Ernst & Young **KPMG Al Fozan & Al Sadhan**

THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2007 AND AUDITORS' REPORT

ERNST & YOUNG

P O Box 1994
Jeddah 21441
Kingdom of Saudi Arabia

KPMG Al Fozan & Al Sadhan

P O Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The National Commercial Bank:

We have audited the accompanying consolidated financial statements of The National Commercial Bank (the Bank), a Saudi Joint Stock Company, and its subsidiary, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated statement of income, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the 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, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2007, and of its consolidated financial performance and its consolidated 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 the 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 financial statements.

For Ernst & Young

Abdulaziz A. Al-Sowailim
Registration No. 277

For KPMG Al Fozan & Al Sadhan

Abdullah Hamed Al Fozan
Registration No. 348

22 January 2008
13 Muharram 1429H
Jeddah

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007 AND 2006

	Note	**2007** **SR '000**	2006 SR '000
ASSETS			
Cash and balances with SAMA	4	**22,004,138**	7,816,562
Due from banks and other financial institutions	5	**7,125,419**	7,698,514
Investments, net	6	**85,603,894**	57,994,300
Loans and advances, net	7	**87,854,075**	77,244,533
Investment in associates, net	8	**905,234**	884,122
Other real estate, net	9	**269,721**	359,684
Property and equipment, net	10	**1,768,229**	1,578,783
Other assets	11	**3,186,440**	2,129,662
Total assets		**208,717,150**	155,706,160
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	13	**28,486,851**	6,907,038
Customers' deposits	14	**142,825,462**	117,499,348
Debt securities issued	15	**2,623,029**	2,622,320
Other liabilities	16	**5,172,160**	4,678,101
Total liabilities		**179,107,502**	131,706,807
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	17	**15,000,000**	9,000,000
Statutory reserve	18	**8,070,050**	6,559,658
General reserve		**-**	6,015,471
Other reserves (cumulative changes in fair values)	19	**2,988,165**	2,276,942
Retained earnings		**2,122,873**	147,282
Proposed dividend	29	**1,350,000**	-
Total shareholders' equity attributable to equity holders of the Parent		**29,531,088**	23,999,353
Minority Interest		**78,560**	-
Total shareholders' equity		**29,609,648**	23,999,353
Total liabilities and shareholders' equity		**208,717,150**	155,706,160

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

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

	Note	2007 SR '000	2006 SR '000
Special commission income	21	**10,498,732**	8,996,330
Special commission expense	21	**(4,006,801)**	(3,312,195)
Net special commission income		**6,491,931**	5,684,135
Fees from banking services, net	22	**1,991,820**	2,130,294
Foreign exchange income, net		**213,286**	142,319
Income from FVIS investments, net	23	**1,007,598**	618,571
Trading income, net	24	**139,589**	28,161
Dividend income	25	**52,931**	55,501
(Losses)/gains on non-trading investments, net	26	**(14,974)**	632,671
Operating income		**9,882,181**	9,291,652
Salaries and employee-related expenses		**1,573,005**	1,393,495
Rent and premises-related expenses		**200,884**	176,449
Depreciation	10	**186,495**	164,627
Other general and administrative expenses		**943,457**	754,494
Provision expense for credit losses, net	7	**661,423**	554,493
Provision for impairment for other financial assets	5&6	**269,283**	378
Operating expenses		**3,834,547**	3,043,936
Income from operations		**6,047,634**	6,247,716
Other income (expenses)			
Donations		**(53,238)**	(29,920)
Other non-operating income, net	27	**43,119**	55,395
Net other (expenses) income		**(10,119)**	25,475
Net income for the year		**6,037,515**	6,273,191
Net income for the year attributable to minority interest		**(21,261)**	–
Net income for the year attributable to equity holders of the Parent		6,016,254	6,273,191
Earnings per share	28	**SR 4.01**	SR 4.18

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

The National Commercial Bank

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

2007	Note	Share capital SR' 000	Statutory reserve SR' 000	General reserve SR' 000	Other reserves (cumulative changes in fair values) SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Total shareholders' equity attributable to equity holders of the Parent SR' 000	Minority interest SR' 000	Total SR' 000
Balance as at 1 January 2007		9,000,000	6,559,658	6,015,471	2,276,942	147,282	-	23,999,353	-	23,999,353
Net changes in fair value of cash flow hedges (note 12)		-	-	-	97,062	-	-	97,062	-	97,062
Net changes in fair value of available for sale investments		-	-	-	671,556	-	-	671,556	(251)	671,305
Transfer to consolidated statement of income (note 12)		-	-	-	(57,395)	-	-	(57,395)	-	(57,395)
Net gains (losses) recognised directly in equity	19	-	-	-	711,223	-	-	711,223	(251)	710,972
Net income for the year		-	-	-	-	6,016,254	-	6,016,254	21,261	6,037,515
Total recognised income for the year		-	-	-	711,223	6,016,254	-	6,727,477	21,010	6,748,487
Bonus share issue		6,000,000	-	(6,000,000)	-	-	-	-	-	-
Transfer to statutory reserve	18	-	1,509,379	-	-	(1,509,379)	-	-	-	-
Transfer to retained earnings - Lebanon branch		-	-	(15,471)	-	15,471	-	-	-	-
Transfer to statutory reserve - Lebanon branch	18	-	1,013	-	-	(1,013)	-	-	-	-
Transfer to general banking risks & capital reserves - Lebanon branch (included in other liabilities)		-	-	-	-	(1,678)	-	(1,678)	-	(1,678)
Interim dividend paid		-	-	-	-	(1,050,000)	-	(1,050,000)	-	(1,050,000)
Final proposed dividend		-	-	-	-	(1,350,000)	1,350,000	-	-	-
Zakat (included in other liabilities)	29	-	-	-	-	(144,064)	-	(144,064)	-	(144,064)
Minority interest's share capital in the subsidiary		-	-	-	-	-	-	-	57,550	57,550
Balance as at 31 December 2007		15,000,000	8,070,050	-	2,988,165	2,122,873	1,350,000	29,531,088	78,560	29,609,648
2006										
Balance as at 1 January 2006		6,000,000	4,990,680	3,900,000	4,843,698	701,980	1,200,000	21,636,358	-	21,636,358
Net changes in fair value of cash flow hedges (note 12)		-	-	-	57,740	-	-	57,740	-	57,740
Net changes in fair value of available for sale investments		-	-	-	(2,295,290)	-	-	(2,295,290)	-	(2,295,290)
Transfer to consolidated statement of income		-	-	-	(329,206)	-	-	(329,206)	-	(329,206)
Net (losses) recognised directly in equity	19	-	-	-	(2,566,756)	-	-	(2,566,756)	-	(2,566,756)
Net income for the year		-	-	-	-	6,273,191	-	6,273,191	-	6,273,191
Total recognised (expense) income for the year		-	-	-	(2,566,756)	6,273,191	-	3,706,435	-	3,706,435
Bonus share issue		3,000,000	-	(3,000,000)	-	-	-	-	-	-
Transfer to statutory reserve	18	-	1,568,298	-	-	(1,568,298)	-	-	-	-
Transfer to general reserve		-	-	5,100,000	-	(5,100,000)	-	-	-	-
General reserve - Lebanon branch		-	-	15,471	-	-	-	15,471	-	15,471
Transfer to statutory reserve - Lebanon branch	18	-	680	-	-	(680)	-	-	-	-
Transfer to general banking risks - Lebanon branch (included in other liabilities)		-	-	-	-	(181)	-	(181)	-	(181)
2005 final dividend paid		-	-	-	-	-	(1,120,000)	(1,120,000)	-	(1,120,000)
Dividend payable transferred to other liabilities		-	-	-	-	-	(80,000)	(80,000)	-	(80,000)
Zakat (included in other liabilities)	29	-	-	-	-	(158,730)	-	(158,730)	-	(158,730)
Balance as at 31 December 2006		9,000,000	6,559,658	6,015,471	2,276,942	147,282	-	23,999,353	-	23,999,353

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

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

	Note	2007 SR' 000	2006 SR' 000
OPERATING ACTIVITIES			
Net income for the year		**6,016,254**	6,273,191
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) on non-trading investments, net		**(170,050)**	(150,313)
Amortization of discount on debt securities issued		**709**	693
Loss/(gains) on non-trading investments, net		**14,974**	(632,671)
(Gains) on disposal of property and equipment, net	27	**(1,091)**	(124)
(Gains) on disposal of other real estate, net	27	**(19,373)**	(17,603)
Depreciation	10	**186,495**	164,627
Provision for impairment of property and equipment	10	**5,578**	-
Provision expense for credit losses, net	7	**661,423**	554,493
Bank's share in associate's losses	27	**8,888**	19,618
Provision for impairment for other financial assets	5&6	**269,283**	378
(Reversal of) unrealized revaluation losses of other real estate		**(19,548)**	(2,395)
		6,953,542	6,209,894
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA	4	**(2,907,788)**	(465,291)
Due from banks and other financial institutions maturing after ninety days		**(198,308)**	265,166
Held for trading investments		**(253,365)**	(47,276)
Held as fair value through income statement (FVIS) investments		**65,190**	(744,946)
Loans and advances		**(11,270,965)**	(2,462,593)
Other real estate		**128,884**	72,896
Other assets		**(1,056,778)**	(90,065)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**21,579,813**	(3,945,636)
Customers' deposits		**25,326,114**	12,540,760
Other liabilities		**348,317**	(1,264,969)
Net cash from operating activities		**38,714,656**	10,067,940
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		**18,316,159**	10,260,640
Purchase of non-trading / non-FVIS investments		**(45,140,562)**	(16,251,944)
Purchase of property and equipment	10	**(398,612)**	(239,401)
Proceeds from disposal of property and equipment		**18,184**	31,008
Investment in associate		**(30,000)**	-
Net cash (used in) investing activities		**(27,234,831)**	(6,199,697)
FINANCING ACTIVITIES			
Net movement in minority interest		**78,560**	-
Dividends paid		**(1,050,000)**	(1,120,000)
Net cash (used in) financing activities		**(971,440)**	(1,120,000)
Net increase in cash and cash equivalents		**10,508,385**	2,748,243
Cash and cash equivalents at the beginning of the year		**10,830,812**	8,082,569
Cash and cash equivalents at the end of the year	30	**21,339,197**	10,830,812
Special commission received during the year		**10,089,529**	8,798,070
Special commission paid during the year		**3,859,315**	3,195,270
Supplemental non-cash information			
Net change in fair value and transfer to consolidated statement of income		**711,223**	**(2,566,756)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

1. GENERAL

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 264 branches (2006: 260 branches) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). The Bank's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
http://www.alahli.com

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

The Bank has a 60% (2006: 60%) ownership interest, the Commercial Real Estates Markets Company, which is a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 4030073863, issued on 5 Rabi Thani 1411H (24 October 1990), and is engaged in owning, maintaining and managing the Jamjoom Center in Jeddah (see notes 3a and 8).

In April 2007, the Bank has formed a new capital market company, namely, NCB Capital Company, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia under commercial registration No. 1010231474 dated 29 Rabi Awal 1428H (17 April 2007). The Bank has 90% direct ownership interest in its subsidiary, NCB Capital Company, and an indirect ownership of 4% (the indirect ownership is held via an intermediary Trust for future grant to the subsidiary's employees). The activities of Investment Services Division, Brokerage Division, Investment Banking Division and Capital Market Division (Bahrain) of the Bank, as from the date of incorporation of the new capital market company, have been taken over by NCB Capital Company.

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

2. BASIS OF PREPARATION (continued)

b) Basis of measurement (continued)

The Bank has adopted IFRS 7, Financial Instruments: disclosures, amendments to IAS 1, Presentation of Financial Statements – Capital Disclosures and International Financial Reporting Interpretations Committee, (IFRIC) 10 – Interim Financial Reporting and Impairment effective January 1, 2007 with retrospective effect. IFRS 7 introduces new disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of capital and how the Bank manages capital. IFRIC 10 requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in an equity instrument or a financial asset carried at cost because the fair value cannot be reliably measured.

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Bank's functional currency. Consolidated financial information, presented in Saudi Riyals, have been rounded off to the nearest thousand.

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiary, NCB Capital Company. The financial statements of the subsidiary are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

Minority interests represent the portion of net income and net assets not owned, directly or indirectly, by the Bank in its subsidiary and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Inter-company transactions and balances have been eliminated upon consolidation.

e) Critical accounting judgments 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 judgment in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

2. BASIS OF PREPARATION (continued)

e) Critical accounting judgments and estimates (continued)

(i) Impairment losses on loans and advances

The Bank reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

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

(ii) Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that created the model. To the extent practical, models use only observable data; however areas such as credit risk (both own and counterparty), 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 judgment 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. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Due to current volatility in the market, 25% or more is used as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as provision for impairment for other financial assets. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as provision for impairment for other financial assets (see note 6aiii).

(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 judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a) Investment in associate and subsidiary

Associates are enterprises over which the Bank exercises significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or the recoverable amount.

A subsidiary is an entity over which the Bank exerts control (see note 2d). Where the Bank does not have effective control but has significant influence, such investment is then regarded as an associate and accounted for under the equity accounting method.

Equity-accounted value represents the cost plus post-acquisition changes in the Bank's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements).

b) Settlement date accounting

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

c) Derivative financial instruments and hedging

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

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized 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 recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Derivative financial instruments and hedging (continued)

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the consolidated statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

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

d) Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

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 recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

f) Revenue recognition Sure sounds like interest

Special commission income and expense for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income on the effective yield basis including premiums amortized and discounts accreted during the year.

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

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

When the bank enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) **Revenue recognition (continued)**

Special commission income continues to be recognized on impaired loans using the original effective special commission rate applied to the new carrying amount, to discount future cash flows to their net present value.

Foreign exchange income from banking services are recognized when earned. Dividend income is recognized when declared.

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 recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

g) **Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for investments held for trading, 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 sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the balance sheet, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in cash and balances with SAMA, due from banks and other financial institutions or loans and advances, as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective special commission rate.

h) **Investments**

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the investment at that date (acquisition date) except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts are accreted using the effective yield method and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated balance sheet date.

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.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(i) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in short term.

Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

Special commission income and dividend income received on financial assets held for trading are reflected as trading income in the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Investments (continued)

(ii) Held at fair value through income statement (FVIS)

Investments can be designated as FVIS at inception except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured. These include all hedge funds investments that are managed, by the Bank directly or indirectly, and whose performance is evaluated on a fair value basis. The Bank also classifies some compound debt instruments as Fair Value through Income Statement (FVIS). Under this option the Bank fair values the entire instrument instead of separating the embedded derivative from the host contract and carrying the host 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 and are disclosed as income from FVIS investments. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from FVIS investments in the consolidated statement of income.

(iii) Available for sale

Investments which are classified as available for sale are subsequently measured at fair value. For available for sale investments where the fair value has not been hedged, any gain or loss arising from a change in their fair value is recognized directly in "other reserves" under shareholders' equity until the investments are derecognized or impaired. On derecognition, cumulative gains or losses previously recognized in shareholders' equity are included in the consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

Available for sale investments, where fair value cannot be reliably measured, are carried at cost.

(iv) Held to maturity

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

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(v) Other investments held at amortised cost

Investments having 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. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and advances are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and provisions for impairment.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) **Due from banks and other financial institutions**

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

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

k) **Impairment of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, is recognized for changes in its carrying amount as follows:

i) Impairment of financial assets held at amortized cost

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

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

In addition to a specific provision for credit losses, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

ii) Impairment of financial assets held at fair value

Where a loss has been recognized directly under shareholders' equity, the cumulative net loss recognized in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment (also see note 2eiii). Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment of financial assets (continued)

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

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

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

If, in a subsequent period, the amount of the impairment loss on investments other than available for sale equity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as provision for impairment for other financial assets.

l) Other real estate

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

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of other real estates can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income.

m) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation.

Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4-10 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 and are disclosed as other non-operating income (expenses).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, other than those held for trading and as FVIS or where fair values have been hedged, if any, are measured at cost or amortized cost, whichever is applicable.

Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

o) Provisions

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

The specific and portfolio provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

p) Accounting for leases

i) Where the Bank is the lessee

All leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

ii) Where the Bank is the lessor

When assets are sold under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under "Loans and advances". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

q) Zakat

Zakat is the liability of the shareholders. Zakat is computed on the net adjusted income using the basis defined under the Saudi zakat regulations. Zakat is paid by the Bank on their behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

r) Cash and cash equivalents

For the purpose of the statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions maturing within ninety days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Derecognition of financial instruments

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

In instances where the bank is assessed to have transferred a financial asset, the asset is derecognized if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Bank has not retained control of the financial asset. The Bank 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 derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

t) Investment management services

The financial statements of investment management mutual funds and private portfolios are not included in the consolidated financial statements of the Bank. Transactions with the funds are disclosed under related party transactions; the Bank's share of these funds is included in the held for trading investments.

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

u) Financing and investment products in compliance with *Shariah* rules

In addition to the conventional banking products, the Bank offers certain non-interest based financing products to its customers and the Bank also invests in *Musharaka* investment, in compliance with *Shariah* rules, which are approved and supervised by the *Shariah* Board.

The financing and investment banking products, in compliance with *Shariah* rules, are accounted for using IFRS in conformity with the accounting policies described in these consolidated financial statements and the related balances are included in loans and advances or investments.

v) Deposit products in compliance with *Shariah* rules

The Bank offers deposit taking products to its customers, in compliance with *Shariah* rules, which are approved and supervised by the *Shariah* Board.

The deposit taking products, in compliance with *Shariah* rules, are accounted for using IFRS in conformity with the accounting policies described in these consolidated financial statements and the related balances are included in customers' deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

4. CASH AND BALANCES WITH SAMA

	2007 SR '000	2006 SR '000
Cash in hand	**1,747,329**	2,217,803
Balances with SAMA:		
Statutory deposit	**7,590,360**	4,682,572
Current accounts	**857**	383
Reverse repos	**12,665,592**	915,804
Total	**22,004,138**	7,816,562

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 34).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 SR '000	2006 SR '000
Current accounts	**3,426,251**	1,173,231
Money market placements	**3,702,088**	6,526,226
Total	**7,128,339**	7,699,457
Provision for impairment	**(2,920)**	(943)
Due from banks and other financial institutions, net	**7,125,419**	7,698,514

Net charge for impairment provision for the year amounted to SR 2 million (2006: Nil).

6. INVESTMENTS, NET

a) Investments are classified as follows:

i) Held for trading

	Domestic		International		Total	
	2007 SR '000	2006 SR '000	2007 SR '000	2006 SR '000	2007 SR '000	2006 SR '000
Mutual funds	**981,637**	728,274	-	-	**981,637**	728,274

ii) Held as FVIS

	Domestic		International		Total	
	2007 SR '000	2006 SR '000	2007 SR '000	2006 SR '000	2007 SR '000	2006 SR '000
Hedge funds	-	-	**7,428,639**	7,490,884	**7,428,639**	7,490,884
Compound debt instruments	-	-	**72,506**	75,450	**72,506**	75,450
Held as FVIS	-	-	**7,501,145**	7,566,334	**7,501,145**	7,566,334

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

6. INVESTMENTS, NET (continued)

iii) Available for sale

	Domestic		International		Total	
	2007 SR '000	2006 SR '000	**2007 SR '000**	2006 SR '000	**2007 SR '000**	2006 SR '000
Fixed rate securities	-	-	**14,673,305**	5,457,465	**14,673,305**	5,457,465
Floating rate notes	**308,097**	119,970	**9,075,423**	3,241,332	**9,383,520**	3,361,302
Mutual funds	-	-	**930**	27,896	**930**	27,896
Private equity funds	-	-	**719,651**	295,339	**719,651**	295,339
Structured credit	-	-	**1,788,012**	1,430,711	**1,788,012**	1,430,711
Equities (see note below)	**3,290,706**	2,767,144	**41,275**	34,021	**3,331,981**	2,801,165
Musharaka	**203,107**	203,107	-	-	**203,107**	203,107
Available for sale, gross	**3,801,910**	3,090,221	**26,298,596**	10,486,764	**30,100,506**	13,576,985
Accumulated provision for impairment	**(53,814)**	(53,862)	**(285,563)**	(30,110)	**(339,377)**	(83,972)
Available for sale, net	**3,748,096**	3,036,359	**26,013,033**	10,456,654	**29,761,129**	13,493,013

During the year, the fair value of available for sale equity investments remained far above cost and thus there was no significant or prolonged decline in the fair value of these investments (see note 2eiii).

iv) Held to maturity

	Domestic		International		Total	
	2007 SR '000	2006 SR '000	**2007 SR '000**	2006 SR '000	**2007 SR '000**	2006 SR '000
Fixed rate securities	-	-	**3,159,508**	64,550	**3,159,508**	64,550
Floating rate notes	-	-	**139,636**	271,562	**139,636**	271,562
Held to maturity, gross	-	-	**3,299,144**	336,112	**3,299,144**	336,112
Accumulated provision for impairment	-	-	**(2)**	(32)	**(2)**	(32)
Held to maturity, net	-	-	**3,299,142**	336,080	**3,299,142**	336,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

6. INVESTMENTS, NET (continued)

v) Other investments held at amortized cost

	Domestic		International		Total	
	2007 SR '000	2006 SR '000	**2007 SR '000**	2006 SR '000	**2007 SR '000**	2006 SR '000
Fixed rate securities	**41,064,686**	32,733,350	**1,431,800**	64,728	**42,496,486**	32,798,078
Floating rate notes	**1,530,998**	1,082,512	**45,786**	2,007,173	**1,576,784**	3,089,685
Musharaka	**16,666**	-	-	-	**16,666**	-
Other investments held at amortized cost, gross	**42,612,350**	33,815,862	**1,477,586**	2,071,901	**44,089,936**	35,887,763
Accumulated provision for impairment	-	-	**(29,095)**	(17,164)	**(29,095)**	(17,164)
Other investments held at amortized cost, net	**42,612,350**	33,815,862	**1,448,491**	2,054,737	**44,060,841**	35,870,599
Investments, net	**47,342,083**	37,580,495	**38,261,811**	20,413,805	**85,603,894**	57,994,300

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

	2007 SR '000			2006 SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**19,945,134**	**40,384,165**	**60,329,299**	5,141,433	33,178,660	38,320,093
Floating rate notes	**5,694,436**	**5,405,504**	**11,099,940**	2,160,874	4,561,675	6,722,549
Hedge funds	**-**	**7,428,639**	**7,428,639**	-	7,490,884	7,490,884
Mutual funds	**-**	**982,567**	**982,567**	-	756,170	756,170
Private equity funds	**-**	**719,651**	**719,651**	-	295,339	295,339
Structured credit	**-**	**1,788,012**	**1,788,012**	-	1,430,711	1,430,711
Equities	**3,262,041**	**69,940**	**3,331,981**	2,731,227	69,938	2,801,165
Compound debt instruments	**-**	**72,506**	**72,506**	-	75,450	75,450
Musharaka	**-**	**219,773**	**219,773**	-	203,107	203,107
Investments, gross	**28,901,611**	**57,070,757**	**85,972,368**	10,033,534	48,061,934	58,095,468
Accumulated provision for impairment	-	**(368,474)**	**(368,474)**	-	(101,168)	(101,168)
Investments, net	**28,901,611**	**56,702,283**	**85,603,894**	10,033,534	47,960,766	57,994,300

The above unquoted fixed rate securities and floating rate notes mainly comprise Saudi Government Development Bonds.

Fixed and floating rate securities include sovereign, corporate and bank bonds, Collateralized Debt Obligations (CDOs) and Collateralized Loans Obligations (CLOs).

Structured credit includes junior notes of Collateralized Debt Obligations and Collateralized Loans Obligations and Structured Investment Vehicles (SIVs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

6. INVESTMENTS, NET (continued)

c) The analyses of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortized cost are as follows:

i) Held to maturity

	2007 SR '000				2006 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**3,159,508**	**63,891**	**-**	**3,223,399**	64,550	5,296	-	69,846
Floating rate notes	**139,636**	**-**	**(1,174)**	**138,462**	271,562	1,066	(218)	272,410
Held to maturity, gross	**3,299,144**	**63,891**	**(1,174)**	**3,361,861**	336,112	6,362	(218)	342,256
Accumulated provision for impairment	**(2)**	**-**	**-**	**(2)**	(32)	-	-	(32)
Total	**3,299,142**	**63,891**	**(1,174)**	**3,361,859**	336,080	6,362	(218)	342,224

ii) Other investments held at amortized cost

	2007 SR '000				2006 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**42,496,486**	**583,685**	**(5,784)**	**43,074,387**	32,798,078	350,949	(338,902)	32,810,125
Floating rate notes	**1,576,784**	**16,943**	**(4,714)**	**1,589,013**	3,089,685	32,780	(4,360)	3,118,105
Musharaka	**16,666**	**-**	**-**	**16,666**	-	-	-	-
Other investments held at amortized cost, gross	**44,089,936**	**600,628**	**(10,498)**	**44,680,066**	35,887,763	383,729	(343,262)	35,928,230
Accumulated provision for impairment	**(29,095)**	**-**	**-**	**(29,095)**	(17,164)	-	-	(17,164)
Total	**44,060,841**	**600,628**	**(10,498)**	**44,650,971**	35,870,599	383,729	(343,262)	35,911,066

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

6. INVESTMENTS, NET (continued)

Equities reported under available for sale investments include unquoted shares of SR 67 million (2006: SR 67 million), net of impairment provision, that are carried at cost as their fair values cannot be reliably measured.

Available for sale investments include a Musharaka that is carried at cost as its fair values cannot be reliably measured. At 31 December 2007, the carrying value of the Musharaka was SR 153 million (2006: SR 153 million) representing cost of SR 203 million (2006: SR 203 million) and provision for impairment of SR 50 million (2006: SR 50 million).

Investments which have been pledged under repurchase agreements with other banks amounted to SR 5,488 million (2006: Nil) and with customers amounted to SR 78 million (2006: 74 million). The market value of such investments is SR 5,373 million (2006: SR 75 million).

d) Movement in the provision for impairment for other financial assets (investments)

The accumulated credit-related provision for impairment of investments is as follows:

	2007	2006
	SR '000	SR '000
Balance at beginning of the year	**101,168**	100,790
Provided during the year	**285,287**	378
Recoveries of amounts previously provided	**(17,981)**	-
Balance at the end of the year	**368,474**	101,168

e) Net charge for impairment provision for other financial assets (investments) for the year in the consolidated statement of income:

	2007 SR '000			2006 SR '000		
	Specific Provision	**Portfolio Provision**	**Total**	Specific Provision	Portfolio Provision	Total
Addition during the year	**134,450**	**150,837**	**285,287**	378	-	378
Recoveries of amounts previously provided	**(17,981)**	**-**	**(17,981)**	-	-	-
Net charge for the year (provision for impairment for other financial assets)	**116,469**	**150,837**	**267,306**	378	-	378

7. LOANS AND ADVANCES, NET

a) Loans and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2007					
Performing loans and advances - gross	**1,552,970**	**29,568,983**	**53,596,322**	**3,938,169**	**88,656,444**
Non-performing loans and advances, net	**25,927**	**716,044**	**1,114,386**	**110,676**	**1,967,033**
Total loans and advances	**1,578,897**	**30,285,027**	**54,710,708**	**4,048,845**	**90,623,477**
Provision for credit losses (specific & portfolio)	**(138,172)**	**(914,047)**	**(1,658,517)**	**(58,666)**	**(2,769,402)**
Loans & advances, net	**1,440,725**	**29,370,980**	**53,052,191**	**3,990,179**	**87,854,075**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

7. LOANS AND ADVANCES, NET (continued)

	SR '000				
2006	Credit cards	Consumer	Corporate	Others	Total
Performing loans and advances - gross	1,126,833	28,227,157	46,456,663	2,694,813	78,505,466
Non-performing loans and advances, net	10,258	322,973	829,680	493,682	1,656,593
Total loans and advances	1,137,091	28,550,130	47,286,343	3,188,495	80,162,059
Provision for credit losses (specific & portfolio)	(71,641)	(848,405)	(1,465,266)	(532,214)	(2,917,526)
Loans & advances, net	1,065,450	27,701,725	45,821,077	2,656,281	77,244,533

Others include private banking customers and bank loans.

Loans and advances, net include financing products in compliance with *Shariah* rules mainly Murabaha and Tayseer, which are stated at cost less provisions for credit losses, of SR 38,792 million (2006: SR 34,364 million).

Specific and portfolio provisions for credit losses related to financing products in compliance with *Shariah* rules is SR 1,154 million (2006: SR 887 million).

b) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2007					
Balance at beginning of the year	**71,641**	**848,405**	**1,465,266**	**532,214**	**2,917,526**
Provided during the year	**143,027**	**472,061**	**239,271**	**13,427**	**867,786**
Bad debts written off	**(76,496)**	**(401,136)**	**-**	**(486,974)**	**(964,606)**
Recoveries of amounts previously provided	**-**	**(5,283)**	**(46,021)**	**-**	**(51,304)**
Balance at the end of the year	**138,172**	**914,047**	**1,658,516**	**58,667**	**2,769,402**

	SR '000				
2006	Credit cards	Consumer	Corporate	Others	Total
Balance at beginning of the year	71,995	660,584	1,642,589	82,796	2,457,964
Provided during the year	23,687	412,824	18,525	449,418	904,454
Bad debts written off	(24,041)	(204,518)	-	-	(228,559)
Recoveries of amounts previously provided	-	(20,485)	(195,848)	-	(216,333)
Balance at the end of the year	71,641	848,405	1,465,266	532,214	2,917,526

The provision for credit losses above includes a portfolio provisions amounting to SR 1,229 million (2006: SR 1,409 million) related to the performing portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

7. LOANS AND ADVANCES, NET (continued)

c) Net charge for provision for credit losses for the year in the consolidated statement of income:

	2007 SR '000			2006 SR '000		
	Specific Provision	**Portfolio Provision**	**Total**	Specific Provision	Portfolio Provision	Total
Addition during the year	**1,047,170**	**(179,384)**	**867,786**	908,526	(4,072)	904,454
Recoveries of amounts previously provided	**(51,304)**	**-**	**(51,304)**	(216,333)	-	(216,333)
	995,866	**(179,384)**	**816,482**	692,193	(4,072)	688,121
Provision against indirect facilities (included in other liabilities)	**14,309**	**5,874**	**20,183**	3,865	2,856	6,721
Recoveries of debts previously written-off	**(178,873)**	**-**	**(178,873)**	(142,924)	-	(142,924)
Direct write-offs	**3,631**	**-**	**3,631**	2,575	-	2,575
Net charge for the year (provision expense for credit losses, net)	**834,933**	**(173,510)**	**661,423**	555,709	(1,216)	554,493

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

2007		**Performing SR' 000**	**Non-performing SR' 000**	**Specific provision SR' 000**	**Loans and advances, net SR' 000**
1.	Government and quasi Government	**22,983,433**	**-**	**-**	**22,983,433**
2.	Banks and other financial institutions	**2,292,522**	**-**	**-**	**2,292,522**
3.	Agriculture and fishing	**485,377**	**31,702**	**(31,702)**	**485,377**
4.	Manufacturing	**2,083,313**	**300,807**	**(293,299)**	**2,090,821**
5.	Electricity, water, gas and health services	**1,404,952**	**15,307**	**(15,307)**	**1,404,952**
6.	Building and construction	**7,453,427**	**95,456**	**(72,252)**	**7,476,631**
7.	Commerce	**14,307,196**	**597,996**	**(597,996)**	**14,307,196**
8.	Transportation and communication	**3,804,908**	**62,830**	**(62,828)**	**3,804,910**
9.	Services	**1,073,716**	**10,289**	**(10,289)**	**1,073,716**
10.	Consumer loans and credit cards	**31,121,953**	**741,971**	**(418,565)**	**31,445,359**
11.	Others	**1,645,647**	**110,675**	**(37,998)**	**1,718,324**
		88,656,444	**1,967,033**	**(1,540,236)**	**89,083,241**
	Portfolio provision				**(1,229,166)**
	Loans and advances, net				**87,854,075**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

7. LOANS AND ADVANCES, NET (continued)

2006		Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Loans and advances, net SR' 000
1.	Government and quasi Government	21,721,552	-	-	21,721,552
2.	Banks and other financial institutions	869,448	-	-	869,448
3.	Agriculture and fishing	418,525	-	-	418,525
4.	Manufacturing	2,328,610	252,407	(214,093)	2,366,924
5.	Electricity, water, gas and health services	766,900	14,668	(14,668)	766,900
6.	Building and construction	6,587,935	95,681	(95,681)	6,587,935
7.	Commerce	12,528,657	408,799	(408,799)	12,528,657
8.	Transportation and communication	1,060,306	9,739	(9,739)	1,060,306
9.	Services	693,759	9,016	(6,750)	696,025
10.	Consumer loans and credit cards	29,353,990	333,231	(272,272)	29,414,949
11.	Others	2,175,784	533,052	(486,974)	2,221,862
		78,505,466	1,656,593	(1,508,976)	78,653,083
	Portfolio provision				(1,408,550)
	Loans and advances, net				77,244,533

e) Loans and advances include finance lease receivables (including *Ijara* in compliance with *Shariah* rules) which are analysed as follows:

	2007 SR '000	2006 SR '000
Gross receivables from finance leases:		
Less than 1 year	**17,315**	95,621
1 to 5 years	**4,387,043**	1,973,335
	4,404,358	2,068,956
Unearned finance income on finance leases	**(759,162)**	(294,003)
Net receivables from finance leases	**3,645,196**	1,774,953

The specific and portfolio provisions for uncollectable finance lease receivables included in the provision for credit losses is SR 246 million (2006: SR 10 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

8. INVESTMENT IN ASSOCIATES, NET

	2007 SR '000	2006 SR '000
Cost	**1,463,682**	1,433,682
Provision for impairment	**(558,448)**	(549,560)
Investment in associates, net	**905,234**	884,122

Investment in associates represents 60% ownership interest in the Commercial Real Estate Markets Company (2006: 60%) (see note 3a), 30% ownership interest in each of Al Behar Real Estate Investment Company (2006: 30%) and Al-Ahali Takaful Company (2006: Nil), which are all registered in the Kingdom of Saudi Arabia.

9. OTHER REAL ESTATE, NET

	2007 SR '000	2006 SR '000
Cost:		
Balance as at 1 January	**516,104**	625,048
Additions	**30,599**	2,484
Disposals	**(164,527)**	(111,428)
Balance as at 31 December	**382,176**	516,104
Provision for unrealized revaluation losses	**(112,455)**	(156,420)
Total	**269,721**	359,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

10. PROPERTY AND EQUIPMENT, NET

	2007 SR '000			2006 SR '000		
	Land, buildings and leasehold improvements SR '000	**Furniture, equipment and vehicles SR '000**	**Total SR '000**	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
Balance as at 1 January	**2,187,375**	**969,929**	**3,157,304**	2,165,892	869,144	3,035,036
Additions	**206,771**	**191,841**	**398,612**	54,864	184,537	239,401
Disposals and retirement	**(176,807)**	**(23,977)**	**(200,784)**	(33,381)	(83,752)	(117,133)
Balance as at 31 December	**2,217,339**	**1,137,793**	**3,355,132**	2,187,375	969,929	3,157,304
Accumulated depreciation:						
Balance as at 1 January	**954,853**	**623,668**	**1,578,521**	900,714	599,429	1,500,143
Charge for the year	**61,270**	**125,225**	**186,495**	58,601	106,026	164,627
Disposals and retirement	**(160,146)**	**(23,545)**	**(183,691)**	(4,462)	(81,787)	(86,249)
Balance as at 31 December	**855,977**	**725,348**	**1,581,325**	954,853	623,668	1,578,521
Book value:						
As at 31 December	**1,361,362**	**412,445**	**1,773,807**	1,232,522	346,261	1,578,783
Less provision for impairment (note 27)	**(5,578)**	-	**(5,578)**	-	-	-
Net book value:						
As at 31 December	**1,355,784**	**412,445**	**1,768,229**	1,232,522	346,261	1,578,783

11. OTHER ASSETS

	2007 SR '000	2006 SR '000
Accrued special commission income receivable		
- banks and other financial institutions	**8,842**	4,961
- investments	**913,996**	673,060
- loans and advances	**393,910**	269,899
- derivatives	**190,746**	150,371
Total accrued special commission income receivable	**1,507,494**	1,098,291
Positive fair value of derivatives (note 12)	**354,006**	264,492
Others	**1,324,940**	766,879
Total	**3,186,440**	2,129,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

12. DERIVATIVES

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

a) Swaps

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

b) Forwards and Futures

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

c) Forward rate agreements

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special 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.

e) Swaptions

Swaptions are options on swaps and entail an option on the fixed rate component of a swap. An option on a swap provides the purchaser or holder of the option with the right, but not the obligation to enter into a swap where it pays fixed rates against receipt of a floating rate index as at a future date.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 32 - credit risk, note 33 - market risk and note 34 - liquidity risk). Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

12. DERIVATIVES (continued)

Held for hedging purposes (continued)

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

The Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank also uses special 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

12. DERIVATIVES (continued)

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

				(SR '000) Notional amounts by term to maturity				
2007	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate swaps	**57,429**	**(25,045)**	**7,186,982**	**-**	**3,529,460**	**3,274,362**	**383,160**	**7,941,044**
Special commission rate options and futures	**86,654**	**(83,800)**	**1,891,082**	**-**	**15,500**	**1,875,582**	**-**	**2,085,264**
Forward foreign exchange contracts	**64,209**	**(58,187)**	**43,776,270**	**30,204,137**	**13,572,133**	**-**	**-**	**31,001,052**
Currency options	**18,285**	**(25,759)**	**9,046,852**	**-**	**9,046,852**	**-**	**-**	**7,142,190**
Held as fair value hedges:								
Special commission rate futures	**19,571**	**(10,578)**	**1,265,250**	**1,265,250**				**1,764,938**
Special commission rate swaps		**(7,783)**	**3,188,067**	**121,875**	**2,013,875**	**958,567**	**93,750**	**2,961,463**
Held as cash flow hedges:								
Special commission rate swaps	**107,858**	**(22,710)**	**5,430,000**	**-**	**150,000**	**5,280,000**	**-**	**5,218,507**
Total	**354,006**	**(233,862)**	**71,784,503**	**31,591,262**	**28,327,820**	**11,388,511**	**476,910**	
Fair values of netting arrangements	-	-						
Fair values after netting (note 11, 16)	**354,006**	**(233,862)**						

				(SR '000) Notional amounts by term to maturity				
2006	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	103,786	(97,164)	9,000,107	141,578	3,191,538	4,559,250	1,107,741	13,370,406
Special commission rate options and futures	101,014	(97,879)	2,196,267	-	468,413	1,727,854	-	3,099,911
Forward foreign exchange contracts	18,153	(21,567)	26,758,336	19,825,297	6,839,569	93,470	-	22,176,457
Currency options	8,398	(6,074)	1,728,169	-	1,708,734	19,435	-	2,683,458
Held as fair value hedges:								
Special commission rate swaps	3,990	(8,503)	1,183,390	210,581	264,758	708,051	-	1,159,038
Held as cash flow hedges:								
Special commission rate swaps	33,479	(45,392)	4,390,000	-	-	4,390,000	-	3,719,167
Total	268,820	(276,579)	45,256,269	20,177,456	12,473,012	11,498,060	1,107,741	
Fair values of netting arrangements	(4,328)	4,328						
Fair values after netting (note 11, 16)	264,492	(272,251)						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

12. DERIVATIVES (continued)

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

(SR '000)

2007 **Description of hedged items**	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed rate securities	**1,143,596**	**1,104,333**	Fair value	Special commission rate future	**19,571**	**(10,578)**
Fixed rate securities	**3,191,076**	**3,183,293**	Fair value	Special commission rate swap	**-**	**(7,783)**
Floating special commission rate securities	**5,541,129**	**5,556,909**	Cash flow	Special commission rate swap	**107,858**	**(22,710)**

(SR '000)

2006 Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate investments	1,950,859	1,934,903	Fair value	Special commission rate swap	3,990	(8,503)
Floating special commission rate investments	4,316,110	4,292,695	Cash flow	Special commission rate swap	33,479	(45,392)

The losses on the hedging instruments for fair value hedge are SR 86 million (2006: SR 26 million). The gains on the hedged items attributable to the hedged risk are SR 88 million (2006: SR 26 million). The net fair value of the derivatives is SR 2 million (2006: SR: Nil million).

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

	2007 **SR '000**	2006 SR '000
Balance at beginning of the year	**(9,520)**	(66,889)
Gains/(losses) from changes in fair value recognised directly in equity, net	**97,062**	57,740
(Gains) removed from equity and transferred to net special commission income	**(371)**	(371)
Balance at end of the year	**87,171**	(9,520)

For cash flow hedges, the amount shown as balance of other reserves under shareholders' equity as at December 31, 2007 is mainly expected to affect the profit and loss in the forthcoming two to three years.

Approximately 98% (2006: 99%) of the positive fair value of the Bank’s derivatives are entered into with financial institutions and less than 2% (2006: 1%) of the positive fair value contracts are with non-financial institutions at the consolidated balance sheet date. Derivative activities are mainly carried out under the Bank’s Treasury and Capital Market segment.

13. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 **SR '000**	2006 SR '000
Current accounts	**5,340,743**	2,032,211
Money market deposits	**17,658,402**	4,874,827
Repos	**5,487,706**	-
Total	**28,486,851**	6,907,038

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

14. CUSTOMERS' DEPOSITS

	2007 SR '000	2006 SR '000
Current accounts	**77,662,438**	57,327,195
Savings	**196,633**	211,986
Time	**58,604,486**	54,486,334
Others	**6,361,905**	5,473,833
Total	**142,825,462**	117,499,348

Time deposits include deposits against the sale of securities of SR 78 million (2006: SR 74 million) with an agreement to repurchase the same at fixed future dates. The fair value of these securities is SR 79 million (2006: SR 75 million). Other customers' deposits include SR 1,372 million (2006: SR 1,241 million) of margins held for irrevocable commitments and contingencies.

Foreign currency deposits included in customers' deposits:

	2007 SR '000	2006 SR '000
Current accounts	**5,167,157**	4,758,585
Savings	**2,304**	3,669
Time	**14,209,328**	13,136,837
Others	**699,084**	495,641
Total	**20,077,873**	18,394,732

15. DEBT SECURITIES ISSUED

Under its Euro Medium Term Note Programme, the Bank issued senior unsecured, non-convertible 5 year floating rate notes in the amount of USD 700 million during the fourth quarter of 2005. The notes are listed on the London Stock Exchange carrying an all inclusive rate of 3 months LIBOR plus 35 basis points.

16. OTHER LIABILITIES

	2007 SR '000	2006 SR '000
Accrued special commission expense payable		
- banks and other financial institutions	**160,496**	121,930
- customers' deposits	**605,349**	477,730
- debt securities issued	**30,235**	31,141
- derivatives	**133,477**	151,270
Total accrued special commission expense payable	**929,557**	782,071
Negative fair value of derivatives (note 12)	**233,862**	272,251
Zakat (note 29)	**144,064**	158,730
Staff-related payables	**1,132,373**	978,161
Deposits received for subscriptions in Initial Public Offerings (IPO)	**40,784**	6,613
Accrued expenses and accounts payable	**607,389**	569,249
Provisions for indirect facilities (specific and portfolio)	**174,799**	155,968
Others	**1,909,332**	1,755,058
Total	**5,172,160**	4,678,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

17. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares of SR 10 each (2006: 900 million shares of SR 10 each), wholly owned by Saudi shareholders.

The shareholders in their extraordinary general assembly meeting held on 26 March 2007 approved a two for three bonus share dividend through the capitalization of the general reserve. As a result of this bonus share issue of 600 million shares of SR 10 each, the Bank's share capital has increased from SR 9,000 million (representing 900 million shares of SR 10 each) to SR 15,000 million (representing 1,500 million shares of SR 10 each).

The calculation of earnings per share has been adjusted retrospectively as required by IAS 33.

18. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve.

The statutory reserves are not currently available for distribution under both laws.

19. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges and available for sale investments. These reserves are not available for distribution.

20. COMMITMENTS AND CONTINGENCIES

a) Legal proceeding

The Bank is one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States. Most of these lawsuits have been consolidated in a federal court in New York for preliminary pre-trial purposes. During 2004, the Bank filed motions to dismiss the lead law suits and asserted a number of threshold jurisdictional and legal defenses. In January 2005, the federal court issued a decision that denied the Bank's motion to dismiss the lead lawsuit following a limited factual inquiry (discovery) into issues governing the Bank’s entitlement to the threshold jurisdictional defenses. The Bank thereafter made a motion to reconsider the Court's ruling and dismiss the claims as legally insufficient without first resolving the Bank’s jurisdictional defenses, or alternatively, to adjust the sequence and scope of jurisdictional discovery. On 21 September 2005, the court granted the Bank's motion for reconsideration in part.

In late June, 2006, a magistrate judge assigned to resolve differences between the plaintiffs and the Bank on coverage, scope and period of discovery, ruled in favor of the Bank. The court-mandated limited discovery, aimed at determining whether a US court has jurisdiction over the Bank or not, is in its final stages.

In addition to its threshold jurisdictional and legal defenses, the Bank's management has been advised by U.S. legal counsel handling the cases that it has other valid defenses to the litigation. Consequently, the Bank’s management and counsel believe that the claims made against the Bank can be defended successfully.

b) Capital and other non-credit related commitments

The Bank’s capital commitments as at 31 December 2007 in respect of building and equipment purchases are not material to the financial position of the Bank.

The Bank has reached an agreement with the shareholders of a Turkish Bank (Türkiye Finans Katılım Bankası A.Ş.) to acquire 60% ownership interest. This deal will be finalized upon the receipt of approval of the Banking Regulatory and Supervision Agency (BRSA) of Turkey.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

20. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipment of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

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

			(SR '000)		
2007	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Guarantees	**3,703,272**	**6,306,941**	**7,487,404**	**563,480**	**18,061,097**
Letter of credit	**7,247,025**	**2,557,933**	**1,279,128**	-	**11,084,086**
Acceptances	**1,749,098**	**970,780**	**86,610**	-	**2,806,488**
Irrevocable commitments to extend credit	**168,750**	-	**675,000**	-	**843,750**
Total	**12,868,145**	**9,835,654**	**9,528,142**	**563,480**	**32,795,421**

			(SR '000)		
2006	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	3,701,025	4,888,021	5,452,629	6,675	14,048,350
Letter of credit	5,843,196	2,531,341	313,134	-	8,687,671
Acceptances	1,351,756	786,991	32,529	-	2,171,276
Irrevocable commitments to extend credit	28,124	203,543	1,231,660	333,464	1,796,791
Total	10,924,101	8,409,896	7,029,952	340,139	26,704,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

20. COMMITMENTS AND CONTINGENCIES (continued)

The outstanding unused portion of commitments including unutilized credit cards limits, which can be revoked unilaterally at any time by the Bank, as at 31 December 2007 amounted to SR 24,790 million (2006: SR 21,576 million).

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

	2007 SR '000	2006 SR '000
Government and quasi Government	**843,937**	1,013,224
Corporate and establishments	**17,516,640**	16,072,481
Banks and other financial institutions	**14,116,009**	8,468,672
Others	**318,835**	1,149,711
Total	**32,795,421**	26,704,088

d) Operating lease commitments

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

	2007 SR '000	2006 SR '000
Less than 1 year	**14,103**	4,664
1 to 5 years	**58,217**	44,325
Over 5 years	**75,157**	38,822
Total	**147,477**	87,811

21. NET SPECIAL COMMISSION INCOME

	2007 SR '000	2006 SR '000
Special commission income		
Investments - Available for sale	**1,179,716**	250,460
Investments - Held to maturity	**154,974**	167,149
Other investments held at amortized cost	**1,808,140**	1,895,299
	3,142,830	2,312,908
Due from banks and other financial institutions	**686,135**	476,496
Loans and advances	**6,669,767**	6,206,926
Total	**10,498,732**	8,996,330
Special commission expense		
Due to banks and other financial institutions	**743,911**	479,744
Customers' deposits	**3,111,828**	2,678,760
Debt securities issued	**151,062**	153,691
Total	**4,006,801**	3,312,195
Net special commission income	**6,491,931**	5,684,135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

22. FEES FROM BANKING SERVICES, NET

	2007 SR '000	2006 SR '000
Fee income		
Shares brokerage	**630,312**	1,157,067
Investment management services	**281,096**	317,390
Finance and lending	**392,998**	223,519
Others	**989,989**	787,834
Total	**2,294,395**	2,485,810
Fee expenses		
Shares brokerage	**98,480**	158,483
Investment management services	**12,565**	32,590
Others	**191,530**	164,443
Total	**302,575**	355,516
Fees from banking services, net	**1,991,820**	2,130,294

23. INCOME FROM FVIS INVESTMENTS, NET

	2007 SR '000	2006 SR '000
Fair value changes on investments held as FVIS	**1,002,976**	614,229
Special commission income on FVIS investments	**4,622**	4,342
Total income	**1,007,598**	618,571

24. TRADING INCOME, NET

	2007 SR '000	2006 SR '000
Foreign exchange	**78,337**	21,413
Mutual funds	**37,557**	34,473
Derivatives	**23,695**	(27,725)
Total	**139,589**	28,161

25. DIVIDEND INCOME

	2007 SR '000	2006 SR '000
Available for sale investments	**52,931**	55,501

26. (LOSSES) GAINS ON NON-TRADING INVESTMENTS, NET

	2007 SR '000	2006 SR '000
(Loss) gain on available for sale investments	**(17,286)**	627,285
Gain on other investments held at amortised cost	**2,312**	5,386
Total	**(14,974)**	632,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

27. OTHER NON-OPERATING INCOME (EXPENSES), NET

	2007	2006
	SR '000	SR '000
Income from other real estate		
Rental income, net	**3,702**	4,988
Disposal gain, net	**19,373**	17,603
Reversal of unrealized revaluation loss	**19,548**	2,395
Net income from other real estate	**42,623**	24,986
Bank's share in an associate's (losses)	**(8,888)**	(19,618)
Gain on disposal of property and equipment	**1,091**	124
Provision for impairment of property and equipment	**(5,578)**	-
Net other income	**13,871**	49,903
Total	**43,119**	55,395

28. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2007 and 2006 is calculated by dividing the net income for the year by the number of shares outstanding as at 31 December 2007 of 1,500 million shares to give a retroactive effect of the increase in the number of shares as a result of the share split in 2006 and the issuance of bonus shares during 2006 and 2007 (see note 17).

The calculation of diluted earnings per share is not applicable to the Bank.

29. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors proposed a net dividend for the year of SR 2,400 million (2006: Nil) at the rate of SR 1.6 per share (SR 2006: Nil), net of Zakat. The proposed net dividend includes interim dividend paid in the amount of SR 1,050 million (2006: Nil), net of Zakat; the final proposed dividend is SR 1,350 million (2006: Nil), net of Zakat. Zakat attributable to the shareholders amounting to SR 144 million has been deducted from the gross dividend of SR 2,544 million (2006: Zakat of SR 159 million was charged to the retained earnings).

In accordance with the requirements of the revised IAS 10, the Bank has discontinued reporting the final proposed dividend as a liability until approved by the shareholders' annual general assembly. Consequently, the final proposed dividend is not shown as a liability and is included within the shareholders' equity.

30. CASH AND CASH EQUIVALENTS

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

	2007	2006
	SR '000	SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**14,413,778**	3,133,990
Due from banks and other financial institutions maturing within ninety days	**6,925,419**	7,696,822
Total	**21,339,197**	10,830,812

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

31. BUSINESS SEGMENTS

A segment is a distinguishable component of the Bank, that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segmental reporting is based on business segments.

The Bank is organized into the following major business segments:

Consumer - Provides banking services, including consumer lending and current accounts in addition to consumer products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals and small sized businesses.

Corporate - Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to medium and large establishments and companies. It also includes international banking services.

Treasury & Capital Market - Provides a full range of treasury products and services, including money market and foreign exchange, to the Bank's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity and market risk. It also includes investment management services, capital market, investment banking and shares brokerage services (local, regional and international) (see note 1).

Others - Comprise Head Office accounts, particularly management of a portfolio of equity holdings, other real estate and the bank premises.

Transactions between the business segments are recorded as per the Bank and its subsidiary's transfer pricing system.

The supports and head office expenses are allocated to segments using activity-based costing.

a) The Bank's total assets and liabilities at year end, its operating income and expenses and net income for the year, by business segments, are as follows:

2007			**(SR '000)**		
	Consumer	**Corporate**	**Treasury & Capital Market**	**Others**	**Total**
Total assets	**41,854,486**	**57,204,795**	**102,732,093**	**6,925,776**	**208,717,150**
Total liabilities	**94,717,822**	**52,456,954**	**29,032,637**	**2,900,089**	**179,107,502**
Operating income	**5,011,982**	**1,943,973**	**2,801,188**	**125,038**	**9,882,181**
Operating expenses	**2,710,123**	**429,074**	**697,023**	**(1,673)**	**3,834,547**
Net income (before minority interest)	**2,273,811**	**1,502,454**	**2,093,532**	**167,718**	**6,037,515**

2006			(SR '000)		
	Consumer	Corporate	Treasury & Capital Market	Others	Total
Total assets	37,336,838	47,823,884	64,821,714	5,723,724	155,706,160
Total liabilities	65,110,479	50,222,140	13,433,311	2,940,877	131,706,807
Operating income	4,449,340	1,660,131	2,784,714	397,467	9,291,652
Operating expenses	2,470,037	142,140	404,133	27,626	3,043,936
Net income	1,958,993	1,511,152	2,378,818	424,228	6,273,191

31. BUSINESS SEGMENTS (continued)

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

2007			(SR '000)		
	Consumer	**Corporate**	**Treasury & Capital Market**	**Others**	**Total**
Balance sheet assets	**33,987,063**	**53,265,760**	**90,966,163**	**4,225,902**	**182,444,888**
Commitments and contingencies (credit equivalent)	**5,632,327**	**8,434,998**	**414**	**-**	**14,067,739**
Derivatives (credit equivalent)	**-**	**-**	**1,454,220**	**-**	**1,454,220**

2006			(SR '000)		
	Consumer	Corporate	Treasury & Capital Market	Others	Total
Balance sheet assets	31,737,853	46,963,102	62,661,877	2,937,298	144,300,130
Commitments and contingencies (credit equivalent)	3,579,642	7,704,693	788,698	-	12,073,033
Derivatives (credit equivalent)	-	-	883,039	-	883,039

The credit exposure of balance sheet assets comprises the carrying value of due from banks and other financial institutions, investments, loans and advances, accrued special commission income and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

32. CREDIT RISK

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

For loans and advances and off-balance sheet financing to borrowers, the bank assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off balance sheet financial instruments with international counterparties, the Bank uses external ratings of the major rating agencies.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

32. CREDIT RISK (continued)

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

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

The debt securities included in investments are mainly sovereign risk and high grade securities. Analysis of investments by counterparty is provided in note (6). For details of the composition of the loans and advances refer to note (7). Information on credit risk relating to derivative instruments is provided in note (12) and for commitments and contingencies in note (20). The information on the Bank's net maximum credit exposure by economic sectors is given in note (c) below.

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at obligor and transaction level. The classification system includes ten grades, of which eight grades relate to the performing portfolio (standard -- Low-fair risk: risk rating 1-6 and special mention -- watch list: - risk rating 7&8) and two grades (risk rating 9 and 10) relate to the non-performing portfolio. Credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The associated loss estimate norms for each grade have been developed based on the Bank's historical default rates for each rating. These risk ratings are reviewed on a regular basis.

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values.The Bank holds real estate collateral against transfer of title deed (*ifrag*) as a collateral but due to the difficulty in siezing and liquidating them, the Bank does not consider them as cash flow for impairment assessment for non-performing loans. Collateral generally is not held over due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2007 and 2006.

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 loans and advances. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Bank's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio provision is allocated over the performing loans and advances as well as investments (refer to note (3k) for accounting policy of impairment of financial assets).

a) Credit quality of financial assets (Loans and advances and Due from Banks and other Financial Institutions)

The credit quality of loans and advances is managed using internal credit ratings and for due from banks & financial institutions is managed using external credit ratings of Moody's rating agency. The table below shows the credit quality by class of asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

32. CREDIT RISK (continued)

	(SR '000)					
	Loans and Advances				Due from Banks and Other Financial Institutions	
2007	Consumer and Credit Cards	Corporate	Others	Sub Total		Total
Performing						
Neither past due nor impaired (performing)						
Standard	29,894,134	51,169,885	3,717,138	84,781,157	7,128,339	91,909,496
Special mention	-	789,475	-	789,475	-	789,475
Sub Total	29,894,134	51,959,360	3,717,138	85,570,632	7,128,339	92,698,971
Past due but not impaired						
Less than 30 days	1,098,308	869,015	90,492	2,057,815	-	2,057,815
30-59 days	78,786	420,984	130,032	629,802	-	629,802
60-90 days	50,725	346,963	507	398,195	-	398,195
Sub Total	1,227,819	1,636,962	221,031	3,085,812	-	3,085,812
Total performing	31,121,953	53,596,322	3,938,169	88,656,444	7,128,339	95,784,783
Less portfolio provision	(633,654)	(574,842)	(20,670)	(1,229,166)	(2,920)	(1,232,086)
Net performing	30,488,299	53,021,480	3,917,499	87,427,278	7,125,419	94,552,697
Non-Performing						
Total Non-Performing	741,971	1,114,386	110,676	1,967,033	-	1,967,033
Less: Specific Provision	(418,565)	(1,083,674)	(37,997)	(1,540,236)	-	(1,540,236)
Less: Collateral	(307,847)	(30,712)	(72,679)	(411,238)	-	(411,238)
Net Non-Performing	15,559	-	-	15,559	-	15,559

32. CREDIT RISK (continued)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

	(SR '000)					
	Loans & Advances				Due from Banks & Other Financial Institutions	
2006	Consumer and Credit Cards	Corporate	Others	Sub Total		Total
Performing						
Neither past due nor impaired (performing)						
Standard	27,928,320	44,314,544	2,453,530	74,696,394	7,699,457	82,395,851
Special mention	-	939,318	-	939,318	-	939,318
Sub Total	27,928,320	45,253,862	2,453,530	75,635,712	7,699,457	83,335,169
Past due but not impaired						
Less than 30 days	1,237,035	876,530	122,945	2,236,510	-	2,236,510
30-59 days	118,979	235,226	45,184	399,389	-	399,389
60-90 days	69,656	91,045	73,154	233,855	-	233,855
Sub Total	1,425,670	1,202,801	241,283	2,869,754	-	2,869,754
Total performing	29,353,990	46,456,663	2,694,813	78,505,466	7,699,457	86,204,923
Less portfolio provision	(647,774)	(715,552)	(45,224)	(1,408,550)	(943)	(1,409,493)
Net performing	28,706,216	45,741,111	2,649,589	77,096,916	7,698,514	84,795,430
Non-Performing						
Total Non-Performing	333,231	829,680	493,682	1,656,593	-	1,656,593
Less: Specific Provision	(272,272)	(749,714)	(486,990)	(1,508,976)	-	(1,508,976)
Less: Collateral	(38,012)	(43,099)	-	(81,111)	-	(81,111)
Net Non-Performing	22,947	36,867	6,692	66,506	-	66,506

Performing loans include renegotiated loans as at 31 December 2007 of SR 416 million (2006: SR 142 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

32. CREDIT RISK (continued)

b) Credit quality of financial assets (Investments)

The credit quality of investments (excluding investment in equities, hedge funds, mutual funds, private equity funds, structured investment vehicle (SIV) under structured credit and Musharaka) is managed using external credit ratings of Moody's rating agency. The table below shows the credit quality by class of asset.

	Investments	
	2007	2006
	SR '000	SR '000
Performing		
High grade (Aaa-Baa3)	**70,943,765**	44,893,902
Standard grade (Ba1-B2)	**88,418**	12,810
Sub-standard grade (B3-C)	**115,335**	8,273
Unrated	**1,269,083**	488,430
Sub Total	**72,416,601**	45,403,415
Past due but not impaired (accrued special commission receivable)		
0-30 days	**-**	-
30-59 days	**-**	-
60-90 days	**-**	-
Sub Total	**-**	-
Total performing	**72,416,601**	45,403,415
Less portfolio provision	**(160,135)**	(23,511)
Net performing	**72,256,466**	45,379,904
Non-Performing		
Total Non-Performing	**98,450**	-
Less: Specific Provision	**(98,450)**	-
Net Non-Performing (see note 6)	**-**	-
Total	**72,256,466**	45,379,904

The unrated investments comprise junior notes under structured credit.

32. CREDIT RISK (continued)

c) An industry sector analysis of the Bank's loans and advances

The tables below show an industry sector analysis of the Bank's loans and advances, net of specific and portfolio provisions; after taking into account total collateral held for both performing and non-performing loans and advances.

		(SR '000) Maximum exposure		
		On-balance sheet, net of provisions	Off-balance sheet of credit-related commitments & contingencies, net of provisions	Total
2007				
1.	Government and quasi Government	**22,600,129**	**845,292**	**23,445,421**
2.	Banks and other financial institutions	**2,292,522**	**1,265,718**	**3,558,240**
3.	Agriculture and fishing	**469,755**	**86,275**	**556,030**
4.	Manufacturing	**2,078,044**	**1,000,321**	**3,078,365**
5.	Electricity, water, gas and health services	**1,403,415**	**243,591**	**1,647,006**
6.	Building and construction	**7,428,069**	**6,480,147**	**13,908,216**
7.	Commerce	**14,203,481**	**5,999,918**	**20,203,399**
8.	Transportation and communication	**3,803,726**	**534,720**	**4,338,446**
9.	Services	**1,065,572**	**601,561**	**1,667,133**
10.	Consumer loans and credit cards	**30,811,705**	**14,326,448**	**45,138,153**
11.	Others	**1,697,657**	**1,236,631**	**2,934,288**
Sub Total		**87,854,075**	**32,620,622**	**120,474,697**
Less: collateral for performing & non-performing		**(13,056,996)**	**(2,231,535)**	**(15,288,531)**
Net maximum exposure		**74,797,079**	**30,389,087**	**105,186,166**

32. CREDIT RISK (continued)

		(SR '000) Maximum exposure		
		On-balance sheet, net of provisions	Off-balance sheet of credit-related commitments & contingencies, net of provisions	Total
2006				
1.	Government and quasi Government	21,338,248	1,675,043	23,013,291
2.	Banks and other financial institutions	861,350	699,012	1,560,362
3.	Agriculture and fishing	396,947	214,589	611,536
4.	Manufacturing	2,348,106	1,029,638	3,377,744
5.	Electricity, water, gas and health services	762,248	72,543	834,791
6.	Building and construction	6,523,779	6,691,276	13,215,055
7.	Commerce	12,721,450	5,426,563	18,148,013
8.	Transportation and communication	1,039,257	242,570	1,281,827
9.	Services	691,042	465,510	1,156,552
10.	Consumer loans and credit cards	28,767,175	9,369,496	38,136,671
11.	Others	1,794,931	661,880	2,456,811
Sub Total		77,244,533	26,548,120	103,792,653
Less: collateral for performing & non-performing		(11,648,967)	(2,088,806)	(13,737,773)
Net maximum exposure		65,595,566	24,459,314	90,054,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

32. CREDIT RISK (continued)

d) Counterparty analysis of the Bank's investment and derivatives, net of specific and portfolio provisions.

		(SR '000) Maximum exposure		
		Investment, net of provisions	**Derivatives financial instruments, (positive fair value)**	**Total**
2007				
1.	Government and quasi Government	**53,856,743**	**-**	**53,856,743**
2.	Corporate	**17,622,492**	**5,578**	**17,628,070**
3.	Banks and other financial institutions	**13,215,682**	**348,428**	**13,564,110**
4.	Others	**908,977**	**-**	**908,977**
Net maximum exposure		**85,603,894**	**354,006**	**85,957,900**

		(SR '000) Maximum exposure		
		Investment, net of provisions	Derivatives financial instruments, (positive fair value)	Total
2006				
1.	Government and quasi Government	34,248,984	-	34,248,984
2.	Corporate	20,423,741	1,006	20,424,747
3.	Banks and other financial institutions	3,257,376	263,486	3,520,862
4.	Others	64,199	-	64,199
Net maximum exposure		57,994,300	264,492	58,258,792

33. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Risk Management Committee of the Board of Directors. The Bank's Risk Management Division is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

a) MARKET RISK-TRADING PORTFOLIO

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 1-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using market data for the last one year.

The Bank uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The bank also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading portfolios. The daily reports of utilisation of VaR limits are submitted to the senior management of the Bank. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Management Committee of the Board.

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

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

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

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

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

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank uses stress tests to model the financial impact of exceptional market scenarios on individual trading portfolios and the Bank's overall trading position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

33. MARKET RISK (continued)

a) MARKET RISK-TRADING BOOK (continued)

The table below shows Bank's VaR related information for the year ended 31 December 2007 and 2006 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
2007	**Foreign exchange**	**Special commission rate**	**Total**	**FVIS**
VaR as at 31 December 2007	**1,410**	**1,132**	**2,542**	**263,832**
Average VaR for 2007	**917**	**223**	**1,140**	**325,879**
Maximum (highest)	**4,095**	**1,156**	**5,251**	**448,494**
Minimum (lowest)	**57**	**27**	**84**	**164,531**

	(SR '000) Held for Trading			
2006	Foreign exchange	Special commission rate	Total	FVIS
VaR as at 31 December 2006	1,383	93	1,476	159,897
Average VaR for 2006	716	144	860	151,727
Maximum (highest)	3,011	380	3,391	178,049
Minimum (lowest)	61	68	129	111,190

b) MARKET RISK - NON TRADING BOOK

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

b-1.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Bank's Assets Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commision bearing non-trading financial assets and financial liabilities held as at December 31, 2007, including the effect of hedging instruments. The sensitivity of the Bank's equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at December 31, 2007 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All the non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

33. MARKET RISK (continued)

b) **MARKET RISK - NON TRADING BOOK (continued)**

b-1.1) SPECIAL COMMISSION RATE RISK (continued)

2007	**Increase / Decrease in basis points**	**Sensitivity of special commission income**	**SR '000 Sensitivity of shareholder's equity (other reserves)**				
Currency			**0-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
SR	**±10**	**± 11,903**	± 39	-	± 10,687	-	± 10,726
USD	**±10**	**± 9,641**	± 3	-	± 12,240	± 74,891	± 87,134
EUR	**±15**	**± 1,946**	-	-	-	**± 290**	**± 290**
GBP	±25	**± 276**	-	-	-	-	-
JPY	**±10**	**± 372**	-	-	-	-	-

2006	Increase / Decrease in basis points	Sensitivity of special commission income	SR '000 Sensitivity of shareholder's equity (other reserves)				
Currency			0-6 months	6-12 months	1-5 years	Over 5 years	Total
SR	±10	± 9,669	-	-	± 9,356	-	± 9,356
USD	±10	± 5,850	-	-	± 10,197	± 17,848	± 28,045
EUR	±15	± 459	-	-	-	-	-
GBP	±25	± 961	-	-	-	-	-
JPY	±10	± 112	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

33. MARKET RISK (continued)

b) MARKET RISK - NON TRADING BOOK (continued)

b-1.2) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Bank manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off- balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Bank's exposure to special commission rate risks.

2007	SR '000 Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total	Effective special commission rate
Assets							
Cash and balances with SAMA	12,665,593	-	-	-	9,338,545	22,004,138	-
Due from banks and other financial institutions	5,129,688	710,963	-	-	1,284,768	7,125,419	4.91%
Investments, net	22,672,172	6,455,338	19,293,855	25,540,036	11,642,493	85,603,894	5.27%
Loans and advances, net	25,629,308	13,026,588	35,033,567	13,636,535	528,077	87,854,075	6.36%
Investment in associates, net	-	-	-	-	905,234	905,234	-
Other real estate, net	-	-	-	554	269,167	269,721	-
Property and equipment, net	-	-	-	10,091	1,758,138	1,768,229	-
Other assets	-	-	-	3,270	3,183,170	3,186,440	-
Total assets	66,096,761	20,192,889	54,327,422	39,190,486	28,909,592	208,717,150	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	22,402,363	614,673	-	-	5,469,815	28,486,851	4.73%
Customers' deposits	49,058,488	8,491,373	1,856,320	-	83,419,281	142,825,462	4.48%
Debt securities issued	2,623,029	-	-	-	-	2,623,029	5.68%
Other liabilities	-	-	-	-	5,172,160	5,172,160	-
Shareholders' equity	-	-	-	-	29,531,088	29,531,088	-
Minority interest	-	-	-	-	78,560	78,560	-
Total liabilities and shareholders' equity	74,083,880	9,106,046	1,856,320	-	123,670,904	208,717,150	
On-balance sheet gap	(7,987,119)	11,086,843	52,471,102	39,190,486	(94,761,312)		
Off-balance sheet gap	(2,809,500)	1,157,137	(904,134)	2,650,246	(93,749)		
Total special commission rate sensitivity gap	(10,796,619)	12,243,980	51,566,968	41,840,732	(94,855,061)		
Cumulative special commission rate sensitivity gap	(10,796,619)	1,447,361	53,014,329	94,855,061	-		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

33. MARKET RISK (continued)

b) MARKET RISK - NON TRADING BOOK (continued)

b-1.2) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

SR '000

2006	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total	Effective special commission rate
Assets							
Cash and balances with SAMA	915,804	-	-	-	6,900,758	7,816,562	-
Due from banks and other financial institutions	6,757,870	-	1,692	-	938,952	7,698,514	4.99%
Investments, net	8,537,490	7,401,763	14,760,260	14,249,841	13,044,946	57,994,300	4.77%
Loans and advances, net	36,841,804	9,544,482	16,653,596	13,922,558	282,093	77,244,533	7.09%
Investment in associates, net	-	-	-	-	884,122	884,122	-
Other real estate, net	-	-	-	-	359,684	359,684	-
Property and equipment, net	-	-	-	-	1,578,783	1,578,783	-
Other assets	-	-	-	-	2,129,662	2,129,662	-
Total assets	53,052,968	16,946,245	31,415,548	28,172,399	26,119,000	155,706,160	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	6,109,450	500,190	5,081	-	292,317	6,907,038	5.10%
Customers' deposits	44,880,964	9,543,590	425,498	-	62,649,296	117,499,348	4.88%
Debt securities issued	2,622,320	-	-	-		2,622,320	5.37%
Other liabilities	-	-	-	-	4,678,101	4,678,101	-
Shareholders' equity	-	-	-	-	23,999,353	23,999,353	-
Total liabilities and shareholders' equity	53,612,734	10,043,780	430,579	-	91,619,067	155,706,160	
On-balance sheet gap	(559,766)	6,902,465	30,984,969	28,172,399	(65,500,067)		
Off-balance sheet gap	(1,890,161)	169,322	1,998,668	(277,829)			
Total special commission rate sensitivity gap	(2,449,927)	7,071,787	32,983,637	27,894,570	(65,500,067)		
Cumulative special commission rate sensitivity gap	(2,449,927)	4,621,860	37,605,497	65,500,067	-		

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

33. MARKET RISK (continued)

b) MARKET RISK - NON TRADING BOOK (continued)

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

At the year end, the Bank had the following significant net exposures denominated in foreign currencies:

	2007 SR '000 Long (short)	2006 SR '000 Long (short)
US Dollar	**(1,204,725)**	(2,004,889)
JPY	**235,028**	(217,586)
EUR	**148,902**	26,735
GBP	**65,775**	76,145

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Bank was exposed to currency risk at 31 December 2007 on its foreign currency positions. The analysis is performed for reasonably possible movement of the currency rate against the Saudi riyal with all other variable held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

	2007 SR '000		2006 SR '000	
Currency	**Increase/ Decrease in currency rate in %**	**Effect on profit**	Increase/ Decrease in currency rate in %	Effect on profit
US Dollar	**± 10%**	∓ 120,473	± 10%	∓ 200,489
JPY	**± 10%**	**± 23,503**	± 10%	∓ 21,759
EUR	**± 10%**	**± 14,890**	± 10%	± 2,674
GBP	**± 10%**	**± 6,578**	± 10%	± 7,614

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

33. MARKET RISK (continued)

b) **MARKET RISK - NON TRADING BOOK (continued)**

iii) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2007 and 2006 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2007 SR '000		2006 SR '000	
Market index	**Increase / Decrease in index %**	**Effect on shareholders' equity (other reserves)**	Increase / Decrease in index %	Effect on shareholders' equity (other reserves)
Saudi local shares index (Tadawul)	**± 20%**	**± 564,422**	± 49%	± 1,159,640

In addition, the Bank is also at risk should individual positions change in fair value relative to the index.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

34. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 9% of total demand deposits and 2% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short term bank deposits and liquid debt securities available for immediate sale and saudi government bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2007	2006
	%	%
As at 31 December	**49%**	43%
Average during the year	**43%**	44%
Highest	**49%**	47%
Lowest	**40%**	41%

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 and 2006 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 on the basis of the remaining period at the consolidated balance sheet date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (b) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

34. LIQUIDITY RISK (continued)

a) Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
			SR '000			
As at 31 December 2007						
Due to banks and other financial institutions	**5,343,663**	**22,582,911**	**631,208**	**3,905**	**-**	**28,561,687**
Customers' deposits	**82,848,756**	**49,486,703**	**8,661,400**	**2,122,221**	**-**	**143,119,080**
Debt securities issued	**-**	**36,282**	**108,847**	**2,891,878**	**-**	**3,037,007**
Derivative financial instruments (gross contractual amounts payable)	**597,741**	**1,617,903**	**517,880**	**4,461,830**	**-**	**7,195,354**
Total undiscounted financial liabilities 2007	**88,790,160**	**73,723,799**	**9,919,335**	**9,479,834**	**-**	**181,913,128**

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			SR '000			
As at 31 December 2006						
Due to banks and other financial institutions	2,032,210	4,766,657	126,781	-	-	6,925,648
Customers' deposits	61,771,599	45,998,599	8,324,261	1,975,627	18,750	118,088,836
Debt securities issued	-	37,293	113,060	3,037,007	-	3,187,360
Derivative financial instruments (gross contractual amounts payable)	191,400	169,734	643,268	3,934,637	-	4,939,039
Total undiscounted financial liabilities 2006	63,995,209	50,972,283	9,207,370	8,947,271	18,750	133,140,883

The contractual maturity structure of the Bank's credit-related contingencies and commitments are shown under note (20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

34. LIQUIDITY RISK (continued)

b) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Bank's contractual undiscounted financial liabilities.

(SR '000)

2007	Less than 12 months			More than 1 year				
	Less than 3 months	3 to 12 months	Sub total	1 to 5 years	Over 5 years	Sub total	No-fixed maturity	Total
Assets								
Cash and balances with SAMA	13,045,111	554,111	13,599,222	935,028	7,469,888	8,404,916	-	22,004,138
Due from banks and other financial institutions	3,619,648	578,675	4,198,323	685,250	2,241,846	2,927,096	-	7,125,419
Investments, net	15,115,559	14,064,650	29,180,209	24,400,541	28,477,655	52,878,196	3,545,489	85,603,894
Loans and advances, net	23,618,699	13,070,281	36,688,980	36,932,983	13,804,568	50,737,551	427,544	87,854,075
Investment in associates, net	-	-	-	-	-	-	905,234	905,234
Other real estate, net	-	-	-	-	-	-	269,721	269,721
Property and equipment, net	-	-	-	-	-	-	1,768,229	1,768,229
Other assets	93,469	376,893	470,362	297,273	548,874	846,147	1,869,931	3,186,440
Total assets	55,492,486	28,644,610	84,137,096	63,251,075	52,542,831	115,793,906	8,786,148	208,717,150
Liabilities and shareholders' equity								
Due to banks and other financial institutions	22,804,172	872,696	23,676,868	537,973	4,272,010	4,809,983	-	28,486,851
Customers' deposits	58,456,726	12,650,819	71,107,545	9,587,966	62,129,951	71,717,917	-	142,825,462
Debt securities issued	2,623,029	-	2,623,029	-	-		-	2,623,029
Other liabilities	1,032,492	82,875	1,115,367	61,383	128,397	189,780	3,867,013	5,172,160
Total liabilities	84,916,419	13,606,390	98,522,809	10,187,322	66,530,358	76,717,680	3,867,013	179,107,502
Total shareholders' equity	-	-	-	-	-	-	29,609,648	29,609,648
Total liabilities and shareholders' equity	84,916,419	13,606,390	98,522,809	10,187,322	66,530,358	76,717,680	33,476,661	208,717,150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

34. LIQUIDITY RISK (continued)

b) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(SR '000)

2006	Less than 12 months			More than 1 year				
	Less than 3 months	3 to 12 months	Sub total	1 to 5 years	Over 5 years	Sub total	No-fixed maturity	Total
Assets								
Cash and balances with SAMA	1,149,933	455,750	1,605,683	691,470	5,519,409	6,210,879	-	7,816,562
Due from banks and other financial institutions	6,616,191	29,988	6,646,179	234,458	817,877	1,052,335	-	7,698,514
Investments, net	4,983,349	10,581,866	15,565,215	23,982,699	15,726,143	39,708,842	2,720,243	57,994,300
Loans and advances, net	14,916,504	29,178,160	44,094,664	18,791,596	14,251,936	33,043,532	106,337	77,244,533
Investment in associates, net	-	-	-	884,122	-	884,122	-	884,122
Other real estate, net	-	-	-	-	-	-	359,684	359,684
Property and equipment, net	-	-	-	-	-	-	1,578,783	1,578,783
Other assets	191,187	316,521	507,708	252,286	452,442	704,728	917,226	2,129,662
Total assets	27,857,164	40,562,285	68,419,449	44,836,631	36,767,807	81,604,438	5,682,273	155,706,160
Liabilities and shareholders' equity								
Due to banks and other financial institutions	4,578,499	502,525	5,081,024	200,246	1,625,768	1,826,014	-	6,907,038
Customers' deposits	52,207,525	13,697,347	65,904,872	5,732,720	45,861,756	51,594,476	-	117,499,348
Debt securities issued	-	-	-	2,622,320	-	2,622,320	-	2,622,320
Other liabilities	901,716	223,105	1,124,821	109,888	-	109,888	3,443,392	4,678,101
Total liabilities	57,687,740	14,422,977	72,110,717	8,665,174	47,487,524	56,152,698	3,443,392	131,706,807
Total shareholders' equity	-	-	-	-	-	-	23,999,353	23,999,353
Total liabilities and shareholders' equity	57,687,740	14,422,977	72,110,717	8,665,174	47,487,524	56,152,698	27,442,745	155,706,160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

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

2007	(SR '000)				
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Other countries	Total
Assets					
Cash and balances with SAMA	21,685,652	1,339	52,450	264,697	22,004,138
Due from banks and other financial institutions	2,984,530	327,332	1,525,483	2,288,074	7,125,419
Investments, net	47,315,629	1,612,669	5,372,671	31,302,925	85,603,894
Loans and advances, net	85,519,450	630,521	1,340,526	363,578	87,854,075
Investment in associates, net	905,234	-	-	-	905,234
Total	158,410,495	2,571,861	8,291,130	34,219,274	203,492,760
Liabilities					
Due to banks and other financial institutions	2,142,425	11,718,634	13,480,322	1,145,470	28,486,851
Customers' deposits	139,767,395	530,551	2,217,400	310,116	142,825,462
Debt securities issued	-	-	2,623,029	-	2,623,029
Total	141,909,820	12,249,185	18,320,751	1,455,586	173,935,342
Commitments and contingencies	18,743,009	3,438,869	2,290,956	8,322,587	32,795,421
Credit exposure (credit equivalent):					
Commitments and contingencies	8,884,907	1,290,882	1,074,971	2,816,979	14,067,739
Derivatives	506,908	108,546	618,767	219,999	1,454,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

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

2006	(SR '000)				
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Other countries	Total
Assets					
Cash and balances with SAMA	7,495,652	835	2,643	317,432	7,816,562
Due from banks and other financial institutions	1,285,456	1,233,456	4,608,952	570,650	7,698,514
Investments, net	37,649,765	1,522,935	6,302,030	12,519,570	57,994,300
Loans and advances, net	76,504,502	157,215	486,570	96,246	77,244,533
Investment in associates, net	884,122	-	-	-	884,122
Total	123,819,497	2,914,441	11,400,195	13,503,898	151,638,031
Liabilities					
Due to banks and other financial institutions	1,618,517	3,468,962	595,155	1,224,404	6,907,038
Customers' deposits	114,083,717	296,676	3,045,327	73,628	117,499,348
Debt securities issued	-	-	2,622,320	-	2,622,320
Total	115,702,234	3,765,638	6,262,802	1,298,032	127,028,706
Commitments and contingencies	17,527,008	2,232,914	1,297,793	5,646,373	26,704,088
Credit exposure (credit equivalent):					
Commitments and contingencies	8,080,293	711,895	636,311	2,644,534	12,073,033
Derivatives	423,900	103,211	293,688	62,240	883,039

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

36. 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. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for loans and advances, customers' deposits which are carried at amortized cost as well as investments held at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortized 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, structured credit and investments where no quoted prices are available. The fair values of these investments are disclosed in note (6).

The fair values of derivatives are based on the quoted market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

37. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(i) The balances as at 31 December included in the financial statements are as follows:

	2007 SR '000	2006 SR '000
Board of Directors, key management personnel and major shareholders		
Loans and advances	**143,742**	189,199
Customers' deposits	**21,436,075**	20,222,942
Commitment and contingencies	**6,146**	14,932
Other liabilities - end of service benefits	**13,273**	12,196
Bank's mutual funds:		
Investments	**981,244**	728,274
Customers' deposits	**1,288,162**	7,566,371

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

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

	2007 SR '000	2006 SR '000
Special commission income	**23,457**	12,313
Special commission expense	**1,258,451**	815,659

(iii) The total cost of compensation of key management personnel including Board of Directors' remuneration, allowances and expenses during the year is as follows:

	2007 SR '000	2006 SR '000
Short-term employee benefits	**62,241**	65,144
End of service benefits	**1,257**	1,263

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

Board of Directors include the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

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

	Regulatory capital		Capital adequacy ratio	
	2007	2006	**2007**	2006
	SR '000	SR '000	**%**	%
Core capital (Tier 1)	**29,609,648**	23,999,353	**24.0**	25.6
Core and supplementary capital (Tier 1 and Tier 2)	**31,048,124**	25,172,735	**25.1**	26.8

Tier 1 capital of the Bank comprises share capital, statutory, general and other reserves, retained earnings, proposed dividend and minority interest as at the year end. Tier 2 capital comprises a prescribed amount of eligible portfolio provisions.

Risk weighted assets

	2007 SR '000			2006 SR '000		
	Carrying value/ notional	**Credit equivalent**	**Risk weighted assets**	Carrying value/ notional	Credit equivalent	Risk weighted assets
Balance sheet assets						
0%	**87,960,371**	**-**	**-**	63,560,608	-	-
20%	**9,970,684**	**-**	**1,994,137**	9,634,371	-	1,926,874
100%	**112,224,571**	**-**	**112,224,571**	83,926,126	-	83,926,126
Sub-total	**210,155,626**	**-**	**114,218,708**	157,121,105	-	85,853,000
Commitment and contingencies						
0%	**843,803**	**843,777**	**-**	1,012,656	1,010,521	-
20%	**14,109,117**	**5,304,113**	**1,060,823**	9,223,259	4,032,729	806,546
100%	**16,295,483**	**7,919,849**	**7,919,849**	15,070,789	7,029,783	7,029,783
Sub-total	**31,248,403**	**14,067,739**	**8,980,672**	25,306,704	12,073,033	7,836,329
Derivatives						
0%	-	-	-	-	-	-
20%	**68,912,214**	**1,396,774**	**279,355**	44,482,464	867,563	173,513
50%	**2,872,289**	**57,446**	**28,723**	773,805	15,476	7,738
Sub-total	**71,784,503**	**1,454,220**	**308,078**	45,256,269	883,039	181,251
Total	**313,188,532**	**15,521,959**	**123,507,458**	227,684,078	12,956,072	93,870,580

The Bank is ready to implement Basle II effective 1 January 2008 as stipulated by SAMA. The parallel run was successfully done.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

39. INVESTMENT SERVICES

The Bank offers investment management services to its customers. These services include the management of mutual funds with assets totaling SR 28,853 million (2006: SR 25,668 million). All but three of these funds comply with *Shariah* rules and are subject to *Shariah* control on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

40. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

IFRS 8 "Operating Segments" has been published in its final form and is mandatory for compliance for the accounting year beginning 1 January 2009. It replaces IAS 14 on segment reporting. IAS 1 "Presentation of financial statements" has been revised and is mandatory for compliance for the accounting year beginning from 1 January 2009. The application of revised IAS 1 will result in amendments to the presentation of the financial statements. The Bank will apply the revised IAS 1 and IFRS 8 in 2009.

41. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 22 January 2008 (corresponding to 13 Muharram 1429H).