Consolidated Balance Sheet

As at December 31, 2008 and 2007

	Notes	2008 SAR' 000	2007 SAR' 000
Assets			
Cash and balances with SAMA	4	**12,050,836**	8,228,376
Due from banks and other financial institutions	5	**2,747,396**	1,293,967
Investments, net	6	**28,227,796**	21,024,805
Loans and advances, net	7	**74,661,610**	61,121,911
Investment in associate	8	**193,048**	200,000
Other real estate		**103,440**	155,855
Property and equipment, net	9	**934,851**	773,664
Other assets	10	**2,388,165**	1,668,983
Total assets		**121,307,142**	94,467,561
Liabilities and Shareholders' equity			
Liabilities			
Due to banks and other financial institutions	12	**10,509,073**	4,447,174
Customers' deposits	13	**92,743,453**	73,692,139
Other liabilities	14	**3,508,318**	2,616,151
Term Loan	15	**-**	1,312,500
Debt securities in issue	15	**1,875,000**	1,875,000
Total liabilities		**108,635,844**	83,942,964
Shareholders' equity			
Share capital	16	**6,500,000**	4,550,000
Statutory reserve	17	**4,390,000**	3,766,000
General reserve	17	**-**	1,950,000
Other reserves		**(85,782)**	171,618
Retained earnings		**1,217,080**	86,979
Proposed dividends	27	**650,000**	-
Total shareholders' equity		**12,671,298**	10,524,597
Total liabilities and shareholders' equity		**121,307,142**	94,467,561

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the years ended December 31, 2008 and 2007

	Notes	2008 SAR' 000	2007 SAR' 000
Special commission income	19	**5,638,927**	5,416,757
Special commission expense	19	**2,285,395**	2,512,838
Net special commission income		**3,353,532**	2,903,919
Fees from banking services, net	20	**839,018**	776,361
Exchange income, net		**265,910**	200,863
(Loss) income from FVIS financial instruments, net	21	**(58,224)**	45,987
Trading income, net	22	**5,128**	8,934
Dividend income	23	**5,784**	5,451
Losses and impairment on non-trading investments, net	24	**(424,156)**	(17,607)
Other operating income	25	**148,191**	32,351
Total operating income		**4,135,183**	3,956,259
Salaries and employee related expenses		**908,227**	843,076
Rent and premises related expenses		**123,055**	104,705
Depreciation and amortization	9	**155,733**	119,813
Other general and administrative expenses		**394,811**	360,329
Provision for credit losses	7	**60,281**	67,134
Total operating expenses		**1,642,107**	1,495,057
Net operating income		**2,493,076**	2,461,202
Share in losses of an associate	8	**(6,952)**	-
Net income for the year		**2,486,124**	2,461,202
Basic and fully diluted earnings (in SAR per share)	26	**3.82**	3.79

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Statement of Changes in Shareholders' equity

For the years ended December 31, 2008 and 2007

2008	Notes	Share capital SAR' 000	Statutory reserve SAR' 000	General reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000
Balance at beginning of the year		**4,550,000**	**3,766,000**	**1,950,000**	**171,618**	**86,979**	**-**	**10,524,597**
Net changes in fair value of cash flow hedges					**115,794**	**-**	**-**	**115,794**
Net changes in fair values of available for sale investments					**(504,175)**	**-**	**-**	**(504,175)**
Transfers to consolidated statement of income					**130,981**	**-**	**-**	**130,981**
Net expense recognized directly in equity					**(257,400)**	**-**	**-**	**(257,400)**
Net income for the year					**-**	**2,486,124**	**-**	**2,486,124**
Total recognized (expense) income for the year					**(257,400)**	**2,486,124**	**-**	**2,228,724**
Bonus shares issue	16	**1,950,000**	**-**	**(1,950,000)**	**-**	**-**	**-**	**-**
Transfer to statutory reserve	17	**-**	**624,000**	**-**	**-**	**(624,000)**	**-**	**-**
Proposed final dividend	27	**-**	**-**	**-**	**-**	**(650,000)**	**650,000**	**-**
Zakat	27	**-**	**-**	**-**	**-**	**(82,023)**	**-**	**(82,023)**
Balance at end of the year		**6,500,000**	**4,390,000**	**-**	**(85,782)**	**1,217,080**	**650,000**	**12,671,298**

2007	Notes	Share capital SAR' 000	Statutory reserve SAR' 000	General reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000
Balance at beginning of the year		3,250,000	3,150,000	1,300,000	19,841	260,297	-	7,980,138
Net changes in fair value of cash flow hedges					17,445	-	-	17,445
Net changes in fair values of available for sale investments					326,833	-	-	326,833
Transfers to consolidated statement of income					(192,501)	-	-	(192,501)
Net income recognized directly in equity					151,777	-	-	151,777
Net income for the year					-	2,461,202	-	2,461,202
Total recognized income for the year					151,777	2,461,202	-	2,612,979
Bonus shares issue	16	1,300,000	-	(1,300,000)	-	-	-	-
Transfer to statutory reserve	17	-	616,000	-	-	(616,000)	-	-
Transfer to general reserve	17	-	-	1,950,000	-	(1,950,000)	-	-
Zakat	27	-	-	-	-	(68,520)	-	(68,520)
Balance at end of the year		4,550,000	3,766,000	1,950,000	171,618	86,979	-	10,524,597

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2008 and 2007

	Notes	2008 SAR' 000	2007 SAR' 000
Operating activities			
Net income		**2,486,124**	2,461,202
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts on non-trading investments, net		**(291,035)**	(23,382)
Losses and impairment on non-trading investments, net	24	**424,156**	17,607
Depreciation and amortization	9	**155,733**	119,813
Gains on disposal of property and equipment, net	25	**(58,226)**	(419)
Share in losses of an associate		**6,952**	-
Provision for credit losses	7	**60,281**	67,134
Total		**2,783,985**	2,641,955
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	**(733,017)**	(1,077,870)
Due from banks and other financial institutions maturing after ninety days from the acquisition date		**708,413**	(858,413)
Loans and advances		**(13,464,545)**	(11,405,774)
Other real estate		**52,415**	(728)
Other assets		**302,981**	(180,656)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**6,061,899**	1,348,571
Customers' deposits		**19,051,985**	11,918,278
Other liabilities		**74,046**	439,212
Net cash from operating activities		**14,838,162**	2,824,575
Investing activities			
Proceeds from sale of and matured non-trading investments		**40,694,505**	4,194,360
Purchase of non-trading investments		**(48,638,739)**	(6,771,904)
Investment in associate	8	**-**	(200,000)
Purchase of property and equipment	9	**(325,378)**	(307,912)
Proceeds from sale of property and equipment		**66,684**	1,105
Net cash used in investing activities		**(8,202,928)**	(3,084,351)
Financing activities			
Term Loan	15	**(1,312,500)**	-
Dividends paid		**(71,449)**	(3,508)
Net cash used in financing activities		**(1,383,949)**	(3,508)
Increase (decrease) in cash and cash equivalents		**5,251,285**	(263,284)
Cash and cash equivalents at the beginning of the year		**5,460,659**	5,723,943
Cash and cash equivalents at the end of the year	28	**10,711,944**	5,460,659
Special commission received during the year		**5,472,166**	5,275,152
Special commission paid during the year		**1,967,600**	2,454,072
Supplemental non-cash information			
Net changes in fair value		**(388,381)**	344,278

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (January 19, 1980) through 131 branches (2007: 123 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

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

In accordance with the Capital Market Authority directives, the Bank has established a wholly owned subsidiary (directly and indirectly) "ANB Invest", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on 26 Shawal 1428 (corresponsing to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority. The subsidiary commenced its operations effective on Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008.

2. Basis of preparation

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

b) Basis of measurement
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets and liabilities held at Fair Value through Income Statement (FVIS) and available for sale. In addition, assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risk being hedged.

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

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

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

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

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

(iii) Impairment of available for-sale equity investments
The Bank exercises judgement to consider impairment on its 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.

Due to current volatility in the market, 30% or more is used as a reasonable measure for significant decline below cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment of other financial assets. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment of other financial assets.

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

3. Summary of significant accounting policies

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

a) Basis of consolidation
The consolidated financial statements comprise the consolidated financial statements of the Bank and its subsidiary collectively referred to as (the Group). The financial statements of the subsidiary are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiary when necessary to align them with the Bank's financial statements.

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying an ownership interest 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, if any, are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

b) Investment in associates
Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power and/or over which it exercises a significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or the recoverable amount.

c) Settlement date accounting
All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date. 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. For financial instruments held at fair value, the Bank accounts for any change in fair values between the trade date and the reporting date.

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

Notes to the Financial Statements

For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

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

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

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

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

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

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortized 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 amortized over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income.

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

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the 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 recognized in other reserves is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in "other reserves" is transferred to the consolidated statement of income for the period.

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

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income. Exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are reported initially in equity to the extent that the hedge is effective. Exchange component of gains or losses on non-monetary items are recognized either in the consolidated statement of income or equity, in accordance with the treatment of the related gain or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The monetary assets and liabilities of overseas branches are translated at the rate of exchange ruling at the balance sheet date. The statements of income of overseas branches are translated at the average exchange rates for the year.

f) Offsetting
Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross in the consolidated balance sheet.

g) Revenue and expenses recognition
Special commission income and expense for all commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income on the effective yield basis and include premiums amortized and discounts accreted during the year. The effective yield is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective commission rate but not future credit losses. 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.

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 commission rate and the change in carrying amount is recorded as special commission income or expense.

Once 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 recognized using the original effective commission rate applied to the new carrying amount.

Exchange income is recognized when earned.

Fees and commissions are recognized on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided.

Dividend income is recognized when declared.

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

h) Sale and repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on the consolidated balance sheet and are measured in accordance with related accounting policies for investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The counter-party liability for amounts received under these agreements is included in "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and 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 recognized in the consolidated balance sheet, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

i) Investments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

All investment securities are measured initially at their fair value plus, in the case of all financial assets other than those carried at Fair Value through income statement(FVIS), any directly attributable incremental costs of acquisition. Premiums are amortised and discounts accreted on effective yield basis and taken to special commission income.

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

Notes to the Financial Statements

For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

i) Investments (continued)

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

Following initial recognition, subsequent transfers between the various 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) Held at Fair Value Through Income Statement (FVIS)

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired for the purpose of selling or repurchasing in short term. An investment may be designated as FVIS if it satisfies the criteria laid down by IAS 39.

After initial recognition, investments held at FVIS are measured at fair value. Changes in fair value are recorded in the statement of income in the year in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in line with the underlying assets in the consolidated statement of income.

(ii) Available for sale

Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices.

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

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

(iii) Held to maturity

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

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

(iv) Other investments held at amortized cost

Investment securities with fixed or determinable payments that are not quoted in an active market and other than those that the Bank intends to sell immediately or in the near term, or those designated as “Available for sale” are classified as “Other investments held at amortised cost”. Such investments where fair values have not been hedged are stated at amortised cost using an effective yield rate method, less provision for any impairment. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized or impaired.

j) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either the 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 except for loans held as FVIS.

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 classified as loan and advances held at amortized cost and are stated at cost less any amount written off and provisions for impairment.

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

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

k) Impairment of financial assets

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

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the balance sheet date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts. The present value of the estimated future cash flows is discounted at the financial asset’s original effective rate. If an asset has a variable special commission rate, the discount rate for measuring any impairment loss is the current special commission rate.

When a Financial asset is uncollectible, it is written off either directly by a charge to consolidated statement of income or against the related provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in provision for credit losses.

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

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

In addition to specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

i) Impairment of financial assets held at amortized cost

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 commission rate.

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

ii) Impairment of financial assets held at fair value

For financial assets at fair value, where a loss has been recognized directly under shareholders’ equity as a result of write down of the asset to recoverable amount, the cumulative net loss recognized in shareholders’ equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

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

l) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material).

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

Notes to the Financial Statements

For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

m) Property and equipment
Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated.

The cost of property and equipment is depreciated and amortized on a straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	over lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	3 to 10 years

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

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

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

n) Liabilities
All money market deposits, customers' deposits, term loans and subordinated debts issued are initially recognized at cost, being the fair value of the consideration received less transaction costs.

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

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

o) Provisions
Provisions other than impairment or credit loss 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.

p) Accounting for leases
i) Where the Bank is the lessee
Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

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

q) Cash and cash equivalents
For the purpose of the statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions maturing within 90 days from the acquisition date.

r) 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 recognized in the consolidated financial statements at fair value, in 'Other Liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in provision for credit losses'. The premium received is recognized in the consolidated statement of income in 'Fees from banking services, net' on a straight line basis over the life of the guarantee.

s) Derecognition of financial instruments
A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to 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) is derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

t) Zakat and income taxes
Zakat and income taxes are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Zakat and income taxes are not charged to the Bank's consolidated statement of income as they are payable by the shareholders.

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

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

v) Prospective changes in accounting policies
Certain new IFRS and amendments and interpretations to existing IFRS, have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2009 These include:

IFRS 8 Operating segments
IFRS 8 Operating segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after January 2009. The new standard may require changes in the way the bank discloses information about its operating segments.

IAS 1 Presentation of financial statements
The Bank has not early adopted the revised IAS 1 "Presentation of financial statements" which will be effective for the year ending December 31, 2009. The application of this standard will result in amendment to the presentation of the financial statements.

4. Cash and balances with SAMA

	2008	2007
Cash in hand	**1,179,057**	965,119
Statutory deposit	**3,898,788**	3,165,771
Money market placements	**6,958,710**	3,893,567
Other balances	**14,281**	203,919
Total	**12,050,836**	8,228,376

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

5. Due from banks and other financial institutions

	2008	2007
Current accounts	**414,048**	558,367
Money market placements	**2,333,348**	735,600
Total	**2,747,396**	1,293,967

Notes to the Financial Statements

For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

6. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2008	2007	**2008**	2007	**2008**	2007
i) Held at fair value through income statement						
Mutual funds and others	**-**	-	**349,952**	1,076,941	**349,952**	1,076,941
Held at fair value through income statement	**-**	-	**349,952**	1,076,941	**349,952**	1,076,941
ii) Available for sale						
Fixed rate securities	**7,726,752**	141,866	**187,709**	4,009,136	**7,914,461**	4,151,002
Floating rate notes	**558,174**	308,472	**471,869**	630,075	**1,030,043**	938,547
Equities	**231,535**	408,890	**58,269**	37,741	**289,804**	446,631
Other	**191,972**	370,761	**287,974**	225,400	**479,946**	596,161
Available for sale	**8,708,433**	1,229,989	**1,005,821**	4,902,352	**9,714,254**	6,132,341
iii) Held to maturity						
Fixed rate securities	**3,417,895**	2,429,532	**-**	-	**3,417,895**	2,429,532
Held to maturity	**3,417,895**	2,429,532	**-**	-	**3,417,895**	2,429,532
iv) Other investments held at amortized cost						
Fixed rate securities	**11,938,425**	8,282,802	**60,696**	154,409	**11,999,121**	8,437,211
Floating rate notes	**265,000**	265,000	**2,444,074**	2,126,075	**2,709,074**	2,391,075
Other	**-**	-	**374,063**	786,563	**374,063**	786,563
Held at amortized cost, gross	**12,203,425**	8,547,802	**2,878,833**	3,067,047	**15,082,258**	11,614,849
Allowance for impairment	**-**	-	**(336,563)**	(228,858)	**(336,563)**	(228,858)
Held at amortized cost, net	**12,203,425**	8,547,802	**2,542,270**	2,838,189	**14,745,695**	11,385,991
Investments, net	**24,329,753**	12,207,323	**3,898,043**	8,817,482	**28,227,796**	21,024,805

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

	2008			2007		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**248,405**	**23,083,072**	**23,331,477**	767,087	14,250,658	15,017,745
Floating rate notes	**427,092**	**3,312,025**	**3,739,117**	534,187	2,795,435	3,329,622
Equities	**230,535**	**59,269**	**289,804**	407,890	38,741	446,631
Other	**266,820**	**937,141**	**1,203,961**	404,958	2,054,707	2,459,665
Allowance for impairment	**-**	**(336,563)**	**(336,563)**	-	(228,858)	(228,858)
Investments, net	**1,172,852**	**27,054,944**	**28,227,796**	2,114,122	18,910,683	21,024,805

Unquoted fixed and floating rate investments are mainly Saudi Government Bonds.

c) The analysis of unrecognized gains and losses and fair values of other investments held at amortized cost, and held-to-maturity investments are as follows:

	2008				2007			
	Carrying value	**Gross unrecognized gains**	**Gross unrecognized losses**	**Fair value**	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value
i) Held to maturity								
Fixed rate securities	**3,417,895**	**33,635**	**-**	**3,451,530**	2,429,532	31,325	116	2,460,741
Total	**3,417,895**	**33,635**	**-**	**3,451,530**	2,429,532	31,325	116	2,460,741
ii) Other investments held at amortized cost								
Fixed rate securities	**11,999,121**	**55,542**	**10,388**	**12,044,275**	8,437,211	184,016	11,280	8,609,947
Floating rate notes	**2,709,074**	**239**	**130,358**	**2,578,955**	2,391,075	598	71,433	2,320,240
Other	**374,063**	**-**	**340,406**	**33,657**	786,563	-	213,251	573,312
Allowance for impairment	**(336,563)**	**-**	**-**	**(336,563)**	(228,858)	-	-	(228,858)
Total	**14,745,695**	**55,781**	**481,152**	**14,320,324**	11,385,991	184,614	295,964	11,274,641

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

	2008	2007
Government and quasi government	**23,956,585**	15,720,105
Corporate	**890,885**	957,846
Banks and other financial institutions	**3,113,506**	3,941,896
Other	**266,820**	404,958
Total	**28,227,796**	21,024,805

Investments include SAR 13,921 million (2007: SAR 3,886 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 13,975 million (2007: SAR 3,989 million).

e) Movement in the provision for impairment of investments

	2008	2007
Balance at beginning of the year	**228,858**	18,750
Provided during the year	**559,688**	228,858
Written – off during the year	**(451,983)**	-
Recoveries of amounts previously provided	**-**	(18,750)
Balance at end of the year	**336,563**	228,858

Notes to the Financial Statements

For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

7. Loans and advances, net

a) Loans and advances comprise the following:

2008	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances, gross	**1,273,890**	**17,215,328**	**56,909,151**	**75,398,369**
Non-performing loans and advances, net	**22,287**	**27,020**	**246,601**	**295,908**
Total Loans and advances	**1,296,177**	**17,242,348**	**57,155,752**	**75,694,277**
Provision for credit losses	**(13,691)**	**(257,095)**	**(761,881)**	**(1,032,667)**
Loans and advances, net	**1,282,486**	**16,985,253**	**56,393,871**	**74,661,610**
2007				
Performing loans and advances, gross	1,686,136	16,619,839	43,615,933	61,921,908
Non-performing loans and advances, net	27,504	37,699	249,701	314,904
Total Loans and advances	1,713,640	16,657,538	43,865,634	62,236,812
Provision for credit losses	(19,847)	(232,879)	(862,175)	(1,114,901)
Loans and advances, net	1,693,793	16,424,659	43,003,459	61,121,911

Loan and advances, net include non interest based banking products in respect of Murabaha, Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 33.5 billion (2007: SAR 24.7 billion).

b) Movements in provision for credit losses are as follows:

2008	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Balance at beginning of the year	**19,847**	**232,879**	**862,175**	**1,114,901**
Provided during the year	**33,515**	**115,783**	**42,892**	**192,190**
Recovery of amounts previously provided	**-**	**-**	**(131,909)**	**(131,909)**
Bad debts written off	**(39,671)**	**(91,567)**	**(11,277)**	**(142,515)**
Balance at end of the year	**13,691**	**257,095**	**761,881**	**1,032,667**
2007				
Balance at beginning of the year	18,610	221,280	945,181	1,185,071
Provided during the year	62,600	72,656	29,464	164,720
Recovery of amounts previously provided	(9,227)	-	(88,359)	(97,586)
Bad debts written off	(52,136)	(61,057)	(24,111)	(137,304)
Balance at end of the year	19,847	232,879	862,175	1,114,901

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

d) Economic sector risk concentrations for the loans and advances and Provision for credit losses are as follows:

2008	Performing gross	Non performing, net	Credit loss provision	Loans and advances, net
1. Government and quasi government	**37,500**	**-**	**-**	**37,500**
2. Banks and other financial institutions	**4,577,220**	**-**	**-**	**4,577,220**
3. Agriculture and fishing	**994,353**	**3,020**	**(49,748)**	**947,625**
4. Industrial Manufacture	**13,038,379**	**176,938**	**(221,292)**	**12,994,025**
5. Mining and quarrying	**645,511**	**-**	**-**	**645,511**
6. Electricity, water, gas and health services	**932,631**	**-**	**-**	**932,631**
7. Building and construction	**3,911,120**	**10,998**	**(135,016)**	**3,787,102**
8. Commerce	**12,140,274**	**28,694**	**(118,373)**	**12,050,595**
9. Transportation and communication	**6,535,424**	**-**	**(3,316)**	**6,532,108**
10. Services	**1,577,240**	**1,577**	**(2,229)**	**1,576,588**
11. Consumer loans and credit cards	**18,489,218**	**49,307**	**(32,083)**	**18,506,442**
12. Other	**12,519,499**	**25,374**	**(16,248)**	**12,528,625**
	75,398,369	**295,908**	**(578,305)**	**75,115,972**
13. Portfolio provision	**-**	**-**	**(454,362)**	**(454,362)**
Total	**75,398,369**	**295,908**	**(1,032,667)**	**74,661,610**
2007				
1. Government and quasi government	48,214	-	-	48,214
2. Banks and other financial institutions	3,115,213	-	-	3,115,213
3. Agriculture and fishing	881,127	-	(45,000)	836,127
4. Manufacturing	9,742,685	126,900	(281,509)	9,588,076
5. Mining and quarrying	671,414	-	-	671,414
6. Electricity, water, gas and health services	1,115,638	-	-	1,115,638
7. Building and construction	5,549,983	26,018	(118,851)	5,457,150
8. Commerce	6,977,168	27,560	(43,226)	6,961,502
9. Transportation and communication	2,314,578	-	(3,316)	2,311,262
10. Services	1,274,506	9,697	(10,356)	1,273,847
11. Consumer loans and credit cards	18,305,975	65,203	(55,015)	18,316,163
12. Other	11,925,407	59,526	(26,449)	11,958,484
	61,921,908	314,904	(583,722)	61,653,090
13. Portfolio provision	-	-	(531,179)	(531,179)
Total	61,921,908	314,904	(1,114,901)	61,121,911

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For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

8. Investment in associate

	2008	2007
Balance at beginning of the year	**200,000**	200,000
Share of loss	**(6,952)**	-
Total	**193,048**	200,000

The Bank participated in the setting up of the Saudi Home Loans Company (the associate). The Bank's share is 40% of the company's total capital of SAR 2 billion. The SAR 200 million represents 25% of the Bank's share of the capital of the associate. The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method.

9. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Total 2008	Total 2007
Cost					
Balance at beginning of the year	**497,221**	**374,550**	**689,483**	**1,561,254**	1,270,111
Additions	**137,061**	**65,249**	**123,068**	**325,378**	307,912
Disposals	**(8,320)**	**(274)**	**(2,970)**	**(11,564)**	(16,769)
Balance at end of the year	**625,962**	**439,525**	**809,581**	**1,875,068**	1,561,254
Accumulated depreciation					
Balance at beginning of the year	**131,079**	**194,936**	**461,575**	**787,590**	683,860
Charge for the year	**9,750**	**43,138**	**102,845**	**155,733**	119,813
Disposals	**-**	**(273)**	**(2,833)**	**(3,106)**	(16,083)
Balance at end of the year	**140,829**	**237,801**	**561,587**	**940,217**	787,590
Net book value					
As at December 31, 2008	**485,133**	**201,724**	**247,994**	**934,851**	
As at December 31, 2007	**366,142**	**179,614**	**227,908**		773,664

10. Other assets

		2008	2007
Accrued special commission receivable	- banks and other financial institutions	**4,067**	24,670
	- investments	**144,903**	269,969
	- loans and advances	**620,938**	460,509
	- derivatives	**172,550**	96,697
Total accrued special commission receivable		**942,458**	851,845
Positive fair value of derivatives (note 11)		**1,123,750**	216,779
Other		**321,957**	600,359
Total		**2,388,165**	1,668,983

11. Derivatives

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

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

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

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

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

Held for trading purposes
Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and 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 within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

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

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

Notes to the Financial Statements

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11. Derivatives (continued)

Derivative financial instruments
Notional amounts by term to maturity

2008	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	227,232	212,671	10,774,222	-	3,412,756	7,019,466	342,000	11,476,820
Commission rate futures and options	-	-	-	-	-	-	-	31,250
Forward foreign exchange contracts	753,513	694,110	29,844,601	19,924,054	9,715,436	205,111	-	24,437,274
Currency options	15,612	14,096	505,838	121,136	347,757	36,945	-	337,831
Held as fair value hedges:								
Commission rate swaps	853	251,539	8,499,718	3,629,824	1,845,163	2,609,231	415,500	7,550,760
Held as cash flow hedges:								
Commission rate swaps	126,540	-	1,748,000	-	8,000	1,740,000	-	1,212,333
Total	**1,123,750**	**1,172,416**	**51,372,379**	**23,675,014**	**15,329,112**	**11,610,753**	**757,500**	**45,046,268**

2007	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	79,050	68,532	9,405,475	-	1,975,000	5,349,074	2,081,401	6,462,720
Commission rate futures and options	-	-	-	-	-	-	-	52,275
Forward foreign exchange contracts	110,198	77,116	13,117,870	11,183,463	1,925,317	9,090	-	21,713,930
Currency options	8,089	8,624	1,072,269	998,581	73,688	-	-	932,638
Held as fair value hedges:								
Commission rate swaps	8,696	74,991	3,716,314	1,108,651	665,728	1,720,585	221,350	5,423,541
Held as cash flow hedges:								
Commission rate swaps	10,746	-	689,000	-	-	689,000	-	2,403,333
Total	216,779	229,263	28,000,928	13,290,695	4,639,733	7,767,749	2,302,751	36,988,437

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

Description of hedged items

2008	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	1,269,011	1,219,408	Fair value	Commission rate swap	-	52,183
Fixed commission rate loans	7,478,811	7,280,310	Fair value	Commission rate swap	853	199,356
Floating commission rate investments	649,005	665,000	Cash flow	Commission rate swap	32,974	-
Floating commission rate loans	1,083,000	1,083,000	Cash flow	Commission rate swap	93,566	-
2007						
Fixed commission rate investments	693,615	693,428	Fair value	Commission rate swap	7,932	10,135
Fixed commission rate loans	2,819,150	2,754,386	Fair value	Commission rate swap	93	64,856
Fixed commission rate deposits	269,171	268,500	Fair value	Commission rate swap	671	-
Floating commission rate investments	689,000	689,000	Cash flow	Commission rate swap	10,746	-

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

	2008	2007
Balance at beginning of the year	10,746	(6,699)
Gains from changes in fair value recognized directly in equity, net	138,581	22,435
Gains removed from equity and included in special commission income, net	(22,787)	(4,990)
Balance at end of the year	**126,540**	10,746

Approximately 55% (2007: 31%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 15% (2007: 12 %) of the positive fair value contracts are with any single counter-party at the balance sheet date. Derivative activities are mainly carried out under the bank's treasury banking segment.

12. Due to banks and other financial institutions

	2008	2007
Current accounts	204,455	250,540
Money market deposits	10,304,618	4,196,634
Total	**10,509,073**	4,447,174

13. Customers' deposits

	2008	2007
Demand	28,738,887	26,598,632
Saving	86,819	84,272
Time	61,732,537	44,622,187
Other	2,185,210	2,387,048
Total	**92,743,453**	73,692,139

Time deposits include deposits against sale of securities of SAR 10,951 million (2007: SAR 2,043 million) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 1,525 million (2007: SAR 1,141 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2008	2007
Demand	815,221	838,907
Saving	2,927	3,445
Time	9,907,244	9,537,364
Other	173,605	233,042
Total	**10,898,997**	10,612,758

14. Other liabilities

		2008	2007
Accrued special commission payable	- banks and other financial institutions	63,310	25,182
	- customers' deposits	355,742	233,764
	- derivatives	328,433	243,102
	- term loan	-	18,191
	- Debt securities in issue	13,724	18,697
Total accrued special commission payable		761,209	538,936
Negative fair value of derivatives (note 11)		1,172,416	229,263
Other		1,574,693	1,847,952
Total		**3,508,318**	2,616,151

15. Term loan and debt securities in issue

During the year ended December 31, 2005, the Bank entered into a three year syndicate term loan facility agreement for an amount of USD 350 million. This balance was completely settled during the first quarter of the year ended December 31, 2008.

During the year ended December 31, 2006, the Bank has issued USD 500 million 10 year subordinated floating rate notes under its USD 850 million Euro Medium Term Note program. The notes carry a special commission rate of Libor plus 83 bps. The notes are non-convertible, unsecured and listed on the London stock exchange. These notes are callable after 5 years from issuance.

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16. Share capital

The authorized, issued and fully paid share capital of the Bank as at December 31, 2008 consists of 650 million shares of SAR 10 each (2007: 455 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2008	2007
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

During the year ended December 31, 2008, 195 million shares of SAR 10 each were issued after approval by the shareholders at their Extraordinary General Assembly meetings held on March 16, 2008 to increase the share capital of the Bank from SAR 4,550 million to SAR 6,500 million by transferring SAR 1,950 million from the general reserve through the issuance of three bonus shares for every seven shares held. In the previous year ended December 31, 2007, 130 million shares of SAR 10 each were issued after approval by the shareholders at their Extraordinary General Assembly meeting held on March 18, 2007 to increase the share capital of the Bank from SAR 3,250 million to SAR 4,550 million by transferring SAR 1,300 million from the general reserve through the issuance of two bonus shares for every five shares held.

17. Statutory and general reserves

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 624 million has been transferred from 2008 net income (2007: SAR 616 million). The statutory reserve is not currently available for distribution.

Further to the bonus shares issue (see note 16 above), SAR 1,950 million has been transferred from general reserve to share capital during 2008 (2007: SAR 1,300 million).

18. Commitments and contingencies

a) Legal proceedings
As at December 31, 2008 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments
As at December 31, 2008 the Bank had capital commitments of SAR 459 million (2007: SAR 268.4 million) in respect of building and equipment purchases.

c) Credit related commitments and contingencies
The primary purpose of these instruments is to ensure that funds are available to customers 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.

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 of the Bank's commitments and contingencies is as follows:

2008	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,512,737	1,233,015	557,154	-	4,302,906
Letters of guarantee	4,522,608	4,868,475	5,427,827	50,192	14,869,102
Acceptances	1,295,513	874,480	66,266	-	2,236,259
Irrevocable commitments to extend credit	-	151,888	2,644,427	-	2,796,315
Other	-	-	-	320,636	320,636
Total	**8,330,858**	**7,127,858**	**8,695,674**	**370,828**	**24,525,218**
2007					
Letters of credit	3,424,006	1,624,822	196,639	-	5,245,467
Letters of guarantee	5,262,673	3,295,597	3,024,339	37,892	11,620,501
Acceptances	1,175,933	509,966	99,160	-	1,785,059
Irrevocable commitments to extend credit	55,137	241,460	459,493	679,076	1,435,166
Other	-	-	-	369,804	369,804
Total	9,917,749	5,671,845	3,779,631	1,086,772	20,455,997

The unutilized portion of non-firm commitments as at December 31, 2008, which can be revoked unilaterally at any time by the Bank, amounts to SAR 10,078 million (2007: SAR 11,929 million).

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2008	2007
Government and quasi government	1,034,298	1,236,987
Corporate	17,533,971	14,153,895
Banks and other financial institutions	4,345,129	4,342,833
Other	1,611,820	722,282
Total	**24,525,218**	20,455,997

d) Assets pledged
Securities pledged under repurchase agreements with other banks include government and non government banks Assets pledged as collateral with other financial institutions for security are as follows:

	2008		2007	
	Assets	Related liabilities	Assets	Related liabilities
Held to maturity investments (note 6)	1,421,425	1,420,000	429,958	347,000
Other investments Held at amortized cost (note 6)	7,997,536	5,343,278	3,456,469	1,695,714
Available for sale investments (note 6)	4,501,668	4,187,399	-	-
Total	**13,920,629**	**10,950,677**	3,886,427	2,042,714

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

	2008	2007
Less than 1 year	86,679	77,301
1 to 5 years	258,878	236,704
Over 5 years	146,017	149,180
Total	**491,574**	463,185

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For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

19. Net special commission income

	2008	2007
Special commission income		
Investments:		
Available for sale	**206,367**	237,150
Held to maturity	**170,150**	31,379
Other investments held at amortized cost	**624,226**	696,111
	1,000,743	964,640
Due from banks and other financial institutions	**159,936**	216,516
Loans and advances	**4,478,248**	4,235,601
Total	**5,638,927**	5,416,757
Special commission expense		
Due to banks and other financial institutions	**180,621**	255,893
Customers' deposits	**2,006,478**	2,050,448
Term loan	**19,296**	87,938
Debt securities in issue	**79,000**	118,559
Total	**2,285,395**	2,512,838
Net special commission income	**3,353,532**	2,903,919

20. Fees from banking services, net

	2008	2007
Fee income:		
Share trading and fund management	**199,494**	248,413
Trade finance	**165,821**	143,274
Other banking services	**762,669**	657,089
Total fee income	**1,127,984**	1,048,776
Fee expense:		
Credit cards	**91,528**	133,038
Custody and Brokerage Fees	**14,933**	14,775
Other banking services	**182,505**	124,602
Total fee expense	**288,966**	272,415
Fees from banking services, net	**839,018**	776,361

21. (Loss) Income from FVIS financial instruments, net

	2008	2007
Fair value change on financial assets held as FVIS investments	**(58,224)**	45,987
Total	**(58,224)**	45,987

22. Trading income, net

	2008	2007
Derivatives	**5,128**	8,934
Trading income, net	**5,128**	8,934

23. Dividend income

	2008	2007
Available for sale investments	**5,784**	5,451
Total	**5,784**	5,451

24. Losses and impairment on non-trading investments, net

	2008	2007
Realized gain on available for sale investments	**103,757**	192,501
Realized gain on held at amortized cost investments	**266,513**	-
Impairment loss on available for sale investments	**(234,738)**	-
Impairment loss on held at amortized cost investments	**(559,688)**	(210,108)
Total	**(424,156)**	(17,607)

25. Other operating income

	2008	2007
Gains on disposal of property and equipment	**2,119**	419
Gains on disposal of other real estate	**56,107**	-
Recoveries of loans and advances previously written off	**73,842**	30,062
Other	**16,123**	1,870
Total	**148,191**	32,351

26. Basic and fully Diluted Earnings per Share

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

The calculations of earnings per share for 2007 have been adjusted retrospectively to reflect the impact of the bonus shares issued during 2008.
The fully diluted earnings per share is the same as the basic earnings per share figure.

27. Gross dividend, Zakat and Income Tax

Gross dividend is comprised of the following :

	2008	2007
Proposed dividends	**650,000**	-
Zakat	**82,023**	68,520
Total	**732,023**	68,520

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

Zakat
Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 49.2 million (2007: SAR 41.1million).

Income Tax
Income tax payable by the non Saudi Shareholders on the current year's share of income is SAR 236.9 million (2007: SAR 219.4 million).

28. Cash and cash equivalents

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

	2008	2007
Cash and balances with SAMA excluding statutory deposit (note 4)	**8,152,048**	5,062,605
Due from banks and other financial institutions maturing within ninety days from the acquisition date	**2,559,896**	398,054
Total	**10,711,944**	5,460,659

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For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

29. Business segments

For management purpose the Group is organized into the following major business segments:

Retail banking
Deposit, credit and investment products for individuals.

Corporate banking
Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London Branch.
Investment and brokerage services Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Treasury banking
Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission risks.

Other
Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head office and other supporting departments.
Transactions between the business segments are reported as recorded in the Group's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall consolidated financial statements.

a) The Group's total assets and liabilities as at December 31, 2008 and 2007, its total operating income, expenses and net income for the years then ended, by business segments, are as follows:

2008	**Retail banking**	**Corporate banking**	**Treasury banking**	**Investment and brokerage services**	**Other**	**Total**
Total assets	**25,391,796**	**52,845,677**	**41,780,980**	**54,786**	**1,233,903**	**121,307,142**
Total liabilities	**36,210,351**	**58,070,342**	**12,821,309**	**1,250,201**	**283,641**	**108,635,844**
Total operating income	**2,462,212**	**1,008,116**	**241,707**	**180,417**	**242,731**	**4,135,183**
Total operating expenses	**1,332,765**	**104,062**	**78,967**	**119,244**	**7,069**	**1,642,107**
Share in losses of an associate	**-**	**-**	**-**	**-**	**6,952**	**6,952**
Net income for the year	**1,129,447**	**904,054**	**162,740**	**61,173**	**228,710**	**2,486,124**
Provision for credit losses, net	**147,905**	**(87,624)**	**-**	**-**	**-**	**60,281**
Depreciation	**78,467**	**1,417**	**809**	**6,968**	**68,072**	**155,733**

2007						
Total assets	24,105,549	40,298,169	28,568,458	800,397	694,988	94,467,561
Total liabilities	35,450,960	40,106,675	7,887,308	174,285	323,736	83,942,964
Total operating income	2,190,301	728,028	426,225	266,383	345,322	3,956,259
Total operating expenses	1,164,300	218,059	45,354	63,832	3,512	1,495,057
Net income for the year	1,026,001	509,969	380,871	202,551	341,810	2,461,202
Provision for credit losses, net	121,783	(54,649)	-	-	-	67,134
Depreciation	61,062	1,241	846	4,221	52,443	119,813

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

2008	**Retail banking**	**Corporate banking**	**Treasury banking**	**Investment and brokerage services**	**Other**	**Total**
Balance sheet assets	**23,212,375**	**52,151,464**	**40,879,543**	**25,307**	**432,940**	**116,701,629**
Commitment and contingencies	**2,546,100**	**9,418,767**	**-**	**125,000**	**-**	**12,089,867**
Derivatives	**-**	**213,492**	**990,996**	**-**	**-**	**1,204,488**

2007						
Balance sheet assets	22,381,925	39,752,985	27,987,639	776,957	4,433	90,903,939
Commitment and contingencies	2,091,938	7,270,048	-	184,902	-	9,546,888
Derivatives	-	36,422	301,429	-	-	337,851

Credit exposure comprises the carrying value of consolidated balance sheet assets, excluding cash, property and equipment, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 31a).

30. 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 relate to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

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

Concentrations of credit risk arise when a number of counter-parties 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 counter-party as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 18. The information on banks maximum credit exposure by business segment is given in note 29. The information on maximum credit risk exposure and their relative risk weights is also provided in note 36.

The bank classifies its exposure into ten risk categories. Of these, seven categories are for performing and three for non performing. Each borrower is rated on an internally developed objective risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics, account conduct and company type. An independent credit review unit reviews the assigned ratings periodically. Exposure falling below a certain classification threshold are considered to be impaired, and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based on the criteria prescribed by IAS 39. Collective impairment is also measured and recognized on a portfolio basis for group of similar credits that are not individually identified as impaired.

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30. Credit risk (continued)

a) Credit risk exposures - on- balance sheet assets:

	2008	2007
Loans and advances:		
Consumer loans		
Credit cards	1,282,486	1,693,793
Term loans	16,985,253	16,424,659
Total	18,267,739	18,118,452
Corporate loans		
Syndicated loans	7,161,295	5,878,175
Overdraft	4,353,387	4,255,508
Term loans	44,857,662	32,856,961
Other	21,527	12,815
Total	56,393,871	43,003,459
Investment:		
Fixed-rate securities	23,331,477	15,017,745
Floating-rate notes	3,739,117	3,329,622
Other	1,157,202	2,677,438
Total	28,227,796	21,024,805
Other assets	2,388,165	1,668,983
Gross Total	105,277,571	83,815,699

b) Credit risk exposures - off- balance sheet items:

	2008	2007
Loan commitments and other credit related liabilities	2,796,315	1,435,166
Financial guarantees	21,728,903	19,020,831
Total	24,525,218	20,455,997

c) Credit quality of loans and advances

	2008	2007
Description		
Neither past due nor impaired	73,328,841	58,655,668
Past due but not impaired	1,151,935	2,442,890
Impaired	1,213,501	1,138,254
Total loans and advances	75,694,277	62,236,812
Provision for credit losses	(1,032,667)	(1,114,901)
Loans and advances, Net	74,661,610	61,121,911

d) Loans and advances that are neither past due nor impaired

	2008	2007
Grades:		
Low risk (1-3)	27,968,213	23,373,764
Acceptable risk (4-6)	44,084,273	33,805,343
Watch list (7)	1,276,355	1,476,561
Total	73,328,841	58,655,668

Grade 1-3: includes corporate and commercial loans having financial conditions, risk factors and ability to repay that are superior to excellent. For retail, it includes loans with salary assignment or real estate collaterals.

Grade 4-6: includes corporate and commercial loans having financial conditions, risk factors and ability to repay that are acceptable to good, in addition to other retail loans not included in the above category.

Grade 7: A credit that is currently protected but has potential weaknesses that deserve management's close attention.

e) Loans and advances past due but not impaired

	2008	2007
Past due up to 30 days	993,161	1,842,616
Past due 30 - 60 days	4,253	55,605
Past due 60-90 days	103,348	167,962
Past due more than 90 days	51,173	376,707
Total	1,151,935	2,442,890

f) Impaired Loans and advances

	2008	2007
Corporate loans	1,112,481	833,677
Retail loans	101,020	304,577
	1,213,501	1,138,254

g) Credit quality of financial assets (investments)

The credit quality of investments excluding investment in equities, is managed using external credit ratings except Structured Investment Vehicles (SIVs), where internal credit ratings are used. The table below shows the credit quality by class of asset.

	2008	2007
Saudi Government Bonds	23,386,085	10,977,553
Investment grade	3,656,976	7,779,841
Non Investment grade	29,903	363,790
Unrated	1,154,832	1,903,621
Overall Investment, net	28,227,796	21,024,805

The Saudi Government Bonds comprise Saudi Government Development Bonds, Floating Rate Notes and Treasury Bills.
Investment Grade comprises investments having credit rating equivalent to Standard and Poor's rating of AAA to BBB.
The unrated investments comprise mainly mutual funds and investment in equities.

h) Collateral

The bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements as follows:

Nature of collateral held as security

	2008 Carrying value	2007 Carrying value
Listed securities	9,089,967	17,508,996
Properties	1,978,523	546,484
Others	4,707,178	2,667,934
Total	15,775,668	20,723,414

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31. Concentration of risks of financial assets with credit risk exposure

a) Geographical concentration

The bank's main credit exposure by geographical region is as follows:

2008	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	12,049,107	-	1,729	-	-	-	-	12,050,836
Due from banks and other financial institutions	1,874,804	295,838	319,905	162,477	-	94,222	150	2,747,396
Investments, net	24,329,753	334,938	2,853,386	668,162	-	-	41,557	28,227,796
Investment in associate	193,048	-	-	-	-	-	-	193,048
Loans and advances, net	74,234,593	162,944	222,934	-	-	-	41,139	74,661,610
Total	112,681,305	793,720	3,397,954	830,639	-	94,222	82,846	117,880,686
Liabilities								
Due to banks and other financial institutions	6,355,345	3,578,248	447,760	9,720	-	27,996	90,004	10,509,073
Customer deposits	90,902,150	23,958	1,806,563	2,688	-	129	7,965	92,743,453
Debt securities issued	-	840,000	810,750	-	-	224,250	-	1,875,000
Total	97,257,495	4,442,206	3,065,073	12,408	-	252,375	97,969	105,127,526
Commitments and contingencies	14,921,051	2,594,411	2,481,952	884,008	6,861	3,596,220	40,715	24,525,218
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	7,390,359	1,342,087	1,063,405	435,292	1,508	1,824,793	32,423	12,089,867
Derivatives	377,184	90,173	663,992	73,139	-	-	-	1,204,488

2007	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	8,226,461	-	1,915	-	-	-	-	8,228,376
Due from banks and other financial institutions	-	378,436	593,666	255,475	-	65,850	540	1,293,967
Investments, net	12,207,323	908,275	3,285,590	4,574,119	-	-	49,498	21,024,805
Investment in associate	200,000	-	-	-	-	-	-	200,000
Loans and advances, net	59,273,310	810,582	971,100	-	-	-	66,919	61,121,911
Total	79,907,094	2,097,293	4,852,271	4,829,594	-	65,850	116,957	91,869,059
Liabilities								
Due to banks and other financial institutions	906,250	3,082,308	213,280	41,601	-	27,367	176,368	4,447,174
Customer deposits	73,466,590	42,050	117,919	1,497	-	144	63,939	73,692,139
Term loan	296,250	461,250	543,750	11,250	-	-	-	1,312,500
Debt securities issued	-	840,000	810,750	-	-	224,250	-	1,875,000
Total	74,669,090	4,425,608	1,685,699	54,348	-	251,761	240,307	81,326,813
Commitments and contingencies	10,615,855	2,248,961	3,113,665	1,366,054	6,074	2,537,385	568,003	20,455,997
Credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	5,151,110	1,131,336	1,471,273	650,398	2,820	952,270	187,681	9,546,888
Derivatives	174,552	8,970	138,390	15,939	-	-	-	337,851

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

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

	Non-performing loans, net		Provision for credit losses	
	2008	2007	**2008**	2007
Saudi Arabia	**295,908**	314,904	**1,032,667**	1,114,901

32. Market risk

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

a) Market risk-trading book

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

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

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

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

Although VAR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market liquidity for a prolonged period.

II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VAR.

III. VAR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

IV. The VAR measure is dependent upon the Bank's position and the volatility of market prices. The VAR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VAR methodology are recognized by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio.

The Bank's VAR related information for the years ended December 31, 2008 and 2007 is as under. All the figures are in million SAR:

	2008				2007			
	Foreign exchange	**Commission rate**	**Equity**	**Total**	Foreign exchange	Commission rate	Equity	Total
VAR as at December 31	**1.4391**	**0.6394**	**-**	**2.0785**	2.4489	0.0760	-	2.5249
Average VAR	**3.1966**	**1.7400**	**-**	**4.9366**	1.2613	0.1275	-	1.3888

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For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

32. Market risk (continued)

(b) Non-Trading portfolio VAR by risk type

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

i) Commission rate risk

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

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

2008

Currency	Increase in basis	Sensitivity of commission income	Sensitivity of equity: 6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+10	14.441	(0.19)	(2.22)	(6.09)	(1.33)	(9.83)
USD	+15	(6.008)	(0.02)	-	(3.65)	-	(3.67)
Others	+25	(1.509)	-	-	(2.23)	-	(2.23)

2008

Currency	Decrease in basis	Sensitivity of commission income	Sensitivity of equity: 6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	-10	(14.441)	0.19	2.22	6.09	1.33	9.83
USD	-15	6.008	0.02	-	3.65	-	3.67
Others	-25	1.509	-	-	2.23	-	2.23

2007

Currency	Increase in basis	Sensitivity of commission income	Sensitivity of equity: 6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+ 10	0.940	-	(0.77)	(4.00)	-	(4.77)
USD	+ 15	10.112	0.01	0.01	(2.61)	(0.12)	(2.71)
Others	+ 25	2.678	(7.58)	-	(5.91)	(1.93)	(15.42)

2007

Currency	Decrease in basis	Sensitivity of commission income	Sensitivity of equity: 6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	-10	(0.949)	-	0.81	4.22	-	5.03
USD	-15	(10.136)	(0.01)	(0.01)	25.9	0.12	26.00
Others	-25	(0.900)	10.68	-	8.06	2.72	21.46

Commission sensitivity of assets, liabilities and off balance sheet items

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

The table below summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

2008	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**	**Effective commission rate %**
Assets							
Cash and balances with SAMA	6,958,710	-	-	-	5,092,126	12,050,836	
Due from banks and other financial institutions	2,295,848	37,500	-	-	414,048	2,747,396	4.38
Investments, net	10,431,591	13,639,417	3,646,472	331,806	178,510	28,227,796	4.32
Loans and advances, net	38,177,823	18,831,704	14,254,516	3,397,567	-	74,661,610	6.46
Investment in associate	-	-	-	-	193,048	193,048	
Other real estate	-	-	-	-	103,440	103,440	
Property and equipment, net	-	-	-	-	934,851	934,851	
Other assets	-	-	-	-	2,388,165	2,388,165	
Total assets	57,863,972	32,508,621	17,900,988	3,729,373	9,304,188	121,307,142	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	9,242,000	1,062,618	-	-	204,455	10,509,073	3.21
Customers' deposits	47,520,797	15,524,289	167,777	5,000	29,525,590	92,743,453	2.47
Other liabilities	-	-	-	-	3,508,318	3,508,318	
Debt securities in issue	1,875,000	-	-	-	-	1,875,000	4.35
Shareholders' equity	-	-	-	-	12,671,298	12,671,298	
Total Liabilities and shareholders' equity	58,637,797	16,586,907	167,777	5,000	45,909,661	121,307,142	
On balance sheet gap	(773,825)	15,921,714	17,733,211	3,724,373	(36,605,473)		
Off balance sheet gap	3,137,352	(1,904,495)	(817,357)	(415,500)	-		
Total commission rate sensitivity gap	2,363,527	14,017,219	16,915,854	3,308,873	(36,605,473)		
Cumulative commission rate sensitivity gap	2,363,527	16,380,746	33,296,600	36,605,473	-		

2007	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate %
Assets							
Cash and balances with SAMA	3,893,567	-	-	-	4,334,809	8,228,376	
Due from banks and other financial institutions	698,100	37,500	-	-	558,367	1,293,967	3.74
Investments, net	5,749,943	3,250,950	7,342,337	2,568,997	2,112,578	21,024,805	4.58
Loans and advances, net	28,099,457	16,324,236	13,022,623	3,675,595	-	61,121,911	7.54
Investment in associate	-	-	-	-	200,000	200,000	
Other real estate	-	-	-	-	155,855	155,855	
Property and equipment, net	-	-	-	-	773,664	773,664	
Other assets	-	-	-	-	1,668,983	1,668,983	
Total assets	38,441,067	19,612,686	20,364,960	6,244,592	9,804,256	94,467,561	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	3,363,634	833,000	-	-	250,540	4,447,174	4.46
Customers' deposits	39,294,161	6,415,428	117,556	-	27,864,994	73,692,139	2.90
Other liabilities	-	-	-	-	2,616,151	2,616,151	
Term Loan	1,312,500	-	-	-	-	1,312,500	5.82
Debt securities in issue	1,875,000	-	-	-	-	1,875,000	6.24
Shareholders' equity	-	-	-	-	10,524,597	10,524,597	
Total Liabilities and shareholders' equity	45,845,295	7,248,428	117,556	-	41,256,282	94,467,561	
On balance sheet gap	(7,404,228)	12,364,258	20,247,404	6,244,592	(31,452,026)		
Off balance sheet gap	1,568,803	(440,986)	(906,467)	(221,350)	-		
Total commission rate sensitivity gap	(5,835,425)	11,923,272	19,340,937	6,023,242	(31,452,026)		
Cumulative commission rate sensitivity gap	(5,835,425)	6,087,847	25,428,784	31,452,026	-		

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk.
The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

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32. Market risk (continued)

ii) Currency risk

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

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

Currency risk exposures	2008		2007	
	Changes in currency rate in %	Effect on net income	Changes in currency rate in %	Effect on net income
USD	+5	(12.403)	+5	(51.151)
EUR	-3	(0.907)	-3	2.918

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:

	Long (short) 2008	Long (short) 2007
US Dollar	(38,953)	(1,519,942)
Euro	10	27
Pound Sterling	55,999	(30,130)
Other	98,580	518,365

iii) Equity price risk

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

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

Market indices	2008		2007	
	Changes in equity price %	Effect in SAR	Changes in equity price %	Effect in SAR
Tadawul	+5	16,816	+5	20,124

33. Liquidity risk

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

The table below summarizes the maturity profile of the Bank's liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. 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.

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 ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiary and foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

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

The contractual maturity profile of the financial liabilities is as follows:

2008	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	9,382,810	1,125,590	-	-	204,455	10,712,855
Customers' deposits	47,929,673	15,532,606	147,244	-	30,055,834	93,665,357
Derivative financial instruments						
Contractual amounts payable	215,730	306,770	644,528	87,088	-	1,254,116
Contractual amounts receivable	(135,550)	(175,112)	(476,457)	-	-	(787,119)
Debt securities in issue	40,513	61,109	327,271	2,120,340	-	2,549,233
Total financial liabilities	57,433,176	16,850,963	642,586	2,207,428	30,260,289	107,394,442
2007						
Financial liabilities						
Due to banks and other financial institutions	3,300,922	951,179	-	-	250,540	4,502,641
Customers' deposits	39,073,410	6,722,534	148,255	184	28,398,386	74,342,769
Derivative financial instruments						
Contractual amounts payable	77,796	224,429	526,118	16,212	-	844,555
Contractual amounts receivable	(78,718)	(149,219)	(310,227)	(3,083)	-	(541,247)
Term Loan	1,347,800	-	-	-	-	1,347,800
Debt securities in issue	55,186	81,723	435,758	2,310,758	-	2,883,425
Total financial liabilities	43,776,396	7,830,646	799,904	2,324,071	28,648,926	83,379,943

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33. Liquidity risk (continued)

The Tables below show the expected maturity profile of the assets and liabilities:

2008	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	6,958,710	-	-	-	5,092,126	12,050,836
Due from banks and other financial institutions	2,145,848	187,500	-	-	414,048	2,747,396
Investments, net	7,096,971	13,860,979	5,747,030	1,344,306	178,510	28,227,796
Loans and advances, net	28,833,476	18,717,398	17,794,279	3,608,649	5,707,808	74,661,610
Investment in associate	-	-	-	-	193,048	193,048
Other real estate	-	-	-	-	103,440	103,440
Property and equipment, net	-	-	-	-	934,851	934,851
Other assets	-	-	-	-	2,388,165	2,388,165
Total assets	45,035,005	32,765,877	23,541,309	4,952,955	15,011,996	121,307,142
Liabilities and shareholders' equity						
Due to banks and other financial institutions	9,242,000	1,062,618	-	-	204,455	10,509,073
Customer deposits	46,992,532	15,522,310	167,777	5,000	30,055,834	92,743,453
Other liabilities	-	-	-	-	3,508,318	3,508,318
Term Loan	-	-	-	-	-	-
Debt securities in issue	-	-	-	1,875,000	-	1,875,000
Shareholders' equity	-	-	-	-	12,671,298	12,671,298
Total liabilities and shareholders' equity	56,234,532	16,584,928	167,777	1,880,000	46,439,905	121,307,142

2007	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	3,893,567	-	-	-	4,334,809	8,228,376
Due from banks and other financial institutions	548,100	37,500	150,000	-	558,367	1,293,967
Investments, net	2,811,761	2,488,105	8,842,092	4,776,789	2,106,058	21,024,805
Loans and advances, net	16,322,016	14,299,067	17,529,105	6,954,545	6,017,178	61,121,911
Investment in associate	-	-	-	-	200,000	200,000
Other real estate	-	-	-	-	155,855	155,855
Property and equipment, net	-	-	-	-	773,664	773,664
Other assets	-	-	-	-	1,668,983	1,668,983
Total assets	23,575,444	16,824,672	26,521,197	11,731,334	15,814,914	94,467,561
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,363,634	833,000	-	-	250,540	4,447,174
Customers' deposits	38,761,986	6,414,211	117,556	-	28,398,386	73,692,139
Other liabilities	-	-	-	-	2,616,151	2,616,151
Term Loan	1,312,500	-	-	-	-	1,312,500
Debt securities in issue	-	-	-	1,875,000	-	1,875,000
Shareholders' equity	-	-	-	-	10,524,597	10,524,597
Total liabilities and shareholders' equity	43,438,120	7,247,211	117,556	1,875,000	41,789,674	94,467,561

34. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair values of on-balance sheet financial instruments, except for other investments held at amortized costs, held-to-maturity investments which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements. The fair values of Loans and advances, commission bearing customers' deposits, Debts securities in issue, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the 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 and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 6. The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognized in the statement of income, which was estimated using valuation technique, is SAR 175.2 millions (2007: SAR 23.2 millions).

35. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

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

	2008	2007
Arab Bank PLC		
Due from banks and other financial institutions	112,173	194,895
Due to banks and other financial institutions	1,440,478	1,517,159
Derivatives	1,424	3,122
Commitments and contingencies	2,475,288	2,138,787
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	2,550,733	2,541,271
Customers' deposits	5,106,902	4,625,337
Derivatives (at fair value)	5,677	2,380
Commitments and contingencies	893,542	354,193
Bank's mutual funds		
Investments	243,843	359,239
Loans and advances	5,611	12,994
Customers' deposits	525,858	1,104,648

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital

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

	2008	2007
Special commission income	201,129	221,016
Special commission expense	234,000	260,427
Fees from banking services	39,559	28,934
Directors' remuneration	3,381	3,434

c) The total amount of compensation paid to key management personnel during the year is as follows:

	2008	2007
Short-term employee benefits (Salaries and allowances)	51,285	41,801
Post-employment benefits (End of service indemnity and social security)	3,494	3,287

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

Notes to the Financial Statements

For the years ended December 31, 2008 and 2007 (Saudi Riyals in Thousands)

36. Capital Adequacy

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

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

The increase of the regulatory capital in the year is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in the year.

2008	
Credit Risk RWA	91,227,122
Operational Risk RWA	7,303,431
Market Risk RWA	1,160,238
Total Pillar-I RWA	**99,690,791**
Tier I Capital	11,895,640
Tier II Capital	2,203,704
Total Tier I & II Capital	**14,099,344**
Capital Adequacy Ratio %	
Tier I ratio	11.93 %
Tier I + Tier II ratio	14.14 %

Effective January 1, 2008 as required by SAMA, the Bank implemented new Basel framework on capital adequacy, commonly known as Basel II Framework issued by the Basel Committee on banking supervision. This has changed the calculation of capital adequacy ratios to reflect the additional capital required for Operational risk and Pillar I risks.

37. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 2,298 million (2007: SAR 2,972 million).

The financial statements of these funds are not consolidated with these consolidated financial statements. However, the Group'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 Group and accordingly are not included in the consolidated financial statements.

38. Comparative figures

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

39. Basel II pillar 3 disclosures

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

40. Board of directors' approval

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

Branches

Central Region Branches

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Riyadh,	Riyadh	1 4114000	1 2875306	26	11411
Sitteen,	Riyadh	1 4771885	1 4771027	41095	11521
Dhabab,	Riyadh	1 4040365	1 4043959	6876	11452
Olaya,	Riyadh	1 4659331	1 4659440	10875	11441
Industrial Area,	Riyadh	1 4465708	1 4460781	1006	11431
Hijaz Road,	Riyadh	1 4585512	1 4585424	4045	11491
Manfouha,	Riyadh	1 4590064	1 4583753	40172	11499
Rawdah,	Riyadh	1 2086024	1 2089562	21346	11475
Shemeisi,	Riyadh	1 4112795	1 4112059	52264	11584
Al-Kharj		1 5441912	1 5444484	31	11942
Hawtat Bani Tamim		1 5550780	1 5550784	51	11941
Al-Majma'a		6 4323584	6 4323848	229	11952
Akariah,	Olaya	1 4191000	1 4191803	53055	11583
Rabwa,	Riyadh	1 4910546	1 4910573	25067	11466
Shaqra		1 6220909	1 6221758	153	11961
Pensions Fund Authority		1 4025100	1 4124559	18364	11168
Shifa,	Riyadh	1 4213111	1 4223123	61302	11565
Prince Abdullah Quarter,	Riyadh	14765300	1 4764015	42618	11551
Swaidi,	Riyadh	1 4261200	1 4261827	61128	11565
Mutanabi Street,	Riyadh	14765400	1 4769294	27035	11417
Dahrat Al-Badia,	Riyadh	1 2678676	1 2675860	26	11411
North Murabba,	Riyadh	1 4050707	1 4032349	8667	11492
Second Industrial City,	Riyadh	1 2652088	1 2652023	50729	11533
Khashm Al-A'an,	Riyadh	1 2521102	1 2521106	87139	11642
Diplomatic Quarter,	Riyadh	1 4880587	1 4831451	9014	11413
Naseem,	Riyadh	1 2328230	1 2330291	57504	11584
Quwaiyayah		1 6521206	1 6521164	34	11971
Mursalat,	Riyadh	1 4555455	1 4569177	92161	11653
Takhassusi,	Riyadh	1 4820489	1 4822090	93095	11673
Land Forces,	Riyadh	1 4787154		8667	11492
Al-Hamra,	Riyadh	1 2782555	1 2488531	225051	11324
King Faisal Quarter,	Riyadh	1 2387118	1 2387185	26	11411
Hafr Al-Batin		3 7224321	3 7223672	167	31991
Rayan Quarter,	Riyadh	1 4929371	1 4928409		
Aziziah Quarter,	Riyadh	1 4956994	1 2134972		

Western Region Branches:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Madina Road,	Jeddah	2 6600272	2 6611104	9463	21413
Balad,	Jeddah	2 6480112	2 6484321	344	21411
Gazzah,Makkah		2 5743456	2 5747244	238	
Makkah Road,	Jeddah	2 6873509	2 6886966	8055	21482
Madina Munawwarah		4 8237144	4 8251312	2443	
Yanbu		4 3226201	4 3227626	483	
Taif		2 7384122	2 7381690	1542	
Sitteen,	Makkah	2 5365912	2 5364545	3691	
Wajh		4 4421283	4 4421149	44	
Bab Makkah,	Jeddah	2 6438441	2 6438654	16060	21464
Aziziyah,	Makkah	2 5570838	2 5570821	1355	
Rabigh		2 4220196	2 4220816	45	21911
Al-Ula		4 8841265	4 8842357	91	
Hay Al-Salamah,	Jeddah	2 2751515	2 6399743	14906	21434
Prince Majid Street,	Jeddah	2 6170473	2 6744533	13304	21493
Makaronah,	Jeddah	2 6700600	2 6724183	13303	21493
Ma'abdah,	Makkah	2 5735623	2 5735717	5038	
Mahjar,	Jeddah	2 6373776	2 6373783	30411	21477
Hay Al-Jamia'a,	Jeddah	2 6809980	2 6809889	30577	21487
Otaibiah,	Makkah	2 5605712	2 5605721	1355	
Misyal,	Makkah	2 5413936	2 5381161	238	
Sharafiah,	Jeddah	2 6515165	2 6515207	9463	21413
Shohada,	Makkah	2 5450594	2 5442008	5927	
Qurban,	Madina Munawwarah	4 8231970	4 8234003	2443	
Shohada,	Taif	2 7429386	2 7431397	1542	
Al-Safa,	Jeddah	2 6798171	2 6781237	9463	21413
Hira Street,	Jeddah	2 6550665	2 6540102	45031	21512
Tahliyah Street,	Jeddah	2 6601112	2 6612935	51283	21543
Al Rabea,	Jeddah	2 6775956	2 2717735	9463	21413
King Road,	Jeddah	2 6912095	2 6910527		

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Branches

Eastern Region Branches:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Dammam		3 8333577	3 8347309	18	31411
Khobar		3 8948660	3 8942752	37	31952
Qatif		3 8548464	3 8547462	18	31411
Hofuf		3 5827806	3 5877808	1004	31982
Jubail		3 3628622	3 3628633	35	31951
Khazzan Street,	Dammam	3 8272422	3 8272911	5767	31432
Mubarraz		3 5313334	3 5313016	10187	31982
Ibqaiq		3 5662612	3 5663856	184	31992
Al-Omran		3 5963632	3 5960144	1845	31982
Ras Tannourah		3 6672830	3 6673572	242	31941
Thuqbah		3 8952304	3 8982980	412	31952
Khafji		3 7661450	3 7671627	443	31971
King Abdul Aziz Street,	Khobar	3 8982211	3 8953289	1573	31952
Old Industrial Area,	Dammam	3 8471752	3 8471732	7589	31472
Saihat		3 8501516	3 8503121	31	31972
First Street,	Dammam	3 8309666	3 8098739	18	31411
42 Street,	Dammam	3 8414474	3 8414320	18	31411
Mazroueya,	Hofuf	3 5881716	3 5880561	1004	31982
Rawda,	Hofuf	3 5806263	3 5803046	1004	31982
Qarah,	Hofuf	3 5962656	3 5962276	1004	31982
Industrial Area,	Khobar	3 8672800	3 8981365	37	31952
Second Industrial City,	Dammam	3 8121371	3 8121277	18	31411
Mukhattat 71,	Dammam	3 8202272	3 8203360	18	31411
Al-Rashid Centre,	Khobar	3 8986015	3 8652304	3933	31952
Al-Najah Street,	Hofuf	3 5873177	3 5876317	1004	31982
Alqatif,	Albalad	3 8551521	3 8540759		
Mohammadiyah,	Dammam	3 8178100	3 8178090	18	31411

North Region Branches:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Buraida		6 3834059	6 3834029	1049	51431
Unaiza		6 3646880	6 3648662	166	51911
Al-Zelfi		6 4222244	6 4222240	275	11932
Dawadmi		1 6420900	1 6421032	206	11911
Al-Rass		6 3330988	6 3335225	244	51921
Hail		6 5329328	6 5323848	1146	
Ar'ar		4 6622416	4 6627004	365	
Al-Jouf		4 6245188	4 6247988	353	
Qurayat		4 6423904	4 6423804	208	
Afif		1 7223013	1 7223021	180	11921
Barzan,	Hail	6 5333748	6 5351785	7117	
Tabuk		4 4232172	4 4232164	698	
Tayma		4 4630632	4 4630080	49	
King Abdulaziz,	Buraida	6 3250872	6 3250588	1049	

Southern Region Branches:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Wadi Al-Dawaser		1 7840312	1 7840430	98	11991
Abha		7 2249012	7 2248820	694	
Najran		7 5222880	7 5220868	344	
Khamis Mushait		7 2233334	7 2234388	934	
Al-Baha		7 7241188	7 7250833	228	
Baljurashi		7 7222920	7 7222916	131	22888
Jizan		7 3220520	7 3223751	233	
Bisha		7 6221222	7 6222373	272	
Dhahran Al-Janoob		7 2550320	7 2550516	34	
Sabya		7 3265817	7 3262942	3	
Al-Qunfudah		7 7321045	7 7320932	6	21912
Al-Namas		7 2821029	7 2820160	195	
Mahayl Aseer		7 2852036	7 2851493	162	
Commercial Market,	Khamis Mushait	7 2231514	7 2208784	934	
Samtah		7 3321666	7 3323909		
Military City / Khamis Mushait		7 2503834	7 2500592		

Ladies Branches:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Ladies, Akariah,	Riyadh	1 4600065	1 4600213	60877	11155
Ladies,Olaya,	Riyadh	1 2931989	1 4659365	134	11441
Ladies, Swaidi,	Riyadh	1 2679548	1 2679560	61129	11565
Ladies, Mursalat,	Riyadh	1 4555455	1 4555455 Ext.7932	92161	11653
Ladies, Rabwah,	Riyadh	1 2832329	1 2087285	25067	11466
Ladies, Takhassusi,	Riyadh	1 4830248 Ext. 264		93095	11673
Ladies, Hay Al-Jamia'a,	Jeddah	2 6808023	2 6809799	30577	21487
Ladies, Madina Road,	Jeddah	2 6600272	2 6688098	9463	21413
Ladies, Hay Al-Salamah		3 2751515	3 6399618 Ext.300	14906	21434
Ladies, Makkah Mukaramah		2 5576292	2 5576286	1355	
Ladies, Madinah Munawarah		2 8222761	2 8271269	2443	
Ladies, Korneesh	AlDammam	2 8309666	2 8094718	18	31411
Ladies, Korneesh	AlKhobar	3 8991095	3 8892048	37	31952
Ladies, Dammam		3 8333577	3 8333577 Ext.7320	18	31411
Ladies, Qatif		3 8547198	3 8546074	18	31411
Ladies, Mubarraz		3 5313334	3 5311570	1004	31982
Ladies,Al-Rashid Centre,	Khobar	3 8649788	3 8996203	3933	31952
Ladies, Rawda,	Hofuf	3 5806263	3 5885433	1004	31982
Ladies, Diplomatic Quarter,	Riyadh	1 4880587	1 4810314	9014	11413
Ladies, Ryan,	Riyadh	1 4929371	1 4928513		
Ladies, King Road,	Jeddah	1 6912095	1 2575376		

Overseas Branch:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
25 Curzon Street,	London	(020) 72974600	(020) 72974900		W1J 7TT