The Saudi British Bank
Consolidated Financial Statements

For the year ended

31 December 2009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2009 SAR'000	2008 SAR'000
ASSETS			
Cash and balances with SAMA	3	**16,614,885**	11,328,253
Due from banks and other financial institutions	4	**6,004,593**	6,200,466
Investments, net	5	**23,817,550**	29,604,346
Loans and advances, net	6	**76,381,599**	80,236,757
Investment in associates	7	**180,458**	148,356
Property and equipment, net	8	**594,042**	561,460
Other assets	9	**3,244,835**	3,581,055
Total assets		**126,837,962**	131,660,693
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**13,605,744**	16,069,492
Customers' deposits	12	**89,186,861**	92,677,537
Debt securities in issue	13	**5,709,487**	5,656,800
Borrowings	14	**187,500**	187,500
Other liabilities	15	**5,103,081**	5,435,533
Total liabilities		**113,792,673**	120,026,862
Shareholders' equity			
Share capital	16	**7,500,000**	6,000,000
Statutory reserve	17	**4,988,075**	4,480,005
Other reserves	18	**(137,535)**	(176,716)
Retained earnings		**694,749**	1,330,542
Total shareholders' equity		**13,045,289**	11,633,831
Total liabilities and shareholders' equity		**126,837,962**	131,660,693

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

The Saudi British Bank
CONSOLIDATED STATEMENT OF INCOME

For the years ended 31 December	Notes	2009 SAR'000	2008 SAR'000
Special commission income	20	**4,573,599**	5,864,966
Special commission expense	20	**1,136,857**	2,657,922
Net special commission income		**3,436,742**	3,207,044
Fees and commission income, net	21	**1,210,734**	1,257,222
Exchange income, net		**127,265**	138,310
Income (losses) from FVIS financial instruments, net	22	**6,567**	(42,400)
Trading income, net	23	**295,982**	363,569
Dividend income		**1,453**	1,770
Gains (losses) on non-trading investments, net	24	**48,828**	(17,010)
Other operating income		**32,708**	3,023
Total operating income		**5,160,279**	4,911,528
Salaries and employee related expenses		**919,395**	898,078
Rent and premises related expenses		**82,159**	79,459
Depreciation	8	**111,289**	107,395
Other general and administrative expenses		**564,706**	556,612
Provision for credit losses, net	6	**1,496,483**	371,280
Impairment of other financial assets		**-**	86,929
Other operating expenses		**18**	77
Total operating expenses		**3,174,050**	2,099,830
Income from operating activities		**1,986,229**	2,811,698
Share in earnings of associates, net	7	**46,048**	108,321
Net income for the year		**2,032,277**	2,920,019
Basic and diluted earnings per share (in SAR)	25	**2.71**	3.89

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

.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended 31 December

	2009 SAR' 000	2008 SAR' 000
Net income for the year	**2,032,277**	2,920,019
Other comprehensive income:		
Available for sale financial assets		
- Net change in fair value	**95,799**	(206,002)
- Transfer to consolidated statement of income	**(48,828)**	17,010
Cash flow hedges		
- Net change in fair value	**6,275**	28,496
- Transfer to consolidated statement of income	**(14,065)**	-
	39,181	(160,496)
Total comprehensive income for the year	**2,071,458**	2,759,523

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

The Saudi British Bank

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

	Notes	Share capital SAR '000	Statutory reserve SAR '000	Other reserves SAR '000	Retained earnings SAR '000	Proposed dividend SAR '000	Total SAR '000
2009							
Balance at beginning of the year		**6,000,000**	**4,480,005**	**(176,716)**	**1,330,542**	**-**	**11,633,831**
Total comprehensive income for the year		**-**	**-**	**39,181**	**2,032,277**	**-**	**2,071,458**
Bonus share issue	16	**1,500,000**	**-**	**-**	**(1,500,000)**	**-**	**-**
Transfer to statutory reserve	17	**-**	**508,070**	**-**	**(508,070)**	**-**	**-**
2009 interim dividend paid	26	**-**	**-**	**-**	**(660,000)**	**-**	**(660,000)**
Balance at end of the year		**7,500,000**	**4,988,075**	**(137,535)**	**694,749**	**-**	**13,045,289**
2008							
Balance at beginning of the year		3,750,000	3,750,000	(16,220)	2,050,528	890,625	10,424,933
Total comprehensive income for the year		-	-	(160,496)	2,920,019	-	2,759,523
Bonus share issue	16	2,250,000	-	-	(2,250,000)	-	-
Transfer to statutory reserve	17	-	730,005	-	(730,005)	-	-
2007 final dividend paid	26	-	-	-	-	(890,625)	(890,625)
2008 interim dividend paid	26	-	-	-	(660,000)	-	(660,000)
Balance at end of the year		6,000,000	4,480,005	(176,716)	1,330,542	-	11,633,831

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

The Saudi British Bank
CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December	Notes	2009 SAR'000	2008 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**2,032,277**	2,920,019
Adjustments to reconcile net income to net cash from (used in) operating activities:			
(Accretion of discount) and amortisation of premiums and on non trading investments		**(4,075)**	1,067
(Income) losses from FVIS financial instruments, net	22	**(5,883)**	47,104
(Gains) losses on non-trading investments, net	24	**(48,828)**	17,010
Depreciation	8	**111,289**	107,395
Losses (gains) on disposal of property and equipment, net		**14**	(200)
Share in earnings of associates, net	7	**(46,048)**	(108,321)
Provision for credit losses, net	6	**1,496,483**	371,280
Impairment of other financial assets		**-**	86,929
Change in fair value		**52,687**	(88,819)
		3,587,916	3,353,464
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	**(335,074)**	(1,506,225)
Investments held for trading		**11,685**	(181,449)
Loans and advances		**2,358,675**	(18,607,179)
Other assets		**336,220**	(1,257,359)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,463,748)**	8,024,445
Customers' deposits		**(3,490,676)**	20,829,685
Other liabilities		**(285,576)**	1,600,749
Net cash (used in) from operating activities		**(280,578)**	12,256,131
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**19,549,679**	43,571,660
Purchase of non-trading investments		**(13,715,782)**	(58,285,668)
Dividend received from associates		**111,446**	70,412
Purchase of property and equipment	8	**(143,919)**	(117,743)
Investment in associates		**(97,500)**	-
Proceeds from disposal of property and equipment		**34**	928
Net cash from (used in) investing activities		**5,703,958**	(14,760,411)
FINANCING ACTIVITIES			
Debt securities in issue		**-**	1,705,000
Dividends paid		**(667,695)**	(1,545,548)
Net cash (used in) from financing activities		**(667,695)**	159,452
Increase (Decrease) increase in cash and cash equivalents		**4,755,685**	(2,344,828)
Cash and cash equivalents at the beginning of the year		**12,701,229**	15,046,057
Cash and cash equivalents at the end of the year	27	**17,456,914**	12,701,229
Special commission received during the year		**4,901,462**	5,765,791
Special commission paid during the year		**1,539,842**	2,327,993
<u>Supplemental non cash information</u>			
Net changes in fair value and cash flow hedges		**39,181**	(160,496)

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

1. General

The Saudi British Bank (the Bank) is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). The Bank formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 72 branches (2008: 68) and 31 exclusive ladies' sections (2008: 31) in the Kingdom of Saudi Arabia. The Bank employed 3,504 staff as at 31 December 2009 (2008: 3,395). The address of the Bank's head office is as follows:

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

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

The Bank has 100% (2008 : 100 %) ownership interest in a subsidiary, SABB Securities Limited, a Limited Liability Company formed in accordance with the Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The activities of the subsidiary are to engage in business of custody and dealing as an agent excluding underwriting.

The Bank has 100% (2008 : 100 %) ownership interest in a subsidiary, SABB Insurance Agency Company Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). The Bank has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a Limited Liability Company registered in Kingdom of Saudi Arabia). The principal activity is to act as a sole insurance agent for SABB Takaful Company (an associate company- see note 7) within Kingdom of Saudi Arabia as per the agreement between them. However, the article of association do not restrict the Company from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

The Bank has 51% (2008 : 51 %) ownership interest in a subsidiary, SABB Insurance Services Limited, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010241209 dated 24 Dhul Qadah 1428H (4 December 2007). The principal activity is to act as insurance brokers and consultants to consumers operating within the Kingdom of Saudi Arabia. The Company commenced its operations from 24 Dhul Qadah 1428H (4 December 2007).

1.1. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, SABB Securities Limited. The financial statements of the subsidiary are prepared for the same reporting year as that of the Bank, using consistent accounting policies. The Bank has not consolidated SABB Insurance Agency Limited and SABB Insurance Services Limited as their total assets, liabilities and their income and expenses are not significant to the Bank's overall consolidated financial statements.

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

Intercompany transactions and balances have been eliminated upon consolidation.

e) Critical accounting judgements and estimates

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

(i) Impairment losses on loans and advances

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

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

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

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

(iii) Impairment of available for sale equity investments

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

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

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

(iv) Classification of held to maturity investments

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

(v) Classification of fair value through income statement

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

f) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 of the Bank. 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;
- the revisions and amendments to IAS 1 Presentation of Financial statements; and
- amendments to IFRS 2 Share based payments – vesting conditions and cancellations and IAS 32 Financial Instruments Presentation.

b) Trade date accounting

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

c) Derivative financial instruments and hedge accounting

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

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

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 recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect the reported net gain or loss.

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

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

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

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

d) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the 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 interest 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 statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

e) Offsetting financial instruments

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

f) Revenue/ expenses recognition

Special commission income and expense

Special commission income and expense for all commission-bearing financial instruments, except for those classified as held for trading or designated as at fair value through income statement (FVIS), are recognised in the consolidated statement of income on 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 commission rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or received related 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.

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

Exchange income/ loss

Exchange income/loss is recognised when earned/incurred.

Fees and commission income

Fees and commission income are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time are recognised rateably over the period when the service is being provided. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which is expensed as the service is received.

Dividend income

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

Net trading income

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

g) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for the underlying financial assets held as FVIS, available for sale, held to maturity and other investments held at amortised cost. The counter party liability for amounts received under these agreements is included in “due to banks and other financial institutions” or “customers’ deposits”, as appropriate. The difference between sale and repurchase price is treated as special commission expense and amortised over the life of the repo agreement, using the effective yield method.

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

h) Investments

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

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

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

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

(i) Held as FVIS

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

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

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

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

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

(ii) Available for sale

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

Investments, which are classified as "available for sale", are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in "Other reserves" under Shareholders' equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated statement of income for the period.

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

(iii) Held to maturity

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

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

(iv) Held at amortised cost

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

i) Investment in associates

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

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

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

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

j) Loans and advances

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

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

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

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

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

k) Due from banks and other financial institutions

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

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

l) Impairment of financial assets

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 recognised for changes in its carrying amounts.

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

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

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

i) Impairment of financial assets held at amortised cost

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

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

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

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

ii) Impairment of financial assets held at fair value

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

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

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

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

m) Property and equipment

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

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

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

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

The assets' residual values and useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

n) Liabilities

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

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

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

o) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of a present legal or constructive obligation as a result of past events it is more likely than not that an outflow of resources will be required to settle the obligation.

p) Guarantees

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 amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "provision for credit losses". The premium received is recognised in the consolidated statement of income in "Net fees and commission income" on a straight-line basis over the life of the guarantee.

q) Accounting for leases

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

r) Cash and cash equivalents

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

s) Derecognition of financial instruments

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

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

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

t) Assets held in trust or in fiduciary capacity

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

u) Zakat and income taxes

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

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

v) Non-interest based banking products

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

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

3. Cash and balances with SAMA

	2009 SAR'000	2008 SAR'000
Cash in hand	**662,694**	621,611
Statutory deposit	**5,162,564**	4,827,490
Reverse repos	**10,787,850**	5,540,769
Other balances	**1,777**	338,383
Total	**16,614,885**	11,328,253

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

4. Due from banks and other financial institutions

	2009 SAR'000	2008 SAR'000
Current accounts	**1,091,225**	2,722,368
Money market placements	**4,913,368**	3,478,098
Total	**6,004,593**	6,200,466

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2009 SAR'000	2008 SAR'000	2009 SAR'000	2008 SAR'000	2009 SAR'000	2008 SAR'000
i) Held as FVIS						
Fixed rate securities	-	-	**18,673**	17,822	**18,673**	17,822
Floating rate securities	**327,530**	323,016	-	60,457	**327,530**	383,473
Held as FVIS	**327,530**	323,016	**18,673**	78,279	**346,203**	401,295

Investments classified under FVIS are all held for trading (2008: SAR 350.9 million), and floating rate notes designated as FVIS as at inception or on adoption of the revised IAS 39 as at 1 January 2005 are nil (2008 : SAR 50.4 million). The maximum credit exposure of investments designated as FVIS as at 31 December 2009 is SAR nil (2008: SAR 56.8 million).

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

	Domestic 2009 SAR'000	Domestic 2008 SAR'000	International 2009 SAR'000	International 2008 SAR'000	Total 2009 SAR'000	Total 2008 SAR'000
ii) Available for sale						
Fixed rate securities	**10,685,614**	16,731,299	**2,733,709**	2,161,076	**13,419,323**	18,892,375
Floating rate securities	**3,631,376**	2,587,485	**1,590,398**	2,410,352	**5,221,774**	4,997,837
Equities	**10,894**	10,894	**46,615**	83,671	**57,509**	94,565
Available for sale investments, gross	**14,327,884**	19,329,678	**4,370,722**	4,655,099	**18,698,606**	23,984,777
Allowance for impairment	-	-	**(21,679)**	(77,929)	**(21,679)**	(77,929)
Available for sale investments	**14,327,884**	19,329,678	**4,349,043**	4,577,170	**18,676,927**	23,906,848
iii) Held at amortised cost						
Fixed rate securities	**3,171,648**	3,569,809	-	-	**3,171,648**	3,569,809
Floating rate securities	**1,221,000**	1,221,000	**9,000**	9,000	**1,230,000**	1,230,000
Held at amortised cost, gross	**4,392,648**	4,790,809	**9,000**	9,000	**4,401,648**	4,799,809
Allowance for impairment	-	-	**(9,000)**	(9,000)	**(9,000)**	(9,000)
Held at amortised cost	**4,392,648**	4,790,809	-	-	**4,392,648**	4,790,809
iv) Held to maturity						
Fixed rate securities	**401,772**	505,394	-	-	**401,772**	505,394
Held to maturity investments	**401,772**	505,394	-	-	**401,772**	505,394
Investments, net	**19,449,834**	24,948,897	**4,367,716**	4,655,449	**23,817,550**	29,604,346

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

	2009			2008		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**3,182,778**	**13,828,638**	**17,011,416**	2,178,898	20,806,502	22,985,400
Floating rate securities	**4,960,535**	**1,818,769**	**6,779,304**	4,351,711	2,259,599	6,611,310
Equities	**-**	**57,509**	**57,509**	-	94,565	94,565
	8,143,313	**15,704,916**	**23,848,229**	6,530,609	23,160,666	29,691,275
Allowance for impairment	**-**	**(30,679)**	**(30,679)**	-	(86,929)	(86,929)
Investments	**8,143,313**	**15,674,237**	**23,817,550**	6,530,609	23,073,737	29,604,346

Unquoted investments include securities of SAR 15,180.0 million (2008: SAR 22,328.0 million) issued by the Saudi Arabian Government and its agencies.

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

	2009 SAR'000			2008 SAR'000		
	Carrying value	**Gross unrealised gain**	**Fair value**	Carrying value	Gross unrealised gain	Fair value
i) Held at amortised cost						
Fixed rate securities	**3,171,648**	**172,061**	**3,343,709**	3,569,809	233,852	3,803,661
Floating rate securities	**1,221,000**	**1,282**	**1,222,282**	1,221,000	3,491	1,224,491
Total	**4,392,648**	**173,343**	**4,565,991**	4,790,809	237,343	5,028,152
(ii) Held to maturity						
Fixed rate securities	**401,772**	**12,939**	**414,711**	505,394	26,482	531,876
Total	**401,772**	**12,939**	**414,711**	505,394	26,482	531,876

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

	2009 SAR'000	2008 SAR'000
Government and quasi Government	**20,348,115**	26,769,715
Corporate	**593,881**	271,857
Banks and other financial institutions	**2,864,155**	2,518,478
Other	**11,399**	44,296
Total	**23,817,550**	29,604,346

Equities reported under available for sale investments include unquoted shares of SAR 11.4 million (2008: SAR 11.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Investments include SAR nil (SAR 2008: SAR 3,502.2 million) which have been pledged under repurchase agreements with banks and customers. The market value of such investments is SAR nil (2008: SAR 3,492.5 million).

e) Credit quality of investments

	2009 SAR'000	2008 SAR'000
Saudi Government bonds	**15,180,032**	22,328,041
Investment grade	**8,540,236**	7,011,599
Unrated	**97,282**	264,706
Total	**23,817,550**	29,604,346

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

Investment Grade includes those investments with credit ratings equivalent to aStandard and Poor's Rating of AAA to BBB. Issuer ratings have been used for bonds which have not been rated by any agency amounting to SAR 311.2 million (2008: SAR 1,418.9 million).

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

f) Movements of allowance for impairment on investments

	2009 SAR'000	2008 SAR'000
Balance at beginning of the year	**86,929**	-
Provided during the year	**-**	86,929
Amounts written off during the year	**(56,250)**	-
Balance at end of the year	**30,679**	86,929

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2009			**SAR' 000**
	Credit Cards	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
Performing loans and advances-Gross	**2,102,044**	**13,414,172**	**59,114,720**	**74,630,936**
Non performing loans and advances, net	**-**	**118,890**	**3,407,117**	**3,526,007**
Total loans and advances	**2,102,044**	**13,533,062**	**62,521,837**	**78,156,943**
Provision for credit losses (specific and collective)	**(127,225)**	**(207,177)**	**(1,440,942)**	**(1,775,344)**
Loans and advances, net	**1,974,819**	**13,325,885**	**61,080,895**	**76,381,599**

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

Loans and advances, net include non-interest bearing products totalling SAR 38,568 million (2008: SAR 37,568 million) which are stated at cost less provision for credit losses, of SAR 723.0 million (2008: SAR 277.9 million).

Provision for credit losses charged to the consolidated statement of income related to non-interest bearing products is SAR 692.4 million (2008: SAR 111.5 million).

Loans and advances include loans hedged on a portfolio basis amounting to SAR 256 million as at the beginning of the year. The hedge expired during the year and the negative mark to market of SAR 0.6 million on these loans as at the beginning of the year became nil as at the statement of financial position date.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 277.5 million (2008: SAR 108.1 million).

b) Movement in provision for credit losses

			2009	**SAR' 000**
	Credit Cards	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
Balance at beginning of the year	**114,456**	**134,272**	**380,794**	**629,522**
Bad debts written off	**(107,398)**	**(206,647)**	**(36,616)**	**(350,661)**
Provided during the year	**159,120**	**310,131**	**1,119,689**	**1,588,940**
Recoveries of amounts previously provided	**(38,953)**	**(30,579)**	**(22,925)**	**(92,457)**
Balance at the end of the year	**127,225**	**207,177**	**1,440,942**	**1,775,344**

			2008	SAR' 000
	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Balance at beginning of the year	98,881	131,702	340,465	571,048
Bad debts written off	(110,994)	(171,693)	(30,119)	(312,806)
Provided during the year	158,499	203,401	98,392	460,292
Recoveries of amounts previously provided	(31,930)	(29,138)	(27,944)	(89,012)
Balance at the end of the year	114,456	134,272	380,794	629,522

The allowance for credit losses above includes a collective allowance amounting to SR 247.4 million (2008: SR 229.7 million) related to the performing portfolio.

The net charge to income on account of provision for credit losses is SAR 1,496.5 million (2008: SAR 371.2 million), which is net of recoveries of amounts previously provided as shown above.

c) Credit quality of loans and advances

i) Neither past due nor impaired loans

			2009	**SAR' 000**
Grades	**Credit Cards**	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
Undoubted	**-**	**-**	**706,388**	**706,388**
Good	**-**	**-**	**18,646,263**	**18,646,263**
Satisfactory	**1,752,814**	**12,525,598**	**37,545,680**	**51,824,092**
Total	**1,752,814**	**12,525,598**	**56,898,331**	**71,176,743**

	2008			SAR' 000
Grades	Credit Cards	Consumer Loans	Commercial Loans and Overdrafts	Total
Undoubted	-	-	59,438	59,438
Good	-	-	9,032,034	9,032,034
Satisfactory	1,850,220	12,009,103	55,265,410	69,124,733
Total	1,850,220	12,009,103	64,356,882	78,216,205

Undoubted: The strongest credit risk with a negligible probability of default. Such entities would have an extremely strong capacity to meet long term commitments in adverse market conditions

Good: A strong credit risk with a low probability of default. These entities have a strong capacity to meet long term commitments but some sensitivity to market events.

Satisfactory: A satisfactory credit risk with a moderate probability of default. These entities have the capacity to meet medium term and short term commitments however there is likely to be a need for periodic monitoring due to a higher sensitivity to market events.

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

	2009			**SAR' 000**
	Credit Cards	**Consumer Loans**	**Commercial Loans and Overdrafts**	**Total**
From 1 day to 30 days	**150,949**	**528,928**	**2,093,447**	**2,773,324**
From 31 days to 90 days	**107,817**	**234,113**	**112,148**	**454,078**
From 91 days to 180 days	**90,464**	**125,533**	**10,794**	**226,791**
Total loans and advances	**349,230**	**888,574**	**2,216,389**	**3,454,193**

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

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

2009 SAR'000	**Performing**	**Non performing, net**	**Credit loss provision**	**Loans and advances, net**
Government and quasi Government	**2,667,097**	**-**	**-**	**2,667,097**
Banks and other financial institutions	**75,000**	**-**	**-**	**75,000**
Agriculture and fishing	**1,358,999**	**-**	**-**	**1,358,999**
Manufacturing	**8,188,313**	**180,771**	**(40,879)**	**8,328,205**
Mining and quarrying	**207,514**	**-**	**-**	**207,514**
Electricity, water, gas and health services	**257,584**	**7,128**	**(7,128)**	**257,584**
Building and construction	**1,734,999**	**892,390**	**(77,630)**	**2,549,759**
Commerce	**21,775,620**	**1,972,780**	**(940,164)**	**22,808,236**
Transportation and communication	**1,895,397**	**482**	**(1,482)**	**1,894,397**
Services	**5,112,675**	**6,120**	**(4,774)**	**5,114,021**
Consumer loans and credit cards	**15,441,216**	**118,890**	**(334,402)**	**15,225,704**
Other	**15,916,522**	**347,446**	**(121,531)**	**16,142,437**
Collective impairment provision	**-**	**-**	**(247,354)**	**(247,354)**
TOTAL	**74,630,936**	**3,526,007**	**(1,775,344)**	**76,381,599**

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

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

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

d) Collateral

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

7. Investments in associates

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

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

	2009			2008		
	HSBC Saudi Arabia Limited SAR' 000	**SABB Takaful SAR' 000**	**Total SAR' 000**	HSBC Saudi Arabia Limited SAR' 000	SABB Takaful SAR' 000	Total SAR' 000
Balance at beginning of the year	**130,150**	**18,206**	**148,356**	90,411	20,036	110,447
Cost of investment during the year	**-**	**97,500**	**97,500**	-	-	-
Dividend received	**(111,446)**	**-**	**(111,446)**	(70,412)	-	(70,412)
Share of undistributed profits (losses)	**51,422**	**(5,374)**	**46,048**	110,151	(1,830)	108,321
Total	**70,126**	**110,332**	**180,458**	130,150	18,206	148,356

Share of the associates' financial statements:	**2009**		2008	
	HSBC Saudi Arabia Limited SAR' 000	**SABB Takaful SAR' 000**	HSBC Saudi Arabia Limited SAR' 000	SABB Takaful SAR' 000
Total assets	**130,950**	**257,745**	186,823	60,429
Total liabilities	**60,824**	**147,413**	56,673	42,223
Total equity	**70,126**	**110,332**	130,150	18,206
Total income	**88,438**	**13,606**	167,759	15,096
Total expenses	**37,016**	**18,980**	57,608	16,926

8. Property and equipment, net

	Land and Buildings SAR'000	Leasehold improvements SAR'000	Equipment, furniture and vehicles SAR'000	2009 Total SAR'000	2008 Total SAR'000
Cost					
As at 1 January	**612,775**	**280,286**	**602,380**	**1,495,441**	1,380,503
Additions	**23,112**	**51,691**	**69,116**	**143,919**	117,743
Disposals	**-**	**-**	**(1,372)**	**(1,372)**	(2,805)
As at 31 December	**635,887**	**331,977**	**670,124**	**1,637,988**	1,495,441
Accumulated depreciation					
As at 1 January	**281,058**	**197,869**	**455,054**	**933,981**	828,663
Charge for the year	**25,766**	**22,672**	**62,851**	**111,289**	107,395
Disposals	**-**	**-**	**(1,324)**	**(1,324)**	(2,077)
As at 31 December	**306,824**	**220,541**	**516,581**	**1,043,946**	933,981
Net book value					
As at 31 December 2009	**329,063**	**111,436**	**153,543**	**594,042**	
As at 31 December 2008	331,717	82,417	147,326		561,460

Land and buildings, leasehold improvements and equipment include work in progress as at 31 December 2009 amounting to SAR 24.7 million (2008: SAR 8.3 million), SAR 46.0 million (2008: SAR 10.8 million) and SAR 16.8 million (2008 : SAR nil) respectively.

9. Other assets

	2009 SAR'000	2008 SAR'000
Accrued special commission receivable		
– banks and other financial institutions	**95**	430
– investments	**128,108**	203,659
– loans and advances	**445,371**	697,348
Total accrued special commission receivable	**573,574**	901,437
Accounts receivable	**63,134**	107,922
Other real estate	**4,277**	4,277
Positive fair value of derivatives (note10)	**1,879,011**	2,176,791
Advance tax	**165,662**	157,303
Other	**559,177**	233,325
Total	**3,244,835**	3,581,055

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

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

d) Forward rate agreements

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

Derivatives held for trading

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

Derivatives held for hedging

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

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

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

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission income at a variable rate. The Bank uses commission rate swaps as cash flow hedges of these special commission rate risks. 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
2009	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	**3,264**	**16,143**	**-**
Cash out flows (liabilities)	**(6,671)**	**(41,949)**	**(24,283)**
Net cash outflow	**(3,407)**	**(25,806)**	**(24,283)**
2008	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	9,021	11,276	8,131
Cash out flows (liabilities)	(2,098)	(120)	-
Net cash inflow	6,923	11,156	8,131

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities.

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

Notional amounts by term to maturity

2009 SAR'000	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Derivatives held for trading:								
Special commission rate swaps	**1,410,339**	**(1,318,875)**	**53,314,211**	**936,136**	**9,828,180**	**34,204,478**	**8,345,417**	**53,645,512**
Special commission rate futures and options	**34,021**	**(34,021)**	**2,887,500**	**-**	**-**	**2,887,500**	**-**	**2,867,500**
Spot and forward foreign exchange contracts	**39,918**	**(52,381)**	**17,026,881**	**7,656,198**	**8,991,599**	**379,084**	**-**	**14,068,421**
Currency options	**72,118**	**(72,118)**	**3,037,146**	**1,490,565**	**308,678**	**1,237,903**	**-**	**3,637,985**
Currency swaps	**284,116**	**-**	**1,475,297**	**-**	**-**	**1,475,297**	**-**	**1,475,297**
Others	**3,831**	**(3,831)**	**725,000**	**-**	**50,000**	**675,000**	**-**	**725,000**
Derivatives held as fair value hedges:								
Special commission rate swaps	**4,824**	**(29,539)**	**835,182**	**-**	**14,125**	**727,307**	**93,750**	**817,963**
Derivatives held as cash flow hedges:								
Special commission rate swaps	**29,844**	**(1,386)**	**1,381,250**	**187,500**	**-**	**1,193,750**	**-**	**789,583**
Total	**1,879,011**	**(1,512,151)**	**80,682,467**	**10,270,399**	**19,192,582**	**42,780,319**	**8,439,167**	

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

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

2009 (SAR'000) **Description of the hedged items:**	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**858,683**	**835,182**	Fair value	Special commission rate swap	**4,824**	**(29,539)**
Floating commission rate investments	**349,867**	**393,750**	Cash flow	Special commission rate swap	**23,116**	**-**
Floating commission rate debt securities in issue	**1,019,929**	**987,500**	Cash flow	Special commission rate swap	**6,728**	**(1,386)**

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

The net gains on the hedging instruments for fair value hedges are SAR 2.9 million (2008: net losses of SAR 25.9 million). The net losses on the hedged item attributable to the hedged risk are SAR 4.2 million (2008: net gains of SAR 27.3 million). The net fair value of the derivatives is negative SAR 24.7 million (2008: negative SAR 27.6 million).

Approximately 27% (2008: 29%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 19% (2008: 18%) of the total of the positive fair value contracts are with any individual counterparty at the consolidated statement of financial position date.

11. Due to banks and other financial institutions

	2009 SAR'000	2008 SAR'000
Current accounts	**1,455,515**	1,380,911
Money market deposits	**12,150,229**	14,688,581
Total	**13,605,744**	16,069,492

Money market deposits also include deposits placed by SAMA of SAR 276.9 million (2008: SAR 2,013.5 million).

12. Customers' deposits

	2009 SAR'000	2008 SAR'000
Demand	**38,073,079**	28,569,398
Savings	**3,877,905**	3,174,064
Time	**46,327,624**	60,216,345
Other	**908,253**	717,730
Total	**89,186,861**	92,677,537

Customers' deposits include SAR 39,417.7 million (2008: SAR 39,577.5 million) deposits taken under non-interest bearing product contracts.

Other customers' deposits include SAR 905.6 million (2008: SAR 715.1 million) of margins held for irrevocable commitments.

The above deposits include the following foreign currency deposits:

	2009 SAR'000	2008 SAR'000
Demand	**3,206,460**	3,017,154
Savings	**157,591**	149,440
Time	**8,780,380**	7,509,247
Other	**227,317**	219,140
Total	**12,371,748**	10,894,981

13. Debt securities in issue

	2009 SAR'000	2008 SAR'000
USD 600 million 5 year floating rate notes	**2,249,867**	2,249,134
Euro 325 million 5 year floating rate notes	**1,754,620**	1,702,666
SAR 1,705 million 5 year floating rate notes	**1,705,000**	1,705,000
Total	**5,709,487**	5,656,800

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

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

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

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

SAR 1,705 million 5 year floating rate notes
These notes were issued during 2008 and are due to mature on 21 July 2013. The notes carry special commission at three months' SIBOR plus 80 bps payable quarterly. The notes are non convertible, are unsecured and are listed on Tadawul.

14. Borrowings

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

15. Other liabilities

	2009 SAR'000	2008 SAR'000
Accrued special commission payable		
– banks and other financial institutions	**45,832**	192,457
– customers' deposits	**220,505**	464,559
– debt securities in issue	**10,289**	22,127
– borrowings	**452**	920
Total accrued special commission payable	**277,078**	680,063
Accounts payable	**854,951**	575,886
Drawings payable	**622,344**	346,094
Negative fair value of derivatives (note 10)	**1,512,151**	1,884,126
Other	**1,836,557**	1,949,364
Total	**5,103,081**	5,435,533

16. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2008: 600 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2009	2008
Saudi shareholders	**60%**	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	**40%**	40%

The shareholders of the Bank approved a bonus issue of one share for every four shares (2008: three shares for every five shares) in their Extraordinary General Meeting held on 10 March 2009 (2008: 27 April 2008). As a result 150 million shares (2008: 225 million shares) of SAR 10 each were issued by capitalising retained earnings.

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of the Bank. Accordingly, a sum of SAR 508 million (2008: SAR 730 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

2009 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	36,248	(212,964)	(176,716)
Net change in fair value	6,275	95,799	102,074
Transfer to consolidated statement of income	(14,065)	(48,828)	(62,893)
Net movement during the year	(7,790)	46,971	39,181
Balance at end of the year	28,458	(165,993)	(137,535)

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

The discontinuation of hedge accounting during the year resulted in reclassification of the associated cumulative gains of SAR 14.1 million (2008: SAR nil) from equity to the consolidated statement of income.

19. Commitments and contingencies

a) Legal proceedings

As at 31 December 2009 there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is unlikely that any significant loss will occur.

b) Capital commitments

The Bank has capital commitments of SAR 67.9 million (2008: SAR 66.6 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

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

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

2009 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**4,374,045**	**2,686,950**	**680,637**	**-**	**7,741,632**
Guarantees	**8,116,621**	**8,736,248**	**10,816,018**	**72,037**	**27,740,924**
Acceptances	**1,917,970**	**433,151**	**116,890**	**-**	**2,468,011**
Irrevocable commitments to extend credit	**21,465**	**184,761**	**585,737**	**42,802**	**834,765**
Total	**14,430,101**	**12,041,110**	**12,199,282**	**114,839**	**38,785,332**

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

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 35,229.1 million (2008: SAR 40,667.8 million).

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

	2009 SAR'000	2008 SAR'000
Government and quasi Government	**267,144**	1,322,016
Corporate	**31,112,704**	30,503,531
Banks and other financial institutions	**7,269,803**	4,464,166
Other	**135,681**	155,969
Total	**38,785,332**	36,445,682

f) **Operating lease commitments**

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

	2009 SAR'000	2008 SAR'000
Less than 1 year	**49,313**	48,404
1 to 5 years	**145,599**	146,093
Over 5 years	**149,606**	151,137
Total	**344,518**	345,634

20. Net special commission income

	2009 SAR'000	2008 SAR'000
Special commission income		
Investments		
–available for sale investments	**536,208**	790,132
– held at amortised cost	**203,728**	256,092
– held to maturity investments	**28,712**	29,635
	768,648	1,075,859
Due from banks and other financial institutions	**65,008**	227,811
Loans and advances	**3,739,943**	4,561,296
Total	**4,573,599**	5,864,966
Special commission expense		
Due to banks and other financial institutions	**189,096**	369,302
Customers' deposits	**831,003**	2,049,333
Debt securities in issue	**106,475**	228,958
Borrowing	**10,283**	10,329
Total	**1,136,857**	2,657,922
Net special commission income	**3,436,742**	3,207,044

21. Fees and commission income, net

	2009 SAR'000	2008 SAR'000
Fees income:		
- Share trading and fund management	**232,281**	354,209
- Trade finance	**485,535**	319,726
- Corporate finance and advisory	**195,112**	208,913
- Cards	**319,427**	307,800
- Other banking services	**80,063**	164,085
Total fees income	**1,312,418**	1,354,733
Fees expense:		
- Cards	**(37,452)**	(35,458)
- Custodial services	**(852)**	(628)
- Other banking services	**(63,380)**	(61,425)
Total fees expense	**(101,684)**	(97,511)
Fees and commission income, net	**1,210,734**	1,257,222

22. Income (losses) from FVIS financial instruments, net

	2009 SAR'000	2008 SAR'000
Fair value change on investments held as FVIS	**5,883**	(47,104)
Special commission income on FVIS investments	**684**	4,704
Total	**6,567**	(42,400)

23. Trading income, net

	2009 SAR'000	2008 SAR'000
Foreign exchange, net	**253,551**	239,323
Derivatives	**41,807**	127,672
Debt instruments	**4,486**	5,784
Others	**(3,862)**	(9,210)
Total	**295,982**	363,569

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

	2009 SAR'000	2008 SAR'000
Available for sale investments	**48,828**	(17,010)

25. Basic and diluted earnings per share

Basic earnings per share for the year ended 31 December 2009 and 2008 is calculated by dividing the net income for the year attributable to the equity holders by 750 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

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

26. Gross dividend, zakat and income tax

The gross dividend for the year is SAR 660 million (2008: SAR 660 million) and was paid as an interim dividend to shareholders on 27 July 2009. Dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax respectively as follows:

Saudi shareholders:

Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 39.9 million (2008: SAR 50.4 million).

Non Saudi shareholders

Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 174.4 million (2008: SAR 237.9 million).

27. Cash and cash equivalents

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

	2009 SAR'000	2008 SAR'000
Cash and balances with SAMA excluding the statutory deposit (note 3)	**11,452,321**	6,500,763
Due from banks and other financial institutions with an original maturity of ninety days or less from date of the acquisition	**6,004,593**	6,200,466
Total	**17,456,914**	12,701,229

28. Business 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. Following the adoption of IFRS 8, the identification of the Bank's reportable segments has not changed.

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

Transactions between the operating segments are on normal commercial terms and conditions. There are no material items of income or expense between the operating segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

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

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

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

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

Transactions between the business segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2009 and 2008, its total operating income and expenses, and the results for the years then ended, by business segment, are as follows:

2009 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Total assets	**21,007,060**	**57,326,634**	**48,313,780**	**190,488**	**126,837,962**
Total liabilities	**36,360,818**	**39,664,579**	**37,732,187**	**35,089**	**113,792,673**
Total operating income	**1,896,342**	**2,221,338**	**821,103**	**221,496**	**5,160,279**
Total operating expenses	**1,572,177**	**1,415,350**	**61,675**	**124,848**	**3,174,050**
Share in earnings of associates,net	**-**	**-**	**-**	**46,048**	**46,048**
Net income	**324,165**	**805,988**	**759,428**	**142,696**	**2,032,277**
Fees and commission income, net	**507,889**	**691,507**	**11,659**	**(321)**	**1,210,734**
Trading income, net	**-**	**5,027**	**290,955**	**-**	**295,982**
Credit losses and impairment provision, net	**436,966**	**1,059,517**	**-**	**-**	**1,496,483**

2008 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	24,032,842	58,450,117	49,026,870	150,864	131,660,693
Total liabilities	35,434,109	41,808,929	42,771,069	12,755	120,026,862
Total operating income	1,932,519	1,889,277	664,895	424,837	4,911,528
Total operating expenses	1,426,032	393,934	149,927	129,937	2,099,830
Share in earnings of associates,net	-	-	-	108,321	108,321
Net income	506,487	1,495,343	514,968	403,221	2,920,019
Fees and commission income, net	654,146	602,778	317	(19)	1,257,222
Trading income, net	3,190	-	360,379	-	363,569
Credit losses and impairment provision, net	304,450	66,830	86,929	-	458,209

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

2009 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Assets	**19,481,964**	**56,899,635**	**45,774,334**	**180,458**	**122,336,391**
Commitments and contingencies	**211,368**	**16,118,405**	**-**	**-**	**16,329,773**
Derivatives	**-**	**-**	**2,821,383**	**-**	**2,821,383**
Total	**19,693,332**	**73,018,040**	**48,595,717**	**180,458**	**141,487,547**

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

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

29. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk on credit related commitments and contingencies and derivatives.

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

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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

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

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

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

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

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

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

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

2009 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA	16,614,885	-	-	-	-	16,614,885
Due from banks and other financial institutions	-	99,797	4,989,353	873,364	42,079	6,004,593
Investments, net	19,341,136	3,312,903	919,113	189,922	54,476	23,817,550
Loans and advances, net	74,869,569	1,248,143	213,446	39,202	11,239	76,381,599
Investment in associates	180,458	-	-	-	-	180,458
Total	111,006,048	4,660,843	6,121,912	1,102,488	107,794	122,999,085
Liabilities						
Due to banks and other financial institutions	9,387,411	2,175,996	1,738,322	175,041	128,974	13,605,744
Customer deposits	89,125,033	3,638	52,505	-	5,685	89,186,861
Debt securities in issue	1,705,000	-	4,004,487	-	-	5,709,487
Borrowings	-	-	187,500	-	-	187,500
Total	100,217,444	2,179,634	5,982,814	175,041	134,659	108,689,592
Commitments and contingencies	37,747,509	355,807	96,566	51,631	533,819	38,785,332
Credit exposure (stated at credit equivalent amounts)						
Assets	110,343,354	4,660,843	6,121,912	1,102,488	107,794	122,336,391
Commitments and contingencies	16,060,521	74,148	46,350	16,176	132,578	16,329,773
Derivatives	1,438,277	155,211	1,218,865	9,028	2	2,821,383
Total credit exposure	127,842,152	4,890,202	7,387,127	1,127,692	240,374	141,487,547

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

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

31. Market risk

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

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

a) Market risk-trading book

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

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

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

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

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

The Bank's VAR related information is as under.

2009	**Foreign exchange**	**Special commission rate**	**Overall risk** (SAR'000)
VAR as at 31December 2009	**1,688**	**874**	**1,905**
Average VAR for 2009	**2,095**	**930**	**2,393**

2008	Foreign exchange	Special commission rate	Overall risk (SAR'000)
VAR as at 31 December 2008	1,309	615	1,545
Average VAR for 2008	1,665	590	1,880

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

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

		2009					**SAR' 000**
Currency	**Increase in basis points**	**Sensitivity of Special Commission Income**	**Sensitivity of Equity**				
			6months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**+ 100**	**21,014**	**(59,826)**	**3,106**	**47,791**	**-**	**(8,929)**
USD	**+ 100**	**2,380**	**(8,024)**	**(8,834)**	**(44,219)**	**(61)**	**(61,138)**
EUR	**+ 100**	**(13,860)**	**(641)**	**(704)**	**(2,830)**	**-**	**(4,175)**
Others	**+ 100**	**1,492**	**(428)**	**(468)**	**(831)**	**-**	**(1,727)**

		2009					**SAR '000**
Currency	**Decrease in basis points**	**Sensitivity of Special Commission Income**	**Sensitivity of Equity**				
			6months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**- 100**	**(21,014)**	**59,826**	**(3,106)**	**(47,791)**	**-**	**8,929**
USD	**- 100**	**(2,380)**	**8,024**	**8,834**	**44,219**	**61**	**61,138**
EUR	**- 100**	**13,860**	**641**	**704**	**2,830**	**-**	**4,175**
Others	**- 100**	**(1,492)**	**428**	**468**	**831**	**-**	**1,727**

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

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

ii) Currency risk

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

32. Currency risk

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

	2009 SAR'000 Long (short)	2008 SAR'000 Long (short)
US Dollar	**188,485**	(202,605)
Euro	**165**	(1,437)
Sterling Pounds	**(544)**	(1,062)
Other	**6,004**	3,016

33. Special commission rate risk

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

2009 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non special commission bearing**	**Total**	**Effective Commission rate %**
Assets							
Cash and balances with SAMA	**10,787,850**	**-**	**-**	**-**	**5,827,035**	**16,614,885**	**0.3%**
Due from banks and other financial institutions	**4,913,368**	**-**	**-**	**-**	**1,091,225**	**6,004,593**	**0.1%**
Investments, net	**18,368,335**	**1,885,585**	**3,326,705**	**169,137**	**67,788**	**23,817,550**	**2.2%**
Loans and advances, net	**43,783,937**	**12,737,753**	**19,859,909**	**-**	**-**	**76,381,599**	**2.5%**
Investment in associates	**-**	**-**	**-**	**-**	**180,458**	**180,458**	
Property and equipment, net	**-**	**-**	**-**	**-**	**594,042**	**594,042**	
Other assets	**-**	**-**	**-**		**3,244,835**	**3,244,835**	
Total assets	**77,853,490**	**14,623,338**	**23,186,614**	**169,137**	**11,005,383**	**126,837,962**	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	**11,873,355**	**-**	**276,873**	**-**	**1,455,516**	**13,605,744**	**0.8%**
Customer deposits	**41,272,756**	**2,648,013**	**7,193,012**	**-**	**38,073,080**	**89,186,861**	**0.1%**
Debt securities in issue	**5,709,487**	**-**	**-**	**-**	**-**	**5,709,487**	**1.0%**
Borrowings	**-**	**-**	**-**	**187,500**	**-**	**187,500**	**5.1%**
Other liabilities	**-**	**-**	**-**	**-**	**5,103,081**	**5,103,081**	
Shareholders' equity	**-**	**-**	**-**	**-**	**13,045,289**	**13,045,289**	
Total liabilities and shareholders' equity	**58,855,598**	**2,648,013**	**7,469,885**	**187,500**	**57,676,966**	**126,837,962**	
Net gap between assets and liabilities	**18,997,892**	**11,975,325**	**15,716,729**	**(18,363)**	**(46,671,583)**		
Net gap between derivative financial instrument	**2,139,804**	**(463,426)**	**(1,582,629)**	**(93,749)**	**-**		
Total special commission rate sensitivity gap	**21,137,696**	**11,511,899**	**14,134,100**	**(112,112)**	**(46,671,583)**		
Cumulative special commission rate sensitivity gap	**21,137,696**	**32,649,595**	**46,783,695**	**46,671,583**	**-**		

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

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

34. Liquidity risk

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

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

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and does not take account of effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

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

a) Analysis of financial liabilities by remaining contractual maturities :

2009 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities					
Due to banks and other financial institutions	**13,344,890**	**-**	**332,305**	**-**	**13,677,195**
Customer deposits	**79,221,880**	**2,980,775**	**7,632,815**	**7,984**	**89,843,454**
Debt securities in issue	**2,265,116**	**33,675**	**3,545,415**	**-**	**5,844,206**
Borrowings	**-**	**9,714**	**139,758**	**84,195**	**233,667**
Derivatives :					
- Contractual amounts payable	**8,811,909**	**9,301,035**	**3,120,984**	**-**	**21,233,928**
- Contractual amounts receivable	**(8,798,119)**	**(9,298,158)**	**(3,324,239)**	**(5,423)**	**(21,425,939)**
Total undiscounted financial liabilities	**94,845,676**	**3,027,041**	**11,447,038**	**86,756**	**109,406,511**

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

b) Maturity analysis of assets and liabilities :

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

2009 SAR'000	**Within 3 months**	**3-12 months**	**1-5 Years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	**11,452,321**	**-**	**-**	**-**	**5,162,564**	**16,614,885**
Due from banks and other financial institutions	**6,004,593**	**-**	**-**	**-**	**-**	**6,004,593**
Investments, net	**9,574,249**	**3,504,383**	**10,355,914**	**305,374**	**77,630**	**23,817,550**
Loans and advances, net	**35,375,478**	**12,594,329**	**20,354,079**	**8,057,713**	**-**	**76,381,599**
Investment in associates	**-**	**-**	**-**	**-**	**180,458**	**180,458**
Property and equipment, net	**-**	**-**	**-**	**-**	**594,042**	**594,042**
Other assets	**-**	**-**	**-**	**-**	**3,244,835**	**3,244,835**
Total assets	**62,406,641**	**16,098,712**	**30,709,993**	**8,363,087**	**9,259,529**	**126,837,962**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**13,328,871**	**-**	**276,873**	**-**	**-**	**13,605,744**
Customer deposits	**79,092,271**	**2,969,161**	**7,117,445**	**7,984**	**-**	**89,186,861**
Debt securities in issue	**2,249,867**	**-**	**3,459,620**	**-**	**-**	**5,709,487**
Borrowings	**-**	**-**	**-**	**187,500**	**-**	**187,500**
Other liabilities	**-**	**-**	**-**	**-**	**5,103,081**	**5,103,081**
Shareholders' equity	**-**	**-**	**-**	**-**	**13,045,289**	**13,045,289**
Total liabilities and shareholders' equity	**94,671,009**	**2,969,161**	**10,853,938**	**195,484**	**18,148,370**	**126,837,962**

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

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

35. Fair values of financial instruments

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.

SAR' 000	Level 1	Level 2	Level 3	Total
2009				
Financial assets				
Derivative financial instruments	**-**	**1,879,011**	**-**	**1,879,011**
Financial assets designated at FVIS	**327,530**	**18,673**	**-**	**346,203**
Financial investments available for sale	**7,268,609**	**11,330,688**	**66,231**	**18,665,528**
Total	**7,596,139**	**13,228,372**	**66,231**	**20,890,742**
Financial Liabilities				
Derivative financial instruments	**-**	**1,512,151**	**-**	**1,512,151**
Total	**-**	**1,512,151**	**-**	**1,512,151**

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

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

The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5. It is not practicable to determine the fair value of loans and advances and customer deposits with sufficient reliability.

The fair values of derivatives are based on the quoted market prices or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is SAR 44.7 million (2008: SAR 95.7 million).

36. Related party transactions

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

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

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

	2009 SAR'000	2008 SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**1,604,704**	4,323,321
Investments	**674,459**	835,220
Derivatives (at fair value)	**(117,733)**	(408,151)
Due to banks and other financial institutions	**2,754,995**	8,135,827
Other liabilities	**-**	4,619
Commitments and contingencies	**1,330,634**	997,114

The above investments include investments in associates, amounting to SAR 180.5 million (2008: SAR 148.3 million).

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

Loans and advances	**3,065,140**	2,168,348
Customers' deposits	**8,196,270**	4,000,924
Derivatives (at fair value)	**7,045**	12,137
Commitments and contingencies	**195,482**	242,057

Bank's mutual funds:		
Loans and advances	**1,437**	1,002
Customers' deposits	**926,396**	384,839

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

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

	2009 SAR'000	2008 SAR'000
Special commission income	**48,036**	34,449
Special commission expense	**(111,693)**	(295,379)
Fees and commission income	**55,836**	102,491
Profit share arrangement relating to investment banking activities	**(12,225)**	(18,643)
Share in earnings of associates	**46,048**	108,321
Directors' remuneration	**2,647**	2,828

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

	2009 SAR'000	2008 SAR'000
Short-term employee benefits (salaries and allowances)	**48,222**	45,607
Employment termination benefits	**-**	1,029

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were two such schemes outstanding at 31 December 2009. The details of these schemes have not been separately disclosed in these consolidated financial statements as amounts are not material.

37. Capital adequacy

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

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

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

	2009 SAR'000	2008 SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	**92,947,700**	95,224,500
Operational Risk RWA	**9,088,561**	8,564,371
Market Risk RWA	**672,013**	509,500
Total RWA	**102,708,274**	104,298,371
Tier I Capital	**10,423,435**	8,645,646
Tier II Capital	**2,683,537**	3,072,693
Total I & II Capital	**13,106,972**	11,718,339
Capital Adequacy Ratio %		
Tier I ratio	**10.15%**	8.29 %
Tier I + Tier II ratio	**12.76%**	11.24%

38. Basel II Pillar 3 Disclosures

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

39. Prospective changes in accounting standards

The Bank has chosen not to early adopt the amendments and the newly issued standards as follows

Improvements to IFRSs 2009 – various standards	effective date 1 January 2010
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 2009)	effective date 1 January 2011
IFRS 9 Financial Instruments	effective date 1 January 2013

40. Comparative figures

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

41. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 6 Rabi Awal 1431H (Corresponding 20 February 2010).