BALANCE SHEET
As at December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
ASSETS			
Cash and balances with SAMA	3	10,152,190	3,398,836
Due from banks and other financial institutions	4	3,224,062	6,223,277
Investments, net	5	22,500,744	16,012,954
Loans and advances, net	6	59,849,952	51,130,195
Property and equipment, net	7	577,318	552,382
Other assets	8	3,503,844	2,263,366
Total assets		99,808,110	79,581,010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	8,122,713	3,456,313
Customers' deposits	11	74,007,251	61,998,107
Other liabilities	12	4,000,011	2,284,309
Term loan	13	2,437,500	2,437,500
Total liabilities		88,567,475	70,176,229
Shareholders' equity			
Share capital	14	5,625,000	3,375,000
Statutory reserve	15	4,052,780	3,375,000
General reserve	15	1,200,000	2,500,000
Other reserves		(19,619)	(85,159)
Retained earnings		68,339	37,997
Proposed dividend	25	314,135	201,943
Total shareholders' equity		11,240,635	9,404,781
Total liabilities and shareholders' equity		99,808,110	79,581,010

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

STATEMENT OF INCOME
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
Special commission income	17	4,940,795	4,257,134
Special commission expense	17	2,644,706	2,240,267
Net special commission income		2,296,089	2,016,867
Fees from banking services, net	18	897,234	1,571,961
Exchange income, net		187,968	144,345
Trading income, net	19	310,627	189,332
Dividend income	20	3,699	1,641
Gains on non trading investments, net	21	-	9,375
Other operating income	22	5,539	5,311
Total operating income		3,701,156	3,938,832
Salaries and employee related expenses		543,322	462,923
Rent and premises related expenses		76,858	68,980
Depreciation and amortization	7	77,965	68,138
Other general and administrative expenses		244,876	236,388
Impairment charge for credit losses, net	6	42,011	90,484
Other operating expenses	23	5,014	4,971
Total operating expenses		990,046	931,884
Net income		2,711,110	3,006,948
Basic and diluted earnings per share (in SAR)	24	4.82	5.35

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
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
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	20,286	-	-	20,286
Net changes in fair value of available for sale investments		-	-	-	23,189	-	-	23,189
Transfers to statement of income		-	-	-	22,065	-	-	22,065
Net income recognized directly in equity		-	-	-	65,540	-	-	65,540
Net income for the year		-	-	-	-	2,711,110	-	2,711,110
Total recognized income for the year		-	-	-	65,540	2,711,110	-	2,776,650
Issue of bonus shares	14	2,250,000	-	(2,250,000)	-	-	-	-
Transfer to statutory reserve	15	-	677,780	-	-	(677,780)	-	-
Transfer to general reserve	15	-	-	950,000	-	(950,000)	-	-
2006 final dividend paid		-	-	-	-	-	(201,943)	(201,943)
2007 interim dividend paid	25	-	-	-	-	(738,853)	-	(738,853)
Proposed gross final dividend	25	-	-	-	-	(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

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

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2006								
Balance at the beginning of the year		2,250,000	2,250,000	2,500,000	(102,428)	31,725	255,603	7,184,900
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	84,328	-	-	84,328
Net changes in fair value of available for sale investments		-	-	-	(83,506)	-	-	(83,506)
Transfers to statement of income		-	-	-	16,447	-	-	16,447
Net income recognized directly in equity		-	-	-	17,269	-	-	17,269
Net income for the year		-	-	-	-	3,006,948	-	3,006,948
Total recognized income for the year		-	-	-	17,269	3,006,948	-	3,024,217
Issue of bonus shares	14	1,125,000	-	(1,125,000)	-	-	-	-
Transfer to statutory reserve	15	-	1,125,000	(1,125,000)	-	-	-	-
Transfer to general reserve	15	-	-	2,250,000	-	(2,250,000)	-	-
2005 final dividend paid		-	-	-	-	-	(255,603)	(255,603)
2006 interim dividend paid	25	-	-	-	-	(548,733)	-	(548,733)
Proposed gross final dividend	25	-	-	-	-	(201,943)	201,943	-
Balance at the end of the year		3,375,000	3,375,000	2,500,000	(85,159)	37,997	201,943	9,404,781

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

STATEMENT OF CASH FLOWS
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
OPERATING ACTIVITIES			
Net income		2,711,110	3,006,948
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		(141,331)	11,129
Gains on non trading investments, net		-	(9,375)
Depreciation and amortization		77,965	68,138
Gains on disposal of property and equipment, net		(71)	(1)
Impairment charge for credit losses, net		42,011	90,484
Change in fair value of financial instruments		7,728	16,103
		2,697,412	3,183,426
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(1,070,268)	(100,452)
Due from banks and other financial institutions maturing after 90 days from the date of acquisition		(50,000)	(150,000)
Investments held as FVIS, trading		(1,209,313)	94,437
Loans and advances		(8,751,060)	(8,202,360)
Other assets		(1,359,338)	(644,518)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		4,669,060	(1,494,732)
Customers' deposits		12,130,943	10,668,927
Other liabilities		1,717,942	418,427
Net cash from operating activities		8,775,378	3,773,155
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non trading investments		4,924,075	3,049,316
Purchase of non trading investments		(9,851,413)	(1,104,059)
Investments in associates		(162,740)	-
Purchase of property and equipment		(102,960)	(144,742)
Proceeds from sales of property and equipment		130	100
Net cash (used in) from investing activities		(5,192,908)	1,800,615
FINANCING ACTIVITIES			
Dividends paid	25	(940,796)	(804,336)
Net cash used in financing activities		(940,796)	(804,336)
Increase in cash and cash equivalents		2,641,674	4,769,434
Cash and cash equivalents at the beginning of the year		7,433,071	2,663,637
Cash and cash equivalents at the end of the year	26	10,074,745	7,433,071
Special commission received during the year		4,967,737	4,102,986
Special commission paid during the year		2,550,642	2,118,742
Supplemental non cash information			
Net changes in fair value and transfers to statement of income		65,540	17,269

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

NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2007 and 2006

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 74 branches (2006: 68 branches) in the Kingdom of Saudi Arabia, employing 2,266 people (2006: 1,998). 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.

2. Summary of significant accounting policies

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

a) Basis of presentation

The Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS), and complies with the Banking Control Law and The Regulations for Companies in the Kingdom of Saudi Arabia.

The 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.

During the year, the Bank has established subsidiaries, Fransi Tadawul Company (99% share in equity) and CAAM Saudi Fransi (60% share in equity) and an associate Sofinco Saudi Fransi (50% share in equity) incorporated in the Kingdom of Saudi Arabia. These companies have been established to comply with the CMA requirement of spinning off certain businesses activities from the Bank's core business. The subsidiaries have not been consolidated in the accompanying financial statements as the underlying legal formalities to commence their business activities currently under progress.

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

The Bank has adopted IFRS 7, financial Instruments: disclosures, amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures and International Financial Reporting Interpretations Committee, (IFRIC) 10 – Interim Financial Reporting and Impairment effective January 1, 2007 with retrospective effect, wherever applicable. IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of capital and how the Bank manages capital. IFRIC 10 requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

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

The financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand.

b) Critical accounting judgements and estimates

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

c) Investment in associates and subsidiaries

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

Subsidiaries are 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 financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements.

d) Settlement date accounting

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

e) Derivative financial instruments and hedging

Derivative financial instruments including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, 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.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to 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) as described below.

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 income statement.

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; 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, it is required that 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 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 statement of income. Where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

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 statement of income.

For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the 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 the asset or liability.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur, or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was 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 statement of income for the period.

f) Foreign currencies

The financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

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. 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. Translation differences on non-monetary items, such as equities classified as available-for-sale, are included in the other reserves in equity.

g) 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.

h) Revenue recognition

Special commission income and expense for all commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the statement of income using the effective yield method, unless collectibilty is in doubt and include premiums amortized and discount accreted during the year. Fees, commissions and exchange income from banking services are recognized when contractually earned or accrued when the service has been provided, as appropriate. Dividend income is recognized when the right to receive payment is established.

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 rateably over the period when the service is being provided.

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.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the 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 interest rate 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.

j) Investments

All investments securities are initially recognized at fair value, and, with the exception of FVIS investments include acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield 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 in this category 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 statement of income for the period 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 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 statement of income for the year.

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 on effective interest rate basis. Any gain or loss on such investments is recognized in the statement of income when the investment is de-recognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified 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 costs

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 statement of income when the investment is derecognized or impaired.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

All loans and advances are initially measured at fair value.

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values are determined as follows:

(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 statement of income for the year.

(ii) Loans and advances held at amortized costs

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 cost less any amount written off and any impairment charge.

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

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

l) Due from banks and other financial institutions

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

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

m) Impairment of financial assets

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

An assessment is made at each 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) 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 statement of income; and

ii) For financial assets carried at fair value, where a loss has been recognized directly under shareholders' equity as a result of the write down of the asset to recoverable amount, the cumulative net loss recognized in shareholders' equity is transferred to the 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.

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 collectibility 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.

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 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 de-recognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the statement of income for the period.

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.

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

n) Other real estate

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

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

o) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years

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

p) Liabilities

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

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

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 statement of income. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

Premium received on financial guarantees are initially recognised in the financial statements at fair value in other liabilities. 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 statement of income on a straight line basis over the life of the guarantee.

q) Provisions

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

r) Accounting for leases

i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the 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.

s) Cash and cash equivalents

For the purpose of the 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.

t) Derecognition 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.

u) Zakat and income tax

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

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

v) Investment management services

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

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

w) Islamic banking products

The Bank offers its customers certain banking products, which are in accordance with Shariah rules.

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

3. Cash and balances with SAMA

SAR' 000	2007	2006
Cash in hand	472,779	496,972
Statutory deposit	3,101,507	2,031,239
Current account	15,633	1,759
Money market placements	6,562,271	868,866
Total	10,152,190	3,398,836

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.

4. Due from banks and other financial institutions

SAR' 000	2007	2006
Current accounts	207,610	956,395
Money market placements	3,016,452	5,266,882
Total	3,224,062	6,223,277

5. Investments, net

a) These comprise the following:

SAR' 000	2007 Domestic	2007 International	2007 Total	2006 Domestic	2006 International	2006 Total
i) Held as FVIS						
Fixed rate securities	1,402,476	-	1,402,476	371,470	-	371,470
Floating rate securities	191,845	71,907	263,752	3,252	93,614	96,866
Other	-	539,289	539,289	-	527,868	527,868
Held as FVIS	1,594,321	611,196	2,205,517	374,722	621,482	996,204
ii) Available for sale						
Fixed rate securities	-	2,352,390	2,352,390	-	2,236,134	2,236,134
Floating rate securities	215,200	1,169,349	1,384,549	-	367,889	367,889
Equities	280,564	122,205	402,769	73,293	103,219	176,512
Other	2,553,135	-	2,553,135	1,636,472	-	1,636,472
Available for sale, net	3,048,899	3,643,944	6,692,843	1,709,765	2,707,242	4,417,007
iii) Held to maturity						
Fixed rate securities	2,990,117	56,245	3,046,362	1,142,235	93,058	1,235,293
Held to maturity, net	2,990,117	56,245	3,046,362	1,142,235	93,058	1,235,293
iv) Other investments held at amortized cost						
Fixed rate securities	7,516,882	36,625	7,553,507	5,299,774	36,686	5,336,460
Floating rate notes	2,627,515	375,000	3,002,515	3,727,990	300,000	4,027,990
Other investments held at amortized cost, net	10,144,397	411,625	10,556,022	9,027,764	336,686	9,364,450
Investments, net	17,777,734	4,723,010	22,500,744	12,254,486	3,758,468	16,012,954

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

SAR' 000	2007 Quoted	2007 Unquoted	2007 Total	2006 Quoted	2006 Unquoted	2006 Total
Fixed rate securities	2,408,634	11,946,101	14,354,735	2,329,192	6,850,165	9,179,357
Floating rate securities	1,648,301	3,002,515	4,650,816	461,503	4,031,242	4,492,745
Equities	161,299	241,470	402,769	80,994	95,518	176,512
Other	529,164	2,563,260	3,092,424	517,743	1,646,597	2,164,340
Investments, net	4,747,398	17,753,346	22,500,744	3,389,432	12,623,522	16,012,954

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:

	2007				2006			
SAR' 000	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	3,046,362	50,935	(26)	3,097,271	1,235,293	15,343	(2,996)	1,247,640
Total	3,046,362	50,935	(26)	3,097,271	1,235,293	15,343	(2,996)	1,247,640
ii) Other investments held at amortized cost								
Fixed rate securities	7,553,507	137,086	(2,208)	7,688,385	5,336,460	73,227	(45,914)	5,363,773
Floating rate notes	3,002,515	-	(2,623)	2,999,892	4,027,990	15,811	-	4,043,801
Total	10,556,022	137,086	(4,831)	10,688,277	9,364,450	89,038	(45,914)	9,407,574

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

SAR' 000	2007	2006
Government and quasi Government	15,052,816	10,738,790
Corporate	3,596,456	2,463,632
Banks and other financial institutions	3,762,654	2,754,797
Others	88,818	55,735
Total	22,500,744	16,012,954

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 218 million (2006: SAR 15 million). Other investments represent investments in international mutual funds.

Available for sale investments include Islamic securities of SAR 252 million (2006: SAR 37 million). Other available for sale represents Musharaka investments of SAR 1,000 million (2006: SAR 1,636 million) and Mudarabah investments of SAR 1,553 million (2006: SAR NIL) which are hedged and measured at fair value to the extent of the risk being hedged.

Equities reported under available for sale include the Bank's investment in its associates (refer note 1), Banque BEMO Saudi Fransi SAR 39 million (2006: SAR 32 million), Sofinco Saudi Fransi SAR 50 million (2006: NIL), Assurance Saudi Fransi SAR 33 million (2006: NIL) and InSaudi Insurance Company SAR 3 million (2006: SAR 3 million). It also includes investment in its subsidiaries Fransi Tadawul SAR 50 million (2006: NIL) and CAAM Saudi Fransi SAR 30 million (2006: NIL).

Saudi Istithmar mutual fund SAR 89 million (2006: SAR 56 million) and unquoted equity shares of SAR 69 million (2006: SAR 60 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 14,537 million (2006: SAR 10,541 million).

Investments include SAR 4,459 million (2006: SAR 309 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 4,536 million (2006: SAR 305 million).

6. Loans and Advances - Net

a) Loans and advances are classified as follows

i) Available for Sale

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 available for sale loans and advances	-	-	-	188,608	-	188,608
Allowance for impairment of credit losses	-	-	-	-	-	-
Available for sale loans & advances, net	-	-	-	188,608	-	188,608

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	-	-	-	111,223	-	111,223
Non performing loans and advances, net	-	-	-	-	-	-
Total available for sale loans and advances	-	-	-	111,223	-	111,223
Allowance for impairment of credit losses	-	-	-	-	-	-
Available for sale loans & advances, net	-	-	-	111,223	-	111,223

ii) Other loans and advances held at amortised cost

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 other loans and advances held at amortised cost	6,145,772	491,804	3,993,102	46,184,429	3,671,757	60,486,864
Allowance for impairment of credit losses	(9,219)	(42,707)	(83,295)	(283,756)	(406,543)	(825,520)
Other loans and advances held at amortised cost, net	6,136,553	449,097	3,909,807	45,900,673	3,265,214	59,661,344

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	5,972,904	321,206	3,581,092	37,732,317	3,702,281	51,309,800
Non performing loans and advances, net	371,774	26,388	86,595	117,844	-	602,601
Total other loans and advances held at amortised cost	6,344,678	347,594	3,667,687	37,850,161	3,702,281	51,912,401
Allowance for impairment of credit losses	(9,749)	(26,196)	(112,623)	(325,318)	(419,543)	(893,429)
Other loans and advances held at amortised cost, net	6,334,929	321,398	3,555,064	37,524,843	3,282,738	51,018,972

b) Movement of allowance for impairment account

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Balance at beginning of the year	9,749	26,196	112,623	325,318	419,543	893,429
Provided during the year	56	30,776	29,749	87,156	-	147,737
Written off during the year	(86)	(9,679)	(58,860)	(41,295)	-	(109,920)
Recoveries of amounts previously provided	(500)	(4,586)	(217)	(87,423)	(13,000)	(105,726)
Balance at the end of the year	9,219	42,707	83,295	283,756	406,543	825,520

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Balance at beginning of the year	11,124	34,033	89,248	408,433	419,543	962,381
Provided during the year	127	15,382	27,109	112,935	-	155,553
Written off during the year	(568)	(17,185)	(836)	(140,847)	-	(159,436)
Recoveries of amounts previously provided	(934)	(6,034)	(2,898)	(55,203)	-	(65,069)
Balance at the end of the year	9,749	26,196	112,623	325,318	419,543	893,429

The net charge to income of SAR 42 million (2006: SAR 90 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 106 million (2006: SAR: 65 million). The allowance for impairment includes SAR 433 million (2006: SAR 446 million) evaluated on collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 46 million (2006: SAR 43 million).

c) Credit Quality of Loans and Advances

i) Neither past due nor impaired loans and advances

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Standard	5,467,264	439,503	3,887,153	45,532,980	3,617,711	58,944,611
Special mention	62,509	1,408	2,686	829,138	53,590	949,331
Total	5,529,773	440,911	3,889,839	46,362,118	3,671,301	59,893,942

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Standard	5,413,364	311,267	3,545,852	36,769,206	3,600,060	49,639,749
Special mention	201,441	1,170	8,081	1,074,334	102,221	1,387,247
Total	5,614,805	312,437	3,553,933	37,843,540	3,702,281	51,026,996

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

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Due within one year	281,206	8,173	15,957	-	-	305,336
Due beyond one year	10,367	-	30,317	-	-	40,684
Total	291,573	8,173	46,274	-	-	346,020

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Due within one year	350,514	8,769	26,432	-	-	385,715
Due beyond one year	7,585	-	727	-	-	8,312
Total	358,099	8,769	27,159	-	-	394,027

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
2007				
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
Other	12,528,564	2,222	(88,682)	12,442,104
Total	60,239,962	435,510	(825,520)	59,849,952

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2006				
Government and quasi Government	1,991,524	-	-	1,991,524
Banks and other financial institutions	745,754	-	(7,722)	738,032
Agriculture and fishing	901,370	133	(4,001)	897,502
Manufacturing	6,176,403	2,337	(40,350)	6,138,390
Mining and quarrying	615,180	-	-	615,180
Electricity, water, gas and health services	965,645	18	(18)	965,645
Building and construction	6,019,091	103,568	(201,453)	5,921,206
Commerce	12,466,448	97,583	(175,569)	12,388,462
Transportation and communication	3,052,021	5,920	(12,445)	3,045,496
Services	3,745,119	65,002	(143,114)	3,667,007
Consumer loans and credit cards	3,902,298	112,983	(138,819)	3,876,462
Other	10,840,170	215,057	(169,938)	10,885,289
Total	51,421,023	602,601	(893,429)	51,130,195

Loans and advances, net include Islamic products of SAR 17,641 million (2006: SAR 10,474 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	2007	2006
Gross receivable from finance leases:		
Less than 1 year	34,711	72,612
1 to 5 years	334,458	49,773
More than 5 years	405,772	66,667
	774,941	189,052
Unearned future finance income on finance leases	(15,467)	(9,298)
Net receivable from finance leases	759,474	179,754

7. Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2007 Total	2006 Total
Cost					
Balance at the beginning of the year	457,712	64,692	475,190	997,594	881,200
Additions	6,756	27,685	68,519	102,960	144,742
Disposals and retirements	(514)	(17,477)	(14,112)	(32,103)	(28,348)
Balance at the end of the year	463,954	74,900	529,597	1,068,451	997,594
Accumulated depreciation and amortization					
Balance at the beginning of the year	139,518	-	305,694	445,212	405,323
Charge for the year	12,542	17,477	47,946	77,965	68,138
Disposals and retirements	(514)	(17,477)	(14,053)	(32,044)	(28,249)
Balance at the end of the year	151,546	-	339,587	491,133	445,212
Net book value as at December 31, 2007	312,408	74,900	190,010	577,318	-
Net book value as at December 31, 2006	318,194	64,692	169,496	-	552,382

Land and buildings and leasehold improvements as at December 31, 2007 include work in progress amounting to SAR 5 million (2006: SAR 5 million) and SAR 21 million (2006: SAR 15 million) respectively. Furniture, equipment and vehicles include information technology related assets.

8. Other assets

SAR' 000	2007	2006
Accrued special commission receivable – banks and other financial institutions	5,901	8,297
– investments	167,927	216,147
– loans and advances	390,776	383,706
– derivatives	16,873	791
– other	1,450	929
Total accrued special commission receivable	582,927	609,870
Accounts receivable	167,417	502,056
Positive fair value of derivatives (note 9)	2,417,499	927,960
Other real estate	4,800	4,800
Other	331,201	218,680
Total	3,503,844	2,263,366

9. 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 currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall 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 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.

	Notional amounts by term to maturity							
SAR' 000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2007								
Held for trading								
Commission rate swaps	1,900,245	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	148,389	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 8 and 12)	2,417,499	2,238,012	174,095,625	37,847,262	57,122,570	69,674,891	9,450,902	170,051,071
2006								
Held for trading								
Commission rate swaps	775,484	984,634	107,502,568	23,765,793	22,559,463	54,049,772	7,127,540	94,139,294
Commission rate futures and options	5,215	4,361	3,652,750	-	1,031,250	1,596,250	1,025,250	10,797,562
Forward rate agreements	-	-	-	-	-	-	-	799,188
Forward foreign exchange contracts	76,067	75,650	60,984,865	25,120,603	35,067,107	797,155	-	52,278,305
Currency options	42,248	16,265	6,120,080	1,542,730	1,603,582	2,973,768	-	5,702,714
Held as fair value hedges								
Commission rate swaps	340,926	64,964	10,492,124	3,271,067	4,606,185	2,553,372	61,500	12,494,363
Held as cash flow hedges								
Commission rate swaps	133,218	10,760	6,318,500	275,000	1,300,000	2,981,000	1,762,500	5,791,417
Total	1,373,158	1,156,634	195,070,887	53,975,193	66,167,587	64,951,317	9,976,790	182,002,843
Fair value of netting arrangements	(445,198)	(445,198)	(27,393,248)	(4,662,134)	(11,812,370)	(10,918,744)	-	(31,485,784)
Total after netting (notes 8 and 12)	927,960	711,436	167,677,639	49,313,059	54,355,217	54,032,573	9,976,790	150,517,059

Commission rate swaps include the notional amount of SAR 17,401 million (2006: SAR 27,393 million) with an aggregate positive fair value and a negative fair value of SAR 226 million (2006: SAR 445 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
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	87,140	-
2006						
Fixed commission rate due from banks	157,803	150,000	Fair Value	Commission rate swap	-	6,719
Fixed commission rate investments	1,381,197	1,374,573	Fair value	Commission rate swap	3,757	8,633
Fixed commission rate loans	1,386,525	1,306,253	Fair value	Commission rate swap	3,058	32,749
Fixed commission rate due to banks	156,807	150,000	Fair value	Commission rate swap	5,735	-
Fixed commission rate deposits	7,767,589	7,474,209	Fair value	Commission rate swap	328,376	16,863
Floating commission rate investments	4,395,879	4,395,879	Cash flow	Commission rate swap	55,889	10,760
Floating commission rate loans	1,287,857	1,287,857	Cash flow	Commission rate swap	77,329	-

The gains on the hedging instruments for fair value hedge is SAR 118 million (2006: SAR 276 million). The losses on the hedged item attributable to the hedged risk is SAR 72 million (2006: SAR 205 million). The net fair value of the derivatives is SAR 46 million (2006: SAR 71 million).

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

SAR' 000	2007	2006
Balance at beginning of the year	32,427	(77,733)
Gains from changes in fair value recognised directly in equity	20,286	84,328
Gains removed from equity and included in net special commission income	22,066	25,832
Balance at end of the year	74,779	32,427

For cash flow hedges, the amount shown as balance of reserves as at December 31, 2007 is expected to affect the profit and loss in the coming two to three years.

Approximately 53.1% (2006: 89.3%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 16.7% (2006: 30.6%) 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.

10. Due to banks and other financial institutions

SAR' 000	2007	2006
Current accounts	790,219	126,217
Money market deposits	7,332,494	3,330,096
Total	8,122,713	3,456,313

Money market deposits include deposits against sale of securities of SAR 2,886 million (2006: SAR NIL) with agreement to repurchase the same at fixed future dates.

11. Customers' deposits

SAR' 000	2007	2006
Demand	22,523,088	18,764,459
Saving	304,393	300,907
Time	47,759,627	41,273,044
Other	3,420,143	1,659,697
Total	74,007,251	61,998,107

Time deposits include deposits against sale of securities of SAR 1,621 million (2006: SAR 305 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 1,139 million (2006: SAR 689 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR 11,530 million (2006: SAR 7,267 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2007	2006
Demand	2,184,654	2,849,791
Saving	16,012	21,231
Time	17,485,129	16,367,619
Other	470,406	287,162
Total	20,156,201	19,525,803

12. Other liabilities

SAR' 000	2007	2006
Accrued special commission payable – banks and other financial institutions	36,312	15,162
– customers' deposits	284,959	242,600
– term loan	352	36,417
– derivatives	13,564	1,138
– other	134,059	79,866
Total accrued special commission payable	469,246	375,183
Accrued expenses and accounts payable	1,051,975	1,006,997
Negative fair value of derivatives (note 9)	2,238,012	711,436
Other	240,778	190,693
Total	4,000,011	2,284,309

13. Term Loan

On June 29, 2005, the Bank entered into a five year syndicated term loan facility agreement for an amount of USD 650 million for general banking purposes. The facility has been drawn down in full and is repayable in 2010. However, the Bank has an option to effect early repayment subject to the terms and conditions of the related syndicated agreement.

14. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 562.5 million shares of SAR 10 each (2006: 337.5 million shares of SAR 10 each).

During the year, in accordance with the shareholders' resolution passed at the General Assembly Meeting held on March 24, 2007, a bonus issue of 225 million shares at a nominal value SAR 10 each was approved to the existing shareholders, on the basis of 2 bonus shares for every 3 shares held, through the capitalization of general reserve.

Accordingly, the number of shares of the Bank have increased from 337.5 million shares to 562.5 million shares.

SAR' 000	%	2007	2006
Saudi shareholders	68.9	3,875,000	2,325,000
CALYON Corporate and Investment Bank	31.1	1,750,000	1,050,000
Total	100	5,625,000	3,375,000

15. Statutory, general and other 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 677 million (2006: SAR 1,125 million) has been transferred from the profit for the year to statutory reserve. This reserve is currently not available for distribution.

The appropriation of SAR 950 million (2006: SAR 2,250 million) has been made to general reserve from net income 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.

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2007 there were 14 (2006: 16) legal proceedings outstanding against the Bank. No material provision has been made as related professional advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2007 the Bank had capital commitments of SAR 67 million (2006: SAR 66 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
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
2006					
Letters of credit	4,991,578	1,600,074	742,224	-	7,333,876
Letters of guarantee	3,369,243	5,946,889	5,319,331	416,284	15,051,747
Acceptances	1,045,766	651,232	31,325	-	1,728,323
Irrevocable commitments to extend credit	425,228	26,454	577,027	2,262,091	3,290,800
Other	6,750	-	-	-	6,750
Total	9,838,565	8,224,649	6,669,907	2,678,375	27,411,496

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2007, is SAR 27,132 million (2006: SAR 27,483 million).

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

SAR' 000	2007	2006
Government and quasi Government	567,927	502,986
Corporate	37,856,231	22,129,485
Banks and other financial institutions	13,349,410	4,332,493
Other	724,684	446,532
Total	52,498,252	27,411,496

d) Assets pledged

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

	2007		2006	
SAR' 000	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost (note 5)	1,572,957	1,591,109	308,980	304,650
Available for sale investments (note 5)	2,885,941	2,916,197	-	-
Total	4,458,898	4,507,306	308,980	304,650

e) Operating lease commitments

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

SAR' 000	2007	2006
Less than 1 year	4,278	21,680
1 to 5 years	32,685	58,406
Over 5 years	150,035	49,894
Total	186,998	129,980

17. Special commission income and expense

SAR' 000	2007	2006
Special commission income		
Investments – held as FVIS – trading	22,535	25,534
– available for sale	268,239	216,648
– held to maturity	189,358	82,390
– other investments held at amortized cost	412,574	501,403
	892,706	825,975
Due from banks and other financial institutions	466,066	269,309
Loans and advances	3,582,023	3,161,850
Total	4,940,795	4,257,134
Special commission expense		
Due to banks and other financial institutions	294,297	267,601
Customers' deposits	2,212,137	1,840,628
Term loan	138,272	132,038

Total	2,644,706	2,240,267

18. Fees from banking services, net

SAR' 000	2007	2006
Fees and commission income		
- Share trading and fund management	589,240	1,501,725
- Trade finance	174,190	159,381
- Corporate finance and advisory	158,729	101,304
- Card products	71,392	61,342
- Other banking services	46,091	17,180
Total fees and commission income	1,039,642	1,840,932
Fees and commission expense		
- Share trading and brokerage	109,465	235,234
- Custodial services	6,287	3,274
- Other banking services	26,656	30,463
Total fees and commission expense	142,408	268,971
Fees from banking services, net	897,234	1,571,961

19. Trading Income, Net

SAR' 000	2007	2006
Foreign exchange	5,225	4,232
Debt securities	66,774	26,363
Derivatives, net	227,207	123,933
Other	11,421	34,804
Total	310,627	189,332

20. Dividend income

SAR' 000	2007	2006
Available for sale investments	3,699	1,641

21. Gains on non-trading investments, net

SAR' 000	2007	2006
Available for sale	-	9,385
Other investments held at amortized cost	-	(10)
Total	-	9,375

22. Other operating income

SAR' 000	2007	2006
Gains on disposal of property and equipment	107	63
Other	5,432	5,248

Total	5,539	5,311

23.Other operating expenses

SAR' 000	2007	2006
Loss on disposal of property and equipment	36	62
Loss on disposal of other real estate	-	186
Other	4,978	4,723
Total	5,014	4,971

24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2007 and 2006 is calculated by dividing the net income for the year by 562.5 million shares, to give a retrospective effect for the change in the number of shares which increased as a result of the issuance of bonus shares as set out in note 14.

25.Proposed gross dividend, zakat and income tax

The Board of Directors has proposed on December 3, 2007 a total dividend of SAR 1.75 (2006: SAR 2.00) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and regulatory agencies. The total dividend includes interim dividend of SAR 1.25 (2006: SAR 1.50) paid during the year.

Gross dividend

SAR' 000	2007	2006
Interim dividend	738,853	548,733
Final proposed dividend	314,135	201,943
Total	1,052,988	750,676

The dividends are paid to the Saudi and foreign shareholders after deduction of zakat and income tax, respectively, as follows:

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 47 million (2006: SAR 52 million) which will be deducted from their share of dividend. The net total dividend to Saudi shareholders is SAR 678 million (2006: SAR 465 million) out of which the net interim dividend paid was SAR 484 million (2006: SAR 349 million). The net dividend per share has been recalculated retrospectively to give effect for the increased number of shares as a result of bonus issue during the current year.

ii) Income tax

Income tax payable in respect of foreign shareholder – CALYON's current year's share of income is approximately SAR 171 million (2006: SAR 188 million) which will be deducted from their share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 157 million (2006: SAR 45 million).

26. Cash and cash equivalents

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

SAR' 000	2007	2006
Cash and balances with SAMA excluding statutory deposits – note 3	7,050,683	1,367,597
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	3,024,062	6,065,474
Total	10,074,745	7,433,071

27. 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.

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, retail investments products, consumer loans, international and local shares brokerage services, funds management, insurance (brokerage) 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.

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

The Bank's total assets and liabilities as at December 31, 2007 and 2006, its total operating income and expenses, and its net income for the years then ended by business segments are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2007				
Total assets	12,254,456	51,928,414	35,625,240	99,808,110
Total liabilities	40,733,663	33,983,140	13,850,672	88,567,475
Total operating income	1,662,122	1,203,580	835,454	3,701,156
Total operating expenses	772,674	89,314	128,058	990,046
Net income	889,448	1,114,266	707,396	2,711,110
2006				
Total assets	11,125,690	42,582,170	25,873,150	79,581,010
Total liabilities	33,474,509	28,942,247	7,759,473	70,176,229
Total operating income	2,261,628	978,810	698,394	3,938,832
Total operating expenses	619,193	184,081	128,610	931,884
Net income	1,642,435	794,729	569,784	3,006,948

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

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2007				
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
2006				
Balance sheet assets	10,536,112	42,176,884	23,555,294	76,268,290
Commitments and contingencies	788,853	11,580,894	-	12,369,747
Derivatives	18,245	573,244	3,899,194	4,490,683

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

28. 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.

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.

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. Provisions 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 5 and 6, respectively. Information on credit risk relating to derivative instruments is provided in note 9 and for commitments and contingencies in note 16.

29. 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
2007						
Assets						
Cash and balances with SAMA	10,108,204	379	8,584	35,023	-	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	83,419,132	2,186,368	7,076,720	1,682,690	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
2006						
Assets						
Cash and balances with SAMA	3,356,820	141	13,955	27,920	-	3,398,836
Due from banks and other financial institutions	1,110,194	620,485	3,243,211	634,732	614,655	6,223,277
Investments, net	12,254,486	274,922	1,527,697	1,456,241	499,608	16,012,954
Loans and advances, net	48,750,962	1,116,233	842,333	53,067	367,600	51,130,195
Total	65,472,462	2,011,781	5,627,196	2,171,960	1,481,863	76,765,262
Liabilities						
Due to banks and other financial institutions	1,475,063	665,617	1,233,618	3,527	78,488	3,456,313
Customers' deposits	61,778,988	35,156	37,177	677	146,109	61,998,107
Term loan	75,000	496,875	1,453,125	168,750	243,750	2,437,500
Total	63,329,051	1,197,648	2,723,920	172,954	468,347	67,891,920
Commitments and contingencies	22,646,253	428,528	3,189,064	84,080	1,063,571	27,411,496
Credit exposure (credit equivalent value)						
Commitments and contingencies	10,327,748	177,741	1,525,483	24,381	314,396	12,369,749
Derivatives	1,506,967	162,908	2,520,373	294,436	6,000	4,490,684

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

SAR ' 000	2007		2006	
	Non performing, net	Allowance for impairment of credit losses	Non performing, net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	435,510	825,510	602,601	893,429
GCC and Middle East	-	-	-	-
Total	435,510	825,510	602,601	893,429

30. 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.

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.

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 standard change in interest rates, with other variables held constant, on the Bank's equity. The sensitivity of equity is calculated by revaluing the fixed rate and floating rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2007 for the effect of assumed changes in interest rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency with significant exposure and relevant sensitivities are disclosed in SAR thousands.

SAR' 000		2007				
Currency	BPS change	Sensitivity of Equity				Total
		6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+1 -1	(12) 12	(15) 15	(521) 521	(244) 244	(792) 792
SAR	+1 -1	- -	(16) 16	(576) 576	- -	(592) 592

SAR' 000		2006				
Currency	BPS change	Sensitivity of Equity				Total
		6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+1 -1	(2) 2	(4) 4	(418) 418	(208) 208	(632) 632
SAR	+1 -1	(14) 14	(30) 30	(682) 682	- -	(726) 726

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, 2007 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 income statement due to the fair value of the currency sensitive non-trading monetary assets and liabilities. The effect on equity is not significant. A positive effect shows a potential increase in the statement of income; whereas a negative effect shows a potential net reduction in the statement of income.

SAR’ 000	2007		2006	
Currency Exposures	Change in Currency Rate in %	Effect on Net Income	Change in Currency Rate in %	Effect on Net Income
USD	+5	(5,425)	+5	(45,305)
EUR	-3	(1,254)	-3	(1,499)

iii) 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.

31. Foreign currency risk

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	2007 Long	2006 Long (short)
US Dollar	279,701	(160,716)
Euro	46,580	71,205
Pound Sterling	8,508	13,053
Other	7,884	7,175

32. Commission rate risk

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 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.

The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
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
Investments, net	5,724,867	6,292,924	8,641,844	899,050	942,059	22,500,744
Loans and advances, net	35,950,947	14,417,012	6,077,781	3,361,243	42,969	59,849,952
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
Customers' deposits	41,086,624	9,200,681	1,051,711	-	22,668,235	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	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	-	-
2006						
Assets						
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277
Investments, net	4,994,025	1,446,680	7,749,153	1,118,716	704,380	16,012,954
Loans and advances, net	35,750,007	9,286,637	3,782,292	2,150,854	160,405	51,130,195
Property and equipment, net	-	-	-	-	552,382	552,382
Other assets	-	-	-	-	2,263,366	2,263,366
Total assets	46,729,780	10,883,317	11,531,445	3,269,570	7,166,898	79,581,010
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313
Customers' deposits	33,482,629	8,936,680	1,005,327	-	18,573,471	61,998,107
Other liabilities	-	-	-	-	2,284,309	2,284,309
Term loan	2,437,500	-	-	-	-	2,437,500
Shareholders' equity	-	-	-	-	9,404,781	9,404,781
Total liabilities and shareholders' equity	38,755,975	9,430,930	1,005,327	-	30,388,778	79,581,010
On balance sheet gap	7,973,805	1,452,387	10,526,118	3,269,570	(23,221,880)	-
Off balance sheet gap	(4,327,682)	(361,099)	2,844,406	1,844,375	-	-
Total commission rate sensitivity gap	3,646,123	1,091,288	13,370,524	5,113,945	(23,221,880)	-
Cumulative commission rate sensitivity gap	3,646,123	4,737,411	18,107,935	23,221,880	-	-

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.

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.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 9% of total customers' demand deposits, and 2% 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.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual 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
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
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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2006						
Assets						
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277
Investments, net	745,081	2,478,665	10,966,112	1,118,716	704,380	16,012,954
Loans and advances, net	21,457,595	6,929,360	10,390,940	6,553,571	5,798,729	51,130,195
Property and equipment , net	-	-	-	-	552,382	552,382
Other assets	-	-	-	-	2,263,366	2,263,366
Total assets	28,188,424	9,558,025	21,357,052	7,672,287	12,805,222	79,581,010
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313
Customers' deposits	31,925,357	8,936,680	1,005,327	-	20,130,743	61,998,107
Other liabilities	-	-	-	-	2,284,309	2,284,309
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	9,404,781	9,404,781
Total liabilities and shareholders' equity	34,761,203	9,430,930	3,442,827	-	31,946,050	79,581,010

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 financial statements.

The estimated fair values of the held to maturity investments and other investments held at amortized cost, is based on quoted market prices when available or pricing models. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 5.

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 financial statements are as follows:

SAR' 000	2007	2006
Credit Agricole Group		
Investments	887,079	502,442
Due from banks and other financial institutions	902,457	739,549
Due to banks and other financial institutions	1,318,272	1,298,616
Derivatives at (negative) positive fair value	(808,682)	85,478
Commitments and contingencies	2,180,233	1,493,960
Associates		
Investments	204,835	35,403
Due from banks and other financial institutions	-	-
Loans and advances	3,750	3,750
Due to banks and other financial institutions	72,811	90,217
Customers' deposits	2,973	12,091
Commitments and contingencies	21,795	24,420
Directors, other major shareholders' and their affiliates		
Loans and advances	2,165,060	1,347,959
Customers' deposits	3,914,117	3,512,905
Derivatives at positive fair value	32,923	2,377
Commitments and contingencies	244,046	176,313
Bank's mutual funds		
Investments	88,818	55,735
Loans and advances	-	-
Customers' deposits	497,189	457,570

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 financial statements are as follows:

SAR' 000	2007	2006
Special commission income	97,811	68,132
Special commission expense	212,452	213,359
Fees from banking services	38,684	86,410
Directors' fees	2,774	1,480
Other general and administrative expenses	373	144

The total amount of short term benefits paid to key management personnel during the year is SAR 45 million (2006: SAR 37 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 monitors the adequacy of its capital using ratios established by the SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative risk.

	2007		2006	
SAR' 000	Capital	Ratios %	Capital	Ratios %
Tier 1	11,240,635	12.21%	9,404,781	14.38%
Tier 1 + Tier 2	11,240,635	12.21%	9,404,781	14.38%

	Risk weighted assets					
	2007			2006		
SAR' 000	Carrying value or notional	Credit equivalent	Risk weighted assets	Carrying value or notional	Credit equivalent	Risk weighted assets
Balance sheet assets						
0 %	25,663,482		-	21,253,730		-
20 %	4,017,438		803,488	6,474,928		1,294,985
100 %	70,127,190		70,127,190	51,852,352		51,852,352
Total	99,808,110		70,930,678	79,581,010		53,147,337
Commitments and contingencies						
0 %	307,500	153,750	-	-	-	-
20 %	10,321,512	4,807,378	961,476	3,278,859	1,544,741	308,947
100 %	41,869,240	18,888,216	18,888,216	24,132,637	10,825,006	10,825,006
Total	52,498,252	23,849,344	19,849,692	27,411,496	12,369,747	11,133,953
Derivatives						
0 %	14,466,298	157,139	-	3,300,321	36,531	-
20 %	133,724,196	4,046,959	809,392	145,848,406	3,715,419	743,085
50 %	25,905,131	886,483	443,242	18,528,912	738,733	369,367
Total	174,095,625	5,090,581	1,252,634	167,677,639	4,490,683	1,112,452
Total risk weighted assets			92,033,004			65,393,742

37. Investment management services

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

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 also 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 2,257 million (2006: SAR 1,874 million).

38. Post balance sheet events

Basel II Framework

Effective January 1, 2008 as approved by SAMA, the Bank plans to implement new Basel framework on capital adequacy, commonly known as Basel II Framework issued by the Basel Committee on banking supervision. This might change the capital adequacy ratios depicted in note 36.

39. Prospective changes in International Financial Reporting Framework

The Bank has chosen not to early adopt IFRS 8, Operating segments 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 financial statements were approved by the Board of Directors on January 20, 2008 corresponding to Moharram 12, 1429H.