The Saudi British Bank
Consolidated Financial Statements

For the year ended

31 December 2008

The Saudi British Bank

CONSOLIDATED BALANCE SHEET

As at 31 December	**Notes**	**2008 SAR'000**	2007 SAR'000
ASSETS			
Cash and balances with SAMA	3	**11,328,253**	16,643,746
Due from banks and other financial institutions	4	**6,200,466**	1,723,576
Investments, net	5	**29,604,346**	14,858,747
Loans and advances, net	6	**80,236,757**	62,000,858
Investment in associates	7	**148,356**	110,447
Property and equipment, net	8	**561,460**	551,840
Other assets	9	**3,581,055**	2,323,696
Total assets		**131,660,693**	98,212,910
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**16,069,492**	8,045,047
Customers' deposits	12	**92,677,537**	71,847,852
Debt securities in issue	13	**5,656,800**	4,038,367
Borrowings	14	**187,500**	187,500
Other liabilities	15	**5,435,533**	3,669,211
Total liabilities		**120,026,862**	87,787,977
Shareholders' equity			
Share capital	16	**6,000,000**	3,750,000
Statutory reserve	17	**4,480,005**	3,750,000
Other reserves	18	**(176,716)**	(16,220)
Retained earnings		**1,330,542**	2,050,528
Proposed dividend	26	**-**	890,625
Total shareholders' equity		**11,633,831**	10,424,933
Total liabilities and shareholders' equity		**131,660,693**	98,212,910

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

The Saudi British Bank

CONSOLIDATED STATEMENT OF INCOME

For the years ended 31 December	Notes	2008 SAR'000	2007 SAR'000
Special commission income	20	**5,864,966**	5,219,955
Special commission expense	20	**2,657,922**	2,161,258
Net special commission income		**3,207,044**	3,058,697
Fees from banking services, net	21	**1,257,222**	861,924
Exchange income, net		**138,310**	107,236
(Losses) income from FVIS financial instruments, net	22	**(42,400)**	63,777
Trading income, net	23	**363,569**	189,968
Dividend income		**1,770**	4,433
(Losses) Gains on non-trading investments, net	24	**(17,010)**	83,319
Other operating income		**3,023**	4,598
Operating income		**4,911,528**	4,373,952
Salaries and employee related expenses		**898,078**	760,029
Rent and premises related expenses		**79,459**	64,214
Depreciation	8	**107,395**	102,895
Other general and administrative expenses		**556,612**	500,045
Provision for credit losses, net	6	**371,280**	396,264
Impairment of other financial assets		**86,929**	-
Other operating expenses		**77**	1,513
Operating expenses		**2,099,830**	1,824,960
Income from operating activities		**2,811,698**	2,548,992
Share in earnings of associates, net	7	**108,321**	57,947
Net income for the year		**2,920,019**	2,606,939
Basic and fully diluted earnings per share (in SAR)	25	**4.87**	4.34

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

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The Saudi British Bank

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended 31 December

	Notes	Share capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividend SAR '000	Total SAR '000
2008							
Balance at beginning of the year		**3,750,000**	**3,750,000**	**(16,220)**	**2,050,528**	**890,625**	**10,424,933**
Net changes in fair value of cash flow hedges (note10)		-	-	**28,496**	-	-	**28,496**
Net changes in fair value of available for sale investments		-	-	**(206,002)**	-	-	**(206,002)**
Transfer to consolidated statement of income:							
Cash flow hedge		-	-	-	-	-	-
Available for sale investments		-	-	**17,010**	-	-	**17,010**
Net expense recognised directly in equity		-	-	**(160,496)**	-	-	**(160,496)**
Net income for the year		-	-	-	**2,920,019**	-	**2,920,019**
Total recognised income and expense for the year		-	-	**(160,496)**	**2,920,019**	-	**2,759,523**
Bonus share issue	16	**2,250,000**	-	-	**(2,250,000)**	-	-
Transfer to statutory reserve	17	-	**730,005**	-	**(730,005)**	-	-
2007 final dividend paid		-	-	-	-	**(890,625)**	**(890,625)**
2008 interim dividend paid	26	-	-	-	**(660,000)**	-	**(660,000)**
Balance at end of the year		**6,000,000**	**4,480,005**	**(176,716)**	**1,330,542**	-	**11,633,831**
2007							
Balance at beginning of the year		3,750,000	3,750,000	70,385	943,589	890,625	9,404,599
Net changes in fair value of cash flow hedges (note10)		-	-	4,349	-	-	4,349
Net changes in fair value of available for sale investments		-	-	(8,879)	-	-	(8,879)
Transfer to consolidated statement of income :							
Cash flow hedge		-	-	1,244	-	-	1,244
Available for sale investments		-	-	(83,319)	-	-	(83,319)
Net expense recognised directly in equity		-	-	(86,605)	-	-	(86,605)
Net income for the year		-	-	-	2,606,939	-	2,606,939
Total recognised income and expense for the year		-	-	(86,605)	2,606,939	-	2,520,334
2006 final dividend paid		-	-	-	-	(890,625)	(890,625)
2007 interim dividend paid	26	-	-	-	(609,375)	-	(609,375)
2007 final proposed dividend	26	-	-	-	(890,625)	890,625	-
Balance at end of the year		3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December	Notes	2008 SAR'000	2007 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**2,920,019**	2,606,939
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premiums and (accretion of discount) on non trading investments		**1,067**	(582)
Losses from FVIS financial instruments	22	**47,104**	11,523
Losses (gains) on non - trading investments		**17,010**	(83,319)
Depreciation	8	**107,395**	102,895
Gains on disposal of property and equipment, net		**(200)**	(4,598)
Share in earnings of associates, net	7	**(37,909)**	(38,238)
Provision for credit losses, net	6	**371,280**	396,264
Impairment of other financial assets		**86,929**	-
Change in fair value		**(88,819)**	238,101
		3,423,876	3,228,985
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	**(1,506,225)**	(971,848)
Investments held for trading		**(181,449)**	114,622
Loans and advances		**(18,607,179)**	(19,946,879)
Other assets		**(1,257,359)**	(832,955)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**8,024,445**	5,873,212
Customers' deposits		**20,829,685**	12,590,210
Other liabilities		**1,600,749**	1,339,354
Net cash from operating activities		**12,326,543**	1,394,701
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**43,571,660**	11,976,616
Purchase of non-trading investments		**(58,285,668)**	(5,314,720)
Purchase of property and equipment	8	**(117,743)**	(113,682)
Proceeds from disposal of property and equipment		**928**	4,780
Net cash (used in) from investing activities		**(14,830,823)**	6,552,994
FINANCING ACTIVITIES			
Debt securities in issue		**1,705,000**	-
Dividends paid		**(1,545,548)**	(1,484,751)
Net cash from (used in) financing activities		**159,452**	(1,484,751)
(Decrease) increase in cash and cash equivalents		**(2,344,828)**	6,462,944
Cash and cash equivalents at the beginning of the year		**15,046,057**	8,583,113
Cash and cash equivalents at the end of the year	27	**12,701,229**	15,046,057
Special commission received during the year		**5,765,791**	5,201,815
Special commission paid during the year		**2,327,993**	2,137,319
<u>Supplemental non cash information</u>			
Net changes in fair value and cash flow hedges		**(160,496)**	(86,605)

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

1. General

The Saudi British Bank (the Bank) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 68 branches (2007: 63) and 31 exclusive ladies' sections (2007: 12) in the Kingdom of Saudi Arabia. The Bank employed 3,395 staff as at 31 December 2008 (2007: 3,005). The address of the Bank's head office is as follows:

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

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

The Bank has 100% (2007 : 100 %) ownership interest in a subsidiary, SABB Securities Limited, a Saudi Limited Liability Company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428 H (25 June 2007) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428 H (22 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). Activities of subsidiary are to engage in business of custody and dealing as an agent excluding underwriting.

1.1. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held at fair value through income statement (FVIS) and available for sale. In addition, assets and liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risks that are being hedged.

c) Functional and presentation currency

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR), rounded off to the nearest thousand, which is the functional currency of the Bank.

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, SABB Securities Limited. The financial statements of the subsidiary are prepared for the same reporting year as that of Bank, using consistent accounting policies.

A subsidiary is an entity over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than half of the voting rights. A subsidiary is consolidated from the date on which control is transferred to the Bank and ceases to be consolidated from the date on which the control is transferred from the Bank.

Intercompany transactions and balances have been eliminated upon consolidation.

e) Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment losses on loans and advances

The Bank reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Bank reviews its loan portfolios to assess an additional portfolio provision on each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of available for-sale equity investments

The Bank exercises judgement to consider impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Due to current volatility in the market, 25% or more is used as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognised in the consolidated statement of income as provision for impairment for other financial assets.

Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognised in the consolidated statement of income as provision for impairment for other financial assets.

(iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

(v) Classification of fair value through income statement

The Bank follows IAS 39 criteria on classifying financial assets and liabilities to fair value through income statement. In making this judgement, the Bank evaluates its compliance with the conditions as prescribed in IAS 39.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

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

a) Trade date accounting

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

b) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, currency and special commission rate options (both written and purchased), are measured at fair value (premium received for written options). 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 or pricing models, as is appropriate.

The treatment of changes in their fair value depends on their classification into the following categories :

i) Derivatives held for trading

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

ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

iii) Hedging accounting

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

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

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is recognised in the consolidated statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of income.

In relation to cash flow hedges, which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other reserves under shareholders' equity. The ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

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

c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date**.** Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income except when deferred in equity as qualifying cash flow hedges.

d) Offsetting

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

e) Revenue recognition

Special commission income and expense for all special commission-bearing financial instruments, except for Held as FVIS financial instruments, including fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated statement of income on the effective yield basis including premiums amortised and discounts accreted during the year.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as special commission income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective interest rate applied to the new carrying amount.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

Exchange income is recognised when contractually earned. Dividend income is recognised when declared.

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

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

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

f) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated balance sheet and are measured in accordance with related accounting policies for the underlying financial assets held as FVIS, available for sale, held to maturity and other investments held at amortised cost. 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 amortised over the life of the repo agreement, using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated 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 amortised over the life of the reverse repo agreement, using the effective yield method.

g) Investments

All investment securities are initially recognised at cost, being the fair value of consideration given, including acquisition charges associated with the investment except for investments held as FVIS, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield method and are taken to special commission income.

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS at inception or on adoption of the revised International Accounting Standard 39. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term. An investment may be designated as FVIS by the management if it satisfies the criteria set out below (except for the equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured):

- it is a financial instrument containing one or more embedded derivatives that significantly modify the cash flows resulting from the financial instrument, or

- it is a financial instrument with an embedded derivative that is required to be separated from the host contract under International Accounting Standard 39, but the Bank is unable to measure reliably the embedded derivative separately either at acquisition or at a subsequent reporting date

The fair value designation is made in accordance with the Risk Management Strategy approved by the Bank's Assets and Liabilities Committee (ALCO) and is irrevocable. Designated financial assets are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties on trade date and derecognised when sold.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from financial instruments designated as FVIS in the consolidated statement of income.

(ii) Available for sale

Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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 recognised directly in "Other reserves" under Shareholders' equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

(iii) Held to maturity

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

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(iv) Held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Investments in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised and is disclosed as gains/ (losses) on non-trading investments. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method.

h) Investment in associates

Investment in associates is accounted for using the equity method in accordance with International Accounting Standard 28 – Investment in Associates. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in associate is carried in the balance sheet at cost plus post investment changes in the Bank's share of net assets of the associate. The investments in associates are carried in balance sheet at the lower of equity accounted or recoverable amount.

The reporting dates of the associate and the Bank are identical and the associate's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associate are eliminated to the extent of the Bank's interest in the associate.

i) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments and that are not quoted in an active market.

All loans and advances are initially measured at cost, being the fair value of consideration given, including acquisition charges associated with the loans and advances.

Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible.

The Bank's loans and advances are classified as held at amortised cost less any amount written off and provisions for impairment.

For loans and advances, which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

j) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written off and provisions for impairment, if any.

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 recognised for changes in its carrying amounts as follows:

When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined

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

If, in a subsequent period, the amount of the impairment loss on investments other than available for sale equity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement in provision for credit losses.

i) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is objective evidence of credit related impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost, including those arising from sovereign risk exposures, is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated statement of income.

ii) Impairment of financial assets held at fair value

For financial assets at fair value, where a loss has been recognised directly under consolidated shareholders' equity, the cumulative net loss recognised in consolidated shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

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

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

l) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated.

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

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

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

The assets' residual values and useful lives 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 it's estimated recoverable amount.

m) Liabilities

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

Subsequently all commission bearing financial liabilities, or where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

n) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of 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.

o) Guarantees

In the ordinary course of business, the Bank extends credit related commitments, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the income statement in "credit loss expenses". The premium received is recognised in the income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

p) Accounting for leases

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

q) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA and reverse repos with SAMA excluding the statutory deposit, and due from banks and other financial institutions with original maturity of ninety days of acquisition.

r) Derecognition of financial instruments

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

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

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

s) Assets held in trust or in fiduciary capacity

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

t) Zakat and income-taxes

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

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

u) Non-interest based banking products

In addition to conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shariah Board.

All non-interest based banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

3. Cash and balances with SAMA

	2008 SAR'000	2007 SAR'000
Cash in hand	**621,611**	747,610
Statutory deposit	**4,827,490**	3,321,265
Reverse repos	**5,540,769**	12,356,627
Other balances	**338,383**	218,244
Total	**11,328,253**	16,643,746

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

4. Due from banks and other financial institutions

	2008 SAR'000	2007 SAR'000
Current accounts	**2,722,368**	771,401
Money market placements	**3,478,098**	952,175
Total	**6,200,466**	1,723,576

5. Investments

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2008 SAR'000	2007 SAR'000	**2008 SAR'000**	2007 SAR'000	**2008 SAR'000**	2007 SAR'000
i) Held as FVIS						
Fixed rate securities	**-**	80,914	**17,822**	18,637	**17,822**	99,551
Floating rate securities	**323,016**	82,716	**60,457**	194,396	**383,473**	277,112
Held as FVIS	**323,016**	163,630	**78,279**	213,033	**401,295**	376,663

FVIS investments above includes investments held for trading of SAR 350.9 million (2007: SAR 211.9 million), and floating rate notes issued by banks and corporates designated as FVIS for reasons disclosed in the summary of significant accounting policies, amounting to SAR 50.4 million (2007 : SAR 164.8 million).

The maximum credit exposure of investments designated as FVIS as at 31 December 2008 is SAR 56.75 million (2007: SAR 171.8 million).

The changes in fair value are mainly attributable to the changes in credit risk during the year, as the impact of market risk is minimal.

	Domestic 2008	Domestic 2007	International 2008	International 2007	Total 2008	Total 2007
ii) Available for sale						
Fixed rate securities	**16,731,299**	973,925	**2,161,076**	2,586,360	**18,892,375**	3,560,285
Floating rate securities	**2,587,485**	2,014,750	**2,410,352**	2,553,873	**4,997,837**	4,568,623
Equities	**10,894**	99,798	**83,671**	31,249	**94,565**	131,047
Available for sale investments, gross	**19,329,678**	3,088,473	**4,655,099**	5,171,482	**23,984,777**	8,259,955
Allowance for impairment	**-**	-	**(77,929)**	-	**(77,929)**	-
Available for sale investments	**19,329,678**	3,088,473	**4,577,170**	5,171,482	**23,906,848**	8,259,955
iii) Held at amortised cost						
Fixed rate securities	**3,569,809**	4,492,077	**-**	-	**3,569,809**	4,492,077
Floating rate securities	**1,221,000**	1,221,000	**9,000**	-	**1,230,000**	1,221,000
Held at amortised cost, gross	**4,790,809**	5,713,077	**9,000**	-	**4,799,809**	5,713,077
Allowance for impairment	**-**	-	**(9,000)**		**(9,000)**	-
Held at amortised cost	**4,790,809**	5,713,077	**-**	-	**4,790,809**	5,713,077
iv) Held to maturity						
Fixed rate securities	**505,394**	509,052	**-**	-	**505,394**	509,052
Held to maturity investments	**505,394**	509,052	-	-	**505,394**	509,052
Investments, net	**24,948,897**	9,474,232	**4,655,449**	5,384,515	**29,604,346**	14,858,747

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

	2008			2007		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**2,178,898**	**20,806,502**	**22,985,400**	2,549,079	6,111,887	8,660,966
Floating rate securities	**4,351,711**	**2,259,599**	**6,611,310**	3,493,924	2,572,810	6,066,734
Equities	**-**	**94,565**	**94,565**	88,902	42,145	131,047
	6,530,609	**23,160,666**	**29,691,275**	6,131,905	8,726,842	14,858,747
Allowance for impairment	**-**	**(86,929)**	**(86,929)**	-	-	-
Investments	**6,530,609**	**23,073,737**	**29,604,346**	6,131,905	8,726,842	14,858,747

Unquoted investments include securities of SAR 22,328.0 million (2007: SAR 7,677.3 million) issued by the Saudi Arabian Government and its agencies.

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

	2008 SAR'000				2007 SAR'000			
	Carrying value	**Gross unrealised gain**	**Gross unrealised loss**	**Fair value**	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
i) Held at amortised cost								
Fixed rate securities	**3,569,809**	**233,852**	**-**	**3,803,661**	4,492,077	151,531	-	4,643,608
Floating rate securities	**1,221,000**	**3,491**	**-**	**1,224,491**	1,221,000	3,014	-	1,224,014
Total	**4,790,809**	**237,343**	**-**	**5,028,152**	5,713,077	154,545		5,867,622
(ii) Held to maturity								
Fixed rate securities	**505,394**	**26,482**	**-**	**531,876**	509,052	22,077	-	531,129
Total	**505,394**	**26,482**	**-**	**531,876**	509,052	22,077	-	531,129

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

	2008 SAR'000	2007 SAR'000
Government and quasi Government	**26,769,715**	11,763,987
Corporate	**271,857**	454,667
Banks and other financial institutions	**2,468,209**	2,599,478
Other	**94,565**	40,615
Total	**29,604,346**	14,858,747

Equities reported under available for sale investments include unquoted shares of SAR 11.39 million (2007: SAR 11.41million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR 3,502.2 million (SAR 2007: SAR 4.0 million) which have been pledged under repurchase agreement with banks and customers. The market value of such investments is SAR 3,492.5 million (2007: SAR 4.0 million).

e) Credit quality of investments

	2008 SAR'000	2007 SAR'000
Saudi Government bonds	**22,328,041**	7,595,366
Investment grade	**7,011,599**	6,999,183
Non investment grade	**-**	20,763
Unrated	**264,706**	243,435
Total	**29,604,346**	14,858,747

The Saudi Government Bonds comprise of Saudi Government Development Bonds, Floating Rate Notes and Treasury Bills.

Investments Grade includes those investments having credit exposure equivalent to Standard and Poor's Rating of AAA to BBB. Issuer ratings have been used for bonds which have not been rated by any agency amounting to SAR 1,418.9 million.

The unrated category mainly comprises of private equities, hedge fund and quoted and unquoted equities.

6. Loans and advances, net

a) Loans and advances are classified as follows:

		2008		**SAR' 000**
	Credit Cards	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
Performing loans and advances-gross	**2,152,004**	**12,950,878**	**65,569,723**	**80,672,605**
Non performing loans and advances, net	**-**	**29,615**	**164,059**	**193,674**
Total loans and advances	**2,152,004**	**12,980,493**	**65,733,782**	**80,866,279**
Provision for credit losses (specific and collective)	**(114,456)**	**(134,272)**	**(380,794)**	**(629,522)**
Loans and advances, net	**2,037,548**	**12,846,221**	**65,352,988**	**80,236,757**

		2007		SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Performing loans and advances-gross	1,852,463	11,063,570	49,458,783	62,374,816
Non performing loans and advances, net	-	21,338	175,752	197,090
Total loans and advances	1,852,463	11,084,908	49,634,535	62,571,906
Provision for credit losses (specific and collective)	(98,881)	(131,702)	(340,465)	(571,048)
Loans and advances, net	1,753,582	10,953,206	49,294,070	62,000,858

Loans and advances, net include non-interest bearing products totalling SAR 37,568 million (2007: SAR 27,530 million) which are stated at cost less provision for credit losses, of SAR 277.9 million (2007: SAR 252.1 million).

Provision for credit losses charged to the consolidated statement of income related to non-interest bearing products is SAR 111.48 million (2007: SAR 119.4 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 256.0 million (2007: SAR 743.0 million). The negative mark to market of these loans is SAR 0.6 million (2007: positive SAR 3.4 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 108.1 million (2007: SAR 126.0 million).

b) Movement in provision for credit losses

	2008			SAR' 000
	Credit Cards	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
Balance at beginning of the year	**98,881**	**131,702**	**340,465**	**571,048**
Bad debts written off	**(110,994)**	**(171,693)**	**(30,119)**	**(312,806)**
Provided during the year	**126,569**	**174,263**	**98,392**	**399,224**
Recoveries of amounts previously provided	**-**	**-**	**(27,944)**	**(27,944)**
Balance at the end of the year	**114,456**	**134,272**	**380,794**	**629,522**

	2007			SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Balance at beginning of the year	100,068	94,873	302,739	497,680
Bad debts written off	(122,909)	(195,391)	(4,596)	(322,896)
Provided during the year	121,722	232,220	64,483	418,425
Recoveries of amounts previously provided	-	-	(22,161)	(22,161)
Balance at the end of the year	98,881	131,702	340,465	571,048

The allowance for credit losses above includes a collective allowance amounting to SR 229.7 million (2007: SR 150.5 million) related to the performing portfolio.

The net charge to income on account of provision for credit losses is SAR 371.2 million (2007: SAR 396.2 million), which is net of recoveries of amounts previously provided as shown above.

c) Credit quality of loans and advances

i) Ageing of loans and advances (past due but not impaired)

	2008			SAR' 000
	Credit Cards	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
From 1 day to 30 days	**131,558**	**641,696**	**1,166,339**	**1,939,593**
From 31 days to 90 days	**94,614**	**192,487**	**40,940**	**328,041**
From 91 days to 180 days	**75,612**	**107,592**	**5,562**	**188,766**
Total loans and advances	**301,784**	**941,775**	**1,212,841**	**2,456,400**

	2007			SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
From 1 day to 30 days	160,310	753,055	342,286	1,255,651
From 31 days to 90 days	93,743	125,945	-	219,688
From 91 days to 180 days	60,549	91,031	9,696	161,276
Total loans and advances	314,602	970,031	351,982	1,636,615

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

2008 SAR'000	**Performing**	**Non performing, net**	**Credit loss provision**	**Loans and advances, net**
Government and quasi Government	**2,678,754**	**-**	**-**	**2,678,754**
Banks and other financial institutions	**75,000**	**-**	**-**	**75,000**
Agriculture and fishing	**1,439,373**	**-**	**-**	**1,439,373**
Manufacturing	**8,605,006**	**59,418**	**(35,009)**	**8,629,415**
Mining and quarrying	**25,634**	**-**	**-**	**25,634**
Electricity, water, gas and health services	**263,674**	**7,128**	**(7,128)**	**263,674**
Building and construction	**3,113,829**	**33,039**	**(33,039)**	**3,113,829**
Commerce	**24,173,721**	**43,581**	**(24,967)**	**24,192,335**
Transportation and communication	**2,301,993**	**482**	**(1,482)**	**2,300,993**
Services	**4,752,142**	**18,377**	**(14,817)**	**4,755,702**
Consumer loans and credit cards	**15,027,882**	**29,615**	**(248,728)**	**14,808,769**
Other	**18,215,597**	**2,034**	**(34,662)**	**18,182,969**
Collective impairment provision	**-**	**-**	**(229,690)**	**(229,690)**
TOTAL	**80,672,605**	**193,674**	**(629,522)**	**80,236,757**

2007 SAR'000	Performing	Non performing, net	Credit loss provision	Loans and advances, net
Government and quasi Government	2,131,850	-	-	2,131,850
Banks and other financial institutions	56,250	-	-	56,250
Agriculture and fishing	918,859	-	-	918,859
Manufacturing	6,986,804	43,760	(41,132)	6,989,432
Mining and quarrying	22,926	-	-	22,926
Electricity, water, gas and health services	118,471	7,128	(7,128)	118,471
Building and construction	2,716,467	38,638	(38,715)	2,716,390
Commerce	15,844,081	56,667	(42,109)	15,858,639
Transportation and communication	1,215,596	1,729	(2,729)	1,214,596
Services	3,820,255	1,188	(1,190)	3,820,253
Consumer loans and credit cards	12,688,801	20,942	(230,583)	12,479,160
Other	15,854,456	27,038	(56,960)	15,824,534
Collective impairment provision	-	-	(150,502)	(150,502)
TOTAL	62,374,816	197,090	(571,048)	62,000,858

The credit loss provision on the consumer loans and advances is calculated on a collective basis.

The collective impairment provision is based on an asset quality matrix, which includes the grading structure in respect of the credit risk of the customers as well as general economic outlook.

d) Collateral

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets.

e) Neither past due nor impaired loans

	2008			**SAR' 000**
Grades	**Credit Cards**	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
Low risk	**-**	**-**	**59,438**	**59,438**
Satisfactory risk	**-**	**-**	**9,032,034**	**9,032,034**
Fair risk	**2,046,019**	**12,794,938**	**54,204,968**	**69,045,925**
Watch list	**59,085**	**95,702**	**1,176,718**	**1,331,505**
Substandard risk	**46,900**	**60,238**	**1,096,565**	**1,203,703**
Total	**2,152,004**	**12,950,878**	**65,569,723**	**80,672,605**

	2007			SAR' 000
Grades	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Low risk	-	-	126,065	126,065
Satisfactory risk	-	-	5,037,935	5,037,935
Fair risk	1,756,256	10,927,203	42,329,883	55,013,342
Watch list	57,556	82,477	1,639,775	1,779,808
Substandard risk	38,651	53,890	325,125	417,666
Total	1,852,463	11,063,570	49,458,783	62,374,816

Low risk: Financial condition, liquidity, capitalisation, earnings, cash flow, management and capacity to repay are excellent.

Satisfactory risk: Financial condition, liquidity, capitalisation, earnings, cash flow, management and capacity to repay are good.

Fair risk: Facilities requiring more regular monitoring as a result of deterioration in earnings or cash flow, irregularities in the conduct of the accounts, announcement of litigation or some other untoward factor. Capacity to repay remains acceptable.

Watch list: Facilities will sustain or continued deterioration in financial condition, which require frequent monitoring. The capacity to repay remains satisfactory.

Substandard risk: Financial condition is assessed as weak and capacity or inclination to repay is in doubt. Readily encashable security is insufficient to repay amount outstanding, however it is still considered that full repayment will be received.

7. Investments in associates

The Bank owns 40% of the equity shares of HSBC Saudi Arabia Limited, which is involved in investment banking services in the Kingdom of Saudi Arabia.

The Bank owns 32.5% of the equity shares of SABB Takaful. It carries out Shariah compliant insurance activities and offers family and general takaful products.

	2008			2007		
	HSBC Saudi Arabia Limited	**SABB Takaful**	**Total**	HSBC Saudi Arabia Limited	SABB Takaful	Total
	SAR' 000	**SAR' 000**	**SAR' 000**	SAR' 000	SAR' 000	SAR' 000
Balance at beginning of the year	**90,411**	**20,036**	**110,447**	72,209	-	72,209
Cost of investment during the year	**-**	**-**	**-**	-	32,500	32,500
Dividend received	**(70,412)**	**-**	**(70,412)**	(52,209)	-	(52,209)
Share of undistributed profit (loss)	**110,151**	**(1,830)**	**108,321**	70,411	(12,464)	57,947
Total	**130,150**	**18,206**	**148,356**	90,411	20,036	110,447

Share of the associate's financial statements:	**2008**		2007	
	HSBC Saudi Arabia Limited	**SABB Takaful**	HSBC Saudi Arabia Limited	SABB Takaful
	SAR' 000	**SAR' 000**	SAR' 000	SAR' 000
Total Assets	**186,823**	**60,429**	130,051	27,987
Total Liabilities	**56,673**	**42,223**	39,640	7,951
Total Equity	**130,150**	**18,206**	90,411	20,036
Total Income	**167,759**	**15,096**	114,212	2,461
Total Expenses	**57,608**	**16,926**	43,801	14,925

8. Property and equipment, net

	Land and Buildings SAR'000	**Leasehold improvements SAR'000**	**Equipment, furniture and vehicles SAR'000**	**2008 Total SAR'000**	**2007 Total SAR'000**
Cost					
As at 1 January	586,331	253,276	540,896	**1,380,503**	1,339,250
Additions	26,444	27,010	64,289	**117,743**	113,682
Disposals	-	-	(2,805)	**(2,805)**	(72,429)
As at 31 December	**612,775**	**280,286**	**602,380**	**1,495,441**	1,380,503
Accumulated depreciation					
As at 1 January	258,556	179,307	390,800	**828,663**	798,015
Charge for the year	22,502	18,562	66,331	**107,395**	102,895
Disposals	-	-	(2,077)	**(2,077)**	(72,247)
As at 31 December	**281,058**	**197,869**	**455,054**	**933,981**	828,663
Net book value					
As at 31 December 2008	**331,717**	**82,417**	**147,326**	**561,460**	
As at 31 December 2007	327,775	73,969	150,096		551,840

Land and buildings and leasehold improvements include work in progress as at 31 December 2008 amounting to SAR 8.3 million (2007: SAR 57.3 million) and SAR 10.8 million (2007: SAR 29.0 million) respectively.

9. Other assets

	2008 SAR'000	2007 SAR'000
Accrued special commission receivable – banks and other financial institutions	**430**	1,477
– investments	**203,659**	220,787
– loans and advances	**697,348**	579,998
Total accrued special commission receivable	**901,437**	802,262
Accounts receivable	**107,922**	198,186
Other real estate	**4,277**	12,929
Positive fair value of derivatives (note10)	**2,176,791**	983,432
Advance tax	**157,303**	184,451
Other	**233,325**	142,436
Total	**3,581,055**	2,323,696

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading

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

Derivatives held for hedging

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 29 - credit risk, note 31- market risk and note 34 - liquidity risk).Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

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

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

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

2008 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Special commission rate swaps	1,650,294	(1,542,308)	54,598,298	2,985,212	5,635,396	36,587,791	9,389,899	47,939,486
Special commission rate futures and options	12,416	(12,416)	2,767,500	-	-	2,767,500	-	1,979,866
Spot and forward foreign exchange contracts	88,279	(147,072)	9,046,726	4,321,268	4,658,136	67,322	-	12,540,142
Currency options	142,941	(142,941)	3,045,939	580,704	1,340,235	1,125,000	-	3,732,399
Currency swaps	235,304	-	1,475,297	-	-	1,475,297	-	1,475,297
Others	6,337	(6,337)	725,000	-	-	725,000	-	475,000
Derivatives held as fair value hedges:								
Special commission rate swaps	851	(28,420)	1,319,505	600,000	253,088	325,163	141,254	1,806,926
Derivatives held as cash flow hedges:								
Special commission rate swaps	40,369	(4,632)	731,250	-	-	731,250	-	818,750
Total	2,176,791	(1,884,126)	73,709,515	8,487,184	11,886,855	43,804,323	9,531,153	

Notional amounts by term to maturity

2007 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Derivatives held for trading:								
Special commission rate swaps	540,149	(456,580)	34,588,421	917,554	1,471,686	5,587,033	26,612,148	27,130,361
Special commission rate futures and options	8	(8)	400,000	-	400,000	-	-	400,000
Spot and forward foreign exchange contracts	85,574	(128,594)	11,624,530	7,092,407	4,478,532	53,591	-	14,757,459
Currency options	6,984	(6,828)	2,138,699	163,879	98,820	1,876,000	-	597,669
Currency swaps	322,790	-	1,475,297	-	-	1,475,297	-	1,475,297
Derivatives held as fair value hedges:								
Special commission rate swaps	17,696	(13,278)	1,524,591	224,000	74,327	743,014	483,250	2,153,311
Derivatives held as cash flow hedges:								
Special commission rate swaps	10,231	(2,990)	1,021,250	100,000	190,000	731,250	-	749,896
Total	983,432	(608,278)	52,772,788	8,497,840	6,713,365	10,466,185	27,095,398	

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

2008 (SAR'000) **Description of the hedged items:**	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**494,211**	**465,170**	Fair value	Special commission rate swap	**-**	**(28,153)**
Fixed commission rate loans	**255,997**	**256,631**	Fair value	Special commission rate swap	**851**	**-**
Fixed commission rate deposits	**600,064**	**600,000**	Fair value	Special commission rate swap	**-**	**(267)**
Floating commission rate investments	**507,457**	**542,831**	Cash flow	Special commission rate swap	**40,369**	**-**
Floating commission rate debt securities in issue	**199,692**	**187,306**	Cash flow	Special commission rate swap	**-**	**(4,632)**

2007 (SAR'000) Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	479,549	481,671	Fair value	Special commission rate swap	14,492	(13,278)
Fixed commission rate loans	742,971	739,550	Fair value	Special commission rate swap	2,614	-
Fixed commission rate deposits	297,704	298,327	Fair value	Special commission rate swap	590	-
Floating commission rate investments	830,602	832,760	Cash flow	Special commission rate swap	10,231	(1,805)
Floating commission rate debt securities in issue	187,149	187,306	Cash flow	Special commission rate swap	-	(1,185)

The net losses on the hedging instruments for fair value hedges are SAR 25.9 million (2007: SAR 3.4 million). The net gains on the hedged item attributable to the hedged risk are SAR 27.3 million (2007: SAR 9.2 million). The net fair value of the derivatives is negative SAR 27.6 million (2007: positive SAR 4.4 million).

Reconciliation of movements in the other reserve of cash flow hedges:

	2008 SAR'000	2007 SAR'000
Balance at beginning of the year	**7,752**	2,159
Gains from changes in fair value recognised directly in equity	**28,496**	4,349
Losses removed from equity and included in Net special commission income	**-**	1,244
Balance at end of the year	**36,248**	7,752

Approximately 29% (2007: 54%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 18% (2007: 46%) of the total of the positive fair value contracts are with any single counterparty at the consolidated balance sheet date.

11. Due to banks and other financial institutions

	2008 SAR'000	2007 SAR'000
Current accounts	**1,380,911**	2,161,736
Money market deposits	**14,688,581**	5,883,311
Total	**16,069,492**	8,045,047

Money market deposits also include deposits placed by SAMA of SAR 2,013.5 million (2007: SAR 420.0 million).

12. Customers' deposits

	2008 SAR'000	2007 SAR'000
Demand	**28,569,398**	27,162,175
Savings	**3,174,064**	2,781,835
Time	**60,216,345**	41,287,322
Other	**717,730**	616,520
Total	**92,677,537**	71,847,852

Customer deposits include SAR 39,577.5 million (2007: SAR 26,490.6 million) deposits taken under non-interest bearing product contracts.

Other customer deposits include SAR 715.1 million (2007: SAR 613.8 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2008 SAR'000	2007 SAR'000
Demand	**3,017,154**	2,208,386
Savings	**149,440**	155,568
Time	**7,509,247**	7,356,175
Other	**219,140**	247,966
Total	**10,894,981**	9,968,095

13. Debt securities in issue

	2008 SAR'000	2007 SAR'000
USD 600 million 5 year floating rate notes	**2,249,134**	2,248,399
Euro 325 million 5 year floating rate notes	**1,702,666**	1,789,968
SAR 1,705 million 5 year floating rate notes	**1,705,000**	-
Total	**5,656,800**	4,038,367

USD 600 million 5 year floating rate notes
These notes were issued during March 2005 under the Bank's Euro Medium Term Note programme and mature on 8 March 2010. The notes carry effective special commission at three months' LIBOR plus 40.76 bps payable quarterly. The notes are non-convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

The special commission rate exposure on these notes has been partially hedged by a floating to fixed special commission rate swap to the extent of US$ 50 million. The special commission rate swap forms part of a designated and effective hedging relationship and is accounted for as a cash flow hedge in these consolidated financial statements.

Euro 325 million 5 year floating rate notes
These notes were issued during 2006 under the Bank's Euro Medium Term Note programme and mature on 13 April 2011. The notes carry effective special commission at three months' Euribor plus 34.68 bps which is payable on a quarterly basis. The notes are non convertible, are unsecured and are listed on the Luxembourg Stock Exchange.

The bank has converted the foreign currency exposure on these notes into US Dollars by means of a cross currency swap. This swap does not form part of a designated hedging relationship and hence, is carried as a derivative in the trading book.

SAR 1,705 million 5 year floating rate notes
These notes were issued during the current year and are due to mature on 21 July 2013. The notes carry special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are unsecured, non convertible and are listed on Tadawul.

14. Borrowings

This represents a 12 year floating rate loan. The loan carries special commission rate of Libor plus 65 basis points. This was taken on 7 July 2005 and is repayable by 15 June 2017.

15. Other liabilities

	2008 SAR’000	2007 SAR’000
Accrued special commission payable – banks and other financial institutions	**192,457**	43,934
– customers’ deposits	**464,559**	278,611
– debt securities in issue	**22,127**	27,137
– borrowings	**920**	452
Total accrued special commission payable	**680,063**	350,134
Accounts payable	**575,886**	631,256
Drawings payable	**346,094**	745,981
Negative fair value of derivatives (note 10)	**1,884,126**	608,278
Other	**1,949,364**	1,333,562
Total	**5,435,533**	3,669,211

16. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 600 million shares of SAR 10 each (2007: 375 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2008	2007
Saudi shareholders	**60%**	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	**40%**	40%

The shareholders' of the Bank approved a bonus issue of three shares for every five shares in their Extraordinary General Meeting held on 27 April 2008. As a result 225 million shares of SAR 10 each were issued by capitalising retained earnings.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 730 million (2007: SAR nil) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

2008 **SAR'000**	**Cash flow hedges**	**Available for sale investments**	**Total**
Balance at beginning of the year	**7,752**	**(23,972)**	**(16,220)**
Net change in fair value	**28,496**	**(206,002)**	**(177,506)**
Transfer to consolidated statement of income	**-**	**17,010**	**17,010**
Net movement during the year	**28,496**	**(188,992)**	**(160,496)**
Balance at end of the year	**36,248**	**(212,964)**	**(176,716)**

2007 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	2,159	68,226	70,385
Net change in fair value	4,349	(8,879)	(4,530)
Transfer to consolidated statement of income	1,244	(83,319)	(82,075)
Net movement during the year	5,593	(92,198)	(86,605)
Balance at end of the year	7,752	(23,972)	(16,220)

19. Commitments and contingencies

a) Legal proceedings

As at 31 December 2008 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b) Capital commitments

The Bank has capital commitments of SAR 66.6 million (2007: SAR 45.02 million) in respect of buildings and equipment purchases. In addition, the Bank has made a commitment for SAR 97.5 million (2007 : nil) in respect of the proposed right issue by one of its associates .

c) Credit related commitments and contingencies

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

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

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

2008 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**4,738,467**	**3,254,614**	**720,326**	**-**	**8,713,407**
Guarantees	**7,592,877**	**7,092,415**	**5,276,407**	**58,081**	**20,019,780**
Acceptances	**2,388,992**	**595,723**	**157,401**	**-**	**3,142,116**
Irrevocable commitments to extend credit	**2,154,062**	**753,937**	**1,662,380**	**-**	**4,570,379**
Total	**16,874,398**	**11,696,689**	**7,816,514**	**58,081**	**36,445,682**

2007 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	5,485,246	1,733,191	908,059	-	8,126,496
Guarantees	5,102,411	5,464,673	2,839,202	23,302	13,429,588
Acceptances	1,767,257	1,229,852	63,475	-	3,060,584
Irrevocable commitments to extend credit	7,260	1,706,896	3,308,468	-	5,022,624
Total	12,362,174	10,134,612	7,119,204	23,302	29,639,292

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the bank, is SAR 40,667.8 million (2007: SAR 35,019.4 million).

e) The analysis of credit related commitments and contingencies by counterparty is as follows:

	2008 SAR'000	2007 SAR'000
Government and quasi Government	**1,322,016**	146,948
Corporate	**30,503,531**	25,763,087
Banks and other financial institutions	**4,464,166**	3,639,020
Other	**155,969**	90,237
Total	**36,445,682**	29,639,292

f) Operating lease commitments

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

	2008 SAR'000	2007 SAR'000
Less than 1 year	**48,404**	33,007
1 to 5 years	**146,093**	154,965
Over 5 years	**151,137**	70,356
Total	**345,634**	258,328

20. Net special commission income

	2008 SAR'000	2007 SAR'000
Special commission income		
Investments –available for sale investments	**790,132**	502,954
– held at amortised cost	**256,092**	322,211
– held to maturity investments	**29,635**	29,645
	1,075,859	854,810
Due from banks and other financial institutions	**227,811**	620,209
Loans and advances	**4,561,296**	3,744,936
Total	**5,864,966**	5,219,955
Special commission expense		
Due to banks and other financial institutions	**369,302**	119,906
Customers' deposits	**2,049,333**	1,811,616
Debt securities in issue	**228,958**	219,453
Borrowing	**10,329**	10,283
Total	**2,657,922**	2,161,258
Net special commission income	**3,207,044**	3,058,697

21. Fees from banking services, net

	2008 SAR'000	2007 SAR'000
Fees income:		
- Share trading and fund management	**354,209**	339,825
- Trade finance	**319,726**	215,688
- Corporate finance and advisory	**208,913**	99,106
- Other banking services	**471,885**	313,944
Total fees income	**1,354,733**	968,563
Fees expense:		
- Cards	**(35,458)**	(28,008)
- Custodial services	**(628)**	(840)
- Other banking services	**(61,425)**	(77,791)
Total fees expense	**(97,511)**	(106,639)
Fees from banking services, net	**1,257,222**	861,924

22. (Losses) income from FVIS financial instruments, net

	2008 SAR'000	2007 SAR'000
Fair value change on investments held as FVIS	**(47,104)**	(11,523)
Special commission income on FVIS investments	**4,704**	75,300
Total	**(42,400)**	63,777

23. Trading income, net

	2008 SAR'000	2007 **SAR'000**
Foreign exchange, net	**239,323**	125,976
Derivatives	**5,784**	49,106
Debt instruments	**127,672**	17,839
Others	**(9,210)**	(2,953)
Total	**363,569**	189,968

24. (Losses) Gains on non-trading investments, net

	2008 SAR'000	2007 SAR'000
Available for sale investments	**(17,010)**	83,319

25. Basic and fully diluted earnings per share

Basic earnings per share for the year ended 31 December 2008 and 2007 is calculated by dividing the net income for the year attributable to the equity holders by 600 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

Diluted earnings per share is the same as basic earnings per share as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

26. Gross dividend, zakat and income tax

The gross dividend for the year is SAR 660 million (2007: SAR 1,500 million) and was paid as an interim dividend to shareholders on 30 July 2008 (2007: SAR 609.4 million). The Bank's board had decided not to recommend a final dividend for 2008 (2007: SAR 890.6 million) and instead will recommend a 1 for 4 bonus issue to be ratified at an EGM to be held in first half of 2009. This re-investment of SAR 1,500 million of shareholders funds will increase Bank's paid capital to SAR 7,500 million. Dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Saudi shareholders:

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 50.4 million (2007: SAR 55.1 million), and is deducted from their share of the dividend. The net total dividend for the year to the Saudi shareholders is SAR 345.6 million (2007: SAR 844.9 million) representing SAR 0.96 per share (2007: SAR 3.76 per share) of which SAR 0.96 (2007: SAR 1.54) was paid on an interim basis.

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 237.9 million (2007: SAR 215.6 million), and is deducted from its share of the dividend. The net total dividend for the year to the foreign shareholder is SAR 26.1 million (2007: SAR 384.4 million) representing SAR 0.11 per share (2007: SAR 3.08 per share) of which SAR 0.11 per share (2007: SAR 1.12 per share) was paid on an interim basis.

27. Cash and cash equivalents

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

	2008 **SAR'000**	2007 SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	**6,500,763**	13,322,481
Due from banks and other financial institutions with original maturity of ninety days or less from date of acquisition	**6,200,466**	1,723,576
Total	**12,701,229**	15,046,057

28. Business segments

The Bank's primary segment reporting format is determined to be business segment. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are distinct from those of other business segments.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Special commission charged for these funds is based on inter-bank rates.

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

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

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

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

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

Securities – activities related to dealing and custody of securities.

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2008 and 2007, its total operating income and expenses, and the results for the years then ended, by business segment, are as follows:

2008
SAR'000

	Retail Banking	**Corporate Banking**	**Treasury**	**Securities**	**Others**	**Total**
Total assets	**24,032,842**	**58,450,117**	**49,026,870**	**2,508**	**148,356**	**131,660,693**
Total liabilities	**35,434,109**	**41,808,929**	**42,771,069**	**12,755**	**-**	**120,026,862**
Total operating income	**1,932,519**	**1,889,277**	**664,895**	**424,837**	**-**	**4,911,528**
Total operating expenses	**1,426,032**	**393,934**	**149,927**	**129,937**	**-**	**2,099,830**
Share in earnings of associates	**-**	**-**	**-**	**-**	**108,321**	**108,321**
Net income	**506,487**	**1,495,343**	**514,968**	**294,900**	**108,321**	**2,920,019**

2007
SAR'000

	Retail Banking	Corporate Banking	Treasury	Securities	Others	Total
Total assets	21,525,884	42,043,291	34,533,288	-	110,447	98,212,910
Total liabilities	29,637,918	34,231,719	23,918,340	-	-	87,787,977
Total operating income	1,872,695	1,705,002	465,782	330,473	-	4,373,952
Total operating expenses	1,335,455	325,365	69,692	94,448	-	1,824,960
Share in earnings of associates	-	-	-	-	57,947	57,947
Net income	537,240	1,379,637	396,090	236,025	57,947	2,606,939

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

2008 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Balance sheet assets	**22,345,009**	**57,891,748**	**46,511,454**	**148,356**	**126,896,567**
Commitments and contingencies	**174,607**	**14,491,577**	**-**	**-**	**14,666,184**
Derivatives	**-**	**-**	**3,195,209**	**-**	**3,195,209**
Total	**22,519,616**	**72,383,325**	**49,706,663**	**148,356**	**144,757,960**

2007 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Balance sheet assets	20,495,700	41,505,158	32,478,459	110,447	94,589,764
Commitments and contingencies	125,428	10,481,018	-	-	10,606,446
Derivatives	-	-	2,481,164	-	2,481,164
Total	20,621,128	51,986,176	34,959,623	110,447	107,677,374

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

29. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses the external ratings, of the major rating agency, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. 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 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. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 19. The information on Banks maximum credit exposure by business segment is given in note 28. The information on maximum credit risk exposure and their relative risk weights is also provided in note 37.

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

The Bank's main credit exposure by geographical region is as follows :

2008 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA	11,328,253	-	-	-	-	11,328,253
Due from banks and other financial institutions	1,572,177	156,626	1,846,856	2,618,795	6,012	6,200,466
Investments,net	25,519,336	1,347,712	965,494	1,670,322	101,482	29,604,346
Loans and advances, net	78,442,640	1,565,978	190,639	37,500	-	80,236,757
Investment in associates	148,356	-	-	-	-	148,356
Total	117,010,762	3,070,316	3,002,989	4,326,617	107,494	127,518,178
Liabilities						
Due to banks and other financial institutions	7,651,001	1,347,213	6,451,387	610,626	9,265	16,069,492
Customer deposits	92,648,672	5,999	17,000	-	5,866	92,677,537
Debt securities in issue	1,705,000	-	3,951,800	-	-	5,656,800
Borrowings	-	-	187,500	-	-	187,500
Total	102,004,673	1,353,212	10,607,687	610,626	15,131	114,591,329
Commitments and contingencies	35,486,924	319,533	153,138	22,161	463,926	36,445,682
Credit exposure (stated at credit equivalent amounts)						
Balance sheet assets	116,389,151	3,070,316	3,002,989	4,326,617	107,494	126,896,567
Commitments and contingencies	14,355,413	83,012	74,764	11,080	141,915	14,666,184
Derivatives	1,508,151	62,490	1,599,160	9,658	15,750	3,195,209
Total credit exposure	132,252,715	3,215,818	4,676,913	4,347,355	265,159	144,757,960

2007 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other countries	Total
Assets						
Cash and balances with SAMA	16,643,746	-	-	-	-	16,643,746
Due from banks and other financial institutions	2,676	151,435	925,115	614,347	30,003	1,723,576
Investments,net	9,752,571	1,211,740	1,632,573	2,025,404	236,459	14,858,747
Loans and advances, net	61,965,116	11,250	24,492	-	-	62,000,858
Investment in associates	110,447	-	-	-	-	110,447
Total	88,474,556	1,374,425	2,582,180	2,639,751	266,462	95,337,374
Liabilities						
Due to banks and other financial institutions	3,235,242	2,331,694	1,370,852	1,034,235	73,024	8,045,047
Customer deposits	71,823,487	1,691	4,400	-	18,274	71,847,852
Debt securities in issue	-	-	4,038,367	-	-	4,038,367
Borrowings	-	-	187,500	-	-	187,500
Total	75,058,729	2,333,385	5,601,119	1,034,235	91,298	84,118,766
Commitments and contingencies	28,167,099	370,946	347,001	27,662	726,584	29,639,292
Credit exposure (stated at credit equivalent amounts)						
Balance sheet assets	87,726,946	1,374,425	2,582,180	2,639,751	266,462	94,589,764
Commitments and contingencies	10,166,900	97,978	129,317	13,448	198,803	10,606,446
Derivatives	1,347,399	4,295	773,395	308,558	47,517	2,481,164
Total credit exposure	99,241,245	1,476,698	3,484,892	2,961,757	512,782	107,677,374

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

31. Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading or banking-book.

The market risk for the trading book is managed and monitored using VAR methodology. Market risk for non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank applies a VAR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for change in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, the Bank also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Banks ALCO committee for their review.

The Bank's VAR related information is as under.

	2008		**SAR'000**
	Foreign Exchange	**Special commission Rate**	**Overall risk**
VAR as at 31December 2008	**1,309**	**615**	**1,545**
Average VAR for 2008	**1,665**	**590**	**1,880**

	2007		SAR'000
	Foreign Exchange	Special commission Rate	Overall risk
VAR as at 31 December 2007	649	405	694
Average VAR for 2007	486	514	791

b) Market risk – non trading or banking book

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2008, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2008 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity of the asset or swap.

			2008				**SAR' 000**
Currency	**Increase in basis**	**Sensitivity of Income**	**Sensitivity of Equity**				
			6months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	+ 100	**66,463**	**(45,546)**	**(25,309)**	**(18,023)**	**-**	**(88,878)**
USD	+ 100	**3,264**	**(7,451)**	**(7,442)**	**(64,975)**	**(624)**	**(80,492)**
EUR	+ 100	**(13,476)**	**-**	**-**	**-**	**-**	**-**
Others	+ 100	**1,871**	**-**	**-**	**-**	**-**	**-**

			2008				**SAR '000**
Currency	**Decrease in basis**	**Sensitivity of Income**	**Sensitivity of Equity**				
			6months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**- 100**	**(66,463)**	**45,546**	**25,309**	**18,023**	**-**	**88,878**
USD	**- 100**	**(3,264)**	**7,451**	**7,442**	**53,491**	**624**	**69,008**
EUR	**- 100**	**13,476**	**-**	**-**	**-**	**-**	**-**
Others	**- 100**	**(1,871)**	**-**	**-**	**-**	**-**	**-**

			2007				SAR '000
Currency	Increase in basis	Sensitivity of Income	Sensitivity of Equity				
			6months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+ 100	85,505	(5,556)	(5,014)	(23,220)	(844)	(34,634)
USD	+ 100	7,915	(8,484)	(7,997)	(68,497)	(1,714)	(86,692)
EUR	+ 100	(13,735)	-	-	-	-	-
Others	+ 100	779	-	-	-	-	-

			2007				SAR, 000
Currency	Decrease in basis	Sensitivity of Income	Sensitivity of Equity				
			6months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	- 100	(85,505)	5,556	5,014	23,220	844	34,634
USD	- 100	(7,915)	8,484	7,997	55,072	1,714	73,267
EUR	- 100	13,735	-	-	-	-	-
Others	- 100	(779)	-	-	-	-	-

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank does not maintain material non trading open currency positions. Foreign currency exposures that arise in the non trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 31(a) reflects the Bank's total exposure to currency risk.

32. Currency risk

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

	2008 SAR'000 Long (short)	2007 SAR'000 Long (short)
US Dollar	**(202,605)**	135,444
Euro	**(1,437)**	6,154
Sterling Pounds	**(1,062)**	(728)
Other	**3,016**	14,751

33. Special commission rate risk

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

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

2008 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total	Effective Commission rate %
Assets							
Cash and balances with SAMA	5,540,769	-	-	-	5,787,484	11,328,253	1.5%
Due from banks and other financial institutions	3,478,098	-	-	-	2,722,368	6,200,466	3.5%
Investments, net	16,067,254	7,955,528	4,071,055	1,415,944	94,565	29,604,346	4.0%
Loans and advances, net	46,823,652	15,319,087	17,793,539	-	300,479	80,236,757	3.9%
Investment in associates	-	-	-	-	148,356	148,356	
Property and equipment, net	-	-	-	-	561,460	561,460	
Other assets	-	-	-	-	3,581,055	3,581,055	
Total assets	71,909,773	23,274,615	21,864,594	1,415,944	13,195,767	131,660,693	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	10,819,778	3,417,793	451,010	-	1,380,911	16,069,492	1.6%
Customer deposits	54,150,393	9,212,967	27,049	-	29,287,128	92,677,537	1.0%
Debt securities in issue	5,656,800	-	-	-	-	5,656,800	4.1%
Borrowings	-	-	-	187,500	-	187,500	5.1%
Other liabilities	-	-	-	-	5,435,533	5,435,533	
Shareholders' equity	-	-	-	-	11,633,831	11,633,831	
Total liabilities and shareholders' equity	70,626,971	12,630,760	478,059	187,500	47,737,403	131,660,693	
On balance sheet gap	1,282,802	10,643,855	21,386,535	1,228,444	(34,541,636)		
Off balance sheet gap	817,433	(606,811)	(45,755)	(164,867)	-		
Total special commission rate sensitivity gap	2,100,235	10,037,044	21,340,780	1,063,577	(34,541,636)		
Cumulative special commission rate sensitivity gap	2,100,235	12,137,279	33,478,059	34,541,636	-		

2007 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total	Effective commission rate %
Assets							
Cash and balances with SAMA	12,574,871	-	-	-	4,068,875	16,643,746	4.0
Due from banks and other financial institutions	952,175	-	-	-	771,401	1,723,576	4.2
Investments,net	6,968,072	1,226,301	4,405,038	1,735,138	524,198	14,858,747	5.3
Loans and advances, net	33,313,799	10,499,052	17,897,900	-	290,107	62,000,858	4.7
Investment in associates	-	-	-	-	110,447	110,447	
Property and equipment, net	-	-	-	-	551,840	551,840	
Other assets	-	-	-	-	2,323,696	2,323,696	
Total assets	53,808,917	11,725,353	22,302,938	1,735,138	8,640,564	98,212,910	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	5,445,683	-	437,628	-	2,161,736	8,045,047	4.2
Customer deposits	29,710,090	8,010,676	3,452,300	-	30,674,786	71,847,852	2.4
Debt securities in issue	4,038,367	-	-	-	-	4,038,367	5.4
Borrowings	-	-	-	187,500	-	187,500	5.1
Other liabilities	-	-	-	-	3,669,211	3,669,211	
Shareholders' equity	-	-	-	-	10,424,933	10,424,933	
Total liabilities and shareholders' equity	39,194,140	8,010,676	3,889,928	187,500	46,930,666	98,212,910	
On balance sheet gap	14,614,777	3,714,677	18,413,010	1,547,638	(38,290,102)		
Off balance sheet gap	111,333	1,356,569	(238,478)	(1,229,424)	-		
Total special commission rate sensitivity gap	14,726,110	5,071,246	18,174,532	318,214	(38,290,102)		
Cumulative special commission rate sensitivity gap	14,726,110	19,797,356	37,971,888	38,290,102	-		

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

34. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities liabilities have been determined on the basis of the remaining period at the consolidated 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. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiary. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

a) Analysis of financial liabilities by remaining contractual maturities :

2008 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities					
Due to banks and other financial institutions	**14,289,803**	**2,018,366**	**-**	**-**	**16,308,169**
Customer deposits	**83,254,162**	**10,039,746**	**159,542**	**4,809**	**93,458,259**
Debt securities in issue	**63,115**	**205,454**	**6,178,587**	**-**	**6,447,156**
Borrowings	**-**	**9,741**	**112,962**	**120,706**	**243,409**
Derivatives :					
- Contractual amounts payable	**4,685,897**	**5,307,824**	**2,648,203**	**-**	**12,641,924**
- Contractual amounts receivable	**(4,632,191)**	**(5,384,701)**	**(3,052,244)**	**(22,587)**	**(13,091,723)**
Total undiscounted financial liabilities	**97,660,786**	**12,196,430**	**6,047,050**	**102,928**	**116,007,194**

2007 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	7,686,727	397,988	-	-	8,084,715
Customer deposits	60,216,455	8,669,621	3,694,086	5,772	72,585,934
Debt securities in issue	53,515	160,545	4,424,310	-	4,638,370
Borrowings	-	9,741	84,546	158,835	253,122
Derivatives :					
- Contractual amounts payable	7,397,902	4,615,101	2,867,620	-	14,880,623
- Contractual amounts receivable	(7,374,240)	(4,642,239)	(3,281,254)	(12,440)	(15,310,173)
Total undiscounted financial liabilities	67,980,359	9,210,757	7,789,308	152,167	85,132,591

b) Maturity analysis of assets and liabilities :

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Bank's contractual undiscounted financial liabilities.

2008 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	6,500,763	-	-	-	4,827,490	11,328,253
Due from banks and other financial institutions	6,200,466	-	-	-	-	6,200,466
Investments,net	8,581,264	8,344,573	11,101,659	1,391,463	185,387	29,604,346
Loans and advances, net	37,245,324	15,829,110	19,253,135	7,909,188	-	80,236,757
Investment in associates	-	-	-	-	148,356	148,356
Property and equipment, net	-	-	-	-	561,460	561,460
Other assets	-	-	-	-	3,581,055	3,581,055
Total assets	58,527,817	24,173,683	30,354,794	9,300,651	9,303,748	131,660,693
Liabilities and shareholders' equity						
Due to banks and other financial institutions	13,888,189	1,917,793	263,510	-	-	16,069,492
Customer deposits	82,620,884	9,578,703	473,140	4,810	-	92,677,537
Debt securities in issue	-	-	5,656,800	-	-	5,656,800
Borrowings	-	-	-	187,500	-	187,500
Other liabilities	-	-	-	-	5,435,533	5,435,533
Shareholders' equity	-	-	-	-	11,633,831	11,633,831
Total liabilities and shareholders' equity	96,509,073	11,496,496	6,393,450	192,310	17,069,364	131,660,693

2007 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	13,322,481	-	-	-	3,321,265	16,643,746
Due from banks and other financial institutions	1,723,576	-	-	-	-	1,723,576
Investments,net	559,943	1,352,761	9,403,722	3,298,888	243,433	14,858,747
Loans and advances, net	29,647,545	10,952,936	13,211,157	8,189,220	-	62,000,858
Investment in associates	-	-	-	-	110,447	110,447
Property and equipment, net	-	-	-	-	551,840	551,840
Other assets	-	-	-	-	2,323,696	2,323,696
Total assets	45,253,545	12,305,697	22,614,879	11,488,108	6,550,681	98,212,910
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,660,247	384,800	-	-	-	8,045,047
Customer deposits	59,973,183	8,335,257	3,533,628	5,784	-	71,847,852
Debt securities in issue	-	-	2,248,399	1,789,968	-	4,038,367
Borrowings	-	-	-	187,500	-	187,500
Other liabilities	-	-	-	-	3,669,211	3,669,211
Shareholders' equity	-	-	-	-	10,424,933	10,424,933
Total liabilities and shareholders' equity	67,633,430	8,720,057	5,782,027	1,983,252	14,094,144	98,212,910

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies is given in note 19(d) of the consolidated financial statements.

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 the carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost, held-to-maturity investments, loans and advances and customer deposits, are not significantly different from the carrying values included in the financial statements.

The estimated fair values of held-to-maturity investments and other investments held at amortised cost 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 practicable to determine the fair value of loans and advances and customer deposits with sufficient reliability.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is SAR 95.7 million (2007: SAR 39.4 million).

36. Related party transactions

Managerial and specialised expertise is provided under a technical services agreement with the parent company of one of the shareholders, HSBC Holdings BV. This agreement was renewed on 30 September 2007 for a period of five years.

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

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

	2008 SAR'000	2007 SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**4,323,321**	744,086
Investments	**835,220**	733,238
Derivatives (at fair value)	**(408,151)**	313,133
Due to banks and other financial institutions	**8,135,827**	3,792,098
Other liabilities	**4,619**	20,659
Commitments and contingencies	**997,114**	846,789

Above investments include investment in associates, amounting to SAR 148.3 million (2007: SAR 110.4 million).

Directors, audit committee, other major shareholders and their affiliates:

Loans and advances	**2,168,348**	2,356,137
Customers' deposits	**4,000,924**	3,714,385
Derivatives (at fair value)	**12,137**	4,990
Commitments and contingencies	**242,057**	213,524

Bank's mutual funds:

Loans and advances	**1,002**	43,494
Customers' deposits	**384,839**	607,314

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

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

	2008 SAR'000	2007 SAR'000
Special commission income	**34,449**	68,170
Special commission expense	**(295,379)**	(425,923)
Fees from banking services	**102,491**	11,575
Profit share arrangement relating to investment banking activities	**(18,643)**	(17,886)
Share in earnings of associates	**108,321**	57,947
Directors' remuneration	**2,828**	2,829

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

	2008 SAR'000	2007 SAR'000
Short-term employee benefits (Salaries and allowances)	**35,401**	35,935
Employment termination benefits (End of service indemnity and social security)	**1,029**	5,130

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2008. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

37. Capital adequacy

The Bank's objectives when managing capital, are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires to hold the minimum level of the regulatory capital of and maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

	2008 SAR'000
Credit Risk RWA	**94,224,500**
Operational Risk RWA	**8,564,371**
Market Risk RWA	**509,500**
Total Pillar -I RWA	**103,298,371**
Pillar 2 RWA	**1,000,000**
Total RWA	**104,298,371**
Tier I Capital	**8,645,646**
Tier II Capital	**3,072,693**
Total I & II Capital	**11,718,339**
Capital Adequacy Ratio %	
Tier I ratio	**8.29 %**
Tier I + Tier II ratio	**11.24%**

38. Basel II Pillar 3 Disclosures

Under Basel II pillar 3, quantitative and qualitative disclosures of Bank's exposures, risk weighted assets and capital are required, and these disclosures will be made available on Bank's website www.sabb.com and the annual report, respectively as required by the Saudi Arabian Monetary Agency.

39. Prospective changes in accounting standards

The Bank has chosen not to early adopt IFRS 8, Operating segments which has been published and is mandatory for compliance for the Bank's accounting year beginning 1 January 2009.

40. Comparative figures

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

41. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 27 Muharram 1430H (Corresponding 24 January 2009).