annual report

البنك السعودي الهولندي
Saudi Hollandi Bank

In the name of Allah

Most Merciful

Most Compassionate

Custodian of the Two Holy Mosques
King Abdullah Bin Abdulaziz Al-Saud

His Royal Highness
Prince Sultan Bin Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister
Minister of Defense and Aviation and Inspector General

His Royal Highness
Prince Naif Bin Abdulaziz Al-Saud
Second Deputy Prime Minister
Minister of the Interior

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Financial Highlights: 2004 to 2008

Income statement (Amounts in SAR Million)	**2008**	2007	2006	2005	2004
Special commission income (net)	**1,445**	1,200	1,180	1,009	911
Total non-special commission income	**666**	576	766	711	451
Total income	**2,111**	1,776	1,946	1,720	1,362
Operating expenses	**809**	842	644	569	510
Operating income	**1,302**	934	1,302	1,151	852
Provision for loan losses (net of recoveries)	**78**	496	349	99	109
Net profit	**1,224**	438	953	1,052	743

Balance sheet (Amounts in SAR Million)

Shareholders' equity	**5,715**	4,547	4,258	3,672	3,114
Total customer deposits	**43,012**	34,605	32,414	28,565	23,857
Loans and advances to customers, net	**38,017**	27,555	26,480	23,777	16,633
Investments	**18,368**	12,954	10,463	10,484	9,162
Total assets	**61,436**	50,411	46,740	39,958	33,444
Number of shares outstanding (in thousands)	**264,600**	264,600	220,500	25,200	25,200
Number of employees	**1,709**	1,737	1,598	1,341	1,307
Number of branches	**41**	41	41	40	40

Financial Indicators

Net earnings per share (SAR) *	**4.62**	1.66	3.60	3.98	2.81
Net dividend per share (SAR) *	**0.75**	0.71	0.71	1.43	1.43
Payout ratio (dividend/net profit) %	**16**	43	20	36	51
Net asset value per share (SAR) *	**21.60**	17.18	16.09	13.88	11.77

Ratios

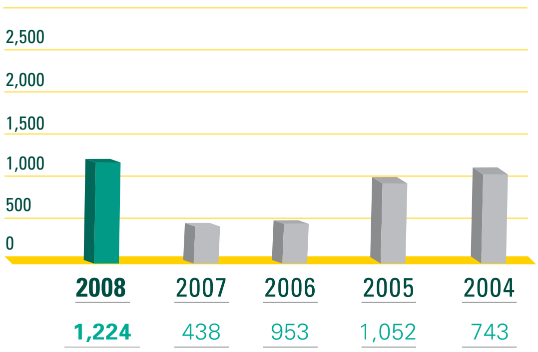
Return on average equity %	**21.42**	9.96	24.03	31.00	25.38
Return on average assets %	**1.99**	0.90	2.20	2.87	2.42
Capital adequacy ratio % (Tier 1 plus Tier 2)	**12.66**	12.19	15	15	18
Efficiency ratio %	**38**	47	33	33	37

Credit Ratings

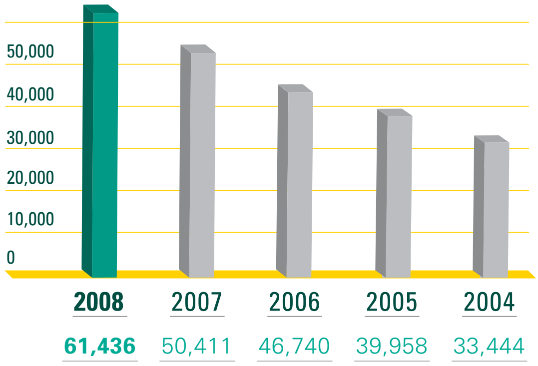
Rating Agency	Long-Term	Short-Term
Moody's	A1	C-
Standard & Poors	-	-
Capital Intelligence	A	A2
Fitch	A-	F2

* For comparative purposes prior years figures have been restated where appropriate to reflect the bonus shares and shares split.

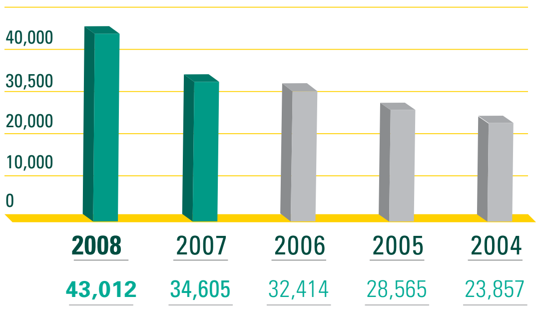
Net profit (Amounts in SAR Million)



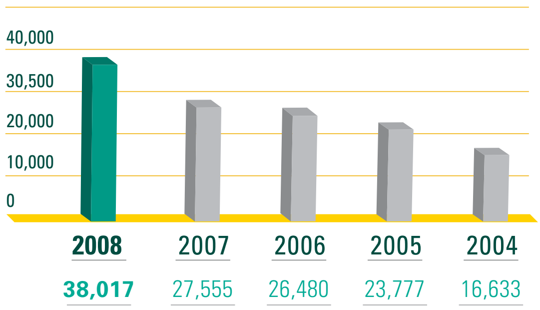
Total Assets (Amounts in SAR Million)



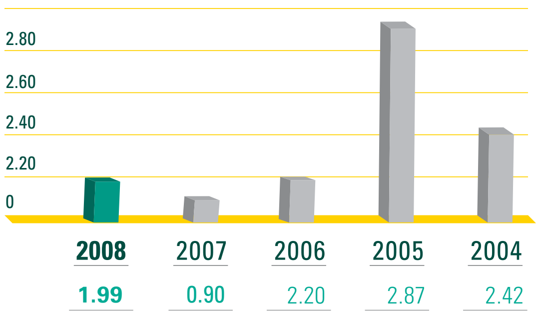
Customer Deposits (Amounts in SAR Million)



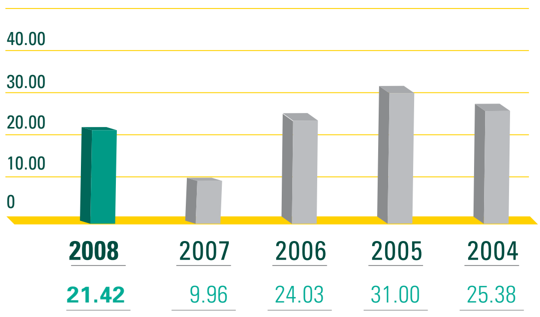
Loans & Advances (Amounts in SAR Million)



Return on Average Assets (%)



Return on Average Equity (%)



Saudi Hollandi Bank

A Saudi Joint Stock Company

C.R.

1010064925 Riyadh

Share Capital

SAR 2,646 million fully paid, divided into 264.6 million shares of SAR 10 par value per share.

Shareholders

Saudi investors 60%, ABN AMRO BANK N.V. 40%

Head Office

P.O. Box 1467, Riyadh 11431, Kingdom of Saudi Arabia

Telephone

+966 1 406 7888

Website

www.shb.com.sa

Riyadh Main Head Office

Eastern Region Head Office

Western Region Head Office

Board of Directors


Engr. Mubarak Al-Khafrah
Chairman


Mrs. Lubna Sulaiman Al-Olayan
Member


Mr. Javier Maldonado
Member


Dr. Abdulaziz Al Fahad
Member


Mr. Abdulhadi Shayif
Member


Dr. Fahad Al Mubarak
Member


Mr. Geoffrey Calvert
Managing Director


Mr. Jan Koopman
Member


Mr. Eyad Al-Hussain
Member


Mr. Menno de Jager
Member

Directors' Report

Introduction

The Board of Directors of Saudi Hollandi Bank is pleased to present its report to the Bank's valued shareholders for the financial year ended 31 December 2008.

2008 was a successful year for Saudi Hollandi Bank. It was a year in which the Bank was able to record the highest level of profitability in its 82 year history. This was a pleasing turnaround after 2007 when profitability had been negatively impacted as a result of credit provisions on the corporate book.

The Bank's profits rose by 179% compared with 2007 and the Bank was able to make considerable progress on a number of key initiatives which will help to establish a platform for further business growth.

1- Business Segments

The Bank is organized into 3 main business segments, namely: Corporate Banking, Personal Banking and Treasury.

i) Corporate Banking

The Corporate Banking Group provides corporate, commercial and institutional clients with a wide range of products and services including Term Loans, Trade Finance, Guarantees and Corporate Finance and Advisory. They also offer an extensive range of corporate products under Islamic structures.

ii) Personal Banking

The Personal Banking Group operates through a national network of branches and ATMs supported by a range of e-banking services for clients.

It provides clients with a broad range of products and services including Current and Time Deposit Accounts, Personal Loans, Credit Cards, Internet Banking and Telephone Banking. Tailored "Preferred Banking" and "Taqdeer" services are available to clients who place sufficient funds with the Bank to qualify for these services. Share Trading services and Fund Management products are available through Saudi Hollandi Bank's subsidiary, Saudi Hollandi Capital. The Bank also offers a wide range of Ladies Banking services through a growing network of Ladies Branches.

iii) Treasury

Saudi Hollandi Bank's Treasury provides hedging and investment solutions to the Bank's clients. Already a leading provider of foreign exchange cash products, the Treasury department has been growing its (structured) derivatives businesses in foreign exchange and special commission rates. Treasury is an active interbank market maker in Saudi Riyal-denominated foreign exchange and interest rate products.

A summary of the principal developments during 2008 in each of these businesses, as well as in the main support functions and the Bank's investment banking subsidiary, Saudi Hollandi Capital, is presented in the Business Review section of this report.

The activities of these business segments in terms of their assets, liabilities and results are set out in Note 27 of the financial statements. Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Commission is charged to business segments based on a pool rate, which approximates to the marginal cost of funds.

2- Strategy

The Bank concentrated during 2008 on a number of key initiatives designed to improve customer service and make efficiency gains in various aspects of its internal processing, thereby enhancing the overall customer experience.

The program of branch and ATM relocations and refurbishments continued. More Ladies branches are being added to the network. The focus on establishing an attractive and "right-sized" branch network is an ongoing initiative. There continues to be much focus on developing a comprehensive and competitive range of personal banking and card products for our customers. The Preferred Banking and "Taqdeer" packages are being continuously developed.

SHB remains a strong force in Corporate Banking in the Kingdom. During 2008 the business had some significant business wins and considerable efforts were focused on establishing Client Service Teams to ensure that the Bank is able to offer corporate clients a "joined-up" service, thereby satisfying all of their product and service needs.

SHB Treasury continues to be a major player in the local market. Treasury's strategy of broadening its product range has already begun to pay off. The introduction of tailored hedging products and the establishment of an in-house structuring capability has made the Bank more competitive. Foreign exchange sales and trading activities reached record levels. Operating revenues exceeded USD 100 million for the first time.

Saudi Hollandi Capital (SHC) commenced business activities in early 2008 and has already been involved in some significant deals. SHC operates three main lines of business – brokerage, asset management and investment banking. The establishment of SHC, which is a wholly-owned subsidiary of SHB, means that the Bank has a solid platform from which to broaden the range of services it offers to corporate and retail clients in the Kingdom.

The Bank continued to develop its range of Shari'a compliant products and services. Significant progress was made in this regard in all three principal business segments.

3- Financial Highlights

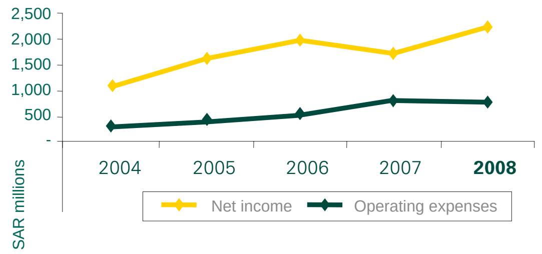
2008 saw a considerable improvement in Saudi Hollandi Bank's performance by focusing on a balance between growth and efficiency. Net profit grew by 179% to SAR 1.22 billion in 2008. This growth has come largely from increased income, driven by strong demand for credit particularly in the first half of the year, cost containment and lower impairment charges.

(All amounts in SAR millions)

	2008	2007	2006	2005	2004
Deposits	**43,012**	34,605	32,414	28,565	23,857
Loans	**38,017**	27,555	26,480	23,777	16,633
Shareholders Equity	**5,715**	4,547	4,258	3,672	3,114
Investments	**18,368**	12,954	10,463	10,484	9,162
Total Assets	**61,436**	50,411	46,740	39,958	33,444
Net Profit	**1,224**	439	953	1,052	743
Earnings per Share - SAR	**4.62**	1.66	3.60	3.98	2.81
Dividends per share - SAR	**0.75**	0.71	0.71	1.43	1.43

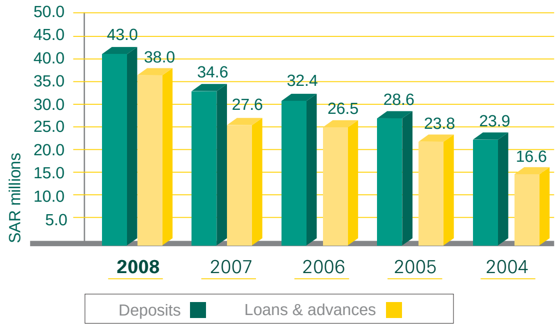
Net interest income grew by 20% primarily as a result of the growth in loans and advances. During the year margins came under pressure but were maintained at acceptable levels. Fee income, especially relating to loans and trade services, grew by 17% to SAR 456 millions as a result.

Costs were given close attention during 2008. Operating costs were 3.8% below 2007 levels, and this improved the cost to income ratio to 38.4% from 47.4% in 2007 and also helped the bank align more closely with the average for the Banking sector in the Kingdom.



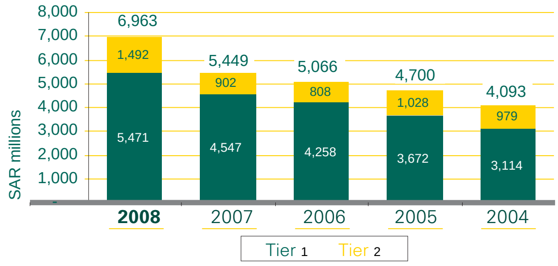
Balance Sheet growth was driven by loans and advances. Funding this rapid growth and maintaining a low credit ratio at the same time has been one of the Bank's key challenges but, nevertheless, the Bank managed to maintain margins at acceptable levels.

The growth in the Balance Sheet, especially driven by loans and advances, put pressure on capital ratios. This was addressed by a combination of retention of profits and a Shariah Compliant Tier2 issue, the first of its kind in the Kingdom; as a result the Bank's capital adequacy ratio improved to 12.7% from 12.2% at year end.



Our Tier1 capital as a percentage of total eligible capital was 79%, reflecting a strong position, which should facilitate the issue of additional Tier2 debt when required and market conditions are favourable.

Asset quality has been given close attention throughout 2008 and this will continue going forward. Non-performing loans as a percentage of total loans has improved to 2.7% from 3.8% in 2007.



The Bank's management of investments has been conservative and will continue to be so in current market conditions. Nearly 90% (79% in 2007) of the Bank's investments are Saudi Arabian sovereign debt instruments. This not only provides the Bank with a suitable level of safety but also ample liquidity when needed.

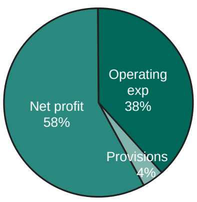
The Bank's outlook for 2009 remains positive, despite the present economic climate. SAMA's intervention in interest rates and in effecting a cash reserve ratio reduction has already had some positive impact.

4- Geographical Concentration

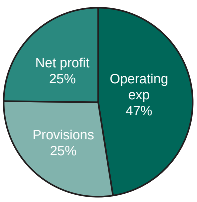
These are set out in Note (29) 'Geographical Concentration' to the Financial Statements.

5- Basic Variations in Operating Income

Variations in net profit between 2008 and 2007 are summarized in the table below:



2008



2007

SAR millions	2008	2007	Change
Net income	2,111	1,776	335
Operating expenses	810	842	(32)
Provisions	78	496	(418)
Net profit	1,224	439	785
Earnings per share (SAR)	4.62	1.66	2.96

As described in the financial highlights section of the report the variances have arisen from a combination of growth in income (19%), reduction in costs (3.8%) and significantly lower provisions (84%).

6- Financial Reporting Standards & Audit

The Bank prepares its financial statements in accordance with accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency and International Financial Reporting Standards. These include International Accounting Standards and interpretations issued by the International Accounting Standards Board as required by the Saudi Arabian Monetary Agency.

Proper books of account have been maintained. The Bank has an Internal Audit department which submits its reports to the Audit Committee which in turn reports to the Board of Directors. This Committee oversees the proper functioning and independence of the Internal Audit department and considers its recommendations. The Committee has periodic discussions with the management, internal and external auditors on matters affecting financial statements, internal controls and various governance and control issues and has advised the Board of Directors accordingly. The Board acknowledges receipt of that advice.

7- Subsidiaries

A. Saudi Hollandi Capital

In accordance with Capital Market Authority Board resolution No 1-83-2005 dated 21/5/1426H in relation to the Authorized Persons Regulations, the bank has established 'Saudi Hollandi Capital Company' (SHC) which engages as principal and agent in retail equity brokerage, asset management, corporate finance and investment advisory activity, debt arrangement and securities custody services.

The authorised, issued and fully paid-up share capital of Saudi Hollandi Capital is SAR 400 million, consisting of 400,000 shares of SAR 1,000 each.

B. Saudi Hollandi Real Estate Company

Saudi Hollandi Real Estate Company (SHREC), an effectively wholly owned subsidiary of the Bank through direct and beneficial ownership, was established under commercial registration number 1010250772 dated 21 Jumada II 1429H (corresponding to June 25, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). As at December 31, 2008 the subsidiary had not yet commenced its business operations.

The authorised, issued and fully paid-up share capital of Saudi Hollandi Real Estate Company is SR500,000, consisting of 500 shares of SAR 1,000 each.

8- Long Term Borrowings

The borrowings comprise two tranches of Subordinated Debt issued in 2004 and 2008 for SAR 700 millions and SAR 775 millions respectively. Note 14 to the audited financial statements contains details of these debt instruments.

9- Dividend Policy

Saudi Hollandi Bank aims to maximize shareholder return on their investment both through dividend yield as well as share price appreciation. The Board of Directors recommends dividend distributions taking into account the financial performance of the Bank in the context of both its sustainable revenue generating ability, opportunities for growth, the performance of the banking sector as a whole and regulatory capital requirements.

10- Distribution & Capitalisation of Profits

The Board of Directors, at its meeting held on 24 January 2009, have decided to recommend to the Shareholders' General Assembly, which will be held in March 2009, a final net dividend of SAR 0.75 per share amounting to SAR 198.5 mln (Gross including Zakat and Income tax SAR 233,45 millions). The recommendation has included the distribution of one bonus share for each 4 shares. This will result in the paid up share capital increasing from SAR 2,646,000,000 to SAR 3,307,500,000. No interim dividend was paid during the year (2007 SAR 0.71 per share amounting to SAR 187.9 millions (Gross including Zakat and Income tax SAR 212.9 millions).

11- Significant Shareholdings

For shareholdings of 5% and above movements during the year were as follows:

	1 January 2008		31 December 2008		
	Shares held	%	Shares held	%	Change
ABN AMRO Bank N. V.	105,840,000	**40**	105,840,000	40	0
Olayan Saudi Investment Company	53,501,991	**20.2**	55,098,000	20.8	%0.6
General Organization for Social Insurance	25,610,278	**9.7**	25,610,278	9.7	%0

12- Related Party Transactions

Note 33 to the audited financial statements summarises all related party transactions.

13- Board of Directors

The membership status of the Bank's directors during 2008 and their directorships in Saudi listed Companies was as follows:

Name	Membership Status	Directorship in other Listed Companies
Engr. Mubarak Abdullah Al-Khafrah (Chairman)	Independent	National Industrialization Co, National Petrochemical Industrialization Co.
Mrs. Lubna Sulaiman Al-Olayan	Non-Executive	-
Dr. Fahad Abdullah Al-Mubarak	Independent	Etihad Itisalat Co. 'Mobily'
Dr. Abdulaziz Hamad Al-Fahad	Independent	-
Mr. Abdulhadi Shayif	Independent	Arab Cement Co. Ltd
Mr. Eyad Al-Hussain	Independent	-
Mr. Jan Koopman	Independent	-
Mr. Geoffrey Calvert (Managing Director)	Executive	-
Mr. Menno de Jager	Independent	-
Mr. Javier Maldonado	Independent	

The Board of Directors convened four times during the year as per the table below.

Name	Sessions Attended
Engr. Mubarak Al-Khafrah (Chairman)	4
Mrs. Lubna Sulaiman Al-Olayan	4
Dr. Fahad Abdullah Al-Mubarak	2
Dr. Abdulaziz Hamad Al-Fahad	3
Mr. Abdulhadi Shayif	4
Mr. Eyad Al-Hussain	4
Mr. Javier Maldonado	4
Mr. Jan Koopman	3
Mr. Menno de Jager	3
Mr. Geoffrey Calvert	4

Board Committees:

The Board of Directors has Three committees – the Executive Committee , the Audit Committee, and the Nomination and Remuneration Committee.

1- Executive Committee

The Executive Committee is empowered by the Board of Directors in accordance with article 26 of the Bank's Articles of Association. It consists of the Chairman and four members of the Board (as below). The Executive Committee convened five times during the year as set out below:

Name	Sessions Attended
Engr. Mubarak Al-Khafrah (Chairman)	5
Mrs. Lubna Sulaiman Al-Olayan	5
Mr. Abdulhadi Shayif	5
Mr. Javier Maldonado	4
Mr. Geoffrey Calvert	5

2- Audit Committee

The Audit Committee is a sub committee appointed by the Board of Directors. The Committee is responsible for all control issues of the Bank. This Committee oversees the functioning and independence of the Internal Audit department and considers its recommendations. The committee has periodic discussions with management, internal auditors and external auditors on matters affecting financial statements, internal controls and various control issues and has advised the Board of Directors accordingly. The Audit Committee convened five times during the year (as below):

Name	Status	Sessions Attended
Dr. Fahad Al-Mubarak (Chairman)	Board member	4
Dr. Abdulrahman Al-Humaid	Independent member	5
Mr. Herman Erbe	Independent member	1

* Mr. Herman Erbe resigned as member of the Audit Committee as from 14th April, 2008

3- Nomination and Remuneration Committee

In accordance with article (15) of the Corporate Governance regulation Issued by CMA decision no. 1-212-2006 dated 21/10/1427j corresponding 12/11/2006 and after having the approval of General Shareholders Assembly in its meeting held on 29th March 2008, the Board of Directors established a separate committee for nomination and remuneration. The Nomination and Remuneration Committee consists of the following Board members:

Name
Eng. Mubarak Al-Khafrah (Chairman)
Mrs. Lubna Sulaiman Al-Olayan
Mr. Eyad Al-Hussain
Mr. Jan Koopman
Mr. Geoffrey Calvert

14- Board of Directors & Senior Executive Compensation

(All amounts in SAR millions)

Details	Executives Board Members	Non-Executives Board Members	Six Executive Managers in the Bank Receiving Highest Compensation, including MD and CFO
Salaries & Compensation	NIL	NIL	10.03
Allowances	NIL	NIL	1.97
Annual & Periodical Remuneration	NIL	NIL	----
Incentives	NIL	NIL	2.70
Any other Compensation or benefits (in kind paid monthly or annually)	NIL	2.65	2.23

15- Directors & Senior Management Interests

Board Members

Including the 1000 qualification shares held by each Board Member during their term of office, shares held by the Directors and Officers at the beginning and end of 2008 are set out in the table below.
4000 shares are held to reflect ABN AMRO Bank's representation on the Board of Directors.

Name	Shares Held as of 1st Jan. 2008	Shares Held as of 31st Dec. 2008
Engr. Mubarak Abdullah Al-Khafrah (Chairman)	5,000	5,000
Mrs. Lubna Sulaiman Al-Olayan	2,100	2,100
Dr. Fahad Abdullah Al-Mubarak	45,312	45,312
Dr. Abdulaziz Hamad Al-Fahad	2,100	2,100
Mr. Abdulhadi Shayif	1,000	50,000
Mr. Eyad Al-Hussain	10	10
Four members appointed by ABN AMRO	4,000	4,000

Senior Management:

Name	Shares Held as of 1st Jan. 2008	Shares Held as of 31st Dec. 2008
Mr. Thamer Jan	0	1,875

Share-Based Payments

During 2008 Saudi Hollandi Bank and Saudi Hollandi Capital (the Group), offered some of their key employees equity settled share based payments plan (the plan) in order to improve performance and retention. This scheme has been approved by SAMA. Details of this plan are set out in Note 18 of the audited financial statements.

16- External Auditors

At the Annual Ordinary General Meeting of the Bank’s shareholders held on 21/03/1429 (29 March 2008) ,Messrs Deloitte & Touche Bakr Abulkhair & Co. and Al Fozan & Al Sadhan (a member firm of KPMG) were appointed as joint auditors for the year ended 31 December 2008 for a total remuneration of SAR 900,000.

17- Payments of Zakat, Income Tax & Others

Zakat and income tax are paid as follows:

a. Saudi Shareholders

Zakat attributable to Saudi Shareholders for 2008 was SAR21 million (2007: SAR 15 million) which will be deducted from their share of current / future dividends, resulting in a net dividend of SAR 0.75 per share (2007: SAR 0.71 per share).

b. Non-Saudi Shareholders

Income tax payable on 2008 is approximately SAR 101 million (2007: SAR 42 million). This amount will be deducted from their share of future dividend.

The table below reflects major payments made to governmental agencies:

Payment	2008 (SR000)	2007 (SR000)
Zakat & Income Tax	38,797	115,709
GOSI	22,411	20,395
Visas and passports	821	836
Total	62,029	136,940

18- Applicable Regulations

Saudi Hollandi Bank has adhered to the provisions of the Banking Control Law, Saudi Companies' Law, and regulations issued by the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA). In the event of conflicting regulation, the bank adheres to the existing rules governing banks and joint stock companies prior to the foundation of the Capital Market Authority. During 2008 the Bank paid SAR 666,443.03 in respect of penalties levied by regulatory authorities in the Kingdom. These penalties are listed in the following table:

Name of Authority	Reason	Amount
Riyadh Municipality	Violations of ATM's construction	257,375.00
SAMA	Non-adherence to SAMA's instructions	299,928.03
SAMA	-do-	39,140.00
SAMA	-do-	70,000.00
Total		666,443.03

19- Declarations

The Board of Directors hereby declare that:

- Proper books of account have been maintained
- The functioning of the internal audit system is appropriate and nothing has come to the attention of the Audit Committee that causes it to believe that the system of internal control has not been properly designed and implemented
- The Bank prepares its financial statements in accordance with accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency and International Financial Reporting Standards, including International Accounting Standards, consistent with interpretations issued by the International Accounting Standards Board and as required by the Saudi Arabian Monetary Agency.
- The Bank has no existing contracts in which a Director, the MD, the CFO or any associate has a material interest.
- There is no doubt as to the Bank's ability to continue as a going concern.
- The bank has implemented all provisions of the Corporate Governance Regulations issued by CMA, with the exception of the following:

1- Applying the Accumulative Voting method in the nomination of Board Members as this issue requires the amendment of the articles related to the election of Board members in the Bank's Articles of Association and the Companies Regulation.

2- Setting up Corporate Governance policies and procedures for the Bank which the Board of Directors is currently preparing and reviewing.

Conclusion

The Board of Directors of Saudi Hollandi Bank extends its regards and gratitude to the government of the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz Al Saud, and to HRH the Crown Prince, The Minister of Finance, The Minister of Commerce, The Governor of the Saudi Arabian Monetary Agency and the Chairman of the Capital Market Authority for their continued support to the banking community.

The Board of Directors also extends its thanks and appreciation to the shareholders, customers and correspondents of Saudi Hollandi Bank for their continuing confidence and support.

Finally, appreciation must be given to the bank's management and staff for their dedication and team work, without whose considerable efforts this year's achievements would not have been possible.

Board of Directors

Back row, from left to right

Mr Ananth Venkat
Chief Financial Officer

Mr Thamer Jan
GM - Western Region

Mr Saad Al-Arfaj
GM - Human Resources

Mr Ehab Al-Dabbagh
GM - Personal Banking

Mr Callum Hiscock
Chief Internal Auditor

Mr Khalid Al-Muammar
GM - Eastern Region

Mr Farid Zaouk
GM - Legal and Corporate Secretariat

Mr Marc van der Kammen
GM - Information Technology

Front row, from left to right

Dr Bernd van Linder
GM - Treasury

Mr Abdullah Al-Hassan
GM - Banking Operations

Mr Abdulelah Al-Shaikh
GM Corporate Banking

Mr Geoffrey Calvert
Managing Director

Mr Steven Troop
Chief Operating Officer

Mr Mosaad Al-Hammadi
GM - Central Region

Mr Aart Jongejans
Chief Risk Officer

Members of the Bank's Senior Management (at the end of 2008)

Business Review

Business Environment

The Saudi economy performed strongly in the first half of 2008 though the impact of the international financial crisis began to be felt in the second half of the year. That strength was due, principally, to the marked rise in the price of oil to its highest ever level in July and resultant increases in the Kingdom's revenues – though oil prices fell sharply towards the end of the year. Other factors also affected the Kingdom's development programmes as many raw material prices, including those of cement, steel, aluminium and copper, rose as demand outstripped global supply. This had an adverse impact on project implementation. As much of the world sank into recession the demand for oil and raw materials slowed, impacting negatively on development activities in the oil sector.

For the first time in many years, inflation has been a concern in the Kingdom and registered an official rate of 12%. Consumers have felt much of the impact as most of the rise has been in food products and other consumer goods, though the business sector has also had to accommodate often sharp increases in the cost of raw materials. Despite this, consumer spending appears to have been maintained through to the end of the year and business in general continues to prosper. Due to prudent measures taken by the Government the inflation rate began to fall in the last quarter of 2008.

The sub-prime mortgage crisis in the U.S., now affecting many international markets, has had some impact on Saudi Arabia, though due to SAMA's careful stewardship of domestic financial markets, that impact has been limited and the Kingdom's banking industry is in good health.

Looking ahead, indications are that the world will fall further into recession and there may well be a marked slowdown in international trade, which would affect the banking industry in Saudi Arabia in the coming year.

Business Overview

SHB has achieved a significant turnaround in its fortunes in 2008 with the balance sheet evidencing considerable growth; lending showing strong growth, trade finance seeing a marked rise; and personal banking moving into an expansionary phase that, over time, is expected to provide a boost to the Bank's deposit base. On the other hand, stock market activity has been lower due to reduced investor confidence reflected in the heavy falls experienced in the Saudi Stock Market, Tadawul, during the year. A significant recovery in Tadawul levels or volumes is not anticipated in the short term.

During 2008, the Bank has been able to grow revenue, reduce operating costs, make efficiency gains, undergo structural reorganisation and refocus its activities on the many opportunities available in the Saudi market place whilst, at the same time, enhancing the professionalism of its dedicated staff. These positives have all contributed to an increased level of confidence in SHB amongst staff and customers alike, which will provide a platform for further progress to be made in the years ahead.

The banks' Treasury Shari'a-compliant product range now mirrors those available in conventional format. At the end of 2008, the Bank successfully closed the first tranche of its Sukuk programme, raising SAR 775 million, and in so doing became the first bank in the Middle East to raise Tier-II capital using a Shari'a-compliant structure.

Corporate Banking Group

Corporate Banking continued to build on its earlier successes providing both conventional and Shari'a-compliant products to the Kingdom's prime corporate clients. This proved highly rewarding for the Bank.

Increased attention has been given to Small and Medium Enterprises (SMEs). Whilst acknowledging that this sector is as yet a small part of the overall market, Saudi Hollandi Bank sees it as having immense potential as the economy grows and local entrepreneurs pursue the many opportunities available.

Islamic Banking and Finance Division

Considerable attention has been given this year to growing the Bank's portfolio of innovative, Shari'a-compliant corporate, treasury and personal banking products and services to satisfy the growing appetite amongst the Bank's clients for Shari'a compliant financial services. As a result SHB is now able to provide an extensive range of Shari'a-compliant corporate, treasury and personal banking products. Total Islamic assets grew in excess of 70% year-on-year and amounted at 31st December 2008 to some SAR 20 billion.

Work is underway on further broadening the range of Sharia-compliant products and services for the personal banking sector. Whilst the rewards of this activity started to appear in 2008, the full benefits are expected to become evident in the coming year.

Islamic Smart Credit Cards

Structured Finance and Syndications

Structured Finance and Syndications have been very active during the year, playing a leading role in many transactions involving major projects in power, petrochemicals and construction, as well as corporate-related syndicated financing.

The major deals in which the Bank participated included:

- Sole arranger and financier of the Al Zamil Huntsman joint venture, Arabian Amines Company, a petrochemical complex project in Jubail Industrial City.

Mandated Lead Arranger of:

- US$ 2,500 million Project Finance Term Facility for Saudi Polymers Company
- US$ 2,300 million Project Finance Term Facility for Ma'aden Phosphate Company
- US$ 741 million Project Finance Term Facility for Jubail Acetyls Company Projects
- US$ 1,660 million Acquisition Term Loan Financing for Afaq Development & Commercial Investment Company Ltd
- US$ 135 million Murabaha Term Financing for National Petroleum Services
- SAR 8,283 million Multiple Construction Facilities for Arabian Bemco Contracting Company Limited
- SAR 265 million Acquisition Term Loan Financing for Manzo Holdings Company Limited

Structured Finance and Syndications also participated in the:

- US$ 1,000 million Islamic Facility for Saudi Kayan Petrochemical Company
- SAR 5,340 million Syndicated Murabaha Facility for Saudi Electricity Company
- SAR 4,300 million Syndicated Murabaha Financing for Arabian Centres Company Limited.

Financial Institutions Group

Given the difficulties faced in international markets throughout much of 2008, Saudi Hollandi Bank has taken a conservative stance in its relationships with financial institutions with a clear focus upon established relationship banks that are counterparties in trade transactions for Saudi importers and exporters.

A dedicated team has been put in place to address the specific opportunities presented by the Kingdom's growing non-bank financial institution / investment company sector.

Transaction Banking Group

Asset Finance activity was conducted at a lower but more focussed level than in the previous year. Nevertheless, Transaction Banking Group increased its fee income by 50% in 2008.

The year has also seen detailed evaluation of a new trade system for Transaction Banking. Once this process is complete and the new system is implemented comprehensive benefits are anticipated in terms of efficiency, cost savings and enhanced revenue generation.

Treasury

SHB's Treasury attained record results during 2008, exceeding USD 100 million in operating revenues for the first time. A major element of this success has been the introduction of tailored hedging products coupled with the establishment of an in-house structuring capability.

Further growth has been seen in the Bank's already substantial foreign exchange activities with both sales and trading activity rising. Additionally, derivative sales and trading picked up substantially. The Money Market book showed a sharp increase in income as a result of well-timed positioning. Value-at-Risk for Treasury overall was flat year-on-year, and remained concentrated in the Money Market book.

The Bank's in-house investments continued to be concentrated mainly in local sovereign debt. The bank has no exposure to sub-prime related investments, hedge funds or other structured investment products.

Saudi Hollandi Capital

Saudi Hollandi Capital (SHC) was licensed by the Capital Market Authority (CMA) on 08/07/1428 H (corresponding to 22 July 2007) and received its Commercial Registration on 30/12/1428 H (corresponding to 9 January 2008). Under the terms of its CMA licence, SHC is licensed to conduct Securities Brokerage, Asset Management, Capital Markets, Custodian Services and Wealth Management.

Mr. Taher Al-Dabbagh
CEO of Saudi Hollandi Capital

Business commenced on 8th April 2008 in a highly competitive environment as the CMA has issued licences for more than 80 investment banking companies: to date, more than 30 of these have commenced operations, of which 12 are offshoots of existing commercial banks.

SHC successfully completed the SAR 400 Million Initial Public Offering of Saudi Re – the first reinsurance company in Saudi Arabia – acting as the Financial Advisor, Lead Manager and Sole Underwriter. The Company also co-underwrote two landmark local IPOs for Saudi Arabian Mining Company (Ma'aden) and Mobile Telecommunications Company, KSA (Zain) valued at SAR 300 Million and SAR 800 Million respectively. As at 31st December 2008 a number of other IPOs were in hand for likely completion in 2009, as was a large rights issue. Going forward, SHC plans to widen its service offering to include other investment banking transactions including private equity, private placements and mergers and acquisitions.

Saudi Hollandi Capital team members.

SHC, like its competitors, has been faced with the challenge of a sharp decline in trading value and volume. To offset this, SHC's Brokerage team has promoted the SHC-Tadawul platform, allowing clients to execute trades in the local equity market via the internet. In addition, SHC continued to offer its services through a dedicated Central Shares Trading Unit (CSTU) that handles order-execution through dedicated phone lines for high-net-worth clients as well as providing access to local equity trading through strategically located investment centres across the SHB branch network.

SHC also provides trading access to major markets in the USA, Europe, Asia Pacific, GCC and certain Middle Eastern countries through its International Brokerage service which allows trading in most financial instruments and securities. SHC has also participated in several regional and international IPOs on behalf of its clients whilst also providing custody services to local and international brokerage clients.

2008 was a notable year for SHC Asset Management, one of the Kingdom's leading mutual fund providers with 12 of its 24 mutual funds and portfolios ranked in the top three in their respective classes. Nevertheless, assets under management fell during the year in line with the overall decline in the local market.

Asset Management continued to work closely with SHC Advisory and Wealth Management to develop an extensive range of investment products and introduce comprehensive Wealth Management Solutions for retail, corporate, institutional and high net-worth client markets. The company's aim is to provide investment products that deliver consistent performance within an appropriate investment risk profile.

To meet the anticipated challenges of 2009, SHC will continue to capitalize on synergies with SHB while continuing to focus on improving its operational efficiency.

Personal Banking

After many years of being recognised as primarily a corporate bank, 2008 has seen SHB begin to increase its focus on personal banking. The business has seen growth during the year, a function of enhanced levels of service now being offered, the provision of a wide range of both conventional and Shari'a-compliant products and the up-grading and expansion of the branch network to provide a more attractive and customer-focussed environment.

During 2008, SHB piloted the first Islamic chip-based credit card; launched Islamic current accounts and personal loans, which now total 96% of all personal loans outstanding; and introduced the Murabaha Specific Investment, a Shari'a-compliant alternative to time deposits. The response from customers has been positive and substantial business growth had been seen by the year end.

Ladies Banking, in particular, is seen as a growth area for the Bank with the bank's business now

Ladies Branch in Tahliah Riyadh.

under the leadership of an experienced lady banker who has identified a number of ladies currently under intensive training as professional bankers.

For higher net worth individuals the Bank also provides specialised services through three separate schemes: Priority (known as "Taqdeer" or appreciation), Preferred Banking and Private Banking. All three schemes have seen considerable growth over the year.

Close attention is also being given to e-banking to enhance the propositions available and also to the card portfolio, which grew 15% in 2008, as the Bank moves to implementation of Span II, the SAMA-sponsored Chip-and-PIN card programme.

Insurance and Takaful

The bank sees insurance as a "natural" offering for a financial institution and is committed to the establishment and growth of a bancassurance business in a market-place where for a variety of reasons, insurance coverage of all kinds is likely to see exponential growth over the next decade and onwards. Meeting our customers' financial needs – from the simple mandatory insurance associated with motor-cars to the more complex need for structured long-term savings/ investment plans and accompanying life-cover – is an opportunity where the bank has considerable advantages both in terms of multi-channel distribution capacity and, not least, the trust and confidence that our customers place in the Saudi Holland Bank brand and its values.

Much of the groundwork was completed in 2008: the bank's application for an Agency Licence (to allow it sell a full range of insurance products to both personal and corporate customers) has been submitted and is in process with the relevant authorities. Consideration is also being given to the possible establishment of a Ta'awun insurance company.

2009 should see the bank launch a series of products, sold via the branch network, relationship managers, the telephone and the internet, developed exclusively for Saudi Hollandi Bank customers.

Human Resources

The bank has focussed this year on raising skill levels. Training programmes have been held throughout the year at the Bank's dedicated training centre in Jeddah, soon to be supplemented by two further training centres, with the new "SHB Academy" scheduled to open in Riyadh during 2009. Distance learning techniques have also been employed with software packages developed and provided to staff to enable them to undertake "self-accreditation" in banking related subjects.

Internally, all recruitment-related administrative matters underwent a major overhaul towards the end of the year, improving and simplifying all documentation with the added benefit of reducing costs and enhancing efficiency. A new recruitment website was launched. Some recruitment is undertaken through attendance by SHB at Career Days which seek out possible recruits to one of three programmes – the Fresh Graduate Development Programme, the Management Trainee Programme and the Preparatory Training Programme. In addition, and for the first time, qualified ladies were enrolled in the Bank's new purpose-designed training programme for ladies.

A Restricted Share Plan has been implemented, the aim of which is to retain and reward high performing members of staff.

Internal Communications

Improving the quality of internal communication was a particular priority during 2008. The "Your Opinion Matters" programme was established, an opportunity for all staff to participate fully in face-to-face dialogue with senior members of the management team, including the Managing Director, arranged at different locations around the Kingdom; a clear statement of inclusiveness in decision-making processes at the Bank, the importance of teamwork and the significance of each and every staff member to the present and future success and prosperity of SHB. To enhance the effectiveness of this programme an intranet site linked to the programme has been introduced with a fully-fledged staff intranet under development for introduction in the coming year.

Premises

SHB now has 41 branches Kingdom-wide, including the new branch opened at AlAndalus in Dammam during the year, 8 Ladies Sections, 22 Preferred Banking Centres and a Private Banking Unit in the Western Province. Plans are in hand for the branch network to be further expanded, including a new Regional Office in the Eastern Province scheduled to open in early 2009.

Tahliah Branch in Riyadh.

198 in-branch and drive-up ATMs have now been installed, with expansion of the network anticipated in the coming year, including new ATMs at prime locations in three major supermarket chains, Carrefour, Panda and AnNahda. POS terminals installed in retail outlets across the country now number 5,653, with good growth in both their number and transaction levels during the year.

Operations

Operations staff, and indeed staff right across the Bank, have been inspired this year by the AlWasmi Programme that seeks to help the Bank reduce costs whilst at the same time ensuring that SHB makes significant improvements in the efficiency of its internal and customer-facing work processes.

Re-engineering and streamlining operational processes allowed the Bank to enhance productivity without increasing employee numbers. Customers are beginning to see the benefits of this programme.

Detailed attention has been given to the design and location of a proposed new operations centre for SHB in Riyadh that will demonstrate an innovative and creative approach to nourishing human capital. It is anticipated that the new centre, for which substantial premises have already been obtained, will come into operation in the coming year.

Service Quality

A Customer Satisfaction Survey was undertaken during the year, the results of which showed considerable goodwill towards the Bank, a distinct positive in looking to the future, whilst highlighting some of the needs and wants of those customers questioned.

A "Mystery Shopper" analysis was also commissioned to ascertain staff responsiveness and attitudes towards customers. Together these surveys have provided excellent insight into what our customers want out of their relationship with the Bank and the training needs of SHB's staff. The Bank is addressing the findings from both surveys.

New Drive-Up ATM.

Independent Auditors' Report

To the Shareholders of Saudi Hollandi Bank (A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Saudi Hollandi Bank (the "Bank") and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated statement of income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (39) for the year then ended, other than note (39) and the information related to "Basel II disclosures" cross referenced in note (39) which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies and the Banking Control Law in the Kingdom of Saudi Arabia. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Bank as at December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- Comply with requirements of the Regulations for companies, the Banking control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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KPMG Al Fozan & Al Sadhan

Muharram 27, 1430H
(January 24,2009)

annual
report '08

Riyadh Main Head Office

Eastern Region Head Office

Western Region Head Office

FINANCIAL STATEMENTS

For the year ended 31 December 2008

CONSOLIDATED BALANCE SHEET

For the years ended December 31, **2008** and 2007

Amounts in SAR'000

	Notes	2008	2007
ASSETS			
Cash and balances with SAMA	4	2,790,716	3,509,047
Due from banks and other financial institutions	5	365,095	5,271,854
Investments, net	6	18,368,343	12,954,288
Loans and advances, net	7	38,017,101	27,554,619
Property and equipment, net	8	465,611	320,371
Other assets	9	1,429,317	801,135
Total assets		61,436,183	50,411,314
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	9,286,150	9,157,612
Customers' deposits	12	43,012,327	34,604,985
Other liabilities	13	1,947,555	1,401,923
Subordinated debt	14	1,475,000	700,000
Total liabilities		55,721,032	45,864,520
SHAREHOLDERS' EQUITY			
Share capital	15	2,646,000	2,646,000
Statutory reserve	16	1,915,000	1,609,000
General reserve		130,000	130,000
Other reserves	17	(45,411)	20,756
Retained earnings		825,329	141,038
Proposed dividends	25	233,450	–
Staff share plan reserve	18	10,783	–
Total shareholders' equity		5,715,151	4,546,794
Total liabilities and shareholders' equity		61,436,183	50,411,314

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, **2008** and 2007

Amounts in SAR'000

	Notes	**2008**	2007
Special commission income	20	**2,977,305**	2,905,672
Special commission expense	20	**1,532,246**	1,705,223
NET SPECIAL COMMISSION INCOME		**1,445,059**	1,200,449
Fee income from banking services, net	21	**456,337**	390,167
Exchange income, net		**88,480**	84,881
Income from FVIS financial instruments, net	22	**5,184**	30,454
Trading income, net	23	**115,033**	65,769
Gains on non-trading investments		**591**	4,042
Other operating income		**490**	395
Total operating income		**2,111,174**	1,776,157
Salaries and employee-related expenses		**452,516**	465,315
Rent and premises-related expenses		**73,870**	58,216
Depreciation	8	**63,132**	60,914
Other general and administrative expenses		**220,309**	257,124
Impairment charge for credit losses, net	7 (b)	**25,485**	495,666
Impairment charge for Investment		**52,121**	–
Other operating expenses		**–**	353
Total operating expenses		**887,433**	1,337,588
NET INCOME FOR THE YEAR		**1,223,741**	438,569
Earnings per share (expressed in SAR per share)			
Basic and diluted earning per share	24	**4.62**	1.66

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, **2008** and 2007

Amounts in SAR'000

2008	**Notes**	**Share capital**	**Statutory reserve**	**General reserve**	**Other reserves**	**Retained earnings**	**Proposed dividend**	**Staff share Plan reserve**	**Total**
Balance at beginning of the year		**2,646,000**	**1,609,000**	**130,000**	**20,756**	**141,038**	–	–	**4,546,794**
Net changes in fair value of cash flow hedges	17	–	–	–	**14,031**	–	–	–	**14,031**
Net changes in fair value of available for sale investments	17	–	–	–	**(68,009)**	–	–	–	**(68,009)**
Transfer to consolidated statement of income	17	–	–	–	**(12,189)**	–	–	–	**(12,189)**
Net expense recognized directly into equity					**(66,167)**				**(66,167)**
Net income for the year						**1,223,741**			**1,223,741**
Transfer to statutory reserves	16	–	**306,000**	–	–	**(306,000)**	–	–	–
Staff share plan reserve		–	–	–	–	–	–	**10,783**	**10,783**
2008 final proposed dividends	25	–	–	–	–	**(233,450)**	**233,450**	–	–
Balance at the end of the year		**2,646,000**	**1,915,000**	**130,000**	**(45,411)**	**825,329**	**233,450**	**10,783**	**5,715,151**

2007	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Staff share Plan reserve	Total
Balance at beginning of the year		2,205,000	1,499,000	571,000	(42,592)	25,335	–	–	4,257,743
Net changes in fair value of cash flow hedges	17	–	–	–	39,339	–	–	–	39,339
Net changes in fair value of available for sale investments	17	–	–	–	7,780	–	–	–	7,780
Transfer to statement of income	17	–	–	–	16,229	–	–	–	16,229
Net income recognized directly into equity		–	–	–	63,348	–	–	–	63,348
Net income for the year		–	–	–	–	438,569	–	–	438,569
Total recognized income for the year		–	–	–	63,348	438,569	–	–	501,917
Bonus share issue		441,000	–	(441,000)	–	–	–	–	–
Transfer to statutory reserve	16	–	110,000	–	–	(110,000)	–	–	–
2007 interim dividend paid	25	–	–	–	–	(212,866)	–	–	(212,866)
Balance at the end of the year		2,646,000	1,609,000	130,000	20,756	141,038	–	–	4,546,794

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, **2007** and 2006

Amounts in SAR'000

	Notes	2008	2007
OPERATING ACTIVITIES			
Net income for the year		**1,223,741**	438,569
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts and amortisation of premium on non trading investments, net		**(214,867)**	(59,990)
Gains on non-trading investments, net		**(591)**	(4,042)
Depreciation	8	**63,132**	60,914
Staff share plan expenses		**10,783**	–
Impairment charge for credit losses, net	7 (b)	**25,485**	495,666
Impairment charge for Investments		**52,121**	–
		1,159,804	931,117
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(358,869)**	(213,731)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**1,048,407**	642,041
Investments held at FVIS (including trading investments)		**452,601**	(661,204)
Loans and advances, net		**(10,487,967)**	(1,570,436)
Other assets		**(626,340)**	53,859
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**128,538**	859,197
Customer deposits		**8,407,342**	2,191,321
Other liabilities		**558,262**	341,050
Net cash from operating activities		**281,778**	2,573,214
INVESTING ACTIVITIES			
Proceeds from sales and maturity of non-trading investments, net		**3,047,309**	1,064,121
Purchase of non-trading investments		**(8,818,637)**	(2,826,054)
Purchase of property and equipment	8	**(208,372)**	(72,241)
Net cash used in investing activities		**(5,979,700)**	(1,834,174)
FINANCING ACTIVITIES			
Issue of subordinated debt		**775,000**	–
Dividends paid		**(12,630)**	(222,235)
Net cash from (used in) financing activities		**762,370**	(222,235)
(Decrease)/ Increase in cash and cash equivalents		**(4,935,552)**	516,805
Cash and cash equivalents at beginning of the year		**6,323,278**	5,806,473
Cash and cash equivalents at end of the year	25	**1,387,726**	6,323,278
Special commission received during the year		**2,975,566**	2,890,872
Special commission paid during the year		**1,344,819**	1,674,540
Supplemental non-cash information			
Net changes in fair value and transfer to consolidated statement of income		**(66,167)**	63,348

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

1. GENERAL

Saudi Hollandi Bank (the Bank), (a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia) formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 20, 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to August 1, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada Al Thani 1407H (corresponding to February 4, 1987) through its 41 branches (2007: 41 branches) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

Saudi Hollandi Bank
P O Box 1467
Riyadh 11431
Kingdom of Saudi Arabia.

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

As at December 31, 2008 the Bank has following subsidiaries.

Saudi Hollandi Capital

Saudi Hollandi Capital (SHC) was formed in accordance with Capital Market Authority directive 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. SHC is effectively wholly owned by the bank through direct and beneficial ownership and commenced its operations effective 1 Rabi'II 1429H (corresponding to April 07, 2008).

Saudi Hollandi Real Estate Company

Saudi Hollandi Real Estate Company (SHREC) an effectively wholly owned subsidiary of the Bank through direct and beneficial ownership was established under commercial registration number 1010250772 dated 21 Jumada II 1429H (corresponding to June 25, 2008) with the approval of Saudi Arabian Monetary Agency (SAMA). As at December 31, 2008 the subsidiary had not yet commenced its business.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with accounting standards for financial institutions promulgated by the SAMA and International Financial Reporting Standards (IFRS). The Bank 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 as available for sale. In addition, assets and liabilities that are hedged in a fair value hedging relationship and otherwise carried at cost , are carried at fair value to the extent of the risk being hedged.

c) Critical accounting judgements and estimates

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

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, **2008** and 2007

Amounts in SAR'000

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 from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group.

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

(iv) Classification of held-to-maturity investments

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

d) 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, financial information presented in SAR has been rounded off to the nearest thousands.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary SHC (collectively referred to as "the Group"). The financial statements of SHC is prepared for the same reporting period as that of the Bank, and changes have been made to the accounting policies of the subsidiary when necessary to align it with the accounting policies adopted by the Group.

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 its activities, generally accompanying a shareholding of more than one half of the voting rights.

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

Balances between Bank and subsidiary and unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b) Trade date accounting

All regular-way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the assets. 'Regular way' purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

c) Derivative financial instruments and hedge accounting.

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

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

i) Derivatives held for trading

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

ii) Derivatives held for hedging and hedge accounting

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

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

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

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other reserves under equity and the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. Where the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then at the

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time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

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

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

e) 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 recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

f) Revenue / expense recognition

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

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

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

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

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

iii) Exchange income / loss

Exchange income / loss from banking services recognised when earned / incurred.

iv) Income from FVIS instruments and Trading income

Income from FVIS instruments and trading securities include all gains and losses from changes in fair value and related special commission income or expense and dividends from such financial assets and financial liabilities. This also includes any ineffectiveness recorded in hedging transactions.

v) Dividend income

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

g) Sale and repurchase agreements

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

h) Investments

The investment securities are initially recognized on the trade date at which the Group becomes party to the contractual provisions of the investment securities. All investment securities are initially recognised at fair value, including transaction cost associated with the investment except for investments held as FVIS. Premiums are amortised and discounts accreted using the effective yield basis and are 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 balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows 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 the initial recognition, subsequent transfers between the four classes of investments as described below, are not ordinarily permissible except in accordance with the recent amendments made to IAS 39. These have been detailed in note 5. The subsequent period-end reporting values for each class of investment are determined as follows:

i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS. Investments classified in this category are acquired principally for the purpose of selling or repurchasing in short term or for trading. An investment is designated as FVIS, when doing so significantly reduces measurement inconsistencies

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that would arise if under pass through arrangement, the investments are carried at fair value and related deposits are held at amortized cost.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income received on investment securities held as FVIS are reflected as income from FVIS financial instruments 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 subsequently measured at fair value except for un-quoted securities whose fair value can not be reliably measured are carried at cost. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in "Other reserves" under Shareholders' equity. On de-recognition, any cumulative gain or loss previously recognized in Shareholder's equity is included in the consolidated statement of income for the period.

Special commission income is recognised in the consolidated statement of income 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 the consolidated statement of income.

iii) Held to maturity

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

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

iv) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "Other investments held at amortised cost". Such investments, whose fair values have not been hedged, are stated at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on impairment and de-recognition of such investments is recognised in the consolidated statement of income.

i) 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 de-recognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value including directly attributable transaction costs associated with the loans and advances.

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

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

j) Impairment of financial assets

A financial asset or group of financial assets are classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a "loss event") or group of financial asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

i) delinquency in contractual payments of principal or commission
ii) cash flow difficulties experienced by the borrower
iii) breach of loan covenants or conditions
iv) initiation of bankruptcy proceedings
v) deterioration of borrowers' competitive position
vi) deterioration in the value of collateral
vii) downgrading below investment grade level.
viii) Significant or prolonged decline in fair value.

When a financial asset is uncollectible, it is written off against the related provision for impairment charge to through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.
Once a financial asset has been written down to its estimated recoverable amount, commission income is thereafter recognised based on the rate of commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(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.

The Bank first assesses whether objective evidence of impairment exists individually for the financial asset that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

For the purposes of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for the groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual term of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are

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estimated on the basis of their contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristic similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of the current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of the conditions in the historical period that do not currently exist.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income.

a) Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new. 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

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

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

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On de-recognising, any cumulative gain or loss previously recognised in equity is included in the consolidated statement of income for the period. The bank considers such investment as impaired if the fair value of the assets falls below 30% to 40% of its costs or remains below its cost for a period of 9 months or more, unless the other qualitative evidence indicates otherwise.

k) 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 carrying amount and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

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

l) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortisation. Freehold land is not depreciated. The cost of other property and equipment is depreciated and amortised on the 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	4 to 10 years

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

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

m) Financial liabilities

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

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

Financial liabilities classified as FVIS represent liabilities designated as FVIS on initial recognition if doing so significantly reduce measurement inconsistently which would otherwise arise. After initial recognition these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated statement of income.

n) Guarantees

In ordinary course of business, the Bank issues financial and performance guarantees, letters of credit and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortized premium and the best estimate of expenditure required settling any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in credit loss expenses. The premium received is recognised in the consolidated statement of income in Fees from banking services on a straight line basis over the life of the guarantee.

o) Provisions

Provisions are recognised 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

Leases entered into by the Bank as a lessee 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 lesser by way of penalty is recognised as an expense in the period in which termination takes place.

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 deposits, and due from banks and other financial institutions maturing within three months or less from the date of acquisition.

r) De-recognizing of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is de-recognised, 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 de-recognised 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 de-recognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be de-recognised when it is extinguished, that is

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when the obligation specified in the contract is either discharged, cancelled or expires.

s) End of service benefits

The liability for employees' end of service benefits is determined based on actuarial valuation conducted by an independent actuary. The actuarial valuation process takes into account the provision of the Saudi Arabian Labour and Workmen law.

t) Zakat and income tax

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

Zakat and income taxes are not charged to the Bank's consolidated statement of income as they are deducted from current and future dividends payable to the shareholders.

u) Investment management services

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

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

v) Non-commission based banking products

In addition to the conventional banking, the Bank offers its customers certain Islamic banking products, which are approved by independent Shariah Board, as follows:

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

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

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

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

w) Share-based payments

The Group offers its eligible employees equity settled share based payment plan (the Plan) as approved by SAMA. The obligation under the plan is measured at the fair value of shares at the grant date. Details regarding the plan and determination of the fair value are set out in Note 18.

The fair value determined at the grant date of the Plan is recognised in statement of income on a straight line basis over vesting period with a corresponding effect in Staff share plan reserve, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimates of the number of shares expected to vest. The impact of the revision of the original estimates, if any, is recognized in consolidated statement of income over the remaining vesting period, with a corresponding adjustment to the Staff share plan reserve.

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4. CASH AND BALANCES WITH SAMA

	2008	2007
Cash in hand	**237,570**	362,431
Statutory deposit	**1,767,297**	1,408,428
Current accounts	**237,872**	224,356
Reverse repo with SAMA	**547,977**	1,513,832
Total	**2,790,716**	3,509,047

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
Current accounts	**58,995**	127,478
Money market placements	**306,100**	5,144,376
Total	**365,095**	5,271,854

6. INVESTMENTS, NET

a) Investments securities are classified as follows:

	Domestic		*International*		*Total*	
	2008	2007	**2008**	2007	**2008**	2007
i) Held as FVIS						
Fixed rate securities	**133,652**	–	**–**	102,102	**133,652**	102,102
Floating-rate notes	**20,980**	–	**136,623**	188,649	**157,603**	188,649
Index linked securities	**–**	–	**72,061**	525,153	**72,061**	525,153
Total	**154,632**	–	**208,684**	815,904	**363,316**	815,904

Investment in Index linked securities are made under pass through arrangements. Under these arrangements the deposits received from customers are invested in earmarked securities. Both investment securities and related deposits are designated as FVIS as such designation significantly reduces measurement inconsistencies. Fixed rate securities and floating-rate notes are classified as held for trading while Index linked securities are designated as FVIS at initial recognition.

	Domestic		*International*		*Total*	
ii) Available- for- sale	**2008**	2007	**2008**	2007	**2008**	2007
Fixed-rate securities	**458,002**	821,217	**–**	35,875	**458,002**	857,092
Floating-rate notes	**1,051,012**	942,342	**185,073**	1,157,227	**1,236,085**	2,099,569
Mutual funds	**25,879**	52,013	**–**	–	**25,879**	52,013
Equities	**4,236**	4,236	**–**	–	**4,236**	4,236
Total	**1,539,129**	1,819,808	**185,073**	1,193,102	**1,724,202**	3,012,910

In accordance with the recent amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" the Bank reclassified its certain available for sale securities as other investments held at amortized cost, effective July 1, 2008. The Bank identified investments, eligible under the amendments for which at July 1 2008, it had a clear intention to hold for the foreseeable future rather than to exit or trade in the short term.

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Equities reported under available-for-sale investments include unquoted shares for SAR 4 million (2007: SAR 4 million) that are carried at cost. In the opinion of the Management their fair value approximates the carrying value.

The following table shows carrying values and fair values of the reclassified investments.

	July 1, 2008 Carrying value SAR '000	July 1, 2008 Fair value SAR '000	Dec. 31, 2008 Carrying value SAR '000	Dec. 31, 2008 Fair value SAR '000
Available for sale securities reclassified to other investments held at amortized cost	616,566	576,908	608,842	481,788

Under IAS 39 as amended the reclassification were made at fair value at that date. Had the reclassification not been made by the Bank, other reserve would have included unrealized fair value losses amounting to SAR 95.12 million and in share holders equity would have been lower by the same amount.

The effective interest rate the bank expected to recover on the above reclassified assets is 12.29%.

	Domestic		*International*		*Total*	
	2008	2007	**2008**	2007	**2008**	2007
iii) Other investments held at amortised cost						
Fixed-rate securities	**8,867,999**	1,118,179	_	_	**8,867,999**	1,118,179
Floating-rate notes	**5,377,723**	5,839,584	**553,008**	_	**5,930,731**	5,839,584
Musharakah	**71,733**	198,209	_	_	**71,733**	198,209
Total	**14,317,455**	7,155,972	**553,008**	_	**14,870,463**	7,155,972

	Domestic		*International*		*Total*	
	2008	2007	**2008**	2007	**2008**	2007
iv) Held to Maturity						
Fixed-rate securities	**1,020,063**	1,523,568	_	56,247	**1,020,063**	1,579,815
Floating-rate notes	_	50,000	**390,299**	339,687	**390,299**	389,687
Total	**1,020,063**	1,573,568	**390,299**	395,934	**1,410,362**	1,969,502
Total Investments, net	**17,031,279**	10,549,348	**1,337,064**	2,404,940	**18,368,343**	12,954,288

b) Quoted and unquoted securities

Investments comprise quoted and unquoted securities as follows:

	2008			*2007*		
	Quoted	***Unquoted***	***Total***	*Quoted*	*Unquoted*	*Total*
Fixed-rate securities	_	**10,479,635**	**10,479,635**	194,223	3,462,965	3,657,188
Floating-rate notes	**1,265,084**	**6,449,715**	**7,714,799**	1,685,563	6,831,926	8,517,489
Musharakah	_	**71,733**	**71,733**	_	198,209	198,209
Mutual funds	**25,880**	_	**25,880**	52,013	_	52,013
Equities	_	**4,236**	**4,236**	_	4,236	4,236
Other	**72,060**	_	**72,060**	525,153	_	525,153
Total	**1,363,024**	**17,005,319**	**18,368,343**	2,456,952	10,497,336	12,954,288

Amounts in SAR'000

The unquoted securities above principally comprise Saudi Government Development Bonds (SGDBs). Such SGDBs are traded in an inter-bank market within Saudi Arabia and values are determined according to either such market, when available, or an appropriate pricing model.

c) Unrealised gains and losses and fair values

The analyses of unrealised gains and losses and fair values of fixed-rate securities included in 'other investments held at amortised cost' and 'held-to-maturity' investments, net of hedging (if hedged) are as follows:

	2008				2007			
Other investments held at amortized cost	***Carrying value***	***Gross unrealised gains***	***Gross unrealised losses***	***Fair value***	*Carrying value*	*Gross unrealised gains*	*Gross unrealised losses*	*Fair value*
Fixed-rate securities	**8,867,999**	**125,205**	**(20,598)**	**8,972,606**	1,118,179	57,880	(1,897)	1,174,162
Musharakah	**71,733**	**_**	**_**	**71,733**	198,209	_	_	198,209
Total	**8,939,732**	**125,205**	**(20,598)**	**9,044,339**	1,316,388	57,880	(1,897)	1,372,371
Held to maturity								
Fixed-rate securities	**1,020,063**	**17,006**	**_**	**1,037,069**	1,579,815	25,953	_	1,605,768
Total	**1,020,063**	**17,006**	**_**	**1,037,069**	1,579,815	25,953	_	1,605,768

d) Counterparties

The analysis of investments by counterparty is as follows:

	2008	2007
Government and quasi-government	**16,713,759**	10,203,550
Corporates	**723,238**	762,284
Banks and other financial institutions	**901,231**	1,936,441
Other	**30,115**	52,013
Total	**18,368,343**	12,954,288

Other investments held at amortized cost comprise of Musharakh investments for SAR 71 million (2007: SAR 198 million) that are carried at amortised cost. The fair values of these Musharakh investments are not significantly different from their carrying values.

Investments include SAR 8,011 million (2007: SAR 2,253 million) which has been pledged under repurchase agreements with customers (refer note 12 (a)). The market value of these investments is SAR 8,101 million (2007: SAR 2,377 million).

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e) Credit risk exposures of Investments

	2008				2007			
	Fixed rate Securities	**Floating rate Securities**	**Others**	**Total**	Fixed rate Securities	Floating rate Securities	Others	Total
AAA	_	_	_	_	_	391,477	-	391,477
AA- To AA+	**10,479,636**	**6,387,337**	**173,908**	**17,040,881**	3,462,965	6,890,289	779,611	11,132,865
A- To A+	_	**495,567**	_	**495,567**	_	566,765	-	566,765
BBB	_	**345,670**	_	**345,670**	_	392,476	-	392,476
Lower than BBB	_	**17,656**	_	**17,656**	_	18,352	-	18,352
Unrated	_	**468,569**	_	**468,569**	_	452,354	-	452,354
Total	**10,479,636**	**7,714,799**	**173,908**	**18,368,343**	3,462,965	8,711,713	779,611	12,954,289

7. LOANS AND ADVANCES, NET

a) Loans and receivables held at amortised cost

2008	**Overdraft**	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Total**
Performing loans and advances-gross	**4,195,273**	**204,614**	**3,250,893**	**30,449,549**	**38,100,329**
Non performing loans and advances, net	**782,324**	**7,038**	**42,584**	**235,453**	**1,067,399**
Total loans and advances	**4,977,597**	**211,652**	**3,293,477**	**30,685,002**	**39,167,728**
Total Allowance for impairment	**(924,436)**	**(11,326)**	**(38,722)**	**(176,143)**	**(1,150,627)**
Loans and advances, net	**4,053,161**	**200,326**	**3,254,755**	**30,508,859**	**38,017,101**

2007	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Performing loans and advances-gross	4,377,530	181,108	3,333,667	19,770,576	27,662,881
Non performing loans and advances, net	724,548	8,571	32,631	312.770	1,078,520
Total loans and advances	5,102,078	189,679	3,366,298	20,083,346	28.741.401
Total Allowance for impairment	(886,876)	(11,326)	(38,722)	(249,858)	(1,186,782)
Loans and advances, net	4,215.202	178,353	3,327,576	19,833,488	27,554,619

The performing loans and advances include SAR 1,097 million (2007: SAR 919 million) of loans and advances that are past due but not impaired.

Loans and advances above include non-commission based Islamic banking products which are stated at amortized cost of SAR 11,184 million (2007: SAR 7,026 million).

Amounts in SAR'000

b) Movements in allowance for impairment

2008	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Balance at beginning of the year	886,876	11,326	38,722	249,858	1,186,782
Charged for the year	37,561	14,922	61,769	9	114,261
Bad debts written off	_	(10,297)	(44,721)	(6,624)	(61,642)
Recoveries of amounts previously provided	_	(4,625)	(17,049)	(67,100)	(88,774)
Balance at the end of the year	924,437	11,326	38,721	176,143	1,150,627

2007	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Balance at beginning of the year	582,456	11,326	38,722	146,427	778,931
Charged for the year	304,420	19,755	77,149	117,615	518,939
Bad debts written off	-	(16,619)	(65,872)	(5,324)	(87,815)
Recoveries of amounts previously provided	-	(3,136)	(11,277)	(8,860)	(23,273)
Balance at the end of the year	886,876	11,326	38,722	249,858	1,186,782

c) Credit quality of loans and advances

i) Ageing of loans and advances (Past due but not impaired)

2008	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
From 1 day to 30 days	198,569	12,707	145,495	98,436	455,207
From 31 days to 90 days	48,498	4,559	38,089	52,382	143,528
From 91 days to 180 days	34,893	_	_	3,649	38,542
More than one year	438,946	_	_	21,114	460,060
Total	720,906	17,266	183,584	175,581	1,097,337

2007	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
From 1 day to 30 days	6,062	42,684	116,685	_	165,431
From 31 days to 90 days	70,808	5,317	39,452	180,159	295,736
From 91 days to 180 days	17,652	_	_	6,050	23,702
More than one year	222,573	_	_	211,903	434,476
Total	317,095	48,001	156,137	398,112	919,345

Out of the past due loans for 2008, SAR 300 million loan is fully secured by collateral (2007: SAR 346 million)

ii) Loans and advances neither past nor impaired

For presentation purposes, the Bank has categorized its portfolio of loans and advances that are neither past due nor impaired into three sub categories i.e. strong, satisfactory and watch according to internal rating system.

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Loans and advances under the strong category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses.

Loans and advance under the satisfactory category are sufficient quality in its capacity to meet the financial obligations in the medium term, could have an impact due to adverse business or economic conditions.

The watch category includes loans and advances that are also performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that may, at some future date, result in the deterioration of the repayment prospects or either the principal or the special commission payments. The watch category loans and advances would not expose the Bank to sufficient risk to warrant a worse classification.

2008	**Overdraft**	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Total**
Strong	**1,658,498**	**177,370**	**3,057,686**	**18,550,087**	**23,443,641**
Satisfactory	**1,428,599**	**7,592**	**7,361**	**10,990,203**	**12,433,755**
Watch	**211,690**	**810**	**998**	**912,100**	**1,125,598**
Total Loans & advances	**3,298,787**	**185,772**	**3,066,045**	**30,452,390**	**38,002,994**

2007	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Strong	2,442,259	126,384	3,019,957	14,085,699	19,674,299
Satisfactory	1,138,874	1,072	452	5,287,748	6,428,146
Watch	81,190	5,652	156,137	398,112	641,091
Total Loans & advances	3,662,323	133,108	3,176,546	19,771,559	26,743,536

iii) Economic sector risk concentration

Economic sector risk concentrations for loans and advances and allowance for impairment are as follows:

As at 31 December 2008	**Performing**	**Non performing**	**Allowance for impairment**	**Loans and advances net**
Government and quasi-government	**1,549,333**	–	–	**1,549,333**
Banks and other financial institutions	**1,354,182**	–	–	**1,354,182**
Agriculture and fishing	**336,066**	**23,304**	**(23,304)**	**336,066**
Manufacturing	**7,560,247**	**129,810**	**(129,367)**	**7,560,690**
Mining and quarrying	**99,293**	–	–	**99,293**
Electricity, water, gas and health services	**1,129,690**	–	–	**1,129,690**
Building and construction	**5,598,159**	**74,238**	**(60,200)**	**5,612,197**
Commerce	**11,189,950**	**422,335**	**(286,604)**	**11,325,681**
Transportation and communication	**1,177,195**	**10,484**	**(10,483)**	**1,177,196**
Services	**1,373,748**	**313,283**	**(311,957)**	**1,375,074**
Consumer loans and credit cards	**3,455,507**	**50,914**	–	**3,506,421**
Other	**3,276,959**	**43,031**	**(42,630)**	**3,277,360**
	38,100,329	**1,067,399**	**(864,545)**	**38,303,183**
Portfolio provision	–	–	**(286,082)**	**(286,082)**
Total, net	**38,100,329**	**1,067,399**	**(1,150,627)**	**38,017,101**

Amounts in SAR'000

As at 31 December 2007	Performing	Non performing	Allowance for impairment	Loans and advances net
Government and quasi-government	585,345	-	-	585,345
Banks and other financial institutions	489,493	1,741	-	491,234
Agriculture and fishing	304,075	23,311	(23,311)	304,075
Manufacturing	4,869,246	129,128	(108,109)	4,890,265
Mining and quarrying	14,912	_	_	14,912
Electricity, water, gas and health services	1,305,200	_	_	1,305,200
Building and construction	3,140,860	83,446	(68,141)	3,156,165
Commerce	6,730,976	429,602	(275,759)	6,884,819
Transportation and communication	693,258	10,484	(10,484)	693,258
Services	1,609,412	314,830	(314,794)	1,609,448
Consumer loans and credit cards	3,514,775	41,202	_	3,555,977
Other	4,405,329	44,776	(44,002)	4,406,103
	27,662,881	1,078,520	(844,600)	27,896,801
Portfolio provision	_	_	(342,182)	(342,182)
Total, net	27,662,881	1,078,520	(1,186,782)	27,554,619

d) Collateral

The Bank, in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time - 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. The fair value of collateral held by the Bank against the loans and advances at December 31 2008 was SAR 7,064 million (2007: SAR 7,513 million)

e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Renegotiated loans that would otherwise be past due or impaired totalled SAR 17.71 million (2007: SAR 28.5 million).

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8. Property And Equipment, Net

	Land and Buildings	Leasehold improvements	Computer hardware and software	Furniture, equipment and vehicles	Motor Vehicles	Total
Cost:						
Balance at beginning of the year	135,988	248,721	394,534	110,683	3,207	893,133
Additions	3,538	101,186	98,612	4,849	187	208,382
Balance at end of the year	**139,526**	**349,907**	**493,146**	**115,532**	**3,394**	**1,101,505**
Accumulated depreciation:						
Balance at beginning of the year	44,164	160,918	279,127	86,847	1,706	572,762
Charge of the year	3,554	18,117	31,783	9,087	591	63,132
Balance at end of the year	**47,718**	**179,035**	**310,910**	**95,934**	**2,297**	**635,894**
Net book value:						
As at 31 December 2007	**91,808**	**170,872**	**182,236**	**19,598**	**1,097**	**465,611**
As at 31 December 2006	91,824	87,803	115,407	23,836	1,501	320,371

9. OTHER ASSETS

	2008	2007
Accrued special commission receivable:		
Banks and other financial institutions	**28,841**	90,368
Investments	**59,339**	79,632
Loans and advances	**339,738**	288,617
Other	**126,344**	103,906
Total accrued special commission receivable	**554,262**	562,523
Accounts receivable	**347,928**	116,962
Positive fair value of derivatives (note 10)	**326,580**	110,925
Other real estate	**8,597**	8,598
Other	**191,950**	2,127
Total	**1,429,317**	801,135

10. DERIVATIVES

In the ordinary course of business, the Bank utilises 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-rate 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 and fixed-rate and floating-rate 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 customised contracts transacted in the over-the-counter market Foreign currency and commission rate futures are transacted in standardised 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, based 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 a 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.

Derivatives 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 favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from, price differentials between markets or products.

Derivatives held for hedging purposes

The Bank has adopted a process for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors and within 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 that positions are maintained within the established limits. The Board of Directors has also established the levels of commission rate risk by setting limits on special 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 gaps within the established limits.

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

The Bank uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating-rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged

items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments held, together with the notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts are, therefore, 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.

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As at 31 December 2008	Positive fair value	Negative fair value	Notional amount total	Within three months	3-12 months	1-5 years	Over 5 Years	Monthly average
Held for trading:								
Commission rate swaps	217,057	206,544	17,018,010	580,480	3,247,214	11,151,788	2,038,528	12,171,230
Forward foreign exchange contracts	57,009	72,276	40,769,241	21,498,405	19,041,209	229,627	_	44,234,571
Currency options	20,710	20,828	6,836,935	757,455	6,079,480	_	_	2,232,464
Equity options	_	_	50,000	50,000	_	_	_	12,500
Forward rate agreements	_	_	_	_	_	_	_	_
Commission rate futures and Options	_	_	_	_	_	_	_	
Held as fair value hedges:								
Commission rate swaps	8,654	49,873	3,271,794	170,000	1,875,000	1,191,794	35,000	2,238,816
Held as cash flow hedges:								
Commission rate swaps	23,150	_	750,000	_	300,000	450,000	_	1,388,521
Total	326,580	349,521	68,695,980	23,056,340	30,542,903	13,023,209	2,073,528	

As at 31 December 2007	Positive fair value	Negative fair value	Notional amount total	Within three months	3-12 months	1-5 years	Over 5 Years	Monthly average
Held for trading:								
Commission rate swaps	57,907	58,115	5,442,104	150,000	782,500	4,509,604	_	4,546,071
Forward foreign exchange contracts	21,615	50,617	26,339,406	13,995,998	12,045,796	297,612	_	33,639,130
Currency options	4,489	4,250	577,405	232,662	344,743	_	_	533,745
Equity options	_	_	_	_	_	_	_	33,731
Forward rate agreements	_	_	_	_	_	_	_	7,501
Commission rate futures and Options	_	_	_	_	_	_	_	8,761
Held as fair value hedges:								
Commission rate swaps	5,501	4,344	773,373	_	248,000	525,373	_	1,053,367
Held as cash flow hedges:								
Commission rate swaps	21,413	696	2,336,243	_	400,000	1,936,243	_	2,651,189
Total	110,925	118,022	35,468,531	14,378,660	13,821,039	7,268,832	_	

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

Description of hedged items	**Fair value**	**Cost**	**Risk**	**Hedging Instrument**	**Positive fair value**	**Negative fair value**
As at 31 December 2008						
Fixed commission rate investments	**3,313,013**	**3,271,794**	**Fair value**	**Commission rate swap**	**8,654**	**49,873**
Floating commission rate investment	**750,000**	**750,000**	**Cash flow**	**Commission rate swap**	**23,150**	–

	Fair value	Cost	Risk	Hedging Instrument	Positive fair value	Negative fair value
As at 31 December 2008						
Fixed commission rate investments	772,216	773,373	Fair value	Commission rate swap	5,501	4,344
Floating commission rate investment	2,336,243	2,336,243	Cash flow	Commission rate swap	21,413	696

The positive fair value of derivatives amounting to SAR 326.58 millions (2007: SAR 110,92 millions) is reflected in other assets (note 9). The negative fair value of derivatives amounting to SAR 349.52 mln (2007: SAR 118,02 million) is reflected in other liabilities (note 13).

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

Approximately 28% (2007: 54 %) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 72% (2007: 46 %) of the positive fair value contracts are with any single counterparty at the balance sheet date. Derivative activities are mainly carried out by the Bank's treasury segment.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
Current accounts	**424,783**	1,200,203
Call/ Overnight	**500,975**	–
Repurchase bonds	**925,400**	–
Money market deposits	**7,434,992**	7,957,003
Total	**9,286,150**	9,157,612

12. CUSTOMERS' DEPOSITS

	2008	2007
Time	**30,200,521**	23,524,194
Demand	**12,067,091**	10,330,918
Savings	**263,457**	256,269
Other	**481,258**	493,604
Total	**43,012,327**	34,604,985

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Included above in time deposits are balances held as FVIS of SAR 72.1 million (2007: SAR 525 Million)
Time deposits include borrowings under repurchase agreement with customers of SAR 6.443 million (2007: SAR 1,163 million) with agreements to repurchase the assets at fixed future dates.

Total deposit includes non commission based deposits of SAR 11,631 (2007: SAR 10,263 million). Time deposit includes Islamic deposits of SAR 10,911 million (2007: SAR 6,675 million).

Other customer deposits include SAR 455 million (2007: SAR 454 million) of margins held for irrevocable commitments.

a) These assets are entirely Saudi Arabia Government bonds and the details are as given below.

	2008		2007	
	Assets	**Related liabilities**	Assets	Related liabilities
Available for sale	**75,232**	**75,000**	100,415	83,493
Other investments held at amortised cost	**7,935,718**	**6,368,414**	2,152,582	1,079,128
Total Note 6 (d) and note 12	**8,010,950**	**6,443,414**	2,252,997	1,162,621

b) The above includes foreign currency deposits as follows:

	2008	2007
Time	**3,673,868**	6,300,106
Demand	**1,193,554**	882,309
Saving	**24,439**	30,325
Other	**24,306**	30,584
Total	**4,916,167**	7,243,324

13. OTHER LIABILITIES

	2008	2007
Accrued special commission payable:		
Banks and other financial institutions	**78,474**	43,122
Customers' deposits	**247,595**	187,043
Subordinated debt	**604**	284
Other	**182,032**	90,829
Total accrued special commission payable	**508,705**	321,278
Accounts payable	**539,525**	633,242
Negative fair value of derivatives (note 9)	**349,521**	118,022
Other	**549,804**	329,381
Total	**1,947,555**	1,401,923

14. SUBORDINATED DEBT

On 28 December 2004, the Bank issued SAR 700 million unsecured subordinated callable floating-rate notes (the Notes), due in 2011. The Bank may at its option, but subject to the prior written approval of SAMA, redeem the Notes at their principal amount either on the special commission payment date falling on or after 28 December 2009 or in the event of certain changes affecting taxation and regulatory capital treatment of these notes.

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On 29 December 2008, the Bank issued SAR 775 million unsecured subordinated Mudaraba Certificates (the Certificates), due in 2018. The Bank may at its option, but subject to the prior written approval of SAMA redeem the Certificates at their redemption amount at the end 2013 or at the end of each calendar year there after until 2017, or in the event of certain changes affecting taxation and regulatory capital treatment of these mudaraba certificates.

15. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Bank consists of 264.6 million (2007: 264.6 million) shares of SAR10 (2007: SAR 10) each.

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

	2008	2007
Saudi shareholders	**1,587,600**	1,587,600
ABN AMRO Bank N.V. (The Netherlands)	**1,058,400**	1,058,400
Total	**2,646,000**	2,646,000

16. 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 306 million has been transferred from 2008 net income (2007: SAR 110 million). The statutory reserve is not available for distribution.

17. OTHER RESERVES

2008	**Cash flow hedges**	**Available for sale investments**	**Total**
Balance at beginning of the year	**20,718**	**38**	**20,756**
Net change in fair value	**14,031**	**(68,009)**	**(53,978)**
Transfer to statement of income	**(11,598)**	**(591)**	**(12,189)**
Net movement during the year	**2,433**	**(68,600)**	**(66,167)**
Balance at end of the year	**23,151**	**(68,562)**	**(45,411)**

2007	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	(38,892)	(3,700)	(42,592)
Net change in fair value	39,339	7,780	47,119
Transfer to statement of income	20,271	(4,042)	16,229
Net movement during the year	59,610	3,738	63,348
Balance at end of the year	20,718	38	20,756

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18. STAFF SHARE PLAN

In January 2008 the Group launched an equity settled share-based payment plan for certain executives and senior employees (eligible employees) of the Group. In accordance with the provision of the plan, as approved by the Bank's Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428(corresponding November 20, 2007) and SAMA vide its letter dated 26 Safar (corresponding March 4, 2008), such eligible employees would receive shares of the Bank if following terms and conditions are met:

- Eligible employees are required to continue their employment with the Group for a period of three years from the grant date; and
- the Group achieve specific growth thresholds as approved by the Board of Directors Group where each threshold entitles the eligible employees to certain value of shares.

The further details of 2008 plan are as follows:

Grant Date	February 2008
Value of shares granted on the grant date,	32,342,500
Average price as determined by SHC	53.15
Vesting period	3 Years
Method of settlement	Settled by shares of the Bank.

Under the provisions of the plan the Bank, at no point becomes the legal owner of the underlying shares. Untill such time these shares vest they will not carry voting rights.

As per the plan, SHC manage the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Bank's Board of Directors in their above referred meeting and by SAMA in its above referred letter. Any further modifications in terms and conditions require prior approval of SAMA.
Due to restrictions regarding its operations as agreed vide agreement with SAMA the results and assets and liabilities of the Fund are not consolidated in these consolidated financial statements.

The fair value of the shares is based on average price of shares determined by SHC. The estimated fair value of each share granted is SAR 53.15 which is equal to the share price at grant date. The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the remuneration committee; however, in accordance with the plan the total amount of share based plan will not exceed SAR 114 million in 3 years starting from January 2008.

The flowing is the movement of the plan during the year:

	Number of Shares	**Weighted average price**
Beginning of the Year	-	-
Purchased during the year	2,147,626	53.15
Granted during the year	(608,513)	53.15
Forfeited during the year	-	-
End of the year	1,539,113	53.15

At December 31, 2008, the Fund has purchased the Bank's shares worth SAR 114 million during 2008 which will be held by the Fund in fiduciary capacity until the shares vest to the eligible employees. At the vesting date the ownership of these shares will pass to the employees as they acquire rights in the units of the Fund as a result of the allocations from the SSP. The acquisition of shares was financed by the Bank and the amount funded in this respect is included in other assets.

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2008 and 2007 there were certain legal proceedings in the normal course of business outstanding against the Bank. No provision has been made as professional legal advice indicates that it is not probable that any significant loss will arise.

The Bank's external lawyers are addressing an order by US judicial authorities issued in December 2007, to produce documents related to certain banking transactions in the past, the outcome of which cannot be determined, however no conclusion adversely affecting the Bank was reached till the date of approval of these financial statements.

b) Capital commitments

As at 31 December 2008 the Bank had capital commitments of SAR 35.21 million (2007: SAR 34.5 million) in respect of leasehold improvements and equipment purchases.

c) Credit-related commitments and contingencies

Guarantee and stand-by 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 authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised 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 authorisations 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 the commitments could expire or terminate without being funded.

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

As at 31 December 2008	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 Years**	**Total**
Letters of credit	**2,179,559**	**1,416,436**	**132,150**	**_**	**3,728,145**
Letters of guarantee	**1,686,367**	**4,350,379**	**5,215,939**	**46,214**	**11,298,899**
Acceptances	**1,462,548**	**641,483**	**48,513**	**_**	**2,152,544**
Irrevocable commitments to extend credit	**23,430**	**154,121**	**766,105**	**953,589**	**1,897,245**
Total	**5,351,904**	**6,562,419**	**6,162,707**	**999,803**	**19,076,833**

As at 31 December 2007	Within 3 months	3-12 months	1-5 years	Over 5 Years	Total
Letters of credit	2,375,773	1,539,660	256,444	_	4,171,877
Letters of guarantee	1,906,747	3,488,043	4,996,904	46,833	10,438,527
Acceptances	1,496,322	666,835	106,438	_	2,269,595
Irrevocable commitments to extend credit	551,033	459,696	327,167	1,605,352	2,943,248
Total	6,329,875	6,154,234	5,686,953	1,652,185	19,823,247

The outstanding unused portion of commitments which can be revoked unilaterally at any time by the Bank as at 31 December 2008 amounts to SAR 20,548 million (2007: SAR 16,900 million).

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

	2008	2007
Government and quasi-government	**377,494**	916,839
Corporate	**15,453,512**	14,901,053
Banks and other financial institutions	**2,540,473**	3,460,371
Other	**705,354**	544,984
Total	**19,076,833**	19,823,247

d) Operating lease commitments

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

	2008	2007
Less than 1 year	**38,962**	40,167
1 to 5 years	**89,002**	99,298
Over 5 years	**100,514**	134,297
Total	**228,478**	273,762

Amounts in SAR'000

20. SPECIAL COMMISSION INCOME AND EXPENSE

	2008	7006
Special commission income		
Investments:		
Available for sale	127,223	107,697
Held to maturity	69,706	67,595
Other investments held at amortised costs	418,548	374,940
	615,477	550,232
Due from banks and other financial institutions	218,285	407,021
Loans and advances	2,143,543	1,948,419
Total	2,977,305	2,905,672

	2008	2007
Special commission expense		
Due to banks and other financial institutions	348,710	453,608
Subordinated debt	35,730	42,689
Customers' deposits	1,147,806	1,208,926
Total	1,532,246	1,705,223

21. FEES FROM BANKING SERVICES, NET

	2008	2007
Fee income:		
Share brokerage and fund management, net	95,483	131,206
Trade finance	162,658	117,018
Corporate finance and advisory	53,340	55,363
Other banking services	180,507	117,750
Total fee income	491,988	421,337
Fee expenses:		
Credit cards	19,989	18,197
Custodial service	97	110
Other banking services	15,565	12,863
Total fee expenses	35,651	31,170
Fees from banking services, net	456,337	390,167

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22. INCOME FROM FVIS FINANCIAL INSTRUMENTS, NET

	2008	2007
Unrealized Gains		
Fair value change on investments held as	(7,521)	7,742
Special commission income on FVIS financial instruments	12,705	22,712
Total Income	5,184	30,454

The income from FVIS financial instrument entirely represents income from trading.

23. TRADING INCOME, NET

	2008	2007
Foreign exchange	81,573	46,476
Debt securities	9,960	18,940
Derivatives	23,500	353
Trading Income, net.	115,033	65,769

24.EARNINGS PER SHARE

Basic and diluted earnings per share For the years ended December 31, 2008 and 2007 is calculated by dividing the net income for the year attributable to the equity holders by 264.6 million shares.

25. DIVIDEND, ZAKAT AND INCOME TAX

The Bank declared a gross dividend for the year 2008 of SAR 233.45 million (2007: SAR 212.9 million Interim dividend).

Zakat and income tax are paid as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 21 million (2007: SAR 15 million) which will be deducted from their share of current / future dividends, resulting in a net dividend to Saudi Shareholders of SAR 0.75 per share (2007: SAR 0.71 per share Interim dividend).

b) Non-Saudi shareholders

Income tax payable on the current year's share of income is approximately SAR 101 million (2007: SAR 42.0 million). This amount will be deducted from their share of future dividend.

26. 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 deposits (note 4)	1,023,419	2,100,619
Due from banks and other financial institutions maturing within 3 months or less from the date of acquisition	364,307	4,222,659
Total	1,387,726	6,323,278

27. BUSINESS SEGMENTS

a) The Group's primary segment reporting format is determined to be business segment. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are distinct from those of other business segments. Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Commission is charged to business segments based on a pool rate, which approximates the marginal cost of funds.

The Bank is organised into the following main business segments:

Corporate banking

The corporate banking group offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts and syndicated loans, trade finance services, treasury and derivative products and foreign exchange. Services provided to customers include internet banking and global transaction services, a centralised service that manages all customer transfers, electronic or otherwise.

Consumer banking

The consumer banking group operates through a national network of branches and ATMs supported by a 24--hour phone banking centre. The Bank accepts customer deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts, credit cards, to individuals and small-to-medium-sized enterprises.

Treasury

Treasury transacts mainly money market, foreign exchange, interest rate trading and derivatives for corporate and institutional customers as well as for the Bank's own account. It is also responsible for funding the Bank's operations, maintaining bank-wide liquidity and managing the Bank's investment portfolio and balance sheet.

Investment banking and investment services

The investment banking and investment services group offers dealing, managing, arranging, advising and maintaining custody services in relation to securities.

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

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2008	**Corporate Banking**	**Consumer Banking**	**Treasury**	**Investment Banking and investment services**	**Total**
Total assets	**35,523,172**	**4,797,722**	**21,115,289**	–	**61,436,183**
Total liabilities	**19,225,338**	**13,135,193**	**22,619,376**	**741,125**	**55,721,032**
Total operating income	**1,048,403**	**558,308**	**378,064**	**126,399**	**2,111,174**
Total operating expenses	**(190,806)**	**(430,101)**	**(168,581)**	**(97,945)**	**(887,433)**
Net income	**857,597**	**128,207**	**209,483**	**28,454**	**1,223,741**

2007	Corporate Banking	Consumer Banking	Treasury	Investment Banking and investment services	Total
Total assets	25,077,642	6,269,173	19,064,499	–	50,411,314
Total liabilities	18,970,924	12,352,670	13,810,511	730,416	45,864,521
Total operating income	789,588	545,375	259,193	182,001	1,776,157
Total operating expenses	(590,526)	(523,723)	(88,252)	(135,087)	(1,337,588)
Net income	199,062	21,652	170,941	46,914	438,569

c) The Group's credit exposure by business segment is as follows:

As at 31 December 2008	**Corporate Banking**	**Consumer Banking**	**Treasury**	**Investment Banking and investment services**	**Total**
Balance sheet assets	**33,250,463**	**4,437,792**	**19,062,284**	–	**56,750,539**
Commitments and contingencies	**10,054,031**	–	–	–	**10,054,031**
Derivatives	–	–	**1,353,434**	–	**1,353,434**

As at 31 December 2007	Corporate Banking	Consumer Banking	Treasury	Investment Banking and investment services	Total
Balance sheet assets	22,515,307	5,146,674	18,118,780	–	45,780,761
Commitments and contingencies	10,525,969	–	–	–	10,525,969
Derivatives	–	–	769,797	–	769,797

Credit exposure comprises the carrying value of balance sheet assets excluding cash and balances with SAMA, property and equipment and other assets.

Amounts in SAR'000

28. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

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

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by class of counter party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 10 and on commitments and contingencies in note 19. The information on bank maximum credit exposure by business segment is provided in note 27. The information on maximum credit risk exposure and their relative risk weights is also provided in note 34.

Maximum exposure to credit risk to the Bank at 31 December 2008 and 2007, without taking into account of any collateral held or credit enhancements attached is reflected below:

	2008	2007
Due from banks and other financial institutions	**365,095**	5,271,854
Investments, net	**18,368,343**	12,954,288
Loans and advances, net	**38,017,101**	27,554,619
Derivatives	**326,580**	110,925
Credit related commitments and contingencies	**19,076,833**	19,823,247
Total	**76,153,951**	65,714,933

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

29. GEOGRAPHICAL CONCENTRATION

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

As at 31 December 2008	Saudi Arabia	Other GCC & Middle East	Europe	America	Other countries	Total
Assets						
Cash and balances with SAMA	2,790,716	–	–	–	–	2,790,716
Due from banks and other Financial institutions	231,970	100,867	19,123	5,453	7,682	365,095
Investments, net	17,031,280	897,500	308,042	1,076	130,445	18,368,343
Loans and advances, net	38,014,865	1,954	82	194	6	38,017,101
Total	58,068,831	1,000,321	327,247	6,723	138,133	59,541,255
Liabilities						
Due to banks and other Financial institutions	7,330,211	1,699,549	226,811	11,832	17,747	9,286,150
Customers' deposits	42,792,217	134,167	16,012	3,886	66,046	43,012,328
Subordinated debt	1,475,000	–	–	–	–	1,475,000
Total	51,597,428	1,833,716	242,823	15,718	83,793	53,773,478
Credit-related commitments and contingencies	17,570,270	294,496	468,750	83,472	659,845	19,076,833
Maximum Credit exposure (stated at credit equivalent amounts) of the above	9,260,029	155,207	247,044	43,993	347,758	10,054,031
Derivatives	1,051,893	28,556	255,456	17,529	–	1,353,434

Amounts in SAR'000

As at 31 December 2007	Saudi Arabia	Other GCC & Middle East	Europe	America	Other countries	Total
Assets						
Cash and balances with SAMA	3,509,047	_	_	_	_	3,509,047
Due from banks and other Financial institutions	1,987,398	1,286,260	928,319	108,418	961,459	5,271,854
Investments, net	10,549,348	1,012,141	678,839	713,960	-	12,954,288
Loans and advances, net	27,538,284	13,101	3,221	_	13	27,554,619
Total	43,584,077	2,311,502	1,610,379	822,378	961,472	49,289,808
Liabilities						
Due to banks and other Financial institutions	3,780,895	3,840,163	433,260	692,653	410,641	9,157,612
Customers' deposits	34,393,922	190,563	7,243	1,992	11,265	34,604,985
Subordinated debt	700,000	_	_	_	_	700,000
Total	38,874,817	4,030,726	440,503	694,645	421,906	44,462,597
Credit-related commitments and contingencies	17,541,892	795,955	677,964	56,670	750,766	19,823,247
Maximum Credit exposure (stated at credit equivalent amounts) of the above	9,314,590	422,645	359,993	30,091	398,650	10,525,969
Derivatives	456,914	41,543	263,134	8,206	_	769,797

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

The impaired loans and advances and provision for credit losses are all with in the kingdom of Saudi Arabia and not performing loans and advances and allowances for impairment are as follows:

	2008	2007
Non performing loans and advances, net	**1,067,399**	1,078,520
Allowance for impairment	**1,150,627**	1,186,782
Total	**(83,228)**	(108,262)

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30. MARKET RISK

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

The market risk for the trading book is managed and monitored using VaR methodology. Market risk for non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

a) Market Risk-trading Book

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank 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 simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

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

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

To overcome the VaR limitations mentioned above, the Bank also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Bank's VaR related information for the years ended December 31 is as under. Total VaR takes into account correlations across the asset class and accordingly it is not the total of individual VaRs. For the purpose of presentation, we have adjusted the correlation factor in the VaR number of foreign exchange forwards and money market book.

2008 (VaR)	**Foreign exchange rate risk**	**Special Commission rate risk**	**Foreign exchange forwards**
VAR as at December 31	**1,161**	**338**	**1,307**
Average VAR for 2008	**540**	**396**	**989**

2007 (VaR)	Foreign exchange rate risk	Special Commission rate risk	Foreign exchange forwards
VAR as at December 31	246	91	3,030
Average VAR for 2007	85	436	4,195

Amounts in SAR'000

b) Market risk – non-trading or banking book

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

i) Commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 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 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 below:

31-Dec-08

Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity			
			6 months or less	6 to 12 months	1-5 Yrs	Over 5 Years
USD	25+	1,344	106	277	(430)	_
EUR	25+	(448)	_	60	(69)	_
SAR	25+	10,405	(204)	(1,108)	744	2,425
Others	25+	202	_	_	_	_

31-Dec-08

Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity			
			6 months or less	6 to 12 months	1-5 Yrs	Over 5 Years
USD	25-	(1,344)	(106)	(228)	432	_
EUR	25-	448	_	(60)	69	_
SAR	25-	(10,405)	203	1,102	(757)	(3050)
Others	25-	(202)	_	_	_	_

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31-Dec-07

Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity			
			6 months or less	**6 to 12 months**	**1-5 Yrs**	**Over 5 Years**
USD	25+	(10,191)	(8)	_	_	25,081
EUR	25+	111	_	_	_	_
SAR	25+	15,728	(17)	(1,235)	(900)	(879)
Others	25+	454	_	_	_	_

31-Dec-07

Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity			
			6 months or less	**6 to 12 months**	**1-5 Yrs**	**Over 5 Years**
USD	25-	10,191	4	_	_	38,882
EUR	25-	(111)	_	_	_	_
SAR	25-	(15,728)	17	1,241	915	897
Others	25-	(454)	_	_	_	_

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

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

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

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

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As at 31 December 2008	Within 3 Months	3-12 months	1-5 years	Over 5 Years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA	547,977	_	_	_	2,242,739	2,790,716
Due from banks and other financial institutions	305,312	788	_	_	58,995	365,095
Investments, net	10,795,724	6,769,439	722,585	80,595	_	18,368,343
Loans and advances, net	21,130,497	11,959,822	4,736,184	273,828	(83,230)	38,017,101
Property and equipment, net	_	_	_	_	465,611	465,611
Other assets	_	_	_	_	1,429,317	1,429,317
Total	32,779,510	18,730,049	5,458,769	354,423	4,113,432	61,436,183
Liabilities and shareholders' equity						
Due to banks and other Financial institutions	6,368,796	1,916,516	75,080	_	925,758	9,286,150
Customers' deposits	25,249,833	5,928,344	176,753	_	11,657,397	43,012,327
Other liabilities	_	_	_	_	1,947,555	1,947,555
Subordinated debt	700,000	775,000	_	_	_	1,475,000
Shareholders' equity	_	_	_	_	5,715,151	5,715,151
Total Liabilities and shareholders' equity	32,318,629	8,619,860	251,833	_	20,245,861	61,436,183
commission rate sensitivity - On balance sheet gap	460,881	10,110,189	5,206,936	354,423	(16,132,429)	_
commission rate sensitivity - Off balance sheet gap	(1,270,167)	(1,051,401)	45,531	20,492	(284,789)	_
Total commission rate sensitivity gap	1,731,049	9,058,788	5,252,467	374,915	(16,417,218)	_
Cumulative commission rate sensitivity gap	1,731,048	10,789,836	16,042,303	16,417,218	_	_

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Amounts in SAR'000

As at 31 December 2007	Within 3 Months	3-12 months	1-5 years	Over 5 Years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA	1,513,832	_	_	_	1,995,215	3,509,047
Due from banks and other financial institutions	4,028,814	885,331	232,424	_	125,285	5,271,854
Investments, net	8,553,486	1,718,636	2,250,079	375,838	56,249	12,954,288
Loans and advances, net	15,363,796	7,890,943	3,925,021	373,416	1,443	27,554,619
Property and equipment, net	_	_	_	_	320,371	320,371
Other assets	_	_	_	_	801,135	801,135
Total	29,459,928	10,494,910	6,407,524	749,254	3,299,698	50,411,314
Liabilities and shareholders' equity						
Due to banks and other Financial institutions	6,918,097	1,747,179	238,174	_	254,162	9,157,612
Customers' deposits	20,252,663	3,692,587	396,699	_	10,263,036	34,604,985
Other liabilities	_	_	_	_	1,401,923	1,401,923
Subordinated debt	700,000	_	_	_	_	700,000
Shareholders' equity	-	_	_	_	4,546,794	4,546,794
Total Liabilities and shareholders' equity	27,870,760	5,439,766	634,873	_	16,465,915	50,411,314
commission rate sensitivity - On balance sheet gap	1,589,168	5,055,144	5,772,651	749,254	(13,166,217)	_
commission rate sensitivity - Off balance sheet gap	(2,042,974)	233,829	1,791,145	18,000	_	_
Total commission rate sensitivity gap	(453,806)	5,288,973	7,563,796	767,254	(13,166,217)	_
Cumulative commission rate sensitivity gap	(453,806)	4,835,167	12,398,963	13,166,217	_	_

Amounts in SAR'000

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

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

ii) Currency risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31 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 statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges if any). A positive effect shows a potential increase in statement of income or equity; whereas a negative effect shows a potential net reduction in statement of income or equity.

Currency exposure As at December 31st, 2008	**Change in Currency Rate (%)**	**Effect on Net Income**
USD	**+ 5** **– 5**	**14,653** **(14,653)**
EUR	**+ 5** **– 5**	**(5.328)** **5,328**
GBP	**+ 5** **– 5**	**373** **(373)**
Others	**+ 5** **– 5**	**383** **(383)**

Currency exposure As at December 31st, 2007	Change in Currency Rate (%)	Effect on Net Income
USD	+ 5 – 5	(457) 457
EUR	+ 5 – 5	3,240 (2,855)
GBP	+ 5 – 5	4,294 (4,218)
JPY	+ 5 – 5	(1,348) 1,672
Others	+ 3 – 3	6,959 (7,043)

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Amounts in SAR'000

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	2007
US Dollar	**(163,603)**	(305,320)
Euro	**(22,565)**	18,264
Pound Sterling	**21,613**	2,798
Other	**5,846**	3,870

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 Bank does not have any significant exposure to equities.

31. LIQUIDITY RISK

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

i) Maturity analysis of Assets and Liabilities

The tables below summarise the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history. 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 branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2007: 9%) of total demand deposits and 4 % (2007: 2%) of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposits 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 may also raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The maturity profile of the assets, liabilities is as follows.

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Amounts in SAR'000

As at 31 December 2008	No fixed maturity	Within 3 Months	3-12 months	1-5 years	Over 5 Years	Total
Assets						
Cash and balances with SAMA	1,767,297	1,023,419	_	_	_	2,790,716
Due from banks and other financial Institutions	58,995	305,312	788	_	_	365,095
Investments, net	30,115	3,351,430	6,399,340	8,088,920	498,538	18,368,343
Loans and advances, net	4,112,045	15,061,002	8,981,251	7,312,126	2,550,677	38,017,101
Property and equipment, net	465,611	_	_	_	_	465,611
Other assets	1,429,317	_	_	_	_	1,429,317
Total	7,863,380	19,741,163	15,381,379	15,401,046	3,049,215	61,436,183
Liabilities and shareholders' equity						
Due to banks and other financial Institutions	925,758	6,368,796	1,916,516	75,080	_	9,286,150
Customers' deposits	13,377,619	23,529,609	5,928,344	176,755	_	43,012,327
Other liabilities	1,947,555	_	_	_	_	1,947,555
Subordinated debt	_	_	_	700,000	775,000	1,475,000
Shareholders' equity	5,715,151	_	_	_	_	5,715,151
Total	21,966,083	29,898,405	7,844,860	951,835	775,000	61,436,183

As at 31 December 2007	No fixed maturity	Within 3 Months	3-12 months	1-5 years	Over 5 Years	Total
Assets						
Cash and balances with SAMA	1,408,428	2,100,619	_	_	_	3,509,047
Due from banks and other financial Institutions	_	4,222,659	816,771	232,424	_	5,271,854
Investments, net	56,249	384,642	1,867,319	9,390,868	1,255,210	12,954,288
Loans and advances, net	4,268,058	9,708,560	6,437,282	5,570,083	1,570,636	27,554,619
Property and equipment, net	320,371	_	_	_	_	320,371
Other assets	801,135	_	_	_	_	801,135
Total	6,854,241	16,416,480	9,121,372	15,193,375	2,825,846	50,411,314
Liabilities and shareholders' equity						
Due to banks and other financial Institutions	_	7,602,451	1,555,161	_	_	9,157,612
Customers' deposits	11,431,793	19,083,906	3,692,587	396,699	_	34,604,985
Other liabilities	1,401,923	_	_	_	_	1,401,923
Subordinated debt	_	_	_	700,000	_	700,000
Shareholders' equity	4,546,794	_	_	_	_	4,546,794
Total	17,380,510	26,686,357	5,247,748	1,096,699	_	50,411,314

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Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturity of commitments & contingencies is given in note 19 (c) (i) of the financial statements.

ii) Analysis of financial liabilities by remaining contractual maturities

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

2008 SAR' 000	**No fixed maturity**	**Within 3 Months**	**3-12 months**	**1-5 years**	**Over 5 Years**	**Total**
Financial Liabilities						
Due to banks and other financial Institutions	**925,758**	**6,416,770**	**2,020,862**	**80,506**	_	**9,443,896**
Customer deposits	**13,377,620**	**23,804,079**	**6,090,656**	**200,574**	_	**43,472,929**
Subordinated debts	_	**12,992**	**32,445**	**950,828**	**959,621**	**1,955,886**
Derivatives						
Contractual amounts payable	_	**9,818**	**10,042**	**103,581**	**1,320**	**124,761**
Contractual amounts receivable	_	**(6,492)**	**(22,766)**	**(328,172)**	**(1,250)**	**(358,680)**
Total undiscounted financial liabilities	**14,303,378**	**30,237,167**	**8,131,239**	**1,007,317**	**959,691**	**54,638,792**

2007 SAR' 000	No fixed maturity	Within 3 Months	3-12 months	1-5 years	Over 5 Years	Total
Financial Liabilities						
Due to banks and other financial Institutions	1,200,609	6,449,434	1,593,964	41,291	_	9,285,298
Customer deposits	11,431,793	19,267,813	3,829,274	443,446	_	34,972,326
Subordinated debts	-	8,601	23,201	780,058	_	811,860
Derivatives						
Contractual amounts payable	-	25,436	47,087	124,021	10,345	206,889
Contractual amounts receivable	-	(7,161)	(115,731)	(369,528)	(10,176)	(502,596)
Total undiscounted financial liabilities	12,632,402	25,744,123	5,377,795	1,019,288	169	44,773,777

Amounts in SAR'000

32. 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 those held to maturity, other investments held at amortised costs and customers' deposits which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 6(c). The fair value of loans and advances held at amortised cost and commission-bearing customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates. The fair values of due from banks and other financial institutions and due to financial institutions are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with commission rates re-priced every three months.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices wherever available or by using the appropriate valuation models. The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is SAR 12 million (2007: SAR 17 million).

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

33. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. The related party transactions are performed on an arm's length basis. Banking transactions with related parties are governed by limits set by the Banking Control Law and regulations issued by SAMA.
The balances at 31 December resulting from such transactions are as follows:

	2008	2007
ABN AMRO Bank N.V.:		
Due from banks and other financial institutions	**23,300**	617,144
Due to banks and other financial institutions	**184,747**	902,368
Derivatives (at fair value)	**(20,605)**	15,216
Commitments and contingencies	**136,781**	187,313
Directors, other major shareholders and their affiliates:		
Loans and advances	**385,944**	345,804
Customers' deposits	**3,028,346**	2,746,029
Subordinated debt	**100,000**	100,000
Commitments and contingencies	**1,057**	5,960
The Bank's mutual funds:		
Investments	**26,499**	52,013
Customers' deposits	**339,468**	409,299

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The bank has paid SAR 114 million to the employee share plan fund under the share plan scheme approved by SAMA.

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

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

	2008	2007
Special commission income	**29,201**	29,827
Special commission expense	**145,889**	175,598
Fees from banking services, net	**28,187**	35,175
General and administrative expenses	**8,363**	18,450
Directors' remuneration	**2,671**	2,463
Compensation paid to key management personnel		
(all short-term employee benefits)	**70,756**	42,741

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

34. CAPITAL ADEQUACY

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

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

	2008	2007
Credit Risk RWA	**50,617,262**	40,971,188
Operational Risk RWA	**3,186,913**	3,134,912
Market Risk RWA	**1,184,562**	604,357
Total Pillar –I RWA	**54,988,737**	44,710,457
Tier I Capital	**5,470,916**	4,546,794
Tier II Capital	**1,491,865**	902,182
Total Tier I & II Capital	**6,962,781**	5,448,976
Capital Adequacy Ratio %	**9.95**	10.17
Tier I	**12.66**	12.19
Tier I + Tier II		

35. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include the management of certain investment funds in consultation with professional investment advisors, with assets totalling of SAR 2.14 billion (2007: SAR 3.1 billion). The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's share of these funds is included in investments available for sale. Fees earned for management services provided are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the financial statements.

36. ADOPTION OF NEW AND REVISED STANDARDS

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

37. COMPARATIVE FIGURES

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

38. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 27 Muharram 1430 H (corresponding to 24 January, 2009).

39. BASEL II FRAMEWORK

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the banks website www.shb.com.sa and the annual report, respectively as required by SAMA.