

Auditors' Report



**Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.**

**To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)**

We have audited the accompanying financial statements of Arab National Bank (the "Bank"), which comprise the balance sheet as at December 31, 2007, and the statement of income, statement of changes in shareholders' equity and 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 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. 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 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 Bank'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 Bank'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.

Opinion

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

- present fairly, in all material respects, the financial position of the Bank as at December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- Comply with 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.

Ernst & Young
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277

**Deloitte & Touche
Bakr Abulkhair & Co.**
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia

Ehsan A. Makhdom
Certified Public Accountant
Registration No. 358



Balance Sheet

As at December 31, 2007 and 2006

	Notes	2007 SAR' 000	2006 SAR' 000
Assets			
Cash and balances with SAMA	3	8,228,376	3,216,007
Due from banks and other financial institutions	4	1,293,967	4,633,337
Investments, net	5	21,024,805	18,291,558
Loans and advances, net	6	61,121,911	49,747,224
Investment in associate	7	200,000	-
Other real estate		155,855	155,127
Property and equipment, net	8	773,664	586,251
Other assets	9	1,668,983	1,405,879
Total assets		94,467,561	78,035,383
Liabilities and Shareholders' equity			
Liabilities			
Due to banks and other financial institutions	11	4,447,174	3,098,603
Customers' deposits	12	73,692,139	61,773,494
Other liabilities	13	2,616,151	1,995,648
Term Loan	14	1,312,500	1,312,500
Debt securities in issue	14	1,875,000	1,875,000
Total liabilities		83,942,964	70,055,245
Shareholders' equity			
Share capital	15	4,550,000	3,250,000
Statutory reserve	16	3,766,000	3,150,000
General reserve	16	1,950,000	1,300,000
Other reserves		171,618	19,841
Retained earnings		86,979	260,297
Total shareholders' equity		10,524,597	7,980,138
Total liabilities and shareholders' equity		94,467,561	78,035,383

Statement of Income

For the years ended December 31, 2007 and 2006

	Notes	2007 SAR' 000	2006 SAR' 000
Special commission income	18	5,416,757	4,659,311
Special commission expense	18	2,512,838	2,134,354
Net special commission income		2,903,919	2,524,957
Fees from banking services, net	19	776,361	986,501
Exchange income, net		200,863	134,955
Income from FVIS financial instruments, net	20	45,987	29,745
Trading income, net	21	8,934	2,612
Dividend income	22	5,451	-
(Losses) gains and impairment on non-trading investments, net	23	(17,607)	106,033
Other operating income	24	32,351	70,569
Total operating income		3,956,259	3,855,372
Salaries and employee related expenses		843,076	770,468
Rent and premises related expenses		104,705	80,465
Depreciation and amortization	8	119,813	84,107
Other general and administrative expenses		360,329	332,621
Provision for credit losses	6	67,134	82,986
Total operating expenses		1,495,057	1,350,647
Net income for the year		2,461,202	2,504,725
Basic and fully diluted earnings (in SAR per share)	25	5.41	5.50

Statement of Changes in Shareholders' Equity

For the years ended December 31, 2007 and 2006

2007	Notes	Share capital SAR' 000	Statutory reserve SAR' 000	General reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000
Balance at beginning of the year		3,250,000	3,150,000	1,300,000	19,841	260,297	-	7,980,138
Net changes in fair value of cash flow hedges					17,445	-	-	17,445
Net changes in fair values of available for sale investments					326,833	-	-	326,833
Transfers to statement of income					(192,501)	-	-	(192,501)
Net income recognized directly in equity					151,777	-	-	151,777
Net income for the year					-	2,461,202	-	2,461,202
Total recognized income for the year					151,777	2,461,202	-	2,612,979
Bonus shares issue	15	1,300,000	-	(1,300,000)	-	-	-	-
Transfer to statutory reserve	16	-	616,000	-	-	(616,000)	-	-
Transfer to general reserve	16	-	-	1,950,000	-	(1,950,000)	-	-
Zakat	26	-	-	-	-	(68,520)	-	(68,520)
Balance at end of the year		4,550,000	3,766,000	1,950,000	171,618	86,979	-	10,524,597
2006								
Balance at beginning of the year		2,500,000	2,500,000	780,000	217,690	64,242	274,747	6,336,679
Net changes in fair value of cash flow hedges					1,191	-	-	1,191
Net changes in fair values of available for sale investments					(96,074)	-	-	(96,074)
Transfers to statement of income					(102,966)	-	-	(102,966)
Net expense recognized directly in equity					(197,849)	-	-	(197,849)
Net income for the year					-	2,504,725	-	2,504,725
Total recognized (expense) income for the year					(197,849)	2,504,725	-	2,306,876
Bonus shares issue	15	750,000	-	(750,000)	-	-	-	-
Transfer to statutory reserve	16	-	650,000	-	-	(650,000)	-	-
Transfer to general reserve	16	-	-	1,270,000	-	(1,270,000)	-	-
2005 final dividend paid	26	-	-	-	-	-	(274,747)	(274,747)
2006 interim net dividend paid	26	-	-	-	-	(325,000)	-	(325,000)
Zakat	26	-	-	-	-	(63,670)	-	(63,670)
Balance at end of the year		3,250,000	3,150,000	1,300,000	19,841	260,297	-	7,980,138

Statement of Cash Flows

For the years ended December 31, 2007 and 2006

	Notes	2007 SAR' 000	2006 SAR' 000
Operating activities			
Net income		2,461,202	2,504,725
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Accretion of discounts on non-trading investments, net		(23,382)	(19,037)
Losses (gains) and impairment on non-trading investments, net	23	17,607	(106,033)
Depreciation and amortization	8	119,813	84,107
Gains on disposal of property and equipment, net	24	(419)	(32,414)
Provision for credit losses	6	67,134	82,986
Total		2,641,955	2,514,334
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(1,077,870)	(297,230)
Due from banks and other financial institutions maturing after ninety days		(858,413)	(37,500)
Loans and advances		(11,405,774)	(11,027,136)
Other real estate		(728)	3,739
Other assets		(180,656)	(150,554)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,348,571	(5,278,331)
Customers' deposits		11,918,278	12,944,675
Other liabilities		439,212	(699,425)
Net cash from (used in) operating activities		2,824,575	(2,027,428)
Investing activities			
Proceeds from sale of and matured non-trading investments		4,194,360	4,771,633
Purchase of non-trading investments		(6,771,904)	(2,694,463)
Investment in associate	7	(200,000)	-
Purchase of property and equipment	8	(307,912)	(270,742)
Proceeds from sale of property and equipment		1,105	50,906
Net cash (used in) from investing activities		(3,084,351)	1,857,334
Financing activities			
Debt securities in issue	14	-	1,875,000
Dividends paid		(3,508)	(619,153)
Net cash (used in) from financing activities		(3,508)	1,255,847
(Decrease) increase in cash and cash equivalents		(263,284)	1,085,753
Cash and cash equivalents at the beginning of the year		5,723,943	4,638,190
Cash and cash equivalents at the end of the year	27	5,460,659	5,723,943
Special commission received during the year		5,275,152	4,511,198
Special commission paid during the year		2,454,072	1,970,017
Supplemental non-cash information			
Net changes in fair value		344,278	(94,883)

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

Notes to the Financial Statements

For the years ended December 31, 2007 and 2006

(Saudi Riyals in Thousands)

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (January 19, 1980) through 123 branches (2006: 116 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

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

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

In accordance with the Capital Market Authority directives, the Bank has formed a new capital market company, "ANB Invest", a Saudi Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on 26 Shawal 1428 (corresponding to November 7, 2007). The bank has 98% ownership interest in its subsidiary. The subsidiary will takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority, as from the date of incorporation of the Subsidiary which commenced its operation on Moharram 3, 1429H (January 12, 2008).

2. Summary of significant accounting policies

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

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

a) Basis of preparation

The 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 financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

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

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, wherever applicable. IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. 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 equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

These financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

b) Critical accounting judgements and estimates

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

(i) Impairment losses on loans & advances

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

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

(ii) Fair value of unquoted financial instruments

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

(iii) Impairment of available for-sale equity investments

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

(iv) Classification of held-to-maturity investments

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

c) Investment in associate

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

d) Trade date accounting

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

e) Derivative financial instruments and hedging

Derivatives held for trading

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

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

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

Derivatives held as hedging instruments

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

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

For the years ended December 31, 2007 and 2006

(Saudi Riyals in Thousands)

2. Summary of significant accounting policies (continued)

e) Derivative financial instruments and hedging (continued)

(i) Fair value hedges

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

(ii) Cash flow hedges

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 statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition and related costs of the asset or liability.

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

f) Foreign currencies

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

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

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

g) Offsetting

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

h) Revenue and expenses recognition

Special commission income and expense for all commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the statement of income on the effective yield basis and include premiums amortised and discounts accreted during the year. The effective yield is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective commission rate but not future credit losses. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the loan.

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

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

Exchange income is recognized when earned.

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

Dividend income is recognized when declared.

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

i) Sale and repurchase agreements

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

j) Investments

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

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

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

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Held at Fair Value Through Income Statement (FVIS)

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

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

(ii) Available for sale

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

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

Notes to the Financial Statements

For the years ended December 31, 2007 and 2006

(Saudi Riyals in Thousands)

2. Summary of significant accounting policies (continued)

j) Investments (continued)

(iii) Held to maturity

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

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

(iv) Other investments held at amortized cost

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

k) Loans and advances

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

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held as FVIS.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged are classified as loan and advances held at amortized cost and are stated at cost less any amount written off and provisions for impairment. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

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

l) Impairment of financial assets

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

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

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

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

(i) Impairment of financial assets held at amortized cost

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

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

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

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

(ii) Impairment of financial assets held at fair value

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

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

m) Other real estate

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

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

n) Property and equipment

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

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

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

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

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

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

o) Liabilities

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

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

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

p) 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.

Notes to the Financial Statements

For the years ended December 31, 2007 and 2006

(Saudi Riyals in Thousands)

2. Summary of significant accounting policies (continued)

q) Accounting for leases

(i) Where the Bank is the lessee

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

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

(ii) Where the Bank is the lessor

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

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 deposit, and due from banks and other financial institutions maturing within three months or less.

s) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other Liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

t) Derecognition of financial instruments

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

In instances where the bank is assessed to have transferred a financial asset, the asset is derecognized if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) is derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

u) Zakat and income taxes

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

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

v) Non interest based banking products

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

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

w) Prospective changes in accounting policies

Certain new IFRS and amendments and interpretations to existing IFRS, have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2008 These include:

IFRS 8 Operating segments

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

IAS 1 Presentation of financial statements

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

3. Cash and balances with SAMA

	2007	2006
Cash in hand	965,119	1,115,144
Statutory deposit	3,165,771	2,087,901
Money market placements	3,893,567	999
Other balances	203,919	11,963
Total	8,228,376	3,216,007

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

4. Due from banks and other financial institutions

	2007	2006
Current accounts	558,367	436,945
Money market placements	735,600	4,196,392
Total	1,293,967	4,633,337

Notes to the Financial Statements

For the years ended December 31, 2007 and 2006

(Saudi Riyals in Thousands)

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		International		Total	
	2007	2006	2007	2006	2007	2006
(i) Held at fair value through income statement						
Mutual funds and others	-	-	1,076,941	599,403	1,076,941	599,403
Held as fair value through income statement	-	-	1,076,941	599,403	1,076,941	599,403
(ii) Available for sale						
Fixed rate securities	115,782	113,758	4,035,220	3,055,366	4,151,002	3,169,124
Floating rate notes	825,498	60,036	113,049	231,119	938,547	291,155
Equities	408,890	283,380	37,741	-	446,631	283,380
Other	370,761	326,650	225,400	816,931	596,161	1,143,581
Available for sale	1,720,931	783,824	4,411,410	4,103,416	6,132,341	4,887,240
(iii) Held to maturity						
Fixed rate securities	2,429,532	433,875	-	-	2,429,532	433,875
Held to maturity	2,429,532	433,875	-	-	2,429,532	433,875
(iv) Other investments held at amortized cost						
Fixed rate securities	8,282,802	8,208,058	154,409	244,648	8,437,211	8,452,706
Floating rate notes	265,000	465,000	2,126,075	2,666,762	2,391,075	3,131,762
Other	-	-	786,563	805,322	786,563	805,322
Held at amortized cost, gross	8,547,802	8,673,058	3,067,047	3,716,732	11,614,849	12,389,790
Allowance for impairment	-	-	(228,858)	(18,750)	(228,858)	(18,750)
Held at amortized cost, net	8,547,802	8,673,058	2,838,189	3,697,982	11,385,991	12,371,040
Investments, net	12,698,265	9,890,757	8,326,540	8,400,801	21,024,805	18,291,558

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

	2007			2006		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	767,087	14,250,657	15,017,744	1,645,165	10,410,538	12,055,703
Floating rate notes	534,187	2,795,436	3,329,623	246,994	3,175,924	3,422,918
Equities	407,890	38,741	446,631	282,380	1,000	283,380
Other	404,958	2,054,707	2,459,665	653,582	1,894,725	2,548,307
Allowance for impairment	-	(228,858)	(228,858)	-	(18,750)	(18,750)
Investments, net	2,114,122	18,910,683	21,024,805	2,828,121	15,463,437	18,291,558

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

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

	2007				2006			
	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value
(i) Held to maturity								
Fixed rate securities	2,429,532	31,325	116	2,460,741	433,875	24,820	-	458,695
Total	2,429,532	31,325	116	2,460,741	433,875	24,820	-	458,695
(ii) Other investments held at amortized cost								
Fixed rate securities	8,437,211	184,016	11,280	8,609,947	8,452,706	61,705	58,300	8,456,111
Floating rate notes	2,391,076	598	71,433	2,320,241	3,131,762	866	53,897	3,078,731
Other	786,562	-	213,251	573,311	805,322	-	-	805,322
Allowance for impairment	(228,858)	-	-	(228,858)	(18,750)	-	-	(18,750)
Total	11,385,991	184,614	295,964	11,274,641	12,371,040	62,571	112,197	12,321,414

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

	2007	2006
Government and quasi government	15,720,105	12,420,738
Corporate	957,846	678,663
Banks and other financial institutions	3,941,896	4,788,296
Other	404,958	403,861
Total	21,024,805	18,291,558

Investments include SAR 3,886 million (2006: SAR 5,333 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 3,989 million (2006: SAR 5,355 million).

e) Movement in the provision for impairment of investments

	2007	2006
Balance at beginning of the year	18,750	18,750
Provided during the year	228,858	-
Recoveries of amounts previously provided	(18,750)	-
Balance at end of the year	228,858	18,750

Notes to the Financial Statements

For the years ended December 31, 2007 and 2006

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6. Loans and advances, net

a) Loans and advances comprise of the following:

	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
2007				
Performing loans and advances, gross	1,686,136	16,619,839	43,615,933	61,921,908
Non-performing loans and advances, net	27,504	37,699	249,701	314,904
Total Loans and advances	1,713,640	16,657,538	43,865,634	62,236,812
Provision for credit losses	(19,847)	(232,879)	(862,175)	(1,114,901)
Loans and advances, net	1,693,793	16,424,659	43,003,459	61,121,911
2006				
Performing loans and advances, gross	1,523,680	16,444,098	32,594,793	50,562,571
Non-performing loans and advances, net	18,005	29,539	322,180	369,724
Total Loans and advances	1,541,685	16,473,637	32,916,973	50,932,295
Provision for credit losses	(18,610)	(221,280)	(945,181)	(1,185,071)
Loans and advances, net	1,523,075	16,252,357	31,971,792	49,747,224

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

	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
2007				
Balance at beginning of the year	18,610	221,280	945,181	1,185,071
Provided during the year	62,600	72,656	29,464	164,720
Recovering of amounts previously provided	(9,227)	-	(88,359)	(97,586)
Bad debts written off	(52,136)	(61,057)	(24,111)	(137,304)
Balance at end of the year	19,847	232,879	862,175	1,114,901
2006				
Balance at beginning of the year	11,267	239,739	1,447,643	1,698,649
Provided during the year	13,680	54,522	44,784	112,986
Recovering of amounts previously provided	-	(18,000)	(12,000)	(30,000)
Bad debts written off	(6,337)	(54,981)	(535,246)	(596,564)
Balance at end of the year	18,610	221,280	945,181	1,185,071

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

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

	Performing gross	Non performing, net	Credit loss provision	Loans and advances, net
2007				
1. Government and quasi government	48,214	-	-	48,214
2. Banks and other financial institutions	3,115,213	-	-	3,115,213
3. Agriculture and fishing	881,127	-	(45,000)	836,127
4. Industrial Manufacture	9,742,685	126,900	(281,509)	9,588,076
5. Mining and quarrying	671,414	-	-	671,414
6. Electricity, water, gas and health services	1,115,638	-	-	1,115,638
7. Building and construction	5,549,983	26,018	(118,851)	5,457,150
8. Commerce	6,977,168	27,560	(43,226)	6,961,502
9. Transportation and communication	2,314,578	-	(3,316)	2,311,262
10. Services	1,274,506	9,697	(10,356)	1,273,847
11. Consumer loans and credit cards	18,305,975	37,699	(55,015)	18,288,659
12. Other	11,925,407	87,030	(26,449)	11,985,988
	61,921,908	314,904	(583,722)	61,653,090
13. Portfolio provision	-	-	(531,179)	(531,179)
Total	61,921,908	314,904	(1,114,901)	61,121,911
2006				
1. Government and quasi government	60,642	-	-	60,642
2. Banks and other financial institutions	4,191,378	-	-	4,191,378
3. Agriculture and fishing	510,813	7,774	(26,722)	491,865
4. Manufacturing	5,706,244	157,094	(259,654)	5,603,684
5. Mining and quarrying	285,181	-	(9)	285,172
6. Electricity, water, gas and health services	1,715,551	-	-	1,715,551
7. Building and construction	4,060,579	71,359	(117,510)	4,014,428
8. Commerce	5,925,995	24,672	(63,253)	5,887,414
9. Transportation and communication	1,648,687	-	(3,316)	1,645,371
10. Services	769,115	16,850	(11,582)	774,383
11. Consumer loans and credit cards	17,777,416	47,544	(39,352)	17,785,608
12. Other	7,910,970	44,431	(47,902)	7,907,499
	50,562,571	369,724	(569,300)	50,362,995
13. Portfolio provision	-	-	(615,771)	(615,771)
Total	50,562,571	369,724	(1,185,071)	49,747,224

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7. Investment in associate

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

8. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment furniture and vehicles	Total 2007	Total 2006
Cost					
Balance at beginning of the year	427,336	299,753	543,022	1,270,111	1,020,519
Additions	70,425	78,821	158,666	307,912	270,742
Disposals	(540)	(4,024)	(12,205)	(16,769)	(21,150)
Balance at end of the year	497,221	374,550	689,483	1,561,254	1,270,111
Accumulated depreciation					
Balance at beginning of the year	125,078	162,397	396,385	683,860	602,411
Charge for the year	6,001	36,162	77,650	119,813	84,107
Disposals	-	(3,623)	(12,460)	(16,083)	(2,658)
Balance at end of the year	131,079	194,936	461,575	787,590	683,860
Net book value					
As at December 31, 2007	366,142	179,614	227,908	773,664	
As at December 31, 2006	302,258	137,356	146,637		586,251

Property and equipment includes work in progress as at December 31, 2007 amounting to SAR 333.8 million (2006: SAR 208.4 million).

9. Other assets

	2007	2006
Accrued special commission receivable		
- banks and other financial institutions	24,670	20,369
- investments	269,969	256,239
- loans and advances	460,447	321,355
- derivatives	96,697	125,595
- other	62	62
Total accrued special commission receivable	851,845	723,620
Positive fair value of derivatives (note 10)	216,779	151,776
Other	600,359	530,483
Total	1,668,983	1,405,879

10. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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

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

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

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

The tables 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 market risk.

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10. Derivatives (continued)

2007	Derivative financial instruments Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	79,050	68,532	9,405,475	-	1,975,000	5,349,074	2,081,401	6,462,720
Commission rate futures and options	-	-	-	-	-	-	-	52,275
Forward foreign exchange contracts	110,198	77,116	13,117,870	11,183,463	1,925,317	9,090	-	21,713,930
Currency options	8,089	8,624	1,072,269	998,581	73,688	-	-	932,638
Held as fair value hedges:								
Commission rate swaps	8,696	74,991	3,716,314	1,108,651	665,728	1,720,585	221,350	5,423,541
Held as cash flow hedges:								
Commission rate swaps	10,746	-	689,000	-	-	689,000	-	2,403,333
Total	216,779	229,263	28,000,928	13,290,695	4,639,733	7,767,749	2,302,751	36,988,437
2006	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	33,258	28,303	5,746,681	-	100,000	5,260,089	386,592	5,909,571
Forward foreign exchange contracts	99,446	59,582	20,823,621	14,501,883	6,290,820	30,918	-	17,684,881
Currency options	8,131	7,826	814,443	730,355	84,088	-	-	872,449
Held as fair value hedges:								
Commission rate swaps	10,389	41,320	6,625,146	1,660,000	1,528,888	3,233,647	202,611	8,180,524
Held as cash flow hedges:								
Commission rate swaps	552	7,251	2,317,500	200,000	1,812,500	305,000	-	985,625
Total	151,776	144,282	36,327,391	17,092,238	9,816,296	8,829,654	589,203	33,633,050

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

Description of hedged items

2007	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	693,615	693,428	Fair value	Commission rate swap	7,932	10,135
Fixed commission rate loans	2,819,150	2,754,386	Fair value	Commission rate swap	93	64,856
Fixed commission rate deposits	269,171	268,500	Fair value	Commission rate swap	671	-
Floating commission rate investments	689,000	689,000	Cash flow	Commission rate swap	10,746	-
2006						
Fixed commission rate investments	1,697,615	1,681,802	Fair value	Commission rate swap	5,375	7,282
Fixed commission rate loans	3,846,425	3,817,707	Fair value	Commission rate swap	4,970	33,689
Fixed commission rate deposits	1,125,333	1,125,637	Fair value	Commission rate swap	44	349
Floating commission rate investments	2,317,664	2,317,500	Cash flow	Commission rate swap	552	7,251

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

	2007	2006
Balance at beginning of the year	(6,699)	(7,890)
Gains from changes in fair value recognized directly in equity, net	17,726	4,791
Gains removed from equity and included in - Net commission income	(281)	(3,600)
Balance at end of the year	10,746	(6,699)

For cash flow hedges, the amount shown as balance of reserves as at December 31, 2007 is expected to affect the profit and loss in the coming one to four years. Approximately 31% (2006: 41%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 12% (2006: 8.8 %) of the positive fair value contracts are with any single counter-party at the balance sheet date. Derivative activities are mainly carried out under the Bank's treasury banking segment.

11. Due to banks and other financial institutions

	2007	2006
Current accounts	250,540	134,334
Money market deposits	4,196,634	2,964,269
Total	4,447,174	3,098,603

12. Customers' deposits

	2007	2006
Demand	26,598,632	21,995,560
Saving	84,272	84,504
Time	44,622,187	38,270,875
Other	2,387,048	1,422,555
Total	73,692,139	61,773,494

Time deposits include deposits against sale of securities of SAR 2,043 million (2006: SAR 2,861 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 1,141 million (2006: SAR 923 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2007	2006
Demand	838,907	1,237,936
Saving	3,445	4,244
Time	9,537,364	14,181,745
Other	233,042	292,700
Total	10,612,758	15,716,625

13. Other liabilities

	2007	2006
Accrued special commission payable		
- banks and other financial institutions	25,182	35,539
- customers' deposits	233,764	206,791
- derivatives	243,102	273,352
- term loan	18,191	18,641
- other	18,697	20,039
Total accrued special commission payable	538,936	554,362
Negative fair value of derivatives (note 10)	229,263	144,282
IPO Subscription	102	254
Other	1,847,850	1,296,750
Total	2,616,151	1,995,648

14. Term loan and debt securities in issue

During the year ended December 31, 2005, the Bank entered into a three year syndicate term loan facility agreement for an amount of USD 350 million. The Bank, however, has an option to effect an early repayment, subject to the terms and conditions of the related syndicate agreement.

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

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15. Share capital

The authorized, issued and fully paid share capital of the Bank as at December 31, 2007 consists of 455 million shares of SAR 10 each (2006: 325 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2007	2006
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

During the year ended December 31, 2007, 130 million shares of SAR 10 each were issued after approval by the shareholders at their Extraordinary General Assembly meetings held on March 18, 2007 to increase the share capital of the Bank from SAR 3,250 million to SAR 4,550 million by transferring SAR 1,300 million from the general reserve through the issuance of two bonus shares for each five shares. Furthermore during the year ended December 31, 2006, 15 million shares of SAR 50 each were issued after approval by the shareholders at their Extraordinary General Assembly meeting held on March 12, 2006 to increase the share capital of the Bank from SAR 2,500 million to SAR 3,250 million by transferring SAR 750 million from the general reserve through the issuance of three bonus shares for every ten shares held.

16. Statutory and general reserves

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 616 million has been transferred from 2007 net income (2006: SAR 650 million). The statutory reserve is not currently available for distribution.

Further to the bonus shares issue (see note 15 above), SAR 1,300 million has been transferred from general reserve to share capital during 2007 (2006: SAR 750 million).

On December 9, 2007, the Board of Directors has approved a proposed transfer to general reserve amounting to SAR 1,950 million (2006: SAR 1,270 million) with the intention to increase the Bank's share capital through a three for seven bonus share dividend subject to a final approval of the Extraordinary General Assembly.

17. Commitments and contingencies

a) Legal proceedings

As at December 31, 2007 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will event.

b) Capital commitments

As at December 31, 2007 the Bank had capital commitments of SAR 268.4 million (2006: SAR 265.8 million) in respect of building and equipment purchases.

c) Credit related commitments and contingencies

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

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

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

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

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

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

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

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2007					
Letters of credit	3,424,006	1,624,822	196,639	-	5,245,467
Letters of guarantee	5,262,673	3,295,597	3,024,339	37,892	11,620,501
Acceptances	1,175,933	509,966	99,160	-	1,785,059
Irrevocable commitments to extend credit	55,137	241,460	459,493	679,076	1,435,166
Other	-	-	-	369,804	369,804
Total	9,917,749	5,671,845	3,779,631	1,086,772	20,455,997
2006					
Letters of credit	2,849,889	2,093,549	144,402	-	5,087,840
Letters of guarantee	2,706,517	2,384,950	3,044,625	40,917	8,177,009
Acceptances	720,740	486,565	100,531	48,743	1,356,579
Irrevocable commitments to extend credit	3,439	874,910	694,067	-	1,572,416
Other	-	-	-	391,567	391,567
Total	6,280,585	5,839,974	3,983,625	481,227	16,585,411

The unutilized portion of non-firm commitments as at December 31, 2007, which can be revoked unilaterally at any time by the Bank, amounts to SAR 11,929 million (2006: SAR 11,631 million).

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

	2007	2006
Government and quasi government	1,236,987	1,288,886
Corporate	14,153,895	11,483,956
Banks and other financial institutions	4,342,833	3,171,758
Other	722,282	640,811
Total	20,455,997	16,585,411

d) Assets pledged

Securities pledged under repurchase agreements with other banks are government bonds. Other non-government bonds are also pledged under repurchase agreements. Assets pledged as collateral with other financial institutions for security are as follows:

	2007		2006	
	Assets	Related liabilities	Assets	Related liabilities
Held to maturity investments (note 5)	429,958	347,000	433,875	307,000
Other investments Held at amortized cost (note 5)	3,456,469	1,695,714	4,899,135	2,554,000
Total	3,886,427	2,042,714	5,333,010	2,861,000

e) Operating lease commitments

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

	2007	2006
Less than 1 year	77,301	71,556
1 to 5 years	236,704	205,290
Over 5 years	149,180	155,531
Total	463,185	432,377

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18. Net special commission income

	2007	2006
Special commission income		
Investments:		
Available for sale	237,150	172,979
Held to maturity	31,379	54,551
Other investments held at amortized cost	696,111	688,309
	964,640	915,839
Due from banks and other financial institutions	216,516	174,544
Loans and advances	4,235,601	3,568,928
Total	5,416,757	4,659,311
Special commission expense		
Due to banks and other financial institutions	255,893	836,801
Customers' deposits	2,050,448	1,203,471
Term loan	87,938	74,043
Debt securities in issue	118,559	20,039
Total	2,512,838	2,134,354
Net special commission income	2,903,919	2,524,957

19. Fees from banking services, net

	2007	2006
Fee income:		
Share trading and fund management	314,700	736,724
Trade finance	143,398	112,138
Other banking services	657,089	468,700
Total fee income	1,115,187	1,317,562
Fee expense:		
Credit cards	133,038	94,600
Custody and Brokerage Fees	81,186	135,380
Other banking services	124,602	101,081
Total fee expense	338,826	331,061
Fees from banking services, net	776,361	986,501

20. Income from FVIS financial instruments, net

	2007	2006
Fair value change on financial assets held as FVIS investments	45,987	29,745
Total	45,987	29,745

21. Trading income, net

	2007	2006
Derivatives	8,934	2,612
Trading income, net	8,934	2,612

22. Dividend income

	2007	2006
Available for sale investments	5,451	-
Total	5,451	-

23. (Losses) gains and impairment on non-trading investments, net

	2007	2006
Realized gain on available for sale investments	192,501	106,033
Impairment loss on investments	(210,108)	-
Total	(17,607)	106,033

Impairment loss on investments represents credit losses incurred on investments held at amortized cost.

24. Other operating income

	2007	2006
Gains on disposal of property and equipment	419	30,459
Gains on disposal of other real estate	-	2,598
Recoveries of loans and advances previously written off	30,062	22,632
Other	1,870	14,880
Total	32,351	70,569

25. Basic and fully Diluted Earnings per Share

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

The calculations of earnings per share for 2006 have been adjusted retrospectively to reflect the impact of the bonus shares issued during 2007.

The fully diluted earnings per share is the same as the basic earnings per share figure.

26. Gross dividend, Zakat and Income Tax

Gross dividend is comprised of the following :

	2007	2006
Interim net dividend paid during the year	-	325,000
Zakat	68,520	63,670
Total	68,520	388,670

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

Zakat

Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 41.1 million (2006: SAR 38.2 million).

Income Tax

Income tax payable by the non Saudi Shareholders on the current year's share of income is SAR 219.4 million (2006: SAR 203.8 million).

27. Cash and cash equivalents

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

	2007	2006
Cash and balances with SAMA excluding statutory deposit (note 3)	5,062,605	1,128,106
Due from banks and other financial institutions maturing within ninety days	398,054	4,595,837
Total	5,460,659	5,723,943

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28. Business segments

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

Retail banking

Deposits, credit and investment product for individuals.

Corporate banking

Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses and the London Branch.

Treasury banking

Manages the Bank's trading and investment portfolios and the Bank's liquidity, currency and commission rate risk.

Transactions between the business segments are reported as recorded in the Bank's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

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

- a) The Bank's total assets and liabilities as at December 31, 2007 and 2006, its total operating income, expenses and net income for the years then ended, by business segments, are as follows:

	Retail banking	Corporate banking	Treasury banking	Total
2007				
Total assets	25,163,478	40,658,696	28,645,387	94,467,561
Total liabilities	35,599,309	40,467,112	7,876,543	83,942,964
Total operating income	2,595,300	907,164	453,795	3,956,259
Total operating expenses	1,230,780	218,673	45,604	1,495,057
Net income	1,364,520	688,491	408,191	2,461,202
2006				
Total assets	24,898,180	28,105,206	25,031,997	78,035,383
Total liabilities	28,693,040	34,926,086	6,436,119	70,055,245
Total operating income	2,653,123	693,286	508,963	3,855,372
Total operating expenses	1,071,517	224,164	54,966	1,350,647
Net income	1,581,606	469,122	453,997	2,504,725

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

	Retail banking	Corporate banking	Treasury banking	Total
2007				
Balance sheet assets	23,160,269	39,755,173	27,988,498	90,903,940
Commitment and contingencies	2,276,840	7,270,048	-	9,546,888
Derivatives	-	36,422	301,429	337,851
2006				
Balance sheet assets	22,920,593	27,434,413	24,417,976	74,772,982
Commitment and contingencies	1,749,141	5,695,502	-	7,444,643
Derivatives	-	6,028	410,804	416,832

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

29. Credit risk

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

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

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

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

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

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

The bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice. The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 17. The information on banks maximum credit exposure by business segment is given in note 28. The information on maximum credit risk exposure and their relative risk weights is also provided in note 37.

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

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29. Credit risk (continued)

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

	2007	2006
Loans and advances:		
Consumer loans		
Credit cards	1,693,793	1,523,075
Term loans	16,424,659	16,252,357
Total	18,118,452	17,775,432
Corporate loans		
Syndicated loans	5,878,175	5,925,030
Overdraft	4,255,508	4,851,380
Term loans	32,856,961	21,187,148
Other	12,815	8,234
Total	43,003,459	31,971,792
Investment:		
Fixed-rate securities	15,604,618	12,055,703
Floating-rate notes	3,322,864	3,422,918
Other	2,097,323	2,812,937
Total	21,024,805	18,291,558
Other assets	1,668,983	1,405,879
Gross Total	83,815,699	69,444,661

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

	2007	2006
Loan commitments and other credit related liabilities	1,435,166	1,572,416
Financial guarantees	19,020,831	15,012,995
Total	20,455,997	16,585,411

c) Credit quality of loans and advances

	2007	2006
Description		
Neither past due nor impaired	58,655,668	44,627,060
Past due but not impaired	2,442,890	4,987,185
Impaired	1,138,254	1,318,050
Total loans and advances	62,236,812	50,932,295
Provision for credit losses	(1,114,901)	(1,185,071)
Loans and advances, Net	61,121,911	49,747,224

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

	Retail			Corporate		Total customers
	Credit cards	Consumer loans	Overdrafts	Commercial loans	Others	
2007						
Grades:						
Standard	1,315,844	15,460,578	3,394,609	37,878,470	3,926	58,053,427
Special mention	-	-	211,919	390,322	-	602,241
Total	1,315,844	15,460,578	3,606,528	38,268,792	3,926	58,655,668
2006						
Grades:						
Standard	1,292,783	15,483,676	4,519,480	23,036,832	195	44,332,966
Special mention	-	-	5,019	289,075	-	294,094
Total	1,292,783	15,483,676	4,524,499	23,325,907	195	44,627,060

e) Loans and advances past due but not impaired

Retail

	Credit cards	Consumer loans	Total
2007			
Past due up to 30 days	309,545	915,430	1,224,975
Total	309,545	915,430	1,224,975
2006			
Past due up to 30 days	197,666	716,278	913,944
Total	197,666	716,278	913,944

Corporate

	Commercial loans	Overdrafts	Others	Total
2007				
Past due up to 30 days	590,331	19,817	7,493	617,641
Past due 30 - 60 days	22,150	33,248	207	55,605
Past due 60-90 days	167,901	-	61	167,962
Past due more than 90 days	-	376,707	-	376,707
Total	780,382	429,772	7,761	1,217,915
2006				
Past due up to 30 days	3,812,085	76,044	6,624	3,894,753
Past due 30 - 60 days	12,771	10,951	-	23,722
Past due 60-90 days	131,090	991	-	132,081
Past due more than 90 days	-	22,685	-	22,685
Total	3,955,946	110,671	6,624	4,073,241

f) Impaired Loans and advances

	Retail	Corporate	Total
2007			
Impaired loans	304,577	833,677	1,138,254
2006			
Impaired loans	277,375	1,040,675	1,318,050

g) Credit quality of financial assets (investments)

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

	2007	2006
High grade (Aaa – Baa3)	3,123,250	3,236,776
Standard grade (Ba1 – B2)	86,090	86,027
Substandard grade (B3 – C)	333,950	431,250
Unrated	17,481,515	14,537,505
Overall Investment, net	21,024,805	18,291,558

The unrated investments comprise mainly Saudi Government Development Bonds (SGDB's) and also includes hedged funds, notes of collateralized debt obligations (CDOs) and investment in equities.

h) Collateral

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

Nature of collateral held as security

	2007 Carrying value	2006 Carrying value
Listed securities	17,508,996	7,909,669
Properties	546,484	273,073
Others	2,667,934	891,378
Total	20,723,414	9,074,120

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

a) Geographical concentration

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

	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
2007								
Assets								
Cash and balances with SAMA	8,226,461	-	1,915	-	-	-	-	8,228,376
Due from banks and other financial institutions	-	378,436	593,666	255,475	-	65,850	540	1,293,967
Investments, net	12,246,869	933,956	3,236,044	4,546,296	-	-	61,640	21,024,805
Investment in associate	200,000	-	-	-	-	-	-	200,000
Loans and advances, net	59,273,310	810,582	971,100	-	-	-	66,919	61,121,911
Total	79,946,640	2,122,974	4,802,725	4,801,771	-	65,850	129,099	91,869,059

Liabilities

Due to banks and other financial institutions	906,250	3,082,308	213,280	41,601	-	27,367	176,368	4,447,174
Customer deposits	73,466,590	42,050	117,919	1,497	-	144	63,939	73,692,139
Term loan	296,250	461,250	543,750	11,250	-	-	-	1,312,500
Debt securities issued	-	840,000	810,750	-	-	224,250	-	1,875,000
Total	74,669,090	4,425,608	1,685,699	54,348	-	251,761	240,307	81,326,813

Commitments and contingencies

	10,615,855	2,248,961	3,113,665	1,366,054	6,074	2,537,385	568,003	20,455,997
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Credit exposure (stated at credit equivalent amounts)

Commitments and contingencies	5,151,110	1,131,336	1,471,273	650,398	2,820	952,270	187,681	9,546,888
Derivatives	174,552	8,970	138,390	15,939	-	-	-	337,851

2006

	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	3,214,901	-	1,106	-	-	-	-	3,216,007
Due from banks and other financial institutions	618,750	1,041,360	2,238,916	670,472	-	61,040	2,799	4,633,337
Investments, net	9,888,447	344,562	4,825,408	3,233,141	-	-	-	18,291,558
Loans and advances, net	48,254,785	852,798	567,722	-	-	-	71,919	49,747,224
Total	61,976,883	2,238,720	7,633,152	3,903,613	-	61,040	74,718	75,888,126

Liabilities

Due to banks and other financial institutions	1,794,349	900,332	72,623	15,164	-	203,635	112,500	3,098,603
Customer deposits	61,491,129	48,845	181,099	323	-	212	51,886	61,773,494
Term loan	296,250	461,250	543,750	11,250	-	-	-	1,312,500
Debt securities issued	-	840,000	810,750	-	-	224,250	-	1,875,000
Total	63,581,728	2,250,427	1,608,222	26,737	-	428,097	164,386	68,059,597

Commitments and contingencies

	7,199,342	2,235,738	1,997,451	1,642,795	33,242	3,126,259	350,584	16,585,411
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Credit exposure (stated at credit equivalent amounts)

Commitments and contingencies	3,594,665	1,151,769	889,073	730,358	7,859	964,721	106,198	7,444,643
Derivatives	243,353	2,736	161,852	8,891	-	-	-	416,832

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

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

	Non-performing loans, net		Provision for credit losses	
	2007	2006	2007	2006
Saudi Arabia	314,904	369,724	1,114,901	1,152,357
Europe	-	-	-	32,714
Total	314,904	369,724	1,114,901	1,185,071

31. Market risk

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

a) Market risk-trading book

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

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

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

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

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

- I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market liquidity for a prolonged period.
- II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VAR.
- III. VAR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- IV. The VAR measure is dependent upon the Bank's position and the volatility of market prices. The VAR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VAR methodology are recognized by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. The Bank's VAR related information for the years ended December 31, 2007 and 2006 is as under. All the figures are in million SAR:

	2007				2006			
	Foreign exchange	Commission rate	Equity	Total	Foreign exchange	Commission rate	Equity	Total
VAR as at December 31	2.4489	0.0760	-	2.5249	0.8745	0.0102	-	0.8847
Average VAR	1.2613	0.1275	-	1.3888	0.8446	0.0144	-	0.8590

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For the years ended December 31, 2007 and 2006

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31. Market risk (continued)

(b) Non-Trading portfolio VAR by risk type

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

(i) Commission rate risk

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

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

Currency	Sensitivity of Increase in basis	Sensitivity of commission income	2007				Total
			Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+ 10	0.940	-	(0.77)	(4.00)	-	(3.830)
USD	+ 15	10.112	0.01	0.01	(2.61)	(0.12)	7.402
Others	+ 25	2.678	(7.58)	-	(5.91)	(1.93)	(12.742)

Currency	Sensitivity of Decrease in basis	Sensitivity of commission income	2007				Total
			Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(0.949)	-	0.81	4.22	-	4.081
USD	-15	(10.136)	(0.01)	(0.01)	25.9	0.12	15.864
Others	-25	(0.900)	10.68	-	8.06	2.72	20.560

Currency	Increase in basis	Sensitivity of commission income	2006				Total
			Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	3.188	-	-	(0.29)	-	2.898
USD	+15	5.539	(0.94)	-	8.56	-	13.159
Others	+25	(2.079)	-	-	(0.52)	(0.1)	(2.699)

Currency	Decrease in basis	Sensitivity of commission income	2006				Total
			Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(3.187)	-	-	0.29	-	(2.897)
USD	-15	(5.531)	0.69	-	27.97	-	23.129
Others	-25	2.074	-	-	0.51	0.1	2.684

(ii) Currency risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2007 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in income statement or equity; whereas a negative effect shows a potential net reduction in income statement or equity.

Currency risk exposures	2007			2006		
	Changes in currency rate in %	Effect on net income	Effect on equity	Changes in currency rate in %	Effect on net income	Effect on equity
USD	+5	(51.151)	-	+5	46.637	-
EUR	-3	2.918	-	-3	(1.511)	-

(iii) Equity price risk

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

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

Market indices	2007		2006	
	Changes in equity price %	Effect in SAR	Changes in equity price %	Effect in SAR
Tadawul	+5	20.124	-10	(38.82)

32. Foreign currency risk

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	Long (short) 2007	Long (short) 2006
US Dollar	(1,519,942)	(308,814)
Euro	27	20,072
Pound Sterling	(30,130)	(19,763)
Other	518,365	19,403

33. Commission rate risk

Commission sensitivity of assets, liabilities and off balance sheet items

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

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

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33. Commission rate risk (continued)

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate %
2007							
Assets							
Cash and balances with SAMA	3,893,567	-	-	-	4,334,809	8,228,376	
Due from banks and other financial institutions	698,100	37,500	-	-	558,367	1,293,967	3.74
Investments, net	5,749,943	3,250,950	7,342,337	2,568,997	2,112,578	21,024,805	4.58
Loans and advances, net	28,099,457	16,324,236	13,022,623	3,675,595	-	61,121,911	7.54
Investment in associate	-	-	-	-	200,000	200,000	
Other real estate	-	-	-	-	155,855	155,855	
Property and equipment, net	-	-	-	-	773,664	773,664	
Other assets	-	-	-	-	1,668,983	1,668,983	
Total assets	38,441,067	19,612,686	20,364,960	6,244,592	9,804,256	94,467,561	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	3,363,634	833,000	-	-	250,540	4,447,174	4.46
Customers' deposits	39,294,161	6,415,428	117,556	-	27,864,994	73,692,139	2.90
Other liabilities	-	-	-	-	2,616,151	2,616,151	
Term Loan	1,312,500	-	-	-	-	1,312,500	5.82
Debt securities in issue	1,875,000	-	-	-	-	1,875,000	6.24
Shareholders' equity	-	-	-	-	10,524,597	10,524,597	
Total Liabilities and shareholders' equity	45,845,295	7,248,428	117,556	-	41,256,282	94,467,561	
On balance sheet gap	(7,404,228)	12,364,258	20,247,404	6,244,592	(31,452,026)		
Off balance sheet gap	1,568,803	(440,986)	(906,467)	(221,350)	-		
Total commission rate sensitivity gap	(5,835,425)	11,923,272	19,340,937	6,023,242	(31,452,026)		
Cumulative commission rate sensitivity gap	(5,835,425)	6,087,847	25,428,784	31,452,026	-		
2006							
Assets							
Cash and balances with SAMA	999	-	-	-	3,215,008	3,216,007	
Due from banks and other financial institutions	4,158,892	37,500	-	-	436,945	4,633,337	4.73
Investments, net	3,176,057	2,198,620	9,671,973	1,365,700	1,879,208	18,291,558	4.76
Loans and advances, net	22,376,744	11,086,930	12,079,777	4,203,773	-	49,747,224	8.10
Other real estate	-	-	-	-	155,127	155,127	
Property and equipment, net	-	-	-	-	586,251	586,251	
Other assets	-	-	-	-	1,405,879	1,405,879	
Total assets	29,712,692	13,323,050	21,751,750	5,569,473	7,678,418	78,035,383	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	2,358,594	605,675	-	-	134,334	3,098,603	4.82
Customers' deposits	34,723,070	5,860,955	495,114	-	20,694,355	61,773,494	3.25
Other liabilities	-	-	-	-	1,995,648	1,995,648	
Term Loan	1,312,500	-	-	-	-	1,312,500	5.37
Debt securities in issue	1,875,000	-	-	-	-	1,875,000	6.21
Shareholders' equity	-	-	-	-	7,980,138	7,980,138	
Total Liabilities and shareholders' equity	40,269,164	6,466,630	495,114	-	30,804,475	78,035,383	
On balance sheet gap	(10,556,472)	6,856,420	21,256,636	5,569,473	(23,126,057)		
Off balance sheet gap	1,535,193	1,327,316	(2,659,898)	(202,611)	-		
Total commission rate sensitivity gap	(9,021,279)	8,183,736	18,596,738	5,366,862	(23,126,057)		
Cumulative commission rate sensitivity gap	(9,021,279)	(837,543)	17,759,195	23,126,057	-		

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

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

34. Liquidity risk

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

The table below summarizes the maturity profile of the Bank's liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiary and foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 9% (2006: 7%) of total demand deposits and 2% of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days.

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

The maturity profile of the financial liabilities is as follows:

	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2007						
Financial liabilities						
Due to banks and other financial institutions	3,300,922	951,179	-	-	250,540	4,502,641
Customers' deposits	39,072,738	6,722,534	148,255	184	28,399,058	74,342,769
Derivative financial instruments						
Contractual amounts payable	1,166	1,537	2,462	153	-	5,318
Contractual amounts receivable	(44)	(1,389)	(1,779)	(15)	-	(3,227)
Term Loan	1,347,800	-	-	-	-	1,347,800
Debt securities in issue	55,186	81,723	435,758	2,310,758	-	2,883,425
Total financial liabilities	43,777,768	7,755,584	584,696	2,311,080	28,649,598	83,078,726

2006

Financial liabilities						
Due to banks and other financial institutions	2,383,143	635,720	-	-	134,334	3,153,197
Customers' deposits	31,430,305	6,122,993	535,851	-	24,313,629	62,402,778
Derivative financial instruments						
Contractual amounts payable	1,198	1,288	4,367	225	-	7,078
Contractual amounts receivable	(800)	(2,492)	(1,730)	(22)	-	(5,044)
Term Loan	19,270	58,639	1,347,800	-	-	1,425,709
Debt securities in issue	29,735	87,267	467,038	2,459,040	-	3,043,080
Total financial liabilities	33,862,851	6,903,415	2,353,326	2,459,243	24,447,963	70,026,798

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34. Liquidity risk (continued)

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

	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2007						
Assets						
Cash and balances with SAMA	3,893,567	-	-	-	4,334,809	8,228,376
Due from banks and other financial institutions	548,100	37,500	150,000	-	558,367	1,293,967
Investments, net	2,811,761	2,488,105	8,842,092	4,776,789	2,106,058	21,024,805
Loans and advances, net	16,322,016	14,299,067	17,529,105	6,954,545	6,017,178	61,121,911
Investment in associate	-	-	-	-	200,000	200,000
Other real estate	-	-	-	-	155,855	155,855
Property and equipment, net	-	-	-	-	773,664	773,664
Other assets	-	-	-	-	1,668,983	1,668,983
Total assets	23,575,444	16,824,672	26,521,197	11,731,334	15,814,914	94,467,561
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,363,634	833,000	-	-	250,540	4,447,174
Customers' deposits	38,761,986	6,414,211	117,556	-	28,398,386	73,692,139
Other liabilities	-	-	-	-	2,616,151	2,616,151
Term Loan	1,312,500	-	-	-	-	1,312,500
Debt securities in issue	-	-	-	1,875,000	-	1,875,000
Shareholders' equity	-	-	-	-	10,524,597	10,524,597
Total liabilities and shareholders' equity	43,438,120	7,247,211	117,556	1,875,000	41,789,674	94,467,561
2006						
Assets						
Cash and balances with SAMA	999	-	-	-	3,215,008	3,216,007
Due from banks and other financial institutions	4,158,892	37,500	-	-	436,945	4,633,337
Investments, net	950,000	736,186	11,006,865	3,719,299	1,879,208	18,291,558
Loans and advances, net	11,566,972	9,328,223	15,414,782	7,013,030	6,424,217	49,747,224
Other real estate	-	-	-	-	155,127	155,127
Property and equipment, net	-	-	-	-	586,251	586,251
Other assets	-	-	-	-	1,405,879	1,405,879
Total assets	16,676,863	10,101,909	26,421,647	10,732,329	14,102,635	78,035,383
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,358,594	605,675	-	-	134,334	3,098,603
Customers' deposits	32,318,653	5,859,868	495,114	-	23,099,859	61,773,494
Other liabilities	-	-	-	-	1,995,648	1,995,648
Term Loan	-	-	1,312,500	-	-	1,312,500
Debt securities in issue	-	-	-	1,875,000	-	1,875,000
Shareholders' equity	-	-	-	-	7,980,138	7,980,138
Total liabilities and shareholders' equity	34,677,247	6,465,543	1,807,614	1,875,000	33,209,979	78,035,383

35. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised costs, held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements. The fair values of Loans and advances, commission bearing customers' deposits, Debts securities in issue, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 5.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is SAR 23.2 millions (2006: SAR 14.2 millions).

36. Related party transactions

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

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

	2007	2006
Arab Bank PLC		
Due from banks and other financial institutions	194,895	1,128,524
Due to banks and other financial institutions	1,517,159	539,435
Derivatives	3,122	-
Commitments and contingencies	2,138,787	1,978,565
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	2,541,271	1,503,440
Customers' deposits	4,625,337	4,177,872
Derivatives (at fair value)	2,380	8,072
Commitments and contingencies	354,193	328,718
Bank's mutual funds		
Investments	359,239	293,645
Loans and advances	12,994	46,112
Customers' deposits	1,104,648	1,455,182

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

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

	2007	2006
Special commission income	221,016	116,872
Special commission expense	260,427	220,637
Fees from banking services	28,934	47,965
Directors' remuneration	3,434	2,179

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

	2007	2006
Short-term employee benefits (Salaries and allowances)	41,801	40,649
Post-employment benefits (End of service indemnity and social security)	3,287	3,346

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

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

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

	2007		2006	
	Capital	Ratio %	Capital	Ratio %
Tier 1	10,524,597	14.5	7,980,138	13.1
Tier 1 + Tier 2	12,930,776	17.9	10,470,909	17.1

Risk weighted assets	2007			2006		
	Carrying value/notional	Credit equivalent	Risk weighted assets	Carrying value/notional	Credit equivalent	Risk weighted assets
Balance sheets assets						
0 %	23,901,124	-	-	15,643,670	-	-
20 %	5,994,484	-	1,198,896	8,632,318	-	1,726,463
100 %	64,571,953	-	64,571,953	53,759,395	-	53,759,395
Total	94,467,561	-	65,770,849	78,035,383	-	55,485,858
Commitments and contingencies						
0 %	1,014,560	833,324	-	418,719	170,562	-
20 %	5,346,557	2,588,969	517,794	4,655,251	2,225,644	445,129
100 %	14,094,880	6,124,595	6,124,595	11,511,441	5,048,437	5,048,437
Total	20,455,997	9,546,888	6,642,389	16,585,411	7,444,643	5,493,566
Derivatives						
20 %	22,978,685	197,952	39,590	27,280,981	259,144	51,829
50 %	5,022,243	139,899	69,950	9,046,410	157,688	78,844
Total	28,000,928	337,851	109,540	36,327,391	416,832	130,673
Grand total			72,522,778			61,110,097

Effective January 1, 2008 as required by SAMA, the Bank plans to implement new Basel framework on capital adequacy, commonly known as Basel II Framework issued by the Basel Committee on banking supervision. This will change the capital adequacy ratios depicted in note 37 to reflect the additional capital required for Operational risk and Pillar I risks.

38. Investment management services

The Bank offers investment services to its customers, which include management of investment funds with assets totaling SAR 2,972 million (2006: SAR 4,086 million).

The financial statements of these funds are not consolidated with these financial statements. However, the Bank's share of these funds is included in available-for-sale investments and fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the financial statements.

39. Comparative figures

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

40. Board of directors' approval

The financial statements were approved by the Board of Directors on January 20, 2008 (11 Muharram, 1429).

Branches

Central Region:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Riyadh,	Riyadh	(1) 4114000	(1) 2875306	26	11411
Sitteen,	Riyadh	(1) 4771885	(1) 4771027	41095	11521
Dhabab,	Riyadh	(1) 4040365	(1) 4043959	6876	11452
Olaya,	Riyadh	(1) 4659331	(1) 4659440	10875	11441
Industrial Area,	Riyadh	(1) 4465708	(1) 4460781	1006	11431
Hijaz road,	Riyadh	(1) 4585512	(1) 4585424	4045	11491
Manfouha,	Riyadh	(1) 4590064	(1) 4583753	40172	11499
Rawdah,	Riyadh	(1) 4913612	(1) 4914376	21346	11475
Shemeisi,	Riyadh	(1) 4112795	(1) 4112059	52264	11584
Al-Kharj,	Riyadh	(1) 5441912	(1) 5444484	31	11942
Hawtat Bani Tamim		(1) 5550780	(1) 5550784	51	11941
Al-Majma'a		(6) 4323584	(6) 4323848	229	11952
Akariah, Olaya	Riyadh	(1) 4191000	(1) 4191803	53055	11583
Rabwa,	Riyadh	(1) 4910546	(1) 4910573	25067	11466
Shaqra		(1) 6220909	(1) 6221758	153	11961
Pensions Funds Authority	Riyadh	(1) 4025100	(1) 4124559	18364	11168
Shifa,	Riyadh	(1) 4213111	(1) 4223123	61302	11565
King Abdullah Quarter	Riyadh	(1) 4765300	(1) 4764015	42618	11551
Swaidi,	Riyadh	(1) 4261200	(1) 4261827	61128	11565
Mutanabi Street,	Riyadh	(1) 4765400	(1) 4769294	27035	11417
Dahrat Al-Badia	Riyadh	(1) 2678676	(1) 2675860	61129	11565
North Murabba,	Riyadh	(1) 4050707	(1) 4032349	8667	11492
Second Industrial city,	Riyadh	(1) 2652088	(1) 2652023	50729	11533
Khashm Al-A'an	Riyadh	(1) 2521102	(1) 2521106	87139	11642
Diplomatic Quarter	Riyadh	(1) 4880587	(1) 4831451	9014	11413
Naseem,	Riyadh	(1) 2328230	(1) 2330291	57504	11584
Quwaiyayah		(1) 6521206	(1) 6521164	34	11971
Mursalat,	Riyadh	(1) 4555455	(1) 4569177	92161	11653
Takhassusi,	Riyadh	(1) 4820489	(1) 4822090	93095	11673
Land Forces	Riyadh	(1) 4787154		8667	11492
Al-Hamra,	Riyadh	(1) 2782555	(1) 2488531	225051	11324
King Faisal Quarter,	Riyadh	(1) 2387118	(1) 2387185	26	11411
Hafr Al-Batin		(3) 7224321	(3) 7223672	167	31991
Rayan Quarter,	Riyadh	(1) 4929371	(1) 4928409		
Aziziah Quarter	Riyadh	(1) 4956994	(1) 2134972		
Ta awon,	Riyadh	(1) 4547783	(1) 4508959		

Western Region:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Madina Road,	Jeddah	(2) 6600272	(2) 6611104	9463	21413
Balad,	Jeddah	(2) 6480112	(2) 6484321	344	21411
Gazzah,	Makkah	(2) 5743456	(2) 5747244	238	
Makkah Road,	Jeddah	(2) 6873509	(2) 6886966	8055	21482
Madina Munawwarah		(4) 8237144	(4) 8251312	2443	
Yanbu		(4) 3226201	(4) 3227626	483	
Taif		(2) 7384122	(2) 7381690	1542	
Sitteen	Makkah	(2) 5365912	(2) 5364545	3691	
Wajh		(4) 4421283	(4) 4421149	44	
Bab Makkah,	Jeddah	(2) 6438441	(2) 6438654	16060	21464
Aziziyah,	Makkah	(2) 5570838	(2) 5570821	1355	
Rabigh,		(4) 4220196	(4) 4220816	45	21911
Al-Ula		(4) 8841265	(4) 8842357	91	
Hay Al-Salamah	Jeddah	(2) 2751515	(2) 6399743	14906	21434
Prince Majid Street	Jeddah	(2) 6170473	(2) 6744533	13304	21493
Makaronah,	Jeddah	(2) 6700600	(2) 6724183	13303	21493
Ma'abdah,	Makkah	(2) 5735623	(2) 5735717	5038	
Mahjar,	Jeddah	(2) 6373776	(2) 6373783	30411	21477
Hay Al-Jamia'a,	Jeddah	(2) 6809980	(2) 6809889	30577	21487
Otaibiah,	Makkah	(2) 5605712	(2) 5605721	1355	
Misyal,	Makkah	(2) 5413936	(2) 5381161	238	
Sharafiah,	Jeddah	(2) 6515165	(2) 6515207	9463	21413
Shohada,	Makkah	(2) 5450594	(2) 5442008	5927	
Qurban,	Madina M.	(4) 8231970	(4) 8234003	2443	
Shohada,	Taif	(2) 7491008	(2) 7491761	1542	
Al-Safa,	Jeddah	(2) 6798171	(2) 6781237	9463	21413
Hira Street,	Jeddah	(2) 6550665	(2) 6540102	45031	21512
Tahliyah Street,	Jeddah	(2) 6601112	(2) 6612935	51283	21543
Al Rabea	Jeddah	(2) 6775956	(2) 2717735	9463	41413
King Road	Jeddah	(2) 6912095	(2) 6910527		
Hay Albsateen,	Jeddah	(2) 6993477	(2) 6994309		

Eastern Region:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Dammam		(3) 8333577	(3) 8347309	18	31411
Khobar		(3) 8948660	(3) 8942752	37	31952
Qatif		(3) 8551521	(3) 8540759	125	31911
Hofuf		(3) 5827806	(3) 5877808	1004	31982
Jubail		(3) 3628622	(3) 3628633	351	31951
Khazzan Street,	Dammam	(3) 8272422	(3) 8272911	5767	31432
Mubaraz		(3) 5313334	(3) 5313016	10187	31982
Ibqaiq		(3) 5662612	(3) 5663856	184	31992
Al-Omran		(3) 5963632	(3) 5960144	1845	31982
Ras Tannourah		(3) 6672830	(3) 6673572	242	31941
Thuqbah		(3) 8952304	(3) 8982980	412	31952

Eastern Region: (continued)

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Khafji		(3) 7661450	(3) 7671627	443	31971
King Abdul Aziz Street,	Khobar	(3) 8982211	(3) 8953289	1573	31952
Old Industrial Area,	Dammam	(3) 8471752	(3) 8471732	7589	31472
Saihat		(3) 8501516	(3) 8503121	31	31972
First Street,	Dammam	(3) 8309666	(3) 8098739	18	31411
42 Street,	Dammam	(3) 8414474	(3) 8414320	18	31411
Mazroueya,	Hofuf	(3) 5881716	(3) 5880561	1004	31982
Rawdah,	Hofuf	(3) 5806263	(3) 5803046	1004	31982
Qarah,	Hofuf	(3) 5962656	(3) 5962276	1004	31982
Industrial Area,	Khobar	(3) 8672800	(3) 8981365	37	31952
Second Industrial City,	Dammam	(3) 8121371	(3) 8121277	18	31411
Mukhattat 71,	Dammam	(3) 8202272	(3) 8203360	18	31411
Al-Rashid Centre,	Khobar	(3) 8986015	(3) 8652304	3933	31952
Al-Najah Street,	Hofuf	(3) 5873177	(3) 5876317	1004	31982
Al Qatif	Al Balad	(3) 8551521	(3) 8540759	1004	31982
Mohammadiyah	Dammam	(3) 8178100	(3) 8178090	18	31411

Northern Region:

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Buraida		(6) 3834035	(6) 3834029	1049	51431
Unaiza		(6) 3646880	(6) 3648662	166	51911
Al-Zelfi		(6) 4222244	(6) 4222240	275	11932
Dawadmi		(1) 6420900	(1) 6421032	206	11911
Al-Rass		(6) 3330988	(6) 3335225	244	51921
Hail		(6) 5329328	(6) 5323848	1146	
Ar'ar		(4) 6622416	(4) 6627004	365	
Al-Jouf		(4) 6245188	(4) 6247988	353	
Qurayat		(4) 6423904	(4) 6423804	208	
Afif		(1) 7223013	(1) 7223021	180	11921
Barzan,	Hail	(6) 5434869	(6) 5434983	7117	
Tabuk		(4) 4232172	(4) 4232164	698	
Tayma		(4) 4630632	(4) 4630080	49	
King Abdulaziz,	Buraida	(6) 3250872	(6) 3250588	1049	

Southern Region:

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

Ladies Branches

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
Akariah,	Riyadh	(1) 4600065	(1) 4600213	60877	11155
Olaya,	Riyadh	(1) 2931989	(1) 134	10875	11441
Swaidi,	Riyadh	(1) 2679548	(1) 2679560	61129	11565
Mursalat,	Riyadh	(1) 4555455	(1) ext. 7932	92161	11653
Rabwah,	Riyadh	(1) 2832329	(1) 2087285	25067	11466
Takhassusi,	Riyadh	(1) 4830248	(1) ext. 264	93095	11673
Hay Al-Jamia'a,	Jeddah	(2) 6808023	(2) 6809799	30577	21487
Madina, Road,	Jeddah	(2) 6600272	(2) 6688098	9463	21413
Hay Al-Salamah,		(3) 2751515	(3) 6399618	14906	21434
Makkah Mukaramah		(2) 5576292	(2) 5576286	1355	
Madinah Munawarah		(2) 8222761	(2) 8271269	2443	
Korneesh	Dammam	(3) 8309666	(3) 8094718	18	31411
Korneesh	Khobar	(3) 8991095	(3) 8892048	37	31952
Dammam		(3) 8333577	Ext. 7320	18	31411
Qatif		(3) 8551521	(3) 8546074	125	31911
Mubarraz		(3) 5313334	(2) 5311570	1004	31982
Al-Rashid Centre,	Khobar	(3) 8649788	(3) 8996203	3933	31952
Rawda,	Hofuf	(3) 580626	(3) 5885433	1004	31982
Ra'aed, Diplomatic Quarter	Riyadh	(1) 4880587	(1) 4810314	9014	11413
Ryan,	Riyadh	(1) 4929371	(1) 4928513		
Ta'awon,	Riyadh	(1) 4547783	(1) 4539038		
King Road	Jeddah	(2) 6912095	(2) 2575376		

Overseas Branch

Branch Name		Tel. No.	Fax No.	P.O Box	Postal Code
London		(020) 72974600 Telex 22368 ARABNT G	(020) 72974900		W1J 7TT

