

BANQUE SAUDI FRANSI
CONSOLIDATED BALANCE SHEET
As at December 31, 2008 and 2007

SAR' 000	Notes	2008	2007
<u>ASSETS</u>			
Cash and balances with SAMA	4	5,772,857	10,152,190
Due from banks and other financial institutions	5	4,246,065	3,224,062
Investments, net	6	27,710,023	22,376,149
Loans and advances, net	7	80,866,475	59,849,952
Investment in associates	8	176,859	124,595
Property and equipment, net	9	590,645	577,318
Other assets	10	6,501,837	3,503,844
Total assets		125,864,761	99,808,110
<u>LIABILITIES AND EQUITY</u>			
<u>Liabilities</u>			
Due to banks and other financial institutions	12	8,402,002	8,122,713
Customers' deposits	13	92,791,281	74,007,251
Other liabilities	14	5,675,142	4,000,011
Term loans	15	4,927,200	2,437,500
Total liabilities		111,795,625	88,567,475
Equity attributable to the equity holders of the Bank			
Share capital	16	5,625,000	5,625,000
Statutory reserve	17	4,754,195	4,052,780
General reserve	17	2,590,000	1,200,000
Other reserves	18	295,441	(19,619)
Retained earnings		5,872	68,339
Proposed dividend	28	776,711	314,135
Total equity attributable to the equity holders of the Bank		14,047,219	11,240,635
Minority interest		21,917	-
Total equity		14,069,136	11,240,635
Total liabilities and equity		125,864,761	99,808,110

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

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2008 and 2007

SAR' 000	Notes	2008	2007
Special commission income	20	5,298,313	4,934,104
Special commission expense	20	2,477,723	2,644,706
Net special commission income		2,820,590	2,289,398
Fees from banking services, net	21	834,480	897,234
Exchange income, net		241,105	187,968
Trading income, net	22	499,640	310,627
Dividend income	23	1,791	3,699
Losses on non trading investments, net	24	(55,687)	-
Other operating income	25	49,722	5,539
Total operating income		4,391,641	3,694,465
Salaries and employee related expenses		624,223	543,322
Rent and premises related expenses		90,944	76,858
Depreciation and amortization	9	86,940	77,965
Other general and administrative expenses		287,711	244,876
Impairment charge for credit losses, net	7	94,265	42,011
Impairment charge on investments	6	410,000	-
Other operating expenses	26	6,065	5,014
Total operating expenses		1,600,148	990,046
Income from operating activities		2,791,493	2,704,419
Share in earnings of associates, net		12,443	6,691
Net income		2,803,936	2,711,110
Loss attributable to minority interest		1,723	-
Net income for the year attributable to equity holders of the Bank		2,805,659	2,711,110
Basic and diluted earnings per share (in SAR)	27	4.99	4.82

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2008 and 2007

SAR' 000	Notes	Attributable to equity holders of the Bank							Minority interest	Total equity
		Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total		
2008										
Balance at the beginning of the year		5,625,000	4,052,780	1,200,000	(19,619)	68,339	314,135	11,240,635	-	11,240,635
Net changes in fair value of cash flow hedges	18	-	-	-	535,104	-	-	535,104	-	535,104
Net changes in fair value of available for sale investments	18	-	-	-	(317,521)	-	-	(317,521)	-	(317,521)
Transfers to consolidated statement of income:	18									
Cash flow hedge		-	-	-	(109,175)	-	-	(109,175)	-	(109,175)
AFS investment		-	-	-	206,652	-	-	206,652	-	206,652
Net income recognized directly in equity		-	-	-	315,060	-	-	315,060	-	315,060
Net income (loss) for the year					-	2,805,659		2,805,659	(1,723)	2,803,936
Total recognized income for the year		-	-	-	315,060	2,805,659		3,120,719	(1,723)	3,118,996
2007 final dividend paid		-	-	-	-	-	(314,135)	(314,135)	-	(314,135)
Transfer to statutory reserve	17	-	701,415	-	-	(701,415)	-	-	-	-
Transfer to general reserve	17	-	-	1,390,000	-	(1,390,000)	-	-	-	-
Proposed gross dividend	28	-	-	-	-	(776,711)	776,711	-	-	-
Minority interest share in subsidiary		-	-	-	-	-	-	-	23,640	23,640
Balance at the end of the year		5,625,000	4,754,195	2,590,000	295,441	5,872	776,711	14,047,219	21,917	14,069,136
2007										
Balance at the beginning of the year		3,375,000	3,375,000	2,500,000	(85,159)	37,997	201,943	9,404,781	-	9,404,781
Net changes in fair value of cash flow hedges	18	-	-	-	20,286	-	-	20,286	-	20,286
Net changes in fair value of available for sale investments	18	-	-	-	23,189	-	-	23,189	-	23,189
Transfers to consolidated statement of income:										
Cash flow hedge	18	-	-	-	22,065	-	-	22,065	-	22,065
Net income recognized directly in equity		-	-	-	65,540	-	-	65,540	-	65,540
Net income for the year		-	-	-	-	2,711,110	-	2,711,110	-	2,711,110
Total recognized income for the year		-	-	-	65,540	2,711,110	-	2,776,650	-	2,776,650
Issue of bonus shares		2,250,000	-	(2,250,000)	-	-	-	-	-	-
Transfer to statutory reserve	17	-	677,780	-	-	(677,780)	-	-	-	-
Transfer to general reserve	17	-	-	950,000	-	(950,000)	-	-	-	-
2006 final dividend paid		-	-	-	-	-	(201,943)	(201,943)	-	(201,943)
2007 interim dividend paid	28	-	-	-	-	(738,853)	-	(738,853)	-	(738,853)
Proposed gross final dividend	28	-	-	-	-	(314,135)	314,135	-	-	-
Balance at the end of the year		5,625,000	4,052,780	1,200,000	(19,619)	68,339	314,135	11,240,635	-	11,240,635

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

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2008 and 2007

SAR' 000	Notes	2008	2007
<u>OPERATING ACTIVITIES</u>			
Net income for the year		2,805,659	2,711,110
Adjustments to reconcile net income to net cash (used in) from operating activities			
(Accretion of discounts) and amortization of premiums on non trading investments, net		(447,160)	(141,331)
Losses on non trading investments, net		55,687	-
Depreciation and amortization		86,940	77,965
Gains on disposal of property and equipment, net		(446)	(71)
Impairment charge for credit losses, net		94,265	42,011
Impairment charge on investments		410,000	-
Share in earnings from associates		(12,443)	(6,691)
Change in fair value of financial instruments		(57,853)	7,728
Net (increase) decrease in operating assets:		2,934,649	2,690,721
Statutory deposit with SAMA	4	(888,443)	(1,070,268)
Due from banks and other financial institutions maturing after 90 days from the date of acquisition		200,000	(50,000)
Investments held as FVIS		434,465	(1,209,313)
Loans and advances		(21,022,448)	(8,751,060)
Other assets		(2,553,666)	(1,359,338)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		283,436	4,669,060
Customers' deposits		18,781,184	12,130,943
Other liabilities		1,544,895	1,717,942
Net cash (used in) from operating activities		(285,928)	8,768,687
<u>INVESTING ACTIVITIES</u>			
Proceeds from sales and maturities of non trading investments		35,140,191	4,924,075
Purchase of non trading investments		(40,957,876)	(9,924,962)
Investments in associates		(39,821)	(82,500)
Purchase of property and equipment		(120,465)	(102,960)
Proceeds from sales of property and equipment		20,644	130
Net cash used in investing activities		(5,957,327)	(5,186,217)
<u>FINANCING ACTIVITIES</u>			
Net movement in minority interest		21,917	-
Issue of term loans		2,489,700	-
Dividends paid	28	(314,135)	(940,796)
Net cash from (used in) financing activities		2,197,482	(940,796)
(Decrease) increase in cash and cash equivalents		(4,045,773)	2,641,674
Cash and cash equivalents at the beginning of the year		10,074,745	7,433,071
Cash and cash equivalents at the end of the year	29	6,028,972	10,074,745
Special commission received during the year		5,328,430	4,961,046
Special commission paid during the year		2,504,127	2,550,642
<u>Supplemental non cash information</u>			
Net changes in fair value and transfers to consolidated statement of income		315,060	65,540

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

1 General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H, corresponding to September 5, 1989, through its 75 branches (2007: 74 branches) in the Kingdom of Saudi Arabia, employing 2,345 people (2007: 2,266). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

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

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

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

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Critical accounting judgments and estimates

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

(i) Impairment losses on loans & advances

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

(ii) Fair value of unquoted financial instruments

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

(iii) Impairment of available for sale equity investments

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

(iv) Classification of held to maturity investments

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

3 Summary of significant accounting policies

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

a) Basis of consolidation

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

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Where the Bank does not have effective control but has significant influence, the investment in a subsidiary is accounted for under the equity method and the consolidated financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements

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

Minority interests represent the portion of net income and net assets which are not owned, directly or indirectly, by the Bank in its subsidiary and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from equity attributable to the equity holders of the Bank.

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

b) Investment in associates

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

c) Settlement date accounting

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

d) Derivatives financial instruments and hedging

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. Where the hedged forecasted transaction results in the recognition of a non financial asset or a non financial liability, then at the time that the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

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

e) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Realized and unrealized gains or losses on exchange are credited or charged to exchange income.

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

f) Offsetting

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

g) Revenue recognition

Special commission income and expense for all interest bearing financial instruments, except for those classified as held for trading or designated as at fair value through income statement, (FVIS) are recognized in the consolidated statement of income using the effective yield basis.

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

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

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

Exchange income/loss is recognised when earned / incurred.

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

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

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

h) Sale and repurchase agreements

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

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

i) Investments

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

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date without deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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

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

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

ii) Available for sale

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

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

iii) Held to maturity

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

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

iv) Other investments held at amortized cost

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

j) Loans and advances

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

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

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

(i) Available for sale

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

(ii) Loans and advances held at amortized cost

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

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

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

k) Due from banks and other financial institutions

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

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

l) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

m) Other real estate

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

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

n) Property and equipment

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

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

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

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

o) Liabilities

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

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

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

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

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

p) Provisions

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

q) Accounting for leases

i) Where the Bank is the lessee

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

ii) Where the Bank is the lessor

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

r) Cash and cash equivalents

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

s) De-recognition of financial instruments

A financial asset or a part of financial assets, or a part of group of similar financial assets is derecognized when the contractual rights to the cash flows from the financial asset expires and if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process. A financial liability or a part of a financial liability can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

t) Zakat and income tax

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

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

u) Investment management and brokerage services

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

Incomes from the subsidiaries are included in the consolidated statement of income under fee from banking services.

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

v) Islamic banking products

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

High level definitions of Islamic banking products

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

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

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

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

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

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

4 Cash and balances with SAMA

SAR' 000	2008	2007
Cash in hand	453,867	472,779
Statutory deposit	3,989,950	3,101,507
Current account	56,093	15,633
Money market placements	1,272,947	6,562,271
Total	5,772,857	10,152,190

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

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

5 Due from banks and other financial institutions

SAR' 000	2008	2007
Current accounts	908,537	207,610
Money market placements	3,337,528	3,016,452
Total	4,246,065	3,224,062

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6 Investments, net

a) These comprise the following:

SAR' 000	2008			2007		
	Domestic	International	Total	Domestic	International	Total
i) Held as FVIS						
Fixed rate securities	1,524,019	-	1,524,019	1,402,476	-	1,402,476
Floating rate securities	212,271	27,656	239,927	191,845	71,907	263,752
Other		7,106	7,106	-	539,289	539,289
Held as FVIS	1,736,290	34,762	1,771,052	1,594,321	611,196	2,205,517
ii) Available for sale (AFS)						
Fixed rate securities	-	1,598,467	1,598,467	-	2,352,390	2,352,390
Floating rate securities	529,396	476,664	1,006,060	215,200	1,169,349	1,384,549
Equities	59,904	71,080	130,984	198,064	80,110	278,174
Other	3,322,808	-	3,322,808	2,553,135	-	2,553,135
Available for sale, net	3,912,108	2,146,211	6,058,319	2,966,399	3,601,849	6,568,248
iii) Held to maturity						
Fixed rate securities	3,685,922	104,111	3,790,033	2,990,117	56,245	3,046,362
Held to maturity, net	3,685,922	104,111	3,790,033	2,990,117	56,245	3,046,362
iv) Other investments held at amortized cost						
Fixed rate securities	13,627,058	36,523	13,663,581	7,516,882	36,625	7,553,507
Floating rate notes	2,427,038	375,000	2,802,038	2,627,515	375,000	3,002,515
Other investments held at amortized cost, gross	16,054,096	411,523	16,465,619	10,144,397	411,625	10,556,022
Allowance for impairment (note 6 f)	-	(375,000)	(375,000)	-	-	-
Other investments held at amortized cost, net	16,054,096	36,523	16,090,619	10,144,397	411,625	10,556,022
Total Investments, net	25,388,416	2,321,607	27,710,023	17,695,234	4,680,915	22,376,149

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

SAR' 000	2008			2007		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	3,122,486	17,453,614	20,576,100	2,408,634	11,946,101	14,354,735
Floating rate securities	1,245,987	2,802,038	4,048,025	1,648,301	3,002,515	4,650,816
Equities	62,756	68,228	130,984	128,799	149,375	278,174
Other	-	3,329,914	3,329,914	529,164	2,563,260	3,092,424
	4,431,229	23,653,794	28,085,023	4,714,898	17,661,251	22,376,149
Allowance for impairment (note 6 f)	-	(375,000)	(375,000)	-	-	-
Investments, net	4,431,229	23,278,794	27,710,023	4,714,898	17,661,251	22,376,149

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

SAR' 000	2008				2007			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value
i) Held to maturity								
Fixed rate securities	3,790,033	137,773	-	3,927,806	3,046,362	50,935	(26)	3,097,271
Total	3,790,033	137,773	-	3,927,806	3,046,362	50,935	(26)	3,097,271
ii) Other investments held at amortized cost								
Fixed rate securities	13,663,581	262,870	(94)	13,926,357	7,553,507	137,086	(2,208)	7,688,385
Floating rate notes	2,802,038	394	(6,297)	2,421,135	3,002,515	-	(2,623)	2,999,892
Allowance for impairment (note 6 f)	(375,000)	-	-	-	-	-	-	-
Total	16,090,619	263,264	(6,391)	16,347,492	10,556,022	137,086	(4,831)	10,688,277

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

SAR' 000	2008	2007
Government and quasi government	21,732,208	15,052,816
Corporate	4,310,381	3,546,456
Banks and other financial institutions	1,629,726	3,688,059
Others	37,708	88,818
Total	27,710,023	22,376,149

e) Credit risk exposure of investments

SAR' 000	2008	2007
Saudi government bonds	21,264,133	14,536,990
Investment grade	2,984,992	4,468,561
Unrated	3,460,898	3,370,598
Total	27,710,023	22,376,149

Saudi government bonds comprise of Saudi government development bonds, treasury bills and floating rate notes. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, Musharakah and Mudarabah SAR 3,323 million (2007: SAR 2,553 million).

f) Movement of allowance for impairment of investments:

SAR' 000	2008	2007
Provided during the year		
- Held at amortised cost	375,000	-
- AFS	35,000	-
Balance at end of the year	410,000	-

During the year, the Bank has recorded a provision of SAR 375 million (2007: SAR Nil) against others investments held at amortised cost. Further, impairment charge of SAR 35 million (2007: Nil) has been assessed against local equities classified under AFS investments and accordingly, transferred from other reserve in shareholders' equity to the consolidated statement of income.

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 181 million (2007: SAR 218 million). Other investments represent investments in international mutual funds.

Available for sale investments include Islamic securities (sukuk) of SAR 480 million (2007: SAR 252 million). Other AFS represents Musharaka investments of SAR 502 million (2007: SAR 1,000 million) and Mudarabah investments of SAR 2,821 million (2007: SAR 1,553 million) which are hedged and measured at fair value to the extent of the risk being hedged.

Saudi Istithmar mutual fund SAR 38 million (2007: SAR 89 million) and unquoted equity shares of SAR 68 million (2007: SAR 69 million) which are carried at cost as their fair value cannot be reliably measured, are also included under equities available for sale.

Unquoted investments include principally Saudi Government Bonds and notes of SAR 21,264 million (2007: SAR 14,537 million).

Investments include SAR 7,912 million (2007: SAR 4,459 million) which have been pledged under repurchase agreements with other banks and customers. The market values of such investments are SAR 8,086 million (2007: SAR 4,536 million).

7 Loans and advances - net

a) Loans and advances are classified as follows

i) Available for sale

SAR' 000	2008					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	-	-	-	228,467	-	228,467
Non performing loans and advances, net	-	-	-	-	-	-
Total loans and advances	-	-	-	228,467	-	228,467

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	-	-	-	188,608	-	188,608
Non performing loans and advances, net	-	-	-	-	-	-
Total loans and advances	-	-	-	188,608	-	188,608

ii) Other loans and advances held at amortised cost

SAR' 000	2008					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	6,223,142	485,802	4,508,116	63,013,587	6,491,285	80,721,932
Non performing loans and advances, net	304,468	73,187	98,766	278,084	9,314	763,819
Total loans and advances	6,527,610	558,989	4,606,882	63,291,671	6,500,599	81,485,751
Allowance for impairment	(244,224)	(73,462)	(149,865)	(380,192)	-	(847,743)
Loans and advances, net	6,283,386	485,527	4,457,017	62,911,479	6,500,599	80,638,008

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SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	5,821,346	449,084	3,936,113	46,173,510	3,671,301	60,051,354
Non performing loans and advances, net	324,426	42,720	56,989	10,919	456	435,510
Total loans and advances	6,145,772	491,804	3,993,102	46,184,429	3,671,757	60,486,864
Allowance for impairment	(287,339)	(42,707)	(83,295)	(412,179)	-	(825,520)
Loans and advances, net,	5,858,433	449,097	3,909,807	45,772,250	3,671,757	59,661,344

b) Movement in allowance for impairment

SAR' 000	2008					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Balance at beginning of the year	287,339	42,707	83,295	412,179	-	825,520
Provided during the year	3,636	61,067	98,846	30,574	-	194,123
Written off during the year	(23,006)	(24,114)	(24,922)	-	-	(72,042)
Recoveries of amounts previously provided	(23,745)	(6,198)	(7,354)	(62,561)	-	(99,858)
Balance at the end of the year	244,224	73,462	149,865	380,192	-	847,743

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Balance at beginning of the year	288,520	26,196	112,623	466,090	-	893,429
Provided during the year	78,026	30,776	33,299	5,636	-	147,737
Written off during the year	(40,774)	(9,679)	(59,467)	-	-	(109,920)
Recoveries of amounts previously provided	(38,433)	(4,586)	(3,160)	(59,547)	-	(105,726)
Balance at the end of the year	287,339	42,707	83,295	412,179	-	825,520

The net charge to income of SAR 94 million (2007: SAR 42 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 100 million (2007: SAR: 106 million). The allowance for impairment includes SAR 418 million (2007: SAR 433 million) evaluated on collective impairment basis.

Non- performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 69 million (2007: SAR 46 million).

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	2008					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Very strong quality including sovereign (A+ to B and S)	666,676	1,286	3,198	15,060,890	429,690	16,161,740
Good quality (C+ to C)	1,410,922	1,578	11,687	13,810,155	4,045,199	19,279,541
Satisfactory quality (C- to E +)	3,216,502	302,723	3,545,890	33,220,924	1,960,548	42,246,587
Special mention	60,930	1,694	2,184	1,150,085	55,848	1,270,741
Total	5,355,030	307,281	3,562,959	63,242,054	6,491,285	78,958,609
SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Very strong quality including sovereign (A+ to B and S)	541,169	2,121	3,520	10,679,464	479,322	11,705,596
Good quality (C+ to C)	795,298	1,011	3,976	7,882,268	1,172,726	9,855,279
Satisfactory quality (C- to E +)	4,130,797	274,053	2,775,208	26,971,248	1,965,663	36,116,969
Special mention	62,509	1,408	2,686	829,138	53,590	949,331
Total	5,529,773	278,593	2,785,390	46,362,118	3,671,301	58,627,175

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

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

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

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

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

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

SAR' 000	2007				
	Commercial loans and Over Draft	Credit Cards	Consumer Loans	Others	Total
From 1 day to 30 days	8,886	120,351	1,043,156	-	1,172,393
From 31 days to 90 days	142,166	27,426	56,130	-	225,722
From 91 days to 180 days	28,187	22,714	50,720	-	101,621
More than 180 days	112,334	-	717	-	113,051
Total	291,573	170,491	1,150,723	-	1,612,787

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

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
<u>2008</u>				
Government and quasi Government	1,191,910	-	-	1,191,910
Banks and other financial institutions	1,357,287	-	(10,963)	1,346,324
Agriculture and fishing	2,110,133	7,341	(13,755)	2,103,719
Manufacturing	10,839,923	6,605	(29,543)	10,816,985
Mining and quarrying	749,516	4,409	(3,512)	750,413
Electricity, water, gas and health services	1,688,023	-	(671)	1,687,352
Building and construction	9,233,044	22,538	(83,310)	9,172,272
Commerce	19,001,841	363,953	(237,619)	19,128,175
Transportation and communication	5,313,209	1,484	(8,276)	5,306,417
Services	6,901,291	76,974	(159,634)	6,818,631
Consumer loans and credit cards	4,993,918	171,953	(223,327)	4,942,544
Others	17,570,304	108,562	(77,133)	17,601,733
Total	80,950,399	763,819	(847,743)	80,866,475
<u>2007</u>				
Government and quasi Government	1,287,522	-	-	1,287,522
Banks and other financial institutions	1,078,519	-	(7,722)	1,070,797
Agriculture and fishing	1,376,647	7,323	(11,184)	1,372,786
Manufacturing	8,895,752	5,897	(43,577)	8,858,072
Mining and quarrying	691,636	2,741	(2,767)	691,610
Electricity, water, gas and health services	1,107,110	18	(18)	1,107,110
Building and construction	6,504,492	104,515	(197,464)	6,411,543
Commerce	14,157,107	148,471	(202,670)	14,102,908
Transportation and communication	3,417,282	1,502	(8,027)	3,410,757
Services	4,810,134	63,112	(137,407)	4,735,839
Consumer loans and credit cards	4,385,197	99,709	(126,002)	4,358,904
Others	12,528,564	2,222	(88,682)	12,442,104
Total	60,239,962	435,510	(825,520)	59,849,952

Loans and advances, net include Islamic products of SAR 26,633 million (2007: SAR 17,641 million).

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

d) Collateral

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

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

SAR' 000	2008	2007
Gross receivable from finance leases:		
Less than 1 year	31,066	34,711
1 to 5 years	660,392	334,458
More than 5 years	444,061	405,772
	1,135,519	774,941
Unearned future finance income on finance leases	(15,001)	(15,467)
Net receivable from finance leases	1,120,518	759,474

8 Investment in associates

SAR' 000	2008	2007
Opening balance	124,595	35,404
Cost of investment during the year	39,821	82,500
Share of undistributed profit	12,443	6,691
Closing balance	176,859	124,595

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2007: 27%), a bank incorporated in Syria and 50% shareholding in InSaudi Insurance Company (2007: 50%) incorporated in Kingdom of Bahrain and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2007: 32.5%) incorporated in the Kingdom of Saudi Arabia .

The Bank also owns 50% of Sofinco Saudi Fransi (2007: 50%), which involve in consumer lease finance and 45% of CALYON Saudi Fransi (2007:Nil), which involve in corporate financial advisory services.

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

SAR' 000	Bemo Saudi Fransi		Allianz Saudi Fransi	
	2008	2007	2008	2007
Total assets	2,015,354	1,723,115	65,627	33,734
Total liabilities	1,932,244	1,674,544	46,117	6,359
Total equity	83,110	48,571	19,510	27,375
Total Income	51,285	32,401	1,177	202
Total expenses	34,911	22,961	13,953	5,326

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

9 Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2008 Total	2007 Total
Cost					
Balance at the beginning of the year	463,954	74,900	529,597	1,068,451	997,594
Additions	11,793	25,348	83,324	120,465	102,960
Disposals and retirements	(22,022)	(18,346)	(21,008)	(61,376)	(32,103)
Balance at the end of the year	453,725	81,902	591,913	1,127,540	1,068,451
Accumulated depreciation and amortization					
Balance at the beginning of the year	151,546	-	339,587	491,133	445,212
Charge for the year	12,718	18,346	55,876	86,940	77,965
Disposals and retirements	(2,390)	(18,346)	(20,442)	(41,178)	(32,044)
Balance at the end of the year	161,874	-	375,021	536,895	491,133
Net book value as at December 31, 2008	291,851	81,902	216,892	590,645	-
Net book value as at December 31, 2007	312,408	74,900	190,010	-	577,318

Land and buildings and leasehold improvements as at December 31, 2008 include work in progress amounting to SAR 13 million (2007: SAR 5 million) and SAR 12 million (2007: SAR 21 million) respectively. Furniture, equipment and vehicles include information technology related assets.

10 Other assets

SAR' 000	2008	2007
Accrued special commission receivable – banks and other financial institutions	43	5,901
– investments	63,125	167,927
– loans and advances	489,642	390,776
– derivatives	-	16,873
– other	-	1,450
Total accrued special commission receivable	552,810	582,927
Accounts receivable	221,334	167,417
Assets held under agency agreement	500,000	-
Positive fair value of derivatives (note 11)	4,925,609	2,417,499
Other real estate	4,800	4,800
Others	297,284	331,201
Total	6,501,837	3,503,844

11 Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

Held for hedging purposes

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

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

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

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

SAR' 000	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2008								
Held for trading								
Commission rate swaps	4,260,331	4,207,703	155,237,874	15,472,738	35,774,346	87,961,951	16,028,839	127,542,075
Commission rate futures and options	5,859	2,247	9,239,742	-	1,665,000	6,792,500	782,242	8,042,127
Forward rate agreements	-	76	50,000	-	50,000	-	-	37,500
Forward foreign exchange contracts	454,235	441,466	64,752,949	29,595,561	32,999,702	2,157,686	-	67,089,121
Currency options	336,238	227,597	11,311,778	2,503,780	6,229,366	2,578,632	-	12,665,666
Others	6,864	-	1,269,650	341,262	365,700	562,688	-	809,618
Held as fair value hedges								
Commission rate swaps	211,847	206,685	12,255,744	1,918,912	3,224,606	6,930,932	181,294	11,327,367
Held as cash flow hedges								
Commission rate swaps	501,431	724	11,402,450	467,500	150,000	9,278,700	1,506,250	6,507,138
Total	5,776,805	5,086,498	265,520,187	50,299,753	80,458,720	116,263,089	18,498,625	234,020,612
Fair value of netting arrangements	(851,196)	(851,196)	(39,074,298)	(2,246,824)	(5,849,212)	(27,603,174)	(3,375,088)	(24,640,664)
Total after netting (notes 10 and 14)	4,925,609	4,235,302	226,445,889	48,052,929	74,609,508	88,659,915	15,123,537	209,379,948

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SAR' 000	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2007								
Held for trading								
Commission rate swaps	1,971,993	2,061,361	98,747,269	6,085,018	21,848,589	64,552,926	6,260,736	93,867,220
Commission rate futures and options	5,242	5,197	10,230,224	512,500	4,608,750	4,192,500	916,474	7,132,695
Forward rate agreements	-	-	-	-	-	-	-	300,000
Forward foreign exchange contracts	183,371	217,602	54,097,887	27,642,019	24,690,644	1,765,224	-	64,039,014
Currency options	221,411	108,917	12,509,716	3,222,169	4,306,193	4,981,354	-	9,854,384
Others	237	2,768	155,290	-	10,000	145,290	-	136,412
Held as fair value hedges								
Commission rate swaps	184,407	66,107	10,303,569	3,081,944	3,252,980	3,782,703	185,942	8,830,461
Held as cash flow hedges								
Commission rate swaps	76,641	1,863	5,452,450	350,000	350,000	2,608,700	2,143,750	5,837,559
Total	2,643,302	2,463,815	191,496,405	40,893,650	59,067,156	82,028,697	9,506,902	189,997,745
Fair value of netting arrangements	(225,803)	(225,803)	(17,400,780)	(3,046,388)	(1,944,586)	(12,353,806)	(56,000)	(19,946,674)
Total after netting (notes 10 and 14)	2,417,499	2,238,012	174,095,625	37,847,262	57,122,570	69,674,891	9,450,902	170,051,071

Commission rate swaps include the notional amount of SAR 39,074 million (2007: SAR 17,401 million) with an aggregate positive fair value and a negative fair value of SAR 851 million (2007: SAR 226 million) which are netted out for credit exposure purposes as the Bank intends to settle these on a net basis.

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

SAR' 000							
Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value	
2008							
Fixed commission rate investments	2,871,267	2,760,713	Fair value	Commission rate swap	-	85,103	
Fixed commission rate loans	3,112,276	2,958,793	Fair value	Commission rate swap	-	121,252	
Fixed commission rate deposits	6,052,540	5,878,080	Fair value	Commission rate swap	211,847	330	
Floating commission rate investments	3,502,050	3,502,050	Cash flow	Commission rate swap	25,497	724	
Floating commission rate loans	7,900,000	7,900,000	Cash flow	Commission rate swap	475,934	-	
2007							
Fixed commission rate investments	2,022,037	1,991,532	Fair value	Commission rate swap	9	30,059	
Fixed commission rate loans	1,735,159	1,661,614	Fair value	Commission rate swap	2,673	35,193	
Fixed commission rate due to banks	285,398	281,250	Fair value	Commission rate swap	4,330	-	
				Forward foreign exchange	1,298	-	
Fixed commission rate deposits	6,379,382	6,207,769	Fair value	Commission rate swap	176,097	855	
Floating commission rate investments	4,387,063	4,387,063	Cash flow	Commission rate swap	61,249	1,863	
Floating commission rate loans	1,581,250	1,581,250	Cash flow	Commission rate swap	15,392	-	

The net gains on the hedging instruments for fair value hedge are SAR 5 million (2007: SAR 118 million). The net gains on the hedged item attributable to the hedged risk are SAR 90 million (2007: Loss SAR 72 million). The net fair value of the derivatives is SAR 95 million (2007: SAR 46 million).

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

SAR' 000	2008	2007
Balance at beginning of the year	74,778	32,427
Gains from changes in fair value recognised directly in equity	535,104	20,286
(Gains) losses removed from shareholders' equity and included in net special commission income	(109,175)	22,065
Balance at end of the year	500,707	74,778

For cash flow hedges, the amount shown as balance of reserves as at December 31, 2008 is expected to affect the consolidated statement of income in the coming two to three years.

Approximately 27% (2007: 53.1%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 25% (2007: 16.7%) of the net positive fair values of the derivatives are with any single counterpart group at the balance sheet date. The derivative activities are mainly carried out under Bank's treasury banking segment.

12 Due to banks and other financial institutions

SAR' 000	2008	2007
Current accounts	677,614	790,219
Money market deposits	7,724,388	7,332,494
Total	8,402,002	8,122,713

Money market deposits include deposits against sale of securities of SAR Nil (2007: SAR 2,886 million) with agreement to repurchase the same at fixed future dates.

13 Customers' deposits

SAR' 000	2008	2007
Demand	28,696,224	22,523,088
Saving	328,801	304,393
Time	60,599,419	47,759,627
Other	3,166,837	3,420,143
Total	92,791,281	74,007,251

Time deposits include deposits against sale of securities of SAR 7,968 million (2007: SAR 4,507 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 733 million (2007: SAR 1,139 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR 15,712 million (2007: SAR 11,530 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2008	2007
Demand	4,789,099	2,184,654
Saving	19,584	16,012
Time	18,289,025	17,485,129
Other	337,475	470,406
Total	23,435,183	20,156,201

14 Other liabilities

SAR' 000	2008	2007
Accrued special commission payable – banks and other financial institutions	32,942	36,312
– customers' deposits	334,388	284,959
– term loans	24,597	352
– derivatives	-	13,564
– others	50,915	134,059
Total accrued special commission payable	442,842	469,246
Accrued expenses and accounts payable	527,790	1,051,975
Negative fair value of derivatives (note 11)	4,235,302	2,238,012
Others	469,208	240,778
Total	5,675,142	4,000,011

15 Term loans

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

16 Share capital

The authorised, issued and fully paid share capital of the Bank consists of 562.5 million shares of SAR 10 each (2007: 562.5 million shares of SAR 10 each). The Board of Directors have recommended to the shareholders of the Bank, an increase in the Bank's share capital from SAR 5,625 million to SAR 7,232 million through the issuance of 2 bonus shares for every 7 shares held, by capitalization of general reserve. The number of shares will accordingly increase from 562.5 million shares to 723.2 million shares. The recommendation on issuance of bonus shares, are subject to approval of the Bank's shareholders in an extra ordinary shareholders meeting and the relevant authorities.

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

SAR' 000	%	2008	2007
Saudi shareholders	68.9	3,875,000	3,875,000
CALYON Corporate and Investment Bank	31.1	1,750,000	1,750,000
Total	100	5,625,000	5,625,000

17 Statutory and general reserves

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

An amount of SAR 701 million (2007: SAR 678 million) has been transferred from the retained earnings for the year to statutory reserve. This reserve is currently not available for distribution.

The appropriation of SAR 1,390 million (2007: SAR 950 million) has been made to general reserve from retained earnings for the year.

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

18 Other reserves

SAR(000)	Cash flow hedges	Available for sale investments	Total
2008			
Balance at beginning of the year	74,778	(94,397)	(19,619)
Net change in fair value	535,104	(317,521)	217,583
Transfer to consolidated statement of income	(109,175)	206,652	97,477
Net movement during the year	425,929	(110,869)	315,060
Balance at the end of the year	500,707	(205,266)	295,441
2007			
Balance at beginning of the year	32,427	(117,586)	(85,159)
Net change in fair value	20,286	23,189	43,475
Transfer to consolidated statement of income	22,065	-	22,065
Net movement during the year	42,351	23,189	65,540
Balance at the end of the year	74,778	(94,397)	(19,619)

Transfer to consolidated statement of income from AFS reserve represents, loss on disposal of AFS investments – international amounting to SAR 171 million (2007: SAR Nil) and impairment charges amounting to SAR 35 million (2007: SAR Nil) against AFS equity investments. Accordingly, the cumulative gain or loss recognised previously in equity and gain or loss on disposal of investments sold during the year and impairment charges have been transferred to consolidated statement of income.

19 Commitments and contingencies

a) Legal proceedings

As at December 31, 2008 there were 16 (2007: 14) legal proceedings outstanding against the Bank. No material provision has been made as the related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2008 the Bank had capital commitments of SAR 84 million (2007: SAR 67 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

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

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

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

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

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

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2008					
Letters of credit	5,325,788	3,120,414	2,585,711	553,746	11,585,659
Letters of guarantee	7,882,130	10,047,506	13,173,080	166,199	31,268,915
Acceptances	1,627,724	952,633	90,043	-	2,670,400
Irrevocable commitments to extend credit	81,020	350,750	1,236,169	3,747,805	5,415,744
Other	-	-	-	-	-
Total	14,916,662	14,471,303	17,085,003	4,467,750	50,940,718
2007					
Letters of credit	7,855,046	2,535,628	1,783,832	552,825	12,727,331
Letters of guarantee	7,326,983	13,304,117	8,814,176	342,010	29,787,286
Acceptances	1,740,047	1,018,644	78,110	31	2,836,832
Irrevocable commitments to extend credit	197,188	82,973	2,659,440	4,200,452	7,140,053
Other	6,750	-	-	-	6,750
Total	17,126,014	16,941,362	13,335,558	5,095,318	52,498,252

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2008 is SAR 40,322 million (2007: SAR 27,132 million).

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

SAR' 000	2008	2007
Government and quasi government	843,983	567,927
Corporate	44,763,058	37,856,231
Banks and other financial institutions	5,009,507	13,349,410
Other	324,170	724,684
Total	50,940,718	52,498,252

d) Assets pledged

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

SAR' 000	2008		2007	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost (note 6)	7,912,306	7,968,475	1,572,957	1,591,109
Available for sale investments (note 6)	-	-	2,885,941	2,916,197
Total	7,912,306	7,968,475	4,458,898	4,507,306

e) Operating lease commitments

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

SAR' 000	2008	2007
Less than 1 year	4,089	4,278
1 to 5 years	39,061	32,685
Over 5 years	188,212	150,035
Total	231,362	186,998

20 Special commission income and expense

SAR' 000	2008	2007
Special commission income		
Investments		
– available for sale	341,661	284,083
– held to maturity	129,391	189,358
– other investments held at amortized cost	717,849	412,574
	1,188,901	886,015
Due from banks and other financial institutions	243,473	466,066
Loans and advances	3,865,939	3,582,023
Total	5,298,313	4,934,104
Special commission expense		
Due to banks and other financial institutions	408,565	294,297
Customers' deposits	1,939,990	2,212,137
Term loans	129,168	138,272
Total	2,477,723	2,644,706

21 Fees from banking services, net

SAR' 000	2008	2007
Fees and commission income		
- Share trading and fund management	299,544	589,240
- Trade finance	233,977	174,190
- Corporate finance and advisory	184,912	158,729
- Card products	136,054	71,392
- Other banking services	87,839	46,091
Total fees and commission income	942,326	1,039,642
Fees and commission expense		
- Share trading and brokerage	62,074	109,465
- Custodial services	3,707	6,287
- Other banking services	42,065	26,656
Total fees and commission expense	107,846	142,408
Fees from banking services, net	834,480	897,234

22 Trading income, net

SAR' 000	2008	2007
Foreign exchange (losses) gains, net	(3,294)	5,225
Investments- held as FVIS, net	63,978	66,774
Derivatives, net	439,766	227,207
Others	(810)	11,421
Total	499,640	310,627

23 Dividend income

SAR' 000	2008	2007
Available for sale investments	1,791	3,699

24 (Losses)/ gains on non-trading investments, net

SAR' 000	2008	2007
Available for sale	(171,652)	-
Other investments held at amortized cost	115,965	-
Total	(55,687)	-

25 Other operating income

SAR' 000	2008	2007
Gains on disposal of property and equipment	1,002	107
Others	48,720	5,432
Total	49,722	5,539

26 Other operating expenses

SAR' 000	2008	2007
Loss on disposal of property and equipment	556	36
Others	5,509	4,978
Total	6,065	5,014

27 Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2008 and 2007 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 562.5 million shares .

28 Proposed gross dividend, zakat and income tax

The Board of Directors has proposed on December 3, 2008 a total dividend of SAR 1.00 (2007: SAR 1.75) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. No interim dividend has been proposed by the Board of Directors for the year 2008 (2007: SAR 1.50 per share).

Gross dividend

SAR' 000	2008	2007
Interim dividend	-	738,853
Final proposed dividend	776,711	314,135
Total	776,711	1,052,988

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

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 142 million (2007: SAR 47 million) which will be deducted from their share of dividend for the year. The net total dividend to Saudi shareholders is SAR 387 million (2007: SAR 678 million)

ii) Income tax

Income tax payable in respect of foreign shareholder – CALYON's current year's share of income tax is approximately SAR 202 million (2007: SAR 171 million) which will be deducted from their share of dividend for the year.

The current year net dividend for the foreign shareholder is SAR 44 million (2007: SAR 157 million).

29 Cash and cash equivalents

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

SAR' 000	2008	2007
Cash and balances with SAMA excluding statutory deposits – (note 4)	1,782,907	7,050,683
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	4,246,065	3,024,062
Total	6,028,972	10,074,745

30 Business segments

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

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

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

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

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

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

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

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

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The Bank's total assets and liabilities as at December 31, 2008 and 2007, its total operating income and expenses, share in earnings of associates and its net income attributable to equity holders of the Bank for the years then ended by business segments, are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury banking	Investment banking and brokerage	Total
<u>2008</u>					
Total assets	15,537,809	70,738,897	39,301,714	286,341	125,864,761
Total liabilities	42,392,826	49,714,393	19,674,758	13,648	111,795,625
Total operating income	1,450,168	1,497,177	1,203,430	240,866	4,391,641
Total operating expenses	832,933	145,257	138,052	73,906	1,190,148
Provision for impairment of investments, net	-	-	410,000	-	410,000
Share in earnings of associates, net	-	-	12,443	-	12,443
Net income	617,235	1,351,920	667,821	166,960	2,803,936
Impairment charges for credit losses, net	138,365	(48,100)	4,000	-	94,265
<u>2007</u>					
Total assets	12,144,566	51,928,414	35,625,240	109,890	99,808,110
Total liabilities	40,715,474	33,983,140	13,850,672	18,189	88,567,475
Total operating income	1,196,319	1,194,152	824,220	479,774	3,694,465
Provision for impairment of investments, net	-	-	-	-	-
Total operating expenses	704,219	75,185	124,153	86,489	990,046
Share in earnings of associates, net	-	-	6,691	-	6,691
Net income	492,100	1,118,967	706,758	393,285	2,711,110
Impairment charges for credit losses, net	103,333	(61,322)	-	-	42,011

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

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
<u>2008</u>				
Balance sheet assets	15,263,177	69,681,306	33,514,169	118,458,652
Commitments and contingencies	1,251,822	22,078,040	-	23,329,862
Derivatives	43,771	1,166,170	5,347,403	6,557,344
<u>2007</u>				
Balance sheet assets	11,684,178	51,472,301	32,097,690	95,254,169
Commitments and contingencies	934,253	22,915,091	-	23,849,344
Derivatives	49,802	195,848	4,844,931	5,090,581

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

31 Credit risk

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

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

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

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

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

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

The debt securities included in investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to note 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 19.

Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2008						
Assets						
Cash and balances with SAMA	5,772,857	-	-	-	-	5,772,857
Due from banks and other financial institutions	13,945	929,098	2,338,193	959,169	5,660	4,246,065
Investments, net	25,501,019	354,462	942,519	1,051,364	37,518	27,886,882
Loans and advances, net	76,953,852	1,418,777	2,176,533	265,698	51,615	80,866,475
Total	108,241,673	2,702,337	5,457,245	2,276,231	94,793	118,772,279
Liabilities						
Due to banks and other financial institutions	4,671,004	2,910,835	673,427	104,818	41,918	8,402,002
Customers' deposits	92,560,249	70,378	62,513	484	97,657	92,791,281
Term loans	-	-	4,927,200	-	-	4,927,200
Total	97,231,253	2,981,213	5,663,140	105,302	139,575	106,120,483
Commitments and contingencies	44,910,328	862,921	3,960,800	42,119	1,164,550	50,940,718
Credit exposure (credit equivalent value)						
Commitments and contingencies	20,554,177	420,398	1,955,605	13,449	386,233	23,329,862
Derivatives	1,904,996	269,772	3,947,396	435,180	-	6,557,344
2007						
Assets						
Cash and balances with SAMA	10,152,190	-	-	-	-	10,152,190
Due from banks and other financial institutions	344,150	733,125	2,046,997	35,408	64,382	3,224,062
Investments, net	17,777,737	456,107	1,889,874	1,563,047	813,979	22,500,744
Loans and advances, net	55,189,041	996,757	3,131,265	49,212	483,677	59,849,952
Total	83,463,118	2,185,989	7,068,136	1,647,667	1,362,038	95,726,948
Liabilities						
Due to banks and other financial institutions	1,446,029	2,241,753	4,042,286	319,796	72,849	8,122,713
Customers' deposits	73,750,085	131,181	46,864	59	79,062	74,007,251
Term loan	112,500	496,875	1,509,375	75,000	243,750	2,437,500
Total	75,308,614	2,869,809	5,598,525	394,855	395,661	84,567,464
Commitments and contingencies	37,961,945	4,705,761	6,550,131	718,074	2,562,341	52,498,252
Credit exposure (credit equivalent value)						
Commitments and contingencies	17,483,724	2,340,678	3,080,032	344,468	600,442	23,849,344
Derivatives	1,544,861	212,735	2,934,740	398,245	-	5,090,581

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

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

SAR ' 000	2008		2007	
	Non performing, net	Allowance for impairment of credit losses	Non performing, net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	763,819	847,743	435,510	825,510
Total	763,819	847,743	435,510	825,510

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

32 Market risk

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

The market risk for capital market activities is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

a) Market risk-Trading book

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank applies on a daily basis a VAR methodology to in order to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

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

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

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

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

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The Bank's VAR related information for the year ended December 31, 2008 and 2007 are follows:

SAR (000)	Foreign exchange rate	Special commission risk	Equity price risk	Total
2008				
VAR as at December 31, 2008	3	2,000	-	2,003
Average VAR for 2008	41	1,712	-	1,753
Maximum VAR for 2008	737	3,122	-	3,859
Minimum VAR for 2008	3	685	-	688
2007				
VAR as at December 31, 2007	49	2,487	-	2,536
Average VAR for 2007	47	1,369	-	1,416
Maximum VAR for 2007	346	2,550	-	2,896
Minimum VAR for 2007	8	457	-	465

b) Market risk- non- trading or banking book

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

i) Interest rate risk

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

The sensitivity of interest rate changes on the net commission income is monitored as part of the overall market risk review of positions by the management on a weekly basis.

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

SAR' 000	2008						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+100	(52,000)	(230)	(2,890)	(7,260)	(3,210)	(13,590)
	-100	52,000	230	2,890	7,260	3,210	13,590
SAR	+100	187,000	9,624	(28,688)	(127,056)	(177,500)	(323,620)
	-100	(187,000)	(9,624)	28,688	127,056	177,500	323,620

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SAR' 000	2007						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+100	(105,000)	(1,200)	(1,500)	(52,100)	(24,400)	(79,200)
	-100	105,000	1,200	1,500	52,100	24,400	79,200
SAR	+100	149,000	-	(1,600)	(57,600)	-	(59,200)
	-100	(149,000)	-	1,600	57,600	-	59,200

Commission sensitivity of assets, liabilities and off balance sheet items

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

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

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

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SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
2008							
Assets							
Cash and balances with SAMA	1,272,947	-	-	-	4,499,910	5,772,857	1.50%
Due from banks and other financial institutions	3,337,528	-	-	-	908,537	4,246,065	2.04%
Investments, net	9,976,144	10,592,531	6,635,460	335,797	346,950	27,886,882	5.72%
Loans and advances, net	48,561,321	19,916,596	8,349,034	3,705,267	334,257	80,866,475	4.24%
Property and equipment, net	-	-	-	-	590,645	590,645	-
Other assets	-	-	-	-	6,501,837	6,501,837	-
Total assets	63,147,940	30,509,127	14,984,494	4,041,064	13,182,136	125,864,761	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	7,365,695	358,693	-	-	677,614	8,402,002	2.44%
Customers' deposits	48,614,283	15,075,449	3,175,011	-	25,926,538	92,791,281	2.92%
Other liabilities	-	-	-	-	5,675,142	5,675,142	-
Term loan	2,437,500	2,489,700	-	-	-	4,927,200	2.54%
Shareholders' equity	-	-	-	-	14,069,136	14,069,136	-
Total liabilities and shareholders' equity	58,417,478	17,923,842	3,175,011	-	46,348,430	125,864,761	
On balance sheet gap	4,730,462	12,585,285	11,809,483	4,041,064	(33,166,294)	-	
Off balance sheet gap	(8,131,737)	(1,617,229)	8,522,841	1,226,125	-	-	
Total commission rate sensitivity gap	(3,401,275)	10,968,056	20,332,324	5,267,189	(33,166,294)	-	
Cumulative commission rate sensitivity gap	(3,401,275)	7,566,781	27,899,105	33,166,294	-	-	
2007							
Assets							
Cash and balances with SAMA	6,562,271	-	-	-	3,589,919	10,152,190	
Due from banks and other financial institutions	2,816,452	200,000	-	-	207,610	3,224,062	6.65%
Investments, net	5,724,867	6,292,924	8,641,844	899,050	942,059	22,500,744	4.13%
Loans and advances, net	35,950,947	14,417,012	6,077,781	3,361,243	42,969	59,849,952	5.63%
Property and equipment, net	-	-	-	-	577,318	577,318	-
Other assets	-	-	-	-	3,503,844	3,503,844	-
Total assets	51,054,537	20,909,936	14,719,625	4,260,293	8,863,719	99,808,110	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	6,733,498	823,996	-	-	565,219	8,122,713	4.77%
Customers' deposits	41,086,624	9,200,681	1,051,711	-	22,668,235	74,007,251	5.25%
Other liabilities	-	-	-	-	4,000,011	4,000,011	
Term loan	2,437,500	-	-	-	-	2,437,500	5.18%
Shareholders' equity	-	-	-	-	11,240,635	11,240,635	
Total liabilities and shareholders' equity	50,257,622	10,024,677	1,051,711	-	38,474,100	99,808,110	
On balance sheet gap	796,915	10,885,259	13,667,914	4,260,293	(29,610,381)	-	
Off balance sheet gap	1,402,766	(3,397,982)	937,034	1,058,182	-	-	
Total commission rate sensitivity gap	2,199,681	7,487,277	14,604,948	5,318,475	(29,610,381)	-	
Cumulative commission rate sensitivity gap	2,199,681	9,686,958	24,291,906	29,610,381	-	-	

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

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

ii) Currency Risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2008 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

SAR' 000	2008			2007		
Currency Exposures	Change in Currency Rate in %	Effect on Net Income	Effect on Equity	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
USD	+5	(16,265)	2,271	+5	(5,425)	1,673
EUR	-3	2,807	-	-3	(1,254)	-

iii) Currency position

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

SAR' 000	2008 Long(short)	2007 Long (short)
US Dollar	(85,795)	279,701
Euro	55,182	46,580
Pound Sterling	(1,546)	8,508
Other	9,511	7,884
Total	(22,648)	342,673

iv) Equity Price Risk

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

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices is not material.

33 Liquidity risk

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

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

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

a) Maturity analysis of assets and liabilities

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2008						
Assets						
Cash and balances with SAMA	1,272,947	-	-	-	4,499,910	5,772,857
Due from banks and other financial institutions	3,337,528	-	-	-	908,537	4,246,065
Investments, net	6,770,617	10,742,516	9,650,765	376,034	346,950	27,886,882
Loans and advances, net	30,736,694	17,482,044	17,064,410	9,344,471	6,238,856	80,866,475
Property and equipment, net	-	-	-	-	590,645	590,645
Other assets	-	-	-	-	6,501,837	6,501,837
Total assets	42,117,786	28,224,560	26,715,175	9,720,505	19,086,735	125,864,761
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,365,695	358,693	-	-	677,614	8,402,002
Customers' deposits	42,451,324	15,075,449	3,175,011	-	32,089,497	92,791,281
Other liabilities	-	-	-	-	5,675,142	5,675,142
Term loans	-	-	4,927,200	-	-	4,927,200
Shareholders' equity	-	-	-	-	14,069,136	14,069,136
Total liabilities and shareholders' equity	49,817,019	15,434,142	8,102,211	-	52,511,389	125,864,761

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SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<u>2007</u>						
Assets						
Cash and balances with SAMA	6,562,271	-	-	-	3,589,919	10,152,190
Due from banks and other financial institutions	2,816,452	200,000	-	-	207,610	3,224,062
Investments, net	1,802,053	6,231,706	12,008,726	1,516,200	942,059	22,500,744
Loans and advances, net	22,796,943	10,868,166	11,384,508	8,933,379	5,866,956	59,849,952
Property and equipment, net	-	-	-	-	577,318	577,318
Other assets	-	-	-	-	3,503,844	3,503,844
Total assets	33,977,719	17,299,872	23,393,234	10,449,579	14,687,706	99,808,110
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,733,498	823,996	-	-	565,219	8,122,713
Customers' deposits	37,983,242	9,200,681	1,051,711	-	25,771,617	74,007,251
Other liabilities	-	-	-	-	4,000,011	4,000,011
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	11,240,635	11,240,635
Total liabilities and shareholders' equity	44,716,740	10,024,677	3,489,211	-	41,577,482	99,808,110

b) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2008 and 2007 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the balance sheet. The contractual maturities of liabilities have been determined based on the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

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For the years ended December 31, 2008 and 2007

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2008						
Due to banks and other financial institutions	7,376,510	362,881	-	-	677,614	8,417,005
Customers' deposits	42,173,038	15,516,254	3,362,936	-	32,460,595	93,512,823
Term loans	33,333	100,001	5,297,223	-	-	5,430,557
Other liabilities	-	-	-	-	5,675,142	5,675,142
Shareholders' equity	-	-	-	-	14,069,136	14,069,136
Total liabilities and shareholders' equity	49,582,881	15,979,136	8,660,159	-	52,882,487	127,104,663
<u>Derivatives</u>						
Contractual amount payable	(39,442,783)	9,618,253	32,768,936	3,430,019	-	6,374,425
Contractual amount receivable	47,360,826	(9,055,663)	(41,534,692)	(4,519,997)	-	(7,749,526)
Total	57,500,924	16,541,726	(105,597)	(1,089,978)	52,882,487	125,729,562
2007						
Due to banks and other financial institutions	6,761,579	845,835	-	-	569,367	8,176,781
Customers' deposits	37,171,583	9,451,533	1,092,873	-	26,672,334	74,388,323
Term loan	31,223	93,670	2,625,534	-	-	2,750,427
Other liabilities	-	-	-	-	4,000,011	4,000,011
Shareholders' equity	-	-	-	-	11,240,635	11,240,635
Total liabilities and shareholders' equity	43,964,385	10,391,038	3,718,407	-	42,482,347	100,556,177
<u>Derivatives</u>						
Contractual amount payable	(30,985,886)	8,713,543	25,167,612	1,938,176	-	4,833,445
Contractual amount receivable	28,486,779	(7,150,418)	(25,007,251)	(1,254,196)	-	(4,925,086)
Total	41,465,278	11,954,163	3,878,768	683,980	42,482,347	100,464,536

34 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

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

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

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is SAR 64 million (2007: SAR 67million).

35 Related party transactions

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

SAR' 000	2008	2007
Credit Agricole Group		
Investments	-	887,079
Due from banks and other financial institutions	1,689,461	902,457
Due to banks and other financial institutions	197,965	1,318,272
Derivatives at fair value, net	(321,010)	(808,682)
Commitments and contingencies	1,256,709	2,180,233
Associates		
Investments	176,859	124,595
Loans and advances	186,250	3,750
Due to banks and other financial institutions	71,333	72,811
Customers' deposits	227,805	2,973
Commitments and contingencies	20,927	21,795
Directors, other major shareholders' and their affiliates		
Loans and advances	2,288,631	2,165,060
Customers' deposits	3,752,342	3,914,117
Derivatives at positive fair value	147,922	32,923
Commitments and contingencies	243,877	244,046
Bank's mutual funds		
Investments	53,251	88,818
Customers' deposits	580,169	497,189

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

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

SAR' 000	2008	2007
Special commission income	120,563	97,811
Special commission expense	257,744	212,452
Fees from banking services	12,912	38,684
Directors' fees	2,792	2,774
Other general and administrative expenses	175	373

The total amount of short term benefits paid to key management personnel during the year is SAR 55 million (2007: SAR 45 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

36 Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

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

2008	SAR' 000
Credit Risk RWA	113,238,990
Operational Risk RWA	7,250,000
Market Risk RWA	3,164,425
Total RWA	123,653,415
Tier I Capital	13,565,104
Tier II Capital	722,564
Total Tier I & II Capital	14,287,668
Capital Adequacy Ratio %	
Tier I ratio	10.97%
Tier I + Tier II ratio	11.55%

37 Investment management and brokerage services

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

Incomes from the subsidiaries are included in the consolidated statement of income under fee from banking services.

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

The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values totalling SAR 2,064 million (2007: SAR 2,257 million).

38 BASEL II PILLAR 3 DISCLOSURES

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

39 Prospective changes in International Financial Reporting Framework

The Bank has chosen not to early adopt IFRS 8-Operating segments and IAS 1 (Revised) - Presentation of Financial Statements, which have been published and is mandatory for compliance for the Bank's accounting year beginning January 1, 2009.

40 Comparative figures

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

41 Board of directors approval

The consolidated financial statements were approved by the Board of Directors on January 20, 2009 corresponding to Moharram 23, 1430H.