AL RAJHI BANKING AND INVESTMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
TOGETHER WITH AUDITORS' REPORT

ERNST & YOUNG
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

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AUDITORS' REPORT

**TO: THE SHAREHOLDERS OF
AL RAJHI BANKING AND INVESTMENT CORPORATION
(Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes from (1) to (38). We have not audited note (39), nor the information related to "Basel II disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

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Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as at 31 December 2008, and of their financial performance and their cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards, and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association and By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

Fahad M. Al-Toaimi
Registration No. 354

PricewaterhouseCoopers Al Juraid

Walid I. Shukri
Registration No. 329

Riyadh: 22 Muharram 1430H
(January 19, 2009)

إرنست ويونغ
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

برايس وترهاوس كوبرز الجريد
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS AL JURAID
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008 AND 2007
(SR '000)

	Notes	2008	2007
ASSETS			
Cash	3	**3,629,777**	3,486,046
Balances with Saudi Arabian Monetary Agency ("SAMA")	4	**7,672,252**	9,655,153
Due from banks	5	**2,891,765**	790,645
Investments, net:			
Mutajara		**67,456,290**	41,586,899
Installment sale		**59,070,283**	55,989,774
Istisnaa		**1,290,412**	1,630,014
Murabaha		**13,019,556**	4,078,388
Other	7	**3,166,983**	1,590,370
Total investments, net	6	**144,003,524**	104,875,445
Customer debit current accounts, net	8	**754,410**	909,918
Property and equipment, net	9	**2,868,160**	2,591,101
Other assets, net	10	**3,109,913**	2,578,174
TOTAL ASSETS		**164,929,801**	124,886,482
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Due to banks	11	**7,901,630**	2,593,090
Syndicated murabaha financing from banks	12	**1,875,000**	1,875,000
Customer deposits	13	**116,611,043**	89,725,167
Other customer accounts (including margins on letters of credit, third party funds, certified checks and transfers)		**3,686,576**	3,030,969
Other liabilities	14	**7,823,753**	4,056,144
Total liabilities		**137,898,002**	101,280,370
Shareholders' equity			
Share capital	15	**15,000,000**	13,500,000
Statutory reserve	16	**8,727,370**	7,096,219
General reserve	16	**-**	197,650
Retained earnings		**121,286**	1,588,326
Proposed gross dividends	23	**3,183,143**	1,223,917
Total shareholders' equity		**27,031,799**	23,606,112
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**164,929,801**	124,886,482

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(SR '000)

	Notes	2008	2007
INCOME:			
Investments income (expense):			
Mutajara		**3,048,554**	2,797,651
Installment sale		**5,740,385**	5,467,749
Istisnaa		**150,913**	194,092
Murabaha		**483,420**	108,089
Other		**(2,222)**	15,535
Total income from investments		**9,421,050**	8,583,116
Income paid to customers and banks on time investments		**(819,453)**	(751,593)
Income paid on syndicated murabaha financing from banks		**(107,156)**	(109,711)
Income from investments, net	19	**8,494,441**	7,721,812
Mudaraba fees		**76,489**	71,249
Fees from banking services, net	20	**1,241,267**	980,625
Exchange income, net		**483,459**	470,872
Other operating income	21	**279,611**	76,538
Total operating income		**10,575,267**	9,321,096
EXPENSES:			
Salaries and employee related benefits		**1,648,657**	1,451,180
Rent and premises related expenses		**136,830**	117,918
Impairment charge for investments and other	6-2 & 17	**1,274,419**	443,240
Depreciation and amortization		**383,401**	288,159
Other general and administrative expenses		**604,281**	567,831
Board of directors' remuneration	29	**3,075**	3,111
Total operating expenses		**4,050,663**	2,871,439
NET INCOME		**6,524,604**	6,449,657
Weighted average number of shares outstanding	15 & 22	**1,500 million**	1,500 million
EARNINGS PER SHARE (IN SR)	22	**4,35**	4.30

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(SR '000)

	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Proposed gross dividends	Total
2008							
Balance at January 1, 2008		**13,500,000**	**7,096,219**	**197,650**	**1,588,326**	**1,223,917**	**23,606,112**
Dividends paid for prior year		-	-	-	-	(675,000)	(675,000)
Bonus share issue	15	1,500,000	-	-	(1,500,000)	-	-
Transfer to general reserve	16	-	-	88,326	(88,326)	-	-
Net income		-	-	-	6,524,604	-	6,524,604
Transfer to statutory reserve		-	1,631,151	-	(1,631,151)	-	-
Interim dividends paid for the first half of the current year	23	-	-	-	(1,875,000)	-	(1,875,000)
Proposed gross dividends	16&23	-	-	(285,976)	(2,897,167)	3,183,143	-
Transfer to accrued zakat	23	-	-	-	-	(548,917)	(548,917)
Balance at December 31, 2008		**15,000,000**	**8,727,370**	**-**	**121,286**	**3,183,143**	**27,031,799**
2007							
Balance at January 1, 2007		6,750,000	5,483,805	1,400,000	5,547,650	998,021	20,179,476
Dividends paid for prior year		-	-	-	-	(675,000)	(675,000)
Bonus share issue	15	6,750,000	-	(1,202,350)	(5,547,650)	-	-
Net income		-	-	-	6,449,657	-	6,449,657
Transfer to statutory reserve	16	-	1,612,414	-	(1,612,414)	-	-
Interim dividends paid for the first half of the current year		-	-	-	(2,025,000)	-	(2,025,000)
Proposed gross dividends	23	-	-	-	(1,223,917)	1,223,917	-
Transfer to accrued zakat	23	-	-	-	-	(323,021)	(323,021)
Balance at December 31, 2007		13,500,000	7,096,219	197,650	1,588,326	1,223,917	23,606,112

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(SR '000)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**6,524,604**	6,449,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**383,401**	288,159
Impairment charge for investments and other	**1,274,419**	443,240
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA (Note 4)	**(593,227)**	(2,682,599)
Customer debit current accounts	**70,074**	(197,531)
Other assets	**(572,017)**	(341,685)
Net increase (decrease) in operating liabilities:		
Due to banks	**5,308,540**	(880,156)
Customer deposits	**26,885,876**	16,327,187
Other customer accounts	**655,607**	546,527
Other liabilities	**3,171,695**	(73,068)
Net cash provided by operating activities	**43,108,972**	19,879,731
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mutajara	**(26,171,605)**	(7,342,682)
Installment sale	**(3,878,615)**	(4,899,689)
Istisnaa	**339,602**	534,139
Murabaha	**(8,972,836)**	(2,873,189)
Other investments	**(1,576,613)**	(1,159,486)
Purchase of property and equipment	**(630,182)**	(885,451)
Net cash used in investing activities	**(40,890,249)**	(16,626,358)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	**(2,550,000)**	(2,700,000)
Net cash used in financing activities	**(2,550,000)**	(2,700,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(331,277)**	553,373
Cash and cash equivalents at the beginning of year	**6,853,268**	6,299,895
CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 24)	**6,521,991**	6,853,268

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

1. GENERAL

a) Incorporation and operations

Al Rajhi banking and investment corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to June 29, 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to June 23, 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
P.O. Box 28
Riyadh 11411
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia for its own account and on behalf of others through 451 branches including the branches outside the kingdom as at 31 December 2008 (2007: 421 branches) and 8,299 employees as at December 31, 2008 (2007: 8,365 employees). The Bank has established a number of wholly or substantially owned subsidiaries as set out in Note 2-c.

b) Shari'a Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Shari'a legislations, the Bank has, since inception, established a Shari'a Authority to ascertain that the Bank's activities are subject to its approval and control. The Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these consolidated financial statements are set out below. The accounting policies used in the preparation of these consolidated financial statements are consistent with those of the prior year.

a) Basis of Presentation

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

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of investments held as fair value through income statement (FVIS).

The consolidated financial statements are presented in Saudi Riyal (SR) and are rounded off to the nearest thousand.

b) Critical accounting judgments, estimates and assumptions

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

c) **Basis of the preparation of the consolidated financial statements**

These consolidated financial statements include the accounts of Al Rajhi Bank and its subsidiaries in which the Bank's shareholdings exceed 50% of their share capital and have the power to govern their financial and operational policies. Significant balances and transactions between the Bank and its subsidiaries and those among subsidiaries are eliminated upon consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Bank till the date control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

The consolidated subsidiaries as at December 31 are as follows:

SUBSIDIARIES	Shareholding %	
	2008	2007
SPC Limited - British Virgin Islands	99%	99%
Arpent VAT Limited – UK	100%	100%
Al Rajhi Investment Corporation Limited - London	100%	100%
ARA 1 Company Limited – Jersey	99%	99%
Al Rajhi Company for Development Limited - Riyadh	99%	99%
Al Rajhi Corporation Limited-Malaysia	100%	100%
Al Rajhi Financial Services Company	99%	99%

To comply with Capital Market Authority requirements, in 2007 the Bank established a new company for brokerage business under the name of "Al Rajhi Financial Services Company" by spinning off all the brokerage business from the Bank.

d) **Zakat**

Zakat is calculated based on the zakat rules and regulations in the Kingdom of Saudi Arabia and is considered as a liability on the shareholders to be deducted from dividends. In case of any differences between the Bank's calculation and the Department of Zakat and Income Tax's (DZIT) assessment, such differences will be charged to the general reserve.

e) **Trade date**

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

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Riyals at exchange rates and prices of prevailing at the consolidated balance sheet date.

Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of income.

The monetary assets and liabilities of foreign subsidiaries are translated at rates of exchange prevailing at the consolidated balance sheet date. The statements of income of foreign subsidiaries are translated at the average exchange rates for the year.

Exchange differences, if material, arising on monetary items that form part of net investments in subsidiaries, are included as a separate component in the shareholders' equity.

g) Offsetting of financial assets and liabilities

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

h) Revenue recognition

- Income from mutajara, murabaha, musharaka after the sale of shares, installment sale and istisnaa financing, is recognized based on effective yield basis on the outstanding balances. No additional income is charged on the overdue balances.

- Income from istisnaa arises from execution and financing of projects. Income from the executed part of istisnaa contract under progress is recognized using the percentage of completion method. However, if the cost to complete the contract cannot be reasonably estimated, then income is recognized upon the completion of the contract. Such income is included under istisnaa income in the consolidated statement of income.

- Fees from banking services are recognized as and when the related services are rendered on the accrual basis of accounting.

i) Investments and provisions for impairment

The Bank classifies its major investments as follows:

i. Held at amortized cost - such investments are measured at amortized cost, and comprise mutajara, installment sale, istisnaa and Murabaha accounts balances.

ii. Held as FVIS - such investments are measured at fair value, and comprise real estate, mutual funds, and other investments.

Investments held at amortized cost are initially recognized at cost and subsequently measured at cost less any amounts written off, and provision for impairment.

Investments held as FVIS are initially recognized at cost and are subsequently measured at fair value. Any change in fair value is charged to the consolidated statement of income. Investments, where fair value cannot be reliably measured, are carried at cost.

Provision for investments, including those arising from sovereign credit risk exposure, if any, are determined according to management's assessment of the adequacy of the recorded provision on a periodic basis. Such assessment takes into account the composition and volume of the related accounts, the historical pattern of losses, the credit rating of the customers, and the economic environment in which the customers operate.

For presentation purposes in the consolidated financial statements, provision for investments is deducted from the related investment account.

j) Impairment of financial assets

An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a financial asset or a 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 the future anticipated cash flows, is recognized for changes in the asset's carrying amount. The carrying amount of the financial assets held at amortized cost, is adjusted either directly or through the use of a provision account, and the amount of the adjustment is included in the consolidated statement of income.

Specific provisions are evaluated individually for all different types of investments. Considerable 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 necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. In addition to the specific provisions described above, the Bank also makes collective impairment provisions, which are evaluated on a group basis and are created for losses, where there is objective evidence that a group of investments has greater risk of impairment than when originally initiated. The amount of the provision is estimated based on the historical default patterns of the investment counter-parties as well as their credit ratings, taking into account the current economic climate.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or profit.
- Cash flow difficulties experienced by the customer.
- Breach of repayment covenants or conditions.

- Initiation of bankruptcy proceedings against the customer.
- Deterioration of the customer's competitive position.
- Deterioration in the value of collateral.

When an investment amount is uncollectible, it is written off against the related provision for impairment. Such investments are written off after all necessary procedures have been completed and the amount of the loss has been determined.

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

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

k) De-recognition of financial assets and liabilities

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the bank has not retained control on the financial asset.

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

l) Customer debit current accounts

All non-commission bearing customer debit current accounts are stated at cost, less doubtful amounts and provision for impairment, if any.

m) Property and equipment

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

Leasehold land improvements	over the period of the lease
Buildings	33 years
Leasehold building improvements	3 years
Equipment and furniture	3 to 10 years.

n) Customer deposits

Non-commission bearing customer deposits are initially recognized at cost, being the fair value of the consideration received, and are subsequently measured at amortized cost.

o) Provisions

Provisions are recognized when the Bank has present legal, or constructive, obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

p) Guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the income statement in "credit loss expenses". The premium received is recognized in the income statement 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. Accordingly, payments are charged to the consolidated statement of income on straight-line basis over the period of the lease. Leases entered into by the Bank as a lessor are all operating leases.

r) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and precious metals, balances with SAMA (excluding the statutory deposit) and due from banks maturing within ninety days on acquisition.

s) Special commission excluded from the consolidated statement of income

In accordance with the Shari'a Authority's resolutions, special commission income received by the Bank is excluded from the determination of income, and is recorded as other liabilities in the consolidated balance sheet to be paid as charities.

t) Mudaraba funds

The Bank carries out mudaraba transactions on behalf of its customers, and are treated by the Bank as being restricted investments. These are included as off balance sheet items. The Bank's share of profits from managing such funds is included in the consolidated statement of income.

u) Investment management services

The Bank provides investment management services to its customers, which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the consolidated financial statements.

3. CASH

Cash as of December 31 comprise the following:

	(SR '000)	
	2008	2007
Cash on hand	**3,629,138**	3,485,408
Precious metals	**639**	638
Total	**3,629,777**	3,486,046

4. BALANCES WITH SAMA

The balances with SAMA as of December 31 comprise the following:

	(SR'000)	
	2008	2007
Statutory deposit	**7,671,803**	7,078,576
Current accounts	**449**	2,576,577
Total	**7,672,252**	9,655,153

In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customer deposits and other customer accounts, calculated at the end of each Gregorian month.

5. DUE FROM BANKS

Due from banks as of December 31, comprise current accounts as follows:

	(SR'000)	
	2008	2007
Inside the Kingdom	**2,500**	1,500
Outside the Kingdom	**2,889,265**	789,145
Total	**2,891,765**	790,645

6. INVESTMENTS, NET

6 – 1 Investments

a) Investments, net as of December 31, comprise the following:

	(SR'000) 2008 Gross	Provision	Net	2007 Net
Held at amortized cost				
Mutajara	68,112,321	(656,031)	67,456,290	41,586,899
Installment sale	61,336,735	(2,266,452)	59,070,283	55,989,774
Istisnaa	1,290,412	-	1,290,412	1,630,014
Murabaha	13,534,508	(514,952)	13,019,556	4,078,388
Total	**144,273,976**	**(3,437,435)**	**140,836,541**	103,285,075
Held as FVIS				
Other (see Note 7)	3,166,983	-	3,166,983	1,590,370
Total	**3,166,983**	**-**	**3,166,983**	1,590,370
Grand total	**147,440,959**	**(3,437,435)**	**144,003,524**	104,875,445

b) The net investments by location, inside and outside the Kingdom, as of December 31 are as follows:

Description	(SR'000) 2008 **Mutajara**	**Installment sale**	**Istisnaa**	**Murabaha**	**Other**	**Total**	2007 Total
Inside the Kingdom	35,728,667	61,336,735	1,290,412	8,846,274	2,123,702	109,325,790	99,408,907
Outside the Kingdom	32,383,654	-	-	4,688,234	1,043,281	38,115,169	8,880,074
Total	68,112,321	61,336,735	1,290,412	13,534,508	3,166,983	147,440,959	108,288,981
Provision	(656,031)	(2,266,452)	-	(514,952)	-	(3,437,435)	(3,413,536)
Net	**67,456,290**	**59,070,283**	**1,290,412**	**13,019,556**	**3,166,983**	**144,003,524**	104,875,445

The effective yield on investments amounted to 6.8% for the year ended December 31, 2008 (2007: 7.9%).

Investments held at amortized cost are disclosed net of cumulative deferred income amounting to SR 24,324 million as at December 31, 2008 (2007: SR 23,537million).

Other investments include unquoted equity investments amounting to SR 173 million as at December 31, 2008 (2007: SR 40 million) carried at cost as their fair values cannot be reliably measured. Also, they include investments in mutual funds amounting to SR 162 million as at December 31, 2008 (2007: SR 130 million) carried at fair value (Note 7).

Istisnaa:

At the beginning of 1993, the Bank signed istisnaa contracts with the Ministry of Education, under the guarantee of the Ministry of Finance, for the construction of 400 schools within approximately 24 months. The value of the contracts is payable in quarterly installments over 10 years from the date of the initial handover of each school, or the date of the completion of the construction contract period, whichever comes later. As of December 31, 2008 and 2007, the Bank had finally handed over 399 schools. The outstanding balance on these contracts as at December 31, 2008 amounted to SR 12,563 thousand (2007: SR 13,123 thousand).

The istisnaa balance as shown in the consolidated balance sheet as at December 31, 2008, also includes an amount of SR 1,276,761 thousand (2007: SR 1,616,891 thousand), representing the cost of erection of power plant in the Kingdom of Saudi Arabia under an istisnaa contract with the Saudi Electricity Company. The project was completed in November 2002, and the balance is payable by the Saudi Electricity Company in monthly installments over 10 years, with effect from January 15, 2002.

c) The net investments concentration risks and the related provision, by major economic sectors at December 31, are as follows:

2008

	(SR'000)			
Description	**Performing**	**Non-Performing**	**Provision**	**Net**
Banks and other financial institutions	7,718,886	-	-	7,718,886
Commerce	35,951,089	453,811	(453,811)	35,951,089
Industry	5,536,800	-	-	5,536,800
Public (Government)	25,053,646	9,420	(8,933)	25,054,133
Services	3,520,339	-	-	3,520,339
Agriculture and fishing	1,772,022	-	-	1,772,022
Building and construction	8,133,026	24,954	(16,827)	8,141,153
Personal	52,988,860	1,309,438	(952,409)	53,345,889
Other	4,968,668	-	-	4,968,668
Total	**145,643,336**	**1,797,623**	**(1,431,980)**	**146,008,979**
Additional portfolio provision			**(2,005,455)**	**(2,005,455)**
Balance			**(3,437,435)**	**144,003,524**

2007

Description	(SR'000) Performing	Non-Performing	Provision	Net
Banks and other financial institutions	7,892,765	-	-	7,892,765
Commerce	17,462,853	1,249,718	(823,221)	17,889,350
Industry	3,653,088	-	-	3,653,088
Public (Government)	11,504,952	8,204	-	11,513,156
Services	2,645,657	-	-	2,645,657
Agriculture and fishing	1,247,092	-	-	1,247,092
Building and construction	4,914,101	16,321	(16,321)	4,914,101
Personal	53,189,979	1,816,430	(1,717,572)	53,288,837
Other	2,650,341	37,480	(37,480)	2,650,341
Total	105,160,828	3,128,153	(2,594,594)	105,694,387
Additional portfolio provision			(818,942)	(818,942)
Balance			(3,413,536)	104,875,445

d) The table below depicts the categories of investments as shown in the balance sheet as per main business segments at December 31, excluding other investments: -

2008

	(SR'000) **Retail**	**Corporate**	**Treasury**	**Total**
Mutajara	-	36,728,640	31,383,681	68,112,321
Installment sale	57,607,442	3,729,293	-	61,336,735
Istisnaa	-	1,290,412	-	1,290,412
Murabaha	3,938,452	8,255,348	1,340,708	13,534,508
Total	**61,545,894**	**50,003,693**	**32,724,389**	**144,273,976**
Less: Provision	(2,756,828)	(680,607)	-	(3,437,435)
Investment, net	**58,789,066**	**49,323,086**	**32,724,389**	**140,836,541**

2007

	(SR'000) Retail	Corporate	Treasury	Total
Mutajara	-	22,977,693	18,963,022	41,940,715
Installment sale	56,760,158	1,741,372	-	58,501,530
Istisnaa	-	1,630,014	-	1,630,014
Murabaha	3,581,861	1,007,011	-	4,588,872
Total	60,342,019	27,356,090	18,963,022	106,661,131
Less: Provision	(2,997,664)	(277,633)	(100,759)	(3,376,056)
Investments, net	57,344,355	27,078,457	18,862,263	103,285,075

e) The table below summarizes Investment balances at December 31, that is neither past due nor impaired, past due but not impaired and impaired, except for other investments as per the main business segments in the Bank: -

2008

(SR'000)

	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net
Retail	59,716,086	34,331	1,795,477	61,545,894	(2,756,828)	58,789,066
Corporate	48,994,500	71,394	937,799	50,003,693	(680,607)	49,323,086
Treasury	32,724,389	-	-	32,724,389	-	32,724,389
Total	**141,434,975**	**105,725**	**2,733,276**	**144,273,976**	**(3,437,435)**	**140,836,541**

2007

(SR'000)

	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net
Retail	58,021,648	34,536	2,285,835	60,342,019	(2,997,664)	57,344,355
Corporate	26,550,148	101,863	704,079	27,356,090	(277,633)	27,078,457
Treasury	18,862,263	-	100,759	18,963,022	(100,759)	18,862,263
Total	103,434,059	136,399	3,090,673	106,661,131	(3,376,056)	103,285,075

Investments past due for less then 90 days are not treated as impaired, unless other available information provides otherwise.

f) The tables below depicts the quality of investments past due (up to 90 days) but not impaired at 31 December:

2008

(SR'000)

	Retail	Corporate	Treasury	Total
Standard	28,137	64,884	-	93,021
Special mention	6,194	6,510	-	12,704
Total	**34,331**	**71,394**	**-**	**105,725**

2007

	(SR'000)			
	Retail	Corporate	Treasury	Total
Standard	32,189	90,003	-	122,192
Special mention	2,347	11,860	-	14,207
Total	34,536	101,863	-	136,399

g) The tables below set out the aging of investments past due but not impaired as of 31 December:

2008

	(SR'000)			
Age	**Retail**	**Corporate**	**Treasury**	**Total**
up to 30 days	19,722	58,480	-	78,202
30 -60 days	8,415	6,404	-	14,819
60-90 days	6,194	6,510	-	12,704
Total	**34,331**	**71,394**	**-**	**105,725**
Fair value of collateral	**-**	**37,464**	**-**	**37,464**

2007

	(SR'000)			
Age	Retail	Corporate	Treasury	Total
up to 30 days	26,409	74,907	-	101,316
30 -60 days	5,780	15,096	-	20,876
60-90 days	2,347	11,860	-	14,207
Total	34,536	101,863	-	136,399
Fair value of collateral	-	92,860	-	92,860

Upon initial recognition of Investments, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price.

h) The table below sets out gross balances of individually impaired Investments, together with the fair value of related collaterals held by the Bank as at 31 December:

2008

(SR'000)

	Retail	**Corporate**	**Treasury**	**Total**
Individually impaired loans	-	937,799	-	**937,799**
Fair value of collateral	-	93,310	-	**93,310**

2007

(SR'000)

	Retail	Corporate	Treasury	Total
Individually impaired loans	-	704,079	-	704,079
Fair value of collateral	-	157,125	-	157,125

6 – 2 Impairment charge for investments:

The movement in the impairment provision for Investments for the years ended 31 December is as follows:

2008

(SR'000)

	Retail	**Corporate**	**Treasury**	**Total**
Balance at the beginning of the year	2,997,664	315,113	100,759	3,413,536
Provided during the year	736,884	402,974	-	1,139,858
Recoveries of amounts previously provided	-	-	(100,759)	(100,759)
Disposals (bad debts written off)	(977,720)	(37,480)	-	(1,015,200)
Balance at the end of the year	**2,756,828**	**680,607**	**-**	**3,437,435**

2007

	(SR'000)			
	Retail	Corporate	Treasury	Total
Balance at the beginning of the year	2,293,633	276,253	199,167	2,769,053
Provided during the year	772,296	38,860	-	811,156
Recoveries of amounts previously provided	-	-	(98,365)	(98,365)
Disposals (bad debts written off)	(68,265)	-	(43)	(68,308)
Balance at the end of the year	2,997,664	315,113	100,759	3,413,536

7. OTHER INVESTMENTS, NET

Other investments, net comprise the following as of December 31:

	(SR'000)	
	2008	2007
Investments in land, real estate, vehicles and others	**2,126,299**	1,457,313
Investment in sukuk	**705,785**	-
Equity investments	**172,978**	40,150
Investments in mutual funds	**161,921**	130,387
Total	**3,166,983**	1,627,850
Less: provision	-	(37,480)
Other investments, net	**3,166,983**	1,590,370

8. CUSTOMER DEBIT CURRENT ACCOUNTS, NET

Customer debit current accounts, net comprise the following as of December 31:

	(SR'000)	
	2008	2007
Customer debit current accounts (inside the kingdom)	**1,267,305**	1,526,609
Less: provision (see Note 17)	**(512,895)**	(616,691)
Customer debit current accounts, net	**754,410**	909,918

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net comprise the following as of December 31:

	(SR'000)					
	Land	Leasehold land improvements	Buildings	Leasehold building improvements	Equipment and furniture	Total
COST						
At December 31, 2007	**1,261,335**	**2,328**	**700,536**	**287,648**	**1,788,386**	**4,040,233**
Additions	16,926	-	260,812	145,676	206,768	630,182
Disposals	-	-	-	-	(7,072)	(7,072)
At December 31, 2008	**1,278,261**	**2,328**	**961,348**	**433,324**	**1,988,082**	**4,663,343**
ACCUMULATED DEPRECIATION & AMORTIZATION						
At December 31, 2007	-	**1,236**	**141,384**	**67,671**	**1,238,841**	**1,449,132**
Charge for the year	-	61	12,435	100,588	240,039	353,123
Disposals	-	-	-	-	(7,072)	(7,072)
At December 31, 2008	-	**1,297**	**153,819**	**168,259**	**1,471,808**	**1,795,183**
NET BOOK VALUE						
At December 31, 2008	**1,278,261**	**1,031**	**807,529**	**265,065**	**516,274**	**2,868,160**
At December 31, 2007	1,261,335	1,092	559,152	219,977	549,545	2,591,101

Buildings include work-in-progress amounting to SR 443 million as at December 31, 2008 (2007: SR 307 million).

The Bank has transferred the legal ownership of the assets acquired from Al Rajhi Company for Currency Exchange and Commerce (under liquidation), with the exception of certain assets with a net book value approximating SR 5.8 million as at December 31, 2008 (2007: SR 5.9 million), which are currently in the process of being transferred to the Bank.

10. OTHER ASSETS, NET

Other assets, net comprise the following as of December 31:

	(SR'000)	
	2008	2007
Accrued income on mutajara investments	**1,252,692**	1,059,039
Accrued income on murabaha investments	**85,853**	32,835
Accrued income on other investments	**134,556**	78,991
Advances to others	**361,282**	315,053
Cheques under collection	**573,740**	447,028
Other receivables	**394,064**	176,795
Others	**384,844**	543,461
Total	**3,187,031**	2,653,202
Less: provision (see Note 17)	**(77,118)**	(75,028)
Other assets, net	**3,109,913**	2,578,174

11. DUE TO BANKS

Due to banks comprise the following as of December 31:

	(SR'000) 2008	2007
Current accounts	**3,806,705**	2,478,209
Banks' time investments	**4,094,925**	114,881
Total	**7,901,630**	2,593,090

Due to banks by location, inside and outside the Kingdom, as of December 31, are as follows:

	(SR'000) 2008	2007
Inside the Kingdom	**2,217,936**	142,751
Outside the Kingdom	**5,683,694**	2,450,339
Total	**7,901,630**	2,593,090

12. SYNDICATED MURABAHA FINANCING FROM BANKS

Syndicated murabaha financing from banks represents facilities in the amount of USD 500 million (SR 1,875 million) for three years obtained from consortium of banks and matures on May 2009. The facilities accrue profit which is payable on six semi-annual installments over three years. The final sixth installment of profit is payable together with the principal amount according to the facility agreement.

13. CUSTOMER DEPOSITS

Customer deposits by currency comprise the following as of December 31:

	(SR'000) 2008	2007
Saudi Riyals	**111,589,544**	87,284,828
Foreign currencies	**5,021,499**	2,440,339
Total	**116,611,043**	89,725,167

Customer deposits by type comprise the following as of December 31:

	(SR'000) 2008	2007
Demand deposits	**98,907,914**	81,210,589
Customer time investments	**17,703,129**	8,514,578
Total	**116,611,043**	89,725,167

14. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

	(SR'000)	
	2008	2007
Due to SAMA	**3,041,000**	-
Accounts payable	**2,418,625**	1,988,326
Provision for employees' end of service benefits	**474,822**	413,663
Charities (see Note 32)	**64,810**	55,449
Other (see Note 17)	**1,824,496**	1,598,706
Total	**7,823,753**	4,056,144

The balance due to SAMA represents the amount utilized by the bank for short term period as per the agreement with SAMA.

15. SHARE CAPITAL

The shareholders have agreed in the Extraordinary General Assembly meeting held on 13 Safar 1428H (corresponding to March 3, 2007), to increase the share capital of the Bank from SR 6,750 million to SR 13,500 million by transferring SR 6,750 million from the retained earnings and general reserve through the issuance of one bonus share for each share held.

At the Extraordinary General Assembly meeting held on 17 Safar 1429H (corresponding to February 24, 2008), the shareholders approved an increase in the share capital of the Bank from SR 13,500 million to SR 15,000 million, by transferring SR 1,500 million from the retained earnings through the issuance of one -for nine bonus share dividend.

16. STATUTORY AND GENERAL RESERVES

The Banking Control Law in Saudi Arabia and the Articles of Association of the Bank require a transfer to statutory reserve at a minimum of 25% of net income for the year. The Bank may discontinue such transfers when the reserve equals the paid up share capital. This reserve is presently not available for distribution.

In addition, the Bank makes an appropriation to general reserve for general banking risks, zakat and others, if any.

At the Extraordinary General Assembly meeting held on 17 Safar 1429H (corresponding to February 24, 2008), the shareholders approved to transfer SR 88.3 million from the retained earnings to the general reserve. The board of directors in its meeting held on January 19, 2009 proposed transferring 286 Million from the general reserve to the retained earning.

17. PROVISION FOR DOUBTFUL ACCOUNTS AND OTHER

The movements in the provision for doubtful accounts and other for the years ended December 31, are summarized as follows:

	(SR'000)	
	2008	2007
Balance at the beginning of the year	**1,287,469**	1,646,757
Additions (reversed provision)	**235,320**	(269,551)
Disposals, net	**(335,303)**	(89,737)
Balance at the end of the year	**1,187,486**	1,287,469

The provision for doubtful accounts and other as at December 31, 2008 includes an amount of SR 512,895 thousand (2007: SR 616,691thousand) netted off from customer debit current accounts, and SR 597,473 thousand (2007: SR 590,051 thousand) included in other liabilities, and an amount of SR 77,118 thousand (2007: SR 75,028 thousand) netted off from other assets, and SR 5,699 thousand netted off from due from banks for 2007.

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2008, there were legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

b) Capital commitments

As at December 31, 2008, the Bank had capital commitments of SR 95.5 million (2007: SR 110.2 million) relating to contracts for computer software update and development.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise of letters of guarantee, standby letters of credit, acceptances and unused 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 his obligations to third parties, carry the same credit risk as investments.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers.

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

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of investments, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

1. The contractual maturities of commitments and contingencies liabilities are as follows at December 31:

2008

	(SR '000)				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit and acceptances	1,890,553	1,235,811	373,271	1,098,107	4,597,742
Letters of guarantee	414,633	4,149,105	3,162,881	278,221	8,004,840
Irrevocable commitments to extend credit	2,255,712	3,429,890	2,746,027	1,062,280	9,493,909
Total	**4,560,898**	**8,814,806**	**6,282,179**	**2,438,608**	**22,096,491**

2007

	(SR '000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit and acceptances	1,761,433	2,109,661	463,580	1,101,107	5,435,781
Letters of guarantee	644,980	3,615,353	1,623,056	575,559	6,458,948
Irrevocable commitments to extend credit	765,051	3,971,514	1,974,911	122,561	6,834,037
Total	3,171,464	9,696,528	4,061,547	1,799,227	18,728,766

The unused portion of non firm commitments, which can be revoked at any time, that is outstanding as at December 31, 2008, amounted to SR 9,320 million (2007: SR 3,286 million).

2. The analysis of commitments and contingencies by counter-party is as follows as at December 31:

	(SR'000) 2008	2007
Government and quasi Government	**4,369,074**	3,212,598
Corporate	**4,049,784**	2,625,226
Banks and other financial institutions	**11,996,528**	11,100,598
Other	**1,681,105**	1,790,344
Total	**22,096,491**	18,728,766

d) Operating lease commitments

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

	(SR'000) 2008	2007
Less than one year	**19,825**	47,479
One year to five years	**76,070**	39,437
Over five years	**33,798**	27,752
Total	**129,693**	114,668

19. INCOME FROM INVESTMENTS, NET

Income from investments, net for the years ended December 31, comprises the following:

	(SR'000) 2008	2007
Income from investments held at amortized cost, net		
Mutajara	**3,048,554**	2,797,651
Installment sale	**5,740,385**	5,467,749
Istisnaa	**150,913**	194,092
Murabaha	**483,420**	108,089
Total income from investments held at amortized cost	**9,423,272**	8,567,581
Income paid to customer time investments	**(819,453)**	(751,593)
Income paid to syndicated murabaha financing from banks	**(107,156)**	(109,711)
Income from investments held at amortized cost, net	**8,496,663**	7,706,277
(Expense) income from investments held as FVIS		
Other	**(2,222)**	15,535
Total (expense) income from investments held as FVIS	**(2,222)**	15,535
Income from investments, net	**8,494,441**	7,721,812

20. FEES FROM BANKING SERVICES, NET

Fees from banking services, net for the years ended December 31, comprise the following:

	(SR'000)	
Fee income	**2008**	2007
Fees from share trading services	**543,176**	498,892
Fees from payment service systems	**257,769**	164,375
Fees from remittance business	**218,690**	167,065
Fees from credit cards	**117,991**	107,934
Other	**718,411**	448,214
Total fee income	**1,856,037**	1,386,480
Fee expense		
Fees for share trading services	**(289,130)**	(128,079)
Fees for payment service systems	**(325,640)**	(277,776)
Total fee expense	**(614,770)**	(405,855)
Fees from banking services, net	**1,241,267**	980,625

21. OTHER OPERATING INCOME

Other operating income for the years ended December 31, comprises the following:

	(SR'000)	
	2008	2007
Income from sale of other investments (vehicles)	**6,939**	8,882
Other income, net	**272,672**	67,656
Total fees income	**279,611**	76,538

22. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year. Earnings per share for the year ended December 31, 2007 have been retrospectively restated to reflect the effect of the issuance of the bonus shares (Note 15), in accordance with IAS 33 – Earnings Per Share.

23. PAID AND PROPOSED GROSS DIVIDENDS AND ZAKAT

The Bank has distributed dividends for the first half of 2008 amounting to SR 1,875,000 thousand (i.e. SR 1.25 per share), net of zakat on shareholders. Also proposed gross dividends for the second half of 2008 amounting to SR 3,183,143 thousand (2007: SR 1,223,917 thousand) of which SR 558,143 thousand (2007: SR 548,917 thousand) was deducted for zakat from the proposed gross dividends, resulting in a net dividend of SR 3 per share for 2008 (2007: SR 2 per share).

The Department of Zakat and Income Tax (DZIT) has issued zakat assessments for the years up to 2001. The Bank appealed against these assessments. The assessments and the Zakat status have been finalized up to 1997.

The Tax Appellate Committee has issued its final rulings for the years 1991 to 1998 mostly in the Bank's favour. Accordingly, the Bank has reversed the excess zakat provisions and recognized them as revenue in the consolidated statement of income during the previous years.

The Bank's management believes that adequate provisions have been made for zakat differences, if any, for the prior years up to December 31, 2000. The Bank has not received any assessment for the years subsequent to 2001.

Effective January 1, 2001, the Bank has changed its zakat accounting policy to consider it as a liability of the shareholders, rather than as an expense to be charged to consolidated statement of income. Differences, if any, between the Bank's calculation and the DZIT's assessment will be charged to the general reserve.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following as of December 31:

	(SR'000)	
	2008	2007
Cash	**3,629,777**	3,486,046
Due from banks (current accounts)	**2,891,765**	790,645
Balances with SAMA (current accounts)	**449**	2,576,577
Total	**6,521,991**	6,853,268

25. SEGMENTAL INFORMATION

For management purposes, the Bank is organized into the following main businesses segments:

Retail segment	Incorporates customer credit current accounts relating to individuals, credit facilities, and customers debit current accounts (overdrafts), and fees from banking services and remittances.
Corporate segment:	Incorporates deposits of VIP, corporate customer deposits, credit facilities, and debit current accounts (overdrafts).
Treasury segment:	Incorporates treasury services, financial and international trading portfolios.
Investment services and Brokerage segments:	Incorporates investments of individuals and corporate in mutual funds, local and international share trading services, and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. There are no material items of income or expenses between the above segments. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

The Bank carries out its activities principally in the Kingdom of Saudi Arabia, and has six subsidiaries, six of which are registered outside the Kingdom of Saudi Arabia as of December 31, 2008, as listed in Note 2-c.

The total assets, liabilities, commitments, contingencies and results of operations of these subsidiaries are not material to the Bank's consolidated financial statements as a whole.

a) The Bank's total assets and liabilities, together with its total operating income and expenses, and net income, for the years ended December 31, for each segment are as follows:

2008 (SR'000)

	Retail segment	Corporate segment	Treasury segment	Investment services and Brokerage segment	Total
Total assets	63,949,630	54,869,532	46,110,639	-	164,929,801
Capital expenditure	298,429	8,449	60,947	-	367,825
Total liabilities	81,567,893	43,182,806	11,527,193	1,620,110	137,898,002
Total operating income	6,056,621	2,178,678	1,996,514	343,454	10,575,267
Provision for impairment of investments, net	(532,061)	(441,906)	(300,452)	-	(1,274,419)
Deprecation and amortization	(298,698)	(14,010)	(46,685)	(24,008)	(383,401)
Other operating expense	(1,970,511)	(238,243)	(31,883)	(152,206)	(2,392,843)
Total operating expenses	(2,801,270)	(694,159)	(379,020)	(176,214)	(4,050,663)
Net income	**3,255,351**	**1,484,519**	**1,617,494**	**167,240**	**6,524,604**

2007

	(SR'000)				
	Retail segment	Corporate segment	Treasury segment	Investment services and Brokerage segment	Total
Total assets	62,455,161	30,782,506	31,648,815	-	124,886,482
Capital expenditure	219,977	-	-	-	219,977
Total liabilities	68,689,370	27,352,491	5,238,509	-	101,280,370
Total operating income	5,729,523	1,588,967	1,560,573	442,033	9,321,096
Provision for impairment of investments, net	(558,996)	164,004	(48,248)	-	(443,240)
Deprecation and amortization	(253,897)	(11,930)	(1,729)	(20,603)	(288,159)
Other operating expense	(1,559,255)	(321,290)	(114,681)	(144,814)	(2,140,040)
Total operating expenses	(2,372,148)	(169,216)	(164,658)	(165,417)	(2,871,439)
Net income	3,357,375	1,419,751	1,395,915	276,616	6,449,657

b) The Bank's credit exposure by business segments as of December 31, is as follows:

2008

	(SR'000)				
	Retail segment	**Corporate segment**	**Treasury segment**	**Investment services and Brokerage segment**	**Total**
Consolidated balance sheet assets	56,675,607	54,352,355	36,621,737	-	147,649,699
Commitments and contingencies	1,667,580	5,548,999	5,386,003	-	12,602,582

2007

	(SR'000)				
	Retail segment	Corporate segment	Treasury segment	Investment services and Brokerage segment	Total
Consolidated balance sheet assets	55,448,000	30,857,000	20,271,008	-	106,576,008
Commitments and contingencies	1,780,982	4,052,977	6,060,770	-	11,894,729

Credit risks comprise the carrying value of the consolidated balance sheet assets, except for cash and balances with SAMA, investment properties, property and equipment and other assets.

26. FINANCIAL RISK MANAGEMENT

The Bank's activities are exposed it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practice.

Risk management is performed by the Credit and Risk Management Group (CRMG) under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, operational risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk and price risk.

26-1 Credit risk

Credit Risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from investments (credit facilities provided to customers and from cash and deposits held with other banks). Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees for the sale or purchase of currencies, letters of credit, Fx transaction acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG which sets parameters and thresholds for the Bank's investment activities.

a. Credit risk measurement

Investments

The Bank has structured a number of financial products which are in accordance with Shariah Law in order to meet the customer demand. These products are all classified as Investments in the Bank's consolidated balance sheet. In measuring credit risk of Investments at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. For corporate customers, this risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with 7 performing categories. The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

This process also enables the Bank to detect any weakness in the portfolio quality and make appropriate adjustments to credit risk allowances, where credit quality has deteriorated and where losses are likely to arise. The Bank evaluates individual corporate customer balances which are past due to make appropriate allowances against investments. For the remaining (performing) corporate loan portfolio, the Bank applies a loss rate to determine an appropriate collective allowance. The loss rate is determined based on historical experience of credit losses.

For retail customers, credit risk is determined using a detailed credit program with well defined parameters. In order to monitor credit risk in the retail portfolio, the Bank has formulated guidelines for each retail product. These guidelines provide for various quantitative and qualitative factors for critically scrutinizing, sanctioning and monitoring credit risks.

Settlement Risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. These risks arise when the Bank pays away its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration but they can be significant. This risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

b. Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

In order to ensure objectivity, accountability and to reinforce ownership, the following business units within the Bank assist in the credit control process:

- Corporate Credit Unit,
- Credit Administration Monitoring and Control Unit,
- Remedial Unit,
- Credit Policy Unit,
- Retail Credit Unit

The monitoring and management of credit risk associated with these Investments are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, 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 risks 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 its investments to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below.

b-1) Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral. The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer
- Shares for Murabaha (collateralized share trading) transactions

b-2) Collateralized Credit - related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further investment products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

c. Impairment and provisioning policies

Impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment, and management judgment.

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria as defined by the Bank:

- Delinquency in contractual payments of principal or profit.
- Cash flow difficulties experienced by the customer.
- Breach of repayment covenants or conditions.
- Initiation of bankruptcy proceedings against the customer.
- Deterioration of the customer's competitive position.
- Deterioration in the value of collateral.

The Bank's policy requires the review of each individual corporate customer at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of incurred losses at the balance sheet date on a case-by-case basis, and by using management judgment.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

- Portfolios of homogenous assets mainly relating to the retail investment portfolio that is individually not significant.
- On the corporate portfolio for investments where losses have been incurred but not yet identified, by using historical experience, judgment and statistical techniques.

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks.

	(SR'000)	
	2008	2007
On-balance sheet items:		
Due from banks	**2,891,765**	790,645
Investments, net		
- Corporate	**49,323,086**	27,078,457
- Retail	**58,789,066**	57,344,355
- Treasury	**32,724,389**	18,862,263
Customer debit current accounts, net	**754,410**	909,918
Other assets, net	**3,109,913**	2,578,174
Total on-balance sheet items	**147,592,629**	**107,563,812**
Off-balance sheet items:		
Letter of credit and acceptances	**4,597,742**	5,435,781
Letters of guarantee	**8,004,840**	6,458,948
Irrevocable commitments to extend credit	**9,493,909**	6,834,037
Total off-balance sheet items	**22,096,491**	**18,728,766**
Maximum exposure to credit risk	**169,689,120**	**126,292,578**

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The above table represents a worse case scenario of credit risk exposure to the Bank at December 31, 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated balance sheet.

26-2 Liquidity risks

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and lenders and fulfill commitments to lend. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintain diversified funding sources;
- Liquidity management and asset and liability mis-matching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured and ensured that they are within acceptable ranges. The Treasury / ALCO also monitors, the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position.

The tables below summarize the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated balance sheet date to the contractual maturity date. All customer deposits are assumed to be on demand without regard to depositor behavior and retention rates.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and precious metals, balances with SAMA and due from banks and Investments. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% (2007:not less 9%) of total customer deposits, and 4%(2007:2%) of total other customer accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special investment arrangements with SAMA including deferred sales transactions.

The contractual maturities of assets, liabilities and shareholders' equity as of December 31, 2008 and 2007 based on discounted cash flows are as follows:

2008

(SR'000)

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and cash equivalents	6,521,991	-	-	-	-	6,521,991
Statutory deposit with SAMA	-	-	-	-	7,671,803	7,671,803
Investments, net						
-Mutajara	17,166,856	36,973,650	10,217,966	3,097,818	-	67,456,290
-Installment sale	4,647,010	10,416,079	37,311,011	6,696,183	-	59,070,283
-Istisnaa	115,816	319,190	851,174	4,232	-	1,290,412
-Murabaha	1,749,462	522,697	8,680,917	2,066,480	-	13,019,556
-Other	-	-	-	-	3,166,983	3,166,983
Customer debit current accounts, net	634,069	18,126	102,215	-	-	754,410
Property and equipment, net	-	-	-	-	2,868,160	2,868,160
Other assets, net	-	-	-	-	3,109,913	3,109,913
Total	**30,835,204**	**48,249,742**	**57,163,283**	**11,864,713**	**16,816,859**	**164,929,801**
Liabilities and Shareholders' equity						
Due to banks	7,187,635	713,995	-	-	-	7,901,630
Syndicate murrabaha financing from banks	251,108	1,623,892	-	-	-	1,875,000
Customer Deposits	108,335,177	8,137,952	135,415	2,499	-	116,611,043
Other customer account	3,686,576	-	-	-	-	3,686,576
Other liabilities	-	-	-	-	7,823,753	7,823,753
Shareholders' equity	-	-	-	-	27,031,799	27,031,799
Total	**119,460,496**	**10,475,839**	**135,415**	**2,499**	**34,855,552**	**164,929,801**

2007

	(SR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and cash equivalents	6,853,268	-	-	-	-	6,853,268
Statutory deposit with SAMA	-	-	-	-	7,078,576	7,078,576
Investments, net						
-Mutajara	9,081,000	12,989,000	9,728,810	9,788,089	-	41,586,899
-Installment sale	3,983,000	8,951,000	39,483,000	3,572,774	-	55,989,774
-Istisnaa	111,000	304,000	1,213,000	2,014	-	1,630,014
-Murabaha	1,108,000	106,000	734,000	2,130,388	-	4,078,388
-Other	-	-	-	-	1,590,370	1,590,370
Customer debit current accounts, net	894,460	15,458	-	-	-	909,918
Property and equipment, net	-	-	-	-	2,591,101	2,591,101
Other assets, net	-	-	-	-	2,578,174	2,578,174
Total	22,030,728	22,365,458	51,158,810	15,493,265	13,838,221	124,886,482
Liabilities and Shareholders equity						
Due to banks	2,593,090	-	-	-	-	2,593,090
Syndicate Murrabaha financing from banks	-	-	1,875,000	-	-	1,875,000
Customer deposits	82,313,000	6,866,000	409,000	137,167	-	89,725,167
Other customer accounts	3,030,969	-	-	-	-	3,030,969
Other liabilities	-	-	-	-	4,056,144	4,056,144
Shareholders' equity	-	-	-	-	23,606,112	23,606,112
Total	87,937,059	6,866,000	2,284,000	137,167	27,662,256	124,886,482

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2008

	(SR'000)					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Due to banks	3,806,705	-	-	-	-	3,806,705
Direct Investment (banks)	3,392,030	752,747	-	-	-	4,144,777
Syndicate murrabaha financing from banks	251,985	1,633,265	-	-	-	1,885,250
Direct Investment (Customer)	9,550,776	8,408,174	146,713	2,855	-	18,108,518
Customer deposits	98,907,914	-	-	-	-	98,907,914
Other customer accounts	3,686,576	-	-	-	-	3,686,576
Other liabilities	-	-	-	-	7,823,753	7,823,753
Total	**119,595,986**	**10,794,186**	**146,713**	**2,855**	**7,823,753**	**138,363,493**

2007

	(SR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks	2,478,209	-	-	-	-	2,478,209
Direct Investment (banks)	-	116,041	-	-	-	116,041
Syndicate murrabaha financing from banks	-	107,955	1,929,126	-	-	2,037,081
Direct Investment (Customer)	4,265,047	4,431,977	-	-	-	8,697,024
Customer deposits	81,210,589	-	-	-	-	81,210,589
Other customer accounts	3,030,969	-	-	-	-	3,030,969
Other liabilities	-	-	-	-	4,056,144	4,056,144
Total	90,984,814	4,655,973	1,929,126	-	4,056,144	101,626,057

26-3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Finance and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensure that they are appropriate.

a. Foreign currency risks

The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position, results of operations and cash flows. The Bank's management sets limits on the level of exposure by currency and in total for both overnight and intra day positions, which are monitored daily.

The tables below summarize the Bank's exposure to foreign currency exchange rate risk at December 31, 2008 and 2007 and the concentration of currency risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

2008

(SR'000)

	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	OTHER	TOTAL
ASSETS										
Cash and cash equivalent	14,156	-	8	40,046	176	655	132,374	4,892	89,673	281,980
Due from banks	237,041	45,670	167,681	70,909	8,657	-	1,775,507	7,953	241,928	2,555,346
Investments										
Mutajara	-	-	-	523,944	-	-	2,185,811	-	-	2,709,755
Installment sale	-	-	-	-	-	-	964,622	-	-	964,622
Murabaha	-	-	-	-	-	-	6,611	-	-	6,611
Other	2,781	-	5,259	315,520	-	628,827	6,584,668	5,568	112,197	7,654,820
Customer debit current account, net	-	-	-	-	-	-	688	54,034	-	54,722
Other assets, net	(1,336)	-	(199)	284	-	-	42,009	-	101	40,859
Total Assets	**252,642**	**45,670**	**172,749**	**950,703**	**8,833**	**629,482**	**11,692,290**	**72,447**	**443,899**	**14,268,715**
LIABILITIES										
Due to banks	50,513	-	-	27,681	-	-	1,500,249	2,742	113,191	1,694,376
Syndicate murabaha financing from banks	-	-	-	-	-	-	1,875,000	-	-	1,875,000
Customer deposits	165	-	1,090	386,498	12,195	-	6,559,832	6,358	6,569	6,972,707
Other customer accounts	7,975	-	186,189	568,535	-	-	1,233,989	5,731	119,441	2,121,860
Other liabilities	4,222	73,980	909	6,610	60,296	1	119,678	3,990	79,967	349,653
Total Liabilities	**62,875**	**73,980**	**188,188**	**989,324**	**72,491**	**1**	**11,288,748**	**18,821**	**319,168**	**13,013,596**
Net	**189,767**	**(28,310)**	**(15,439)**	**(38,621)**	**(63,658)**	**629,481**	**403,542**	**53,626**	**124,731**	**1,255,119**

2007

(SR'000)

	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	OTHER	TOTAL
ASSETS										
Cash and cash equivalents	33,966	2	44	80,624	150	2,838	136,006	20,605	166,054	440,289
Due from banks	107,470	21,971	34,400	148,992	5,769	-	199,132	3,598	214,492	735,824
Investments										
Mutajara	-	-	-	294,540	-	-	5,087,438	50,832	-	5,432,810
Installment sale	-	-	-	-	-	-	251,967	-	-	251,967
Murabaha	-	-	-	-	-	-	6,599	-	-	6,599
Other	-	-	-	512	-	680,786	4,939,303	2,907	-	5,623,508
Customer debit current account, net	-	-	-	1,239	-	-	628	77,608	-	79,475
Other assets, net	(1,333)	-	(161)	1,013	-	-	108,974	371	21	108,885
Total Assets	140,103	21,973	34,283	526,920	5,919	683,624	10,730,047	155,921	380,567	12,679,357
LIABILITIES										
Due to banks	71,492	63,488	-	90,370	-	-	626,182	66,213	102,188	1,019,933
Syndicate murabaha financing from banks	-	-	-	-	-	-	1,875,000	-	-	1,875,000
Customer deposits	1,114	-	7,091	339,751	12,348	2	5,534,281	4,207	26,973	5,925,767
Other customer accounts	1,355	-	8,932	73,222	-	-	290,643	3,137	5,690	382,979
Other liabilities	5,028	52,745	740	12,523	59,949	1	206,249	5,862	86,191	429,288
Total Liabilities	78,989	116,233	16,763	515,866	72,297	3	8,532,355	79,419	221,042	9,632,967
Net	61,114	(94,260)	17,520	11,054	(66,378)	683,621	2,197,692	76,502	159,525	3,046,390

A substantial portion of the net foreign currency exposure to the Bank is in US Dollars, where the SR is pegged to the US Dollar. The other currency exposures are not considered significant to the Bank's foreign currency risks and as a result the Bank is not exposed to major foreign currency risks.

The Bank has performed a sensitivity analysis for the reasonably possible changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

b. Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Bank does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the financial statements at amortized cost. In addition to this, a substantial portion of the Bank's financial liabilities are non-profit bearing.

c. Price risk

The Bank has certain investments which are carried at fair value through the income statement and includes investments in quoted mutual funds and other investments. Price risk arises due to changes in quoted market prices of these mutual funds.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order and therefore involve minimal risk.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational Risk is inherent in most of the Bank's activities this necessitates an integrated approach to the identification, measurement and monitoring operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group which facilitates the management of Operational Risk within the Bank. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank.

Three primary operational risk management processes in the Bank are: Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

27. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of December 31, is as follows:

2008

(SR '000)

	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	11,273,256	-	-	-	-	28,773	-	11,302,029
Due from banks	2,500	525,363	97,369	1,556,498	-	447,897	262,138	2,891,765
Investments, net:					-			
Mutajara	35,072,636	32,382,029	-	-	-	1,625	-	67,456,290
Installment sale	59,070,283	-	-	-	-	-	-	59,070,283
Istisnaa	1,290,412	-	-	-	-	-	-	1,290,412
Murabaha	8,389,369	-	-	-	-	4,630,187	-	13,019,556
Other	2,123,702	733,912	17,071	117,869	-	174,429	-	3,166,983
Total	**117,222,158**	**33,641,304**	**114,440**	**1,674,367**	-	**5,282,911**	**262,138**	**158,197,318**
Liabilities								
Due to banks	2,217,936	2,783,009	109,764	1,245,290	-	1,502,737	42,894	7,901,630
Syndicated murabaha financing from banks	-	1,875,000	-	-	-	-	-	1,875,000
Customer deposits	113,641,658	-	-	-	-	2,969,385	-	116,611,043
Total	**115,859,594**	**4,658,009**	**109,764**	**1,245,290**	-	**4,472,122**	**42,894**	**126,387,673**
Commitments and contingencies	**15,852,123**	**768,436**	**51,230**	**1,128,341**	**968,814**	**987,019**	**2,340,528**	**22,096,491**
Credit exposure (stated at credit equivalent value)								
Commitments and contingencies	**7,297,481**	**768,436**	**50,617**	**1,128,341**	**31,314**	**985,865**	**2,340,528**	**12,602,582**

2007

	(SR '000)							
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	13,118,131	-	-	-	-	23,068	-	13,141,199
Due from banks	1,500	99,319	71,317	325,251	-	282,809	10,449	790,645
Investments, net:								
Mutajara	35,599,666	4,599,686	1,331,297	-	-	56,250	-	41,586,899
Installment sale	55,989,774	-	-	-	-	-	-	55,989,774
Istisnaa	1,630,014	-	-	-	-	-	-	1,630,014
Murabaha	1,434,089	-	-	-	-	2,644,299	-	4,078,388
Other	1,514,231	12,446	37,117	26,576	-	-	-	1,590,370
Total	109,287,405	4,711,451	1,439,731	351,827	-	3,006,426	10,449	118,807,289
Liabilities								
Due to banks	142,751	1,119,998	32,128	-	-	1,058,037	240,176	2,593,090
Syndicated murabaha financing from banks	-	1,875,000	-	-	-	-	-	1,875,000
Customer deposits	88,305,356	-	-	-	-	1,419,811	-	89,725,167
Total	88,448,107	2,994,998	32,128	-	-	2,477,848	240,176	94,193,257
Commitments and contingencies	12,607,704	923,918	55,028	982,044	186,596	992,123	2,981,353	18,728,766
Credit exposure (stated at credit equivalent value)								
Commitments and contingencies	5,828,532	923,918	53,810	982,044	186,596	938,476	2,981,353	11,894,729

Credit equivalent amounts reflect the amounts that result from conversion of the Bank's off-balance sheet liabilities relating to commitments and contingencies into the risk equivalent of investments, using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment.

b) The distributions by geographical concentration of non-performing investments and provisions for investments losses as of December 31, are as follows:

2008

	(SR'000)		
	Non-performing	**Provisions for investment losses**	**Net**
Kingdom of Saudi Arabia	1,797,623	(1,431,980)	365,643
Europe	-	-	-
North America	-	-	-
Total	**1,797,623**	**(1,431,980)**	**365,643**

2007

	(SR'000)		
	Non-performing	Provisions for investment losses	Net
Kingdom of Saudi Arabia	2,989,914	(2,456,355)	533,559
Europe	37,480	(37,480)	-
North America	100,759	(100,759)	-
Total	3,128,153	(2,594,594)	533,559

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

The estimated fair values of the on-balance sheet financial instruments, excluding istisnaa, murabaha and installment sale held at amortized cost, are not significantly different from their carrying values included in the consolidated financial statements.

29. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at December 31, are as follows:

(SR'000)

Related parties	**Type of transaction**	**2008**		2007	
		Debit	**Credit**	Debit	Credit
Members of the Board of Directors	Letters of credit	309,512	-	222,233	-
	Musharaka bills	905,437	-	657,213	-
	Mutajara	2,833,175	-	3,200,764	-
	Murabaha bills	2,063	-	74,089	-
	Current accounts	44,833	236,817	44,334	301,854
	Letters of guarantee	312,464	-	291,057	-
	Direct investment	-	17,884	-	-
	Guarantees	66,000	-	66,000	-
Companies and establishments guaranteed by members of the Board of Directors	Mutajara	677,031	-	21,601	-
	Letters of guarantee	46,968	-	42,081	-
Mudaraba funds (see Note 33)	Current accounts	-	211,687	-	36,711
	Mudaraba	-	2,453,245	-	2,593,397
	Investment in mutual funds	161,921	-	130,387	-
Other major shareholders with shareholding of more than 5% of the Bank's share capital	Direct investment	-	1,544,359	-	1,505,327
	Current accounts	-	7,327		
	Investment in mutual funds	-	62,638		
	Other liabilities	-	12,906	-	12,393

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended December 31, are as follows:

	(SR'000)	
	2008	2007
Income from investments	178,977	247,682
Other operating income	1,019	1,536
Employees' salaries and benefits (air tickets)	10,257	9,373
Rent and premises related expenses	2,396	2,329
Board of Directors' remunerations	3,075	3,111

The amounts of compensations recorded in favour of or paid to the Board of Directors and the executive management personnel during the years ended December 31, are as follows:

	(SR'000)	
	2008	2007
Short-term benefits	27,346	20,392
Provision for end of service benefits	1,209	1,043

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

30. MUDARABA FUNDS

Mudaraba funds as of December 31, comprise the following:

	(SR'000)	
	2008	2007
Customers' investments	313,356	429,882
Current accounts, metals	11,399	21,610
Total	**324,755**	451,492

31. EMPLOYEES' FUND

In accordance with the General Assembly's resolution dated 20 Shawwal 1410H (corresponding to May 15, 1990), 150 thousand shares at par value of SR 15 million were granted to the Employees' Fund (the "Fund"). The Board of Directors (the "Board") issued various resolutions in this respect, the last of which was resolution No. 9 dated March 22, 1990, in which the Board designated the abovementioned shares to the Fund under certain conditions. The par value of these shares is considered as a loan to be repaid to the Bank as part of a permanent loan of SR 50 million extended by the Bank, without any charge, of which SR 7 million was repaid during 1994. Also, the Fund received additional 150 thousand shares in a one for one bonus issue during 1991, representing the fund's share of dividends distributed for 1991. The Fund also received an additional 150 thousand bonus shares representing the Fund's share of the dividends distributed during 1998. The total number of shares, after the share split, amounted to 900 thousand shares as at December 31, 1998. The Fund also received additional 900 thousand bonus shares representing the Fund's share of the dividends distributed during 2005. Further, the Fund received another 900 thousand bonus shares representing its share in the dividends distributed to shareholders during 2006. Consequently, the total number of the shares after share split per CMA's resolution of 5 shares for each share held is 13,500 thousand shares as of December 31, 2006. Also, the fund received 13,500 thousand bonus shares representing its shares in the dividends distributed to shareholders during 2007.The Fund also received an additional 3,000 thousand bonus shares representing the Fund's share of the dividends distributed during 2008, the total number of shares amounted to 30,000 thousand as of December 31, 2008. The Fund's income from subscriptions, investments and others, excluding share of profits, amounted to SR 2,620 thousand, and expenses amounted to SR 55 thousand for 2008. The market value of the shares designated to the Fund, as per SAMA's Circular at December 31, 2008, amounted to SR 1,680,000 thousand. Separate financial statements are prepared for the Fund, which are not included in the accompanying consolidated financial statements.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENTS OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see Note 14):

	(SR'000)	
	2008	2007
Balance, beginning of the year	55,449	570
Additions during the year	30,198	55,879
Payments during the year	(20,837)	(1,000)
Balance, end of the year	**64,810**	55,449

33. INVESTMENT MANAGEMENT SERVICES

The Bank offers investment services to its customers. The Bank has established a number of mudaraba funds in different investment aspects (the Commodities Mudaraba Fund – USD, the Commodities Mudaraba Fund - EURO, the Global Equity Fund, the Egyptian Equity Fund, First and Second Al Rajhi Balanced Fund, the Al Rajhi Small Capitalization Fund, the Commodities Mudaraba Fund - Saudi Riyal, the European Equity Fund, the Al Jawhara Ladies Fund, the Children Fund - USD, the Local Shares Fund, the Al Rajhi GCC Equity Fund, India and China Equity Fund, and First Real Estate Fund and Al Rajhi Cement and Petrochemical equity fund). These funds are managed by the Bank's Investment Department, and a portion of the funds is also invested in participation with the Bank. Mutual funds' financial statements are not included in the consolidated financial statements of the Bank. The Bank's share of investments in these funds is included under other investments, and is disclosed under related party transactions. Funds invested in participation with the Bank amounted to SR 2,453,245 thousand at December 31, 2008 (2007 SR 2,593,397 thousand).

34. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by the bank's management. SAMA requires to hold the minimum level of the regulatory capital of and maintain a ratio is 8% of total regulatory capital to the risk-weighted asset.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated balance sheet assets, commitments and contingencies, to reflect their relative risk as of 31 December 2008 .

	SR'000
Credit Risk weighted Assets	9,381,841
Operation risk weighted assets	1,434,591
Market risk weighted assets	126,104
Total Pillar I – risk weighted assets	**10,942,536**
Tier I – capital	20,468,640
Tier II capital	9,506,962
Total tier I & II capital	**29,975,602**
Capital Adequacy Ratio %	
Tier I ratio	14.60%
Tier II ratio	21.39%

35. COMPARATIVE AMOUNTS

Certain prior year amounts have been reclassified to conform with the current year presentation.

36. POST BALANCE SHEET EVENTS

The Bank's Board of directors proposed in its meeting dated January 19, 2008 distribution of dividends to the shareholders for the second half of the current fiscal year, for an amount of SR 2,625 million, net of zakat attributable to shareholders, at SR 1,75 per share.

This is subject to approval of the Extraordinary General Assembly in its next meeting.

37. PROSPECTIVE CHANGES IN INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

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

38. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 22 Muharram 1430H (corresponding to January 19, 2009).

39. Basel II pillar 3 disclosures

Within 60 days of the end of the current year the Bank will disclose on the website (www.alrajhibank.com.sa) about extra quantity information related to Basel II pillar 3 disclosures in accordance with the requirements of SAMA .Noted that such data shall not be subject to audit by the auditors of the Bank.