THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

December 31, 2009 and 2008

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2009 and 2008

	Notes	2009 SAR'000	2008 SAR'000
ASSETS			
Cash and balances with SAMA	4	**1,527,905**	1,426,919
Due from banks and other financial institutions	5	**5,265,973**	7,452,651
Investments, net	6	**10,736,859**	12,731,159
Loans and advances, net	7	**29,784,804**	29,555,560
Investments in associates	6	**817,309**	719,422
Property and equipment, net	8	**706,645**	547,585
Other assets	9	**1,308,516**	1,163,068
Total assets		**50,148,011**	53,596,364
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**3,211,950**	5,208,913
Customer deposits	12	**38,247,429**	40,702,391
Other liabilities	13	**760,502**	1,076,462
Term loan	14	**500,000**	-
Total liabilities		**42,719,881**	46,987,766
Equity			
Equity attributable to equity holders of the Bank			
Share capital	15	**4,500,000**	4,500,000
Statutory reserve	16	**2,418,000**	2,287,000
Other reserves		**(284,548)**	(573,883)
Retained earnings		**803,101**	412,475
Employee stock option shares	34	**(44,490)**	(44,490)
Total equity attributable to equity holders of the Bank		**7,392,063**	6,581,102
Minority interest		**36,067**	27,496
Total equity		**7,428,130**	6,608,598
Total liabilities and equity		**50,148,011**	53,596,364

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2009 and 2008

	Notes	2009 SAR'000	2008 SAR'000
Special commission income	18	**1,842,523**	2,540,681
Special commission expense	18	**828,104**	1,514,240
Net special commission income		**1,014,419**	1,026,441
Fee income from banking services, net	19	**239,986**	481,410
Exchange income, net		**28,688**	43,336
Dividend income	20	**21,702**	48,521
Gains on non-trading investments, net	21	**85,910**	228,379
Gain on sale of property (2009) and investment in subsidiary (2008)	3(b), 8	**126,453**	110,000
Total operating income		**1,517,158**	1,938,087
Salaries and employee-related expenses		**308,866**	281,735
Rent and premises-related expenses		**59,817**	52,353
Depreciation and amortization	8	**51,673**	48,879
Other general and administrative expenses		**119,055**	27,567
Impairment charge for credit losses, net	7(b)	**514,565**	30,000
Impairment charge for non-trading investments	6(f)	**40,000**	967,537
Total operating expenses		**1,093,976**	1,408,071
Income from operating activities		**423,182**	530,016
Share in earnings of associates	6(g)	**115,587**	-
Net income for the year		**538,769**	530,016
Income attributable to minority interest		**17,143**	16,787
Net income attributable to equity holders of the Bank		**521,626**	513,229
Basic and diluted earnings per share (expressed in SAR per share)	22	**1.16**	1.14

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2009 and 2008

	2009 SAR'000	2008 SAR'000
Net income for the year	**538,769**	530,016
Other comprehensive income:		
Available for sale investments:		
- Net change in fair value	**375,276**	(1,396,497)
- Transfers to consolidated income statement	**(85,910)**	739,158
Net impact on other reserves	**289,366**	(657,339)
Total comprehensive income / (loss) for the year	**828,135**	(127,323)
Attributable to:		
Equity holders of the Bank	**810,961**	(144,034)
Minority interest	**17,174**	16,711
Total comprehensive income / (loss) for the year	**828,135**	(127,323)

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2009 and 2008

		Attributable to equity holders of the Bank							
2009	**Note**	**Share capital SAR'000**	**Statutory reserve SAR'000**	**Other reserves SAR'000**	**Retained earnings SAR'000**	**Employee stock option shares SAR'000**	**Total SAR'000**	**Minority interest SAR'000**	**Total equity SAR'000**
Balance at the beginning of the year		**4,500,000**	**2,287,000**	**(573,883)**	**412,475**	**(44,490)**	**6,581,102**	**27,496**	**6,608,598**
Total comprehensive income for the year		**-**	**-**	**289,335**	**521,626**	**-**	**810,961**	**17,174**	**828,135**
Payment to minority interest		**-**	**-**	**-**	**-**	**-**	**-**	**(8,603)**	**(8,603)**
Transfer to statutory reserve	16	**-**	**131,000**	**-**	**(131,000)**	**-**	**-**	**-**	**-**
Balance at end of the year		**4,500,000**	**2,418,000**	**(284,548)**	**803,101**	**(44,490)**	**7,392,063**	**36,067**	**7,428,130**

		Attributable to equity holders of the Bank							
2008	Note	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Employee stock option shares SAR'000	Total SAR'000	Minority interest SAR'000	Total equity 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 employee stock option shares	34	-	-	-	-	(44,490)	(44,490)	-	(44,490)
Total comprehensive income / (loss) for the year		-	-	(657,263)	513,229	-	(144,034)	16,711	(127,323)
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 end of the year		4,500,000	2,287,000	(573,883)	412,475	(44,490)	6,581,102	27,496	6,608,598

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, 2009 and 2008

	Notes	2009 SAR'000	2008 SAR'000
OPERATING ACTIVITIES			
Net income		**538,769**	530,016
Adjustments to reconcile net income to net cash (used in) from operating activities:			
Accretion of discounts on investments, net		**(54,566)**	(182,697)
Gains on non-trading investments, net		**(85,910)**	(228,379)
Gain on sale of property and investment in subsidiary	3(b),8	**(126,453)**	(110,000)
Depreciation and amortization	8	**51,673**	48,879
Impairment charge for credit losses, net	7	**514,565**	30,000
Impairment charge for non-trading investments	6(f)	**40,000**	967,537
Share in earnings of associates	6(g)	**(115,587)**	-
		762,491	1,055,356
Net (increase) / decrease in operating assets and liabilities:			
Statutory deposit with SAMA		**(106,424)**	(424,722)
Due from banks and other financial institutions maturing after ninety days from date of acquisition		**18,765**	108,756
Loans and advances		**(743,809)**	(6,456,859)
Other assets		**(145,448)**	(71,864)
Due to banks and other financial institutions		**(1,996,963)**	696,812
Customer deposits		**(2,454,962)**	7,934,120
Other liabilities		**(315,960)**	9,667
Net cash (used in) / from operating activities		**(4,982,310)**	2,851,266
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		**6,336,654**	8,993,299
Proceeds from sale of property and investment in subsidiary	3(b),8	**141,342**	122,500
Purchase of non-trading investments		**(3,931,678)**	(7,099,350)
Investments in associates		**(12,028)**	(186,638)
Employee stock option shares		**-**	(44,490)
Purchase of property and equipment		**(237,538)**	(171,873)
Proceeds from sale of property and equipment		**12,207**	114
Net cash from investing activities		**2,308,959**	1,613,562
FINANCING ACTIVITIES			
Term loan proceeds / (paid)		**500,000**	(1,425,000)
Net cash from / (used) in financing activities		**500,000**	(1,425,000)
(Decrease) / increase in cash and cash equivalents		**(2,173,351)**	3,039,828
Cash and cash equivalents at beginning of the year		**7,780,742**	4,740,914
Cash and cash equivalents at end of the year	24	**5,607,391**	7,780,742
Special commission received during the year		**1,870,808**	2,497,610
Special commission paid during the year		**1,161,931**	1,326,467
Supplemental non-cash information			
Net changes in fair value and transfers to income statement		**289,335**	(657,263)
Bonus share issued	15	**-**	589,840
Settlement of loans for available for sale investment and other real estate		**898,907**	-

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 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 43 branches (2008: 34 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 Islamic (non-special interest based) banking products, which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements include the financial statements of the Bank and the following 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 BNP Paribas Asset Management Company, 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), and is 55% owned by the Bank with the remaining 45% by Saudi and Foreign shareholders.

The Bank has formed an additional company in 2009 "Saudi Investment Real Estate Company", with a share capital of SAR 500,000 of which the Bank owns a 99% interest with the remaining 1% owned by a representative Saudi shareholder. The company has not yet commenced its operations.

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 also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

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.

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.

2. Basis of preparation – continued

d) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions 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 for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its 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 market data. However, areas such as credit risk (both own and counter party), and volatilities and correlations require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates, and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair values of financial instruments.

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

The Bank exercises judgement 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.

e) Going concern

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

3. Summary of significant accounting policies

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

a) Change in accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2008, except as mentioned below.

- IFRS 8 “Operating Segments,” which supersedes IAS 14 “Segment Reporting” and requires disclosure of information about the Groups operating segments;
- The revisions and amendments to IAS 1 “Presentation of Financial statements”;
- Amendments to IFRS 2 “Share based payments – vesting conditions and cancellation”; and
- Amendments to IAS 32 “Financial Instruments: Presentation”.

The Bank has adopted the standard and amendments with retrospective effect which had no impact on the financial position and financial performance of the Bank. The comparative information has been restated, where required, to conform to the current year presentation.

b) 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 income statement 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 income statement and within equity in the consolidated statement of financial position, separately from equity attributable to shareholders of the Bank.

Any losses attributable to the minority interest in excess of the minority interest are allocated against the interests of the Bank. Acquisitions of minority interests are accounted for using the Bank extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill.

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

On September 30, 2008, the Bank sold a 25% share in SAIB BNP Paribas Asset Management Company to BNP Paribas at a price of SAR 122.5 million realizing a gain of SAR 110 million on the sale.

3. Summary of significant accounting policies – continued

c) 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 approximately 20% to 50% of the voting power or over which it has significant influence and which is neither a subsidiary nor a joint venture.

Share in earnings of associates represents the Bank's equity interest in the net income of its associate companies that are being accounted for on the equity method of accounting. The Bank generally records its share in earnings when a reasonable estimate can be made or audited financial statements are obtained.

d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date 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.

e) 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 the consolidated income statement and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting including embedded derivatives.

(ii) Embedded derivatives

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

(iii) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in the 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 are 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.

3. Summary of significant accounting policies – continued

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 the 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 income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised, or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated 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 forecasted transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was 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 income statement for the year.

f) 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 consolidated statement of financial position date**.** The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated income statement, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement 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 income statement or in equity depending on the underlying financial asset.

g) Offsetting financial instruments

Financial assets and liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the 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

h) Revenue /expense recognition

Special commission income and expense - Special commission income and expense for all special commission-bearing financial instruments, are recognised in the consolidated income statement on the effective yield basis. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective 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 takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or 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 a financial asset or liability.

Exchange income / Loss - Exchange income/loss is recognised when earned/incurred.

Fee income from banking services - Fee income from banking services 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. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are recognised as expenses as the services are received.

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

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

3. Summary of significant accounting policies – continued

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated statement of financial position 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 consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between the 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.

j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis 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 consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows 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 equity and debt securities 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 income statement for the year.

Special commission income is recognised in the consolidated income statement on an effective yield basis. Dividend income is recognised in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available – for – sale debt security investments are recognised in the consolidated income statement.

3. Summary of significant accounting policies – continued

(ii) Held to maturity

Investments having fixed or determinable payments and a fixed maturity and 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 income statement 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.

k) 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.

l) Impairment of financial assets

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

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a 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, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss 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 income statement in the impairment charge for non trading investments.

Loans whose terms have been renegotiated are no longer considered to be past due and 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 yield rate.

3. Summary of significant accounting policies – continued

(i) Impairment of financial assets held at amortized cost

A financial asset or group of financial assets are classified as impaired when there is 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 assets and where 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 yield rate.

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

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed and recognised in the consolidated income statement.

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 the consolidated income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated income statement.

m) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is considered as held for sale and is 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 consolidated income statement.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. 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 together with any gain/ loss on disposal in the consolidated income statement.

n) Property and equipment

Property and equipment is 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:

3. Summary of significant accounting policies – continued

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 consolidated statement of financial position date.

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

o) Financial liabilities

All money market deposits, customer deposits, term loans, 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 resulting gain or loss is recognized in the consolidated income statement. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized.

p) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters 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 the expenditure required to settle any financial obligations arising as a result of such guarantees. Any increase in the liability relating to a financial guarantee is recognized in the consolidated income statement. The premium received is recognised in the consolidated income statement in "Fee income from banking services, net" on a straight line basis over the life of the guarantee.

q) 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.

r) 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 consolidated income statement 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.

s) Cash and cash equivalents

For the purpose of the statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash 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

t) 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.

u) Zakat and income taxes

Zakat and income taxes are considered as liabilities of the 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 income statement and are deducted from dividends paid to the shareholders, or reimbursed by the shareholders.

v) Employees' incentive plans

The Bank offers to 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 the terms of the plan, employees are granted shares which 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. 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.

In addition, the Bank grants its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

The Bank has entered into a custody agreement with an independent third party to administer the security plans on behalf of its employees. Under the provisions of the agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

w) Investment management services

The Bank offers investment services to its customers, through a 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 income statements.

x) Non-interest based banking products

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

3. Summary of significant accounting policies – continued

High level definitions of non-interest based products include:

(i) Murabaha - 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 - 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.

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

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

4. Cash and balances with SAMA

Cash and balances with SAMA is summarized as follows:

	2009 SAR'000	2008 SAR'000
Cash in hand	**341,418**	346,856
Statutory deposit	**1,186,487**	1,080,063
Total	**1,527,905**	1,426,919

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

Due from banks and other financial institution is summarized as follows:

	2009 SAR'000	2008 SAR'000
Current accounts	**78,442**	38,984
Money market placements	**4,111,531**	3,114,667
Reverse repos	**1,076,000**	4,299,000
Total	**5,265,973**	7,452,651

6. Investments, net

a) Investment securities are classified as follows:

i) Available for sale

	Domestic		International		Total	
	2009	2008	**2009**	2008	**2009**	2008
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Fixed rate securities	**1,199,457**	1,071,191	**726,225**	274,297	**1,925,682**	1,345,488
Floating rate securities	**3,244,585**	6,831,198	**2,547,545**	4,218,551	**5,792,130**	11,049,749
Equities	**1,266,312**	807,968	**78,782**	58,258	**1,345,094**	866,226
Mutual funds	**434,289**	369,382	**-**	-	**434,289**	369,382
Allowance for impairment	**(40,000)**	(360,103)	**-**	(662,916)	**(40,000)**	(1,023,019)
Available for sale, net	**6,104,643**	8,719,636	**3,352,552**	3,888,190	**9,457,195**	12,607,826

The domestic fixed rate securities and floating rate securities above include receivable securitization agreements amounting to SR 120 million (2008: SR 436 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	
	2009	2008	**2009**	2008	**2009**	2008
	SAR'000	SAR'000	**SAR'000**	SAR'000	**SAR'000**	SAR'000
Fixed rate securities	**50,000**	-	**644,590**	206,333	**694,590**	206,333
Floating rate securities	**650,000**	-	**18,074**	-	**668,074**	-
Allowance for impairment	**-**	-	**(83,000)**	(83,000)	**(83,000)**	(83,000)
Held to maturity, net	**700,000**	-	**579,664**	123,333	**1,279,664**	123,333
Investments, net	**6,804,643**	8,719,636	**3,932,216**	4,011,523	**10,736,859**	12,731,159

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

	2009			2008		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	SAR'000	**SAR'000**	**SAR'000**	SAR'000	SAR'000	SAR'000
Available for sale						
Fixed rate securities	**1,666,913**	**258,769**	**1,925,682**	1,245,498	99,990	1,345,488
Floating rate securities	**1,869,396**	**3,922,734**	**5,792,130**	10,260,208	789,541	11,049,749
Equities	**1,333,965**	**11,129**	**1,345,094**	855,097	11,129	866,226
Mutual funds	**434,289**	**-**	**434,289**	-	369,382	369,382
Allowance for impairment	**(40,000)**	**-**	**(40,000)**	(1,023,019)	-	(1,023,019)
Held to maturity:						
Fixed rate securities	**521,331**	**173,259**	**694,590**	-	206,333	206,333
Floating rate securities	**668,074**	**-**	**668,074**	-	-	-
Allowance for impairment	**-**	**(83,000)**	**(83,000)**	-	(83,000)	(83,000)
Investments, net	**6,453,968**	**4,282,891**	**10,736,859**	11,337,784	1,393,375	12,731,159

6. Investments, net – continued

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

c) The analysis of unrealized gains and losses and fair values of held-to-maturity investments is as follows:

	2009 SAR'000				2008 SAR'000			
	Carrying Value	**Gross Unrealized gains**	**Gross Unrealized losses**	**Fair Value**	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Fixed rate securities	**611,590**	**26,102**	**122,077**	**515,615**	123,333	-	-	123,333
Floating rate securities	**668,074**	**118**	**-**	**668,192**	-	-	-	-
Total	**1,279,664**	**26,220**	**122,077**	**1,183,807**	123,333	-	-	123,333

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

	2009 SAR'000	2008 SAR'000
Government and quasi-Government	**2,775,903**	5,611,819
Corporate	**5,064,123**	4,230,061
Banks and other financial institutions	**2,896,833**	2,889,279
Total	**10,736,859**	12,731,159

e) The credit risk exposure of investments is as follows:

	2009 SAR'000	2008 SAR'000
Investment grade	**6,913,184**	10,063,194
Non investment grade	**1,267,498**	2,002,860
Unrated	**2,556,177**	665,105
Total	**10,736,859**	12,731,159

Equities reported under available-for-sale investments include unquoted shares for SAR 11.1 million (2008: 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 at between SAR 8.0 million and SAR 10 million at year end (2008: SAR 8.0 million and SAR 10 million at year end).

Investments include SAR 2,593 million (2008: SAR 1,391 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 2,573 million (2008: SAR 1,294 million).

f) The movement of allowance for impairment on investments is as follows:

	2009 SAR'000	2008 SAR'000
Balance at beginning of the year	**1,106,019**	138,482
Provided during the year	**40,000**	967,537
Amounts written off during the year	**(1,023,019)**	-
Balance at end of the year	**123,000**	1,106,019

6. Investments, net – continued

g) Investments in associates

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

(i) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2009	2008
Amex Saudi Arabia Limited ("AMEX")	**50%**	50%
Saudi Orix Leasing Company ("ORIX")	**38%**	28%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	**29%**	29%
Mediterranean & Gulf Insurance & Reinsurance Co. – KSA ("MEDGULF")	**19%**	21%
Naeem Investment Company ("NAEEM")	**20%**	20%

The Bank continues to have significant influence on MEDGULF operations through membership on its Board of Directors.

(ii) The movement of investments in associates is summarized as follows:

	2009 SAR'000	2008 SAR'000
Balance at beginning of the year	**719,422**	562,131
Acquisitions, net of disposals	**(17,700)**	157,291
Share of income and loss, net	**115,587**	-
Balance at end of the year	**817,309**	719,422

(iii) The Bank's share of the associate's financial statements is summarized below:

2009	**MEDGULF SAR'000**	**AMEX SAR'000**	**ORIX SAR'000**	**AMLAK SAR'000**
Total assets	**229,401**	**122,002**	**370,539**	**245,927**
Total liabilities	**53,562**	**75,190**	**250,047**	**3,998**
Total equity	**175,839**	**46,812**	**120,492**	**241,929**
Total income	**28,900**	**98,493**	**49,596**	**10,671**
Total expenses	**1,062**	**66,095**	**32,073**	**10,064**

2008	MEDGULF SAR'000	AMEX SAR'000	ORIX SAR'000	AMLAK SAR'000
Total assets	153,235	94,254	334,050	244,792
Total liabilities	3,527	59,284	255,468	1,920
Total equity	149,708	34,970	78,582	242,872
Total income	8,692	85,665	23,229	10,190
Total expenses	7,678	62,913	12,215	9,884

The above amounts do not include other non-material balances related to the Bank's investment in NAEEM.

7. Loans and advances, net

a) Loans and advances, net held at amortized cost are comprised of the following:

2009	**Overdraft SAR'000**	**Consumer SAR'000**	**Commercial SAR'000**	**Others SAR'000**	**Total SAR'000**
Performing loans and advances	**2,333,349**	**2,966,327**	**23,932,826**	**18,488**	**29,250,990**
Non performing loans and advances	**1,764,050**	**22,139**	**-**	**-**	**1,786,189**
Total loans and advances	**4,097,399**	**2,988,466**	**23,932,826**	**18,488**	**31,037,179**
Allowance for credit losses	**(863,804)**	**(16,979)**	**(371,592)**	**-**	**(1,252,375)**
Loans and advances, net	**3,233,595**	**2,971,487**	**23,561,234**	**18,488**	**29,784,804**

2008	Overdraft SAR'000	Consumer SAR'000	Commercial 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	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

The performing loans and advances include SAR 541 million of loans and advances that are past due but not impaired (2008: SAR 176 million).

Loans and advances above include non-interest based banking products in respect of Murabaha agreements, Istisna'a and Ijarah which are stated at amortized cost of SAR 9,451 million (2008: SAR 8,215 million).

b) The movement in the allowance for credit losses is as follows:

2009	**Overdraft SAR '000**	**Consumer SAR'000**	**Commercial SAR'000**	**Total SAR'000**
Balance at beginning of the year	**163,280**	**22,148**	**557,551**	**742,979**
Provided (reversal) during the year	**700,524**	**-**	**(185,959)**	**514,565**
Bad debts written off	**-**	**(6,475)**	**-**	**(6,475)**
Recoveries of amounts previously written off	**-**	**1,306**	**-**	**1,306**
Balance at the end of the year	**863,804**	**16,979**	**371,592**	**1,252,375**

2008	Overdraft SAR '000	Consumer SAR'000	Commercial 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

7. Loans and advances, net – continued

c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances:

	2009 SAR'000	2008 SAR'000
Strong	**12,651,845**	14,235,190
Average	**3,979,469**	4,534,198
Acceptable	**9,116,830**	7,582,878
Marginal	**487,221**	1,764,922
Watch	**49,298**	4,939
Unrated	**2,425,429**	1,705,789
Total	**28,710,092**	29,827,916

The neither past due nor impaired loans and advances are described as follows:

Strong - strong market and financial position with a history of successful performance but certain exceptions do exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound within the industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable - minor weaknesses in the industry or company specific risk factors. Some financial fundamentals are inferior to the industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below the industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances consists of consumer loans with no past due balances.

(ii) Past due but not impaired loans and advances:

2009	**Overdraft SAR '000**	**Consumer SAR'000**	**Commercial SAR'000**	**Total SAR'000**
From 1 day to 30 days	**146,020**	**7,463**	**-**	**153,483**
From 31 days to 90 days	**69,969**	**5,162**	**-**	**75,131**
From 91 days to 180 days	**64,177**	**8,108**	**-**	**72,285**
More than 180 days	**229,826**	**10,173**	**-**	**239,999**
Total	**509,992**	**30,906**	**-**	**540,898**

7. Loans and advances, net – continued

2008	Overdraft SAR '000	Consumer SAR'000	Commercial 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

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

2009	**Performing SAR'000**	**Non performing SAR'000**	**Allowance for credit losses SAR'000**	**Loans and advances, net SAR'000**
Government and quasi-Government	**544,856**	**-**	**(5,449)**	**539,407**
Banks and other financial institutions	**2,343,912**	**-**	**(23,439)**	**2,320,473**
Agriculture and fishing	**50,000**	**-**	**(500)**	**49,500**
Manufacturing	**2,173,688**	**31,216**	**(63,626)**	**2,141,278**
Building and construction	**3,868,154**	**250**	**(39,005)**	**3,829,399**
Commerce	**10,609,223**	**1,636,123**	**(920,841)**	**11,324,505**
Transportation and communication	**54,247**	**-**	**(542)**	**53,705**
Services	**825,467**	**18,863**	**(42,115)**	**802,215**
Consumer loans	**2,966,327**	**22,139**	**(16,979)**	**2,971,487**
Other	**5,815,116**	**77,598**	**(139,879)**	**5,752,835**
Total	**29,250,990**	**1,786,189**	**(1,252,375)**	**29,784,804**

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	2,374,417	-	-	2,374,417
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	11,278,883	145,099	(332,451)	11,091,531
Transportation and communication	65,261	-	(653)	64,608
Services	735,400	18,653	(66,189)	687,864
Consumer loans	1,881,505	11,612	(22,148)	1,870,969
Other	5,297,825	88,078	(183,906)	5,201,997
Total	30,003,632	294,907	(742,979)	29,555,560

7. Loans and advances, net – continued

d) The collateral on loans and advances is summarized as follows:

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk on the loans and advances. Collaterals primarily includes 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 is SAR 20,494 million against neither past due nor impaired, SAR 3,956 million against past due but not impaired and SAR 42 million against impaired loans and advances. The total collateral held by the Bank against loans and advances for 2008 was SAR 23,905 million.

8. Property and equipment, net

Property, plant, and equipment, net is summarized as follows:

	Land and buildings	**Leasehold improvements**	**Furniture, equipment and vehicles**	**Total 2009**	Total 2008
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	SAR'000
Cost					
Balance at beginning of the year	**503,602**	**35,217**	**257,481**	**796,300**	625,807
Additions	**202,168**	**3,301**	**32,069**	**237,538**	171,873
Disposals	**(15,183)**	**(4,201)**	**(16,205)**	**(35,589)**	(1,380)
Balance at end of the year	**690,587**	**34,317**	**273,345**	**998,249**	796,300
Accumulated depreciation					
Balance at beginning of the year	**31,159**	**26,966**	**190,590**	**248,715**	201,102
Charge for the year	**19,753**	**3,206**	**28,714**	**51,673**	48,879
Disposals	**-**	**(1,891)**	**(6,893)**	**(8,784)**	(1,266)
Balance at end of the year	**50,912**	**28,281**	**212,411**	**291,604**	248,715
Net book value					
As at December 31, 2009	**639,675**	**6,036**	**60,934**	**706,645**	
As at December 31, 2008	472,443	8,251	66,891		547,585

In 2009, the Bank sold a parcel of land with a book value of approximately SAR 14.8 million, for approximately SAR 141.3 million, realizing a gain on the sale of approximately SAR 126.5 million. The land was previously acquired through the settlement of a loan.

9. Other assets

Other assets is summarized as follows:

	2009	2008
	SAR'000	SAR'000
Accrued special commission receivable		
- Banks and other financial institutions	**8,628**	8,558
- Investments	**60,792**	76,287
- Loans and advances	**438,205**	453,943
- Other	**23,405**	20,527
Total accrued special commission receivable	**531,030**	559,315
Accounts receivable	**355,017**	347,653
Positive fair value of derivatives (note 10)	**37,782**	75,879
Other real estate	**182,460**	35,124
Other	**202,227**	145,097
Total	**1,308,516**	1,163,068

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.

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 and 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 periodically used to reduce commission rate gap within the established limits.

As part of its asset and liability management, the Bank periodically 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 financial position 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 periodically 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 periodically 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.

10. Derivatives – continued

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.

c) Derivative Financial Instruments are summarized as follows:

			Notional amounts by term to maturity					
2009	**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	**2,247**	**6,668**	**2,433,121**	**2,432,694**	**-**	**320**	**107**	**1,416,208**
Commission rates swaps	**35,535**	**84,543**	**868,805**	**-**	**-**	**868,805**	**-**	**861,420**
Total	**37,782**	**91,211**	**3,301,926**	**2,432,694**	**-**	**869,125**	**107**	**2,277,628**

			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

d) The gains on hedging instruments for fair value hedges are SAR nil (2008: SAR 44.4 million). The losses on hedged items attributable to hedged risk are SAR nil (2008: SAR 15.1 million). The net fair value of the derivatives is SAR -53.4 million (2008: SAR -50.9 million).

Approximately 100% (2008: 100%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 94% (2008: 85%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury and capital markets banking segment.

The Bank had no hedged items and portfolios as at December 31, 2009 and 2008.

11. Due to banks and other financial institutions

Due to banks and other financial institution is summarized as follows:

	2009 SAR'000	2008 SAR'000
Current accounts	**599,190**	44,658
Money market deposits	**2,612,760**	5,164,255
Total	**3,211,950**	5,208,913

Money market deposits include deposits against sale of fixed rate bonds of SAR 1,906 million (2008: SAR 966 million) with agreements to repurchase the same at fixed future dates.

12. Customer deposits

Customer deposits is summarized as follows:

	2009 SAR'000	2008 SAR'000
Demand	**4,508,574**	2,736,939
Saving	**1,709,233**	1,912,381
Time	**18,327,819**	22,480,437
Other	**13,701,803**	13,572,634
Total	**38,247,429**	40,702,391

Time deposits include deposits against sale of securities of SAR 812 million (2008: SAR 4,107 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 171 million (2008: SAR 162 million) of margins held for irrevocable commitments.

The above amounts include foreign currency deposits (equivalent to Saudi Riyals) as follows:

	2009 SAR'000	2008 SAR'000
Demand	**181,659**	159,308
Saving	**125,850**	119,169
Time	**4,389,006**	1,985,871
Other	**2,265,823**	3,239,744
Total	**6,962,338**	5,504,092

13. Other liabilities

Other liabilities is summarized as follows:

	2009 SAR'000	2008 SAR'000
Accrued special commission payable		
– Banks and other financial institutions	**3,043**	138,791
– Customer deposits	**189,394**	387,473
Total accrued special commission payable	**192,437**	526,264
Negative fair value of derivatives (note 10)	**91,211**	126,772
Other	**476,854**	423,426
Total	**760,502**	1,076,462

14. Term loan

On April 7, 2009 the Bank entered into a three-year term loan facility agreement for an amount of SAR 500 million for general corporate purposes. The facility has been fully utilized and is repayable in April 2012. The Bank, however, has an option to effect an early repayment, subject to the terms and conditions of the related agreement.

15. Share capital

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

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

	2009	2008
	%	%
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 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 bonus share was approved in the shareholders' extraordinary general assembly meeting held on 1 Rabi Al Awal 1429H (corresponding to March 09, 2008G), after which the said bonus shares were issued. As a result of issuing the bonus shares, the total number of issued shares increased to 450,000,000, and 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 131 million has been transferred from 2009 net income (2008: SAR 129 million). The statutory reserve is not available for distribution.

17. Commitments and contingencies

a) Legal proceedings

As of December 31, 2009 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, 2009, the Bank had capital commitments of SAR 93.2 million (2008: SAR 116.2 million) in respect of construction for new branches and 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:

2009	**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	**630,922**	**140,972**	**2,758**	**75,015**	**849,667**
Letters of guarantee	**753,651**	**1,377,287**	**1,076,027**	**8,784**	**3,215,749**
Acceptances	**135,204**	**98,967**	**1,077**	**-**	**235,248**
Irrevocable commitments to extend credit	**-**	**-**	**455,100**	**165,224**	**620,324**
Total	**1,519,777**	**1,617,226**	**1,534,962**	**249,023**	**4,920,988**

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

The outstanding unused portion of commitments as of December 31, 2009 which can be revoked unilaterally at any time by the Bank, amounts to SAR 9,990 million (2008: SAR 13,391 million).

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

	2009 SAR'000	2008 SAR'000
Government and quasi-Government	**2,751,196**	2,325,976
Corporate	**2,001,665**	2,687,900
Banks and other financial institutions	**36,964**	208,772
Other	**131,163**	264,399
Total	**4,920,988**	5,487,047

17. Commitments and contingencies – continued

d) Assets pledged

Securities pledged under repurchase agreements with other banks include corporate, Bank and non-government bonds.

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

	2009		2008	
	Assets	**Related liabilities**	Assets	Related liabilities
	SAR'000	**SAR'000**	SAR'000	SAR'000
Available-for-sale investments (note 6)	**2,592,853**	**1,905,772**	1,391,446	966,065

e) Operating lease commitments

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

	2009	2008
	SAR'000	SAR'000
Less than 1 year	**25,695**	21,551
1 to 5 years	**82,958**	69,200
Over 5 years	**63,906**	57,259
Total	**172,559**	148,010

18. Special commission income and expense

Special commission income and expense is summarized as follows:

	2009	2008
	SAR'000	SAR'000
Special commission income:		
Investments		
- Available for sale	**255,260**	585,244
- Held to maturity	**28,927**	127
	284,187	585,371
Due from banks and other financial institutions	**60,563**	150,327
Loans and advances	**1,497,773**	1,804,983
Total	**1,842,523**	2,540,681

	2009	2008
	SAR'000	SAR'000
Special commission expense:		
Due to banks and other financial institutions	**94,551**	208,123
Customer deposits	**470,508**	833,789
Term loan	**7,174**	31,025
Other	**255,871**	441,303
Total	**828,104**	1,514,240

19. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2009 SAR'000	2008 SAR'000
Fee income:		
- Share trading and fund management	**114,786**	274,933
- Trade finance	**51,899**	54,901
- Corporate finance and advisory	**40,896**	125,575
- Other banking services	**50,947**	89,001
Total fee income	**258,528**	544,410
Fee expense:		
- Custodial services	**18,002**	62,101
- Other banking services	**540**	899
Total fee expense	**18,542**	63,000
Fee income from banking services, net	**239,986**	481,410

20. Dividend income

Dividend income is summarized as follows:

	2009 SAR'000	2008 SAR'000
Investments		
- Available for sale	**21,702**	35,906
- Other	**-**	12,615
Total	**21,702**	48,521

21. Gains on non-trading investments, net

Gains on non-trading investments, net is summarized as follows:

	2009 SAR'000	2008 SAR'000
Realized gains on available-for-sale investments	**85,910**	228,379

22. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2009 and 2008 is calculated by dividing the net income for the year attributable to the equity holders by 450.0 million shares (see note 15).

23. Proposed gross dividend, zakat and income tax

The Board of Directors has not proposed any dividend for the year 2009. 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.

23. Proposed gross dividend, zakat and income tax – (continued)

Any future cash dividends to the Saudi and non-saudi shareholders will be paid after deducting zakat and any unreimbursed income tax, as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the years 2006 through 2009 amounts to approximately SAR 101.7 million which will be deducted from their future share of cash dividends. The cumulative Zakat from 2006 up to 2009 amounts to approximately SAR 0.25 per share.

b) Foreign shareholders:

Income tax attributable to the non-saudi share holders is approximately SAR 6.7 million for the year 2009. Income tax for the years prior to 2009 and advance payments for 2009 have been reimbursed by the non Saudi shareholders.

24. Cash and cash equivalents

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

	2009 SAR'000	2008 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	**341,418**	346,856
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**5,265,973**	7,433,886
Total	**5,607,391**	7,780,742

25. Business segments

The Bank has adopted IFRS 8 "Operating Segments" with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's senior management in its functions as the chief decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard IAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risk and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as a starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Banks' reportable segments has not changed.

The Banks' primary business is conducted in the Kingdom of Saudi Arabia.

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 are comprised of operating assets and liabilities, being the majority of the balances.

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.

Treasury

Money market, trading and treasury services.

25. Business segments – continued

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.

a) The Bank's total assets and liabilities as of December 31, and its components of income, expense and net income for the years then ended, by business segment, are as follows:

2009	**Retail Banking**	**Corporate Banking**	**Treasury**	**Investment Banking and Brokerage**	**Total**
Total assets	**12,260,255**	**20,510,618**	**16,949,099**	**428,039**	**50,148,011**
Total liabilities	**15,764,250**	**22,762,292**	**4,171,939**	**21,400**	**42,719,881**
Total operating income	**600,021**	**669,495**	**132,873**	**114,769**	**1,517,158**
Fee income from banking services, net	**32,405**	**92,795**	**-**	**114,786**	**239,986**
Total operating expenses	**482,697**	**314,478**	**219,738**	**77,063**	**1,093,976**
Share in earnings from associates	**-**	**-**	**115,587**	**-**	**115,587**
Net income for the year	**117,324**	**355,017**	**28,722**	**37,706**	**538,769**

2008	Retail Banking	Corporate Banking	Treasury	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
Fee income from banking services, net	26,001	180,476	-	274,933	481,410
Total operating expenses	172,593	131,994	1,015,691	87,793	1,408,071
Net income for the year	328,988	531,369	(491,697)	161,356	530,016

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

2009	**Retail banking**	**Corporate banking**	**Treasury**	**Investment banking and brokerage**	**Total**
Statement of financial position assets	**10,280,475**	**19,170,166**	**16,747,171**	**407,133**	**46,604,945**
Commitments and contingencies	**1,179,103**	**818,832**	**15,121**	**-**	**2,013,056**
Derivatives	**-**	**-**	**51,976**	**-**	**51,976**

25. Business segments – continued

2008	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Balance sheet assets	10,781,525	18,774,035	20,899,227	4,005	50,458,792
Commitments and contingencies	1,348,579	1,399,351	108,689	-	2,856,619
Derivatives	-	-	18,119	-	18,119

Credit exposure comprises the carrying value of statement of financial position assets excluding cash, property and equipment, and 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-statement of financial position financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses the external ratings of 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.

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 practices.

26. Credit risk – continued

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:

	(SAR'000)						
2009	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
ASSETS							
Cash and balances with SAMA	1,508,512	962	7,378	11,053	-	-	1,527,905
Due from banks and other financial institutions	3,775,343	850,643	416,299	222,538	1,100	50	5,265,973
Investments, net	6,804,642	120,000	313,551	3,498,666	-	-	10,736,859
Loans and advances, net	29,763,979	-	-	-	20,825	-	29,784,804
Investments in associates	817,309	-	-	-	-	-	817,309
Total	42,669,785	971,605	737,228	3,732,257	21,925	50	48,132,850
LIABILITIES							
Due to banks and other financial institutions	345,875	370,978	2,100,010	394,807	224	56	3,211,950
Customer deposits	38,247,429	-	-	-	-	-	38,247,429
Term loan	500,000	-	-	-	-	-	500,000
Total	39,093,304	370,978	2,100,010	394,807	224	56	41,959,379
Commitments and contingencies	4,089,149	194,403	186,925	246,753	203,151	608	4,920,989
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	1,692,811	39,027	49,248	191,154	40,694	122	2,013,056
Derivatives	32,526	12,584	6,866	-	-	-	51,976

27. Geographical concentration - continued

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
Loans and advances, net	29,532,224	-	-	-	23,336	-	29,555,560
Investments in associates	719,422	-	-	-	-	-	719,422
Total	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	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

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-statement of financial position liabilities into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor intended 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 of December 31, 2009 and 2008 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, 2009 and 2008 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 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 can use hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated income statement 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, 2009 and 2008, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2009 and 2008 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.

2009

Currency	Increase (decrease) in basis	Sensitivity of special commission income	Sensitivity of Equity (SAR'000) 6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	**+5/-5**	**+11,912/-11,912**	**-**	**-**	**+74/-74**	**-**	**+74/-74**
USD	**+10/-10**	**+4,252/-4,252**	**-**	**-**	**+685/-685**	**+1,230/-1,230**	**+1,915/-1,915**
EUR	**+15/-15**	**+684/-684**	**-**	**-**	**+470/-470**	**-**	**+470/-470**

2008

Currency	Increase (decrease) in basis	Sensitivity of special commission income	Sensitivity of Equity (SAR'000) 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

28. Market risk - continued

Commission sensitivity of assets, liabilities and off statement of financial position 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 the treasury department.

The tables below summarize 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 statement of financial position 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)					
2009 **Assets**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**
Cash and balances with SAMA	-	-	-	-	1,527,905	1,527,905
Due from banks and other financial institutions	5,187,531	-	-	-	78,442	5,265,973
Investments, net	6,454,730	78,444	1,307,764	1,229,510	1,666,411	10,736,859
Loans and advances, net	10,167,157	7,178,398	10,753,026	1,686,223	-	29,784,804
Investments in associates	-	-	-	-	817,309	817,309
Property and equipment, net	-	-	-	-	706,645	706,645
Other assets	-	-	-	-	1,308,516	1,308,516
Total	21,809,418	7,256,842	12,060,790	2,915,733	6,105,228	50,148,011
Liabilities and equity						
Due to banks and other financial institutions	2,612,760	-	-	-	599,190	3,211,950
Customer deposits	24,969,718	6,233,620	243,114	3,155	6,797,822	38,247,429
Other liabilities	-	-	-	-	760,502	760,502
Term loan	500,000	-	-	-	-	500,000
Equity	-	-	-	-	7,428,130	7,428,130
Total	28,082,478	6,233,620	243,114	3,155	15,585,644	50,148,011
Commission rate sensitivity-on statement of financial position	(6,273,060)	1,023,222	11,817,676	2,912,578	(9,480,416)	-
Commission rate sensitivity-off statement of financial position	268,685	(268,685)	-	-	-	-
Total commission rate sensitivity gap	(6,004,375)	754,537	11,817,676	2,912,578	(9,480,416)	-
Cumulative commission rate sensitivity gap	(6,004,375)	(5,249,838)	6,567,838	9,480,416	-	-

28. Market risk - continued

2008 Assets	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
	(SAR'000)					
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
Loans and advances, net	10,413,877	7,151,373	9,721,923	2,268,387	-	29,555,560
Investments in associates	-	-	-	-	719,422	719,422
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 statement of financial position	(4,856,741)	(2,431,354)	12,417,542	3,394,799	(8,524,246)	-
Commission rate sensitivity-Off statement of financial position	262,586	(262,586)	-	-	-	-
Total commission rate sensitivity gap	(4,594,155)	(2,693,940)	12,417,542	3,394,799	(8,524,246)	-
Cumulative commission rate sensitivity gap	(4,594,155)	(7,288,095)	5,129,447	8,524,246	-	-

The off-statement of financial position 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, 2009 and 2008 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR based on historical movements, with all other variables held constant, on the consolidated income statement (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 the consolidated income, whereas a negative effect shows a potential net reduction in consolidated income or equity.

28. Market risk - continued

Currency Exposures As at December 31, 2009	**Change in Currency rate in %**	**Effect on Net Income (SAR'000)**	**Effect on Equity (SAR'000)**
USD	**-**	**-**	**-**
EUR	**+1.4/-1.4**	**+6,458/-6,458**	**+4,390/-4,390**
GBP	**+2.3/-2.3**	**+279/-279**	**-**

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	+15,188/-15,188	+6,303/-6,303
GBP	+6.8/-6.8	+935/-935	-

(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:

	2009 SAR '000 Long/(short)	2008 SAR '000 Long/(short)
US Dollar	**(146,313)**	(516,855)
Euro	**2,414**	40
Pound sterling	**136**	27
Japanese yen	**1,128**	363
U.A.E Dirham	**1,291**	3,308
Others	**7,569**	11,024

(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, 2009		December 31, 2008	
Market Indices	**Change in equity price %**	**Effect in SAR'000**	Change in equity price %	Effect in SAR'000
Tadawal	**+25/-25**	**+321,567/-321,567**	+8/-8	+75,470/-75,470
NASDAQ	**+5/-5**	**+4,063/-4,063**	+21/-21	+14,963/-14,963
Unquoted	**+5/-5**	**+2,432/-2,432**	+5/-5	+557/-557

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.

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% (2008: 7%) of total demand deposits and 4% (2008: 4%) 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.

a) Expected contractual maturity profile of assets and liabilities.

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 consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	(SAR'000)					
2009	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	-	-	-	-	1,527,905	1,527,905
Due from banks and other financial institutions	5,187,531	-	-	-	78,442	5,265,973
Investments, net	692,941	1,114,516	4,624,358	2,638,633	1,666,411	10,736,859
Loans and advances, net	9,429,712	5,457,331	11,361,629	3,536,132	-	29,784,804
Investments in associates	-	-	-	-	817,309	817,309
Property and equipment, net	-	-	-	-	706,645	706,645
Other assets	-	-	-	-	1,308,516	1,308,516
Total assets	15,310,184	6,571,847	15,985,987	6,174,765	6,105,228	50,148,011
Liabilities and equity						
Due to banks and other financial institutions	2,612,760	-	-	-	599,190	3,211,950
Customer deposits	24,969,718	6,233,620	243,114	3,155	6,797,822	38,247,429
Other liabilities	-	-	-	-	760,502	760,502
Term loan	-	-	500,000	-	-	500,000
Equity	-	-	-	-	7,428,130	7,428,130
Total liabilities and equity	27,582,478	6,233,620	743,114	3,155	15,585,644	50,148,011
Derivatives, commitments and contingencies	4,552,592	1,885,910	1,535,282	249,130	-	8,222,914

29. Liquidity risk – continued

	(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
Loans and advances, net	9,786,733	5,594,180	10,006,711	4,167,936	-	29,555,560
Investment in associates	-	-	-	-	719,422	719,422
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

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.

b) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date that the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

29. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	(SAR'000)					
2009	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Non derivatives liabilities	**27,582,478**	**6,233,620**	**743,114**	**3,155**	**7,397,012**	**41,959,379**
Derivatives	**3,032,814**	**268,685**	**320**	**107**	**-**	**3,301,926**
Total	**30,615,292**	**6,502,305**	**743,434**	**3,262**	**7,397,012**	**45,261,305**

	(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	-	5,346,604	45,911,304
Derivatives	975,534	361,532	863,378	107	-	2,200,551
Total	29,753,955	12,144,259	866,930	107	5,346,604	48,111,855

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 Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking):

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and

Level 3: valuation techniques for which any significant input is not based on observable market data.

30. Fair values of financial assets and liabilities - continued

The following table shows an analysis of financial instruments recorded at fair value as at December 31, 2009 by level of the fair value hierarchy.

	SAR '000			
2009	Level 1	Level 2	Level 3	Total
Financial assets				
Forward foreign exchange contracts	-	2,247	-	2,247
Financial investments available for sale	5,264,562	3,900,750	291,883	9,457,195
Total	5,264,562	3,902,997	291,883	9,459,442
Financial liabilities				
Forward foreign exchange contracts	-	6,668	-	6,668
Total	-	6,668	-	6,668

The fair values of on-statement of financial position financial instruments are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, held to maturity investments, 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 consolidated 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.

The estimated fair values of held-to-maturity investments 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-statement of financial positions financial instruments are based on the quoted market prices when available or by using appropriate valuation models. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation models, is SAR 6 million (2008: SAR -20 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 is 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 consolidated 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 as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2009 SAR'000	2008 SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	**39,093**	2,899
Due to banks and other financial institutions	**90**	102,332
Commitments and contingencies	**663,087**	382,619
Associates:		
Loans and advances, net	**38,000**	38,000
Customer deposits	**419,723**	393,457
Commitments and contingencies	**113,070**	70,890
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Due to banks and other financial institutions	**37,616**	375,700
Investments	**120,159**	436,112
Loans and advances, net	**2,556,154**	3,001,624
Customer deposits	**5,664,428**	5,371,410
Commitments and contingencies	**972,919**	881,069
Bank's mutual funds and employees' post-employment benefit plan:		
Investments	**361,673**	365,598
Customer deposits	**34,916**	51,839

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.

Certain major shareholders have guaranteed loans totaling SAR 1.5 billion as at December 31, 2009 (2008: SAR 1.6 billion).

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

	2009 SAR'000	2008 SAR'000
Special commission income	**242,159**	245,007
Special commission expense	**147,037**	204,486
Fees from banking services, net	**57,930**	72,677
Directors' remuneration	**2,534**	2,583

31. Related party transactions - continued

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

	2009 SAR'000	2008 SAR'000
Short-term employee benefits	**13,563**	13,464
Post-employment benefits	**1,820**	1,468

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 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 consolidated statement of financial position assets, commitments, and notional amount of derivatives, at a weighted amount to reflect their relative risk.

	2009 SAR'000	2008 SAR'000
Credit Risk RWA	**46,232,523**	43,208,695
Operational Risk RWA	**2,921,939**	3,122,771
Market Risk RWA	**485,475**	541,571
Total Pillar- I RWA	**49,639,937**	46,873,037
Tier I Capital	**7,019,475**	6,248,431
Tier II Capital	**169,252**	179,942
Total Tier I & II Capital	**7,188,727**	6,428,373
Capital Adequacy Ratio %		
Tier I Ratio	**14.14%**	13.33%
Tier I + Tier II Ratio	**14.48%**	13.71%

33. Investment management and brokerage 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 5,345 million (2008: SAR 5,075 million). This includes funds managed under Shariah approved portfolios amounting to SAR 1,346 million (2008: SAR 1,249 million).

34. Employee stock option shares

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

Grant date: January 1, 2008 and January 1, 2009
Maturity date: Between 2010 and 2013
Vesting period: 4 years per plan
Vesting conditions: participating employees to remain in services
Method of settlement: Equity

The stock options outstanding as at December 31, 2009 have a weighted average contractual life between two and four years.

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

35. Issued IFRS but not yet effective

The Bank has chosen not to early adopt IFRS 9, "Financial Instruments" which has been published and is mandatory for compliance for the Bank's fiscal year beginning January 1, 2013. The Bank is currently assessing the implication of the standard on the group and the timing of its adoption.

The Bank will also apply the revisions to IAS 27 "Consolidated and Separate Financial Statements" which will become effective from January 1, 2010. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the consolidated income statement.

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 08, 1431H corresponding to January 23, 2010.

38. Basel II Pillar 3 disclosures (unaudited)

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 review nor audit by the external auditors.