



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



HRH Prince Nayef Bin
Abdulaziz Al-Saud
Second Deputy Premier



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




HRH Prince Sultan Bin
Abdulaziz Al-Saud
Crown Prince
First Deputy Premier



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The Year at a Glance

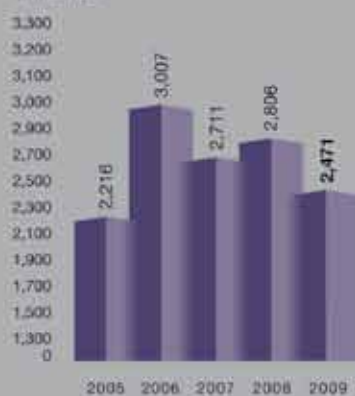
Performance in year 2009

Net Income	SAR 2,471	million
Total Assets	SAR 120,572	million
Customers' Deposits	SAR 91,237	million
Loans and Advances, net	SAR 78,315	million
Total Equity	SAR 15,752	million



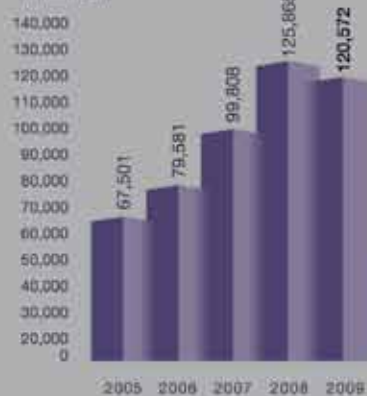
Net Income

(in million SAR)



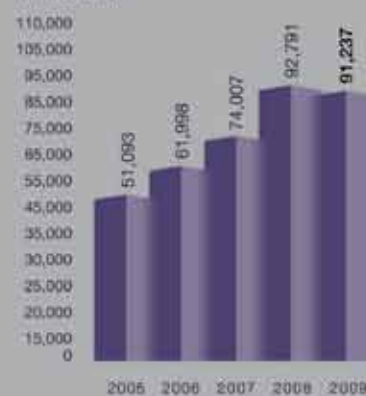
Total Assets

(in million SAR)



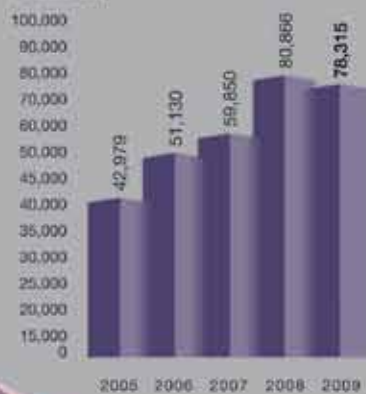
Customers' Deposits

(in million SAR)



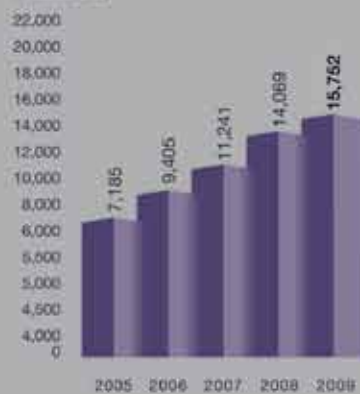
Loan & Advances, net

(in million SAR)



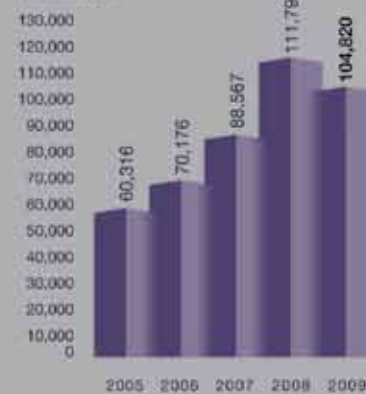
Total Equity

(in million SAR)



Total Liabilities

(in million SAR)





Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the annual report of Banque Saudi Fransi for the financial year ended December 31, 2009.

Notwithstanding the crisis sustained by the global financial system, the results of Banque Saudi Fransi (BSF) confirmed its capability to create substantial revenues. Despite a low interest rate environment, a slower demand for loans and a further decline in the equity brokerage business BSF could show a high level of resilience to the difficult market conditions by posting a net income of 2,471 million Saudi Riyals, marking a limited decrease of 11.9 % compared to 2008 while enhancing its risk profile, credit-worthiness and its Capital base.

Indeed, the key achievement of the Board of Directors, working in close conjunction with the Management of Banque Saudi Fransi was to strengthen the Bank's financial position and at the same time deliver a financial performance which creates value to its loyal shareholders. The Increase of Capital achieved in April 2009 by capitalizing a great part of the 2008 results was aimed at enabling the Bank to continue performing in its areas of expertise. The sound provisioning level where our coverage ratio improved from 111% to 127% was a sound move in order to reinforce the Bank's credit-worthiness and strong credit rating.

At the same time, Banque Saudi Fransi has been able to maintain a high level of efficiency where our cost to income ratio was close to the levels of the previous years and the return on Equity stands at a healthy 17% level, still demonstrating how the shareholders' interest is taken care of by the Board. Looking forward, we are tackling 2010 with a positive attitude. We remain confident in the Saudi economy and the way the Government is keeping the environment more conducive to generate growth through business opportunities.

God willing, we expect positive return from the sound government budget and the rise in the infrastructure projects planned for implementation soon.

In conclusion, I am pleased to extend my sincere thanks and gratitude to the Custodian of the Two Holy Mosques and his Crown Prince and Second Deputy Premier and his rightfully guided Government for their constant support to the banking sector. Thanks are also extended to the Ministry of Finance, Saudi Arabian Monetary Agency, Capital Markets Authority and the Ministry of Commerce and Industry for their support of our initiatives to raise the level of banking services to become easily available to all citizens.

I also extend my thanks to the esteemed customers of BSF for their nurtured confidence which continues to be the subject of our respect and appreciation. We also extend our appreciation to our colleagues who participated with us in these achievements, including members of the Board of Directors, Executive Committee, Audit Committee, administrative technical staff and all BSF employees for their dedication and devotion to achieve these results for the Bank.

I ask God to help us in all our endeavors.



Ibrahim Al-Touq
Chairman



Managing Director's Statement

Banque Saudi Fransi presents another year of solid results at 2,471 Million SAR. Indeed, the performance of the Bank must be analyzed in the light of a general slowdown of the Saudi economy, lower demand for loans, interest rates never seen at such a low level, concerns about credit risks and very low turnover on the Saudi stock market. In this context, BSF has been able to limit the decrease of its net income by 11.9% compared to 2008 thanks to its business model which creates recurring revenue and value for its shareholders.

Albeit the dramatic fall in the interest rate curve compared to 2008, our Net Special Commission increased by 8.1% due to a proactive management of our Loan and Advances portfolio and a stringent funding policy that helped to decrease our cost of funding by 58%. With regards to Fee and Banking commission income, the revenue shows a slight progression of 0.7%. However, stripped from the brokerage impact, the recurring revenue derived from banking services shows a 12.3% increase compared to 2008 due to our strong penetration rate in the project finance sector and our robust trade finance business.

Our major lines of businesses have demonstrated a strong resilience to the market conditions in as much as they have generated total operating income in progression. It is noteworthy that our Corporate Banking activity where Banque Saudi Fransi maintains a high level of expertise and competence increased its operating income by 23.6% (before provisions) while Retail Banking and Wealth Management increased their income by 1.6% although suffering from the extremely low level of interest rate remunerating their deposit collection where non commission bearing deposits have increased by 18.50%.

Although the 2009 net result is lower than 2008, BSF has been able to preserve its operating efficiency by mastering its cost base with a healthy cost to income ratio at a level of 26.9%. On the risk side, Banque Saudi Fransi's cautious risk approach proved to be right. In an environment where the financial sector is concerned by mounting credit risks, our Non Performing Loan to performing loan ratio evolved from 0.94% to 1.27% only. At the end of 2009, Banque Saudi Fransi has also improved its coverage ratio (Provision to Non Performing Loans) from 111% to 127% which also assisted in enhancing its credit worthiness and maintaining its good credit ratings.

Our Capital Base has also improved, with Capital Ratio evolving from 11.5% to 13.7% and is conducive to support the expected development of our businesses. I trust we can tackle the challenges for 2010 onwards with trust and confidence. Given the various situations we had to meet in 2009, I want to extend my gratitude to the Chairman of the Board, all Board Members, Executive Committee and Audit Committee Members for their understanding and their continuous support. I also wish to thank Saudi Arabian Monetary Agency and the Capital Market Authority for their help and fruitful ongoing guidance and assistance. Again, as for the last 32 years of existence of Banque Saudi Fransi, I reiterate my grateful thanks to our clients for their confidence and trust into the Bank and to our loyal shareholders for their long standing commitment.

Last, I also want to express my appreciation to all BSF Staff for their dedication and their deep involvement in enabling the bank to meet all these challenges.

Jean Marion

Managing Director





Board of Directors

Sitting from right: [Abdulaziz Al-Rashid](#), [Ibrahim Al-Touq](#) Chairman, [Jean-Frederic de Leusse](#), [Ibrahim M. Al-Issa](#)
 Standing from right: [Abdul-Rahman A. Jawa](#), [Abdulaziz Al-Habdan](#), [Alain Massiera](#), [Mosa Omran Al-Omran](#), [Jean Marion](#),
[Dr. Khaled Mutabagani](#)
 Not in the picture: [Nizar Al-Qannas](#) Secretary General

Management Team

Head Office

[Jean Marion](#)
 Managing Director

[Abdul-Rahman A. Jawa](#)
 Deputy Managing Director

[Philippe Touchard](#)
 Chief Financial Officer

[Youssef Laban](#)
 Chief Operating Officer

[Mohamad Abdulhadi](#)
 Head of Corporate Banking

[Naim Al Hussaini](#)
 Head of Retail Banking

[Jean-Michel Castelnau](#)
 Chief Risk Officer

[Walid Fatani](#)
 Head of Treasury

[Omar Jazzar](#)
 Head of Wealth Management

[Abdul-Rahman Mutabagani](#)
 Commercial Banking Manager

[Ahmad Al Kassim](#)
 Information Technology Manager

[Saadoun Al Saadoun](#)
 Corporate Operations Manager

[Abdul Qadeer Mirza](#)
 Accounting & Financial
 Control Manager

[Amr Al Taher](#)
 Corporate Human Resources
 Manager

[François Delagrangé](#)
 Chief Internal Auditor

[Abdulaziz Omar Osman](#)
 Chief Compliance Officer

[Khalil Al Nami](#)
 Services Management Manager

[Dr. John Sfakianakis](#)
 Chief Economist

Regional Management

[Mazen Tamimi](#)
 Western

[Osama Bakhit](#)
 Central

[Abdulaziz Al Molhem](#)
 Eastern

Specialized Subsidiaries and Joint-Venture Companies

Fransi Tadawul
[Patrick J. Duchesnes](#)

Caam Saudi Fransi
[Richard Lepere](#)

Sofinco Saudi Fransi
[Riyadh Al Sharikh](#)

Allianz Saudi Fransi
[Antoine Issa](#)

Calyon Saudi Fransi
[Firas Chakra](#)

Financial Management

For the 12 months ended 31 December 2009, Banque Saudi Fransi's net income established at SAR 2,470.6 million, compared to SAR 2,805.6 million for the 12 months ended 31 December 2008. The net income for the year decreased by 11.9% compared to 2008 due to the very low interest rate environment, lower demand for assets and very slow brokerage activity in the Market.

Although the Bank's net income decreased compared to the year ended 31 December 2008, it is noteworthy that the total operating income decreased only by 2.2%.

Operating Expenses increased by 5.67% helping the Bank to maintain a strong efficiency ratio at 26.96%.

In a challenging economic environment, Banque Saudi Fransi could maintain a healthy financial position as demonstrated by the key financial ratios table below:

Ratio	31-Dec-09 %	31-Dec-08 %
Provisions to Total Non Performing Loans	126.6	110.99
Non Performing Loans to Total Loans	1.27	0.93
Loans to Deposit Ratio	81.42	82.75
Tier 1 Capital Adequacy	13.13	10.97
Total Capital Adequacy	13.72	11.55
Net Interest Margin	2.71	2.74
Cost to Income Ratio	26.96	25.66
Return on Average Equity	16.67	22.22

In order to strengthen the Bank's financial position and credit-worthiness, Banque Saudi Fransi increased its levels of provisions (specific and collective impairments) during the 12 months ended 31 December 2009 which contributed to improving its coverage ratio.

Whilst demonstrating a prudent approach to risk, this has contributed to the decrease in net income for the 12 months ended 31 December 2009.

Total assets decreased by SAR 5,292.3 million (4.20%) from SAR 125,865 million as at 31 December 2008 to SAR 120,572 million as at 31 December 2009. This was mainly due to a significant decrease in the investment portfolio



(SAR 10,228.7 million) due to maturing securities and a small reduction in total net loans and advances (SAR 2,551.2 million). By contrast, cash and balances with SAMA increased by SAR 6,858.1 million during the same period.

This explains the reduction in the Interest Revenue created during 2009 compared to 2008.

However, in a context on low interest rate environment, the Bank was able to manage its cost of funding in such a way that it decreased by 58% compared to 2008. Therefore, BSF was able to generate net interest income showing an 8.1% growth over the year 2008.

On the liabilities side, total customers' deposits decreased by 1.67% to SAR 91,237 million as at 31 December 2009. Differing trends are apparent when broken down by type of customer deposit:

- Interest bearing deposits decreased by 10.7% during the year 2009
- Non interest bearing deposits increased during the year 2009 (18.50%) as a result of concentrated marketing efforts by the Bank's retail banking business through its expanded network of branches.

Liquidity Position

In the 12 months ended 31 December 2009, Banque Saudi Fransi reinforced its liquidity position and stock of liquid assets with short term placements at the Saudi Arabian Monetary Agency which increased by SAR 6,412.9 million (from SAR 1,272.9 million as at 31 December 2008 to SAR 7,685.8 million as at 31 December 2009). Short term deposits with banks increased by SAR 3,407.2 million (from SAR 3,337.5 million as at 31 December 2008 to SAR 6,744.7 million as at 31 December 2009).

With a Loan to Deposit ratio which stayed below 85% throughout the year, the Bank has maintained a fairly liquid profile and never experienced any liquidity issue during and after the worldwide liquidity crisis.

Risk Profile

During 2009, the economic environment was subject to mounting Credit Risks. For Banque Saudi Fransi, it translated into non performing loans increasing by SAR 244.3 million from SAR 763.8 million as at 31 December 2008 to 1,008.1 million as at 31 December 2009.

In the same period, the Bank made an additional net provision for credit risks of SAR 428.5 million. It also raised the level of specific risk coverage and increased the total provisions to Non Performing Loans (NPL) ratio from 111% as at 31 December 2008 to 126.6% as at 31 December 2009.

Equity

In April 2009, the General Assembly of the Shareholders approved a decision by the Board of Directors to pay the 2008 dividend in shares and cash. This resulted in an increase of the paid-up Capital from SAR 5,625 million to SAR 7,232 million. The share dividend ratio was 2 new shares for each 7 existing shares.

Total equity increased from SAR 14.07 billion as at 31 December 2008 to SAR 15.75 billion as at 31 December 2009 (11.96%).

The net dividend for 2009, of SAR 1 per share (SAR 990 million in total or 40% pay out ratio) represents an increase of 29% compared to 2008.

Capital Adequacy:

The combined effect of the decrease in investments, reduction in the loan book and increase in the paid-up Capital of the Banque Saudi Fransi have resulted in an improvement of the Bank's capital ratios.

At the end of 2009, the solvency ratio established at 13.13% (tier 1 Capital), coming from 10.97% at the end of 2008. The total Capital Ratio was 13.73% at the end of 2009 compared with 11.55% at the end of 2008.

Ratings

With its risk profile and steps undertaken in order to reinforce its financial position, Banque Saudi Fransi has been able to maintain strong ratings from the three major rating agencies. As shown in the following table, BSF continues to qualify for "Investment Grade".

	Long Term Deposit	Issuer Outlook	Long Term Local Currency Issuer	Short Term Issuer	Short Term Local Currency Issuer		Date
Standard & Poor's	A	Stable	A	A-1	A-1		30-Sep-09

	Long Term Deposit	Deposit Outlook	Financial Strength	Short Term Issuer			Date
Moody's	Aa3	Stable	C+	P-1			15-Feb-10

	Long Term Issuer	Issuer Outlook	Long Term Issuer Default (IDR)	Short Term Issuer	Bank Individual Support	Bank Support	Date
Standard & Poor's	A	Stable	A	F1	B/C	1	08-Mar-10

It is noteworthy that Moody's upgraded Banque Saudi Fransi on the 15th of February 2010. The foreign currency deposit ratings of Banque Saudi Fransi moved to Aa3 from A1 (positive).

Accounting & Financial Control

In order to maintain the comparability, consistency and transparency of published information, key changes were made in the international financial reporting framework during 2009. BSF took the lead and tracked all discussions and decisions of International Accounting Standards Board (IASB).

Also, under the sponsorship of the Central Bank (SAMA), our AFCD took the lead of all Saudi Banks and devoted a lot of coordinated efforts in order to implement unified format for financial statements presentation and disclosures.

Besides this, the division had undertaken in-house development of accounting schemes and was successful not only in developing but implementing the same for the bank. Also, accounting schemes and policies of Joint Ventures were ensured to be consistent with those of the bank to facilitate consolidation of financial results. Through continuous supervision by AFCD and integration within the BSF financial group, all its subsidiaries and associates are smoothly working as independent entities.

Furthermore, to improve the efficiency, certain processes were automated during the year and blueprints of future strategies/plans are being drafted in order to equip the division with a solid platform for pursuance of its strategic goals.

The relationships/liaisons with Saudi Arabian Monetary Agency (SAMA), Department of Zakat and Income Tax (DZIT), External auditors and Zakat/Income Tax consultants; were maintained with high professional standards and integrity.

Board of Directors' Report

The Board of Directors is pleased to present its report for the Financial Year 2009

Banque Saudi Fransi, a Saudi Joint Stock Company, was established in accordance with the Royal Decree No. m/ 32 dated 17 Jumada II 1397 (4 June 1977), following the transfer to it of operations that were carried out by Banque Indochine et de Suez in Saudi Arabia.

Banque Saudi Fransi officially commenced its operations on 1 Muharram 1397 (11 Dec 1977) under CR No. 1010073368 issued on 4 Safar 1410 (5 Sept 1989). Banque Saudi Fransi has a branch network of 77 branches (75 in 2008). The Bank's employees number 2460 (2345 in 2008) at the rate of Saudization of 80%.

The objectives of Banque Saudi Fransi include the offer of banking products and services in addition to the offer of Islamic products approved by an independent legal panel. The Bank's address is Ma'ather St., P.O.Box 56006 Riyadh 11554, KSA.

According to the decision of the Saudi Capital Market Authority, BSF established several companies to undertake brokerage, asset management, and financial advisory activities. The companies that were established: Fransi Tadawul (BSF owns 99%), CAAM Saudi Fransi (BSF owns 60%), and Calyon Saudi Fransi (BSF owns 45%). All were established and existed in Saudi Arabia. BSF also owns 27% of Banque Bemo Saudi Fransi, a joint stock company established in Syria, 10% of Banque Bemo Lebanon, 50% of Insaudi Insurance (Established in the Kingdom of Bahrain). BSF also owns 32.5% of Allianz Saudi Fransi, a Saudi Joint Stock Company established in Saudi Arabia.

For additional activities, Sofinco Saudi Fransi (BSF owns 50% of the capital) and Al-Amthal Company (BSF owns 20% of the capital) were established to operate in leasing activities in addition to Sakan Real Estate and The Saudi Company for Selling Insurance Products.

The affiliates began their activities in 2008 and effective 1.1.2008 BSF began consolidating their balance sheets.

BSF net profit reached SAR 2,471 Million for 12 months 2009 (compared to SAR 2,806 Million in 2008) with the decrease of 11.9%.

The Total Operating Income amounted to SAR 4,295 Million in 2009 (SAR 4,392 Million in 2008, lower by 2.2%). Net Operating Expenses increased from SAR 1,600 Million in 2008 to SAR 1,800 Million in 2009 with the increase of 12.5% due to extra provisioning to accommodate for the expansion in credit facilities and encounter any drop in investments locally or internationally. The increase is also due to the expansion in the quantitative and qualitative development of human resources as well as the expansion in the network (branches, ATM's, self service centers) and the respective rentals.

Loans portfolio decreased from SAR 80.9 Billion in 2008 to SAR 78.3 Billion in 2009 (a decrease of 3.21%). Customers' deposits decreased from SAR 92.8 Billion in 2008 to SAR 91.2 Billion in 2009 (-1.7%). Total Assets decreased from SAR 125.9 Billion in 2008 to SAR 120.6 Billion in 2009 (-4.2%). Profits per share amounted to SAR 3.42 in 2009 compared to SAR 3.88 in 2008.

Following the Bank's capital increase in 6 / 4 / 2009, the total number of shares increased from 562,500,000 Million to 723,214,300 Million.

The following table represents the balance sheet and statement of income details for the past 5 years

SAR' 000	2009	2008	2007	2006	2005
Total assets	120,572,438	125,864,761	99,808,110	79,581,010	67,501,380
Investments, net	17,481,226	27,710,023	22,376,149	16,012,954	18,127,849
Loans and advances, net	78,315,196	80,866,457	59,849,952	51,130,195	42,978,702
Total liabilities	104,820,658	111,795,625	88,567,475	70,176,229	60,316,480
Customer deposits	91,237,118	92,791,281	74,007,251	61,998,107	51,093,385
Total equity	15,751,780	14,069,136	11,240,635	9,404,781	7,184,900
Total operating income	4,294,907	4,391,641	3,694,465	3,938,832	3,093,630
Total operating expenses	1,799,663	1,600,148	990,046	931,884	878,029
Net income	2,470,615	2,805,659	2,711,110	3,006,948	2,215,601
Net special commission income	3,050,289	2,820,590	2,289,398	2,016,867	1,705,768
Fees from banking services	840,254	834,480	897,234	1,571,961	1,110,375
Provision for possible loan losses	574,621	94,265	42,011	90,484	134,858
Salaries and employees related expenses	642,589	642,223	543,322	462,924	394,900
Number of employees	2,460	2,345	2,226	1,998	1,733

Board of Director's Report (continued)

Bank's Major Business Lines

The business lines are the main sector according to which BSF reports its results. It is a group of assets and operations that offer services and products that are subject to risk. Its profits and losses are different from other business lines.

Transactions between various sectors are governed by normal commercial practices. Funds are normally re-allocated within the sectors and accordingly the fund costs are re-allocated. Special commission is charged to these funds according to interbank rates.

Transactions between business segments are reported according to the Bank's internal transfer pricing policy.

The Bank is organized in the following main business lines:

Corporate Banking

Incorporates corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Commercial Banking

Commercial banking deals with medium and large size sole proprietorships and its activities include the offer of credit facilities, deposits and other banking services. Due to the fact that this department has been recently created, it will be commented on in next year's board of directors report.

Treasury Banking

Incorporates treasury services, trading activities, money market, Bank's funding operations and proprietary investment portfolio.

Retail Banking

Incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, and certain forex products.

Investment Banking and Brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, and international and local shares brokerage services and insurance.

The details of the Bank's total assets and liabilities as at December 31, 2009 and 2008, its total operating income and expenses, and its net income for the years then ended by business segments are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury banking	Investment banking and brokerage	Total
2009					
Total assets	12,671,981	70,282,007	37,604,573	13,877	120,572,438
Investment in associates	-	-	144,344	-	144,344
Total liabilities	39,670,064	52,279,482	12,851,008	20,104	104,820,658
Total operating income	1,306,621	1,980,768	832,076	175,442	4,294,907
Share in (losses) of associates, net	-	-	(27,439)	-	(27,439)
Total operating expenses	833,858	685,136	183,606	97,063	1,799,663
Net income for the year	472,763	1,295,632	621,031	78,379	2,467,805
Non controlling interest loss	-	-	-	2,810	2,810
Results:					
Net special commission income	1,098,878	1,505,590	445,821	-	3,050,289
Fee and commission income, net	185,162	469,684	9,966	175,442	840,254
Exchange income, net	13,188	2,386	170,521	-	186,095
Trading income, net	-	-	209,746	-	209,746
Loss on non trading investments, net	-	-	1,894	-	1,894
Impairment charges for credit losses, net	152,196	418,677	3,748	-	574,621
Impairment charge for other financial assets	-	-	67,000	-	67,000
Depreciation and amortization	79,046	22,333	11,653	949	113,981
2008					
Total assets	12,206,981	74,196,505	39,444,141	17,134	125,864,761
Investment in associates	-	-	176,859	-	176,859
Total liabilities	39,709,504	52,165,161	19,895,083	25,877	111,795,625
Total operating income	1,250,015	1,605,147	1,293,889	242,590	4,391,641
Share in earnings of associates, net	-	-	12,443	-	12,443
Total operating expenses	759,496	183,585	553,277	103,790	1,600,148
Net income for the year	490,519	1,421,562	753,055	138,800	2,803,936
Non controlling interest loss	-	-	1,723	-	1,723
Results:					
Net special commission income	1,086,281	1,179,174	555,135	-	2,820,590
Fee and commission income, net	141,367	425,422	25,101	242,590	834,480
Exchange income, net	10,664	482	229,959	-	241,105
Trading income, net	-	-	499,640	-	499,640
Loss on non trading investments, net	-	-	55,687	-	55,687
Impairment charges for credit losses, net	125,028	(34,763)	4,000	-	94,265
Impairment charge for other financial assets	-	-	410,000	-	410,000
Depreciation and amortization	61,753	16,110	9,077	384	87,324

Various business sectors receive support from various other departments. Following is an account of the functions of these sectors and the supporting departments.



Corporate Banking

Corporate Banking Group continued its substantial contribution to the overall profitability of BSF by management of a well diversified portfolio of large and medium sized corporate relationships. After many years of double digit growth in the lending portfolio, for the first time the actual Loan outstanding have gone down, mainly due to reduction in the Kingdom's trading and other economic activities, and our cautious approach to the lending in the current uncertain market condition.

However, in spite of reduction in the loan volume, BSF's Corporate Banking Group managed to earn higher revenue mainly due to increase in loan-spread, Loan Management fees, and higher fees from bonding business.

By adopting a prudent approach and without compromising the credit quality, we are committed to the economic growth of the Kingdom by financing various Industrial and infrastructural projects, as well as supporting large and medium size contractors engaged in various important government and quasi-government projects , which would be instrumental in our growth in coming years.

Corporate Islamic Banking

We maintained our strong position in Shariah compliant banking by providing wide range of financing and Murabaha investment solutions to our corporate customers.

Bank continues to play pivotal role in Shariah compliant structured and project finance transactions, which have been very well received by the market.



Institutional Banking

Due to sharp reduction in international trade, our Letters of Credit business had slowed down during 2009, but we continued to grow our bonding business. With signs of improvement in the international trade, we hope to see growth in the trade finance activities of the bank through wide international network of Credit Agricole Corporate and Investment Bank (ex Calyon) and the large base of correspondent banks.

BSF continued to provide clearing bank service to many Investment / brokerage companies formed under CMA regulations.

Structured Finance

The effect of global downturn did impact business of project and structured finance throughout the region, even though not severe, but it had the effect of slowing down the rate of industrial investment, power and infra-structure projects.

However the focused spending program of Saudi Government primarily in the infra-structure sector, had positive impact with sponsors flocking back to investment opportunities offered by these and related areas.

Given the growth of the Saudi and other GCC economies, infrastructure development and investment across sectors is critical for sustaining economic growth by addressing supply bottlenecks.

Corporate Banking (continued)

The power sector is expected to witness large investments involving significant capacity additions over the next few years primarily driven by increased private sector participation. Even with the rich hydrocarbon resources, interest is being expressed in renewable sources of energy such as wind power and solar power.

The oil and gas sector is also expected to witness significant activity across the entire value chain. Saudi Companies have number of critical and highly visible projects which will source the market for debt in 2010 and beyond for amount which would put them as the largest deals done on limited recourse basis globally.

The key to our structured and project finance proposition is our constant endeavor to add value to projects through financial structuring to ensure bankability. These services are backed by our expertise in power, oil and gas, petrochemical and infra-structure sectors and sound due diligence techniques.

Even with the slowdown of the markets, we had a very successful year with four very large deals closed successfully during the year which were based in the Kingdom and the region. Additionally, the bank has been able to secure new mandates which are under execution, and would translate into revenues and fees for 2010.

We continue to be in sectors where the Kingdom has global competitive advantage and in power & infra-structure projects. These sectors will continue to be relatively insulated from the global downturn and are still economically and financially viable.

The bank was successful in playing a key role in the financing of the Al-Dur IWPP project in Bahrain, which was sponsored by GDF Suez. The bank acted as a Islamic Structuring and Documentation bank for the deal, which is reflective of the strong capabilities that have been acquired and developed for structuring complex project financing transactions in Shariah compliant basis.

The bank also played a key role in the financing of the first IPP of Saudi Electricity Company which was sponsored by ACWA Power International and Korea Electric Power.





Commercial Banking

Earlier this year senior management of the bank decided to spin-off Commercial Banking from Retail Banking to become a stand alone business line. The independent set up was completed in July 2009 and Commercial Banking Division is now standing on its own feet.

The following initiatives and changes to improve efficiency and productivity were taken by the CMBD:

- Completed account allocation & segmentation
- New distribution of portfolio (Accounts) amongst teams
- Industries to concentrate upon clearly communicated to CMBD Regional teams.
- Introduced risk acceptance criteria to the regions
- Formalized job families & job descriptions for all CMBD staff
- Completed competencies based on skills & experience of staff
- Defined new pricing criteria for each segment (i.e. Emerging Corp., Business Banking etc).
- Introduced new MIS reporting for CMBD HO / Regions
- Created new regional operation support units in the three regions
- Created business development unit at head office

Government Institutions Unit

In addition an important step was taken by creating a new governmental relationship management. This head office based business unit is responsible for all government and semi government accounts.

Segmentation

Following the selected segmentation criteria all accounts have been allocated to the following chosen segments and each relationship management team is handling one segment only.

- Emerging Corporates
- Business Banking
- Community Banking
- SME - Small & Medium Enterprises





Treasury

2009 activities and results illustrated the solidity of Group Treasury's strategy and organizational structure as well as the effectiveness of the existing risks management policy and controls.

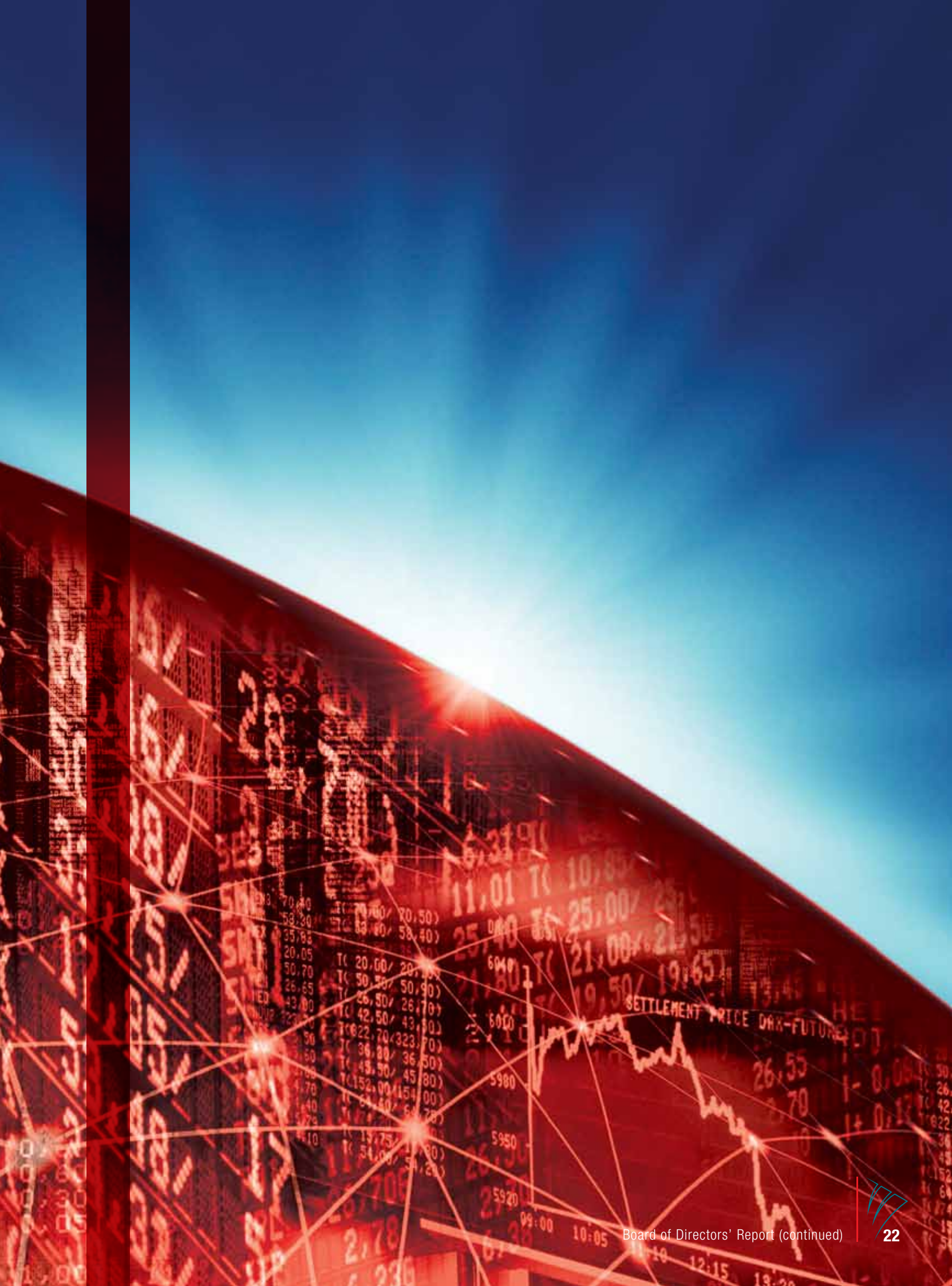
The four pillars of Group Treasury; Funding, Trading, Structuring and Sales equally held their weight in a very challenging period and collectively exceeded the 2009 budget target by 11% and produced the 2nd best record year.

The Funding & Trading Desk managed to anticipate and therefore take advantage of the evolution of the yield curve over the year by deploying the banks liquidity in an efficient manner while maintaining sound credit risk exposures.

The trading desks remained active despite the reduced global markets volatility and helped by good activity in the regional credit and interest rate sphere.

Sales and risk advisory jointly continued to build on stronger synergies with the different business lines which resulted in sustainable momentum throughout a very challenging period.

Working closely together with the project finance team, we have managed to win mandates to hedge interest rate risk of important projects around the kingdom of a very large magnitude.





Retail Banking

Despite concerns over the global economic and financial crisis, Retail Banking continues to deliver and be resilient in meeting the challenges through its five key drivers:

- Turn the business into a sales organization
- Focus on products with highest expected growth
- Increase capacity and industrialize process to cope with anticipated volumes
- Increase distribution footprint to match all key traffic areas
- Drive the business to customer perception and feedback

We sharpened our focus on our principal customers and provided increased value in our products and services line-up in our quest for sustained growth in profitability. Guided by our five strategic drivers, we built our sales channels infrastructure to grow our deposits, expand lending and increase fee-based income, and promote market presence.

Turn the business into a sales organization

We have seen tremendous improvement in sales from inception of “Taking Sales Into Action” (TSA) Program early in the year. The emphasis of TSA was on sales, performance monitoring and enhanced management involvement. Activities were monitored through the Sales Performance Dashboard. Giving credit where credit is due, top Branch Managers and Relationship Officers were recognized for their contributions. Priority Banking segment strengthened its relationship marketing efforts to retain loyal customers and establish new contacts. As a sales support, we also employed the Contact Center and various e-channel platforms to sell asset products. Retail Banking also worked hand in hand with other Business Lines in the development of new key relationships.

Focus on Products with Highest Expected Growth

We are continuously enhancing our products to stay competitive in the marketplace and increase sales to realize our target revenues.



The Personal Loans business continues to be the major driver of consumer loans growth. We launched a roll-over campaign during the year to ensure the stability of our portfolio. In Home Loans, we took a conservative approach to protect our portfolio by instituting stringent controls in the form of higher equities and salary requirements among others while continuing to look at other avenues to drive sales such as company sponsored home employee programs and sales tie-ups with real estate developers and brokers.

Credit cards sales posted double-digit growth accomplished through increasing our penetration of Priority Banking customers, an internal campaign to reward staff for referrals and a direct mail campaign to sell supplementary credit cards to other members of FransiCard holders. We also launched during the year the Balance Transfer Campaign to increase average net receivables. Value added services and enhancements that will be implemented soon are the e-Statement, limit change and multi-currency limit. We sold travel insurance in cooperation with Allianz Saudi Fransi.

We succeeded in expanding current loan portfolio while keeping provisions in check. We took a prudent stance in preserving asset quality supported by fundamentally sound risk management and at the same time pursued aggressive collection efforts. Risk segmentation of the delinquent portfolio, specialized strategy, and collection priorities have contributed to overall stability in delinquency figures.

Increase capacity and industrialize process to cope with anticipated volumes

Successful cut-over to SPAN2 (SPAN2-EMV/Span 2 Acquiring) took place in the middle of the year. BDS as our front-end system is being enhanced to improve the turn-around time for client servicing and to use this tool as a selling platform at the point of contact. The non-financial component is now fully deployed in all Branches covering RBG private individual customers. Asset Sales Acquisition Tool (ASAT) for credit card has also been deployed in CASD and in all Branches. This new tool will result into faster approval on credit card applications and will lead to higher sales in Branches. ASAT for Personal Loans and Home Loans will come next. Integral components of our ATM roadmap are the Incident Management (IM) and Currency Management (CM).

Retail Banking (continued)

The former is now enabled in most of our machines and gives an efficient and accurate problem reporting that minimizes downtime. The latter will optimize amount of cash loaded at replenishment time and also reduce the number of visits to the machines by our ATM replenishment teams resulting in lower costs. MOI payments through our e-channels Fransiplus and Fransiphone are now available to customers. Soon, it will be deployed in our ATMs, CAMs and BDS. FransiFund subscription and standing orders on Fransiplus have been activated as well. The “Select, Pay and Win with Fransi E-Channels” was launched this year to promote the payment of bills via SADAD system through Fransi e-channels.

Increase distribution footprint to match all key areas

One of our key strategic drivers is to increase the distribution footprint and we are addressing this through the expansion of our Branch, ATM, FransiConnection and POS network. The size and reach of the Bank’s branch network now serves as an effective distribution network of its banking services. Anchored on accessibility and convenience, the benefits were very much apparent from the growth in the network’s loan origination and deposit taking activities. SAKAN Sales Centers situated in four Branches are up and running in Central Region and two in Eastern Region. Plans are afoot to have three major Regional SAKAN Centers, which will combine forces with ODST in the sale of asset products.

Currently, we have 77 Branches and 16 Ladies Sections. Two new Branches (Buraidah AlNahda and Hafr AlBaten), both Islamic, were opened this year. We also completed the relocation of Khamis Mushait Branch, Abha Shamsan Branch, Tabuk Branch and Makkah Azizia while AlJouf Branch is under implementation stage. RBG’s Branch network has 10 Islamic Banking Branches.

Our Islamic Branches now bear the new Tawafuq logo enhancing the external appearance and awareness of these Branches in terms of visuals and message reach. 55 new ATMs were activated from beginning of the year thus expanding our total ATM network to 330 in 122 onsite and 208 offsite locations. We also have 82 Cash Acceptance Machines installed in Branches and FransiConnection sites. The ATM replacement project to make our ATMs EMV/SPAN2 compliant has been completed. Under this program, 138 ATMs were replaced. Total POS merchants grew to 4,123 while terminals reached 4,686.

Drive the business to customer perception and feedback

We have made full use of the SMS capabilities to enhance our image towards customers. SMS are now being sent to new customers, credit and debit card transactions, FransiMobile registrations and Bancassurance policy holders. SMS will also be enabled later for collection purposes. Projects to enhance the appearance and build awareness of the Branches in terms of visuals and message reach such as the Branch Fusion and Tawafuq (Islamic) brand design have been completed in most sites. The Contact Center service level has been consistently above industry standards. Meanwhile, the Customer Banking Experience Survey findings are being used as basis for future actions to improve customer satisfaction and sales experience.





Wealth Management

BSF Wealth Management has built a solid head start in a number of important areas. As in 2009 our clients should continue to benefit from adapted and performing solutions provided timely and suitably. With the introduction of a fixed income market in the Kingdom in 2009, and the project to launch Exchange Traded Funds, our clients are seeing increasing tools at their disposal to optimally organize their asset allocation.

Organization of Wealth Management Group

- Improved and adapted Compliance and operations,
- Centralized investment coordinator
- Reinforced support divisions
- Identifying and investing in future talent
- Substantially enhanced MIS tools
- Regular marketing, and, market intelligence meetings with all staff

We maintained the level of total assets under our responsibility. The drastic fall of interest rates negatively affected our total revenues but we continue to identify viable alternative solutions to our clients and with savvy and adapted asset allocation strategies, in their great majority, they harvested returns significantly healthier than short term money market rates.



Risk Management

After several years of dynamic growth, BSF credit portfolio contracted during 2009 in line with the economic slowdown.

Hence, total utilizations reduced from SAR 138.7 billion to SAR127.1 billion (-8.4%). Funded exposure represents 64.8% of total exposure.

Portfolio contraction affected mostly Corporate and Commercial as Consumer Finance continued its growth.

Implication of world crisis and default of large family groups on quality of credit portfolio and provisions

Since end of 2008, priority was to monitor evolution of loan portfolio and identify potential problem situations triggered by the world crisis in order to take as soon as possible all required corrective actions. During the first 5 months, above objective was achieved and cost of credit was maintained at low level.

Defaults of some troubled family groups in June affected negatively the Saudi banking sector. However, for BSF, the number of default situations remained limited and the overall quality of the credit portfolio remained good.

During third quarter full review of BSF large exposures covering SR 126 billion credit limits was performed. The review confirmed the overall quality of BSF large exposures as none of them are subject of major concern.

Gross non performing loans (NPLs) established at SR 1,175 Million end December 2009 compared to SR 878 Million end of December 2008 and NPL ratio increased from 0.63% to 0.92% during the same period (NPLs/total outstanding credit facilities) or from 0.94% to 1.27% (NPLs/total loans ratio).

Decision was taken to set provisions at very conservative level allowing the Bank to increase its covering ratio (coverage of net NPLs by total provisions) from 111% to a healthy 127% in order to start 2010 on a strong basis.



Provisions required by Consumer Finance stabilized during the year as a result of corrective actions initiated to improve credit allocation process and collection efficiency.

Total new credit provisions for the year reached SR 574.6 Million representing a cost of credit of 0.71% which remains rather low in the prevailing market conditions and very healthy compared to the international and local competition.

Risk Management Process Enhancement

In line with BSF broader objectives of improving the risk management process, a new credit risk system has been selected. Implementation of this system has been initiated during 2008 - 2009, should be completed in 2010 and will allow the bank to improve controls, enhance process efficiencies, and aide the longer term goal of adopting the IRB methodology.

Operational risk and permanent control function is now fully in place and the "Internal Control Committee" constituted in early 2008 is promoting an ongoing improvement of the overall control organization.

In the area of credit risk, a contemporary and comprehensive system for the calculation of minimum capital required under Basel II has been selected and successfully implemented.

Basel II

BSF opted for a phased implementation of the Basel II accord. By the end of 2007, BSF complied with SAMA requirements under the standardized approach for credit, market and operational risks.

Information Technology

2009 was the year of consolidation of IT services and the infrastructure. The emphasis was on providing high availability of the systems and services, enhanced disaster recovery capabilities and network communication facilities between different entities of the bank.

“Time-to-Market” was the least in the Sales Acquisition tools projects, which enabled the Retail Division to launch a massive campaign for credit card sales.

BSF received words of appreciation from SAMA for its cooperation and successful integration of SADAD system with the bank’s delivery channels. The latest feature of payment of bills relating to Ministry of Interior has also been integrated with the main delivery channels like FransiPlus, FransiPhone, ATMs and Branch Delivery systems.

First part of the Branch Delivery channels re-engineering project was completed in November by deploying the new system in all the branches.

New system to ensure that the Card customers get their claims settled faster was also implemented. To avoid misuse of cards, SMS messages have been enabled for withdrawals or purchases made using the debit or credit cards.

Daily settlement process for recovering dues from the delinquent customers has been introduced that would help the bank to recover outstanding dues faster. FransiPlus and FransiMobile were enriched with more user friendly features like cards activation, IPO, Mutual funds subscription etc., that made the banking experience of the customers more enjoyable.



Also a new portal for Corporate customers has been undertaken. Business-to-Business processing improvements were done for ARAMCO and other corporate clients to process their straight through transactions faster. The implementation of the integrated payments systems have started with the deployment of Incoming Swift Payment Automation.

The phase 1 of the Treasury system project was also implemented covering the Forex Interbank, Inter Profit Center and Customer Money Market.

A new Credit Risk Management system is being created that would address the total needs of the Risk Management Division. The new system will displace the module in the core banking system in the mainframe also. Number of automation projects that has integrated workflow and in-built document archival systems have been implemented for the Corporate Operations Division, Corporate Human Resources Division and Retail Banking Division.

During the year, we introduced a proactive monitoring system for the critical IT services and this has helped to reduce the incidents and ensured better availability of the services to the customers.

Technology adoption is the strong point of ITD, especially in the telecommunications area. We have migrated all BSF main links including branches, Regional offices to the latest MPLS (Multi Protocol Label Switching) technology from the old Frame-relay with higher bandwidth and speed and we are in the process of migrating the ATMs to the Wi-Max network wherever it is available, to take advantage of the low cost, reliability, and high availability.

All branches are now provided with dual lines to ensure continuous availability of services. We are currently equipping our data rooms in all branches with fiber optic stations in preparation for fiber connectivity with telecom providers.

Corporate Operations

Business Support

A well-established understanding of business values and clients demand is guiding all COD teams towards service excellence.

On corporate cash management products, new products have been launched this year, like the e-Payroll and SWIFT MA-CUG. In addition, new services and modules were introduced under FransiCorp, like the GOSI payments, bill payments, the bulk engine, and the credit cards module.

Dividend payments processes were streamlined, in order to position BSF as a dividend payment service provider.

The Bank has been repositioned to be a SAR clearing bank for international banks. In Brokerage Operations, a survey has been conducted for brokerage companies on the operations and support they are getting. It confirmed their satisfaction on the level of service and proved their partnership with BSF.

Automation

The objective of several initiatives of COD have always been automation as a driver for providing efficient services of high quality.

One significant achievement was the implementation of Phase one of Treasury Back Office Automation covering all foreign exchange, and money market interbank loans and deposits.

The other major project delivered was the deployment of two important building blocks, servicing incoming payments, as part of the Integrated Payment Platform project.



Business Process Enhancement

Key business processes have been improved in Trade Finance, a number of significant enhancements on BankTrade system were made to streamline the daily processing. Its reporting capabilities have been extended and made available online for better monitoring of operations Kingdom-wide. Furthermore, new client communication means were introduced, like the e-Statement and the automated advises through email and fax.

Furthermore, Treasury Back Office has implemented SWIFTNet Accord, the auto matching and reconciliation tool, for effective control on counter-parties confirmations.

Settlements and confirmations generation for Islamic treasury products have been automated. Another addition to automation is the introduction of a new application to manage and archive the bank customer files (legal files) under the enterprise documents management and archiving system.

Compliance and Risk Control

Corporate Operations Division has adhered to Basel II risk assessment requirements. Two major regulatory projects have been accomplished, i.e. SAMA IBAN and SWIFT 2009 updates. Moreover, our Business Continuity Center has been implemented and tested.

Cost Management

SARIE charges have been reduced by 20% through the utilization of bulking techniques. Furthermore, unclaimed cheques with international clearing banks have been collected for a significant amount. At the same time, no significant operational losses have been incurred during the year.

Services Management

Services Management Division (SMD) is responsible for the development and the deployment of the Bank's infrastructure.

In 2009, the following projects were successfully completed:

ATM Replacement Project	99	ATMs replaced
New ATMs Project	45	ATMs installed
Fransi Connection (fully automated Branches)	4	completed
New Branches	2	completed with 6 on-going
Branch Relocation	3	completed
Modification Renovation	20	completed
Sakan Project in Central Region	4	completed
Cash Center in Central Region	1	completed

Other major achievements included:

- Completed and installed ATM Security Systems for 212 sites.
- Disaster Recovery Center for our Group Treasury was deployed and tested.
- Head Office power supply was enhanced in order to ensure full continuity of operations.
- Created of (BRC) Business Recovery Center at Nassim Branch.
- Established new cash branch at Olaya Building, in Riyadh (Central Region).





Corporate Human Resources

HR organization model, aims at enhancing employee services and sharpening strategic focus, at compliance, corporate communications areas and will soon be at retail banking. Implementation includes a call center system using existing BSF technology.

In 2009 we deployed the new job management system along the HAY methodology BSF adopted in 2008. HR Automation and Self-Service is continuously being enhanced to eliminate face-to-face manual tasks.

Welcome Kit through www.fransiemployeeorientation.com aimed at creating excellent first impression and to retain new employees, went live in 2009 after the 2008 beta release. It saves man-hours – with it new employees come with knowledge that formal briefings used to give.

Employment and Mobility

Internal Job Posting within BSF Financial Group of Companies is now fully implemented. Through FransiCareers, existing employees can apply for BSF job vacancies.

HR Synergy within BSF group – study by a task force headed by CHR, resulted in FransiTadawul HR operating semi-independently using BSF's technology. CSFL HR and CaamSF HR spin-off are almost completed.



Training and Development

Talent Management System, aimed at assisting both employees and BSF grow and prosper through a robust system that will ensure the availability of the right talents at the right time, kicked-off June 2009.

Training Needs Analysis (TNA), from pilot run at CHR, is now being rolled-out bank-wide. TNA enables analysis of training needs of identified employees, estimate cost of developing them, and prioritize training.

Employee Savings Plan and Staff Social Activities

Employee Savings Plan (ESP) systems and procedures were streamlined for more effective and efficient delivery, this resulted in: development and publication of Savings Plan Manual; Better synergy between CHR, Financial Accounting, Allianz Saudi Fransi and CaamSF.

Staff Social Activities continues to promote employees' physical and social well-beings. Central Region Basketball Tournament, All Regions Ladies Annual Parties, RCA Cricket Tournament participation, ER All Staff Annual Party took place. Western Region Ladies and Gents Club facilities were renewed.

Compliance

Financial services is one of the most closely regulated industries, and the management of a financial services business such as ours is expected to meet high standards in all business dealings and transactions.

In BSF, whilst the primary responsibility for complying with the regulatory requirements lie with all the members of staff conducting particular transactions or activities to which regulation applies, the Board of Directors ("Board") have the ultimate accountability for compliance.

The Board and Managing Director/Deputy Managing Director have delegated authority to Chief Compliance Officer and have placed the compliance function under his leadership.

BSF remains committed to fully comply with both the letter and spirit of the applicable regulations and to always act with due skill, care and diligence.

Our Code of Conduct, for employees and directors, helps set the tone for a culture of integrity within our organization. The Code stipulates that concern for what is right, including compliance with the law, should be the first consideration in all business decisions and actions.

All the business groups of BSF manage day-to-day regulatory risk primarily by implementing appropriate policies, procedures and controls.



The Compliance Division assists all BSF business groups by:

- Communicating and advising on regulatory requirements and emerging compliance risks to each area as required.
- Independently monitoring and testing for adherence to certain regulatory requirements, as well as the effectiveness of associated key controls designed to reduce the regulatory risk.
- Monitoring transaction for activities relating to money laundering and terrorist financing and taking appropriate preventive measures to protect BSF.
- Investigating fraud related incidents and guiding the Business Lines and Support Divisions in further strengthening their controls.
- Handling customers' complaints in a professional and efficient manner and ensuring that their issues are addressed.
- Tracking, escalating and reporting significant issues and findings to the Senior Management and the Board.
- Liaising with regulators as appropriate regarding new or revised rules, or regulatory examinations.
- Providing training in the areas of anti money laundering and fraud prevention.

Additionally, the compliance policies and Compliance Program, run by the Compliance Division, carries out Bank wide management of regulatory risk. We report on non-compliant matters, identify areas that require improvement, work with the concerned groups to create an effective action plan and ensure that it is implemented.

Internal Audit

Despite various challenges due to internal and external factors, the Audit Division made the necessary efforts to ensure that all critical and high risks were covered. In doing so, we had the full support of the audit committee and the Bank's management.

Internal Activities

Audit continued to use the risk-based auditing methodology of Credit Agricole Corporate and Investment Bank, Paris. Like last year, it comprehensively reviewed the audit universe of the bank and included reviews of the new products and services. In doing so, it identified several transversal audits (bank-wide) in order to provide the management a holistic view of the situation identifying the extent of risk and quality of internal control.

This year Audit also devoted a lot of resources on the follow-up of audit recommendations that included those made by SAMA during their special examination of 2008 and the external auditors. The two on-site reviews of audit recommendations during the year showed that the pace in implementing them was improving. The Managing Director was actively involved in ensuring that all business lines/support divisions take the necessary action in closing out audit recommendations. The remaining ones are regularly followed up as this is an ongoing exercise.

Audit conducted an evaluation of the internal control organization of Retail Banking (a long standing requirement from Audit) with a view to help our Division release some resources and start extending its risk-based methodology to branch audit as well. Currently each branch is required to be covered at least once a year.

As part of its Service Level Agreement, the Audit Division covered joint venture companies. It followed up all the pending audit recommendations which Fransi Tadawul (a 100% subsidiary of BSF) had largely completed. It also participated in the audit of recently created joint ventures (Caam Saudi Fransi and Sofinco Saudi Fransi) together with auditors sent by our French partner. It actively interacted with the Inspection Générale of Credit Agricole Corporate and Investment Bank in Paris, which performed a thorough audit of the bank's treasury and capital market activities.



Interaction with Regulatory Authorities/External Auditors

After the comprehensive SAMA Inspection of the Bank in July 2008, the Audit Division together with the Compliance Division was actively involved in following up their recommendations with all entities of the Bank. In line with SAMA's directives, the Bank has set-up a committee to report the status of implementation of SAMA's recommendations on a quarterly basis. The Audit Division is now a part of this committee as well.

As stated earlier, the result of the follow up indicated that a majority of SAMA recommendations have been addressed by concerned departments of the bank.

As customary, the Audit Division interacted with the Bank's external auditors in sharing information on risk and control issues, including a fair reporting of the Bank's balance sheet. Issues noted in their management letter were followed up to ensure proper implementation.

Activities related to Audit Committees

The Chief Internal Auditor, who is also the Secretary to the Audit Committee, made sure that all deliberations of the Audit Committee were properly addressed by the executive management. The Audit Committee meets six times a year to ensure that good governance processes exist in the Bank and function as intended.

The Audit committee now quarterly reviews with the external auditors and recommends for Board approval the financial statements of the Bank as required by the Capital Market Authority.



Corporate Communications

This year, BSF in collaboration with the Ministry of Social Affairs highlighted a milestone in the history of the Kingdom of Saudi Arabia by sponsoring first-ever campaign against domestic violence - a portrayal that would ease, if not, eliminate the chronic problem in the region. Just recently, BSF was honored by Dr. Yousef Al Othaimin, Minister of Social Affairs in the presence of the Chairman, the Deputy Managing Director and Corporate Communications team.

BSF has been actively supporting various community development projects in both private and government agencies in the Kingdom and had made many contributions to social, educational, charitable, health and sports activities.

This year's major beneficiary is King Faisal Specialized Hospital and Research Center on the occasion of a symposium supporting the "Attention Deficit Hyperactivity Disorder" (ADHD) jointly organized by the American Academy of Pediatrics.

Other beneficiaries are Al Nahda Philanthropic Society for Women, National Home Health Care Foundation, Down Syndrome Charitable Association, and other charitable institutions registered by the Ministry of Social Affairs.

Furthermore, Corporate Communications Department (CCD) continued its role, year after year, in enhancing the bank's image; supported all communications strategies of joint venture companies and at the same time promoting their new products and services; and ensuring that any related applications are in accordance with the bank's corporate standards.

Moreover, BSF was awarded the first prize during the Banking Web Awards Ceremony 2009.



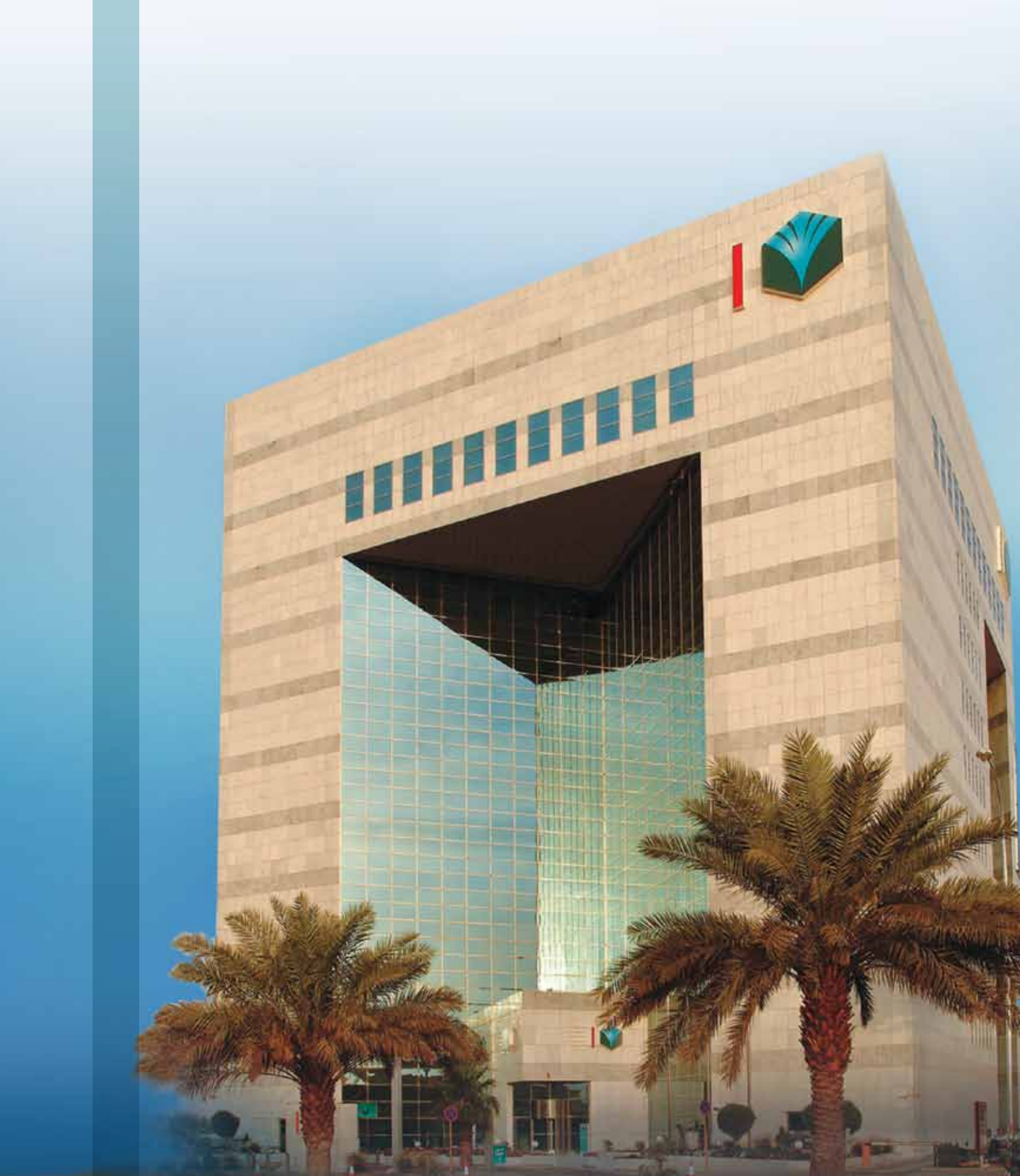


Secretariat General

The Secretary General provides administrative and legal support of BSF and the BSF Group of Companies. It also participates in the arrangement and preparation of meetings for the Board of Directors and Board committees and updates information with competent authorities and follows up the changes of share capital and composition of the boards of directors of sister companies and affiliates of the Bank.

In full coordination with the Compliance Division, the Secretariat carries out all its work and provides support to this Department and other departments in regard to all government agencies and regulatory authorities in the fields of governance and follow up of complaints duly filed by customers.

The Secretary General also oversees a set of legal files and follows up their developments with competent legal authorities in its endeavor to arrive at final solutions whereof. The Secretariat's Legal Department follows up various other issues of the Bank's group of companies, in coordination with the Collection Department.





Specialized Subsidiaries and
Joint-Venture Companies

Caam Saudi Fransi

2009 has been a very busy year for Caam SF with several achievements to be highlighted. Our new fund, Al Watheq, was successfully launched in June: this is an enhanced murabaha closed-ended fund for 3 years with a capital protection at maturity in 2012. It is the first of its kind to be offered to investors in Saudi Arabia. An advertising campaign was done to support the Al Watheq launch and inform investors broadly on this innovative investment product.

In line with Saudi investors appetite for low risk investment solutions we have had a significant growth in the assets managed in our money market funds over the year. Accordingly, our market share in the mutual fund industry has continued to grow to reach 6.25% as of November 2009. Likewise, thanks to a strong cooperation with BSF, we have been able to increase our client base by more than 30% in 2009.

In order to facilitate the transactions for our clients, we have launched in December an on-line tool, FransiFunds, which is fully integrated and compatible with BSF highly successful internet banking tool FransiPlus.

We have had some very good performances for our Saudi equity funds (Al Saffa and Saudi Istithmar funds) both vis-à-vis their benchmark and also versus competition in 2009.

We will continue to make the case for professional fund management in the Saudi equity market as we feel that it offers significant potential for performance and growth to the full benefit of Saudi investors over the next few years.



Fransi Tadawul

Indeed, 2009 has been a very difficult year for the Equity Brokerage Business.

The paradox is that although world indices recovered throughout the year this was done on the back of very thin levels of volume. To illustrate this point, the daily trade value of shares on the Saudi market amounted on average to SAR 5 billion against SAR 15 billion in 2008. In this depressed environment Fransi Tadawul managed to increase its market share by more than 1% and actively implemented a strategy designed to make the most of a future upturn in business.

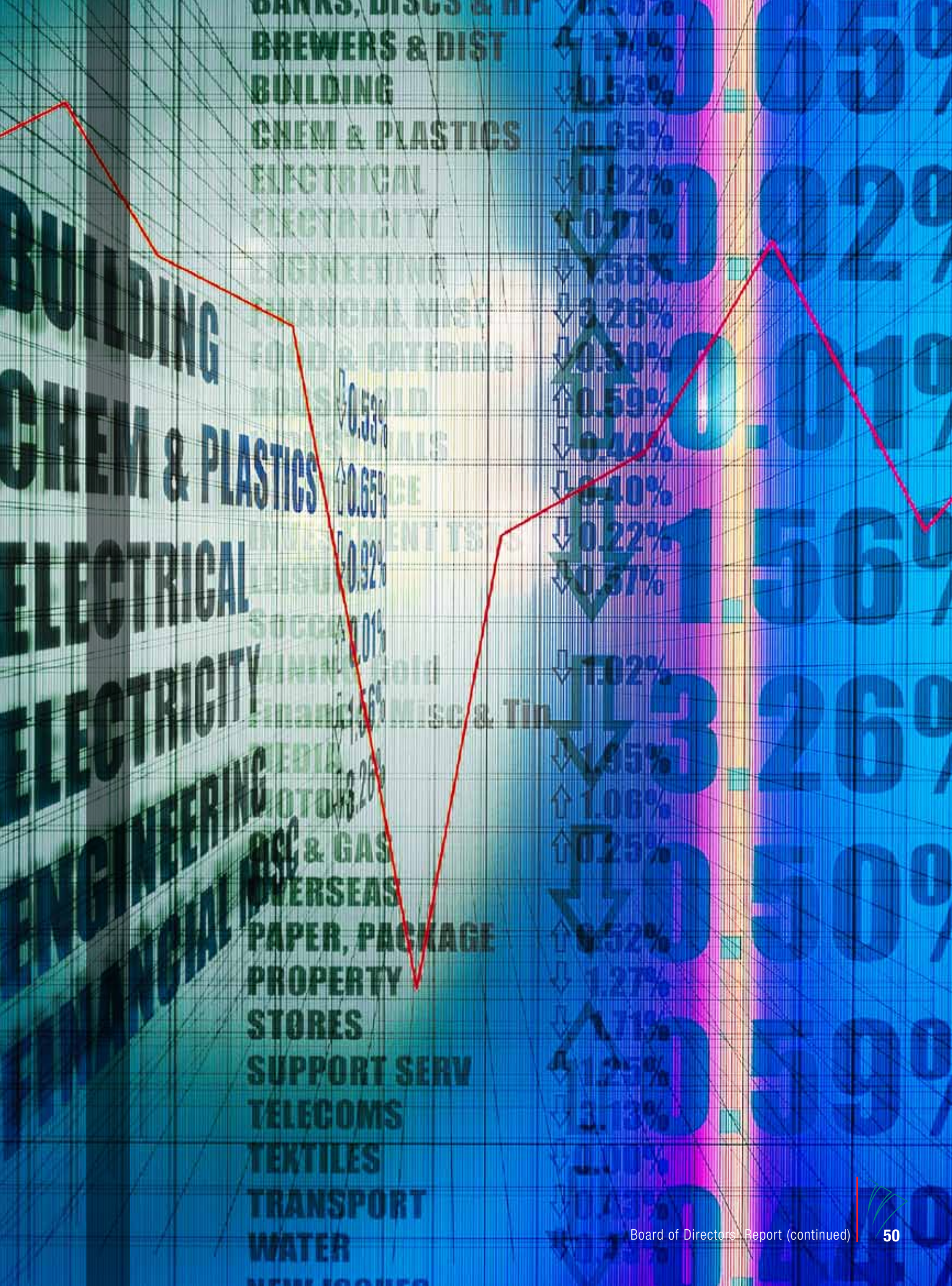
Fransi Tadawul set up a new management team and decided to:

- Initiate a cooperation agreement with Credit Agricole Cheuvreux SA, the European equity broker of Credit Agricole Group. Fransi Tadawul is now ready to execute swap contracts to facilitate the emergence of an institutional business on the Saudi equity market.
- Create a comprehensive financial portal to be rolled out in the first quarter of next year.
- Launch a range of margin lending products aimed at active traders who wish to maximize their exposure to the markets.
- Give its customers online access to several international markets (GCC, US and Europe) enabling them to trade more efficiently.

These developments will be marketed in 2010 and we believe that they will significantly enhance Fransi Tadawul's offer and quality of service.

In line with CMA regulation, Fransi Tadawul embarked on a rigorous training program for its staff in order to prepare them for the Capital Market Exam.

The year ahead will no doubt be a demanding one but Fransi Tadawul is determined to reinforce its position amongst the top brokers of the Kingdom of Saudi Arabia.





Allianz Saudi Fransi

Allianz Saudi Fransi was established in 2007 as a joint venture between Allianz Group and Banque Saudi Fransi. Allianz Saudi Fransi is committed to provide comprehensive insurance product and services to Saudi market for corporate and individual customers with the best of local insight coupled with extensive international expertise and experience.

The General Assembly that was held on 18th January 2009 approved the transfer of the business from InSaudi Insurance Company (Bahrain) to Allianz Saudi Fransi. With this Allianz Saudi Fransi emerged as a full-fledged insurance provider with comprehensive insurance solutions including Property & Casualty and Health businesses.

Allianz Saudi Fransi is committed to provide comprehensive insurance product and services to Saudi market for corporate and individual customers with the best of local insight coupled with extensive international expertise and experience.

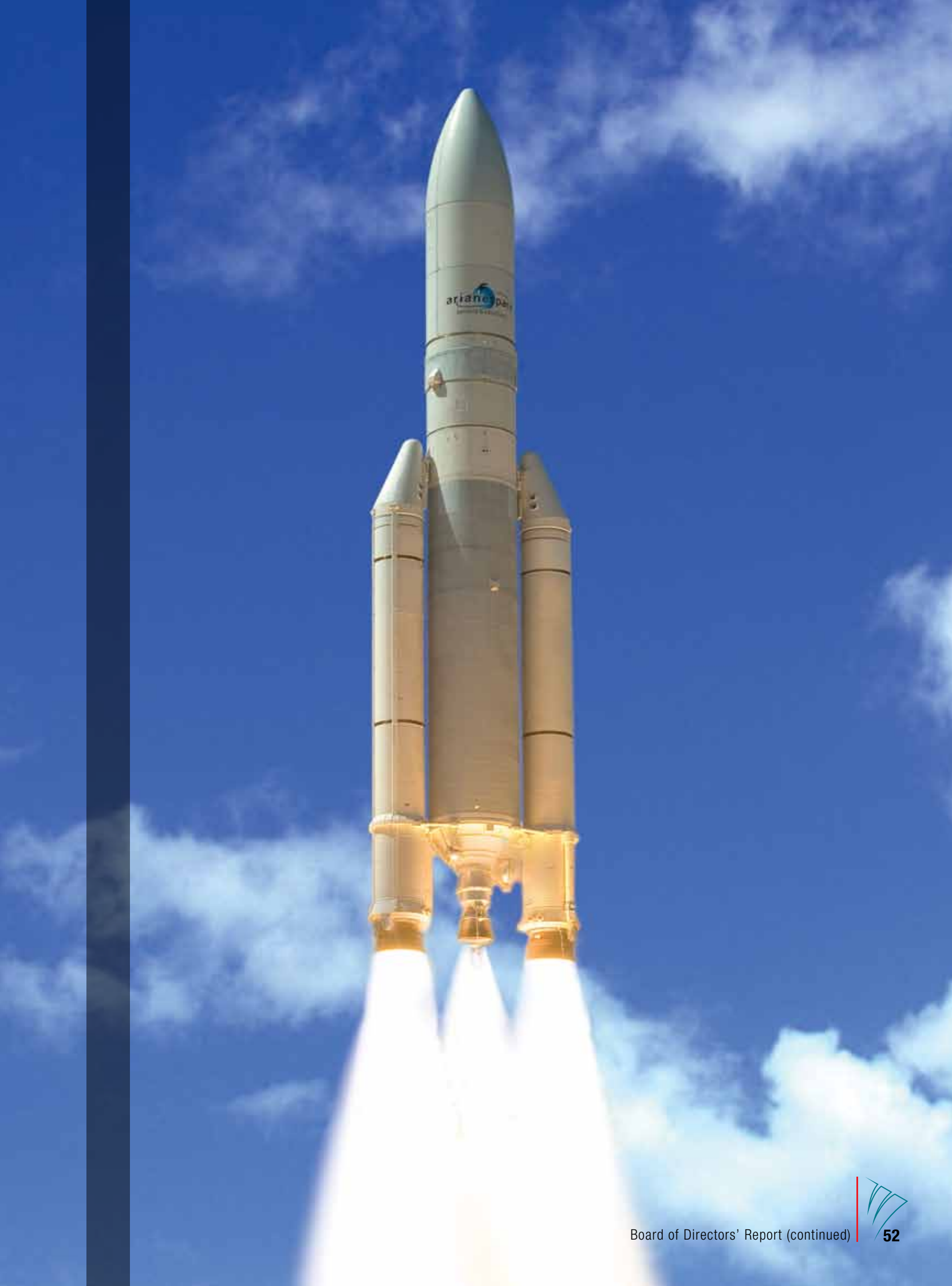
Moreover, Allianz Saudi Fransi has launched in the second half of the year 2009 advanced and flexible insurance products which include tailor-made solutions for Retirement and Education to meet the various needs of our individual customers.

Allianz Saudi Fransi has made good progress in providing easy access to modern insurance solutions for customers by increasing the number of highly experienced and trained insurance specialists in its various locations in the Kingdom. We also launched an insurance Point-of-Sale (POS) system to improve the turnaround time and productivity by allowing decentralized offers till policy issuance.

The percentage of Saudi nationals within the company has gone up substantially as a result of various initiatives implemented by the Company to achieve higher Saudization above 50%.

The company Board of Directors approved an increase in the Capital to reach a total Paid Up capital of SAR 200 million. This move is aligned with corporate strategy and rapid development.

In 2010 the Company will continue its rapid development plan with the aim to be amongst one of the top Insurance companies in the Kingdom fulfilling Retail and Corporate customers' needs with modern and innovative insurance solutions in various lines of business through easy access to customers by various channels of distribution and highly motivated employees.



Calyon Saudi Fransi

The second half of 2008 and first two quarters of 2009 saw a marked deceleration in the overall capital markets activity in the Kingdom of Saudi Arabia, which was an indirect result of the global economic environment. However, the resilience of the economy in Saudi Arabia, the continuous strategic support of its shareholders as well as the versatility of the talent pool of its team, allowed Calyon Saudi Fransi Limited (CSFL) not only to successfully navigate through this overall difficult period, but to also complete and win new mandates for significant and first of their kind transactions in the Kingdom.

CSFL continues to be differentiated in the market and was able to solidify its unique market position as a result of the true and deep-rooted partnership between Banque Saudi Fransi and Credit Agricole CIB. This partnership is allowing CSFL to leverage off BSF's excellent corporate relationships to deliver Credit Agricole CIB's world-class investment banking advisory and execution expertise to our clients in Saudi Arabia.

In 2009, CSFL completed its first cross border M&A advisory mandate by working with Al Marai on the acquisition of 75% Teeba Investment for Developed Food Processing, a Jordan based dairy company, further solidifying Al Marai's leadership position in the sector. CSFL also was honored to be selected for an advisory mandate for the first of its kind tender offer in of Saudi Arabia, in connection with the acquisition of Hail Agricultural Development Company (HADCO).

As the market activity started improving towards the third quarter of 2009, and the outlook for further improvements in 2010, the underlying strategic drive of our firm remains the provision of the best possible and world class expertise to our clients, while remaining in-step with our clients' changing business and investment banking needs. We will continue to focus on providing our clients with world class capital markets and mergers and acquisition advice, while working closely with our regulators, whom we wish to thank for their valuable and continuous support and transparency.

We aim to continue building on CSFL's track record and to further solidify its leading investment banking position in the Kingdom of Saudi Arabia, for the benefit of our clients and all stakeholders.

Sofinco Saudi Fransi & Al Amthal

Sofinco Saudi Fransi

The company began its activities in the mid 2007 with focus on small loans for the purchase of cars and household items. Loans are offered to the borrowers under Shariah-compliant regulations..

The capital of Sofinco Saudi Fransi is SAR. 100 Million of which Banque Saudi Fransi owns 50%. The company offers small loans for the purchase of cars and household items. Loans are offered to the borrowers on easy instalments.

Al Amthal

The bank holds 20% of the total 20 Million paid up capital of the company. Al Amthal Company is in the field of car leasing business.

After the restructuring of the administration, the company had started to bear fruit by generating profit.

Board of Director's Report (continued)

Proprietary Investment Portfolio

The year 2009 was a year where the Investment Portfolio of the Bank reduced significantly with total investments in reduction of SAR 10.2 Billion (-36.9%), of which SAR 10 Billion of securities have matured.

SAR' 000	Dec 2009	Dec 2008	Variation%
Saudi Government Bonds and bills	11,456,608	21,264,133	-46.12%
Other Sovereign Bonds and Bills	188,936	140,634	34.35%
Bonds/Sukuk	2,034,136	2,851,464	-28.66%
Equity	699,166	130,984	433.78%
Total Securities	14,378,846	24,387,215	-41.04%
Musharakah and Mudarabah	3,102,380	3,322,808	-6.63%
Total Investments	17,481,226	27,710,023	-36.91%

As illustrated by the above table, the global reduction was driven by Saudi Government Bonds Portfolio and the Corporate Bonds/ Sukuk Portfolio.

The decrease in the Saudi Government Portfolio established at SAR 9,807 Million due to maturing of SAR 3,017 Million of Long Term Saudi Government Bonds and SAR 6,790 Million of Saudi Treasury Bills.

Concerning the Corporate Bonds Portfolio and Sukuk, SAR 817 Million of its last year value was fully repaid during the course of the year.

Given the quality of this portfolio, no default was witnessed during the year and expected amount were fully received in due time.

Term Loans

In addition to the term loan of USD 650 Million signed for in 2005 which will mature in 2010, BSF signed another 5 years long term loan for Euro 100 Million to mature in 2013 to be used for general banking purposes. The two loans were fully withdrawn. BSF signed another term loan agreement on 22 Sept 2008 for USD 525 Million which was fully withdrawn. The third year tranche of the loan amounts to USD 183 Million and the fifth year tranche amounts to USD 342 Million for general banking purposes. BSF is entitled to repay these loans prior to their maturity dates and subject to the terms and conditions under the respective loan agreements.

Doubtful debts

As of end of year 2009, doubtful debts have reached 1,008,148,000 SAR while the allocated provision was 1,276,285,000 SAR with 126.60% coverage. The coverage for all operating loans and doubtful debts reached 1.60% up from 1.04% in 2008. This reflects the bank's concern to properly allocate the suitable provision on bad debts.

Basel II Risk Management

As early as 2007, BSF has fulfilled SAMA requirements in connection with the measurement of credit, market and operations risks. BSF continued to comply with the aforesaid requirement as and when updated according to the requirements under Pillar 3, Basel II.

Regional Presence

1. Banque Bemo Saudi Fransi

BSF owns 27% of BBSF a joint stock company established in Syria on 4/1/2004. BBSF continued to operate successfully reflecting on net profits which increased from USD 16,170,000 in 2008 to USD 25,000,000 in 2009. The number of branches increased from 20 in 2008 to 27 in 2009 with more expansion plans underway.

2. BEMO Lebanon

BSF owns 10% of the share capital of Banque BEMO Lebanon since 1/8/2003.

3. In 2009, BSF's share in Insaudi Company, Bahrain, of 50% of the company's share capital was transferred to Allianz following the approval of the authorities. Currently, the work is ongoing on the winding up of Insaudi Co.

Future plans and expectations

In 2010, BSF plans to expand internally with 7 more branches, 3 Islamic branches, 11 CAM's and 60 ATM's covering all parts of the Kingdom. BSF will further expand in real estate transactions consistent with shariah through Sakan Real Estate Financing Company.

BSF has also laid down a comprehensive plan for future expansion of its activities including branch network, retail services, corporate services and treasury. In 2010, BSF will finalize its MTP and submit it to the Board of Directors for approval.

Board of Director's Report (continued)

Board of Directors

BSF's BOD consists of 10 directors. According to BSF's Articles of Association, the Saudi directors are selected by the shareholders for 3 years. The present BOD duration extends from 1.1.2007 till 31.12.2009. According to the regulations, the membership shares (1000 shares per director) were duly booked.

The Saudi Directors	
Mr. Ibrahim Al-Touq	Chairman (independent)
Mr. Abdulaziz Al-Rashid	Member (independent)
Mr. Ibrahim Al-Issa	Member (independent)
Mr. Abdulaziz Al-Habdan	Member (representing GOSI)
Dr. Khaled Mutabagani	Member (independent)
Mr. Mousa Al-Omran	Member (independent)
Mr. Abdulrahman A. Jawa	Deputy Managing Director Member (executive- independent)
The Non-Saudi Directors	
Mr. Jean Marion	Managing Director Member (executive- representing Calyon)
Mr. Jean-Frederic de Leusse	Member (representing Calyon)
Mr. Alain Massiera	Member (representing Calyon)

In 2009, BOD held 5 meetings, at an attendance rate of 92%. Following is the attendance record of the subject meetings:

Meeting Date	Attended by
1.2.2009	Ibrahim Al-Touq, Abdulaziz Al-Rashid, Mosa Al-Omran, Abdulaziz Al-Habdan, Khaled Mutabagani, Abdulrahman A. Jawa, Jean Marion, Jean-Frederic de Leusse, Alain Massiera
19.4.2009	Ibrahim Al-Touq, Abdulaziz Al-Rashid, Ibrahim Al-Issa, Mosa Al-Omran, Abdulaziz Al-Habdan, Abdulrahman A. Jawa, Jean Marion, Jean-Frederic de Leusse, Alain Massiera
5.7.2009	Ibrahim Al-Touq, Abdulaziz Al-Rashid, Mosa Al-Omran, Abdulaziz Al-Habdan, Khalid Mutabagani, Abdulrahman A. Jawa, Jean Marion, Jean-Frederic de Leusse
18.10.2009	Ibrahim Al-Touq, Abdulaziz Al-Rashid, Ibrahim Al-Issa, Mousa Al-Omran, Abdulaziz Al-Habdan, Abdulrahman A. Jawa, Jean Marion, Jean-Frederic de Leusse, Alain Massiera
22.12.2009	Ibrahim Al-Touq, Abdulaziz Al-Rashid, Ibrahim Al-Issa, Mousa Al-Omran, Khalid Mutabagani, Abdulaziz Al-Habdan, Abdulrahman A. Jawa, Jean Marion, Jean-Frederic de Leusse, Alain Massiera

Names of the other company boards where BSF directors are also directors:

Director's Name	Name of other company	Capacity
Ibrahim Al-Touq	- Steel Products Co (STEPCO) - Saudi Metal Packing Co (SACO) - Al-Helal Electronic Printing Press - Saudi Ind Investment Co	Chairman Director Director Director
Abdulaziz Al-Rashid	- Al-Khaleej and Education Co (Joint Stock)	Director
Ibrahim Al-Issa	- Taiba Holding - Al-Marai - Yanbu Cement - Savola	Chairman Director Director Director
Abdulaziz Al-Habdan	- STC	Director
Mousa Al-Omran	- Savola - Al-Marai Co - Arabian Cement	Director Director Director
Abdulrahman A. Jawa	- Saudi Travellers Cheques - Bemo Saudi Fransi Syria - Saudi Fransi for Coop Insurance - Bemo European Bank	Director Director Director Director
Jean Marion	- Saudi Fransi for Coop Insurance - Bemo Saudi Fransi Syria	Director Director

BSF board of directors / senior executives, their wives and minor children have shares with BSF as at 31.12.2009 according to the following table:

1. BSF Directors

	Shares owned at the start of the year	Ownership percentage	Change number of shares	Change %	Shares owned at year end	Shares owned at year end percentage
Ibrahim Al-Touq	7,773,883	1.38%	-	-	9,994,992	1.38%
Ibrahim AL-Issa	2,500	0%	-	-	3,000	0%
Abdulaziz Al-Rashid	2,500	0%	-	-	3,214	0%
Abdulaziz Al-Habdan	8,000	0%	-	100%	-	0%
Abdulrahman A. Jawa	13,058	0%	-	-	16,788	0%
Khalid Mutabagani	27,825	0%	-	-	35,775	0%
Mousa Al-Omran and his family	372,796	0.06%	-	-	479,308	0.06%

* The change owing to the capital increase on 6.4.2009.

Board of Director's Report (continued)

According to Article 30, Listing Rules, issued by CMA, BSF 10 top shareholders (1% or more) as at 31.12.2009 are as follows:

	Shares owned at the start of the year	Ownership percentage	Change number of shares	Change %	Shares owned at year end	Shares owned at year end percentage
Calyon	175,000,000	31.11%	-	-	225,000,000	31.11%
GOSI	72,230,408	12.84%	-	-	92,867,667	12.84%
Rashed Al-Rashid Co	55,294,650	9.83%	-	-	71,093,121	9.83%
Mohammad I Al-Issa	30,013,050	5.34%	-	-	36,335,000	5.02%
Omran Al-Omran	10,255,998	1.82%	-	-	13,186,283	1.82%
SAMBA Private Investment Fund 1	21,500	0.0%	11,768,707	1.63%	11,790,107	1.63%*
Maan Al-Sani	9,017,896	1.60%	-	100%	-	-
Adnan Bouqari	8,489,628	1.51%	-	-	10,915,236	1.51%
Al-Olayan Saudi Investment Ltd	7,877,000	1.40%	-	0.20%	8,665,400	1.20%
Hamed Mutabagani	7,761,236	1.38%	-	-	9,978,732	1.38%
Abdulaziz Al-Jammaz	5,567,100	0.99%	-	-	8,157,700	1.00%

* The change owing to the capital increase on 6.4.2009. The figure for SAMBA, Private Investment Fund 1, includes the impact of capital increase plus transactions conducted during the year.

Board of Directors' remuneration:

Total remuneration paid to the directors amounted to SAR 2,877,000 (SAR 2,878,113 in 2008) including the attendance fee as follows:

Description	SAR
1. Annual remuneration, Chairman	360,000
2. Annual remuneration, Directors	2,160,000
3. Attendance fee, Board of Directors	138,000
4. Attendance fee, EC	129,000
5. Traveling expenses	90,000
Total	2,877,000
* In 2008 the total remuneration paid was SAR 2,878,113.	

Remuneration paid to senior executives

Remuneration paid to 5 BSF senior executives including MD, DMD and the financial manager including salaries, allowance, monthly/annual performance bonuses, short/long incentive plans and other incentives in kind amounted to SAR 19,935,821. Payments made to the directors in their capacity as staff (MD/DMD) amounted to SAR 9,219,793. Payments made to senior executives including the financial manager in 2008 amounted to SAR 9,562,518. This will not be comparable to remuneration paid last year, as the remuneration paid to MD, DMD were disclosed independent of the 5 top senior executives.

Committees created under BOD

Banque Saudi Fransi ("BSF") has three committees of the Board of Directors. They are the Executive Committee, Audit Committee, and Nomination and Compensation Committee. Each committee operates under a written charter or operating policy and procedure. Below is the summary of the key responsibilities of each committee.

1. Executive Committee:

Executive Committee supervises the management of risk of BSF and is responsible for establishing long-term goal and succession planning:

- Identify and monitor the key risks of BSF and evaluate their management.
- Approve risk management policies that establish the appropriate approval levels for decisions and other checks and balances to manage risk.
- Satisfy itself that policies are in place to manage the risks to which BSF is exposed, including market, operational, liquidity, credit, insurance, regulatory and legal risks, and reputational risks.
- Critically assess business strategies and plans.
- Recommend to the Board long-term objectives and regularly monitor and measure those objectives.

It consists of 7 members and is created for 3 years duration starting from 1.1.2007 to 31.12.2009. Members in the Executive Committee are as follows:

Mr. Jean Marion	Chairman
Mr. Abdulaziz Al-Rashid	Member
Mr. Ibrahim Al-Issa	Member
Mr. Abdulaziz Al-Habdan	Member
Mr. Mousa Al-Omran	Member
Mr. Abdulrahman A. Jawa	Member
Mr. Alain Massiera	Member (replacing Mr. Frederic de Leusse Member effective Nov 2009)

In 2009, EC held 6 meetings with the attendance rate of 95%.

2. Nomination & Compensation:

Responsible for nomination of directors' Committee and executive management's compensation.

- Set the criteria for selecting new directors;
- Identify individuals qualified to become Board members and recommend to the Board the director nominees for the next annual meeting of shareholders;

Board of Director's Report (continued)

- Review and recommend the compensation of the directors and executive management of BSF;
- Oversee the selection, evaluation, development and compensation of other members of senior management;
- Satisfy itself that BSF communicates effectively with its shareholders, other interested parties and the public through a responsive communication policy;
- Review and recommend the nomination of the senior management to the Board;
- Evaluate the performance and determine the bonus based on the performance.
- Periodically review and assess the adequacy of its charter.

According to the board of directors' recommendations, the extra ordinary assembly meeting held on 6.4.2009 approved the committee's creation and its functions.

The committee consists of the following:

Mr. Abdulaziz Al-Habdan	Chairman
Mr. Abdulaziz Al-Rashid	Member
Mr. Mousa Al-Omran	Member
Mr. Alain Massiera	Member

3. Donation and Social Contribution Committee

The Donation and Social Contribution Committee meets to lay down the appropriate mechanism for donations and social contributions. Several donations and contributions were made by BSF in several events and won several letters of appreciation.

It consists of 4 members as follows

Mr. Ibrahim Al-Touq	Chairman
Mr. Abdulaziz Al-Rashid	Member
Mr. Abdulrahman Jawa	Member
Mr. Jean Marion	Member

Certified Public Accountants

The shareholders meeting held on 6.4.2009 appointed Messrs. Ernst and Young and Messrs. KPMG Al-Fouzan and Al-Sadhan, as the Bank's certified public accountants for the Financial Year 2009.

Accounting Standards

The financial statements were prepared according to the accounting standards issued by SAMA as well as the international recognized standards. BSF prepares its financial statements consistently with Banking Act and Corporate Act of SA as well as BSF Articles of Association. There has been no major deviation in the accounting standards being applied at BSF against SOCPA's accounting standards applied during the FY ended 31.12.2008, except in the application of the international standard No. 8 related to financial reporting. BSF applied the subject standard with retroactive effect without an impact on the Bank's financial position or performance.

BSF BOD, to the best of its knowledge, and other interested parties affirm that:

1. BSF keeps correct accounting records,
2. BSF uses a sound internal audit system and that such system was audited by BSF Internal Audit who reports to BSF Audit Committee, and
3. The Board has no doubt regarding the Bank's ability to continue to operate successfully.

Disclosure

BSF believes that it has in place suitable control system that permits it to prepare interim financial statements consistent with SAMA's accounting and financial standards as well as the international accounting and reporting standards. The directors were given access to the information covering a period not exceeding one year from the ending date of last year.

In addition, BSF issued a governance regulations draft which will be presented to the Board for final review.

Corporate Governance

BSF operates in accordance with the regulations and directives under CMA's Corporate Governance. BSF directors and members of the senior management participated in specialized seminars in order to inform them about their responsibilities towards the Bank.

In conclusion, the Board of Directors wishes to express deepest gratitude, first and foremost, to the Almighty Allah and then to King Abdullah Ben Abdulaziz and his Crown Prince and Second Deputy Premier for their continuous support of banking sector. The Board would like also to thank the Ministry of Finance and to the Saudi Arabian Monetary Agency, the Ministry of Commerce and Industry as well as the Bank customers, staff and correspondents, praying Almighty Allah for continued security and prosperity.

Audit Committee

Audit Committee

Chairman:	Sh. Ahmad Al-Sari Executive Partner, Malath Group
Members:	Mr. Ammar al-Khudairy Managing Director and founding shareholder, Amwal AlKhaleej
	Mr. Michel Le Masson Inspector General of Calyon, France
	Dr. Khaled Mutabagani Member of the Board of Banque Saudi Fransi
Secretary:	Mr. François Delagrangé Chief Internal Auditor of Banque Saudi Fransi

In addition, the Bank's Chief Compliance Officer is a permanent guest to the meetings of the Committee.

Saudi Arabian Monetary Agency approved the nomination by the Board of Directors of BSF of the above members of the Audit Committee for a three-year term beginning on 01/01/2007.

The Audit Committee met six times a year in order to adequately cover all critical risk areas in the Bank. It now quarterly reviews with the external auditors and recommends to the Board for approval the financial statements of the Bank as required by the Capital Market Authority.



The deliberations of each meeting were properly registered and reported to the Board of Directors and were adequately followed up by the Secretary of the Audit Committee with the Bank's management.

Based upon its risk-based three year work plan, the Committee was extensively involved in assessing the achievements of the Internal and External Auditors and regularly reviewed the main risks related to the Bank's activities and the quality / adequacy of the internal controls.

To this end, the Audit Committee members were informed and briefed not only by the Chief Internal Auditor of the Bank but also, when necessary, directly by the relevant Business and Operational / Support Lines Managers, including joint venture companies, and by the External Auditors.

The Audit Committee regularly reviewed with the Chief Compliance Officer the status of all fraud cases, new regulations and pronouncements, breach of any significant compliance issues, etc.

It also discussed internal control issues with the Operational Risk and Permanent Control Department and reviewed the deliberations of the Internal Control Committee of the Bank.

The Audit Committee provided a permanent support to the Audit Division in terms of supporting its organization and achievement of the annual audit plan. To this end, it very closely followed the activities of the Audit Division, the follow-up of unimplemented audit recommendations, and other unplanned involvements.

Independent Auditors' Report



KPMG Al Fozan & Al Sadhan

To the Shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (41), other than note (38), and the information related to «Basel II disclosures» cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and

International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2009, and of its consolidated financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

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Certified Public Accountant
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Tareq A. Al Sadhan
Certified Public Accountant
Registration No. 352



8 Safar 1431H
(23 January 2010)

Consolidated Statement Of Financial Position

As at December 31, 2009 and 2008

SAR' 000	Notes	2009	2008
ASSETS			
Cash and balances with SAMA	4	12,630,968	5,772,857
Due from banks and other financial institutions	5	7,110,607	4,246,065
Investments, net	6	17,481,226	27,710,023
Loans and advances, net	7	78,315,196	80,866,475
Investment in associates	8	144,344	176,859
Property and equipment, net	9	606,185	590,645
Other assets	10	4,283,912	6,501,837
Total assets		120,572,438	125,864,761
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	4,831,799	8,402,002
Customers' deposits	13	91,237,118	92,791,281
Other liabilities	14	3,805,510	5,675,142
Term loans	15	4,946,231	4,927,200
Total liabilities		104,820,658	111,795,625
Equity attributable to the equity holders of the Bank			
Share capital	16	7,232,143	5,625,000
Statutory reserve	17	5,371,849	4,754,195
General reserve	17	982,857	2,590,000
Other reserves	18	286,991	295,441
Retained earnings		868,833	5,872
Proposed dividend	28	990,000	776,711
Total equity attributable to the equity holders of the Bank		15,732,673	14,047,219
Non controlling interest		19,107	21,917
Total equity		15,751,780	14,069,136
Total liabilities and equity		120,572,438	125,864,761

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

Consolidated Income Statement

For the years ended December 31, 2009 and 2008

SAR' 000	Notes	2009	2008
Special commission income	20	4,089,324	5,298,313
Special commission expense	20	1,039,035	2,477,723
Net special commission income		3,050,289	2,820,590
Fee and commission income, net	21	840,254	834,480
Exchange income, net		186,095	241,105
Trading income, net	22	209,746	499,640
Dividend income	23	363	1,791
Losses on non trading investments, net	24	(1,894)	(55,687)
Other operating income	25	10,054	49,722
Total operating income		4,294,907	4,391,641
Salaries and employee related expenses		642,589	624,223
Rent and premises related expenses		90,735	90,944
Depreciation and amortization	9	113,981	87,324
Other general and administrative expenses		300,699	287,327
Impairment charge for credit losses, net	7	574,621	94,265
Impairment charge for other financial assets	6	67,000	410,000
Other operating expenses	26	10,038	6,065
Total operating expenses		1,799,663	1,600,148
Income from operating activities		2,495,244	2,791,493
Share in (losses) / earnings of associates, net	8	(27,439)	12,443
Net income		2,467,805	2,803,936
Attributable to:			
Equity holders of the Bank		2,470,615	2,805,659
Non controlling interest (loss)		(2,810)	(1,723)
Net income		2,467,805	2,803,936
Basic and diluted earnings per share (in SAR)	27	3.42	3.88

Consolidated Statement Of Comprehensive Income

For the years ended December 31, 2009 and 2008

SAR'000'	Notes	2009	2008
Net income		2,467,805	2,803,936
Other comprehensive income (loss):			
-Available for sale investments			
Changes in the fair value, net	18	76,112	(317,521)
Loss transferred to consolidated income statement	18	68,894	206,652
-Cash flow hedge			
Changes in the fair value, net	18	247,549	555,379
Income transferred to consolidated income statement	18	(401,005)	(129,450)
Total comprehensive income		2,459,355	3,118,996
Attributable to:			
- Equity holders of the Bank		2,462,165	3,120,719
- Non controlling interest (loss)		(2,810)	(1,723)
Total comprehensive income		2,459,355	3,118,996

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

Consolidated Statement Of Changes In Equity

For the years ended December 31, 2009 and 2008

SAR' 000	Notes	Attributable to equity holders of the Bank								Non controlling interest	Total equity
		Share capital	Statutory reserve	General reserve	Retained earnings	Available for sales investments	Cash Flow Hedges	Proposed dividend	Total		
2009											
Balance at the beginning of the year		5,625,000	4,754,195	2,590,000	5,872	(205,266)	500,707	776,711	14,047,219	21,917	14,069,136
Total comprehensive income / (loss) for the year		-	-	-	2,470,615	145,006	(153,456)	-	2,462,165	(2,810)	2,459,355
Transfer to statutory reserve	17	-	617,654	-	(617,654)	-	-	-	-	-	-
Stock dividend	16	1,607,143	-	(1,607,143)	-	-	-	-	-	-	-
Final dividend 2008	28	-	-	-	-	-	-	(776,711)	(776,711)	-	(776,711)
Proposed gross dividend	28	-	-	-	(990,000)	-	-	990,000	-	-	-
Balance at the end of the year		7,232,143	5,371,849	982,857	868,833	(60,260)	347,251	990,000	15,732,673	19,107	15,751,780
2008											
Balance at the beginning of the year		5,625,000	4,052,780	1,200,000	68,339	(94,397)	74,778	314,135	11,240,635	-	11,240,635
Total comprehensive income / (loss) for the year		-	-	-	2,805,659	(110,869)	425,929	-	3,120,719	(1,723)	3,118,996
Transfer to statutory reserve	17	-	701,415	-	(701,415)	-	-	-	-	-	-
Transfer to general reserve	17	-	-	1,390,000	(1,390,000)	-	-	-	-	-	-
Final dividend 2007		-	-	-	-	-	-	(314,135)	(314,135)	-	(314,135)
Proposed gross dividend	28	-	-	-	(776,711)	-	-	776,711	-	-	-
Non controlling interest share in subsidiary		-	-	-	-	-	-	-	-	23,640	23,640
Balance at the end of the year		5,625,000	4,754,195	2,590,000	5,872	(205,266)	500,707	776,711	14,047,219	21,917	14,069,136

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

Consolidated Statement Of Cash Flows

For the years ended December 31, 2009 and 2008

SAR' 000	Notes	2009	2008
OPERATING ACTIVITIES			
Net income		2,467,805	2,803,936
Adjustments to reconcile net income to net cash from operating activities			
(Accretion of discounts) on non trading investments, net		(326,011)	(447,160)
Losses on non trading investments, net		1,894	55,687
Depreciation and amortization		113,981	87,324
Losses / (gains) on disposal of property and equipment, net		51	(446)
Impairment charge for credit losses, net		574,621	94,265
Impairment charge for other financial assets		67,000	410,000
Share in losses / (earnings) from associates		27,439	(12,443)
Change in fair value of financial instruments		64,969	(57,853)
Net (increase) / decrease in operating assets:		2,991,749	2,933,310
Statutory deposit with SAMA	4	(417,397)	(888,443)
Due from banks and other financial institutions maturing after 90 days from the date of acquisition		-	200,000
Investments held as FVIS		1,011,238	434,465
Loans and advances		1,910,525	(21,022,448)
Other assets		1,994,613	(2,553,666)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(3,570,203)	283,436
Customers' deposits		(1,506,460)	18,781,184
Other liabilities		(1,779,702)	1,568,534
Net cash from / (used in) operating activities		634,363	(263,628)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non trading investments		18,778,787	35,140,191
Purchase of non trading investments		(9,206,688)	(40,957,876)
Investments in associates		-	(39,821)
Dividend received from associates		5,077	-
Acquisition of property and equipment		(129,685)	(120,848)
Proceeds from sales of property and equipment		113	20,644
Net cash from / (used in) investing activities		9,447,604	(5,957,710)
FINANCING ACTIVITIES			
Issue of term loans	28	-	2,489,700
Dividends paid		(776,711)	(314,135)
Net cash (used in) / from financing activities		(776,711)	2,175,565
Increase / (decrease) in cash and cash equivalents		9,305,256	(4,045,773)
Cash and cash equivalents at the beginning of the year		6,028,972	10,074,745
Cash and cash equivalents at the end of the year	29	15,334,228	6,028,972
Special commission received during the year		4,349,437	5,328,430
Special commission paid during the year		1,191,741	2,504,127
Supplemental non cash information			
Net changes in fair value and transfers to consolidated income statement		(8,450)	315,060

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

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

1- General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 77 branches (2008: 75 branches) in the Kingdom of Saudi Arabia, employing 2,460 people (2008: 2,345). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

In accordance with the Capital Market Authority (CMA) directive requiring the spin off of brokerage and asset management activities from the Bank's core business, the Bank has established two subsidiaries, Fransi Tadawul Company (99% direct share in equity and 1% indirect share beneficially held by a director of the Bank) and CAAM Saudi Fransi (60% share in equity), which are incorporated in the Kingdom of Saudi Arabia. The Bank also has stakes in associates, Sofinco Saudi Fransi (50% share in equity) and CALYON Saudi Fransi (45% share in equity), which are incorporated in the Kingdom of Saudi Arabia and involved in consumer lease finance and corporate financial advisory respectively.

The subsidiaries commenced their commercial operations during 2008. Accordingly, effective 1 January 2008 the Bank started consolidating the financial statements of the aforementioned subsidiaries.

The Bank also holds 27% shareholding in an associate Banque BEMO Saudi Fransi, a bank incorporated in Syria, 50% shareholding in InSaudi Insurance Co., incorporated in Kingdom of Bahrain and 32.5% equity share in Saudi Fransi Corporative Insurance Co. (Allianz Saudi Fransi), an associate incorporated in the Kingdom of Saudi Arabia.

2- Basis of preparation

a) Statement of compliance

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank prepares its consolidated financial statements to comply with the requirements of Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, available for sale and Fair Value through Income Statement (FVIS) financial instruments. In addition, as explained fully in the related notes, assets and liabilities that are hedged (in a fair value hedging relationship) and otherwise carried at cost are carried at fair value to the extent of the risk being hedged.

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Basis of preparation (continued)

c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. Except as indicated, financial information presented in SAR has been rounded off to the nearest thousands.

d) Critical accounting judgments ,estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, 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 judgments, estimates and assumptions 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 for credit losses on loans & advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. 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. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans 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 unquoted financial instruments

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 market data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair values of financial instruments.

(iii) Impairment of available for sale equity investments

The Bank exercises judgment in considering impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank also 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.

(iv) Classification of held to maturity investments

The Bank follows the guidance of International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

3- Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the changes in accounting policies as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2008, as described in the annual consolidated financial statements for the year ended 31 December 2008 except for the adoption of IFRS 8 Operating Segments and amendments to existing standards, as mentioned below. The Bank has adopted the standard and amendments with retrospective effect which had no impact on the financial position and financial performance. The comparative information has been restated, where required, to conform to current year presentation.

- IFRS 8 Operating Segments, which supersedes IAS 14 Segment Reporting and requires disclosure of information about the Bank's operating segments; and
- the revisions and amendments to IAS 1 Presentation of Financial Statements.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries i.e. Fransi Tadawul Company and CAAM Saudi Fransi. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made wherever necessary in the financial statements of the subsidiaries to bring them in line with the Bank's consolidated financial statements.

Subsidiaries are all entities 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 one half of the voting rights. Where the Bank does not have effective control but has significant influence, the investment in a associate is accounted for under the equity method whereby the consolidated financial statements include the appropriate share of the associate's results and reserves based on its latest available financial statements.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of the acquisition or up to the effective date of disposal, as appropriate.



Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Summary of significant accounting policies (continued)

Non controlling interests represent the portion of net income / (loss) and net assets which are not owned, directly or indirectly, by the Bank in its subsidiary and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Bank.

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence and which is neither a subsidiary nor a joint venture.

d) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

e) Derivatives financial instruments and hedge accounting

Derivative financial instruments including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as 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 income statement and are disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting (including embedded derivatives).

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.

3. Summary of significant accounting policies (continued)

iii) Hedge 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 recognized asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

Fair Value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated income statement. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. Where the hedged forecasted transaction results in the recognition of a non financial asset or a non financial liability, then at the time that the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other reserves is retained in 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 income statement for the year.

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Summary of significant accounting policies (continued)

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the Statement of financial position date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective commission rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated income statement. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on the retranslation of available for sale equity instruments. Realized and unrealized gains or losses on exchange are credited or charged to exchange income.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value was determined. Translation differences on non-monetary items, such as equities at Fair Value through Income Statement (FVIS), are reported as a part of the fair value gain or loss in the consolidated income statement. Translation differences on non-monetary items, such as equities classified as available for sale, are included in the other reserves in shareholders' equity.

g) Offsetting financial instruments

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

h) Revenue recognition

Special commission income and expense

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated as at fair value through income statement, (FVIS) are recognized in the consolidated income statement using the effective yield basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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 commission rate and the change in carrying amount is recorded as special commission income or expense.

If 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 yield applied to the new carrying amount.

3. Summary of significant accounting policies (continued)

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

Exchange income / loss

Exchange income / loss is recognised when earned / incurred.

Fees and Commission income

Fees and commissions are recognized 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 recognized as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees are expensed as the service, are received.

Dividend income

Dividend income is recognised when the right to receive income is established.

Trading income

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 and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS (held for trading), available for sale, held to maturity and other investments held at amortized cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customers deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement, on an effective yield basis.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognized in the consolidated Statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement, on an effective yield basis.



Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Summary of significant accounting policies (continued)

j) Investments

All investments securities are initially recognized at fair value, and, with the exception of FVIS investments include acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date without deduction for transaction costs. 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. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

i) Held as fair value through income statement (FVIS)

Investments held as FVIS are classified as either investment held for trading or those designated as fair value through income statement on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term or if designated as such by the management in accordance with criteria laid down in IAS 39. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the year in which it occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income, dividend income and gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense in the consolidated income statement.

ii) Available for sale

Available for sale investments are those equity and debt securities that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices. After initial recognition these investments are measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated income statement for the year.

3. Summary of significant accounting policies (continued)

Special commission income is recognised in the consolidated income statement on effective yield basis. Dividend income is recognised in the consolidated income statement when the Bank becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognised in the consolidated income statement.

iii) Held to maturity

Investments which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as “Other investments held at amortised cost”, are classified as ‘held to maturity’. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated income statement when the investment is de-recognized 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 longer term nature of these investments.

iv) Other investments held at amortized cost

Investments with fixed or determinable payments that are not quoted in an active market are classified as ‘other investments held at amortized cost’. Other investments held at amortized cost, where the fair value has not been hedged are stated at amortized cost using the effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated income statement when the investment is derecognized or impaired.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held as FVIS.

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs:

(i) Available for sale

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in ‘other reserves’ under shareholders’ equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders’ equity is included in the consolidated income statement for the year.



Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Summary of significant accounting policies (continued)

(ii) Loans and advances held at amortized cost

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which the fair value has not been hedged, are stated at amortised cost.

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

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

l) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which include 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.

m) Impairment of financial assets

A financial asset is classified as impaired when there is an objective evidence of impairment as a result of one or more 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.

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

i) Impairment of available for sale financial assets

In the case of debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

3. Summary of significant accounting policies (continued)

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated income statement 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 equity is included in the consolidated income statement for the year.

ii) Financial assets carried at amortized cost

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

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

Impairment charge for credit losses is based upon the management's judgement of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectability of the outstanding loans and advances. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the required level of provisions. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Specific provisions are evaluated individually for all different types of loans and advances, whereas additional provisions are evaluated based on collective impairment of loans and advances, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the statement of financial position date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal gradings or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio. These internal grading take into consideration factors such as any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

When a financial asset is uncollectible, it is written off against the related provision for impairment through provision for impairment account. 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.

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Summary of significant accounting policies (continued)

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

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.

n) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such real estate.

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other property and equipment is depreciated and amortized using the straight line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

p) Liabilities

All money market deposits, placements, customers' deposits and term loans are initially recognized at cost, being the fair value of the consideration received less transaction costs.

Subsequently all commission bearing financial liabilities, where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission income or expense.

3. Summary of significant accounting policies (continued)

Financial liabilities for which there is an associated fair value hedge relationship are adjusted for fair value to the extent of the risk being hedged, and the resultant gain or loss is recognized in the consolidated income statement. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized or impaired.

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated 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 amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

Fee received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

q) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

r) Accounting for leases

i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

ii) Where the Bank is the lessor

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

s) Cash and cash equivalents

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

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Summary of significant accounting policies (continued)

t) De-recognition of financial instruments

A financial asset or a part of financial assets, or a part of group of similar financial assets is derecognized when the contractual rights to the cash flows from the financial asset expires and 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 discharged, cancelled or expired.

u) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity and / or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholders share of net income for the year.

Zakat and income tax are not charged to the consolidated income statement as they are deducted from the dividends paid to the shareholders.

v) Investment management and brokerage services

The Bank offers investment management and brokerage services to its customers, through its subsidiaries, which include management of certain investment funds in consultation with professional investment advisors and brokerage services. The Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

Incomes (loss) from the subsidiaries are included in the consolidated income statement under fee from banking services.

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

w) Islamic banking products

In addition to the conventional banking, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board, as follows:

High level definitions of Islamic banking products

(i) Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) Mudarabah is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal", while the management and work is exclusive responsibility of the customer, who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

3. Summary of significant accounting policies (continued)

(iii) Ijarah is a an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

(iv) Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(v) Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

All Islamic banking products are accounted for in accordance with IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

4- Cash and balances with SAMA

SAR' 000	2009	2008
Cash on hand	479,787	453,867
Statutory deposit	4,407,347	3,989,950
Current account	57,941	56,093
Money market placements	7,685,893	1,272,947
Total	12,630,968	5,772,857

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

Money market placements represent deposits against the purchase of fixed rate bonds with agreement to resell the same at fixed future dates.

5- Due from banks and other financial institutions

SAR' 000	2009	2008
Current accounts	365,878	908,537
Money market placements	6,744,729	3,337,528
Total	7,110,607	4,246,065

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

6- Investments, net

a) These comprise the following:

SAR' 000	2009			2008		
	Domestic	International	Total	Domestic	International	Total
i) Held as FVIS						
Fixed rate securities	347,695	172,709	520,404	1,524,019	-	1,524,019
Floating rate securities	183,730	48,574	232,304	212,271	27,656	239,927
Other	-	7,106	7,106	-	7,106	7,106
Held as FVIS	531,425	228,389	759,814	1,736,290	34,762	1,771,052
ii) Available for sale (AFS)						
Fixed rate securities	-	511,363	511,363	-	1,598,467	1,598,467
Floating rate securities	728,374	382,280	1,110,654	529,396	476,664	1,006,060
Equities	624,060	75,106	699,166	59,904	71,080	130,984
Other	3,102,380	-	3,102,380	3,322,808	-	3,322,808
Available for sale, net	4,454,814	968,749	5,423,563	3,912,108	2,146,211	6,058,319
iii) Held to maturity						
Fixed rate securities	2,353,657	188,936	2,542,593	3,685,922	104,111	3,790,033
Held to maturity	2,353,657	188,936	2,542,593	3,685,922	104,111	3,790,033
iv) Other investments held at amortized cost						
Fixed rate securities	7,228,694	-	7,228,694	13,627,058	36,523	13,663,581
Floating rate notes	1,526,562	375,000	1,901,562	2,427,038	375,000	2,802,038
Other investments held at amortized cost, gross	8,755,256	375,000	9,130,256	16,054,096	411,523	16,465,619
Allowance for impairment (note 6 f)	-	(375,000)	(375,000)	-	(375,000)	(375,000)
Other investments held at amortized cost, net	8,755,256	-	8,755,256	16,054,096	36,523	16,090,619
Total Investments, net	16,095,152	1,386,074	17,481,226	25,388,416	2,321,607	27,710,023

6. Investments, net (continued)

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

SAR' 000	2009			2008		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	1,220,703	9,582,351	10,803,054	3,122,486	17,453,614	20,576,100
Floating rate securities / notes	1,342,958	1,901,562	3,244,520	1,245,987	2,802,038	4,048,025
Equities	456,209	242,957	699,166	62,756	68,228	130,984
Other	-	3,109,486	3,109,486	-	3,329,914	3,329,914
	3,019,870	14,836,356	17,856,226	4,431,229	23,653,794	28,085,023
Allowance for impairment (note 6 f)	-	(375,000)	(375,000)	-	(375,000)	(375,000)
Investments, net	3,019,870	14,461,356	17,481,226	4,431,229	23,278,794	27,710,023

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

SAR' 000	2009				2008			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
i) Held to maturity								
Fixed rate securities	2,542,593	81,899	(39)	2,624,453	3,790,033	137,773	-	3,927,806
Total	2,542,593	81,899	(39)	2,624,453	3,790,033	137,773	-	3,927,806
ii) Other investments held at amortized cost								
Fixed rate securities	7,228,694	21,080	-	7,249,774	13,663,581	262,870	(94)	13,926,357
Floating rate notes	1,901,562	1,497	-	1,528,059	2,802,038	394	(6,297)	2,421,135
Allowance for impairment (note 6 f)	(375,000)	-	-	-	(375,000)	-	-	-
Total	8,755,256	22,577	-	8,777,833	16,090,619	263,264	(6,391)	16,347,492

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

6. Investments, net (continued)

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

SAR' 000	2009	2008
Government and quasi government	12,111,363	21,732,208
Corporate	3,874,644	4,310,381
Banks and other financial institutions	1,444,389	1,629,726
Others	50,830	37,708
Total	17,481,226	27,710,023

e) Credit risk exposure on investments

SAR' 000	2009	2008
Saudi government bonds	11,456,608	21,264,133
Investment grade	2,207,809	2,984,992
Unrated	3,816,809	3,460,898
Total	17,481,226	27,710,023

Saudi government bonds comprise of Saudi government development bonds, treasury bills and floating rate notes. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, Musharakah and Mudarabah SAR 3,102 million (2008: SAR 3,323 million).

f) Movement of allowance for impairment of investments:

SAR' 000	2009	2008
Balance at beginning of the year	410,000	-
Provided during the year		
- Held at amortised cost	-	375,000
- AFS	67,000	35,000
Balance at end of the year	477,000	410,000

During the year, the Bank has recorded a provision of SAR Nil (2008: SAR 375 million) against others investments held at amortised cost. Impairment charge of SAR 67 million (2008: SAR Nil) and SAR Nil (2008: SAR 35 million) have been assessed against international bonds and local equities respectively, which are classified under AFS investments and accordingly, transferred from other reserves in shareholders' equity to the consolidated income statement.

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 155 million (2008: SAR 181 million). Other investments represent investments in international mutual funds.

6. Investments, net (continued)

Available for sale investments include Islamic securities (sukuk) of SAR 753 million (2008: SAR 480 million). Other AFS represents Musharaka investments of SAR 255 million (2008: SAR 502 million) and Mudarabah investments of SAR 2,847 million (2008: SAR 2,821 million) which are hedged and measured at fair value to the extent of the risk being hedged.

Saudi Istithmar mutual fund SAR 51 million (2008: SAR 38 million) and unquoted equity shares of SAR 243 million (2008: SAR 68 million) which are carried at cost as their fair value cannot be reliably measured, are also included under equities available for sale.

Unquoted investments include principally Saudi Government Bonds and notes of SAR 11,457 million (2008: SAR 21,264 million).

Investments include SAR Nil (2008: SAR 7,912 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investments are SAR Nil (2008: SAR 8,086 million).

7- Loans and advances - net

a) Loans and advances are classified as follows

i) Available for sale

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2009					
Performing loans and advances-gross	162,105	-	-	-	162,105
Total loans and advances, available for sale	162,105	-	-	-	162,105
2008					
Performing loans and advances-gross	228,467	-	-	-	228,467
Total loans and advances, available for sale	228,467	-	-	-	228,467

ii) Other loans and advances held at amortised cost

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2009					
Performing loans and advances-gross	67,246,740	514,858	5,575,336	5,084,294	78,421,228
Non performing loans and advances, net	810,202	67,824	123,984	6,138	1,008,148
Total loans and advances	68,056,942	582,682	5,699,320	5,090,432	79,429,376
Allowance for impairment	(1,020,348)	(68,251)	(187,686)	-	(1,276,285)
Loans and advances held at amortised cost, net	67,036,594	514,431	5,511,634	5,090,432	78,153,091

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

7. Loans and advances - net (continued)

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2008					
Performing loans and advances-gross	69,236,729	485,802	4,508,116	6,491,285	80,721,932
Non performing loans and advances, net	582,552	73,187	98,766	9,314	763,819
Total loans and advances	69,819,281	558,989	4,606,882	6,500,599	81,485,751
Allowance for impairment	(624,416)	(73,462)	(149,865)	-	(847,743)
Loans and advances held at amortised cost, net	69,194,865	485,527	4,457,017	6,500,599	80,638,008

b) Movement in allowance for impairment

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2009					
Balance at beginning of the year	624,416	73,462	149,865	-	847,743
Provided during the year	454,151	56,894	109,653	-	620,698
Written off during the year	(29,085)	(52,957)	(64,037)	-	(146,079)
Recoveries of amounts previously provided	(29,134)	(9,148)	(7,795)	-	(46,077)
Balance at the end of the year	1,020,348	68,251	187,686	-	1,276,285
2008					
Balance at beginning of the year	699,518	42,707	83,295	-	825,520
Provided during the year	34,210	61,067	98,846	-	194,123
Written off during the year	(23,006)	(24,114)	(24,922)	-	(72,042)
Recoveries of amounts previously provided	(86,306)	(6,198)	(7,354)	-	(99,858)
Balance at the end of the year	624,416	73,462	149,865	-	847,743

The net charge to income of SAR 575 million (2008: SAR 94 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 46 million (2008: SAR: 100 million). The allowance for impairment includes SAR 546 million (2008: SAR: 418 million) evaluated on collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 103 million (2008: SAR 69 million).

7. Loans and advances - net (continued)

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2009					
Very strong quality including sovereign (A+ to B and S)	12,531,771	3,350	2,585	225,345	12,763,051
Good quality (C+ to C)	14,549,444	4,570	1,641	1,986,661	16,542,316
Satisfactory quality (C- to E+)	38,235,423	455,246	4,762,283	2,867,835	46,320,787
Special mention	1,628,641	1,449	3,296	4,453	1,637,839
Total	66,945,279	464,615	4,769,805	5,084,294	77,263,993
2008					
Very strong quality including sovereign (A+ to B and S)	15,727,566	1,286	3,198	429,690	16,161,740
Good quality (C+ to C)	15,221,077	1,578	11,687	4,045,199	19,279,541
Satisfactory quality (C- to E+)	36,437,426	302,723	3,545,890	1,960,548	42,246,587
Special mention	1,211,015	1,694	2,184	55,848	1,270,741
Total	68,597,084	307,281	3,562,959	6,491,285	78,958,609

Very strong quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Good quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

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

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2009					
From 1 day to 30 days	14,067	16,089	667,802	-	697,958
From 31 days to 90 days	168,336	20,061	89,321	-	277,718
From 91 days to 180 days	152,671	14,093	43,535	-	210,299
More than 180 days	128,492	-	4,873	-	133,365
Total	463,566	50,243	805,531	-	1,319,340

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

7. Loans and advances - net (continued)

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2008					
From 1 day to 30 days	773	123,685	831,476	-	955,934
From 31 days to 90 days	458,661	26,244	59,770	-	544,675
From 91 days to 180 days	154,098	28,592	53,911	-	236,601
More than 180 days	254,580	-	-	-	254,580
Total	868,112	178,521	945,157	-	1,991,790

iii) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2009				
Government and quasi government	1,273,814	-	-	1,273,814
Banks and other financial institutions	695,429	209,809	(154,420)	750,818
Agriculture and fishing	2,281,836	7,304	(10,650)	2,278,490
Manufacturing	10,461,287	4,917	(55,782)	10,410,422
Mining and quarrying	1,411,558	3,595	(3,431)	1,411,722
Electricity, water, gas and health services	2,339,550	3,547	(2,088)	2,341,009
Building and construction	7,155,369	22,037	(57,141)	7,120,265
Commerce	17,318,869	276,568	(306,271)	17,289,166
Transportation and communication	6,367,252	126,115	(79,828)	6,413,539
Services	6,165,240	88,287	(139,428)	6,114,099
Consumer loans and credit cards	6,090,194	191,808	(255,937)	6,026,065
Others	17,022,935	74,161	(211,309)	16,885,787
Total	78,583,333	1,008,148	(1,276,285)	78,315,196
2008				
Government and quasi government	1,191,910	-	-	1,191,910
Banks and other financial institutions	1,357,287	-	(10,963)	1,346,324
Agriculture and fishing	2,110,133	7,341	(13,755)	2,103,719
Manufacturing	10,839,923	6,605	(29,543)	10,816,985
Mining and quarrying	749,516	4,409	(3,512)	750,413
Electricity, water, gas and health services	1,688,023	-	(671)	1,687,352
Building and construction	9,233,044	22,538	(83,310)	9,172,272
Commerce	19,001,841	363,953	(237,619)	19,128,175
Transportation and communication	5,313,209	1,484	(8,276)	5,306,417
Services	6,901,291	76,974	(159,634)	6,818,631
Consumer loans and credit cards	4,993,918	171,953	(223,327)	4,942,544
Others	17,570,304	108,562	(77,133)	17,601,733
Total	80,950,399	763,819	(847,743)	80,866,475

Loans and advances, net include Islamic products of SAR 30,468 million (2008: SAR 26,633 million).

The impairment charge for credit losses include provisions made against non performing commitments and contingencies.

7. Loans and advances - net (continued)

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 include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

e) Loans and advances include finance lease receivables, which are analyzed as follows:

SAR' 000	2009	2008
Gross receivable from finance leases:		
Less than 1 year	397,273	31,066
1 to 5 years	584,483	660,392
More than 5 years	1,127,713	444,061
	2,109,469	1,135,519
Unearned future finance income on finance leases	(5,171)	(15,001)
Net receivable from finance leases	2,104,298	1,120,518

8- Investment in associates

SAR' 000	2009	2008
Opening balance	176,859	124,595
Cost of investment during the year	-	39,821
Dividend received	(5,076)	-
Share of undistributed (loss) / profit	(27,439)	12,443
Closing balance	144,344	176,859

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2008: 27%), a bank incorporated in Syria and 50% shareholding in InSaudi Insurance Company (2008: 50%) incorporated in Kingdom of Bahrain and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2008: 32.5%) incorporated in the Kingdom of Saudi Arabia .

The Bank also owns 50% of Sofinco Saudi Fransi (2008: 50%), which is involved in consumer lease finance and 45% of CALYON Saudi Fransi (2008: 45%), which is involved in corporate financial advisory services.

During the year, InSaudi Insurance Company's insurance business and related net assets have been transferred to Saudi Fransi Corporate Insurance Company after the approval of the Saudi Arabian Monetary Agency (SAMA) .Accordingly, after finalizing the transfer of the assets and liabilities and settlement of all legal obligations, the shareholders of the InSaudi Insurance Company have agreed to liquidate the company.

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8. Investment in associates (continued)

The Bank's share of the associate's financial statements:

SAR' 000	Bemo Saudi Fransi		Allianz Saudi Fransi	
	2009	2008	2009	2008
Total assets	2,332,571	1,950,678	144,111	77,785
Total liabilities	2,235,831	1,866,291	130,209	56,372
Total equity	96,740	84,387	13,902	21,413
Total income	53,624	47,889	13,899	1,177
Total expenses	38,268	31,898	21,496	13,953

The results of other three associates i.e. InSaudi Insurance Company, Sofinco Saudi Fransi and CALYON Saudi Fransi are not significant and are not disclosed in these consolidated financial statements.

9- Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total 2009	Total 2008
Cost					
Balance at the beginning of the year	453,725	82,968	591,230	1,127,923	1,068,834
Additions	-	46,606	83,079	129,685	120,465
Disposals and retirements	-	(23,438)	(29,023)	(52,461)	(61,376)
Balance at the end of the year	453,725	106,136	645,286	1,205,147	1,127,923
Accumulated depreciation and amortization					
Balance at the beginning of the year	161,875	207	375,196	537,278	491,132
Charge for the year	8,609	29,030	76,342	113,981	87,324
Disposals and retirements	-	(23,437)	(28,860)	(52,297)	(41,178)
Balance at the end of the year	170,484	5,800	422,678	598,962	537,278
Net book value as at December 31, 2009	283,241	100,336	222,608	606,185	-
Net book value as at December 31, 2008	291,850	82,761	216,034	-	590,645

Land and buildings and leasehold improvements as at December 31, 2009 include work in progress amounting to SAR 1 million (2008: SAR 13 million) and SAR 20 million (2008: SAR 12 million) respectively. Furniture, equipment and vehicles include information technology related assets.

10- Other assets

SAR' 000	2009	2008
Accrued special commission receivable – banks and other financial institutions	4,294	43
– investments	14,165	63,125
– loans and advances	274,238	489,642
Total accrued special commission receivable	292,697	552,810
Accounts receivable	129,788	221,334
Assets held under agency agreement	-	500,000
Positive fair value of derivatives (note 11)	3,551,030	4,925,609
Other real estate	4,800	4,800
Others	305,597	297,284
Total	4,283,912	6,501,837

11- Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

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11. Derivatives (continued)

d) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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

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

11. Derivatives (continued)

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

Cash flow hedges

The Bank is exposed to variability in future commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The bank uses commission swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

SAR' 000	Within 1 year	1-3 years	3-5 years	Over 5 years
2009				
Cash inflows (assets)	666,845	1,111,110	602,818	91,052
Cash out flows (liabilities)	(480,729)	(1,239,432)	(638,771)	(110,412)
Net cash inflow	186,116	(128,322)	(35,953)	(19,360)
2008				
Cash inflows (assets)	583,089	950,622	497,697	230,910
Cash out flows (liabilities)	(275,320)	(837,160)	(494,352)	(243,167)
Net cash inflow	307,769	113,462	3,345	(12,257)

The net gain on cash flow hedges reclassified to the consolidated income statement during the year was as follows:

SAR' 000	2009	2008
Special commission income	592,780	456,478
Special commission expense	(191,775)	(327,028)
Net gain on cash flow hedges reclassified to consolidated income statement	401,005	129,450

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11. Derivatives (continued)

	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
SAR' 000								
2009								
Held for trading								
Commission rate swaps	3,321,532	3,092,042	169,517,307	8,307,267	27,855,833	118,866,175	14,488,032	160,561,201
Commission rate futures and options	7,180	2,891	11,258,977	151,500	2,343,750	8,299,250	464,477	9,639,271
Forward rate agreements	-	330	250,000	-	250,000	-	-	187,500
Forward foreign exchange contracts	166,675	101,215	57,988,907	34,387,245	22,071,759	1,529,903	-	57,697,858
Currency options	96,042	31,074	2,490,087	1,061,078	1,354,372	74,637	-	6,433,856
Others	1,095	-	787,727	414,163	118,621	254,943	-	904,323
Held as fair value hedges								
Commission rate swaps	132,080	125,872	7,458,334	11,020	1,128,781	6,210,801	107,732	8,807,999
Held as cash flow hedges								
Commission rate swaps	654,302	35,418	22,893,700	400,000	2,067,000	19,176,700	1,250,000	17,970,263
Total	4,378,906	3,388,842	272,645,039	44,732,273	57,190,116	154,412,409	16,310,241	262,202,271
Fair value of netting arrangements	(827,876)	(827,876)	(54,899,818)	(822,040)	(5,545,562)	(45,816,752)	(2,715,464)	(47,963,935)
Total after netting (notes 10 and 14)	3,551,030	2,560,966	217,745,221	43,910,233	51,644,554	108,595,657	13,594,777	214,238,336
2008								
Held for trading								
Commission rate swaps	4,167,664	4,207,703	155,237,874	15,472,738	35,774,346	87,961,951	16,028,839	127,542,075
Commission rate futures and options	5,859	2,247	9,239,742	-	1,665,000	6,792,500	782,242	8,042,127
Forward rate agreements	-	76	50,000	-	50,000	-	-	37,500
Forward foreign exchange contracts	454,235	441,466	64,752,949	29,595,561	32,999,702	2,157,686	-	67,089,121
Currency options	336,238	227,597	11,311,778	2,503,780	6,229,366	2,578,632	-	12,665,666
Others	6,864	-	1,269,650	341,262	365,700	562,688	-	809,618
Held as fair value hedges								
Commission rate swaps	211,847	206,685	12,255,744	1,918,912	3,224,606	6,930,932	181,294	11,327,367
Held as cash flow hedges								
Commission rate swaps	594,098	724	11,402,450	467,500	150,000	9,278,700	1,506,250	6,507,138
Total	5,776,805	5,086,498	265,520,187	50,299,753	80,458,720	116,263,089	18,498,625	234,020,612
Fair value of netting arrangements	(851,196)	(851,196)	(39,074,298)	(2,246,824)	(5,849,212)	(27,603,174)	(3,375,088)	(24,640,664)
Total after netting (notes 10 and 14)	4,925,609	4,235,302	226,445,889	48,052,929	74,609,508	88,659,915	15,123,537	209,379,948

11. Derivatives (continued)

Commission rate swaps include the notional amount of SAR 54,900 million (2008: SAR 39,074 million) with an aggregate positive fair value and a negative fair value of SAR 828 million (2008: SAR 851 million) which are netted out for credit exposure purposes as the Bank intends to settle these on a net basis.

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

SAR' 000	fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2009						
Fixed commission rate investments	1,980,538	1,917,578	Fair value	Commission rate swap	-	60,876
Fixed commission rate loans	1,222,634	1,109,931	Fair value	Commission rate swap	-	64,996
Fixed commission rate deposits	4,548,213	4,421,456	Fair value	Commission rate swap	132,080	-
Floating commission rate investments	2,524,950	2,524,950	Cash flow	Commission rate swap	151,171	-
Floating commission rate loans	20,368,750	20,368,750	Cash flow	Commission rate swap	503,131	35,418
2008						
Fixed commission rate investments	2,871,267	2,760,713	Fair value	Commission rate swap	-	85,103
Fixed commission rate loans	3,112,276	2,958,793	Fair value	Commission rate swap	-	121,252
Fixed commission rate deposits	6,052,540	5,878,080	Fair value	Commission rate swap	211,847	330
Floating commission rate investments	3,502,050	3,502,050	Cash flow	Commission rate swap	25,497	724
Floating commission rate loans	7,900,000	7,900,000	Cash flow	Commission rate swap	475,934	-

The net gains on the hedging instruments for fair value hedge are SAR 6 million (2008: SAR 5 million). The net gains on the hedged item attributable to the hedged risk are SAR 49 million (2008: gain SAR 90 million). The net fair value of the derivatives is SAR 55 million (2008: SAR 95 million).

Approximately 76% (2008: 27%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 27% (2008: 25%) of the net positive fair values of the derivatives are with any single counterpart group at the statement of financial position date. The derivative activities are mainly carried out under Bank's treasury banking segment.

12- Due to banks and other financial institutions

SAR' 000	2009	2008
Current accounts	532,912	677,614
Money market deposits	4,298,887	7,724,388
Total	4,831,799	8,402,002

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13- Customers' deposits

SAR' 000	2009	2008
Demand	34,005,313	28,696,224
Saving	375,862	328,801
Time	55,057,699	60,599,419
Other	1,798,244	3,166,837
Total	91,237,118	92,791,281

Time deposits include deposits against sale of securities of SAR Nil (2008: SAR 7,968 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 928 million (2008: SAR 733 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR 17,700 million (2008: SAR 15,712 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2009	2008
Demand	4,898,405	4,789,099
Saving	19,593	19,584
Time	24,161,365	18,289,025
Other	381,094	337,475
Total	29,460,457	23,435,183

14- Other liabilities

SAR' 000	2009	2008
Accrued special commission payable – banks and other financial institutions	672	32,942
– customers' deposits	107,344	334,388
– term loans	328	24,597
– others	181,792	50,915
Total accrued special commission payable	290,136	442,842
Accounts payable and accrued expenses	644,723	527,790
Negative fair value of derivatives (note 11)	2,560,966	4,235,302
Others	309,685	469,208
Total	3,805,510	5,675,142

15- Term loans

Apart from the syndicated term loan of USD 650 million entered in the year 2005 (repayable in 2010), the Bank entered into a five year term loan agreement on June 25, 2008 for Euro 100 million (repayable in 2013) for general banking purposes. Both loans have been drawn down in full. In addition, the Bank entered into another term loan agreement on September 22, 2008 for USD 525 million, which has also been drawn down in full and comprises a three year tranche (USD183 million) and a five year tranche (USD 342 million) for general banking purposes. However, the Bank has an option to repay all these loans before their maturity subject to terms and conditions of the respective agreements.

16- Share capital

The authorised, issued and fully paid share capital of the Bank consists of 723.2 million shares of SAR 10 each (2008: 562.5 million shares of SAR 10 each). During the year, in accordance with the shareholders' resolution passed at the General Assembly Meeting held on April 6, 2009, a stock dividend issue of 160.7 million shares at a nominal value SAR 10 each was approved to the existing shareholders, on the basis of 2 stock dividend shares for every 7 shares held, through the capitalization of general reserve.

Accordingly, an amount of SAR 1,607 million (2008: SAR Nil) was transferred from general reserve to share capital and the numbers of shares of the Bank have increased from 562.5 million shares to 723.2 million shares.

The ownership of the Bank's share capital is as follows:

SAR' 000	%	2009	2008
Saudi shareholders	68.9	4,982,143	3,875,000
CALYON Corporate and Investment Bank	31.1	2,250,000	1,750,000
Total	100	7,232,143	5,625,000

17- Statutory and general reserves

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

An amount of SAR 618 million (2008: SAR 701 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is currently not available for distribution.

An appropriation of SAR Nil (2008: SAR 1,390 million) has been made to general reserve from retained earnings for the year.

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18- Other reserves

SAR' 000	Cash flow hedges	Available for sale investments	Total
2009			
Balance at beginning of the year	500,707	(205,266)	295,441
Net change in fair value	247,549	76,112	323,661
Transfer to consolidated income statement	(401,005)	68,894	(332,111)
Net movement during the year	(153,456)	145,006	(8,450)
Balance at the end of the year	347,251	(60,260)	286,991
2008			
Balance at beginning of the year	74,778	(94,397)	(19,619)
Net change in fair value	555,379	(317,521)	237,858
Transfer to consolidated income statement	(129,450)	206,652	77,202
Net movement during the year	425,929	(110,869)	315,060
Balance at the end of the year	500,707	(205,266)	295,441

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

Transfer to consolidated income statement from available for sale reserve represents, loss on disposal of available for sale investments – international amounting to SAR 2 million (2008: loss SAR 171 million), impairment charges amounting to SAR Nil (2008: SAR 35 million) against available for sale equity investments and impairment charges amounting to SAR 67 million (2008: SAR Nil) against available for sale investments-international. Accordingly, the cumulative gain or loss recognised previously in equity and gain or loss on disposal of investments during the year and impairment charges have been transferred to consolidated income statement. For cash flow hedges, the amount shown as balance of reserves as at December 31, 2009 is expected to affect the consolidated income statement in the coming one to five years.

19- Commitments and contingencies

a) Legal proceedings

As at December 31, 2009 there were 17 (2008: 16) legal proceedings outstanding against the Bank. No material provision has been made as the related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2009 the Bank had capital commitments of SAR 50 million (2008: SAR 84 million) in respect of buildings and equipment purchases.

19. Commitments and contingencies (continued)

c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

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

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

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

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

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2009					
Letters of credit	6,618,013	2,290,267	2,711,470	3,753	11,623,503
Letters of guarantee	6,918,932	12,746,089	14,597,094	368,595	34,630,710
Acceptances	1,225,978	626,465	66,839	-	1,919,282
Irrevocable commitments to extend credit	-	-	946,255	970,741	1,916,996
Total	14,762,923	15,662,821	18,321,658	1,343,089	50,090,491
2008					
Letters of credit	5,325,788	3,120,414	2,585,711	553,746	11,585,659
Letters of guarantee	7,882,130	10,047,506	13,173,080	166,199	31,268,915
Acceptances	1,627,724	952,633	90,043	-	2,670,400
Irrevocable commitments to extend credit	81,020	350,750	1,236,169	3,747,805	5,415,744
Total	14,916,662	14,471,303	17,085,003	4,467,750	50,940,718

The outstanding unused portion of non firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2009 is SAR 57,146 million (2008: SAR 40,322 million).

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19. Commitments and contingencies (continued)

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

SAR' 000	2009	2008
Government and quasi government	383,800	843,983
Corporate	41,737,576	44,763,058
Banks and other financial institutions	7,703,905	5,009,507
Other	265,210	324,170
Total	50,090,491	50,940,718

d) Assets pledged

Assets pledged as collateral with other financial institutions are as follows:

SAR' 000	2009		2008	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost (note 6)	-	-	7,912,306	7,968,475
Total	-	-	7,912,306	7,968,475

e) Operating lease commitments

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

SAR' 000	2009	2008
Less than 1 year	3,729	4,089
1 to 5 years	61,769	39,061
Over 5 years	180,577	188,212
Total	246,075	231,362

20- Special commission income and expense

SAR' 000	2009	2008
Special commission income		
Investments		
– Available for sale	197,207	341,661
– Held to maturity	121,567	129,391
– Other investments held at amortized cost	437,042	717,849
	755,816	1,188,901
Due from banks and other financial institutions	367,129	243,473
Loans and advances	2,966,379	3,865,939
Total	4,089,324	5,298,313
Special commission expense		
Due to banks and other financial institutions	36,917	408,565
Customers' deposits	915,050	1,939,990
Term loans	87,068	129,168
Total	1,039,035	2,477,723

21- Fee and commission income, net

SAR' 000	2009	2008
Fees and commission income		
- Share trading, brokerage and fund management	232,433	314,539
- Trade finance	258,962	233,977
- Project finance and advisory	236,187	184,912
- Card products	104,297	136,054
- Other banking services	116,551	72,844
Total fees and commission income	948,430	942,326
Fees and commission expense		
- Share trading and brokerage	45,584	62,074
- Custodial services	4,179	3,707
- Card products	57,668	39,445
- Other banking services	745	2,620
Total fees and commission expense	108,176	107,846
Fees and commission income, net	840,254	834,480

22- Trading income, net

SAR' 000	2009	2008
Foreign exchange gains (losses), net	1,961	(3,294)
Investments- held as FVIS, net	26,291	63,978
Derivatives, net	181,494	439,766
Others	-	(810)
Total	209,746	499,640

23- Dividend income

SAR' 000	2009	2008
Available for sale investments	363	1,791

24- Loss on non-trading investments, net

SAR' 000	2009	2008
Available for sale	(1,894)	(171,652)
Other investments held at amortized cost	-	115,965
Total	(1,894)	(55,687)

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25- Other operating income

SAR' 000	2009	2008
Gains on disposal of property and equipment	83	1,002
Others	9,971	48,720
Total	10,054	49,722

26- Other operating expenses

SAR' 000	2009	2008
Loss on disposal of property and equipment	134	556
Others	9,904	5,509
Total	10,038	6,065

27- Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2009 and 2008 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 723.2 million shares .

28- Proposed gross dividend, zakat and income tax

The Board of Directors has proposed on December 22, 2009 a total dividend of SAR 1.0 (2008: SAR 1.0) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. No interim dividend has been proposed by the Board of Directors for the year 2009 (2008: SAR Nil per share).

Gross dividend

SAR' 000	2009	2008
Final proposed dividend	990,000	776,711
Total	990,000	776,711

The zakat and income tax, attributable to Saudi and foreign shareholders are as follows:

28. Proposed gross dividend, zakat and income tax (continued)

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 181 million (2008: SAR 142 million) which will be deducted from their share of dividend for the year. The net total dividend to Saudi shareholders is SAR 498 million (2008: SAR 387 million).

ii) Income tax

Income tax payable in respect of foreign shareholder – CALYON's current year's share of income tax is approximately SAR 162 million (2008: SAR 202 million) which will be deducted from their share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 149 million (2008: SAR 44 million).

29- Cash and cash equivalents

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

SAR' 000	2009	2008
Cash and balances with SAMA excluding statutory deposits – (note 4)	8,223,621	1,782,907
Due from banks and other financial institutions maturing within ninety days from the date of acquisition (note 5)	7,110,607	4,246,065
Total	15,334,228	6,028,972

30- Operating segments

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance. In contrast, the predecessor standard IAS 14 Segment Reporting required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as a starting point for the identification of such segments.

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

Transactions between the operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Special commission charged for these funds is based on intra-bank rates. Transactions between the operating segments are reported according to the Bank's internal transfer pricing policy.



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30. Operating segments (continued)

a) The Bank's reportable segments under IFRS 8 are as follows:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, and certain forex products.

Corporate Banking – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury Banking – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment banking and brokerage – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, and international and local shares brokerage services and insurance.

The Bank's total assets and liabilities as at December 31, 2009 and 2008, its total operating income and expenses, share in (losses) / earnings of associates and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

30. Operating segments (continued)

SAR' 000	Retail banking	Corporate banking	Treasury banking	Investment banking and brokerage	Total
2009					
Total assets	12,671,981	70,282,007	37,604,573	13,877	120,572,438
Investment in associates	-	-	144,344	-	144,344
Total liabilities	39,670,064	52,279,482	12,851,008	20,104	104,820,658
Total operating income	1,306,621	1,980,768	832,076	175,442	4,294,907
Share in (losses) of associates, net	-	-	(27,439)	-	(27,439)
Total operating expenses	833,858	685,136	183,606	97,063	1,799,663
Net income for the year	472,763	1,295,632	621,031	78,379	2,467,805
Non controlling interest loss	-	-	-	2,810	2,810
Results:					
Net special commission income	1,098,878	1,505,590	445,821	-	3,050,289
Fee and commission income, net	185,162	469,684	9,966	175,442	840,254
Exchange income, net	13,188	2,386	170,521	-	186,095
Trading income, net	-	-	209,746	-	209,746
Loss on non trading investments, net	-	-	1,894	-	1,894
Impairment charges for credit losses, net	152,196	418,677	3,748	-	574,621
Impairment charge for other financial assets	-	-	67,000	-	67,000
Depreciation and amortization	79,046	22,333	11,653	949	113,981
2008					
Total assets	12,206,981	74,196,505	39,444,141	17,134	125,864,761
Investment in associates	-	-	176,859	-	176,859
Total liabilities	39,709,504	52,165,161	19,895,083	25,877	111,795,625
Total operating income	1,250,015	1,605,147	1,293,889	242,590	4,391,641
Share in earnings of associates, net	-	-	12,443	-	12,443
Total operating expenses	759,496	183,585	553,277	103,790	1,600,148
Net income for the year	490,519	1,421,562	753,055	138,800	2,803,936
Non controlling interest loss	-	-	1,723	-	1,723
Results:					
Net special commission income	1,086,281	1,179,174	555,135	-	2,820,590
Fee and commission income, net	141,367	425,422	25,101	242,590	834,480
Exchange income, net	10,664	482	229,959	-	241,105
Trading income, net	-	-	499,640	-	499,640
Loss on non trading investments, net	-	-	55,687	-	55,687
Impairment charges for credit losses, net	125,028	(34,763)	4,000	-	94,265
Impairment charge for other financial assets	-	-	410,000	-	410,000
Depreciation and amortization	61,753	16,110	9,077	384	87,324

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30. Operating segments (continued)

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

SAR' 000	Retail banking	Corporate banking	Treasury	Total
2009				
Statement of financial position assets	12,128,102	70,069,342	33,005,111	115,202,555
Commitments and contingencies	47,087	22,470,750	-	22,517,837
Derivatives	25,958	876,574	5,461,347	6,363,879
2008				
Statement of financial position assets	11,651,365	73,297,286	33,369,761	118,318,412
Commitments and contingencies	1,251,822	22,078,040	-	23,329,862
Derivatives	43,771	1,166,170	5,347,403	6,557,344

Credit exposure comprises the carrying value of consolidated Statement of financial position assets excluding cash, property and equipment, other assets and credit equivalent value of commitments, contingencies and derivatives. The credit equivalent value of commitments, contingencies and derivatives are calculated as per the Saudi Arabian Monetary Agency (SAMA) guidelines.

31- Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-statement of financial position, financial instruments, such as loan commitments and derivatives.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by 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.

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



31. Credit risk (continued)

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 allowance for impairment losses.

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

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. The Risk Department is set up in such a way so as to assure independence of the Credit Division from the business lines. Common risk management procedures are adapted to the changes in the Bank's activities and updated on a regular basis. Business lines submit the credit applications to the Credit Division which in turn acts as Secretary of the Credit Committee. The principle of dual signature by the business line and Credit Division applies for all commitments. Above a certain limit, the files are submitted to the Executive Committee for their approval.

Risk rating is used to classify borrowing customers according to the Bank's assessment of the intrinsic risk quality of a customer. The Bank uses an automated rating system to assign the rating of customers, which takes into consideration the quantitative financial data as well as qualitative elements assigned by the business lines. The system uses a scale of 14 grades and allows comparison with ratings of international rating agencies. Corporate and commercial customers are assigned specific ratings accordingly.

The loans and advances portfolio is reviewed periodically, with the annual credit application review, which assists to maintain and improve the quality of assets. When a customer defaults on commission payment or repayment of principal, the customer is downgraded to the non performing portfolio. The non performing portfolio is dealt with by the Remedial Department within the Credit Division. Impairment charge for credit losses are allocated and monitored regularly.

The debt securities included in investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to note 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19.

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31. Credit risk (continued)

Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2009						
Assets						
Cash and balances with SAMA	12,630,968	-	-	-	-	12,630,968
Due from banks and other financial institutions	600,400	1,785,321	2,636,728	1,318,624	769,534	7,110,607
Investments and investment in associates net	16,135,988	598,473	576,718	314,391	-	17,625,570
Loans and advances, net	74,217,808	1,609,642	2,188,548	252,262	46,936	78,315,196
Total	103,585,164	3,993,436	5,401,994	1,885,277	816,470	115,682,341
Liabilities						
Due to banks and other financial institutions	2,157,973	2,056,988	362,477	245,386	8,975	4,831,799
Customers' deposits	90,933,518	68,005	92,995	62	142,538	91,237,118
Term loans	-	-	4,946,231	-	-	4,946,231
Total	93,091,491	2,124,993	5,401,703	245,448	151,513	101,015,148
Commitments and contingencies	42,111,608	695,719	4,521,277	94,399	2,667,488	50,090,491
Credit exposure (credit equivalent value)						
Commitments and contingencies	19,002,884	337,857	2,242,697	46,242	888,159	22,517,839
Derivatives	1,656,834	226,408	3,982,484	498,153	-	6,363,879
2008						
Assets						
Cash and balances with SAMA	5,772,857	-	-	-	-	5,772,857
Due from banks and other financial institutions	13,945	929,098	2,338,193	959,169	5,660	4,246,065
Investments and investment in associates net	25,501,019	354,462	942,519	1,051,364	37,518	27,886,882
Loans and advances, net	76,953,852	1,418,777	2,176,533	265,698	51,615	80,866,475
Total	108,241,673	2,702,337	5,457,245	2,276,231	94,793	118,772,279
Liabilities						
Due to banks and other financial institutions	4,671,004	2,910,835	673,427	104,818	41,918	8,402,002
Customers' deposits	92,560,249	70,378	62,513	484	97,657	92,791,281
Term loans	-	-	4,927,200	-	-	4,927,200
Total	97,231,253	2,981,213	5,663,140	105,302	139,575	106,120,483
Commitments and contingencies	44,910,328	862,921	3,960,800	42,119	1,164,550	50,940,718
Credit exposure (credit equivalent value)						
Commitments and contingencies	20,554,177	420,398	1,955,605	13,449	386,233	23,329,862
Derivatives	1,904,996	269,772	3,947,396	435,180	-	6,557,344

31. Credit risk (continued)

Credit equivalent amounts reflect the amounts that result from translating the Bank's off- Statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment.

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

SAR' 000	2009		2008	
	Non performing net	Allowance for impairment of credit losses	Non performing net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	1,008,148	1,276,285	763,819	847,743
Total	1,008,148	1,276,285	763,819	847,743

Allowance for impairment of credit losses includes specific and collective provisions.

32- 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. In order to manage the market risk in trading book, the Bank applies on a daily basis a VAR methodology in order to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes 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.

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32. Market risk (continued)

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 Bank's ALCO committee for their review.

The Bank's VAR related information for the year ended December 31, 2009 and 2008 are as follows:

SAR' 000	Foreign exchange rate	Special commission rate risk	Equity price risk	Total
2009				
VAR as at December 31, 2009	51	5,889	-	5,940
Average VAR for 2009	166	7,671	-	7,837
Maximum VAR for 2009	1,174	14,839	-	16,013
Minimum VAR for 2009	12	3,163	-	3,175
2008				
VAR as at December 31, 2008	13	7,502	-	7,515
Average VAR for 2008	153	6,421	-	6,574
Maximum VAR for 2008	2,763	11,711	-	14,474
Minimum VAR for 2008	13	2,569	-	2,582

b) Market risk non- trading book

Market risk on non-trading book mainly arises from the 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.

32. Market risk (continued)

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the special commission income is the effect of the assumed changes in commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2009, 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, 2009 for the effect of assumed changes in commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

		Sensitivity of special commission income	Sensitivity of Equity				
SAR' 000	BPS change		6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
2009							
Currency							
USD	+100	(78,000)	(131)	(2,186)	(31,473)	(4,733)	(38,523)
	-100	41,000	131	2,186	31,473	4,733	38,523
SAR	+100	343,000	18,966	(23,876)	(562,996)	(41,858)	(609,764)
	-100	(299,000)	(18,966)	23,876	562,996	41,858	609,764
2008							
Currency							
USD	+100	(52,000)	(230)	(2,890)	(7,260)	(3,210)	(13,590)
	-100	52,000	230	2,890	7,260	3,210	13,590
SAR	+100	187,000	9,624	(28,688)	(127,056)	(177,500)	(323,620)
	-100	(187,000)	(9,624)	28,688	127,056	177,500	323,620

Commission rate sensitivity of assets, liabilities and off statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

The table below summarises the Bank's exposure to commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

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32. Market risk (continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
2009							
Assets							
Cash and balances with SAMA	7,685,893	-	-	-	4,945,075	12,630,968	0.25%
Due from banks and other financial institutions	6,744,729	-	-	-	365,878	7,110,607	0.48%
Investments and investment in associates ,net	10,605,938	1,083,117	4,842,765	242,334	851,416	17,625,570	2.06%
Loans and advances, net	54,089,829	14,746,117	7,700,698	1,500,609	277,943	78,315,196	3.30%
Property and equipment, net	-	-	-	-	606,185	606,185	-
Other assets	-	-	-	-	4,283,912	4,283,912	-
Total assets	79,126,389	15,829,234	12,543,463	1,742,943	11,330,409	120,572,438	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	4,287,049	11,838	-	-	532,912	4,831,799	0.29%
Customers' deposits	42,605,191	9,732,718	3,534,641	-	35,364,568	91,237,118	0.72%
Other liabilities	-	-	-	-	3,805,510	3,805,510	-
Term loans	4,946,231	-	-	-	-	4,946,231	1.11%
Shareholders' equity	-	-	-	-	15,751,780	15,751,780	-
Total liabilities and shareholders' equity	51,838,471	9,744,556	3,534,641	-	55,454,770	120,572,438	-
On statement of financial position gap	27,287,918	6,084,678	9,008,822	1,742,943	(44,124,361)	-	-
Off statement of financial position gap	(21,719,310)	2,198,621	18,034,106	1,486,583	-	-	-
Total commission rate sensitivity gap	5,568,608	8,283,299	27,042,928	3,229,526	(44,124,361)	-	-
Cumulative commission rate sensitivity gap	5,568,608	13,851,907	40,894,835	44,124,361	-	-	-
2008							
Assets							
Cash and balances with SAMA	1,272,947	-	-	-	4,499,910	5,772,857	1.50%
Due from banks and other financial institutions	3,337,528	-	-	-	908,537	4,246,065	2.04%
Investments and investment in associates ,net	9,976,144	10,592,531	6,635,460	335,797	346,950	27,886,882	5.72%
Loans and advances, net	48,561,321	19,916,596	8,349,034	3,705,267	334,257	80,866,475	4.24%
Property and equipment, net	-	-	-	-	590,645	590,645	-
Other assets	-	-	-	-	6,501,837	6,501,837	-
Total assets	63,147,940	30,509,127	14,984,494	4,041,064	13,182,136	125,864,761	-
Liabilities and shareholders' equity							
Due to banks and other financial institutions	7,365,695	358,693	-	-	677,614	8,402,002	2.44%
Customers' deposits	48,614,283	15,075,449	3,175,011	-	25,926,538	92,791,281	2.92%
Other liabilities	-	-	-	-	5,675,142	5,675,142	-
Term loans	2,437,500	2,489,700	-	-	-	4,927,200	2.54%
Shareholders' equity	-	-	-	-	14,069,136	14,069,136	-
Total liabilities and shareholders' equity	58,417,478	17,923,842	3,175,011	-	46,348,430	125,864,761	-
On statement of financial position gap	4,730,462	12,585,285	11,809,483	4,041,064	(33,166,294)	-	-
Off statement of financial position gap	(8,131,737)	(1,617,229)	8,522,841	1,226,125	-	-	-
Total commission rate sensitivity gap	(3,401,275)	10,968,056	20,332,324	5,267,189	(33,166,294)	-	-
Cumulative commission rate sensitivity gap	(3,401,275)	7,566,781	27,899,105	33,166,294	-	-	-

32. Market risk (continued)

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

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

ii) Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2009 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated income statement or equity; whereas a negative effect shows a potential net reduction in the consolidated income statement or equity.

	2009			2008		
	Change in Currency Rate in %	Effect on Net Income	Effect on Equity	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
SAR' 000						
Currency Exposures						
USD	+5	(16,526)	1,741	+5	(16,072)	1,978
EUR	-3	(3,090)	-	-3	(2,807)	-

iii) Currency position

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

SAR' 000	2009 Long	2008 Long / (Short)
US Dollar	61,679	(85,795)
Euro	64,493	55,182
Pound Sterling	3,458	(1,546)
Other	16,915	9,511
Total	146,545	(22,648)

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32. Market risk (continued)

iv) Equity Price Risk

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant is as follows:

	2009		2008	
	Change in equity Price %	Effect on market value	Change in equity Price %	Effect on market value
SAR' 000				
Market Indices				
Tadawul	+5	23,110	+5	2,652
Tadawul	-5	(23,110)	-5	(2,652)

33- Liquidity risk

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

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 subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non -resident foreign currency deposits), saving, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

a) Maturity analysis of assets and liabilities

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

33. Liquidity risk (continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2009						
Assets						
Cash and balances with SAMA	7,685,893	-	-	-	4,945,075	12,630,968
Due from banks and other financial institutions	6,744,729	-	-	-	365,878	7,110,607
Investments and investments in associates, net	8,136,418	1,538,141	6,857,261	242,334	851,416	17,625,570
Loans and advances, net	31,133,927	13,376,294	19,211,575	9,712,942	4,880,458	78,315,196
Property and equipment, net	-	-	-	-	606,185	606,185
Other assets	-	-	-	-	4,283,912	4,283,912
Total assets	53,700,967	14,914,435	26,068,836	9,955,276	15,932,924	120,572,438
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,287,049	11,838	-	-	532,912	4,831,799
Customers' deposits	41,368,760	9,732,718	3,534,641	-	36,600,999	91,237,118
Other liabilities	-	-	-	-	3,805,510	3,805,510
Term loans	-	2,437,500	2,508,731	-	-	4,946,231
Shareholders' equity	-	-	-	-	15,751,780	15,751,780
Total liabilities and shareholders' equity	45,655,809	12,182,056	6,043,372	-	56,691,201	120,572,438
2008						
Assets						
Cash and balances with SAMA	1,272,947	-	-	-	4,499,910	5,772,857
Due from banks and other financial institutions	3,337,528	-	-	-	908,537	4,246,065
Investments and investments in associates, net	6,770,617	10,742,516	9,650,765	376,034	346,950	27,886,882
Loans and advances, net	30,736,694	17,482,044	17,064,410	9,344,471	6,238,856	80,866,475
Property and equipment, net	-	-	-	-	590,645	590,645
Other assets	-	-	-	-	6,501,837	6,501,837
Total assets	42,117,786	28,224,560	26,715,175	9,720,505	19,086,735	125,864,761
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,365,695	358,693	-	-	677,614	8,402,002
Customers' deposits	42,451,324	15,075,449	3,175,011	-	32,089,497	92,791,281
Other liabilities	-	-	-	-	5,675,142	5,675,142
Term loans	-	-	4,927,200	-	-	4,927,200
Shareholders' equity	-	-	-	-	14,069,136	14,069,136
Total liabilities and shareholders' equity	49,817,019	15,434,142	8,102,211	-	52,511,389	125,864,761

b) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

Notes To The Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

33. Liquidity risk (continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2009						
Due to banks and other financial institutions	4,287,687	11,856	-	-	532,912	4,832,455
Customers' deposits	41,390,983	9,797,046	3,790,608	-	36,600,999	91,579,636
Term loans	11,081	2,463,658	2,577,366	-	-	5,052,105
Total	45,689,751	12,272,560	6,367,974	-	37,133,911	101,464,196
Derivatives:						
Contractual amount payable	(36,806,610)	4,930,597	34,250,654	1,999,946	-	4,374,587
Contractual amount receivable	57,126,255	(5,385,059)	(55,578,536)	(3,298,790)	-	(7,136,130)
Total undiscounted financial liabilities	66,009,396	11,818,098	(14,959,908)	(1,298,844)	37,133,911	98,702,653
2008						
Due to banks and other financial institutions	7,376,510	362,881	-	-	677,614	8,417,005
Customers' deposits	42,544,136	15,516,254	3,362,936	-	32,089,497	93,512,823
Term loans	33,333	100,001	5,297,223	-	-	5,430,557
Total	49,953,979	15,979,136	8,660,159	-	32,767,111	107,360,385
Derivatives:						
Contractual amount payable	(39,442,783)	9,618,253	32,768,936	3,430,019	-	6,374,425
Contractual amount receivable	47,360,826	(9,055,663)	(41,534,692)	(4,519,997)	-	(7,749,526)
Total undiscounted financial liabilities	57,872,022	16,541,726	(105,597)	(1,089,978)	32,767,111	105,985,284

34- Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking):

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and

Level 3: valuation techniques for which any significant input is not based on observable market data.

34. Fair values of financial assets and liabilities (continued)

SAR' 000	Level 1	Level 2	Level 3	Total
2009				
Financial assets				
Derivative financial instruments	-	3,551,030	-	3,551,030
Financial investments designated at FVIS	405,013	347,695	7,106	759,814
Financial investments available for sale	2,078,218	-	3,345,345	5,423,563
Total	2,483,231	3,898,725	3,352,451	9,734,407
Financial Liabilities				
Derivative financial instruments positive fair value	-	2,560,966	-	2,560,966
Total	-	2,560,966	-	2,560,966
2008				
Financial assets				
Derivative financial instruments	-	4,925,609	-	4,925,609
Financial investments designated at FVIS	239,928	1,524,018	7,106	1,771,052
Financial investments available for sale	2,667,006	-	3,391,313	6,058,319
Total	2,906,934	6,449,627	3,398,419	12,754,980
Financial Liabilities				
Derivative financial instruments negative fair value	-	4,235,302	-	4,235,302
Total	-	4,235,302	-	4,235,302

Financial investments available for sale comprise Musharakah and Mudarabah SAR 3,102 million (2008: SAR 3,323 million) which are classified as level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

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34. Fair values of financial assets and liabilities (continued)

Financial investments designated at FVIS and available for sale

SAR' 000	2009	2008
Balance at beginning of the year	3,398,419	2,632,584
Total gains / (losses) in other comprehensive income	(45,786)	79,143
purchases	172,651	89
Issues	860,000	1,615,000
settlements	(1,032,833)	(928,397)
Balance at end of the year	3,352,451	3,398,419

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.

The fair values of on - statement of financial position financial instruments, except for held to maturity and other financial instruments held at amortized cost are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, debts securities in issue, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks.

The estimated fair values of the held to maturity investments and other investments held at amortized cost, are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 6.

The fair values of derivatives and other off - statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the consolidated income statement, which was estimated using valuation technique, is SAR 11 million (2008: SAR 64 million).

35- Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at 31 December 2009 and 2008 resulting from such transactions included in the consolidated financial statements are as follows:

35. related party transactions (continued)

SAR' 000	2009	2008
Credit Agricole Group		
Due from banks and other financial institutions	951,385	1,689,461
Due to banks and other financial institutions	260,596	197,965
Derivatives at fair value, net	(73,382)	(321,010)
Commitments and contingencies	2,015,872	1,256,709
Associates		
Investments	144,344	176,859
Loans and advances	136,250	186,250
Due to banks and other financial institutions	39,754	71,333
Customers' deposits	161,536	227,805
Commitments and contingencies	23,784	20,927
Directors, other major shareholders' and their affiliates		
Loans and advances	3,335,694	2,288,631
Customers' deposits	4,691,118	3,752,342
Derivatives at positive fair value	-	147,922
Commitments and contingencies	199,681	243,877
Bank's mutual funds		
Investments	50,830	37,708
Derivatives at fair value, net	9,103	-
Customers' deposits	1,923,169	580,169

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital.

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

SAR' 000	2009	2008
Special commission income	93,270	120,563
Special commission expense	143,152	257,744
Fees and commission income, net	4,507	12,912
Directors' fees	2,837	2,792
Other general and administrative expenses	426	175

The total amount of short term benefits paid to key management personnel during the year is SAR 75 million (2008: SAR 55 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Notes To The Consolidated Financial Statements

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36- 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 daily by the Bank's management.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its Statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

SAR' 000	2009	2008
Credit Risk RWA	106,343,889	113,238,990
Operational Risk RWA	7,555,325	7,250,000
Market Risk RWA	3,675,825	3,164,425
Total RWA	117,575,039	123,653,415
Tier I Capital	15,441,200	13,565,104
Tier II Capital	689,530	722,564
Total Tier I & II Capital	16,130,730	14,287,668
Capital Adequacy Ratio %		
Tier I ratio	13.13%	10.97%
Tier I + Tier II ratio	13.72%	11.55%

37- Investment management and brokerage services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services.

Income from the subsidiaries is included in the consolidated income statement under Fee and commission income, net.

The financial statements of these funds are not consolidated with the financial statements of the Bank. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values totalling SAR 2,972 million (2008: SAR 2,064 million).

38- BASEL II PILLAR 3 DISCLOSURES

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the Bank's website www.alfransi.com.sa and the annual report, respectively as required by the Saudi Arabian Monetary Agency.

39- Prospective changes in International Financial Reporting Framework

The Bank has chosen not to early adopt the following amendments to existing standards and newly issued Standards:

Amendments to IAS 32 Financial Instruments: Presentation-Classification of Rights Issues effective date 1 February 2010

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective date 1 July 2010
- IAS 24 Related Party Disclosures (Revised) effective date 1 January 2011
- IFRS 9 Financial Instruments effective date 1 January 2013

40- Comparative figures

Prior year figures have been reclassified wherever necessary to conform to current year presentation.

41- Board of directors approval

The consolidated financial statements were approved by the Board of Directors on January 23, 2010 corresponding to Safar 8, 1431H.



Basel II Pillar 3- Qualitative Disclosures

Introduction

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010073368 dated Safar 4, 1410H, corresponding to September 5, 1989, through its 77 branches (2008: 75 branches) in the Kingdom of Saudi Arabia, employing 2,460 people (2008: 2,345). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

In March 2008, the Saudi Arabian Monetary Agency (SAMA) issued a circular allowing banks in the Kingdom of Saudi Arabia to report their capital requirements according to the new Basel II guidelines. Basel II is an international initiative allowing national regulators around the world to implement a more risk-sensitive framework for the assessment of risks and the calculation of minimum regulatory capital i.e. the minimum capital that banks must hold.

SAMA's Basel II framework describes the following three pillars which are designed to be mutually re-enforcing and are meant to ensure a capital base which corresponds to the overall risk profile of the bank:

- Pillar 1: calculation of minimum capital requirements and the capital adequacy ratio based on charges for credit, market, and operations risk stemming from the bank's operations;
- Pillar 2: the Supervisory Review process which includes the Internal Capital Adequacy Assessment Process (ICAAP) to assess risks not covered under Pillar 1 and the adequacy of capital to cover these risks as well as Pillar 1 requirements for current and future activities of the bank;
- Pillar 3: Market discipline through public disclosures that are designed to provide transparency on capital structures, risk exposures, risk mitigation and the risk management process.

This report is a part of the Pillar 3 process under SAMA's Basel II guidelines. The information provided in this report has not been subject to an external audit.

An explanation of approaches adopted by the Bank for measuring minimum capital requirement for various Pillar 1 risks as well the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 are discussed in subsequent sections of this report.

Scope of Application

The name of the top corporate entity in the group, to which these regulations apply, is Banque Saudi Fransi (the Bank).

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

The following entities of the group are fully consolidated with the results of Banque Saudi Fransi for regulatory purposes:

1. Fransi Tadawul Company: This entity is 99% owned by the Bank. It is regulated by the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia and undertakes local and international brokerage services in the capacity of a principal agent in securities and its custody, in addition to IPO Floatation Management.
2. Caam Saudi Fransi: This entity is 60% owned by the Bank. It is regulated by the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia and provides asset management & related services.

Investments in the following entities associated with the group are deducted from consolidated capital (50% from Tier 1 and 50% from Tier 2) for regulatory purposes:

- 1 Banque BEMO Saudi Fransi (BBSF): BBSF is incorporated in Syria as a commercial bank. Banque Saudi Fransi owns 27% of the ordinary share capital of BBSF.
- 2 Banque BEMO: This entity is incorporated in Lebanon as a commercial bank. Banque Saudi Fransi owns 10% of the ordinary share capital of Banque BEMO.
- 3 Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi): This entity is incorporated in the Kingdom of Saudi Arabia. The Bank owns 32.5% of the ordinary share capital of Allianz Saudi Fransi.
- 4 Sofinco Saudi Fransi: This entity is incorporated in the Kingdom of Saudi Arabia and is engaged in consumer finance activity. BSF owns 50% of the ordinary shares of Sofinco Saudi Fransi.
- 5 Calyon Saudi Fransi: This entity is incorporated in the Kingdom of Saudi Arabia and provides corporate financial advisory services. BSF owns 45% of the ordinary shares of Calyon Saudi Fransi.
- 6 Al Amthal Leasing Co. Ltd.: This entity is incorporated in the Kingdom of Saudi Arabia and operates in financing car sales. BSF owns 20% of the ordinary shares of Al Amthal Leasing Co. Ltd.

There are no other group entities for regulatory purposes that are neither consolidated nor deducted (i.e. where the investment is risk weighted). There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

Basel II Pillar 3- Qualitative Disclosures (continued)

Capital Structure

The authorised, issued and fully paid share capital of the Bank consists of 7.232 million shares of SAR 10 each as at 31 December, 2009.

The Bank has not issued any capital instruments of innovative, complex, or hybrid nature.

Capital Structure as at 31 December 2009

	Components of Capital	Amounts in SAR '000s
A	Core Capital – Tier 1	
	Eligible paid-up share capital	7,232,143
	Eligible reserves	6,084,303
	Minority interests in the equity of subsidiaries	19,107
	Retained earnings	2,249,472
	IAS type adjustments	(60,260)
	Significant minority investments (50% deduction)	(83,565)
	Total Tier 1	15,441,200
B	Supplementary Capital – Tier 2	
	Qualifying general provisions	773,095
	Significant minority investments (50% deduction)	(83,565)
	Total Tier 2	689,530
	Total Eligible Capital (A+B)	16,130,730

Capital Adequacy

The approaches adopted by the Bank for measuring minimum capital requirements under Pillar 1 of the Basel Accord are described in the following sections.

Credit Risk

The Bank has adopted the Standardized Approach for measuring minimum capital requirement for credit risk. Under this approach, exposures are assigned to portfolio segments based on the type of counterparty. The major portfolios defined are sovereigns, banks, corporate, retail, equity, and others (including high net worth individuals). Each segment has counterparty risk weights ranging from 0% to 150% depending on ratings assigned by qualified external credit assessment agencies, if any.

Initial exposures after application of specific provisions, if any, and / or eligible credit risk mitigants, are multiplied by the specified risk weight of the counterparty to arrive at the Risk Weighted Asset (RWA). Off-balance sheet exposures are adjusted using product type specified Credit Conversion Factors (CCF) before determining the RWAs. Similarly, derivatives are considered at their Credit Equivalent Amount before determining RWAs.

Minimum capital for Credit Risk is calculated as 8% multiplied by the aggregated mitigant adjusted RWAs for the Bank's exposures.

Market Risk

The Bank uses the Standardized Approach to calculate the regulatory capital requirements relating to market risks (covering interest rates, equity, foreign exchange, and commodity prices). The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for market risks.

Operations Risk

The Bank uses the Standardized Approach for calculation of regulatory capital requirements in terms of operations risk. This approach applies a range of beta coefficients (12%-18%) to the average gross income for the preceding three financial years to each of eight predetermined business lines. The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for operations risks.

Internal Capital Adequacy Assessment Process (ICAAP)

The oversight for assessment of credit, market, operations, and others risks such as liquidity, concentration, macroeconomic, legal, and reputation risks and the adequacy of capital to meet current and future requirements of the Bank lies with the Executive Committee (EC) of the Bank's Board of Directors.

An ICAAP document was presented to SAMA in 2008 following a bilateral process of discussions. This process is now ingrained into the budget and planning cycle of the Bank.

Capital Adequacy as at 31 December 2009

Category	Minimum RWA Amount SAR' 000s	Capital Requirement SAR' 000s
Credit Risk – Standardized Approach	106,343,889	8,507,511
Market Risk – Standardized Approach	3,675,825	294,066
Operations Risk – Standardized Approach	7,555,325	604,426
Total Capital Ratio	13.72%	
Tier 1 Capital Ratio	13.13%	



Basel II Pillar 3- Qualitative Disclosures (continued)

Risk Management

The management of main risks for the Bank is specifically organized under the Risk Management Division (RMD). This division performs the role of second reading of risk after the business divisions who originate and own the risks. RMD plays a crucial role in policy making. The head of RMD reports directly to the Managing Director and interacts with the EC in presenting and managing matters related to Credit, Market, and Operations Risks.

Credit Risk

For measuring minimum capital requirement for credit risk using the Standardized Approach under Basel II, the Bank implemented a dedicated capital measurement system supplied by a leading global vendor. Using this system, exposures are measured at the most granular level so that transaction level data are correctly used for proper calculation of risk weights, credit conversion factors, and allocation of credit risk mitigants.

The credit risk adjudication process in the Bank is materially centralized and significant exposures are routinely reported to the EC. The Bank uses an internal rating methodology for classification of counterparty risk and in the management of the underlying exposures appropriately.

The Bank also follows SAMA's guidelines for asset classification, particularly those relating to past due /non-performing loans. Impairment is recognized at a counterpart level i.e. all dues from the counterpart including full principal amount are included under the amounts shown as impaired. A specific provision is made for past due exposures assessed as impaired at the counterpart level. Specific provision amounts are calculated according to guidelines contained in IAS 39. In addition to specific counterpart level provisions for impaired assets, the Bank also employs methods to determine and make collective provisions on a portfolio level based on certain internal risk grades for counterpart exposures.

For the purpose of determining counterparty risk weights, the Bank uses external credit assessments from Standard and Poors, Moodys, and Fitch. In the context of the Bank's portfolio, external credit assessments are mainly applicable to the banks / financial institutions asset class. A majority of BSF's Corporate asset portfolio is in the Kingdom of Saudi Arabia; not externally rated; and hence in the 100% risk weight category.

The 0% risk weighted assets under Other Assets pertain to Cash and Cash Equivalents and the current replacement costs i.e. mark to market values of derivative exposures where these amounts are already included (under banks & corporate asset classes) in the calculation of credit equivalent amount and RWAs.

The Bank uses a wide range of collaterals in the process of managing its counterparty risks. However, the applicable financial collateral for credit risk mitigation under Basel 2 is restricted to pledge of cash margins and deposits held with the Bank. Guarantees used for risk transfer purposes are mainly bank guarantees that meet the requirements stipulated in the Accord.

A break up of gross credit risk exposures i.e. exposures after off-setting provisions but before application of credit mitigants (including off balance sheet exposures after applying credit conversion factors and derivative exposures at their credit equivalent values) is presented below with their respective risk weights:

Gross Credit Exposures as at 31 December 2009

Portfolios	Amount SAR '000s	Risk Weight Buckets	Amount SAR '000
Sovereigns & Central Banks	23,406,876	0%	23,217,882
		100%	189,244
Banks & securities Firms	8,057,750	20%	9,840,853
		50%	5,307,021
		100%	147,231
Corporates	59,992,870	20%	1,478,597
		50%	614,332
		100%	77,238,542
		150%	249,493
Retail Non-mortgages	6,245,012	75%	6,053,340
Residential Mortgages	250,028	100%	250,028
Equity	792,680	0%	
		(deducted)	167,133
		100%	625,548
Others (including VIP Exposures)	22,283,208	0%	4,030,822
		100%	17,035,245
		150%	39,361
TOTAL	121,028,424		

Market Risk

The market risk for capital market activities in the Bank is managed and monitored using a combination of VAR, stress testing, and sensitivity analysis. The EC has set limits for what constitutes acceptable level of risks in managing the trading book. The Market Risk Department within the Risk Management Division is responsible for measurement and controls involved in management of market risks.

For the measurement of minimum capital requirement for market risks under Pillar 1, the Bank uses the Standardized Approach.

Market Risk (Standardized Approach) – 31 December 2009

Category	Capital Requirement Amount SAR '000s
Interest Rate	281,168
Equities	1,137
Foreign Exchange	11,761
TOTAL	294,066

Basel II Pillar 3- Qualitative Disclosures (continued)

Operations Risk

The objectives of the Operations Risk Department within Risk Management Division are to develop a common understanding of operational risks across BSF; ensure that there is a clear understanding of responsibility and accountability in managing and mitigating operational risks; improve internal controls and thereby reduce the probability and potential impact of losses; maintain an operational loss data base; and improve the risk and control culture across the Bank.

BSF has developed a Risk Mapping methodology in order to identify various processes; identify high frequency and low impact risks (recurring risks); identify rare and high impact risks (exceptional risks); identify the specific controls in place to mitigate the risks; and organize frequent assessment efforts to determine continuing quality of process controls.

The Bank currently uses the Standardized Approach for assessment of minimum capital requirement for operations risk under Pillar 1 of the Accord.

Equity risk

Equity risk represents the risk faces by the bank due to decrease in fair value of equities in the non trading investment portfolio as a result of changes in equity indices and the value of individual stocks. The Bank's nature of the equity risk exposure includes:

- Investment in associates;
- Available for sale equity investment;
- Investment in subsidiaries.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence and which is neither a subsidiary nor a joint venture. Accordingly, these investments are classified as investment in associates. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. These investments are subject to recurring review and assessment for possible impairment, to the extent that the carrying value of the equity investment must not exceed its recoverable amount.

Where the equity investment is not subject to the significant influence or control, it is recognized as available for sale investment. These securities are initially carried at fair value plus transaction costs. After initial recognition these investments are measured at fair value. For an available for sale equity investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated income statement for the year. At the year end, Unrealised loss of 21,682 recognized directly in other reserves due to change in fair value of equities under available for sale investment portfolio.

Fair value of quoted investments in active markets are based on current bid prices and if it not traded in active market then fair value is established by the valuation techniques. If there is any objective evidence of impairment due to significant or prolonged decline in the fair value below its cost then impairment charges are recognized in the consolidated statement of

income. The impairment loss cannot be reversed through 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 equity is included in the consolidated statement of income for the year.

Subsidiaries are all entities 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 one half of the voting rights. Where the Bank does not have effective control but has significant influence, the investment in a subsidiary is accounted for under the equity method and the consolidated financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements.

The table below shows the carrying value and fair value of equities as of 31st December 2009.

Equity Investment- SAR(000)	Carrying Value	Fair value
Value of publicly traded equities	473,950	473,950
Value of privately held equities	369,560	369,560
Total	843,510	843,510

Interest Rate Risk in the Banking Book

As per BSF policy the interest rate risk positions of all business lines of BSF are transferred to the funding desk of Treasury and Long Term Investment portfolio of Finance Division. The risk on these positions is managed centrally through a limits structure and combination of natural hedges and hedging practices. Format of limits of Treasury is also approved by Calyon Paris and ALM policies validated / approved in ALCO meetings. All positions are reported to Calyon Paris.

As per Basel II, the change in economic value of a bank's banking book balance sheet when subjected to a 200 bps standardized shock should be below the sum of twenty percent of Tier 1 and Tier 2 capital. For BSF the sum of Tier 1 and Tier 2 capital as of December 31 2009 is SAR 16,131 million and twenty percent this amounts to SAR 3,226 million. As against this limit, the negative change in economic value of banking book of BSF despite a severe shock of 200 bps movement applied as a stress scenario is only SAR 342 million.

Interest Rate Risk in Banking Book – 200 Bps Rate Shock

Currency	Change in Economic Value SAR million
SAR	(392)
USD	48
Others	2
TOTAL	(342)