Deloitte & Touche
Bakr Abulkhair & Co.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Arab National Bank (the "Bank"), which comprise the statement of consolidated financial position as at 31 December 2009, and the statements of consolidated income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40, other than note 36, and the information related to "Basel II disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2009, and its financial performance and 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 in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated 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. Makhdoum
Certified Public Accountant
Registration No. 358

25 January, 2010
(10 Safar 1431H)

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2009 and 2008

	Notes	2009 SAR' 000	2008 SAR' 000
ASSETS			
Cash and balances with SAMA	4	10,457,455	12,050,836
Due from banks and other financial institutions	5	6,082,423	2,747,396
Investments, net	6	23,260,907	28,227,796
Loans and advances, net	7	66,811,033	74,661,610
Investment in an associate	8	314,649	193,048
Other real estate		100,992	103,440
Property and equipment, net	9	1,239,681	934,851
Other assets	10	2,030,180	2,388,165
Total assets		110,297,320	121,307,142
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	8,714,228	10,509,073
Customers' deposits	13	82,680,240	92,743,453
Other liabilities	14	2,737,085	3,508,318
Debt securities in issue	15	1,687,500	1,875,000
Total liabilities		95,819,053	108,635,844
Equity attributable to equity holders of the Bank			
Share capital	16	6,500,000	6,500,000
Statutory reserve	17	5,000,000	4,390,000
Other reserves		(46,871)	(85,782)
Retained earnings		2,265,638	1,217,080
Proposed dividends	27	650,000	650,000
Total equity attributable to equity holders of the Bank		14,368,767	12,671,298
Non-controlling interest		109,500	-
Total equity		14,478,267	12,671,298
Total liabilities and equity		110,297,320	121,307,142

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED INCOME STATEMENT
For the years ended December 31, 2009 and 2008

	Notes	2009 SAR' 000	2008 SAR' 000
Special commission income	19	4,234,487	5,638,927
Special commission expense	19	778,204	2,285,395
Net special commission income		3,456,283	3,353,532
Fees from banking services, net	20	563,002	839,018
Exchange income, net		259,749	265,910
Loss from FVIS financial instruments, net	21	(13,285)	(58,224)
Trading income, net	22	10,656	5,128
Dividend income	23	12,685	5,784
Gains (losses) and impairment on non-trading investments, net	24	45,498	(424,156)
Other operating income	25	158,871	148,191
Total operating income		4,493,459	4,135,183
Salaries and employee related expenses		934,053	908,227
Rent and premises related expenses		122,938	123,055
Depreciation and amortization	9	192,571	155,733
Other general and administrative expenses		351,903	394,811
Provision for credit losses, net	7	526,583	60,281
Total operating expenses		2,128,048	1,642,107
Net operating income		2,365,411	2,493,076
Share in earnings (losses) of an associate	8	1,601	(6,952)
Net income		2,367,012	2,486,124
Loss attributed to non-controlling interest		3,000	-
Net income attributable to equity holders of the bank		2,370,012	2,486,124
Basic and fully diluted earnings (in SAR per share)	26	3.65	3.82

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2009 and 2008

	Notes	2009 SAR' 000	2008 SAR' 000
Net income		2,367,012	2,486,124
Other comprehensive income:			
Net changes in fair value of available for sale investments		236,109	(504,175)
Net changes in fair value of cash flows hedges	11	75,615	138,581
Total comprehensive income for the year		2,678,736	2,120,530
Attributable to:			
Equity holders of the Bank		2,681,736	2,120,530
Non - controlling interest		(3,000)	-
Total comprehensive income		2,678,736	2,120,530

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2009 and 2008

		Attributable to equity holders of the Bank								
2009	Notes	Share capital SAR' 000	Statutory reserve SAR' 000	General reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividends SAR' 000	Total SAR' 000	Non-controlling interest SAR' 000	Total Equity SAR' 000
Balance at beginning of the year		6,500,000	4,390,000	-	(85,782)	1,217,080	650,000	12,671,298	-	12,671,298
Non-controlling interest arising during the year					-	-	-	-	112,500	112,500
Changes in equity for the year										
Net changes in fair value of cash flow hedges	11				(122,688)	-	-	(122,688)	-	(122,688)
Net changes in fair values of available for sale investments					236,109	-	-	236,109	-	236,109
Transfers to consolidated income statement					(74,510)	-	-	(74,510)	-	(74,510)
Net income recognized directly in equity					38,911	-	-	38,911	112,500	151,411
Net income for the year					-	2,370,012	-	2,370,012	(3,000)	2,367,012
Total recognized income for the year				-	38,911	2,370,012	-	2,408,923	109,500	2,518,423
Transfer to statutory reserve	17		610,000	-	-	(610,000)	-	-	-	-
Dividend paid 2008			-	-	-	-	(650,000)	(650,000)	-	(650,000)
Proposed dividend	27		-	-	-	(650,000)	650,000	-	-	-
Zakat	27		-	-	-	(61,454)	-	(61,454)	-	(61,454)
Balance at end of the year		6,500,000	5,000,000	-	(46,871)	2,265,638	650,000	14,368,767	109,500	14,478,267
2008										
Balance at beginning of the year		4,550,000	3,766,000	1,950,000	171,618	86,979	-	10,524,597	-	10,524,597
Net changes in fair value of cash flow hedges	11				115,794	-	-	115,794	-	115,794
Net changes in fair values of available for sale investments					(504,175)	-	-	(504,175)	-	(504,175)
Transfers to consolidated income statement					130,981	-	-	130,981	-	130,981
Net expense recognized directly in equity					(257,400)	-	-	(257,400)	-	(257,400)
Net income for the year					-	2,486,124	-	2,486,124	-	2,486,124
Total recognized income (expense) for the year					(257,400)	2,486,124	-	2,228,724	-	2,228,724
Bonus shares issue	16	1,950,000	-	(1,950,000)	-	-	-	-	-	-
Transfer to statutory reserve	17	-	624,000	-	-	(624,000)	-	-	-	-
Proposed dividend	27	-	-	-	-	(650,000)	650,000	-	-	-
Zakat	27	-	-	-	-	(82,023)	-	(82,023)	-	(82,023)
Balance at end of the year		6,500,000	4,390,000	-	(85,782)	1,217,080	650,000	12,671,298	-	12,671,298

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2009 and 2008

	Notes	2009 SAR' 000	2008 SAR' 000
OPERATING ACTIVITIES			
Net income		2,367,012	2,486,124
Adjustments to reconcile net income to net cash (used in) from operating activities:			
Accretion of discounts on non-trading investments, net		(118,177)	(291,035)
(Gain) losses and impairment on non-trading investments, net	24	(45,498)	424,156
Depreciation and amortization	9	192,571	155,733
Gains on disposal of property and equipment, net and other real estate	25	(5,997)	(58,226)
Gain from early retirement of debt securities	25	(55,988)	-
Share in (earnings) losses of an associate	8	(1,601)	6,952
Provision for credit losses	7	526,583	60,281
Total		2,858,905	2,783,985
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	(92,666)	(733,017)
Due from banks and other financial institutions maturing after ninety days from the acquisition date		(1,541,875)	708,413
Loans and advances		7,224,236	(13,464,545)
Other real estate		2,448	52,415
Other assets		(558,741)	302,981
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,794,845)	6,061,899
Customers' deposits		(10,063,213)	19,051,985
Other liabilities		29,387	74,046
Net cash (used in) from operating activities		(3,936,364)	14,838,162
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		36,627,656	40,694,505
Purchase of non-trading investments		(31,307,717)	(48,638,739)
Investment in an associate	8	(120,000)	-
Purchase of property and equipment	9	(505,792)	(325,378)
Proceeds from sale of property and equipment		14,388	66,684
Net cash from (used in) investing activities		4,708,535	(8,202,928)
FINANCING ACTIVITIES			
Term Loan	15	-	(1,312,500)
Early retirement of debt securities		(131,512)	-
Dividends paid		(643,054)	(71,449)
Non-controlling interest		109,500	-
Net cash used in financing activities		(665,066)	(1,383,949)
Increase in cash and cash equivalents		107,105	5,251,285
Cash and cash equivalents at the beginning of the year		10,711,944	5,460,659
Cash and cash equivalents at the end of the year	28	10,819,049	10,711,944
Special commission received during the year		4,564,250	5,472,166
Special commission paid during the year		1,293,116	1,967,600
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated income statement		311,724	(365,594)

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

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 139 branches (2008: 131 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.

The consolidated financial statements comprise the financial statements of the bank and its following subsidiaries:

Arab National Bank Investment Company (ANBI)

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

Arabian Heavy Equipment Leasing Company

A 62.5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration no 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (May 10, 2009). The company is engaged in leasing of heavy equipments and operating in compliance with Shariah principals. The Bank started consolidating the subsidiary financial statements effective May 10, 2009, the date the subsidiary started its operation.

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, 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 judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Basis of preparation (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

(i) Impairment for credit 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. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of available for-sale equity investments

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

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

(iv) Classification of held-to-maturity investments

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

3. Summary of significant accounting policies

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

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of IFRS 8 Operating Segments and amendments to existing standards, as mentioned below. The Group has adopted the standard and amendments with retrospective effect which had no impact on the financial position and financial performance of the Group. The comparative information has been restated, where required, to conform to current year presentation.

- IFRS 8 Operating Segments, which supersedes IAS 14 Segment Reporting and require disclosure of information about the Groups operating segments; and
- the revisions and amendments to IAS 1 Presentation of Financial statements.

3. Summary of significant accounting policies (continued)

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries collectively referred to as (the Group). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank. Adjustments have been made to the financial statements of the subsidiaries when necessary to align them with the Bank's financial statements.

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying an ownership interest of more than one half of the voting rights.

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

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity holders of the bank. Any losses applicable to the non controlling interest in excess of the non controlling interest are allocated against the interests of the Bank. Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognised as goodwill.

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

b) Investment in associates

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

c) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. For financial instruments held at fair value, the Bank accounts for any change in fair values between the trade date and the reporting date.

d) Derivative financial instruments and hedge accounting

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.

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

3. Summary of significant accounting policies (continued)

d) Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting

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

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

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

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. 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 equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in "other reserves" is transferred to the consolidated income statement for the year.

e) Foreign currencies

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

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

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

The monetary assets and liabilities of overseas branch are translated at the rate of exchange ruling at the consolidated statement of financial position date. The statements of income of overseas branch are translated at the average exchange rates for the year.

3. Summary of significant accounting policies (continued)

f) Offsetting financial instruments

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

g) Revenue and expenses recognition

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

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective commission rate but not future credit losses. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the loan.

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

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

Exchange income is recognized when earned.

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

Dividend income is recognized when declared.

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

h) Sale and repurchase agreements

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

3. Summary of significant accounting policies (continued)

i) Investments

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

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

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position 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 and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in net trading income/loss. 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 consolidated income statement in the year in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in line with the underlying assets in the consolidated income statement.

(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 equity. On derecognition, any cumulative gain or loss previously recognized in shareholders’ equity is included in the consolidated income statement for the year.

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

(iii) Held to maturity

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

3. Summary of significant accounting policies (continued)

i) Investments (continued)

(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 basis, less provision for any impairment. Any gain or loss is recognized in the consolidated income statement when the investment is derecognized or impaired.

j) Loans and advances

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

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

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

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

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

k) Impairment of financial assets

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

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

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

3. Summary of significant accounting policies (continued)

k) Impairment of financial assets (continued)

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

i) Impairment of financial assets held at amortized cost

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

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

ii) Impairment of available for sale financial assets

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

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

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

l) Other real estate

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

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

m) Property and equipment

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated income statement.

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.

3. Summary of significant accounting policies (continued)

n) Liabilities

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

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

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

o) Provisions

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

p) Accounting for leases

i) Where the Bank is the lessee

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

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

ii) Where the Bank is the lessor

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

q) Cash and cash equivalents

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

r) Financial guarantees

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

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

(Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

s) Derecognition of financial instruments

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

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

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

t) Zakat and income taxes

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

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

u) Shariah compliant based banking products

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

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

v) Prospective changes in accounting policies

Certain new IFRS and amendments and interpretations to existing IFRS, have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2010 these include:

IFRS 9 Financial instruments

IFRS 9, "Financial Instruments" has been partially published and is mandatory for compliance for the Bank's accounting year beginning January 1, 2013.

4. Cash and balances with SAMA

	2009	2008
Cash in hand	1,324,782	1,179,057
Statutory deposit	3,991,454	3,898,788
Money market placements	5,137,929	6,958,710
Other balances	3,290	14,281
Total	10,457,455	12,050,836

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.

(Saudi Riyals in Thousands)

5. Due from banks and other financial institutions

	2009	2008
Current accounts	643,418	414,048
Money market placements	5,439,005	2,333,348
Total	6,082,423	2,747,396

6. Investments, net

a) Investment securities are classified as follows:

i) Held at fair value through income statement

	Domestic		International		Total	
	2009	2008	2009	2008	2009	2008
Mutual funds and others	-	-	208,322	349,952	208,322	349,952
Held at fair value through income statement	-	-	208,322	349,952	208,322	349,952

ii) Available for sale

	Domestic 2009	Domestic 2008	International 2009	International 2008	Total 2009	Total 2008
Fixed rate securities	4,586,420	7,726,752	10,383,944	187,709	14,970,364	7,914,461
Floating rate notes	746,340	558,174	408,507	471,869	1,154,847	1,030,043
Equities	690,838	231,535	64,092	58,269	754,930	289,804
Other	217,074	191,972	178,719	287,974	395,793	479,946
Available for sale	6,240,672	8,708,433	11,035,262	1,005,821	17,275,934	9,714,254

iii) Held to maturity

	Domestic 2009	Domestic 2008	International 2009	International 2008	Total 2009	Total 2008
Fixed rate securities	422,114	3,417,895	-	-	422,114	3,417,895
Held to maturity	422,114	3,417,895	-	-	422,114	3,417,895

iv) Other investments held at amortized cost

	Domestic 2009	Domestic 2008	International 2009	International 2008	Total 2009	Total 2008
Fixed rate securities	2,420,702	11,938,425	633,778	60,696	3,054,480	11,999,121
Floating rate notes	1,460,000	265,000	831,379	2,444,074	2,291,379	2,709,074
Other	-	-	37,500	374,063	37,500	374,063
Held at amortized cost, gross	3,880,702	12,203,425	1,502,657	2,878,833	5,383,359	15,082,258
Allowance for impairment	-	-	(28,822)	(336,563)	(28,822)	(336,563)
Held at amortized cost, net	3,880,702	12,203,425	1,473,835	2,542,270	5,354,537	14,745,695
Total investments, net	10,543,488	24,329,753	12,717,419	3,898,043	23,260,907	28,227,796

(Saudi Riyals in Thousands)

6. Investments, net (continued)

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

	2009			2008		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	10,629,020	7,817,938	18,446,958	248,405	23,083,072	23,331,477
Floating rate notes	1,798,011	1,648,215	3,446,226	427,092	3,312,025	3,739,117
Equities	689,838	65,092	754,930	230,535	59,269	289,804
Other	311,871	329,744	641,615	266,820	937,141	1,203,961
Allowance for impairment	-	(28,822)	(28,822)	-	(336,563)	(336,563)
Investments, net	13,428,740	9,832,167	23,260,907	1,172,852	27,054,944	28,227,796

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:

	2009				2008			
	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	422,114	13,941	-	436,055	3,417,895	33,635	-	3,451,530
Total	422,114	13,941	-	436,055	3,417,895	33,635	-	3,451,530
ii) Other investments held at amortized cost								
Fixed rate securities	3,054,480	17,872	9,822	3,062,530	11,999,121	55,542	10,388	12,044,275
Floating rate notes	2,291,379	171	93,845	2,197,705	2,709,074	239	130,358	2,578,955
Other	37,500	-	18,750	18,750	374,063	-	340,406	33,657
Allowance for impairment	(28,822)	-	-	(28,822)	(336,563)	-	-	(336,563)
Total	5,354,537	18,043	122,417	5,250,163	14,745,695	55,781	481,152	14,320,324

d) The analysis of investments by counter-party is as follows:

	2009	2008
Government and quasi government	19,272,549	23,956,585
Corporate	1,068,843	890,885
Banks and other financial institutions	2,607,644	3,113,506
Other	311,871	266,820
Total	23,260,907	28,227,796

Investments include SAR 9,459 million (2008: SAR 13,921 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 9,471 million (2008: SAR 13,975 million).

e) Movement in the allowance for impairment of investments

	2009	2008
Balance at beginning of the year	336,563	228,858
Provided during the year	28,822	559,688
Written – off during the year	(336,563)	(451,983)
Balance at end of the year	28,822	336,563

(Saudi Riyals in Thousands)

7. Loans and advances, net

a) Loans and advances (all held at amortized cost) comprise the following:

2009	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances, gross	927,449	16,926,843	48,492,847	66,347,139
Non-performing loans and advances, net	17,371	25,474	1,878,469	1,921,314
Total loans and advances	944,820	16,952,317	50,371,316	68,268,453
Provision for credit losses	(13,089)	(149,531)	(1,294,800)	(1,457,420)
Loans and advances, net	931,731	16,802,786	49,076,516	66,811,033
2008				
Performing loans and advances, gross	1,273,890	17,215,328	56,909,151	75,398,369
Non-performing loans and advances, net	22,287	27,020	246,601	295,908
Total loans and advances	1,296,177	17,242,348	57,155,752	75,694,277
Provision for credit losses	(13,691)	(257,095)	(761,881)	(1,032,667)
Loans and advances, net	1,282,486	16,985,253	56,393,871	74,661,610

Loan and advances, net include Shariah compliant based banking products in respect of Murabaha, Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 31.9 billion (2008: SAR 33.5 billion).

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

2009	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Balance at beginning of the year	13,691	257,095	761,881	1,032,667
Provided during the year	28,789	60,480	561,685	650,954
Recovery of amounts previously provided	-	(110,271)	(14,100)	(124,371)
Bad debts written off	(29,391)	(57,773)	(14,666)	(101,830)
Balance at end of the year	13,089	149,531	1,294,800	1,457,420
2008				
Balance at beginning of the year	19,847	232,879	862,175	1,114,901
Provided during the year	33,515	115,783	42,892	192,190
Recovery of amounts previously provided	-	-	(131,909)	(131,909)
Bad debts written off	(39,671)	(91,567)	(11,277)	(142,515)
Balance at end of the year	13,691	257,095	761,881	1,032,667

c) The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and 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.

(Saudi Riyals in Thousands)

7. Loans and advances, net (continued)

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
	2009				
1.	Government and quasi government	26,786	-	-	26,786
2.	Banks and other financial institutions	1,634,818	498,984	(241,332)	1,892,470
3.	Agriculture and fishing	318,341	4,748	(4,737)	318,352
4.	Manufacturing	11,161,312	659,729	(466,076)	11,354,965
5.	Mining and quarrying	841,880	-	-	841,880
6.	Electricity, water, gas and health services	1,077,047	-	-	1,077,047
7.	Building and construction	3,163,675	12,963	(64,978)	3,111,660
8.	Commerce	10,152,280	48,183	(53,970)	10,146,493
9.	Transportation and communication	5,882,245	343	(27,822)	5,854,766
10.	Services	1,010,690	375,182	(188,216)	1,197,656
11.	Consumer loans and credit cards	17,854,292	42,845	(34,188)	17,862,949
12.	Other	13,223,773	278,337	(28,311)	13,473,799
		66,347,139	1,921,314	(1,109,630)	67,158,823
13.	Portfolio provision	-	-	(347,790)	(347,790)
Total		66,347,139	1,921,314	(1,457,420)	66,811,033
	2008				
1.	Government and quasi government	37,500	-	-	37,500
2.	Banks and other financial institutions	4,577,220	-	-	4,577,220
3.	Agriculture and fishing	994,353	3,020	(49,748)	947,625
4.	Manufacturing	13,038,379	176,938	(221,292)	12,994,025
5.	Mining and quarrying	645,511	-	-	645,511
6.	Electricity, water, gas and health services	932,631	-	-	932,631
7.	Building and construction	3,911,120	10,998	(135,016)	3,787,102
8.	Commerce	12,140,274	28,694	(118,373)	12,050,595
9.	Transportation and communication	6,535,424	-	(3,316)	6,532,108
10.	Services	1,577,240	1,577	(2,229)	1,576,588
11.	Consumer loans and credit cards	18,489,218	49,307	(32,083)	18,506,442
12.	Other	12,519,499	25,374	(16,248)	12,528,625
		75,398,369	295,908	(578,305)	75,115,972
13.	Portfolio provision	-	-	(454,362)	(454,362)
Total		75,398,369	295,908	(1,032,667)	74,661,610

8. Investment in an associate

	2009	2008
Balance at beginning of the year	193,048	200,000
Cost of investment during the year	120,000	-
Share in earnings (losses)	1,601	(6,952)
Total	314,649	193,048

The Bank participated in the setting up of the Saudi Home Loans Company (the associate). The Bank's share is 40% of the company's total capital of SAR 2 billion. The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method. The amount of SAR 320 million (2008: 200 million) represents 40% of the issued capital of the associate.

(Saudi Riyals in Thousands)

9. Property and equipment, net

	Land and Buildings	Leasehold improvements	Equipment, furniture and vehicles	Total 2009	Total 2008
Cost					
Balance at beginning of the year	625,962	439,525	809,581	1,875,068	1,561,254
Additions	263,140	55,983	186,669	505,792	325,378
Disposals	(8,001)	(45)	(5,639)	(13,685)	(11,564)
Balance at end of the year	881,101	495,463	990,611	2,367,175	1,875,068
Accumulated depreciation					
Balance at beginning of the year	140,829	237,801	561,587	940,217	787,590
Charge for the year	23,008	50,939	118,624	192,571	155,733
Disposals	-	(41)	(5,253)	(5,294)	(3,106)
Balance at end of the year	163,837	288,699	674,958	1,127,494	940,217
Net book value					
As at December 31, 2009	717,264	206,764	315,653	1,239,681	
As at December 31, 2008	485,133	201,724	247,994		934,851

10. Other assets

	2009	2008
Accrued special commission receivable - banks and other financial institutions	998	4,067
- investments	172,467	144,903
- loans and advances	376,108	620,938
- derivatives	64,417	172,550
Total accrued special commission receivable	613,990	942,458
Positive fair value of derivatives (note 11)	393,835	1,123,750
Leased equipments	238,452	-
Other	783,903	321,957
Total	2,030,180	2,388,165

11. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

(Saudi Riyals in Thousands)

11. Derivatives (continued)

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 statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for special hedge accounting and related derivatives are accounted for as held for trading.

The Bank 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.

Derivative financial instruments

2009				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	187,783	169,950	13,579,910	408,064	412,500	12,753,263	6,083	12,664,592
Commission rate futures and options	-	-	-	-	-	-	-	328,125
Forward foreign exchange contracts	195,719	169,473	12,807,732	5,089,135	7,078,415	504,120	136,062	14,025,439
Currency options	5,516	4,521	177,848	112,015	65,833	-	-	338,006
Held as fair value hedges:								
Commission rate swaps	794	140,768	3,017,129	50,000	211,371	2,380,758	375,000	4,076,062
Held as cash flow hedges:								
Commission rate swaps	4,023	171	625,000	200,000	175,000	250,000	-	560,583
Total	393,835	484,883	30,207,619	5,859,214	7,943,119	15,888,141	517,145	31,992,807

(Saudi Riyals in Thousands)

11. Derivatives (continued)

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

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	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
2009						
Fixed commission rate investments	1,289,518	1,254,796	Fair value	Commission rate swap	794	42,024
Fixed commission rate loans	1,861,077	1,762,333	Fair value	Commission rate swap	-	98,744
Floating commission rate investments	450,152	450,000	Cash flow	Commission rate swap	18	171
Floating commission rate loans	179,005	175,000	Cash flow	Commission rate swap	4,005	-
2008						
Fixed commission rate investments	1,269,011	1,219,408	Fair value	Commission rate swap	-	52,183
Fixed commission rate loans	7,478,811	7,280,310	Fair value	Commission rate swap	853	199,356
Floating commission rate investments	649,005	665,000	Cash flow	Commission rate swap	32,974	-
Floating commission rate loans	1,083,000	1,083,000	Cash flow	Commission rate swap	93,566	-

Cash flow hedges

The Bank is exposed to variability in future commission cash flows on non-trading assets and liabilities which bear commission at a variable rate. The bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

2009	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	9,974	1,883	-	-
Cash out flows (liabilities)	(5,398)	(2,531)	-	-
Net cash inflow (outflow)	4,576	(648)	-	-
2008				
Cash inflows (assets)	81,660	134,082	95,771	-
Cash out flows (liabilities)	(53,654)	(58,816)	(61,711)	-
Net cash inflow	28,006	75,266	34,060	-

(Saudi Riyals in Thousands)

11. Derivatives (continued)

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

	2009	2008
Balance at beginning of the year	126,540	10,746
Gains from changes in fair value recognized directly in equity, net	75,615	138,581
Gains removed from equity and included in special commission income, net	(198,303)	(22,787)
Balance at end of the year	3,852	126,540

The discontinuation of hedge accounting resulted in reclassification of the associated cumulative gains SAR of 68.3 million from equity to consolidated income statement (2008: Nil), included in the above numbers.

Approximately 24% (2008: 55%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 31% (2008: 15%) of the positive fair value contracts are with any single counter-party at the consolidated statement of financial position date. Derivative activities are mainly carried out under the bank's treasury banking segment.

12. Due to banks and other financial institutions

	2009	2008
Current accounts	149,779	204,455
Money market deposits	8,564,449	10,304,618
Total	8,714,228	10,509,073

13. Customers' deposits

	2009	2008
Demand	37,461,339	28,738,887
Saving	106,557	86,819
Time	42,236,324	61,732,537
Other	2,876,020	2,185,210
Total	82,680,240	92,743,453

Time deposits include deposits against sale of securities of SAR 1,715 million (2008: SAR 10,951 million) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 1,738 million (2008: SAR 1,525 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2009	2008
Demand	1,035,253	815,221
Saving	3,105	2,927
Time	15,269,037	9,907,244
Other	260,993	173,605
Total	16,568,388	10,898,997

14. Other liabilities

	2009	2008
Accrued special commission payable - banks and other financial institutions	497	63,310
- customers' deposits	45,225	355,742
- derivatives	107,950	328,433
- Debt securities in issue	3,280	13,724
Total accrued special commission payable	156,952	761,209
Negative fair value of derivatives (note 11)	484,883	1,172,416
Other	2,095,250	1,574,693
Total	2,737,085	3,508,318

(Saudi Riyals in Thousands)

15. Term loan and debt securities in issue

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

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

During the year ended December 31, 2009, USD 50 million was purchased from secondary market and retired.

16. Share capital

The authorized, issued and fully paid share capital of the Bank as at December 31, 2009 consists of 650 million shares of SAR 10 each (2008: 650 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2009	2008
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

At December 31, 2009, the Bank has 650 million shares issued and outstanding. Further, during the year ended December 31, 2008, 195 million shares of SAR 10 each were issued after approval by the shareholders at their Extraordinary General Assembly meetings held on March 16, 2008 to increase the share capital of the Bank from SAR 4,550 million to SAR 6,500 million by transferring SAR 1,950 million from the general reserve through the issuance of three bonus shares for every seven shares held.

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 610 million has been transferred from 2009 net income (2008: SAR 624 million). The statutory reserve is not currently available for distribution.

Further to the bonus shares issue (see note 16 above), SAR Nil million has been transferred from general reserve to share capital during 2009 (2008: SAR 1,950 million).

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2009 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2009 the Bank had capital commitments of SAR 296 million (2008: SAR 459 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.

(Saudi Riyals in Thousands)

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

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:

2009	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,580,067	1,792,128	251,378	-	4,623,573
Letters of guarantee	3,663,361	5,258,790	6,097,782	4,540	15,024,473
Acceptances	846,356	367,382	18,160	-	1,231,898
Irrevocable commitments to extend credit	42,993	47,279	2,078,739	19,565	2,188,576
Other	-	-	-	282,585	282,585
Total	7,132,777	7,465,579	8,446,059	306,690	23,351,105
2008					
Letters of credit	2,512,737	1,233,015	557,154	-	4,302,906
Letters of guarantee	4,522,608	4,868,475	5,427,827	50,192	14,869,102
Acceptances	1,295,513	874,480	66,266	-	2,236,259
Irrevocable commitments to extend credit	-	151,888	2,644,427	-	2,796,315
Other	-	-	-	320,636	320,636
Total	8,330,858	7,127,858	8,695,674	370,828	24,525,218

The unutilized portion of non-firm commitments as at December 31, 2009, which can be revoked unilaterally at any time by the Bank, amounts to SAR 9,396 million (2008: SAR 10,078 million).

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

	2009	2008
Government and quasi government	837,500	1,034,298
Corporate	17,326,944	17,533,971
Banks and other financial institutions	4,355,053	4,345,129
Other	831,608	1,611,820
Total	23,351,105	24,525,218

d) Assets pledged

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

	2009		2008	
	Assets	Related liabilities	Assets	Related liabilities
Held to maturity investments (note 6)	422,114	406,000	1,421,425	1,420,000
Other investments held at amortized cost (note 6)	595,927	75,500	7,997,536	5,343,278
Available for sale investments (note 6)	8,441,230	5,735,956	4,501,668	4,187,399
Total	9,459,271	6,217,456	13,920,629	10,950,677

(Saudi Riyals in Thousands)

18. Commitments and contingencies (continued)

e) Operating lease commitments

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

	2009	2008
Less than 1 year	87,280	86,679
1 to 5 years	242,170	258,878
Over 5 years	125,741	146,017
Total	455,191	491,574

19. Net special commission income

Special commission income	2009	2008
Investments:		
Available for sale	326,852	206,367
Held to maturity	38,449	170,150
Other investments held at amortized cost	301,112	624,226
	666,413	1,000,743
Due from banks and other financial institutions	23,494	159,936
Loans and advances	3,544,580	4,478,248
Total	4,234,487	5,638,927
Special commission expense		
Due to banks and other financial institutions	30,626	180,621
Customers' deposits	710,358	2,006,478
Term loan	-	19,296
Debt securities in issue	37,220	79,000
Total	778,204	2,285,395
Net special commission income	3,456,283	3,353,532

20. Fees from banking services, net

	2009	2008
Fee income:		
Share trading and fund management	122,308	199,494
Trade finance	124,927	165,821
Other banking services	595,392	762,669
Total fee income	842,627	1,127,984
Fee expense:		
Credit cards	63,986	91,528
Custody and Brokerage Fees	5,784	14,933
Other banking services	209,855	182,505
Total fee expense	279,625	288,966
Fees from banking services, net	563,002	839,018

21. Loss from FVIS financial instruments, net

	2009	2008
Fair value change of financial assets held as FVIS investments	(13,285)	(58,224)
Total	(13,285)	(58,224)

(Saudi Riyals in Thousands)

22. Trading income, net

	2009	2008
Derivatives	10,656	5,128
Trading income, net	10,656	5,128

23. Dividend income

	2009	2008
Available for sale investments	12,685	5,784
Total	12,685	5,784

24. Gains (losses) and impairment on non-trading investments, net

	2009	2008
Realized gains on available for sale investments	74,510	103,757
Realized (losses) gains on other investments held at amortized cost	(190)	266,513
Impairment loss on other investments held at amortized cost	(28,822)	(559,688)
Impairment loss on available for sale investments	-	(234,738)
Total	45,498	(424,156)

25. Other operating income

	2009	2008
Gains on disposal of property and equipment	5,997	2,119
Recoveries of loans and advances previously written off	77,036	73,842
Gain from early retirement of debt securities	55,988	-
Gains on disposal of other real estate	-	56,107
Other	19,850	16,123
Total	158,871	148,191

26. Basic and 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 diluted earnings per share is the same as the basic earnings per share figure.

27. Gross dividend, Zakat and Income Tax

Gross dividend is comprised of the following :

	2009	2008
Proposed dividends	650,000	650,000
Zakat	61,454	82,023
Total	711,454	732,023

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 36.9 million (2008: SAR 49.2 million).

Income Tax

Income tax payable by the non Saudi Shareholders on the current year's share of income is SAR 173.4 million (2008: SAR 236.9 million).

(Saudi Riyals in Thousands)

28. Cash and cash equivalents

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

	2009	2008
Cash and balances with SAMA excluding statutory deposit (note 4)	6,466,001	8,152,048
Due from banks and other financial institutions maturing within ninety days from the acquisition date	4,353,048	2,559,896
Total	10,819,049	10,711,944

29. Business segments

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

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury banking

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

Investment and brokerage services

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Other

Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head office and other supporting departments.

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

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

(Saudi Riyals in Thousands)

29. Business segments (continued)

a) The Group's total assets and liabilities as at December 31, 2009 and 2008, its total operating income, expenses and net income for the years then ended, by business segments, are as follows:

2009	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	24,714,915	45,724,514	37,530,285	42,580	2,285,026	110,297,320
Total liabilities	41,290,887	42,868,253	10,819,549	22,836	817,528	95,819,053
Total operating income	2,120,827	1,235,271	606,475	122,552	408,334	4,493,459
Fee and commission income, net	2,013,394	1,238,098	306,588	121,854	339,351	4,019,285
Trading income, net	-	17	10,639	-	-	10,656
Total operating expenses	1,189,019	766,334	75,534	88,128	9,033	2,128,048
Gain from an associate	-	-	-	-	1,601	1,601
Loss attributed to Non-controlling interest	-	-	-	-	3,000	3,000
Net income for the year	931,808	468,937	530,941	34,424	403,902	2,370,012
Provision for credit losses, net	(27,260)	548,692	-	-	5,151	526,583
Investment in an associate	-	-	-	-	314,649	314,649
Depreciation	103,774	2,086	1,163	8,504	77,044	192,571
Impairment of financial assets	-	10,072	18,750	-	-	28,822
2008						
Total assets	25,391,796	52,845,677	41,780,980	54,786	1,233,903	121,307,142
Total liabilities	37,440,789	58,070,342	12,821,309	19,763	283,641	108,635,844
Total operating income	2,462,212	1,008,116	241,707	180,417	242,731	4,135,183
Fee and commission income, net	2,256,214	953,093	346,658	179,475	457,110	4,192,550
Trading income, net	-	1,211	3,917	-	-	5,128
Total operating expenses	1,332,765	104,062	78,967	119,244	7,069	1,642,107
Losses from an associate	-	-	-	-	6,952	6,952
Net income for the year	1,129,447	904,054	162,740	61,173	228,710	2,486,124
Provision for credit losses, net	147,905	(87,624)	-	-	-	60,281
Investment in an associate	-	-	-	-	193,048	193,048
Depreciation	78,467	1,417	809	6,968	68,072	155,733
Impairment of financial assets	-	-	639,375	-	155,051	794,426

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

2009	Retail banking	Corporate Banking	Treasury banking	Investment and brokerage services	Other	Total
Statement of financial position assets	22,408,119	45,341,540	36,880,074	25,307	1,185,808	105,840,848
Commitment and contingencies	2,275,235	8,487,901	-	141,291	-	10,904,427
Derivatives	-	18,324	664,440	-	-	682,764
2008						
Statement of financial position assets	23,212,375	52,151,464	40,879,543	25,307	432,940	116,701,629
Commitment and contingencies	2,546,100	9,418,767	-	125,000	-	12,089,867
Derivatives	-	213,492	990,996	-	-	1,204,488

29. Business segments (continued)

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

30. Credit risk

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

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

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

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

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

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

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

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

The bank classifies its exposure into ten risk categories. Of these, seven categories are for performing and three for non performing. Each borrower is rated on an internally developed objective risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics, account conduct and company type. An independent credit review unit reviews the assigned ratings periodically. Exposure falling below a certain classification thresholds 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.

(Saudi Riyals in Thousands)

30.Credit risk (continued)

a) Credit risk exposures - on- consolidated statement of financial position assets:

	2009	2008
Loans and advances:		
Consumer loans		
Credit cards	931,731	1,282,486
Term loans	16,802,786	16,985,253
Total	17,734,517	18,267,739
Corporate loans		
Syndicated loans	8,084,531	7,161,295
Overdraft	3,620,971	4,353,387
Term loans	37,348,175	44,857,662
Other	22,839	21,527
Total	49,076,516	56,393,871
Investment:		
Fixed-rate securities	18,446,958	23,331,477
Floating-rate notes	3,446,226	3,739,117
Other	1,367,723	1,157,202
Total	23,260,907	28,227,796
Other assets	2,030,180	2,388,165
Gross Total	92,102,120	105,277,571

b) Credit risk exposures - off- consolidated statement of financial position items:

	2009	2008
Loan commitments and other credit related liabilities	2,188,576	2,796,315
Financial guarantees	21,162,529	21,728,903
Total	23,351,105	24,525,218

c) Credit quality of loans and advances

Description	2009	2008
Neither past due nor impaired	63,453,197	73,328,841
Past due but not impaired	1,318,465	1,151,935
Impaired	3,496,791	1,213,501
Total loans and advances	68,268,453	75,694,277
Provision for credit losses	(1,457,420)	(1,032,667)
Loans and advances, net	66,811,033	74,661,610

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

	2009	2008
Grades:		
Low risk (1-3)	24,191,877	27,968,213
Acceptable risk (4-6)	38,415,481	44,084,273
Watch list (7)	845,839	1,276,355
Total	63,453,197	73,328,841

(Saudi Riyals in Thousands)

30. Credit risk (continued)

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

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

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

e) Loans and advances past due but not impaired

2009	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Past due up to 30 days	53,256	306,855	440,525	800,636
Past due 30 - 60 days	-	-	7,391	7,391
Past due 60-90 days	-	-	457,720	457,720
Past due more than 90 days	-	-	52,718	52,718
Total	53,256	306,855	958,354	1,318,465
2008				
Past due up to 30 days	69,303	345,117	578,741	993,161
Past due 30 - 60 days	-	-	4,253	4,253
Past due 60-90 days	-	-	103,348	103,348
Past due more than 90 days	-	-	51,173	51,173
Total	69,303	345,117	737,515	1,151,935

f) Impaired Loans and advances

	2009	2008
Corporate loans	3,385,718	1,112,481
Retail loans	111,073	101,020
Total	3,496,791	1,213,501

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.

	2009	2008
Saudi Government Bonds	7,166,967	23,386,085
Investment grade	14,806,074	3,656,976
Non Investment grade	99,840	29,903
Unrated	1,188,026	1,154,832
Overall Investment, net	23,260,907	28,227,796

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

h) Collateral

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

Nature of collateral held as security	2009 Carrying value	2008 Carrying value
Listed securities	10,908,492	9,089,967
Properties	4,189,170	1,978,523
Others	1,779,551	4,707,178
Total	16,877,213	15,775,668

(Saudi Riyals in Thousands)

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

a) Geographical concentration

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

2009	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	10,455,055	-	2,400	-	-	-	-	10,457,455
Due from banks and other financial institutions	3,456,168	1,094,323	999,233	66,972	-	341,950	123,777	6,082,423
Investments, net	11,065,493	936,537	685,507	10,526,917	-	-	46,453	23,260,907
Investment in an associate	314,649	-	-	-	-	-	-	314,649
Loans and advances, net	66,483,887	70,208	198,929	-	-	-	58,009	66,811,033
Total	91,775,252	2,101,068	1,886,069	10,593,889	-	341,950	228,239	106,926,467
Liabilities								
Due to banks and other financial institutions	1,499,919	2,217,877	1,210,509	3,783,826	-	1,369	728	8,714,228
Customers' deposits	82,555,213	11,366	88,705	1,375	-	119	23,462	82,680,240
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Total	84,055,132	3,069,243	1,922,464	3,785,201	-	225,738	24,190	93,081,968
Commitments and contingencies	14,566,054	2,262,255	2,599,356	656,176	3,651	3,128,044	135,569	23,351,105
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	7,153,564	973,979	1,100,267	316,411	1,397	1,328,876	29,933	10,904,427
Derivatives	336,555	878	227,567	117,764	-	-	-	682,764

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

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-consolidated statement of financial position 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.

(Saudi Riyals in Thousands)

31. Concentration of risks of financial assets with credit risk exposure (continued)

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	
	2009	2008	2009	2008
Saudi Arabia	1,921,314	295,908	1,457,420	1,032,667

32. Market risk

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

a) Market risk-trading book

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

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

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

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

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

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

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

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

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

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

(Saudi Riyals in Thousands)

32. Market risk (continued)

a) Market risk-trading book (continued)

The Bank's VAR related information for the years ended December 31, 2009 and 2008 is as under. All the figures are in million SAR:

	2009				2008			
	Foreign exchange	Commission rate	Equity	Total	Foreign exchange	commission rate	Equity	Total
VAR as at December 31	1.8088	0.0359	-	1.8447	1.4391	0.6394	-	2.0785
Average VAR	2.0250	0.2434	-	2.2684	3.1966	1.7400	-	4.9366

(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 consolidated income statement 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, 2009, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2009 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.

	2009						
Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+100	78.865	(1.25)	(1.60)	(65.05)	(19.90)	(87.80)
USD	+100	(65.687)	(0.29)	(0.37)	(289.04)	(186.37)	(476.07)
Others	+100	5.214	(0.24)	-	(5.43)	-	(5.67)

	2009						
Currency	Decrease in basis points	Sensitivity of commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-100	(78.865)	1.25	1.60	65.05	19.90	87.80
USD	-100	65.687	0.29	0.37	289.04	186.37	476.07
Others	-100	(5.214)	0.24	-	5.43	-	5.67

(Saudi Riyals in Thousands)

32. Market risk (continued)

(b) Non trading book (continued)

i) Commission rate risk (continued)

Currency	2008						
	Increase in basis points	Sensitivity of commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+100	144.410	(0.19)	(22.20)	(60.90)	(13.30)	(96.59)
USD	+100	(40.049)	(0.13)	-	(24.33)	-	(24.46)
Others	+100	(6.036)	-	-	(8.92)	-	(8.92)

Currency	2008						
	Decrease in basis points	Sensitivity of commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-100	(144.410)	0.19	22.20	60.90	13.30	96.59
USD	-100	40.049	0.13	-	24.33	-	24.46
Others	-100	6.036	-	-	8.92	-	8.92

Commission sensitivity of assets, liabilities and off consolidated statement of financial position 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 consolidated statement of financial position instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

2009	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate (%)
Assets							
Cash and balances with SAMA	5,137,929	-	-	-	5,319,526	10,457,455	
Due from banks and other financial institutions	5,439,004	-	-	-	643,419	6,082,423	1.03
Investments, net	5,173,469	2,539,373	10,403,754	3,581,699	1,562,612	23,260,907	2.77
Loans and advances, net	30,841,661	16,108,480	17,452,650	2,408,242	-	66,811,033	5.16
Investment in an associate	-	-	-	-	314,649	314,649	
Other real estate	-	-	-	-	100,992	100,992	
Property and equipment, net	-	-	-	-	1,239,681	1,239,681	
Other assets	-	-	-	-	2,030,180	2,030,180	
Total assets	46,592,063	18,647,853	27,856,404	5,989,941	11,211,059	110,297,320	

(Saudi Riyals in Thousands)

32. Market risk (continued)

(b) Non-trading book (continued)

Commission sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

2009	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective Commission rate (%)
Liabilities and equity							
Due to banks and other financial institutions	7,967,024	597,425	-	-	149,779	8,714,228	0.72
Customers' deposits	36,748,878	7,004,396	46,100	-	38,880,866	82,680,240	0.83
Other liabilities	-	-	-	-	2,737,085	2,737,085	
Debt securities in issue	1,687,500	-	-	-	-	1,687,500	2.07
Equity	-	-	-	-	14,478,267	14,478,267	
Total liabilities and equity	46,403,402	7,601,821	46,100	-	56,245,997	110,297,320	
On consolidated statement of financial position gap	188,661	11,046,032	27,810,304	5,989,941	(45,034,938)		
Off consolidated statement of financial position gap	2,551,280	(65,260)	(2,111,020)	(375,000)	-		
Total commission rate sensitivity gap	2,739,941	10,980,772	25,699,284	5,614,941	(45,034,938)		
Cumulative commission rate sensitivity gap	2,739,941	13,720,713	39,419,997	45,034,938	-		

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

(Saudi Riyals in Thousands)

32. Market risk (continued)

The off-consolidated statement of financial position 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.

ii) Currency risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2009 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated 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 used as cash flow hedges). A positive effect shows a potential increase in consolidated income statement or equity; whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

	2009		2008	
		(SAR million)		(SAR million)
Currency risk exposures	Changes in currency rate in %	Effect on net Income	Changes in currency rate in %	Effect on net Income
USD	+5	(0.926)	+5	(12.403)
EUR	-3	(0.313)	-3	(0.907)

iii) Currency position

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

	Long (short) 2009	Long (short) 2008
US Dollar	(1,192,279)	(38,953)
Euro	380	10
Pound Sterling	154	56
Other	165,551	98,580

iv) Equity price risk

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

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

Market indices	2009		2008	
	Change in equity price %	Effect in SAR	Change in equity price %	Effect in SAR
Tadawul	+5	22,589	+5	16,816

(Saudi Riyals in Thousands)

33.Liquidity risk

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

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2008: 7%) of total demand deposits and 4% (2008: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days.

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

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

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

2009	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	7,968,589	599,256	-	-	149,779	8,717,624
Customers' deposits	36,726,922	7,039,194	45,806	-	39,430,259	83,242,181
Derivative financial instruments						
Contractual amounts payable	76,371	235,096	474,641	65,821	-	851,929
Contractual amounts receivable	(58,389)	(53,908)	(129,203)	-	-	(241,500)
Debt securities in issue	22,908	14,463	76,220	1,910,207	-	2,023,798
Total financial liabilities	44,736,401	7,834,101	467,464	1,976,028	39,580,038	94,594,032

2008	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	9,382,810	1,125,590	-	-	204,455	10,712,855
Customers' deposits	47,929,673	15,532,606	147,244	-	30,055,834	93,665,357
Derivative financial instruments						
Contractual amounts payable	215,730	306,770	644,528	87,088	-	1,254,116
Contractual amounts receivable	(135,550)	(175,112)	(476,457)	-	-	(787,119)
Debt securities in issue	40,513	61,109	327,271	2,120,340	-	2,549,233
Total financial liabilities	57,433,176	16,850,963	642,586	2,207,428	30,260,289	107,394,442

(Saudi Riyals in Thousands)

33. Liquidity risk (continued)

ii) Maturity profile of Bank's assets, liabilities and equity

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

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 subsidiaries and foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

2009	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	5,137,929	-	-	-	5,319,526	10,457,455
Due from banks and other financial institutions	5,439,004	-	-	-	643,419	6,082,423
Investments, net	1,809,502	3,010,196	13,201,276	3,677,320	1,562,613	23,260,907
Loans and advances, net	25,013,650	16,123,787	17,581,172	2,409,809	5,682,615	66,811,033
Investment in associate	-	-	-	-	314,649	314,649
Other real estate	-	-	-	-	100,992	100,992
Property and equipment, net	-	-	-	-	1,239,681	1,239,681
Other assets	-	-	-	-	2,030,180	2,030,180
Total assets	37,400,085	19,133,983	30,782,448	6,087,129	16,893,675	110,297,320
Liabilities and equity						
Due to banks and other financial institutions	7,967,024	597,425	-	-	149,779	8,714,228
Customer deposits	36,199,485	7,004,396	46,100	-	39,430,259	82,680,240
Other liabilities	-	-	-	-	2,737,085	2,737,085
Debt securities in issue	-	-	-	1,687,500	-	1,687,500
Equity	-	-	-	-	14,478,267	14,478,267
Total liabilities and equity	44,166,509	7,601,821	46,100	1,687,500	56,795,390	110,297,320

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

(Saudi Riyals in Thousands)

34. Fair values of financial assets and liabilities

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

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

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

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

2009	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at FVIS	-	208,322	-	208,322
Financial investments available for sale	12,517,336	4,610,165	39,713	17,167,214
Derivative financial instruments	195,719	198,116	-	393,835
Total	12,713,055	5,016,603	39,713	17,769,371
Financial Liabilities				
Derivative financial instruments	169,473	315,410	-	484,883
Total	169,473	315,410	-	484,883

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-consolidated statement of financial position financial instruments, except for other investments held at amortized costs, held-to-maturity investments which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated 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 consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 6.

The fair values of derivatives and other off-consolidated statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation technique, is SAR 94.9 millions (2008: SAR 175.2 millions).

(Saudi Riyals in Thousands)

35. Related party transactions

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

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

	2009	2008
Arab Bank PLC		
Due from banks and other financial institutions	1,090,451	112,173
Due to banks and other financial institutions	795,325	1,440,478
Derivatives (at fair value)	1	1,424
Commitments and contingencies	2,106,988	2,475,288
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	2,821,358	2,550,733
Customers' deposits	7,202,045	5,106,902
Derivatives (at fair value)	-	5,677
Commitments and contingencies	695,713	893,542
Bank's mutual funds		
Investments	286,618	243,843
Loans and advances	10,086	5,611
Customers' deposits	590,817	525,858

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 consolidated financial statements are as follows:

	2009	2008
Special commission income	233,418	201,129
Special commission expense	117,122	234,000
Fees from banking services	14,397	39,559
Directors' remuneration	3,468	3,381

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

	2009	2008
Short-term employee benefits (Salaries and allowances)	42,436	51,285
Post-employment benefits (End of service indemnity and social security)	3,725	3,494

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.

(Saudi Riyals in Thousands)

36. Capital Adequacy

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

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position 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.

	2009	2008
Credit Risk RWA	85,208,599	91,227,122
Operational Risk RWA	8,024,488	7,303,431
Market Risk RWA	2,029,350	1,160,238
Total Pillar-I RWA	95,262,437	99,690,791
Tier I Capital	13,638,995	11,895,640
Tier II Capital	1,846,018	2,203,704
Total Tier I & II Capital	15,485,013	14,099,344
Capital Adequacy Ratio %		
Tier I ratio	14.32%	11.93%
Tier I + Tier II ratio	16.26%	14.14%

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

37. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 2,643 million (2008: SAR 2,298 million).

The financial statements of these funds are not consolidated with these consolidated financial statements. However, the Group's share of these funds is included in available-for-sale investments and fees earned are disclosed under related party transactions.

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

38. Basel II pillar 3 disclosures

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

39. Comparative figures

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

40. Board of directors' approval

The consolidated financial statements were approved by the Board of Directors on 25 January 2010 (10 Safar 1431H).