	(151,797)	4,663,490
5. Mining and quarrying	117,859	29	(281)	117,607
6. Electricity, water, gas and health services	785,885	-	-	785,885
7. Building and construction	1,822,698	293,174	(226,691)	1,889,181
8. Commerce	3,329,318	190,327	(318,388)	3,201,257
9. Transportation and communication	820,889	8,726	(15,541)	814,074
10. Services	510,340	26,143	(32,698)	503,785
11. Consumer loans and credit cards	9,286,113	115,836	(122,294)	9,279,655
12. Other	4,399,638	87,937	(95,248)	4,392,327
	29,285,502	890,233	(971,997)	29,203,738
13. Portfolio provision	-	-	(645,771)	(645,771)
Total	29,285,502	890,233	(1,617,768)	28,557,967

7. Fixed assets, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Total 2005	Total 2004
Cost					
Balance at beginning of the year	357,037	178,865	410,133	946,035	867,577
Additions	19,027	46,327	53,902	119,256	138,489
Disposals	(22,701)	(275)	(21,796)	(44,772)	(60,031)
Balance at end of the year	353,363	224,917	442,239	1,020,519	946,035
Accumulated depreciation					
Balance at beginning of the year	133,218	118,414	311,988	563,620	544,493
Charge for the year	4,675	18,680	52,189	75,544	60,065
Disposals	(14,820)	(164)	(21,769)	(36,753)	(40,938)
Balance at end of the year	123,073	136,930	342,408	602,411	563,620
Net book value					
As at December 31, 2005	230,290	87,987	99,831	418,108	
As at December 31, 2004	223,819	60,451	98,145		382,415

Fixed assets include work in progress as at December 31, 2005 amounting to SAR 87.7 million (2004: SAR 60.2 million). Equipment, furniture and vehicles include information technology related assets.

Notes to the Financial Statements

For the years ended December 31, 2005 and 2004

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8. Other assets

	2005	2004
Accrued special commission receivable:		
- banks and other financial institutions	1,526	1,819
- investments	315,405	364,310
- loans and advances	175,580	68,155
- derivatives	88,880	47,405
- other	115	471
Total accrued special commission receivable	581,506	482,160
Positive fair value of derivatives (note 9)	183,284	313,951
Other	520,249	415,856
Total	1,285,039	1,211,967

9. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

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For the years ended December 31, 2005 and 2004

(Saudi Riyals in thousands)

9. Derivatives (continued)

Derivative financial instruments

Notional amounts by term to maturity

2005

	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	14,091	10,707	5,176,395	-	1,050,000	3,343,200	783,195	3,299,734
Commission rate futures and options	-	-	-	-	-	-	-	67,923
Forward foreign exchange contracts	124,933	65,865	13,944,716	8,257,741	5,326,795	360,180	-	18,402,041
Currency options	25,373	24,811	997,809	594,094	403,715	-	-	2,940,211
Other	1,662	1,662	100,000	-	-	100,000	-	100,000
Held as fair value hedges:								
Commission rate swaps	15,544	35,540	11,367,588	4,405,324	3,012,028	2,044,405	1,905,831	5,846,189
Held as cash flow hedges:								
Commission rate swaps	1,681	9,571	817,500	-	352,500	465,000	-	795,417
Total	183,284	148,156	32,404,008	13,257,159	10,145,038	6,312,785	2,689,026	31,451,515

2004

Held for trading:								
Commission rate swaps	8,551	8,650	825,000	-	825,000	-	-	1,265,725
Commission rate futures and options	-	-	375,000	-	375,000	-	-	224,959
Forward foreign exchange contracts	207,798	143,492	16,960,321	7,809,196	9,151,125	-	-	15,854,763
Currency options	42,086	38,247	5,511,724	2,854,422	2,657,302	-	-	7,172,032
Other	1,083	1,083	100,000	-	-	100,000	-	68,335
Held as fair value hedges:								
Commission rate swaps	36,669	44,971	5,369,494	350,000	1,276,623	3,742,871	-	5,416,377
Held as cash flow hedges:								
Commission rate swaps	17,764	-	552,500	-	-	552,500	-	797,031
Total	313,951	236,443	29,694,039	11,013,618	14,285,050	4,395,371	-	30,799,222

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

Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
2005						
Fixed commission rate investments	1,060,939	1,039,218	Fair value	Commission rate swap	2,859	14,707
Fixed commission rate loans	9,241,944	9,237,745	Fair value	Commission rate swap	12,685	16,884
Fixed commission rate deposits	1,086,676	1,090,625	Fair value	Commission rate swap	-	3,949
Floating commission rate loans	817,462	817,500	Cash flow	Commission rate swap	1,681	9,571
2004						
Fixed commission rate investments	3,722,587	3,642,138	Fair value	Commission rate swap	27,340	44,519
Fixed commission rate loans	1,537,934	1,528,606	Fair value	Commission rate swap	9,329	-
Fixed commission rate deposits	198,298	198,750	Fair value	Commission rate swap	-	452
Floating commission rate loans	554,642	552,500	Cash flow	Commission rate swap	17,764	-

Approximately 35% (2004: 52.4%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 7.2% (2004: 12.6%) of the positive fair value contracts are with any single counter-party at the balance sheet date. Derivative activities are mainly carried out under the Bank's treasury banking segment.

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10. Due to banks and other financial institutions

	2005	2004
Current accounts	120,573	228,130
Money market deposits	8,256,361	9,592,697
Total	8,376,934	9,820,827

11. Customer deposits

	2005	2004
Demand	18,814,567	17,983,622
Saving	96,120	128,111
Time	28,322,891	26,857,412
Other	1,598,886	1,346,565
Total	48,832,464	46,315,710

Time deposits include deposits against sales of securities of SAR 5,265 million (2004: SAR 9,261 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 972 million (2004: SAR 917 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2005	2004
Demand	683,340	598,721
Saving	4,510	5,211
Time	14,809,286	10,374,623
Other	217,470	283,032
Total	15,714,606	11,261,587

12. Other liabilities

	2005	2004
Accrued special commission payable:		
- banks and other financial institutions	32,534	31,571
- customer deposits	139,575	101,402
- derivatives	209,473	149,328
- term loan	14,944	-
- other	-	357
Total accrued special commission payable	396,526	282,658
Negative fair value of derivatives (note 9)	148,156	236,443
IPO Subscription	658,967	166,436
Other	1,429,853	1,533,349
Total	2,633,502	2,218,886

13. Term loan

On March 22, 2005, the Bank entered into a three year syndicate term loan facility agreement for an amount of USD 350 million for general banking purposes. The facility was drawn down in full on April 4, 2005 and is repayable in 2008. The Bank, however, has an option to effect an early repayment, subject to the terms and conditions of the related syndicate agreement.

14. Share capital

The authorized, issued and fully paid share capital of the Bank as at December 31, 2005 consists of 50 million shares of SAR 50 each (2004: 40 million). The ownership of the Bank's share capital is as follows:

	2005	2004
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

During the year ended December 31, 2005, ten million shares of SAR 50 each were issued after approval by the shareholders at their Extraordinary General Assembly meeting held on March 13, 2005 to increase the share capital of the bank from SAR 2,000 million to 2,500 million by transferring SAR 500 million from the general reserve through the issuance of one bonus share for every four shares held. Furthermore, during the year ended December 31, 2004, four million shares of SAR 50 each were issued after approval by the shareholders at their Extraordinary General Assembly meeting held on March 14, 2004 through the issuance of one bonus share for every nine shares held.

Notes to the Financial Statements

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(Saudi Riyals in thousands)

15. Statutory and general reserves

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 500 million has been transferred from 2005 net income (2004: SAR 200 million). The statutory reserve is not currently available for distribution.

Further to the bonus share issue (see note 14 above), SAR 500 million has been transferred from general reserve to share capital during 2005 (2004: SAR 200 million).

On December 18, 2005, the Board of Directors has approved a proposed transfer to general reserve amounting to SAR 730 million with the intention to increase the Bank's share capital through a three-for-ten bonus share dividend subject to a final approval of the Extraordinary General Assembly meeting.

16. Other reserves

	Cash flow hedges	Available for sale investments	Total
2005			
Balance at beginning of the year	17,763	208,996	226,759
Net change in fair value	(25,653)	103,893	78,240
Transfer to statement of income	-	(87,309)	(87,309)
Net movement during the year	(25,653)	16,584	(9,069)
Balance at end of the year	(7,890)	225,580	217,690
2004			
Balance at beginning of the year	38,538	132,190	170,728
Net change in fair value	(20,775)	66,322	45,547
Transfer to statement of income	-	10,484	10,484
Net movement during the year	(20,775)	76,806	56,031
Balance at end of the year	17,763	208,996	226,759

17. Commitments and contingencies

a) Legal proceedings

As at December 31, 2005 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will event.

b) Credit related commitments and contingencies

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

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

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

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

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

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

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2005					
Letters of credit	1,416,283	981,923	471,270	-	2,869,476
Letters of guarantee	2,285,306	1,822,523	1,031,486	14,283	5,153,598
Acceptances	576,313	476,286	22,344	-	1,074,943
Irrevocable commitments to extend credit	182,616	539,441	882,011	503,879	2,107,947
Other	-	-	-	439,236	439,236
Total	4,460,518	3,820,173	2,407,111	957,398	11,645,200
2004					
Letters of credit	1,531,591	399,440	144,636	-	2,075,667
Letters of guarantee	1,224,128	1,904,650	1,008,925	7,122	4,144,825
Acceptances	625,755	89,584	12,014	4,166	731,519
Irrevocable commitments to extend credit	-	653,775	79,103	1,146,511	1,879,389
Other	-	-	-	505,626	505,626
Total	3,381,474	3,047,449	1,244,678	1,663,425	9,337,026

The unutilized portion of non-firm commitments as at December 31, 2005, which can be revoked unilaterally at any time by the Bank, amounts to SAR 8,838 million (2004: SAR 6,722 million).

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2005	2004
Government and quasi government	159,008	1,498,530
Corporate	8,794,035	4,973,967
Banks and other financial institutions	1,716,957	1,105,060
Other	975,200	1,759,469
Total	11,645,200	9,337,026

c) Assets pledged

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

	2005		2004	
	Assets	Related liabilities	Assets	Related liabilities
Available for sale investments (note 5)	551,083	550,808	-	-
Held at amortized cost, other investments (note 5)	6,026,879	5,908,280	9,421,581	8,866,270
Held to maturity investments (note 5)	437,792	421,352	441,709	488,697
Total	7,015,754	6,880,440	9,863,290	9,354,967

d) Operating lease commitments

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

	2005	2004
Less than 1 year	48,795	37,912
1 to 5 years	131,491	82,103
Over 5 years	89,979	46,931
Total	270,265	166,946

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18. Net special commission income

	2005	2004
Special commission income		
Investments - Available for sale	45,900	25,577
- Held at amortized cost, other	759,116	742,590
- Held to maturity	100,138	136,426
	905,154	904,593
Due from banks and other financial institutions	90,120	47,670
Loans and advances	2,449,460	1,503,957
Other	446	90
Total	3,445,180	2,456,310
Special commission expense		
Due to banks and other financial institutions	486,271	260,089
Customer deposits	721,027	309,943
Term loan	48,753	-
Total	1,256,051	570,032
Net special commission income	2,189,129	1,886,278

19. Fees from banking services, net

	2005	2004
Fee income	998,247	616,634
Fee expense	304,332	194,427
Net fee income	693,915	422,207

20. Income from FVIS financial instruments

	2005	2004
Fair value change on financial assets and liabilities held as FVIS investments	259	-
Total	259	-

21. Trading income, net

	2005	2004
Derivatives	3,646	636
Other	13,968	8,546
Trading income, net	17,614	9,182

22. Dividend income

	2005	2004
Available for sale investments	2,396	1,140
Total	2,396	1,140

23. Gains on non-trading investments, net

	2005	2004
Available for sale	90,670	5,239
Held at amortized cost, other	-	3,177
Total	90,670	8,416

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24. Other operating income

	2005	2004
Gains on disposal of fixed assets	1,286	137
Gains on disposal of other real estate	1,569	-
Recoveries of loans and advances previously written off	27,851	3,634
Other	3,047	3,830
Total	33,753	7,601

25. Other operating expenses

	2005	2004
Loss on disposal of fixed assets	135	199
Loss on disposal of other real estate	67	-
Total	202	199

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. The calculations of earnings per share for 2004 have been adjusted retrospectively to reflect the impact of the bonus shares issued during 2005.

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

Gross dividend is comprised of the following :

	2005	2004
Interim dividend paid during the year	272,941	214,830
Proposed final dividend	274,747	175,202
Total	547,688	390,032

The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Zakat

Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 28.6 million (2004: SAR 18 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 10 per share (2004: SAR 9 per share).

Income Tax

Income tax payable by the non Saudi Shareholder on the current year's share of income is SAR 152.6 million (2004: SAR 142.3 million), which will be deducted from its share of dividend.

28. Cash and cash equivalents

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

	2005	2004
Cash and balances with SAMA excluding statutory deposit (note 3)	704,515	5,455,824
Due from banks and other financial institutions maturing within ninety days	3,933,675	4,731,873
Total	4,638,190	10,187,697

29. Business segments

For management purpose the Bank is organized into the following major business segments:

Retail banking

Deposit, credit and investment product for individuals.

Corporate banking

Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses and the London Branch.

Treasury banking

Manages the Bank's trading and investment portfolios and the Bank's liquidity, currency and commission rate risk.

Transactions between the business segments are reported as recorded in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia with one international branch. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Bank's overall financial statements.

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29. Business segments (CONTINUED)

a) The Bank's total assets and liabilities as at December 31, 2005 and 2004, its total operating income, expenses and net income for the year then ended, by business segments, are as follows:

	Retail banking	Corporate banking	Treasury banking	Total
2005				
Total assets	20,514,936	21,200,820	25,776,323	67,492,079
Total liabilities	22,024,343	4,169,135	34,961,922	61,155,400
Total operating income	2,281,752	494,310	365,630	3,141,692
Total operating expenses	866,231	372,836	74,993	1,314,060
Net income	1,415,521	121,474	290,637	1,827,632
2004				
Total assets	12,382,833	18,583,522	32,358,688	63,325,043
Total liabilities	20,571,905	3,390,670	34,392,848	58,355,423
Total operating income	1,718,803	446,841	262,286	2,427,930
Total operating expenses	862,395	342,365	56,369	1,261,129
Net income	856,408	104,476	205,917	1,166,801

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

	Retail banking	Corporate banking	Treasury banking	Total
2005				
Balance sheet assets	19,204,341	20,732,423	25,012,932	64,949,696
Commitment and contingencies	1,171,453	4,327,776	-	5,499,229
Derivatives	-	35,694	507,633	543,327
2004				
Balance sheet assets	11,485,348	18,146,856	31,485,258	61,117,462
Commitment and contingencies	456,420	3,955,153	-	4,411,573
Derivatives	-	19,149	569,353	588,502

Credit exposure comprises the carrying value of balance sheet assets, excluding cash and balances with SAMA, fixed assets, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

30. Credit risk

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

In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

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

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

The bank classifies its exposure into ten risk categories. Of these, seven categories are for performing and three for non performing. Each borrower is rated on an internally developed objective risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics, account conduct and company type. An independent credit review unit reviews the assigned ratings periodically. Exposure falling below a certain classification threshold are considered to be impaired, and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based on the criteria prescribed by IAS 39. Collective impairment is also measured and recognized on a portfolio basis for group of similar credits that are not individually identified as impaired.

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31. Geographical concentration

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

	Kingdom of Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	Other East Asia	Other countries	Total
2005								
Assets								
Cash and balances with SAMA	2,493,456	-	1,730	-	-	-	-	2,495,186
Due from banks and other financial institutions	637,500	439,661	2,624,143	152,290	-	78,872	1,209	3,933,675
Investments, net	12,629,584	351,389	3,753,828	3,600,186	-	-	87,663	20,422,650
Loans and advances, net	37,508,070	1,106,038	117,009	-	-	-	47,439	38,778,556
Total	53,268,610	1,897,088	6,496,710	3,752,476	-	78,872	136,311	65,630,067
Liabilities								
Due to banks and other financial institutions	1,717,000	4,293,952	1,283,117	1,059,698	-	20,579	2,588	8,376,934
Customer deposits	48,443,376	186,120	200,429	352	-	-	2,187	48,832,464
Term loan	296,250	461,250	543,750	11,250	-	-	-	1,312,500
Total	50,456,626	4,941,322	2,027,296	1,071,300	-	20,579	4,775	58,521,898
Commitments and contingencies	6,452,123	862,415	2,192,244	514,422	28,942	1,502,039	93,015	11,645,200
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	3,163,568	434,038	981,239	226,206	8,315	661,320	24,543	5,499,229
Derivatives	393,927	5,497	127,577	15,948	-	378	-	543,327
2004								
Assets								
Cash and balances with SAMA	7,060,412	-	1,044	-	-	-	-	7,061,456
Due from banks and other financial institutions	985,000	893,927	2,522,820	108,507	-	65,557	156,062	4,731,873
Investments, net	16,462,422	430,829	3,005,137	1,267,298	-	-	21,780	21,187,466
Loans and advances, net	26,319,919	1,811,746	300,519	-	-	-	125,783	28,557,967
Total	50,827,753	3,136,502	5,829,520	1,375,805	-	65,557	303,625	61,538,762
Liabilities								
Due to banks and other financial institutions	5,059,056	3,388,234	1,200,474	46,403	-	12,016	114,644	9,820,827
Customer deposits	45,888,022	246,455	177,629	1,100	-	717	1,787	46,315,710
Total	50,947,078	3,634,689	1,378,103	47,503	-	12,733	116,431	56,136,537
Commitments and contingencies	5,704,888	833,347	1,292,629	583,032	12,721	811,161	99,248	9,337,026
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	2,821,046	412,950	558,775	194,800	3,636	370,800	49,566	4,411,573
Derivatives	238,165	9,436	253,397	85,254	-	2,250	-	588,502

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

	Non-performing loans, net		Provision for credit losses	
	2005	2004	2005	2004
Saudi Arabia	846,626	890,233	1,667,983	1,587,234
Europe	-	-	30,666	30,534
Total	846,626	890,233	1,698,649	1,617,768

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32. Currency risk

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

	Long	
	2005	2004
US Dollar	96,140	692,299
Euro	14	116
Pound Sterling	17	13,222
Other	27,750	9,340

33. Commission rate risk

Commission sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total	Effective commission rate
2005							
Assets							
Cash and balances with SAMA	-	-	-	-	2,495,186	2,495,186	-
Due from banks and other financial institutions	3,457,177	-	-	-	476,498	3,933,675	3.79%
Investments, net	4,868,402	1,958,114	10,131,824	2,120,625	1,343,685	20,422,650	4.81%
Loans and advances, net	16,157,432	8,790,459	8,537,489	5,293,176	-	38,778,556	8.05%
Other real estate	-	-	-	-	158,865	158,865	-
Fixed assets, net	-	-	-	-	418,108	418,108	-
Other assets	-	-	-	-	1,285,039	1,285,039	-
Total assets	24,483,011	10,748,573	18,669,313	7,413,801	6,177,381	67,492,079	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	7,067,612	1,188,750	-	-	120,572	8,376,934	4.40%
Customer deposits	23,451,548	5,287,484	583,183	-	19,510,249	48,832,464	3.13%
Other liabilities	-	-	-	-	2,633,502	2,633,502	-
Term Loan	-	1,312,500	-	-	-	1,312,500	4.23%
Shareholders' equity	-	-	-	-	6,336,679	6,336,679	-
Total Liabilities and shareholders' equity	30,519,160	7,788,734	583,183	-	28,601,002	67,492,079	
On balance sheet gap	(6,036,149)	2,959,839	18,086,130	7,413,801	(22,423,621)		
Off balance sheet gap	4,581,475	(1,230,755)	(1,444,889)	(1,905,831)	-		
Total commission rate sensitivity gap	(1,454,674)	1,729,084	16,641,241	5,507,970	(22,423,621)		
Cumulative commission rate sensitivity gap	(1,454,674)	274,410	16,915,651	22,423,621	-		

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	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total	Effective commission rate
2004							
Assets							
Cash and balances with SAMA	5,027,371	-	-	-	2,034,085	7,061,456	
Due from banks and other financial institutions	4,362,629	-	-	-	369,244	4,731,873	2,18%
Investments, net	5,093,171	3,595,992	7,114,439	4,181,680	1,202,184	21,187,466	4,55%
Loans and advances, net	14,437,680	6,343,068	5,988,503	1,788,716	-	28,557,967	6.68%
Other real estate	-	-	-	-	191,899	191,899	-
Fixed assets, net	-	-	-	-	382,415	382,415	-
Other assets	-	-	-	-	1,211,967	1,211,967	-
Total assets	28,920,851	9,939,060	13,102,942	5,970,396	5,391,794	63,325,043	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	8,082,285	1,510,412	-	-	228,130	9,820,827	2,41%
Customer deposits	19,554,817	7,195,868	971,397	-	18,593,628	46,315,710	1,72%
Other liabilities	-	-	-	-	2,218,886	2,218,886	-
Shareholders' equity	-	-	-	-	4,969,620	4,969,620	-
Total Liabilities and shareholders' equity	27,637,102	8,706,280	971,397	-	26,010,264	63,325,043	-
On balance sheet gap	1,283,749	1,232,780	12,131,545	5,970,396	(20,618,470)		
Off balance sheet gap	4,421,993	(1,231,622)	(2,430,085)	(760,286)	-		
Total commission rate sensitivity gap	5,705,742	1,158	9,701,460	5,210,110	(20,618,470)		
Cumulative commission rate sensitivity gap	5,705,742	5,706,900	15,408,360	20,618,470	-		

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

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

34. Liquidity risk

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

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

In accordance with 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 saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no 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 30 days.

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

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34. Liquidity risk (CONTINUED)

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

	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2005						
Assets						
Cash and balances with SAMA	-	-	-	-	2,495,186	2,495,186
Due from banks and other financial institutions	3,457,177	-	-	-	476,498	3,933,675
Investments, net	312,406	3,697,489	12,182,414	2,886,656	1,343,685	20,422,650
Loans and advances, net	8,462,061	7,021,559	11,808,090	6,857,384	4,629,462	38,778,556
Other real estate	-	-	-	-	158,865	158,865
Fixed assets, net	-	-	-	-	418,108	418,108
Other assets	-	-	-	-	1,285,039	1,285,039
Total assets	12,231,644	10,719,048	23,990,504	9,744,040	10,806,843	67,492,079
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,067,611	1,188,750	-	-	120,573	8,376,934
Customer deposits	22,986,493	5,286,513	583,183	-	19,976,275	48,832,464
Other liabilities	-	-	-	-	2,633,502	2,633,502
Term Loan	-	-	1,312,500	-	-	1,312,500
Shareholders' equity	-	-	-	-	6,336,679	6,336,679
Total liabilities and shareholders' equity	30,054,104	6,475,263	1,895,683	-	29,067,029	67,492,079
2004						
Assets						
Cash and balances with SAMA	5,027,371	-	-	-	2,034,085	7,061,456
Due from banks and other financial institutions	4,362,629	-	-	-	369,244	4,731,873
Investments, net	1,136,999	3,098,433	10,186,158	5,563,292	1,202,584	21,187,466
Loans and advances, net	7,331,794	5,458,466	8,859,253	3,066,257	3,842,197	28,557,967
Other real estate	-	-	-	-	191,899	191,899
Fixed assets, net	-	-	-	-	382,415	382,415
Other assets	-	-	-	-	1,211,967	1,211,967
Total assets	17,858,793	8,556,899	19,045,411	8,629,549	9,234,391	63,325,043
Liabilities and shareholders' equity						
Due to banks and other financial institutions	8,082,285	1,510,412	-	-	228,130	9,820,827
Customer deposits	19,148,755	7,195,810	971,397	-	18,999,748	46,315,710
Other liabilities	-	-	-	-	2,218,886	2,218,886
Shareholders' equity	-	-	-	-	4,969,620	4,969,620
Total liabilities and shareholders' equity	27,231,040	8,706,222	971,397	-	26,416,384	63,325,043

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 those held at amortized cost, other securities, held-to-maturity investments, loans and advances and customer deposits which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements. The estimated fair values of held at amortized cost, other 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 values of these investments are disclosed in note 5. It is not practical to determine the fair value of customer deposits except for those disclosed as under FVIS category with sufficient reliability. Loans and advances are stated at cost, adjusted for effective hedge, and stated net of interest suspended, provision for impairment and any amounts written off.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation models. The total amount of the changes in fair value recognized in the statement of income, which was estimated using valuation models, is SAR 35.1 millions (2004: SAR 77.5 millions).

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36. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA. The balances as at December 31 resulting from such transactions included in the financial statements are as follows:

	2005	2004
Arab Bank PLC		
Due from banks and other financial institutions	376,335	696,270
Due to banks and other financial institutions	896,813	1,485,967
Derivatives (at fair value)	-	16
Commitments and contingencies	1,259,605	914,763
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	987,976	1,210,406
Customer deposits	3,613,009	3,806,375
Derivatives (at fair value)	8,079	10,476
Commitments and contingencies	377,891	371,247
Bank's mutual funds		
Investments	98,776	91,485
Loans and advances	106,840	16,124
Customer deposits	1,366,443	1,962,919

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

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

	2005	2004
Special commission income	37,757	41,074
Special commission expense	149,777	106,242
Fees from banking services	31,848	23,232
Directors' remuneration	1,940	2,024

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

	2005	2004
Short-term employee benefits (Salaries and allowances)	23,558	20,299
Post-employment benefits (End of service indemnity and social security)	1,633	1,387

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.

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37. Capital Adequacy

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

	2005		2004	
	Capital	Ratio %	Capital	Ratio %
Tier 1	6,336,679	14.0	4,969,620	14.7
Tier 1 + Tier 2	6,902,147	15.3	5,393,044	15.9

	2005			2004		
	Carrying value / notional	Credit equivalent	Risk weighted assets	Carrying value / notional	Credit equivalent	Risk weighted assets
Risk weighted assets						
Balance sheets assets						
0 %	20,077,637	-	-	24,794,669	-	-
20 %	7,888,915	-	1,577,783	9,881,010	-	1,976,202
100 %	39,525,527	-	39,525,527	28,649,364	-	28,649,364
Total	67,492,079	-	41,103,310	63,325,043	-	30,625,566
Commitments and contingencies						
0 %	328,169	147,112	-	414,624	193,702	-
20 %	3,732,789	1,770,987	354,197	2,980,475	1,405,582	281,116
100 %	7,584,242	3,581,130	3,581,130	5,941,927	2,812,289	2,812,289
Total	11,645,200	5,499,229	3,935,327	9,337,026	4,411,573	3,093,405
Derivatives						
20 %	29,118,779	242,839	48,568	24,182,315	464,397	92,879
50 %	3,285,229	300,488	150,245	5,511,724	124,105	62,053
Total	32,404,008	543,327	198,813	29,694,039	588,502	154,932
Grand total			45,237,450			33,873,903

38. Investment management services

The Bank offers investment services to its customers, which include management of investment funds with assets totaling of SAR 4,086 million (2004: SAR 3,341 million).

The financial statements of these funds are not consolidated with these financial statements. However, the Bank's share of these funds is 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 the financial statements.

39. Comparative figures

Other than reclassifications required by adoption of the revised IAS 39 and IAS 32, certain prior year figures have been reclassified to conform with current year presentation.

40. Board of directors' approval

The financial statements were approved by the Board of Directors on January 16, 2006.

Branches

Branch		Telephone No.	Facsimile No.	PO Box	Postal Code
Central Region Branches					
Riyadh	Riyadh	(1) 4114000	(1) 2875306	26	11411
Sitteen	Riyadh	(1) 4771885	(1) 4771027	41095	11521
Dhabab	Riyadh	(1) 4040365	(1) 4043959	6876	11452
Olaya	Riyadh	(1) 4659331	(1) 4659440	10875	11443
Buraida		(6) 3251067	(6) 3250588	1049	51431
Industrial Area	Riyadh	(1) 4465708	(1) 4460781	1006	11431
Hijaz Road	Riyadh	(1) 4585512	(1) 4585424	4045	11491
Unaiza		(6) 3646880	(6) 3648662	166	81888
Manfouha	Riyadh	(1) 4590064	(1) 4583753	40172	11499
Rawdah	Riyadh	(1) 4913612	(1) 4914376	21346	11475
Wadi Al-Dawaser		(1) 7840312	(1) 7840430	98	11991
Al-Zelfi		(6) 4222252	(6) 4222240	275	11932
Shemeisi	Riyadh	(1) 4112795	(1) 4112059	52264	11584
Al-Kharj		(1) 5441912	(1) 5444484	31	11942
Dawadmi		(1) 6420900	(1) 6421032	206	11911
Hawtat Bani Tamim		(1) 5550780	(1) 5550784	51	11941
Al-Majma'a		(6) 4323584	(6) 4323848	229	11952
Akariah	Riyadh	(1) 4191000	(1) 4191803	53055	11583
Rabwa	Riyadh	(1) 4910546	(1) 4910573	25067	11466
Shaqra		(1) 6220909	(1) 6221758	153	11961
Al-Rass		(6) 3330988	(6) 3335225	244	0
Pensions Fund Authority	Riyadh	(1) 4025100	(1) 4124559	60312	11545
Shifa	Riyadh	(1) 4213111	(1) 4223123	61302	11565
King Abdullah Quarter	Riyadh	(1) 4765300	(1) 4764015	42618	11551
Swaidi	Riyadh	(1) 4261200	(1) 4261827	61128	11565
Mutanabi Street	Riyadh	(1) 4765400	(1) 4769294	27035	11417
Dahrat Al-Badia	Riyadh	(1) 4258060	(1) 4261284	61129	11565
North Murabba	Riyadh	(1) 4050707	(1) 4032349	8667	11492
Second Industrial City	Riyadh	(1) 2652088	(1) 2652023	50729	11533
Khashm Al-A'an	Riyadh	(1) 2521102	(1) 2521106	87139	11642
Diplomatic Quarter	Riyadh	(1) 4880658	(1) 4880901	9014	11413
Naseem	Riyadh	(1) 2328230	(1) 2330291	57504	11584
Afif		(1) 7223013	(1) 7223021	180	11921
Quwaiyah		(1) 6521206	(1) 6521164	34	11971
Mursalat	Riyadh	(1) 4555455	(1) 4569177	92161	11653
Takhassusi	Riyadh	(1) 4820489	(1) 4822090	93095	11673
Land Forces	Riyadh	(1) 4787154	00	8667	11492
Al-Hamra	Riyadh	(1) 2782555	(1) 2488531	225051	11324
Hail		(6) 5329328	(6) 5323848	1146	-
Arar		(4) 6622416	(4) 6627004	365	-
Al-Jouf		(4) 6245188	(4) 6247988	353	11142
Alqrayat		(4) 6423904	(4) 6423804	208	-
Barzan	Hail	(6) 5434869	(6) 5434983	7117	-
King Faisal District	Riyadh	(1) 2387118	(1) 2387185	-	-
Ladies Branches					
Aqariyah	Riyadh	(1) 4600065	(1) 4600213	60877	11555
Mursalat	Riyadh	(1) 4555455	(1) 4555455	92161	11653
Rabwah	Riyadh	(1) 2832329	(1) 2832317	25067	11466
Takhassusi	Riyadh	(1) 4830248	(1) 4831654	93095	11673
Swaidi	Riyadh	(1) 4261200	(1) 2661003	61128	11565

Branches

Branch	Telephone No.	Facsimile No.	PO Box	Postal Code
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Western Region Branches

Madina Road	Jeddah	(2) 6600272	(2) 6611104	9463	21413
Balad	Jeddah	(2) 6480112	(2) 6484321	344	21411
Gazzah	Makkah	(2) 5743456	(2) 5747244	238	-
Makkah Road	Jeddah	(2) 6873509	(2) 6886966	8055	21482
Madina Munawwarah		(4) 8237136	(4) 8251312	2443	-
Yanbu		(4) 3226201	(4) 3227626	483	-
Taif		(2) 7384122	(2) 7381690	1542	-
Sitteen	Makkah	(2) 5365912	(2) 5364545	3691	-
Wajh		(4) 4421283	(4) 4421149	44	-
Bab Makkah	Jeddah	(2) 6438441	(2) 6438654	16060	21464
Aziziyah	Makkah	(2) 5570838	(2) 5570821	1355	-
Rabigh		(2) 4220196	(2) 4220816	45	21911
Al-Ula		(4) 8840117	(4) 8841778	91	-
Hay Al-Salamah	Jeddah	(2) 2751515	(2) 6399743	14906	21434
Prince Majid Street	Jeddah	(2) 6170473	(2) 6744533	13304	21493
Makaronah	Jeddah	(2) 6700600	(2) 6724183	13303	21493
Ma'abdah	Makkah	(2) 5735623	(2) 5735717	5038	-
Mahjar	Jeddah	(2) 6373776	(2) 6373783	30411	21477
Hay Al-Jamia'a	Jeddah	(2) 6809980	(2) 6399743	30577	21487
Otaibiah	Makkah	(2) 5605712	(2) 5605721	1355	-
Misyal	Makkah	(2) 5364683	(2) 5381161	1355	-
Sharafiah	Jeddah	(2) 6515165	(2) 6515207	9463	21413
Shohada	Makkah	(2) 5450594	(2) 5442008	5927	-
Qurban	Madina Munawwarah	(4) 8230085	(4) 8234003	2443	-
Shohada	Taif	(2) 7491008	(2) 7491761	1542	-
Al-Safa	Jeddah	(2) 6935112	(2) 6933460	9463	21413
Hira Street	Jeddah	(2) 6550665	(2) 6540102	45031	21512
Tahliyah Street	Jeddah	(2) 6601112	(2) 6612935	51283	21543
Tabuk		(4) 4232172	(4) 4232164	698	71421
Tayma		(4) 4630632	(4) 4630080	49	-

Ladies Branches

Madina Road	Jeddah	(2) 6600272	(2) 6688098	9463	21413
Hay Al-Salamah	Jeddah	(2) 2751515	(2) 6399618	14906	21434
Hay Al-Jamia'a	Jeddah	(2) 6808023	(2) 6809799	30577	21487
Al-Aziziya	Makkah	(2) 5576286	(2) 5576286	1355	-
Al-Medina Al Monawra		(4) 8222761	(4) 8271269	2443	-

Branches

Branch	Telephone No.	Facsimile No.	PO Box	Postal Code
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Eastern Region Branches

Dammam	(3) 8333577	(3) 8347309	18	31411	
Khobar	(3) 8948660	(3) 8942752	37	31952	
Qatif	(3) 8551521	(3) 8540759	125	31911	
Hofuf	(3) 5827806	(3) 5877808	1004	31982	
Jubail	(3) 3620029	(3) 3620464	351	31951	
Khazzan Street	Dammam	(3) 8272422	(3) 8272911	5767	31432
Mubarraz	(3) 5963632	(3) 5313016	10187	31982	
Ibqaiq	(3) 5662612	(3) 5663856	184	31992	
Al-Omran	(3) 5963632	(3) 5960144	1845	31982	
Ras Tannourah	(3) 6673028	(3) 6673572	242	31941	
Thuqbah	(3) 8952848	(3) 8982980	20412	31952	
Hafr Al-Batin	(3) 7224321	(3) 7223672	167	31991	
Khafji	(3) 7661450	(3) 7671627	443	31971	
King Abdul Aziz Street	Khobar	(3) 8982211	(3) 8953289	1573	31952
Old Industrial Area	Dammam	(3) 8471752	(3) 8471732	7589	31472
Saihat	(3) 8501516	(3) 8503121	31	31972	
First Street	Dammam	(3) 8344123	(3) 8338537	18	31411
42 Street	Dammam	(3) 8414474	(3) 8414320	18	31411
Mazroueya	Hofuf	(3) 5881716	(3) 5880561	1004	31982
Rawda	Hofuf	(3) 5806263	(3) 5803046	1004	31982
Qarah	Hofuf	(3) 5962656	(3) 5962276	1004	31982
Industrial Area	Khobar	(3) 8672800	(3) 8981365	37	31952
Second Industrial City	Dammam	(3) 8122225	(3) 8121277	18	31411
Mukhattat 71	Dammam	(3) 8202272	(3) 8203360	18	31411
Al-Rashid Centre	Khobar	(3) 8986015	(3) 8652304	3933	31952
Al-Najah Street	Hofuf	(3) 5873177	(3) 5876317	1004	31982
Mohammadiyah	Dammam	(3) 8178100	(3) 8178090	18	31411

Ladies Branches

Dammam	(3) 8333577	(3) 8333577	18	31411	
Qatif	(3) 8551521	(3) 8546074	125	31911	
Mubarraz	(3) 5313334	(3) 5311570	10187	31982	
Al-Rashid Centre	Khobar	(3) 8992263	(3) 8996203	3933	31952
Al-Rawda	Al-Hafouf	(3) 5806263	(3) 5885433	1004	31982

Southern Region Branches

Abha	(7) 2249012	(7) 2248820	694	-	
Najran	(7) 5222880	(7) 5220868	344	-	
Khamis Mushait	(7) 2233334	(7) 2234388	934	-	
Al-Baha	(7) 7241188	(7) 7250833	228	-	
Baljurashi	(7) 7222920	(7) 7222916	131	22888	
Jizan	(7) 3220520	(7) 3223751	233	-	
Bisha	(7) 6221222	(7) 6222373	272	-	
Dhahran Al-Janoob	(7) 2550320	(7) 2550516	34	-	
Sabya	(7) 3262927	(7) 3262942	3	-	
Al-Qunfudah	(7) 7321045	(7) 7320932	6	21912	
Al-Namas	(7) 2821029	(7) 2820160	195	-	
Mahayl Aseer	(7) 2852036	(7) 2851493	162	-	
Commercial Market	Khamis Mushait	(7) 22321514	(7) 2208784	934	61961
Samta	(7) 3321666	(7) 3323909	-	-	

Overseas Branch

London Branch, 35 Curzon Street	(020) 72974600	(020) 72974900	Telex: 22368 ARABNT G	W1J 7TT
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