THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

December 31, 2008 and 2007

THE SAUDI INVESTMENT BANK

CONSOLIDATED BALANCE SHEET

As at December 31, 2008 and 2007

	Notes	**2008 SAR'000**	2007 SAR'000
ASSETS			
Cash and balances with SAMA	4	**1,426,919**	1,212,355
Due from banks and other financial institutions	5	**7,452,651**	4,311,421
Investments, net	6	**12,731,159**	15,811,276
Investment in associates	6	**719,422**	562,131
Loans and advances, net	7	**29,555,560**	23,128,701
Property and equipment, net	8	**547,585**	424,705
Other assets	9	**1,163,068**	1,091,204
Total assets		**53,596,364**	46,541,793
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**5,208,913**	4,512,101
Customer deposits	12	**40,702,391**	32,768,271
Other liabilities	13	**1,076,462**	1,066,795
Term loan	14	**-**	1,425,000
Total liabilities		**46,987,766**	39,772,167
Equity			
Equity attributable to shareholders of the Bank			
Share capital	15	**4,500,000**	3,910,160
Statutory reserve	16	**2,287,000**	2,158,000
Other reserves		**(573,883)**	83,380
Retained earnings		**412,475**	618,086
Employee stock option shares	34	**(44,490)**	-
Total equity attributable to shareholders of the Bank		**6,581,102**	6,769,626
Minority Interest		**27,496**	-
Total equity		**6,608,598**	6,769,626
Total liabilities and equity		**53,596,364**	46,541,793

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2008 and 2007

	Notes	2008 SAR'000	2007 SAR'000
Special commission income	18	**2,540,681**	2,605,103
Special commission expense	18	**1,514,240**	1,549,113
Net special commission income		**1,026,441**	1,055,990
Fee income from banking services, net	19	**481,410**	398,330
Exchange income, net		**43,336**	44,439
Dividend income	20	**48,521**	35,387
Gains on non-trading investments, net	21	**228,379**	101,199
Gain on sale of investment in subsidiary	1(b)	**110,000**	-
Total operating income		**1,938,087**	1,635,345
Salaries and employee-related expenses		**281,735**	286,937
Rent and premises-related expenses		**52,353**	41,548
Depreciation and amortization	8	**48,879**	43,612
Other general and administrative expenses		**27,567**	112,116
Impairment charge for credit losses, net	7(b)	**30,000**	96,700
Impairment of non-trading investments		**967,537**	232,247
Total operating expenses		**1,408,071**	813,160
Net income for the year		**530,016**	822,185
Income attributable to minority interest		16,787	-
Net income attributable to shareholders of the Bank		**513,229**	822,185
Basic and diluted earnings per share (expressed in SAR per share)	22	**1.14**	1.83

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2008 and 2007

2008	Notes	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Employee stock option share SAR'000	Total Equity attributable to share-holders of the Bank SAR'000	Minority interest SAR'000	Total SAR'000
Balance at the beginning of the year		**3,910,160**	**2,158,000**	**83,380**	**618,086**	**-**	**6,769,626**	**-**	**6,769,626**
Minority interest added during the year		**-**	**-**	**-**	**-**	**-**	**-**	**22,500**	**22,500**
Net changes in fair value of available for sale investments		**-**	**-**	**81,895**	**-**	**-**	**81,895**	**(76)**	**81,819**
Net changes in employee stock option shares	34	**-**	**-**	**-**	**-**	**(44,490)**	**(44,490)**	**-**	**(44,490)**
Transfer to consolidated statement of income		**-**	**-**	**(739,158)**	**-**	**-**	**(739,158)**	**-**	**(739,158)**
Net loss recognized directly in equity		**-**	**-**	**(657,263)**	**-**	**(44,490)**	**(701,753)**	**(76)**	**(701,829)**
Net income for the year		**-**	**-**	**-**	**513,229**	**-**	**513,229**	**16,787**	**530,016**
Total recognized (loss) and income for the year		**-**	**-**	**(657,263)**	**513,229**	**(44,490)**	**(188,524)**	**16,711**	**(171,813)**
Payment to minority interest		**-**	**-**	**-**	**-**	**-**	**-**	**(11,715)**	**(11,715)**
Bonus share issue	15	**589,840**	**-**	**-**	**(589,840)**	**-**	**-**	**-**	**-**
Transfer to statutory reserve	16	**-**	**129,000**	**-**	**(129,000)**	**-**	**-**	**-**	**-**
Balance at the end of the year		**4,500,000**	**2,287,000**	**(573,883)**	**412,475**	**(44,490)**	**6,581,102**	**27,496**	**6,608,598**

2007	Notes	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Employee stock option share SAR'000	Total Equity attributable to share-holders of the Bank SAR'000	Minority interest SAR'000	Total SAR'000
Balance at the beginning of the year		2,406,250	1,952,000	137,256	1,505,811	-	6,001,317	-	6,001,317
Net change in fair value of available for sale investments		-	-	77,172	-	-	77,172	-	77,172
Transfer to consolidated statement of income		-	-	(131,048)	-	-	(131,048)	-	(131,048)
Net loss recognized directly in equity		-	-	(53,876)	-	-	(53,876)	-	(53,876)
Net income for the year		-	-	-	822,185	-	822,185	-	822,185
Total recognized (loss) and income for the year		-	-	(53,876)	822,185	-	768,309	-	768,309
Bonus share issue	15	1,503,910	-	-	(1,503,910)	-	-	-	-
Transfer to statutory reserve	16	-	206,000	-	(206,000)	-	-	-	-
Balance at the end of the year		3,910,160	2,158,000	83,380	618,086	-	6,769,626	-	6,769,626

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2008 and 2007

	Notes	2008 SAR'000	2007 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**530,016**	822,185
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts on investments, net		**(182,697)**	(276,088)
Gains on non-trading investments, net		**(228,379)**	(101,199)
Gain on sale of investment in subsidiary	1(b)	**(110,000)**	-
Depreciation and amortization		**48,879**	43,612
Impairment charge for credit losses, net		**30,000**	96,700
Impairment of non-trading investments		**967,537**	232,247
		1,055,356	817,457
Net decrease (increase) in operating assets:			
Statutory deposit with SAMA	4	**(424,722)**	(134,090)
Due from banks and other financial institutions maturing after ninety days from date of acquisition		**108,756**	598,279
Loans and advances		**(6,456,859)**	(2,534,130)
Other assets		**(71,864)**	(215,505)
Net increase in operating liabilities:			
Due to banks and other financial institutions		**696,812**	65,082
Customer deposits		**7,934,120**	4,837,302
Other liabilities		**9,667**	26,477
Net cash from operating activities		**2,851,266**	3,460,872
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		**8,806,661**	4,603,459
Proceeds from sale of investment in subsidiary	1(b)	**122,500**	-
Purchase of non-trading investments		**(7,099,350)**	(9,108,843)
Employee stock option shares		**(44,490)**	-
Purchase of property and equipment		**(171,873)**	(127,965)
Proceeds from sale of property and equipment		**114**	25
Net cash from (used in) investing activities		**1,613,562**	(4,633,324)
FINANCING ACTIVITIES			
Term loan paid		**(1,425,000)**	-
Net cash used in financing activities		**(1,425,000)**	-
Increase (decrease) in cash and cash equivalents		**3,039,828**	(1,172,452)
Cash and cash equivalents at beginning of the year		**4,740,914**	5,913,366
Cash and cash equivalents at end of the year	24	**7,780,742**	4,740,914
Special commission received during the year		**2,497,610**	2,566,675
Special commission paid during the year		**1,326,467**	1,576,313
Supplemental non-cash information			
Net changes in fair value and transfers to statement of income		**(657,263)**	53,876
Bonus share issued	15	**589,840**	1,503,910

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 34 branches (2007: 27 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers non-special commission based banking products, which are approved and supervised by an independent Shariah Board, established by the Bank.

In accordance with the Capital Market Authority ("CMA") directive, the Bank established the following new subsidiaries:

a) "Alistithmar for Financial Securities and Brokerage Company", a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 99% owned by the Bank with the remaining 1% owned by a representative Saudi shareholder: and

b) "SAIB Asset Management Company (AMCO)", a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010240312 issued on 4 Thu Al Qada 1428H (corresponding to November 14, 2007). Prior to September 2008, the Bank was holding 80% share holding of AMCO and the remaining 20% was held by another Saudi shareholder. At September 30, 2008, the Bank sold 25% share in AMCO to BNP Paribas at a price of SAR 122.5 million thereby making a profit of SAR 110 million on the sale. As a consequence of this sale, the name of AMCO was changed to SAIB BNP Paribas Asset Management Company.

The newly established subsidiaries have taken over the management of the Bank's investment services and asset management activities related to local and international dealing, managing, arranging, advising and custody of securities regulated by the CMA. The subsidiaries commenced their operations on January 1, 2008. Accordingly, effective January 1, 2008, the Bank started consolidating the financial statements of the aforementioned subsidiaries.

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and available-for-sale financial assets. In addition, assets or 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.

2. Basis of preparation – continued

c) Functional and preparation currency

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

d) 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 advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a periodic 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 future 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. 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 value of financial instruments.

(iii) Impairment of available-for-sale equity investments

The Bank exercises judgement in considering impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this 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.

3. Summary of significant accounting policies

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

a) Basis of consolidation

These consolidated financial statements comprise the financial statements of The Saudi Investment Bank and its subsidiaries, Alistithmar for Financial Securities and Brokerage Company and SAIB BNP Paribas Asset Management Company (collectively referred to as the "Group"). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of net income and net assets not owned, directly or indirectly, by the Bank in SAIB BNP Paribas Asset Management Company and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from equity attributable to shareholders of the Bank.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

b) Investments in associates

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

c) Settlement date accounting

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

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including 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.

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

(i) Derivatives held for trading

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

3. Summary of significant accounting policies – continued

(ii) Hedge accounting

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

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

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

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 the point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other reserves is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in “other reserves” is transferred to the consolidated statement of income for the period.

e) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date**.** Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income except for differences arising on the retranslation of available for sale equity instruments. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

f) Offsetting

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

3. Summary of significant accounting policies – continued

g) Revenue /expenses recognition

Special commission income and expense for all special commission-bearing financial instruments, are recognised in the consolidated statement of income on the effective yield basis.

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

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

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

Exchange income/loss are recognised when earned/incurred.

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

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

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

h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for investments held as available for sale. 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 accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised 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 accrued over the life of the reverse repo agreement on an effective yield basis.

3. Summary of significant accounting policies – continued

i) Investments

All investment securities are initially recognized at fair value, including acquisition charges associated with the investment. Premiums are amortized and discounts accreted using the effective yield method and are taken to special commission income.

For securities 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. 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 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 classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) 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 special commission rates, exchange rates or equity prices.

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

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

(ii) Held to maturity

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

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

3. Summary of significant accounting policies – continued

j) Loans and advances

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

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost less any amount written off and allowance for credit losses.

For presentation purposes, the Bank has categorized its portfolio of loans and advances that are neither past due nor impaired into two sub categories i.e. standard and special mention, as required by SAMA. Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. The special mention category includes loans and advances that are also performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that may, at some future date, result in the deterioration of the repayment prospects or either the principal or the special commission payments. The special mention loans and advances would not expose the Bank to sufficient risk to warrant a worse classification.

The allowance for credit losses is likewise deducted from loans and advances.

k) Impairment of financial assets

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 recognised for changes in its carrying amount.

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

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

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

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

3. Summary of significant accounting policies – continued

(i) Impairment of financial assets held at amortized cost

A financial asset or group of 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 financial asset or group of financial asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

(ii) Impairment of available-for-sale financial assets

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

l) 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 are 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, if material. No depreciation is charged on such real estate. Rental income from other real estate is recognized in the statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/ loss on disposal.

m) Property and equipment

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

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

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

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

3. Summary of significant accounting policies – continued

n) Financial Liabilities

All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognized at fair value less transaction costs.

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

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognized in the statement of income. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated statement of income when derecognized.

o) Financial guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "credit loss expenses". The premium received is recognised in the consolidated statement of income in "Net fees and commission income" on a straight line basis over the life of the guarantee.

p) Provisions

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

q) Accounting for leases

Leases entered into by the Bank as a lessee, 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.

r) 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 and balances with SAMA excluding statutory deposits and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition.

3. Summary of significant accounting policies – continued

s) Derecognition of financial instruments

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

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized 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 derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes 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 derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

t) Zakat and income taxes

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

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

u) Employee share grant plan

The Bank offers its eligible employees ("Employees") equity shares in the Bank under the Employee Stock Grant Plan ("the plan"). This plan has been approved by SAMA. Under terms of the plan, employees are granted shares which are vest over a four-year period. The cost of the plan is measured by the value of the shares on the date purchased and recognised over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date.

The Bank has entered into a custody agreement with an independent third party to administer the plan on behalf of employees. Under the provisions of such agreement, the Bank, at no point, becomes the legal owner of the underlying shares. However, such employee stock option shares are recorded by the Bank at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares.

v) Investment management services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in 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 consolidated financial statements.

w) Non-commission based banking products

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

High level definitions of non-commission based products:

3. Summary of significant accounting policies – continued

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

(ii) Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

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

4. Cash and balances with SAMA

	2008 SAR'000	2007 SAR'000
Cash in hand	**346,856**	557,014
Statutory deposit	**1,080,063**	655,341
Total	**1,426,919**	1,212,355

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

5. Due from banks and other financial institutions

	2008 SAR'000	2007 SAR'000
Current accounts	**38,984**	384,943
Money market placements	**3,114,667**	3,291,478
Reverse repos	**4,299,000**	635,000
Total	**7,452,651**	4,311,421

6. Investments, net

a) Investment securities are classified as follows:

i) Available for sale

	Domestic		**International**		**Total**	
	2008 SAR'000	2007 SAR'000	**2008 SAR'000**	2007 SAR'000	**2008 SAR'000**	2007 SAR'000
Fixed rate securities	**1,071,191**	2,395,025	**274,297**	3,664,585	**1,345,488**	6,059,610
Floating rate notes	**6,831,198**	3,948,105	**4,218,551**	4,634,184	**11,049,749**	8,582,289
Equities	**807,968**	986,202	**58,258**	89,226	**866,226**	1,075,428
Mutual funds	**230,721**	61,449	**138,661**	170,982	**369,382**	232,431
Allowance for impairment	**(360,103)**	-	**(662,916)**	(138,482)	**(1,023,019)**	(138,482)
Total	**8,580,975**	7,390,781	**4,026,851**	8,420,495	**12,607,826**	15,811,276

6. Investments, net – continued

The domestic fixed rate securities and floating rate notes above include receivable securitization agreements amounting to SR 436 million (2007: SR 1,573 million) entered into by the Bank. Upon initial recognition, these items were designated as available for sale. Their fair values are determined by using an appropriate pricing model.

ii) Held to maturity

	Domestic		International		Total	
	2008 SAR'000	2007 SAR'000	**2008 SAR'000**	2007 SAR'000	**2008 SAR'000**	2007 SAR'000
Fixed rate securities	**-**	**-**	**206,333**	**-**	**206,333**	**-**
Allowance for impairment	**-**	**-**	**(83,000)**	**-**	**(83,000)**	**-**
Held to maturity	**-**	**-**	**123,333**	**-**	**123,333**	**-**
Investments, net	**8,580,975**	7,390,781	**4,150,184**	8,420,495	**12,731,159**	15,811,276

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

	2008			2007		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Available for sale						
Fixed rate securities	**1,245,498**	**99,990**	**1,345,488**	589,299	5,470,311	6,059,610
Floating rate notes	**10,260,208**	**789,541**	**11,049,749**	4,963,246	3,619,043	8,582,289
Equities	**863,721**	**2,505**	**866,226**	1,064,299	11,129	1,075,428
Mutual funds	**365,598**	**3,784**	**369,382**	232,431	-	232,431
Allowance for impairment	**(1,023,019)**	**-**	**(1,023,019)**	(138,482)	-	(138,482)
Held to maturity						
Fixed rate securities	**-**	**206,333**	**206,333**	-	-	-
Allowance for impairment	**-**	**(83,000)**	**(83,000)**	-	-	-
Investments, net	**11,712,006**	**1,019,153**	**12,731,159**	6,710,793	9,100,483	15,811,276

The unquoted securities above principally comprise receivable securitization agreements and Saudi Government Development Bonds (SGDBs).

c) The analysis of investments, net by counterparty is as follows:

	2008 SAR'000	2007 SAR'000
Government and quasi-Government	**8,078,802**	7,708,470
Corporate, banks and financial institutions	**4,652,357**	8,102,806
Total	**12,731,159**	15,811,276

6. Investments, net – continued

d) Credit risk exposure of investments

	2008 SAR'000	2007 SAR'000
Investment grade	**10,063,194**	12,709,527
Non investment grade	**2,002,860**	2,458,466
Unrated	**665,105**	643,283
Total	**12,731,159**	15,811,276

Equities reported under available-for-sale investments include unquoted shares for SAR 11.1 million (2007: SAR 11.1 million) that are carried at cost, as their fair value cannot be reliably measured. The fair value of these unquoted investments is estimated between SAR 8.0 million and SAR 10 million at year end (2007: SAR 10.0 million to SAR 12.0 million).

Investments include SAR 1,391 million (2007: SAR 2,646 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 1,294 million (2007: SAR 2,532 million).

e) Investment in associates

Investment in associates represents Bank's share of investment in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

Investment in associates includes the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

Amex Saudi Arabia Limited	50%
Saudi Orix Leasing Company	28%
Amlak International for Finance and Real Estate Development Co.	29%
Medgulf – KSA	21%
Naeem Investment Company	20%

7. Loans and advances, net

a) Loans and advances, held at amortized cost

These are comprised of the following:

2008	Overdraft SAR'000	Consumer loans SAR'000	Commercial loans SAR'000	Others SAR'000	Total SAR'000
Performing loans and advances	**3,366,257**	**1,881,505**	**24,734,628**	**21,242**	**30,003,632**
Non performing loans and advances, net	**283,295**	**11,612**	**-**	**-**	**294,907**
Total loans and advances	**3,649,552**	**1,893,117**	**24,734,628**	**21,242**	**30,298,539**
Allowance for credit losses	**(163,280)**	**(22,148)**	**(557,551)**	**-**	**(742,979)**
Loans and advances, net	**3,486,272**	**1,870,969**	**24,177,077**	**21,242**	**29,555,560**

7. Loans and advances, net – continued

2007	Overdraft SAR'000	Consumer loans SAR'000	Commercial loans SAR'000	Others SAR'000	Total SAR'000
Performing loans and advances	3,662,902	1,727,779	18,139,719	23,481	23,553,881
Non performing loans and advances, net	271,115	10,582	15,223	-	296,920
Total loans and advances	3,934,017	1,738,361	18,154,942	23,481	23,850,801
Allowance for credit losses	(168,717)	(15,419)	(537,964)	-	(722,100)
Loans and advances, net	3,765,300	1,722,942	17,616,978	23,481	23,128,701

The performing loans and advances include SAR 176 million of loans and advances that are past due but not impaired (2007: SAR 119 million).

Loans and advances above include non-commission based banking products in respect of Murabaha agreements and Istisna'a which are stated at amortized cost of SAR 8,204 million (2007: SAR 5,803 million).

b) Movements in allowance for credit losses

2008	**Overdraft SAR '000**	**Consumer loans SAR'000**	**Commercial loans SAR'000**	**Total SAR'000**
Balance at beginning of the year	**168,717**	**15,419**	**537,964**	**722,100**
Provided (reversal) during the year	**(4,700)**	**15,113**	**19,587**	**30,000**
Bad debts written off	**(737)**	**(11,340)**	**-**	**(12,077)**
Recoveries of amounts previously written off	**-**	**2,956**	**-**	**2,956**
Balance at the end of the year	**163,280**	**22,148**	**557,551**	**742,979**

2007	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Total SAR'000
Balance at beginning of the year	204,010	21,348	551,924	777,282
Provided (reversal) during the year	110,660	-	(13,960)	96,700
Bad debts written off	(145,953)	(6,756)	-	(152,709)
Recoveries of amounts previously written off	-	827	-	827
Balance at the end of the year	168,717	15,419	537,964	722,100

c) Credit quality of loans and advances
(i) Neither past due nor impaired loans

2008	**Overdraft SAR '000**	**Consumer loans SAR'000**	**Commercial loans SAR'000**	**Others SAR'000**	**Total SAR'000**
Standard	**3,314,599**	**1,869,893**	**24,622,182**	**21,242**	**29,827,916**
Special mention	**-**	-	**-**	**-**	**-**
Total	**3,314,599**	**1,869,893**	**24,622,182**	**21,242**	**29,827,916**

7. Loans and advances, net – continued

2007	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Others SAR'000	Total SAR'000
Standard	3,632,547	1,713,260	18,062,334	23,481	23,413,622
Special mention	-	3,066	-	-	3,066
Total	3,632,547	1,716,326	18,062,334	23,481	23,434,688

(ii) Past due but not impaired

2008	**Overdraft SAR '000**	**Consumer loans SAR'000**	**Commercial loans SAR'000**	**Total SAR'000**
From 1 day to 30 days	**244**	**1,219**	**13,232**	**14,695**
From 31 days to 90 days	**8,839**	**1,869**	**97,475**	**108,183**
From 91 days to 180 days	**13,933**	**7,478**	**1,739**	**23,150**
More than 180 days	**28,642**	**1,046**	**-**	**29,688**
Total	**51,658**	**11,612**	**112,446**	**175,716**

2007	Overdraft SAR '000	Consumer loans SAR'000	Commercial loans SAR'000	Total SAR'000
From 1 day to 30 days	-	375	-	375
From 31 days to 90 days	11,382	2,967	47,153	61,502
From 91 days to 180 days	24	6,046	29,865	35,935
More than 180 days	18,950	2,065	366	21,381
Total	30,356	11,453	77,384	119,193

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

2008	**Performing SAR'000**	**Non performing SAR'000**	**Allowance for credit losses SAR'000**	**Loans and advances, net SAR'000**
Government and quasi-Government	**454,478**	**-**	**-**	**454,478**
Banks and other financial institutions	**2,850,249**	**-**	**-**	**2,850,249**
Agriculture and fishing	**142,700**	**-**	**(1,427)**	**141,273**
Manufacturing	**1,711,231**	**31,216**	**(75,034)**	**1,667,413**
Building and construction	**6,061,932**	**249**	**(61,171)**	**6,001,010**
Commerce	**10,803,051**	**145,099**	**(332,451)**	**10,615,699**
Transportation and communication	**65,261**	**-**	**(653)**	**64,608**
Services	**735,400**	**18,653**	**(66,189)**	**687,864**
Consumer loans	**1,869,893**	**11,612**	**(22,148)**	**1,859,357**
Other	**5,309,437**	**88,078**	**(183,906)**	**5,213,609**
Total	**30,003,632**	**294,907**	**(742,979)**	**29,555,560**

7. Loans and advances, net – continued

2007	Performing SAR'000	Non performing SAR'000	Allowance for credit losses SAR'000	Loans and advances, net SAR'000
Government and quasi-Government	655,605	-	-	655,605
Banks and other financial institutions	1,104,502	-	-	1,104,502
Agriculture and fishing	214,563	-	(2,146)	212,417
Manufacturing	1,857,137	28,862	(76,732)	1,809,267
Building and construction	4,349,031	249	(44,064)	4,305,216
Commerce	8,442,492	145,667	(321,531)	8,266,628
Transportation and communication	64,270	5,110	(11,666)	57,714
Services	686,174	17,973	(66,640)	637,507
Consumer loans	1,727,779	10,582	(15,419)	1,722,942
Other	4,452,328	88,477	(183,902)	4,356,903
Total	23,553,881	296,920	(722,100)	23,128,701

d) Collateral

The Bank in the ordinary course of lending activities hold 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 other loans and are managed against relevant exposures at their net realizable values. The fair value of collateral held by the Bank against loans and advances (excluding real estate and other fixed asset collaterals, for which the fair value cannot be reliably determined) at December 31, 2008 is SAR 23,905 million (2007: SAR 20,215 million).

8. Property and equipment, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Furniture, equipment and vehicles SAR'000	Total 2008 SAR'000	Total 2007 SAR'000
Cost					
Balance at beginning of the year	**356,444**	**33,506**	**235,857**	**625,807**	502,278
Additions	**147,158**	**1,711**	**23,004**	**171,873**	127,965
Disposals	**-**	**-**	**(1,380)**	**(1,380)**	(4,436)
Balance at end of the year	**503,602**	**35,217**	**257,481**	**796,300**	625,807
Accumulated depreciation					
Balance at beginning of the year	**18,882**	**23,173**	**159,047**	**201,102**	161,901
Charge for the year	**12,277**	**3,793**	**32,809**	**48,879**	43,612
Disposals	**-**	**-**	**(1,266)**	**(1,266)**	(4,411)
Balance at end of the year	**31,159**	**26,966**	**190,590**	**248,715**	201,102
Net book value					
As at December 31, 2008	**472,443**	**8,251**	**66,891**	**547,585**	
As at December 31, 2007	337,562	10,333	76,810		424,705

9. Other assets

	2008	2007
	SAR'000	SAR'000
Accrued commission receivable		
– Banks and other financial institutions	**8,558**	44,091
– Investments	**76,287**	93,971
– Loans and advances	**453,943**	360,771
– Other	**20,527**	17,411
Total accrued commission receivable	**559,315**	516,244
Accounts receivable	**347,653**	233,742
Positive fair value of derivatives (note 10)	**75,879**	157,970
Other real estate	**35,124**	35,124
Other	**145,097**	148,124
Total	**1,163,068**	1,091,204

10. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for 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 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.

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 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.

10. Derivatives – (continued)

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and 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 within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap 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, other than portfolio hedges for commission rate risk, do not qualify for special hedge accounting and 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 to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed 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 market risk.

Derivative Financial Instruments

			Notional amounts by term to maturity					
2008	**Positive fair value SAR'000**	**Negative fair value SAR'000**	**Notional amount total SAR'000**	**Within 3 months SAR'000**	**3-12 months SAR'000**	**1-5 years SAR'000**	**Over 5 years SAR'000**	**Monthly average SAR'000**
Held for trading:								
Forward foreign exchange contracts	11,216	7,984	1,337,485	975,637	361,532	209	107	1,481,896
Commission rates swaps	64,663	118,788	863,066	-	-	863,066	-	875,950
Total	75,879	126,772	2,200,551	975,637	361,532	863,275	107	2,357,846

10. Derivatives – continued

2007	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount total SAR'000	Notional amounts by term to maturity: Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Monthly average SAR'000
Held for trading:								
Forward foreign exchange contracts	11,536	9,980	2,143,626	2,141,976	1,334	192	124	3,215,353
Held as fair value hedges:								
Commission rates swaps	146,434	148,999	874,471	-	-	600,096	274,375	426,148
Total	157,970	158,979	3,018,097	2,141,976	1,334	600,288	274,499	3,641,501

The tables below show a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

2008 **Description of hedged items**	**Fair value SAR'000**	**Hedge inception value SAR'000**	**Risk SAR'000**	**Hedging instrument SAR'000**	**Positive fair value SAR'000**	**Negative fair value SAR'000**
Fixed commission rate investments	-	-	Fair value	Commission rate swap	-	-

2007 Description of hedged items	Fair value SAR'000	Hedge inception value SAR'000	Risk SAR'000	Hedging instrument SAR'000	Positive fair value SAR'000	Negative fair value SAR'000
Fixed commission rate investments	871,906	874,471	Fair value	Commission rate swap	146,434	148,999

The gains on the hedging instruments for fair value hedge is SAR 44.4 million (2007: SAR 52.9 million). The losses on the hedged item attributable to the hedged risk is SAR 15.1 million (2007: SAR 26.0 million). The net fair value of the derivatives is SAR (50.9) million (2007: SAR 1.0 million).

Approximately 100% (2007: 99%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 85% (2007: 93%) of the positive fair value contracts are with any single counterparty at the balance sheet date. Derivative activities are mainly carried out under the Bank's treasury and capital markets banking segment.

11. Due to banks and other financial institutions

	2008 SAR'000	2007 SAR'000
Current accounts	**44,658**	41,381
Money market deposits	**5,164,255**	4,470,720
Total	**5,208,913**	4,512,101

Money market deposits include deposits against sale of fixed rate bonds of SAR 966 million (2007: SAR 2,513 million) with agreements to repurchase the same at fixed future dates.

12. Customer deposits

	2008	2007
	SAR'000	SAR'000
Demand	**2,736,939**	3,053,434
Saving	**1,912,381**	3,176,748
Time	**22,480,437**	18,374,675
Other	**13,572,634**	8,163,414
Total	**40,702,391**	32,768,271

Time deposits include deposits against sale of securities of SAR 4,107 million (2007: SAR 1,575 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 162 million (2007: SAR 117 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2008	2007
	SAR'000	SAR'000
Demand	**159,308**	359,399
Saving	**119,169**	277,756
Time	**1,985,871**	3,071,129
Other	**3,239,744**	2,690,678
Total	**5,504,092**	6,398,962

13. Other liabilities

	2008	2007
	SAR'000	SAR'000
Accrued commission payable		
– Banks and other financial institutions	**138,791**	46,196
– Customer deposits	**387,473**	280,970
– Term loan	**-**	11,325
Total accrued commission payable	**526,264**	338,491
Negative fair value of derivatives (note 10)	**126,772**	158,979
Other	**423,426**	569,325
Total	**1,076,462**	1,066,795

14. Term loan

On July 29, 2005, the Bank entered into a three-year syndicated term loan facility agreement for an amount of US$ 380 million (SAR 1,425 million) for general corporate purposes. The Bank has fully repaid the loan during July 2008.

15 . Share capital

The authorized, issued and fully paid share capital of the Bank consists of 450 million shares of SAR 10 each (2007: 391 million shares of SAR 10 each).

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

	2008	2007
	%	%
Saudi shareholders	**90.0**	90.0
Foreign shareholders:		
J.P. Morgan International Finance Limited	**7.5**	7.5
Mizuho Corporate Bank Limited	**2.5**	2.5

The Board of Directors had proposed a bonus share issue of 58,984,000 shares of SAR 10 each in its meeting held on Muharram 29, 1429H (corresponding to Jan 08, 2008G). The same was approved in the shareholders' extraordinary general assembly meeting held on 1 Rabi Al Awal 1429H (corresponding to March 09, 2008G). The said bonus shares were issued. As a result of this issue of bonus shares, the total number of issued shares stands increased to 450,000,000.

Accordingly, on March 09, 2008 the share capital was increased from SR 3,910 million to SR 4,500 million, through a transfer from retained earnings.

16. Statutory reserve

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. Accordingly, SAR 129 million has been transferred from 2008 net income (2007: SAR 206 million). The statutory reserve is not available for distribution.

17. Commitments and contingencies

a) Legal proceedings

As at December 31, 2008 there were routine legal proceedings outstanding against the Bank. No provision has been made in most cases as professional legal advice indicates that it is not probable that any significant loss will arise. However, a provision has been made for certain specific cases where management foresees the possibility of an adverse outcome.

b) Capital commitments

As at December 31, 2008, the Bank had capital commitments of SAR 116.2 million (2007: SAR 163.3 million) in respect of construction for new branches and building expansion of its head office.

c) Credit related commitments and contingencies

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

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

17. Commitments and contingencies – (continued)

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.

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 the 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 are as follows:

2008	**Within 3 months SAR'000**	**3-12 months SAR'000**	**1-5 years SAR'000**	**Over 5 years SAR'000**	**Total SAR'000**
Letters of credit	**579,386**	**211,526**	**12,142**	**-**	**803,054**
Letters of guarantee	**761,792**	**1,243,324**	**1,124,526**	**1,810**	**3,131,452**
Acceptances	**751,848**	**375,520**	**2,914**	**-**	**1,130,282**
Irrevocable commitments to extend credit	**-**	**-**	**218,055**	**204,204**	**422,259**
Total	**2,093,026**	**1,830,370**	**1,357,637**	**206,014**	**5,487,047**

2007	Within 3 months SAR'000	3-12 months SAR'000	1-5 years SAR'000	Over 5 years SAR'000	Total SAR'000
Letters of credit	903,457	249,137	121,131	-	1,273,725
Letters of guarantee	541,361	966,133	823,097	1,930	2,332,521
Acceptances	444,043	361,606	11,526	-	817,175
Irrevocable commitments to extend credit	-	13,097	34,784	3,196	51,077
Total	1,888,861	1,589,973	990,538	5,126	4,474,498

The outstanding unused portion of commitments as at December 31, 2008 which can be revoked unilaterally at any time by the Bank, amounts to SAR 13,391 million (2007: SAR 12,489 million).

17. Commitment and contingencies – continued

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

	2008 SAR'000	2007 SAR'000
Government and quasi-Government	**2,325,976**	1,574,138
Corporate	**2,687,900**	2,446,521
Banks and other financial institutions	**208,772**	222,669
Other	**264,399**	231,170
Total	**5,487,047**	4,474,498

d) Assets pledged

Securities pledged under repurchase agreements with other banks are government bonds. Other non-government bonds are also pledged under repurchase agreements.

Assets pledged as collateral with other financial institutions for security deposits are as follows:

	2008		2007	
	Assets SAR'000	**Related liabilities SAR'000**	Assets SAR'000	Related liabilities SAR'000
Available-for-sale investments (note 6)	**1,391,446**	**966,065**	2,646,119	2,513,244

e) Operating lease commitments

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

	2008 SAR'000	2007 SAR'000
Less than 1 year	**21,551**	28,927
1 to 5 years	**69,200**	53,138
Over 5 years	**57,259**	77,067
Total	**148,010**	159,132

18. Net special commission income

	2008 SAR'000	2007 SAR'000
Special commission income		
Investments		
– Available for sale	**585,244**	736,567
– Held to maturity	**127**	-
	585,371	736,567
Due from banks and other financial institutions	**150,327**	260,107
Loans and advances	**1,804,983**	1,608,429
Total	**2,540,681**	2,605,103

18. Net special commission income – (continued)

	2008 SAR'000	2007 SAR'000
Special commission expense		
Due to banks and other financial institutions	**208,123**	245,187
Customer deposits	**833,789**	977,801
Term loan	**31,025**	82,329
Other	**441,303**	243,796
Total	**1,514,240**	1,549,113

19. Fees from banking services, net

	2008 SAR'000	2007 SAR'000
Fee income:		
- Share trading and fund management	**274,933**	344,332
- Trade finance	**54,901**	45,944
- Corporate finance and advisory	**125,575**	64,668
- Other banking services	**89,001**	20,550
Total fee income	**544,410**	475,494
Fee expense:		
- Custodial services	**62,101**	75,943
- Other banking services	**899**	1,221
Total fee expense	**63,000**	77,164
Fees from banking services, net	**481,410**	398,330

20. Dividend income

	2008 SAR'000	2007 SAR'000
Investments		
- Available for sale	**35,906**	25,527
- Other	**12,615**	9,860
Total	**48,521**	35,387

21. Gains on non-trading investments, net

	2008 SAR'000	2007 SAR'000
Realized gains on available-for-sale investments	**228,379**	101,199

22. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2008 and 2007 is calculated by dividing the net income for the year attributable to the equity holders by 450.0 million shares.

Basic and diluted earnings per share for 2007 has been adjusted to reflect the issuance of bonus shares during 2008.

23. Proposed gross dividend, zakat and income tax

The Board of Directors has not proposed any dividend for the year 2008. In 2007, the Board of Directors proposed a bonus share issue of 58,984,000 shares of SAR 10 each which was approved at the shareholders' extraordinary general assembly meeting held on 1 Rabi Al Awal 1429H (corresponding to March 09, 2008G). Accordingly, the total number of issued and outstanding shares increased to 450,000,000.

The dividends paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax, respectively, are as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year 2008 amounted to SAR 11.5 million (2007: SAR 18.3 million) which will be deducted from their future share of dividend. The cumulative Zakat from 2006 up to 2008 amounted to SAR 0.17 per share to be deducted from their share of future dividend.

b) Foreign shareholders:

Income tax payable on the current year's share of income is approximately SAR 10.9 million (2007: SAR 16.8 million).

24. Cash and cash equivalents

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

	2008 SAR'000	2007 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	**346,856**	557,014
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**7,433,886**	4,183,900
Total	**7,780,742**	4,740,914

25. Business segments

The Bank's primary segment reporting format is determined to be 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 Group's primary business is conducted in the Kingdom of Saudi Arabia.

For management purposes, the Group is organized into the following primary business segments:

Retail banking

Deposits, credit and investment products for individuals and small to medium-sized businesses.

Corporate banking

Loans, deposits and other credit products for corporate and institutional customers.

25. Business segments – continued

Treasury

Money market, trading and treasury services.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Commission is charged to business segments based on a pool rate, which approximates the marginal cost of funds.

Transactions between the business segments are on normal commercial terms and conditions. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Special commission charged for these funds is based on inter-bank rates.

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

2008	**Retail banking**	**Corporate banking**	**Treasury banking**	**Investment banking and brokerage**	**Total**
Total assets	**12,632,052**	**19,772,432**	**21,163,165**	**28,715**	**53,596,364**
Total liabilities	**17,996,532**	**22,789,555**	**6,184,738**	**16,941**	**46,987,766**
Total operating income	**501,581**	**663,363**	**523,994**	**249,149**	**1,938,087**
Total operating expenses and minority interest	**172,593**	**131,994**	**1,015,691**	**104,580**	**1,424,858**
Net income for the year	**328,988**	**531,369**	**(491,697)**	**144,569**	**513,229**

2007	Retail banking	Corporate banking	Treasury banking	Investment banking and brokerage	Total
Total assets	11,965,581	13,512,473	21,063,739	-	46,541,793
Total liabilities	11,426,030	20,498,777	7,847,360	-	39,772,167
Total operating income	452,860	564,136	349,960	268,389	1,635,345
Total operating expenses	259,999	187,754	337,214	28,193	813,160
Net income for the year	192,861	376,382	12,746	240,196	822,185

25. Business segments – continued

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

2008	**Retail banking**	**Corporate banking**	**Treasury banking**	**Investment banking and brokerage**	**Total**
Balance sheet assets	**12,632,052**	**19,772,432**	**21,163,165**	**28,715**	**53,596,364**
Commitments and contingencies	**1,348,579**	**1,399,351**	**108,689**	**-**	**2,856,619**
Derivatives	**-**	**-**	**18,119**	**-**	**18,119**

2007	Retail banking	Corporate banking	Treasury banking	Investment banking and brokerage	Total
Balance sheet assets	11,965,581	13,512,473	21,063,739	-	46,541,793
Commitments and contingencies	903,030	1,223,770	111,381	-	2,238,181
Derivatives	-	-	34,128	-	34,128

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

26. Credit risk

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

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

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

26. Credit risk – continued

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 17. The information on Bank's credit exposure by business segment is given in note 25. The information on credit risk exposure and their relative risk weights is also provided in note 32.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains ten classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions respectively. The Bank determines each individual borrower's grade based on specific objective and subjective criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. The Bank conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established within the Bank for the purpose.

27. Geographical concentration

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

2008	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SAR'000)						
ASSETS							
Cash and balances with SAMA	1,409,733	976	6,311	9,899	-	-	1,426,919
Due from banks and other financial institutions	6,999,000	194,675	257,008	1,188	609	171	7,452,651
Investments, net	8,799,200	120,000	242,419	3,569,540	-	-	12,731,159
Investment in associates	719,422	-	-	-	-	-	719,422
Loans and advances, net	29,532,224	-	-	-	23,336	-	29,555,560
Total Assets	47,459,579	315,651	505,738	3,580,627	23,945	171	51,885,711
LIABILITIES							
Due to banks and other financial institutions	3,100,675	88,673	1,983,724	35,291	494	56	5,208,913
Customer deposits	40,702,391	-	-	-	-	-	40,702,391
Total Liabilities	43,803,066	88,673	1,983,724	35,291	494	56	45,911,304
Commitments and contingencies	3,752,321	199,089	326,833	1,048,430	151,272	9,102	5,487,047
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	1,616,604	41,780	114,292	1,012,972	69,151	1,820	2,856,619
Derivatives	7,143	10,688	-	288	-	-	18,119

27. Geographical concentration - continued

2007	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SAR'000)						
ASSETS							
Cash and balances with SAMA	1,198,780	345	6,432	6,798	-	-	1,212,355
Due from banks and other financial institutions	2,760,281	323,953	920,883	286,424	1,050	18,830	4,311,421
Investments, net	10,081,760	-	259,272	5,470,244	-	-	15,811,276
Investment in associates	562,131	-	-	-	-	-	562,131
Loans and advances, net	23,072,545	-	-	-	56,156	-	23,128,701
Total Assets	37,675,497	324,298	1,186,587	5,763,466	57,206	18,830	45,025,884
LIABILITIES							
Due to banks and other financial institutions	1,390,273	326,637	2,638,323	156,389	479	-	4,512,101
Customer deposits	32,768,271	-	-	-	-	-	32,768,271
Term loan	168,750	525,000	693,750	-	37,500	-	1,425,000
Total Liabilities	34,327,294	851,637	3,332,073	156,389	37,979	-	38,705,372
Commitments and contingencies	2,679,826	403,008	450,923	737,024	193,013	10,704	4,474,498
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	1,268,126	82,370	135,403	678,373	71,768	2,141	2,238,181
Derivatives	16,867	20,208	(3,330)	383	-	-	34,128

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

Balances shown in "Due from banks and other financial institutions" and "Due to banks and other financial institutions" as at December 31, 2008 and 2007 under the Kingdom of Saudi Arabia do not include money market placements and deposits on account of foreign branches of local banks.

b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as at December 31, 2008 and 2007 are entirely in the Kingdom of Saudi Arabia.

28. Market risk

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

28. Market risk – continued

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank currently has no significant trading book exposures.

b) Market risk – non trading or banking book

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

(i) Commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2008 and 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2008 and 2007 for the effect of assumed changes in commission 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 concentrations and relevant sensitivities are disclosed in SAR thousands.

2008			**Sensitivity of Equity (SAR'000)**				
Currency	**Increase (decrease) in basis**	**Sensitivity of commission income**	**6 months or less**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
SAR	**+5/-5**	**+10,679/-10,679**	**+50/-50**	**-**	**-**	**+502/-502**	**+552/-552**
USD	**+10/-10**	**+2,276/-2,276**	**-**	**-**	**-**	**+123/-123**	**+123/-123**
EUR	**+15/-15**	**+115/-115**	**-**	**-**	**+364/-364**	**-**	**+364/-364**

2007			Sensitivity of Equity (SAR'000)				
Currency	Increase (decrease) in basis	Sensitivity of commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+5 / -5	+7,319/-7,319	+805/-805	+276/-276	+1,217/-1,217	-	+2,298/-2,298
USD	+10 / -10	+5,661/-5,661	+954/-954	-	+249/-249	-	+1,203/-1,203
EUR	+15 / -15	+429/-429	-	+389/-389	-	-	+389/-389

28. Market risk - continued

Commission rate sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with the effect of fluctuations in prevailing levels of market commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate re-pricing that may be undertaken, which is monitored daily by Bank treasury.

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

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

(SAR '000)

2008 **Assets**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**
Cash and balances with SAMA	-	-	-	-	1,426,919	1,426,919
Due from banks and other financial institutions	5,194,902	2,200,000	18,765	-	38,984	7,452,651
Investments, net	8,312,901	-	2,680,406	1,126,412	611,440	12,731,159
Investment in associates	-	-	-	-	719,422	719,422
Loans and advances, net	10,413,877	7,151,373	9,721,923	2,268,387	-	29,555,560
Property and equipment, net	-	-	-	-	547,585	547,585
Other assets	-	-	-	-	1,163,068	1,163,068
Total assets	23,921,680	9,351,373	12,421,094	3,394,799	4,507,418	53,596,364
Liabilities and equity						
Due to banks and other financial institutions	5,108,005	56,250	-	-	44,658	5,208,913
Customer deposits	23,670,416	11,726,477	3,552	-	5,301,946	40,702,391
Other liabilities	-	-	-	-	1,076,462	1,076,462
Equity	-	-	-	-	6,608,598	6,608,598
Total liabilities and equity	28,778,421	11,782,727	3,552	-	13,031,664	53,596,364
Commission rate sensitivity-On balance sheet	(4,856,741)	(2,431,354)	12,417,542	3,394,799	(8,524,246)	-
Commission rate sensitivity-Off balance sheet	262,586	(262,586)	-	-	-	-
Cumulative commission rate sensitivity gap	(4,594,155)	(7,288,095)	5,129,447	8,524,246	-	-

28. Market risk - continued

(SAR '000)

2007 Assets	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Cash and balances with SAMA	-	-	-	-	1,212,355	1,212,355
Due from banks and other financial institutions	3,798,957	108,767	18,753	-	384,944	4,311,421
Investments, net	10,238,290	1,250,555	2,684,154	330,418	1,307,859	15,811,276
Investment in associates	-	-	-	-	562,131	562,131
Loans and advances, net	8,779,912	5,854,782	7,731,214	762,793	-	23,128,701
Property and equipment, net	-	-	-	-	424,705	424,705
Other assets	-	-	-	-	1,091,204	1,091,204
Total assets	22,817,159	7,214,104	10,434,121	1,093,211	4,983,198	46,541,793
Liabilities and equity						
Due to banks and other financial institutions	3,750,235	720,485	-	-	41,381	4,512,101
Customer deposits	20,880,224	4,662,819	95,900	-	7,129,328	32,768,271
Other liabilities	-	-	-	-	1,066,795	1,066,795
Term loan	1,425,000	-	-	-	-	1,425,000
Equity	-	-	-	-	6,769,626	6,769,626
Total liabilities and equity	26,055,459	5,383,304	95,900	-	15,007,130	46,541,793
Commission rate sensitivity-On balance sheet gap	(3,238,300)	1,830,800	10,338,221	1,093,211	(10,023,932)	-
Commission rate sensitivity-Off balance sheet gap	274,375	(274,375)	-	-	-	-
Cumulative commission rate sensitivity gap	(2,963,925)	(1,407,500)	8,930,721	10,023,932	-	-

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

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

(ii) Currency risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2008 and 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 based on historical movements, with all other variables held constant, on the statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in statement of income, whereas a negative effect shows a potential net reduction in statement of income.

28. Market risk - continued

Currency Exposures As at December 31, 2008	Change in currency rate in %	Effect on Net Income (SAR'000)	Effect on equity (SAR'000)
USD	**-**	**-**	**-**
EUR	**+2.6/-2.6**	**+75/-75**	**-**
GBP	**+6.8/-6.8**	**+2/-2**	**-**

Currency Exposures As at December 31, 2007	Change in currency rate in %	Effect on Net Income (SAR'000)	Effect on equity (SAR'000)
USD	-	-	-
EUR	+7.4 / -7.4	+252 / -252	-
GBP	+7.0 / -7.0	+111 / -111	-

(iii) Currency position

The Bank manages exposure to the 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:

	2008 SAR '000 Long/(short)	2007 SAR '000 Long/(short)
US Dollar	**(516,855)**	122,173
Euro	**40**	(356)
Pound sterling	**27**	1,587
Japanese yen	**363**	1,325
U.A.E Dirham	**3,308**	4,145
Others	**11,024**	2,069

(iv) Equity price risk

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

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

	December 31, 2008		December 31, 2007	
Market Indices	**Change in equity price %**	**Effect in SAR'000**	Change in equity price %	Effect in SAR'000
Tadawal	**+8/-8**	**+75,470/-75,470**	+35 / -35	+191,125 / -191,125
NASDAQ	**+21/-21**	**+14,963/-14,963**	+15 / -15	+9,383 / -9,383
Unquoted	**+5/-5**	**+557/-557**	+5 / -5	+556 / -556

29. 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 dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable 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 into account the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

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

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2007: 9%) of total demand deposits and 4% (2007: 2%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The undiscounted maturity profile of the liabilities is as follows:

	(SAR'000)					
2008	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Non derivatives liabilities	**28,778,421**	**11,782,727**	**3,552**	**-**	**13,031,664**	**53,596,364**
Derivatives	**975,534**	**361,532**	**863,378**	**107**	**-**	**2,200,551**
Total	**29,753,955**	**12,144,259**	**866,930**	**107**	**13,031,664**	**55,796,915**

	(SAR'000)					
2007	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Non derivatives liabilities	24,630,459	6,808,304	95,900	-	15,007,130	46,541,793
Derivatives	2,141,976	1,334	600,288	274,499	-	3,018,097
Total	26,772,435	6,809,638	696,188	274,499	15,007,130	49,559,890

29. Liquidity risk – continued

The tables below show the expected contractual maturity profile of the assets and liabilities.

	(SAR'000)					
2008	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	-	-	-	-	1,426,919	1,426,919
Due from banks and other financial institutions	5,194,902	2,200,000	18,765	-	38,984	7,452,651
Investments, net	1,495,622	572,358	6,497,342	3,554,397	611,440	12,731,159
Investment in associates	-	-	-	-	719,422	719,422
Loans and advances, net	9,786,733	5,594,180	10,006,711	4,167,936	-	29,555,560
Property and equipment, net	-	-	-	-	547,585	547,585
Other assets	-	-	-	-	1,163,068	1,163,068
Total assets	16,477,257	8,366,538	16,522,818	7,722,333	4,507,418	53,596,364
Liabilities and equity						
Due to banks and other financial institutions	5,108,005	56,250	-	-	44,658	5,208,913
Customer deposits	23,670,416	11,726,477	3,552	-	5,301,946	40,702,391
Other liabilities	-	-	-	-	1,076,462	1,076,462
Equity	-	-	-	-	6,608,598	6,608,598
Total liabilities and equity	28,778,421	11,782,727	3,552	-	13,031,664	53,596,364
Derivatives, commitments and contingencies	3,068,559	2,191,903	2,221,015	206,121	-	7,687,598

29. Liquidity risk – continued

	(SAR'000)					
2007	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	1,212,355	1,212,355
Due from banks and other financial institutions	3,798,957	108,767	18,753	-	384,944	4,311,421
Investments, net	2,071,280	860,413	7,008,800	4,562,924	1,307,859	15,811,276
Investment in associates	-	-	-	-	562,131	562,131
Loans and advances, net	8,887,691	5,813,406	7,691,163	736,441	-	23,128,701
Property and equipment, net	-	-	-	-	424,705	424,705
Other assets	-	-	-	-	1,091,204	1,091,204
Total assets	14,757,928	6,782,586	14,718,716	5,299,365	4,983,198	46,541,793
Liabilities and equity						
Due to banks and other financial institutions	3,750,235	720,485	-	-	41,381	4,512,101
Customer deposits	20,880,224	4,662,819	95,900	-	7,129,328	32,768,271
Other liabilities	-	-	-	-	1,066,795	1,066,795
Term loan	-	1,425,000	-	-	-	1,425,000
Equity	-	-	-	-	6,769,626	6,769,626
Total liabilities and equity	24,630,459	6,808,304	95,900	-	15,007,130	46,541,793
Derivatives, commitments and contingencies	4,030,837	1,591,306	1,590,825	279,627	-	7,492,595

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 17c(i) of the financial statements.

30. 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 are not significantly different from the carrying values included in the financial statements. The fair values of loans and advances, commission bearing customers' deposits, term loan, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

30. Fair values of financial assets and liabilities - continued

The estimated fair values of held-to-maturity investments and other investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 6.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation models. The total amount of the changes in fair value recognized in the statement of income, which was estimated using valuation models, is SAR (20.1) million (2007: SAR 20.8 million).

The value obtained from the relevant valuation model may differ, with the transaction price of a financial instrument. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the income statement without reversal of deferred day one profits and losses.

31. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

i) The balances at December 31 resulting from such transactions included in the financial statements are as follows:

	2008 SAR'000	2007 SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	**2,899**	154,621
Due to banks and other financial institutions	**102,332**	94,210
Commitments and contingencies	**2,108,751**	395,900
Associates:		
Loans and advances, net	**38,000**	38,000
Customer deposits	**393,457**	722,795
Commitments and contingencies	**70,810**	156,739
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Due to banks and other financial institutions	**375,700**	650,000
Investments	**-**	1,178,416
Loans and advances, net	**1,314,124**	492,227
Customer deposits	**5,371,410**	4,289,341
Commitments and contingencies	**881,069**	494,357

31. Related party transactions - continued

Bank's mutual funds and employees' post-employment benefit plan:		
Investments	**410,264**	280,715
Customer deposits	**51,839**	48,940

Other major Saudi shareholders represent shareholdings (excluding the foreign shareholders) of 5% or more of the Bank's issued share capital.

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

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

	2008 SAR'000	2007 SAR'000
Special commission income	**112,354**	172,495
Special commission expense	**229,654**	262,998
Fees from banking services, net	**72,677**	88,171
Directors' remuneration	**2,583**	1,622

iii) The total amount of compensation charged or paid to directors and key management personnel during the year is as follows:

	2008 SAR'000	2007 SAR'000
Short-term employee benefits	**13,464**	10,872
Post-employment benefits	**1,468**	1,119

32. Capital adequacy

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

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

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

Pursuant to SAMA guidelines regarding implementation of Basel II, Pillar 3 disclosures effective January 1, 2008, the following disclosures have been made as of December 31, 2008 and comparative figures have not been presented.

32. Capital adequacy - continued

	2008 SAR'000
Credit Risk RWA	**43,208,695**
Operational Risk RWA	**3,122,771**
Market Risk RWA	**541,571**
Total Pillar- I RWA	**46,873,036**
Tier I Capital	**6,248,431**
Tier II Capital	**179,942**
Total Tier I & II Capital	**6,428,373**
Capital Adequacy Ratio %	
Tier I Ratio	**13.33%**
Tier I + Tier II Ratio	**13.71%**

33. Investment management services

The Bank offers investment services to its customers, through its subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets totaling of SAR 5,075 million (2007: SAR 8,126 million). This includes funds managed under Shariah approved portfolios amounting to SAR 1,249 million (2007: SAR 1,766 million).

34. Employee stock option shares

The Bank has a share-based payment plan outstanding at the end of the year. Significant features of the plan are as follows:

Grant date: January 1, 2008
Maturity date: Between 2010 and 2012
Vesting period: 4 years
Vesting conditions: participating employees to remain in services
Method of settlement: Equity

The stock options outstanding as at December 31, 2008 have weighted average contractual life of four years.

The stock options are granted only under a service condition with no market condition associated with them.

35. Issued IFRS but not yet effective

The Bank has chosen not to early adopt IFRS 8, Operating Segments which has been published and is mandatory for compliance for the Bank's fiscal year beginning January 1, 2009. The financial impact of the new standard as a result of implementation of above standard is not significant.

36. Comparative figures

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

37. Board of Director's approval

The financial statements were approved by the Board of Directors on Safar 28, 1430H corresponding to February 23, 2009.

38. Basel II Pillar 3 disclosures

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the Bank's website **www.saib.com.sa** as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to audit by the external auditors.