PROSPECTUS

Offer of Mudaraba Sukuk due 2019 callable with step up in 2014

SAUDI HOLLANDI BANK

A Saudi joint stock company with Commercial Registration No. 1010064925 incorporated pursuant to Royal Decree No. M/85 dated 29/12/1396H (corresponding to 20/12/1976G)

The mudaraba Sukuk due 2019 callable with step up in 2014 (the "**Mudaraba Sukuk**") of Saudi Hollandi Bank (hereinafter referred to as the "**Issuer**" or the "**Bank**" and together with its subsidiaries, the "**Group**") are being issued at par, without discount or premium.

On the last day of each June and December, in each year, commencing on 30 June 2010 and up to and including 31 December 2019 or, if any such day is not a Business Day (as defined in the terms and conditions of the Mudaraba Sukuk in the section headed "*Terms and Conditions*" in this Prospectus (the "**Conditions**")), the next following Business Day (each a "**Periodic Distribution Date**"), the Issuer is expected to pay an amount equal to the Periodic Distribution Amount (as defined in the Conditions) to the holders of the Mudaraba Sukuk (the "**Sukukholders**") calculated on the basis of SIBOR plus a Margin or Step up Margin (each as defined in the Conditions), calculated as a percentage rate per annum, of the face value of the Mudaraba Sukuk as are current on the Transfer Record Date (as defined in the Conditions) immediately preceding the last day of the relevant Periodic Distribution Period (as defined in the Conditions).

Pursuant to a mudaraba agreement (the "**Mudaraba Agreement**") dated on or about the Closing Date (as defined in the Conditions) between the Issuer and the Sukukholders' Agent (as defined below) (acting for, and on behalf of, the Sukukholders), the Issuer will undertake to redeem the Mudaraba Sukuk from the Sukukholders at the Redemption Amount (as defined in the Conditions) on the Expiry Date, Optional Expiry Date, Regulatory Dissolution Date or Event of Default Date (as defined in the Conditions).

The Mudaraba Sukuk will be the subject of a declaration of agency (the "**Declaration of Agency**") to be dated on or about the Closing Date (as defined below) between the Issuer and Saudi Hollandi Capital (the "**Sukukholders' Agent**").

Distributions of the Periodic Distribution Amounts under the Mudaraba Sukuk will be made solely from the Mudaraba Income (as defined in the Conditions), which is expected to be sufficient to cover the Periodic Distribution Amounts payable to the Sukukholders on each Periodic Distribution Date. In accordance with the Conditions, the Mudaraba Income in excess of the Periodic Distribution Amounts shall be retained by the Issuer as a reserve (the "**Reserve**"). The Issuer shall not have the right to use and invest the monies (if any) standing to the credit of the Reserve for its own account. The Issuer shall pay the monies (if any) standing to the credit of the Reserve to the Sukukholders to compensate the Sukukholders for any shortfalls relating to Periodic Distribution Amounts and to compensate the Sukukholders for any loss relating to the Mudaraba Assets as at the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date (each as defined in the Conditions), with the balance of the monies (if any) standing to the credit of the Reserve to be received by the Issuer as an incentive.

In the event that the Issuer fails on any Periodic Distribution Date to distribute to the Sukukholders the Periodic Distribution Amount and such shortfall remains unpaid in full three Business Days after its due date (except as a result of an administrative or technical error) and occurs as a direct result of the Issuer's default or negligence in performing its obligations under the Transaction Documents (as defined in the Conditions), and in certain other circumstances described in Condition 11 (*Events of Default*), the Sukukholders may request the Issuer to redeem the Mudaraba Sukuk by payment to them of the Redemption Amount, pursuant to the Mudaraba Agreement.

The aggregate face value, together with the anticipated net proceeds, of the Mudaraba Sukuk to be issued, the Margin and the Step-up Margin (each as defined in the Conditions) will be determined by agreement between the Issuer and the Joint Bookrunners & Joint Lead Managers (as defined in the Conditions) and announced in December 2009 (see the "*Subscription and Issuance*" section of this Prospectus).

An investment in the Mudaraba Sukuk involves certain risks and uncertainties. For a discussion of certain factors to be considered in connection with an investment in the Mudaraba Sukuk, see the "*Risk Factors*" section of this Prospectus.

Application has been made to register the Mudaraba Sukuk on the Official List maintained by the Authority (as defined below). The Saudi Arabian Stock Exchange ("**Tadawul**") will be appointed as registrar (the "**Registrar**", which expression includes any successor registrar) of the Mudaraba Sukuk and the Mudaraba Sukuk will be admitted to the clearing and settlement system of Tadawul (as described in Condition 3 (*Register, Title and Transfers*) and the "*Subscription and Issuance*" section of this Prospectus, respectively). The Mudaraba Sukuk will be in registered form in denominations of SAR 100,000 (one hundred thousand Saudi Riyals), subject to a minimum initial subscription amount of SAR 500,000 (five hundered thousand Saudi Riyals). The Mudaraba Sukuk will be represented at all times by interests in a registered form global sakk, without coupons attached (the "**Global Sakk**"), which will be deposited with the Sukukholders' Agent. The Mudaraba Sukuk may only be held in book entry dematerialised form and definitive Sukuk will not be issued to Sukukholders in relation to their holdings of Mudaraba Sukuk.

The investor presentation period for the Mudaraba Sukuk commences on 27/12/1430H (corresponding to 14/12/2009G) and ends within 10 business days, as further described in "*Subscription and Issuance*" section of this Prospectus (the "**Investor Presentation Period**") and the Mudaraba Sukuk will be issued on a date (the "**Closing Date**") falling no later than 10 business days after the end of the Investor Presentation Period.

This Prospectus includes information given in compliance with the Listing Rules issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Authority**"). The Directors, whose names appear in the "Governance Structure" section of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus relating to the Issuer and the Mudaraba Sukuk, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Arabian Stock Exchange do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

Joint Bookrunners & Joint Lead Managers

Shari'ah Committee

Shari'ah Committee of Saudi Hollandi Bank

This Prospectus is dated 05/11/1430H (corresponding to 24/10/2009G)

ENGLISH TRANSLATION OF THE OFFICIAL ARABIC LANGUAGE PROSPECTUS

IMPORTANT NOTICE

This Prospectus provides details of information relating to the Issuer and the Mudaraba Sukuk being offered. In applying for the Mudaraba Sukuk, investors will be treated as applying on the basis of the information contained in the Prospectus, copies of which are available for collection from the Issuer and the Joint Bookrunner and Joint Lead Managers (as defined herein) or by visiting their respective websites (www.shb.com.sa , www.shc.com.sa or www.riyadcapital.com) or the website of the Authority www.cma.org.sa).

Riyad Capital and Saudi Hollandi Capital have been appointed by the Bank to act as the joint bookrunners and joint lead managers (the "**Joint Bookrunners & Joint Lead Managers**") in relation to the Mudaraba Sukuk described herein. In connection with the offering of the Mudaraba Sukuk, no person has been authorised to give any information or to make any representation about the Bank or the Mudaraba Sukuk (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been made by the Bank or the Joint Bookrunners & Joint Lead Managers.

This Prospectus includes information given in compliance with the Listing Rules issued on 4th October 2004G. by the Board of the Authority, as amended (the "**Listing Rules**"). The Directors, whose names appear in the "Governance Structure" section of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus relating to the Issuer and the Mudaraba Sukuk, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Stock Exchange do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

While the Issuer has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, substantial portions of the market and industry information herein are derived from external sources, and while neither the Issuer, the Joint Boorunners and Joint Lead Managers, nor their respective advisers have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial state of the Issuer and the value of the Mudaraba Cetificates may be adversely affected by future developments in inflation, financing charges, taxation, calculation of zakat or other economic, political and other factors, over which the Issuer has no control. Neither the delivery of this Prospectus nor any oral, written or printed interaction in relation to the Muadaraba Sukuk is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

This Prospectus is not to be regarded as a recommendation on the part of the Bank, the Joint Bookrunners & Joint Lead Managers or any of their advisers or affiliates to participate in the offering of the Mudaraba Sukuk. Information provided herein is of a general nature and has been prepared without taking into account any potential investor's investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining his own independent professional advice in relation to the Bank or the offering of the Mudaraba Sukuk and for making his own independent evaluation of the Bank, an investment in the Mudaraba Sukuk and of the information and assumptions contained herein, using such advice, analysis and projections as he deems necessary in making any investment decision. Prospective investors are not to construe the contents of this document as constituting tax, investment or legal advice. Prior to purchasing any Mudaraba Sukuk, a prospective investor should consult with his, her or its own legal, business and tax advisors to determine the appropriateness and consequences of an investment in the Mudaraba Sukuk for such investor and arrive at an independent evaluation of such investment. The sole purpose of this document is to provide background information about the

Bank to assist each recipient in making an independent evaluation of the offering and any investment in the Mudaraba Sukuk.

The Bank reserves the right, to the maximum extent permitted by applicable laws and regulations, to terminate at any time any further participation by any party in the evaluation process and the offering of the Mudaraba Sukuk and/or reject all bids without any liability or responsibility. The Bank shall have no obligation to inform any investor or bidder of the grounds of such termination or rejection. The cost and expenses incurred by any prospective investor or successful bidder (which includes, but is not limited to, cost of employing the services of financial, accounting, technical and legal advisors, travelling expenses, etc.) will be for their own account and neither the Bank nor the Joint Bookrunners & Joint Lead Managers in any way would be held responsible for any such cost, regardless of, without limitation, the conduct or outcome of the bidding, evaluation and selection process.

The offering, sale and delivery of the Mudaraba Sukuk is limited solely to natural persons who are nationals of the Kingdom of Saudi Arabia (the "**Kingdom**") or other legal persons with a permanent establishment in the Kingdom of Saudi Arabia holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in either case, maintains a bank account in the Kingdom of Saudi Arabia. The distribution of this Prospectus and the offering, sale and delivery of the Mudaraba Sukuk in any jurisdictions other than the Kingdom of Saudi Arabia may be restricted by law. Any person who comes into possession of this Prospectus is required by the Issuer and the Joint Bookrunners & Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Mudaraba Sukuk and on distribution of this Prospectus and other offering material relating to the Mudaraba Sukuk, see the "*Subscription and Issuance*" section of this Prospectus.

Industry and Market Data

In this Prospectus, information regarding the banking industry and other data regarding the market segment in which the Bank operates has been obtained from: (i) the Bank's estimates; and (ii) data and analysis on the banking industry, which were obtained from various publicly available third party sources and materials. Such information, sources, and estimates are believed to be reliable, but have not been independently verified by the Bank, the Directors of the Bank, whose names appear in the "Governance Structure" section of this Prospectus or any of their respective advisers and no representation is made with respect to their accuracy or completeness.

Industry and market data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any survey of market size. None of the publications, reports or other published industry sources referred to in this Prospectus were commissioned by the Bank or prepared at its request and the Bank has not sought or obtained the consent from any of these sources to include such market data in this Prospectus.

Financial Information

The audited financial statements of the Bank for the years ended 31 December 2008 and notes thereto as audited by KPMG Al Fozan & Al Sadhan and Deloitte & Touche Bakr Abulkhair & Co., and 2007 and 2006 and the notes thereto (the "**Audited Financial Statements**"), as audited by KPMG Al Fozan & Al Sadhan and Al Juraid & Company (a member firm of PriceWaterhouseCoopers), auditors duly registered for practice in the Kingdom, and the Bank's reviewed interim financial statements for the nine months ending 30 September 2009 and for the nine months ending 30 September 2008 (collectively, the "**Interim Financial Statements**", and together with the Audited Financial Statements, the "**Financial Statements**"), and the notes thereto, each of which are incorporated elsewhere in this Prospectus, have been prepared in conformity with accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency ("**SAMA**") and International Financial Reporting Standards ("**IFRS**"). The Bank also prepares its financial statements to comply with the Banking Control Law and the Companies Regulations.

KPMG Al Fozan & Al Sadhan and Deloitte & Touche Bakr Abulkhair & Co., nor their relatives or affiliates have any shareholding or interest of any kind in the Bank.

In this Prospectus, unless otherwise specified, references to "**SAR**", "**Saudi Riyal**" and "**Riyal**" are to the currency of the Kingdom of Saudi Arabia and references to "**halalah**" are to the sub unit of the Riyal.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Use of Dates

Dates are referred to in the Hijri (H) calendar and the Gregorian (G) calendar.

Forward Looking Statements

Certain statements in this Prospectus constitute "forward looking statements". Such statements can generally be identified by their use of forward looking words such as "plans", "estimates", "believes", "expects", "may", "will", "should", "are expected", "would be", "anticipates" or the negative or other variations of such terms or comparable terminology. These forward looking statements reflect the current views of the Bank with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Bank to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (see "*Risk Factors*" section of this Prospectus). Should any one or more of the risks or uncertainties materialise or any underlying assumptions on which a forward looking statement is based prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus, as anticipated, believed, estimated, planned or expected.

The information contained in this Prospectus is subject to change. In particular, the actual financial state of the Bank and the value of the Mudaraba Sukuk may be adversely affected by future developments in inflation, financing charges, taxation, calculation of zakat or other economic, political and other factors, over which the Issuer has no control. Subject to the requirements of the Listing Rules, neither the Bank nor the Directors of the Bank intend to update or otherwise revise any information or forward looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward looking events and circumstances discussed in this Prospectus might not occur in the way it is expected, or at all. Prospective investors should consider all forward looking statements in light of these explanations and should not place undue reliance on forward looking statements. Neither the delivery of this Prospectus nor any oral, written or printed interaction in relation to the Mudaraba Sukuk is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

Supplementary Prospectus

References herein to "this Prospectus" shall be deemed to include this document dated 24 October 2009 together with any supplements and amendments hereto. The Issuer shall prepare a supplement to this Prospectus in accordance with the requirements of the Authority if, at any time after the date of this Prospectus but before the Mudaraba Sukuk are admitted to listing on the Official List maintained by the Authority, the Issuer becomes aware that:

(i) there has been a significant change in material matters contained in this Prospectus or any other document required by the Listing Rules of the Authority; or

(ii) additional significant matters have become known which would have been required to be included in this Prospectus.

PARTIES AND ADVISERS

ISSUER

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Kingdom of Saudi Arabia

SUKUKHOLDERS' AGENT

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REGISTRAR

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JOINT BOOKRUNNERS & JOINT LEAD MANAGERS

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Kingdom of Saudi Arabia

SHARI'AH COMMITTEE

Saudi Hollandi Bank
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Kingdom of Saudi Arabia

LEGAL ADVISERS TO JOINT BOOKRUNNERS & JOINT LEAD MANAGERS

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REGISTERED AUDITORS OF THE ISSUER

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Kingdom of Saudi Arabia

All the above-mentioned advisors have consented in writing to the use of their names and logos and to publishing their statements (wherever quoted) in this Prospectus in the form and context in which it is included. Such consents were not withdrawn as at the date hereof.

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1. SUMMARY

The following summary information does not purport to be complete and should be read as an introduction to, and in conjunction with, the more detailed information appearing elsewhere in this Prospectus from which it is derived. Any decision by a prospective investor to invest in the Mudaraba Sukuk should be based on a consideration of this Prospectus as a whole. Prospective investors should carefully read the entire document, including the financial statements and related notes, before making an investment decision. In particular, prospective investors should consider carefully the factors set forth under the heading "Risk Factors". Capitalised terms used but not defined in the Summary have the meanings given to them in "Terms and Conditions of the Mudaraba Sukuk".

1.1 Summary of the Issuer

The Bank

The Bank is a Saudi joint stock company incorporated in the Kingdom pursuant to Royal Decree No. M/85 dated 29/12/1396H (corresponding to 20/12/1976G). The Bank commenced business in 1977G when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom. The Bank operates under commercial registration No. 1010064925 dated 6/06/1407H (corresponding to 4/02/1987G). The Bank has an issued share capital of SAR 3,307,500,000 consisting of 330,750,000 fully paid ordinary shares of SAR 10 each.

The Bank is regulated by the Saudi Arabian Monetary Agency ("**SAMA**"), which has issued it a banking licence entitling it to conduct all types of banking operations. As part of a restructuring of its investment banking and asset management businesses to comply with Capital Market Authority ("**CMA**") requirements, the Bank obtained on 08/07/1428H (corresponding to 22/07/2007G) a CMA licence for a new subsidiary, Saudi Hollandi Capital, a 95 per cent. subsidiary of the Bank, which will provide investment banking, brokerage and asset management services.

The Bank is the eighth largest bank in the Kingdom by total assets and has a wide product offering for retail and corporate clients. While corporate banking has been the core of the Bank's franchise, it has in addition developed its personal banking business. The Bank has also developed a range of Islamic finance products, which are available to both corporate and retail clients.

The Bank operates a distribution network in the Kingdom comprising 42 branches, 219 ATMs, and 6,129 points of sale terminals as at 30 September 2009. The Bank also offers internet banking services through "SHBonline". In the nine months ending 30 September 2009, the Bank generated a net profit of SAR 525.32 million and had total shareholders' equity of SAR 6,057 million at 30 September 2009. The Bank's main business activities are corporate banking, personal banking and treasury, as well as *Shari'ah* compliant products and services in all such business segments.

Key Strengths

The Bank has a range of competitive strengths, including the following:

A long and proud history

Founded in 1926 as the Netherlands Trading Society, it was the first bank in the Kingdom, originally established with one office in Jeddah to serve Hajj pilgrims coming from the Dutch East Indies (now Indonesia). It has played an important role in developing the banking industry in the Kingdom, having served as the Kingdom's Central Bank for a period, maintaining the gold stock of the country, and processing the first oil related transactions. For some time it was the only operating bank in the Kingdom. As a result of its long history in the Kingdom, the Bank has built up a loyal customer base and is well known by the public.

Experienced management team

The Bank's management team consists of highly experienced individuals, combining substantial industry expertise with significant knowledge of the Saudi market.

Established top-tier corporate banking relationships

The Bank has a well established core corporate banking franchise, which remains the Bank's primary business line. It has a longstanding client base with a track record in corporate lending and has banking relationships with a number of large corporates in the Kingdom. The majority of the Bank's large corporate clients have been with the Bank for more than five years.

Investment banking, brokerage and asset management capabilities

The Bank is one of the institutions in the Kingdom with a track record in investment banking, brokerage and asset management. As part of a restructuring of its investment banking and asset management businesses, the Bank obtained a licence and authorization to commence operations within a new subsidiary, Saudi Hollandi Capital, which provides investment banking, brokerage and asset management services. Saudi Hollandi Capital advises clients on capital market issues and provides a wide range of brokerage services enabling clients to perform domestic, regional and international securities trading. Saudi Hollandi Capital's e-trading platform allows clients to conveniently execute trades in the local market via the internet. Saudi Hollandi Capital also offers its brokerage services through a dedicated team of professionals, executing trade orders through telephone and at its Kingdom wide network of share trading lounges. Margin trading facilities are extended to experienced brokerage clients.

Saudi Hollandi Capital has an award winning asset management business, managing conventional and Islamic open end mutual funds, risk adjusted portfolios, discretionary portfolios and numerous structured investments for retail, private and institutional clients. The asset management business has won several performance based awards over the past three years, with funds attaining first and top three places in their respective categories. In 2004, the asset management business launched the first TASI linked capital guaranteed structured investment and in 2007 it launched a mutual fund to invest in Sukuk (Islamic fixed income securities).

A treasury business supported by its corporate banking business

Building on its corporate client relationships, the Bank has established itself as a provider of treasury solutions. Working closely with corporate relationship managers, experienced treasury advisory teams with Kingdom wide reach provide optimal coverage to the Bank's clients. Proximity to clients, depth of experience, breadth of the teams and range of product offering provide a competitive advantage.

Niche-oriented personal financial services business

The Bank is well positioned in the upper end of the personal banking market and, despite the current slow down in the consumer finance market, the Bank has been able to keep its retail lending market share by providing an array of attractive financial products. The Bank plans to maintain its focus on its wealth management business. It has grown its wealth management customer base during last two years. The launch of new product offerings, including credit cards, Islamic retail loans, mutual funds and preferred banking product offerings have helped to expand the Bank's retail franchise.

Islamic finance capabilities

The Bank has an Islamic finance team experienced in a wide range of Islamic finance products. The Bank has actively participated in innovative *Shari'ah* compliant financing solutions. The product range includes Tawarruq, Murabaha, Ijara and Musharaka financing as well as *Shari'ah* compliant foreign exchange and hedging products.

Strategy

The Bank will continue to evolve as a broader financial services provider in conjunction with its subsidiary, Saudi Hollandi Capital, which is responsible for providing the Group's services in investment banking and brokerage. Saudi Hollandi Capital supports the Bank's corporate banking activities and provides customers with a comprehensive range of financial solutions. The strong corporate banking business will be further developed through product innovation in cash management, trade and treasury products, with a view to winning more business from both new and existing clients.

The Bank has identified the personal banking segment as a key area of focus for future growth. To address the needs of its personal banking customers, the Bank aims to expand its wealth management product range through asset management products and investment in online channels, including online brokerage, and to continue its tradition of developing innovative financial products. The Bank will continue to position itself as a high-quality service provider for discerning customers. It is well positioned to exploit new opportunities, for example in home mortgage finance.

The Bank has established *Shari'ah* compliant finance credibility through its "AlYusr" brand, especially in the personal banking segment, which is becoming more fully Islamic for its product offerings. The range of Islamic products available for commercial clients will also be increased.

Quality of service will be one feature by which the Bank will seek to differentiate itself from the competition. A review of all "touch points" with customers has commenced, with a view to making enhancements right across the board in the levels of service which customers receive.

The Bank will continue to position itself as a premier financial services provider for both businesses and individuals in the Saudi market. Business growth will be driven by a disciplined approach to return on risk assets, with business lines reviewing profitability by market segment and product. Productivity and operational efficiency is constantly revisited in order to improve the cost-income ratio and average revenue per employee.

Significant investment is being made in identifying and developing future talent to ensure that the Bank has high-quality managers for years to come. The Bank will introduce new initiatives aimed at ensuring high levels of employee engagement and will provide its staff with the best possible working environment.

1.2 Summary of the Offering

Parties

Issuer: .... Saudi Hollandi Bank

Joint Bookrunners & Joint Lead Managers: .. Riyad Capital and Saudi Hollandi Capital

Sukukholders' Agent: .... Saudi Hollandi Capital

Payment Administrator:................................. Saudi Hollandi Capital

Registrar: .... The Saudi Stock Exchange ("**Tadawul**")

Summary of the Mudaraba

Mudaraba Agreement: .... Pursuant to a mudaraba agreement (the "**Mudaraba Agreement**") dated on or about the Closing Date between the Issuer (as *mudareb*) and the Sukukholders' Agent on behalf of the Sukukholders (as *raab al maal*), the proceeds of the sale of the Mudaraba Sukuk will be applied as the capital (the "**Capital**") of the Mudaraba constituted by the Mudaraba Agreement (the "**Mudaraba**").

The Mudaraba will commence on the Closing Date and will end either: (i) on the later of 31 December 2019 and the date on which the Mudaraba Sukuk are redeemed in full; or (ii) in the event that the Mudaraba Sukuk are redeemed in full prior to 31 December 2019, on the day immediately following such redemption.

Mudaraba Assets: .... The Capital of the Mudaraba to be invested by the Issuer (acting as *mudareb*) in the Islamic Business Portfolio.

The Issuer shall be entitled to commingle its own Islamic assets with the Mudaraba Assets.

None of the Issuer, the Sukukholders' Agent and the Joint Bookrunners & Joint Lead Managers are providing a guarantee in connection with the performance of the profitability of the Mudaraba Assets or for the share and amount of the distributions (if any) made to the Sukukholders.

Mudaraba Income Distribution: .... The objective of the Mudaraba will be to earn profit from the application of the Capital in accordance with the Mudaraba Agreement.

Such profit will be distributed among the Issuer and the Sukukholders in accordance with the following ratios applied over the Net Profit (as defined below) less the Mudaraba Costs (as defined in the Conditions):

Sukukholders: 90 per cent. of the Net Profit (the "**Mudaraba Income**"); and

Issuer: 10 per cent. of the Net Profit (the

"**Mudareb Profit**").

The Mudaraba Income, up to the periodic Distribution Amount, shall be distributed by the Issuer to the Sukukholders on each Periodic Distribution Date on the basis of a constructive liquidation of the Mudaraba.

If the Mudaraba Income in any Periodic Distribution Period exceeds the Periodic Distribution Amount, the amount of any surplus shall be retained by the Issuer as a reserve (the "**Reserve**"). The Issuer shall not have the right to use and invest the monies (if any) standing to the credit of the Reserve for its own account. The Issuer shall pay the monies (if any) standing to the credit of the Reserve to the Sukukholders to compensate the Sukukholders for any shortfalls relating to Periodic Distribution Amounts and to compensate the Sukukholders for any loss relating to the Mudaraba Assets as at the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date (each as defined in the Conditions), with the balance of the monies (if any) standing to the credit of the Reserve to be received by the Issuer as an incentive.

"**Net Profit**" means the investment/financing and fee income from the Islamic Business Portfolio less total costs consisting of direct costs and allocated costs and less provisions for that year relating to the Islamic Business Portfolio.

Subordinated Payment Obligations: .... As part of the Mudaraba Agreement, the Issuer will have an obligation to redeem the Mudaraba Sukuk upon the occurrence of the Expiry Date, the Optional Expiry Date, Regulatory Dissolution Date or the Event of Default Date, less any loss relating to the Mudaraba Assets not covered by the monies (if any) standing to the credit of the Reserve, as specified in Condition 5(c)(ii) (*Mudaraba*).

All obligations of the Issuer pursuant to the Mudaraba Agreement to make payments to the Sukukholders of the Redemption Amount upon the occurrence of the Expiry Date, the Optional Expiry Date, Regulatory Dissolution Date or the Event of Default Date (the "**Subordinated Payment Obligations**") will be subordinate in right of payment upon the occurrence of any Winding Up Proceeding (as defined in the Conditions) of the Issuer to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer, except, in each case, to those liabilities which by their terms rank equally in right of payment with or subordinate to the Subordinated Payment Obligations.

Summary of the Mudaraba Sukuk

Mudaraba Sukuk: .... Mudaraba Sukuk due 2019 callable with step up in 2014.

Issue Price:	100 per cent. of the aggregate face value of the Mudaraba Sukuk.
Currency:	Mudaraba Sukuk will be denominated in Saudi Riyals.
Term:	The Mudaraba Sukuk will expire on 31 December 2019, unless previously redeemed, or purchased and cancelled.
Status:	The Mudaraba Sukuk constitute undivided beneficial ownership interests in the Mudaraba Assets and will rank *pari passu*, without any preference or priority among themselves. The Mudaraba Sukuk will be issued on an unsecured and subordinated basis.
Form of the Mudaraba Sukuk:	The Mudaraba Sukuk will only be issued in dematerialised registered form and will be represented at all times by interests in a registered form global sakk (as more particularly described in Condition 2 (*Form and Denomination*)), which will be deposited with the Sukukholders' Agent.
Denominations:	Mudaraba Sukuk will be issued in denominations of SAR 100,000, subject to a minimum initial subscription amount of SAR 500,000.
Subordination:	Subordinated Payment Obligations of the Issuer will be subordinate in right of payment upon the occurrence of any Winding Up Proceeding (as defined in the Conditions) of the Issuer to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or subordinate to the Subordinated Payment Obligations.
Periodic Distribution Dates:	The last day of each June and December, in each year, commencing on 30 June 2010 and up to and including 31 December 2019. If any Periodic Distribution Date is not a Business Day, it shall be postponed to the following Business Day.
Periodic Distribution Amount:	The Issuer shall pay to Sukukholders a distribution in relation to each Mudaraba Sukuk on each Periodic Distribution Date equal to the proportional share of the Periodic Distribution Amount. "**Periodic Distribution Amount**" means, for each Periodic Distribution Period, an amount calculated as follows: (a) until and including the Periodic Distribution Date falling on or nearest to 31 December 2014, an amount equal to the product of: (i) SIBOR (as defined in the Conditions) plus the Margin (as defined below); (ii) the aggregate face value of such Mudaraba Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period; and (iii) the actual number of days in such Periodic Distribution Period for which the Periodic Distribution Amount is being paid divided by 360; and

(b) for the second half of the Term, including the Periodic Distribution Date falling on or nearest to 31 December 2019, an amount equal to the product of: (i) SIBOR (as defined in the Conditions) plus the Step up Margin (as defined below); (ii) the aggregate face value of such Mudaraba Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period; and (iii) the actual number of days in such Periodic Distribution Period for which the Periodic Distribution Amount is being paid divided by 360.

"**Margin**" means a percentage per annum for each Periodic Distribution Period until and including the Periodic Distribution Period ending on the Periodic Distribution Date falling on or nearest to 31 December 2014, as determined by the Issuer and the Joint Bookrunners & Joint Lead Managers and communicated to the Sukukholders on or about the Closing Date.

"**Step-up Margin**" means a percentage per annum higher than the Margin for each Periodic Distribution Period after the Periodic Distribution Period ending on the Periodic Distribution Date falling on or nearest to 31 December 2014, as determined by the Issuer and the Joint Bookrunners & Joint Lead Managers and communicated to the Sukukholders on or about the Closing Date. For clarity, the Step-up Margin will be used insead of the Margin starting from 31 December 2014 and until the Expiry Date which will fall on or nearest to 31 December 2019.

Dissolution: .... Unless previously redeemed, or purchased and cancelled, the Mudaraba Sukuk shall be redeemed at the Redemption Amount on the Periodic Distribution Date falling on or nearest to 31 December 2019 (the "**Expiry Date**").

Subject to the value of the Mudaraba Assets not being below the aggregate face value of the Mudaraba Sukuk, after taking into consideration the monies (if any) standing to the credit of the Reserve as specified in Condition 5(c)(ii) (*Mudaraba*), the Issuer shall be also entitled to redeem in whole, but not in part, subject to the prior written approval from SAMA, the Mudaraba Sukuk from the Sukukholders at the Redemption Amount, subject to Condition 7(g) (*Periodic Distributions*), at the end of the 5th year or at the end of each calendar year thereafter until the 9th year upon the Issuer giving not less than 15 days' nor more than 30 days' notice to the Sukukholders (which notice shall be irrevocable).

Moreover, the Mudaraba Sukuk may be redeemed at the option of the Issuer, subject to the prior written approval from SAMA, for certain regulatory reasons, as is further specified in Condition 10(c) (*Dissolution of Mudaraba Sukuk*).

Obligatory Redemption of the Mudaraba Sukuk by the Issuer: .... Sukukholders may only oblige the Issuer to redeem the Mudaraba Sukuk at the Redemption Amount prior to the

	Expiry Date upon the occurrence of the limited circumstances set out in Condition 11 (*Events of Default*).
Redemption Amount:	The aggregate face value of the Mudaraba Sukuk payable upon the redemption of the Mudaraba Sukuk by the Issuer upon the occurrence of the Expiry Date, the Optional Expiry Date, Regulatory Dissolution Date or the Event of Default Date, less any loss relating to the Mudaraba Assets not covered by the monies (if any) standing to the credit of the Reserve as specified in Condition 5(c)(ii) (*Mudaraba*). The obligation of the Issuer to pay the Redemption Amount is a Subordinated Payment Obligation of the Issuer.
Taxation:	All payments in respect of the Mudaraba Sukuk will be made subject to withholding taxes in the Kingdom.
Offering Restrictions:	The offering and delivery of the Mudaraba Sukuk is limited to persons who are Qualified Persons (as defined in Condition 1 (*Definitions*)). For a more detailed description of these and other restrictions on offers, sales and deliveries of Mudaraba Sukuk and on the distribution of offering material relating to the Mudaraba Sukuk, see the "*Subscription and Issuance*" section of this Prospectus.
Use of Proceeds:	The proceeds of the investment in the Sukuk will be used by the Bank to strengthen its capital base as it is intended that the Mudaraba Sukuk will comprise Tier II capital for Saudi Arabian regulatory purposes. The proceeds of the offering of the Mudaraba Sukuk will be applied as the Capital of the Mudaraba constituted by the Mudaraba Agreement, to be used by the Bank to grow its Islamic Business Portfolio.
Sukukholder Meetings:	A summary of the provisions for convening meetings of Sukukholders to consider matters relating to their interests as such is set forth under Condition 13 (*Meetings of Sukukholders, Modification*).
Clearing and Settlement:	The Mudaraba Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar by delivering to the Registrar such information as such regulations and procedures shall require. See Condition 3 (*Register, Title and Transfers*) and the "*Subscription and Issuance*" section of this Prospectus, respectively.
Transfers:	The Mudaraba Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar, by delivering to the Registrar such information as such regulations and procedures shall require. See Condition 3 (*Register, Title and Transfers*) and the "*Subscription and Issuance*" section of this Prospectus, respectively.
Risk Factors:	A purchase of the Mudaraba Sukuk should be made only after careful consideration of a potential Sukukholder's investment circumstances. See the "*Risk Factors*" section of this Prospectus.

Transaction Documents: .... The Transaction Documents are the Mudaraba Agreement, the Declaration of Agency, the Payment Administration Agreement, the Mudaraba Sukuk (including the Global Sakk), the Investor Application Form and any other agreements and documents delivered or executed in connection therewith.

1.3 Summary of Financial Information

The summary financial information presented below should be read in conjunction with Section 9 (Management's Discussion and Analysis), the Bank's audited financial statements and related notes for the years ended 31 December 2008, 2007 and 2006 and the Bank's reviewed interim financial statements for the nine months ended 30 September 2009 and 2008 are set out in Appendix 1 (Financial Statements).

	Nine months ended 30 September Unaudited		Year ended 31 December Audited		
Summary of Financial Information (SAR' 000)	**2009**	**2008**	**2008**	**2007**	**2006**
Net special commission income	1,178,636	1,077,085	1,445,059	1,200,449	1,179,792
Other operating income [1]	452,096	516,033	666,115	575,708	766,668
Total operating income	1,630,732	1,593,118	2,111,174	1,776,157	1,946,460
Operating expenses	(610,682)	(639,456)	(809,827)	(841,922)	(645,077)
Impairment Charge for Credit & Investment Losses	(494,724)	(38,860)	(77,606)	(495,666)	(348,589)
Net income	525,326	914,802	1,223,741	438,569	952,794
Total assets [9]	63,164,476	61,399,885	61,436,183	50,411,314	46,740,064
Investments, net [9]	14,272,574	15,203,653	18,368,343	12,954,288	10,463,381
Loans and advances, net [9]	38,949,076	38,909,692	38,017,101	27,554,619	26,479,849
Due from banks and other financial institutions [9]	330,187	1,299,551	365,095	5,271,854	6,019,719
Shareholders' equity [9]	6,057,296	5,345,003	5,715,151	4,546,794	4,257,743
Subordinated debt [9]	1,475,000	700,000	1,475,000	700,000	700,000
Customers' deposits [9]	47,327,042	44,504,727	43,012,327	34,604,985	32,413,664
Due to banks and other financial institutions [9]	6,935,406	9,319,840	9,286,150	9,157,612	8,298,415
Tier 1 ratio [2]	10.1%	7.1%	9.9%	10.17%	12.0%
Total capital ratio [2]	14.5%	9.7%	12.6%	12.19%	15.0%
Loans to deposits ratio [3]	82.3%	87.4%	88.4%	79.6%	81.7%
Non performing loans to total gross loans [4]	3.7%	3.1%	2.7%	3.8%	2.5%
Loan loss provision to gross loans [4]	4.6%	3.4%	2.9%	4.1%	2.9%
Loan loss provision coverage	132.8%	113.9%	108%	110%	114%
Return on average assets [5]	0.8%	1.7%	2.3%	0.9%	2.2%
Return on average equity [6]	9.21%	18.36%	23.8%	10.0%	24.0%
Earnings per share [7] (in SAR)	1.59	2.77	3.69	1.32	2.88
Operating efficiency ratio [8]	37.4%	40.1%	38.4%	47.4%	33.1%

Notes:

1. *Other operating income includes banking services fee and trading gains.*
2. *Tier 1 and Total Capital ratios are calculated by using Tier 1 capital and Tier 1 + Tier 2 capital as percentages of total risk-weighted assets (calculated in accordance with SAMA regulations). For this purpose Tier 1 capital excludes proposed dividends, if any.*
3. *Loans and advances (net of provision) divided by total customer deposits.*
4. *Reported net of special commission in suspense.*
5. *Net income for the year divided by average assets.*
6. *Net income for the year divided by average shareholders' equity.*
7. *Net income for the year divided by the current number of the Bank shares (330,750,000).*
8. *Operating expenses (i.e., excluding net provision for credit losses) divided by total operating income.*
9. *Balance sheet items as at the last day of reported period.*

2. SHARI'AH COMMITTEE AND PRONOUNCEMENT

Prospective Sukukholders should not rely on the pronouncement referred to below in deciding whether to make an investment in the Mudaraba Sukuk and should consult their own Shari'ah advisers as to whether the proposed transaction described in the pronouncement referred to above is in compliance with Shari'ah principles.

Detailed Pronouncement of the Bank's Shari'ah Committee

Please refer to Appendix 2 (Shari'ah Committee Pronouncement (Fatwa) on the Mudaraba Sukuk) for the detailed pronouncement issued by Bank's Shari'ah Committee relating to the Mudaraba Sukuk and confirming that, in its view, the proposed issue of the Mudaraba Sukuk are in compliance with Shari'ah principles.

Overview of the Bank's Shari'ah Committee

The Bank's Shari'ah Committee is an independent committee appointed by the Board of Directors. It meets regularly for review and appraisal to ensure full compliance with *Shari'ah* by the Bank.

Biographical Information of the Bank's Shari'ah Committee

Sheikh Abdullah Bin Sulaiman Al Manea

Sheikh Abdullah is an advisor to the Ruler's Court. He has also been a member of the Supreme Judiciary Committee of the Kingdom since its inception in the year 1391H. He is a member of the Islamic Fiqh Academy of the Organisation of Islamic Conference ("**OIC**") and he was formerly Deputy President of the Makkah Al-Mukarramah Courts and former Judge of the Court of Cassation in Makkah Al Mukarramah.

Sheikh Abdullah is a member of many *Shari'ah* supervisory committees of banks in the Kingdom. He is also a member of many *Shari'ah* councils, including AAOIFI (Bahrain).

Sheikh Abdullah has supervised a number of PhD theses and has participated in the assessment of a number of MA and PhD dissertations. He has compiled a number of *Shari'ah* rulings (interpretative opinions) and is an author of a number of books on Islamic finance.

Sheikh Dr. Muhammad A. Elgari

Sheikh Elgari is a Professor of Islamic Economics and a former Director of the Centre for Research in Islamic Economics at the King Abdul Aziz University (Jeddah). Sheikh Elgari is the laureate of the Islamic Development Bank International Prize in Islamic Banking and Finance for the year 2004. He is an expert at the Islamic Fiqh Academy of the OIC and the Islamic Jurisprudence Academy of the Islamic World League.

Sheikh Elgari is a member of the editorial board of several academic publications in the field of Islamic Finance and Jurisprudence, including the journals of the Jurisprudence Academy of the Islamic World League of the Islamic Economic Studies, Islamic Development Bank, Islamic Economics of the International Association of Islamic Economics (London) and the advisory board of the Harvard Series in Islamic Law.

Sheikh Elgari is a member of numerous *Shari'ah* committees of banks and financial institutions. He has authored several books and articles on Islamic finance in both Arabic and English. Sheikh Elgari is also a frequent speaker at conferences worldwide and was a visiting scholar at Harvard University in 1995. Sheikh Elgari holds a PhD from the University of California.

Sheikh Dr. Abdullah bin Abdulaziz Al Musleh

Sheikh Al Musleh established a branch of Al Imam Muhammad bin Saud Islamic University in Abha and was its rector from the year 1396H until 1415H. He has also served as Dean of the Faculty of

Shari'ah and Principles of Religion at the Imam Muhammad bin Saud Islamic University and Director General of the Panel of Scientific Miracles in the Quran and Sunnah.

3. RISK FACTORS

Investing in the Mudaraba Sukuk involves a high degree of risk. In considering an investment in the Mudaraba Sukuk, prospective investors should carefully consider the following risk factors and the other information contained in this Prospectus. The risks and uncertainties described below are those that the Board of Directors of the Bank currently believes could affect the Bank and any investment that you make in the Mudaraba Sukuk. However, the risks listed below do not necessarily comprise all those associated with an investment in the Mudaraba Sukuk. Additional risks and uncertainties that the Board of Directors of the Bank is currently not aware of or that the Board of Directors of the Bank currently believes are immaterial may also adversely affect the Bank's business, financial condition, results of operations or prospects. Any of the following risks and uncertainties may materially and adversely affect the Bank's business, financial condition, results of operations and/or prospects, the price of the Mudaraba Sukuk may decline, the Bank's ability to pay Periodic Distribution Amount or the Redemption Amount could be impaired and/or investors may lose all or part of their investment.

3.1 Risks relating to the Bank

1- The Bank faces significant and increasing competition in the Saudi banking and securities business industry

The Saudi market for financial and banking services is highly competitive. The Bank principally competes with a number of larger banks with a broader geographic reach and greater capital resources than the Bank. While the Bank's competition has historically been predominantly domestic, the accession to the World Trade Organisation by the Kingdom in November 2005 opened doors to new players and the Saudi Arabian Monetary Authority ("**SAMA**") granted banking licences to a number of local and regional banks, as well as international banks. New entrants to the Saudi Arabian banking sector, such as Al-Inma Bank, foreign bank branches and new authorised persons (securities entities licensed by the Capital Market Authority (the "**CMA**", including where the context permits any committee, sub-committee, employee or agent to whom any function of the CMA may be delegated)), will result in further increased competition and place competitive pressures on the market.

In addition, the CMA has issued licences to more than 110 entities for new businesses to conduct "securities business". "Securities business" includes dealing, advisory, arranging, asset management and custody services. The issuance of these additional licences is expected to further increase competition. The Bank cannot guarantee that, if the competitors offer attractively priced and easily accessible products, its customers will nevertheless prefer the products offered by the Bank and there can be no assurance that the Bank will be able to compete effectively against current and future competitors. These and other competitive pressures could materially and adversely affect the Bank's business, financial condition, results of operations, cash flows and prospects.

2- The Bank has separated its securities businesses from its banking business, which may result in increased cost and inefficiency.

The Authorised Persons Regulations issued by the Board of the CMA pursuant to its resolution number 1 83 2005 ("**Authorised Persons Regulations**") require investment banking operations to be conducted through a separate legal entity. In order to comply with this requirement, the Bank established a separate subsidiary, Saudi Hollandi Capital. The CMA, by resolution No (1—39—2007) dated 08/07/1428H (corresponding to 22/07/2007G), has licensed Saudi Hollandi Capital to engage as principal or as an agent in equity lead arrangements, equity management arrangements, advisory services and securities custody services. Saudi Hollandi Capital satisfied all licensing conditions and received an authorisation from the CMA to commence its operations on 8 April 2008.

3- The Bank's continued success depends on its ability to attract and retain key management and qualified personnel

The Bank is dependent on its senior management for the implementation of its strategy and the operation of its day to day activities. Several members of the Bank's senior management are relatively new. While the Bank has entered into employment contracts with key members of its management, no assurance can be given that the current members of the Bank's management will continue to make their services available to the Bank on a long term basis.

In addition, the Bank's success will depend, in part, on its ability to continue to retain, motivate and attract qualified and experienced banking and management personnel and it may need to increase employee compensation levels to do so. Competition within the Saudi banking industry for qualified banking and management personnel is intense due to the low number of available qualified and/or experienced individuals compared to the level of demand. Moreover, the Bank's need for qualified staff will increase as it grows. There can be no assurance that the Bank will be able to successfully recruit and retain necessary qualified personnel. The loss or diminution in the services of members of the Bank's senior management team or an inability to recruit, train and/or retain necessary personnel could have a material adverse effect on the business, financial condition and results of operations of the Bank and impede the further implementation of the Bank's business strategy.

4- The Bank is subject to risks relating to its information technology systems and its ability to remain competitive depends on its ability to upgrade such systems

The Bank's financial performance and operations are dependent on the ability of its integrated information technology ("**IT**") system to meet its strategic objectives and to process a large number of transactions in a timely and uninterrupted manner. The Bank relies on its core banking system for most of its product offerings and operations. Any major system failure or interruption of the banking system would significantly affect the Bank's operations.

The Bank is in the process of upgrading its core banking system. In particular, the Bank's core banking system is being transitioned from a highly customised version to a more standardised platform, albeit with additional components to incorporate the Bank's Islamic finance business and ensure functionality with the Bank's database systems. The implementation might encounter typical upgrade disruptions across the Bank. The Bank cannot guarantee that its banking systems will continue to function with acceptably low levels of business interruption, both during this core banking system upgrade process and beyond, particularly where the volume of processed transactions is growing.

There can be no assurance that the Bank's operations would not be interrupted or materially impacted in the event of a partial or complete breakdown of its core system. Such an event could be triggered by software bugs, computer virus attacks, implementation issues associated with the introduction of the new core IT platform, or conversion errors due to system upgrading. In the event of a partial or complete breakdown of the Bank's core system, the Bank may lose some or all of the data relating to transactions created during the 10 to 15-minute period immediately preceding such failure. Although the Bank may be able to use paper records to recreate some data relating to transactions created in its branches, it will not be able to recreate data associated with electronic transactions. Any such loss of data or any prolonged breakdown of the information technology system could result in the loss of existing or potential business relationships or could adversely affect the Bank's business, financial condition, results of operations and future prospects.

The site of the Bank's backup datacentre has been relocated and expanded to serve all basic banking functions for a greater number of users. The Bank has set up a disaster recovery site for use in the event of a catastrophe or failure of the Bank's primary datacentre. However, there can be no assurance that the Bank's disaster recovery plan will be effective in the event of a disaster. The plan may not take effect immediately or at all and/or may not cover all functions, in which case the Bank's business, financial condition and results of operations could be materially and adversely impacted.

5- The Bank may face difficulties raising capital

In order for the Bank to fund its growth strategy and enter new lines of business, it will be required to expand its base of operations while continuing to meet regulatory capital adequacy requirements. If the Bank requires additional capital in the future, there can be no assurance that the Bank will be able to obtain this capital on favourable terms, in a timely manner or at all.

6- The Bank is dependent on short term funding

As with most Saudi banks, a significant portion of the Bank's funding requirements are met through short term funding sources, primarily in the form of stable customer deposits. In the past, such deposits have been a stable source of funding, but it cannot be certain that customers will continue to roll over or maintain their deposits with the Bank. If customers fail to roll over deposits with a substantial aggregate value upon maturity or withdraw their deposits from the Bank, its liquidity and financial position could be adversely affected and it may be required to seek funding from more expensive sources, which in turn could have a material adverse impact on its business, financial condition and results of operations.

7- The Bank's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks

Although the Bank has established risk management policies, procedures and internal controls based on international practices and invests substantial time and effort in the development, implementation and monitoring of risk management strategies and techniques, it cannot mitigate risk exposures under all market environments and may fail to adequately manage risks under certain circumstances, particularly when it is confronted with risks that it has not identified or anticipated. This could materially and adversely affect the Bank's business, financial condition, results of operations and reputation.

8- The Bank is vulnerable to the risk that its employees may not adhere to its compliance procedures and risk management thresholds

The Bank runs the risk that its employees may not adhere to its compliance procedures and risk management tresholds. Misconduct by existing employees could include binding the Bank to transactions that exceed authorised limits or present unacceptable risks, or concealing from the Bank unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Any such event could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

9- The Bank may be subject to investigation

The Bank's ability to comply with all applicable laws and rules is driven by the robustness of its compliance, audit and reporting systems and procedures, as well as its ability to attract and retain qualified compliance and risk management personnel. In the event of actual or alleged compliance breaches, the Bank may become subject to investigation and judicial or administrative proceedings, which could result in penalties or lawsuits (including by customers) for damages and/or even the loss of its general banking licence, having a material adverse effect on the Bank's business, financial condition, results of operations and reputation.

10- The Bank's ability to do business may be impaired if its reputation is damaged

A reputation for financial strength and integrity is critical to the Bank's ability to attract and maintain customers. The Bank's reputation could be damaged in the future by various factors, including a decline in or a restatement of or other corrections to its financial results, adverse legal or regulatory action or employee misconduct causing the Bank to breach applicable legal and/or regulatory requirements. The loss of business that could result from damage to the Bank's reputation and perception could affect its financial condition and results of operations.

11- Client concentration

A limited number of corporate borrowers and depositors comprise a significant portion of the Bank's total lending and deposit portfolio. Any decision by a material customer to move its business to another bank or default by one or more such customers could have a material adverse effect on the Bank's business, financial condition and results of operations.

12- Saudisation ratio

Companies in the Kingdom are in general required by the Kingdom's Ministry of Labour to ensure that at least 75 per cent. of their staff are Saudi nationals. The Bank is in addition subject to a specific requirement applicable also to any other bank in the Kingdom that Saudi nationals make up 86 per cent. of the permanent staff of banks. Currently, 87 per cent of the Bank's permanent employees are Saudi nationals. The Bank aims to recruit and train Saudi nationals to comply with the relevant regulations. Failing to achieve the stipulated percentages could cause the Bank to be questioned by the Ministry of Labour or SAMA for non compliance with these requirements. The occurrence of any of these events could have an adverse effect on the business, financial condition, results of operations and reputation of the Bank.

13- Shari'ah Committee

The Bank currently offers a range of Islamic finance products. All of these products must be reviewed and approved by the Bank's Shari'ah Committee. In doing so, each member of the Shari'ah Committee must employ his interpretative efforts in accordance with methodological rules and/or principles of Islamic jurisprudence. While various Islamic schools of thought agree on the general methodology and the basic principles of interpretation, they may disagree on particular rules.

In the event that any issues are called into question relating to the commitment of the Bank to the Shari'ah Committee's decisions and pronouncements, the focus of the Bank's management and its financial resources could be diverted and the Bank's business, financial condition, results of operations and reputation with customers could be adversely affected.

3.2 Risks relating to the Banking Industry

As in all banking environments the general risks for banks can be distinguished as liquidity risks, market risks, currency risks, credit risks and operating risks.

Liquidity risk — market disruption may prevent the Bank from meeting its funding requirements

The Bank is exposed to liquidity risk arising out of mismatches between the maturities of the Bank's assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The Bank's ability to continue to meet its funding needs could be adversely affected by a number of factors, including Saudi and international economic conditions, market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable. This could have a material adverse effect on the business, financial condition and results of operations of the Bank.

Credit risk — the Bank may suffer loss due to a defaulting counterparty

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank carries provisions to cover for possible credit losses. These provisions are made up of two components namely specific provisions and portfolio provisions. While specific provisions are made to cover for debts that are specifically found to be impaired, portfolio provisions are for impairments that may exist in the loan book but are not specifically identifiable.

As at end of June 2009, an amount SAR 1,043 million of loans were found impaired against which the Bank carried specific provisions of SAR 872 million. In addition it also carried SAR 499 million as portfolio provisions. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and assessing the creditworthiness of counterparties. In particular cases, the Bank may also close out trade transactions or assign them to other counterparties to mitigate credit risk. However, if the information upon which the Bank's credit risk assessment is based proves to be inaccurate or a counterparty experiences an unexpected decline in its creditworthiness resulting in it being unable to meet obligations to its creditors, the provisions made for the loss may be insufficient, which could have a material adverse effect on the business, financial condition and results of operations of the Bank. It cannot be guaranteed that future defaults will not occur.

Market risk — the Bank may suffer loss due to fluctuating currency and commission rates and asset values

The Bank is exposed to market risks, including currency exchange rate risk, commission rate risk and fluctuation in the prices of financial products. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re price in a given period. Although the Bank sets limits and performs certain other measures aimed at reducing these risks, such as hedging against these risks and use of derivative instruments, no assurance can be given that these measures will be effectively implemented or that they will allow the Bank to minimise the impact of currency exchange rate and commission rate volatility. If the Bank's risk management procedures and limits do not minimise the impact of market risks on the Bank, its business, financial condition and results of operations may be adversely affected.

The Bank maintains an investment policy for any funds it holds. Significant reductions in the value of the assets in which it invests could give rise to a loss and materially adversely affect the Bank's business, financial position and results of operations.

International markets risk — global fluctuations in markets may adversely affect the Bank

The subprime mortgage crisis which began in the United States in 2006[1] has affected banking and capital markets internationally for the past three years. The consequences of this crisis continue to unfold. Financial turmoil in other markets in the past has adversely affected market prices in the world's securities markets. The Bank cannot guarantee that this crisis will not affect the Saudi banking industry. For example, an increase in interest rates generally may raise the Bank's funding costs and reduce overall demand for new loans and increase the risk of customer default, while general volatility in interest rates may result in a gap between the Bank's interest-rate sensitive assets and liabilities. Despite the fact that the Bank has no direct exposure to the subprime market, if such risks were to materialize, they may have a material adverse effect on the Bank's business, financial position, results of operations and cash flows.

Operational risk

Operational risk is at the core of the banking industry. The Bank is exposed to generalised risks arising from inadequate or failed internal process error, security and physical protection, customer services, staff skill and performance, production development and maintenance and external events. This category of risk includes employee errors, systems failures, fires, floods or other losses to physical assets, fraud or other criminal activity. The failure to adequately manage these risks could have a material adverse effect on the Bank's business, financial condition, results of operations and reputation.

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[1] *Credit Crisis Timeline - The University Of Iowa Center For International Finance & Development - Prepared By Jason Cox And Laurie Glapa Last updated: July 1, 2009* http://www.uiowa.edu/ifdebook/timeline/Financial_Crisis_Timeline.pdf

Litigation

In the ordinary course of its business, the Bank may pursue litigation claims against third parties and may also have litigation claims filed against it. Among other things, the Bank's external lawyers are addressing an order by US judicial authorities to produce documents related to certain banking transactions in the past, the outcome of which cannot be determined. An unfavourable resolution of one or more of these matters could have a material adverse effect on the Bank's business, financial condition, results of operations, cash flows and prospects. See Section 13 (*Legal Information*) for further information.

3.3 Risks relating to the Political/Regulatory Environment in the Kingdom

The political, economic and legal environments remain subject to continuous development

As the political, economic and legal environments in the Kingdom remain subject to continuous development, investors face uncertainty as to the security of their investments. The Bank's operations in the Kingdom are exposed to risks common to all regions that have recently undergone, or are undergoing, political, economic and social change, including evolving regulatory environment, inflation, changes in disposable income or gross national product, variations in commission rates, levels of economic growth and other similar factors. Many of these factors are entirely beyond the Bank's control. Adverse social, economic or political developments in the Kingdom, neighbouring countries or others in the region may have a material adverse effect on the Bank's business, financial condition, results of operations and cash flows.

The Kingdom's banking regulatory environment is continually evolving and may change

The Bank falls under the control of SAMA, which regulates the banking sector in the Kingdom. The Bank operates in compliance with SAMA rules, regulations and guidelines, which from time to time may be amended in accordance with economic and political developments in the country. SAMA operates to a standard expected of international regulators and follows the recommendations of the Basel Committee. The Bank's business could be directly affected by changes in the Kingdom's banking regulatory policies, laws and regulations, such as those affecting the extent to which the Bank can engage in specific businesses, as well as changes in other governmental policies. The laws and regulations governing the banking sector are subject to future changes, and the Bank cannot provide any assurance that such changes will not adversely affect the Bank's business, financial condition or results of operations nor can the Bank provide any assurance that it will be able to adapt to all such changes on a timely basis. Failure to comply with the rules, regulations and guidelines of SAMA could have a material adverse effect on the Bank's business, financial condition, results of operations and reputation.

Uncertainty regarding future development of the Kingdom's banking sector

The growth rate of the Saudi Arabian banking sector may not be as high and sustainable as currently anticipated by the Bank. This may be the case even though it is expected that the banking sector will expand and its number of customers will increase with the growth of the Saudi Arabian economy, population and demographic changes and potential legal and other reforms. The impact on the Saudi Arabian banking sector of certain trends and events, such as the pace of economic growth in the Kingdom, is currently not clear. The growth and development of the banking sector is subject to a number of uncertainties that are beyond the control of the Bank, and which could have a material adverse effect on the Bank's business, financial condition and results of operations.

3.4 Risks relating to the Mudaraba Sukuk

Suitability of investments

The Mudaraba Sukuk may not be a suitable investment for all investors. Each potential investor in the Mudaraba Sukuk must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Mudaraba Sukuk, the merits and risks of investing in the Mudaraba Sukuk and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Mudaraba Sukuk and the impact the Mudaraba Sukuk will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Mudaraba Sukuk, including where the currency of payment is different from the potential investor's currency;
- understand thoroughly the terms of the Mudaraba Sukuk and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Limited liquidity

There can be no assurance that there will be no interruption to, or errors in, trading, clearing or settlement of the Mudaraba Sukuk through the Registrar. Moreover, currently there is no active Sukuk market and there can be no assurance that the Mudaraba Sukuk will be sold by the Sukukholders easily. The market value of the Mudaraba Sukuk may fluctuate. Consequently, any sale of Mudaraba Sukuk by Sukukholders in any secondary market may be at a price that is higher or lower than the initial offering price depending on many factors, including prevailing interest rates, the Bank's performance and the market for similar securities. The Joint Bookrunners & Joint Lead Managers are under no obligation to provide pricing on or make a market in the Mudaraba Sukuk. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Mudaraba Sukuk and an investor in the Mudaraba Sukuk must be prepared to hold the Mudaraba Sukuk for an indefinite period of time or until their maturity.

The Mudaraba Sukuk are unsecured obligations of the Issuer

Upon the occurrence of a Dissolution Event, a Scheduled Dissolution Date, a Regulatory Dissolution Date or an Optional Dissolution Date, the sole recourse of each of the Sukukholders will be against the Issuer to pay the Redemption Amount under the Mudaraba Agreement and otherwise perform its obligations under the Transaction Documents. The Sukukholders will otherwise have no other recourse to any assets of the Issuer, the Joint Bookrunners & Joint Lead Managers, the Sukukholders' Agent or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts.

Subordination

The obligations of the Issuer under the Transaction Documents will be subordinated obligations of the Issuer. Accordingly, in the event of any insolvency of the Issuer, the Subordinated Payment Obligations will be subordinated in right and priority of payment, to the prior payment in full of all liabilities of the Issuer except all other present and future unsecured and subordinated obligations of the Issuer which by their terms ranks *pari passu* in right and priority of payment with or subordinate to the Subordinated Payment Obligations upon the occurrence of any winding-up proceeding.

Payments relating to the Mudaraba Sukuk

Prospective Sukukholders should note that the Periodic Distribution Amount or Partial Distribution Amount on the relevant payment date will be paid on the basis of a constructive liquidation of the Mudaraba on the relevant payment date based on the Issuer's management accounts. Within three Business Days of the occurrence of the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, the Issuer shall conduct an audit review of the Islamic Business Portfolio for the period starting on the Closing Date and ending on the date of occurrence of the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, as the case may be. If, based on such audit review, the Issuer determines that any Periodic Distribution Amount or Partial Distribution Amount relating to any relevant Periodic Distribution Period or partial Periodic Distribution Period, as the case may be, was greater than the Mudaraba Income for such period, then the Issuer shall have the right in certain circumstances to set off any such amounts due from the Sukukholders against the Redemption Amount, as the case may be, to be paid to them by the Issuer pursuant to the Mudaraba Agreement. As a result, the Sukukholders might receive less than a full amount of the Redemption Amount.

Shari'ah compliance

Prospective Sukukholders should note that different *Shari'ah* advisers, and Saudi courts and judicial committees, may form different opinions on identical issues and therefore prospective Sukukholders may wish to consult their own legal and *Shari'ah* advisers to receive an opinion if they so desire. Prospective Sukukholders should also note that although the Bank's Shari'ah Committee has issued a pronouncement confirming that the Mudaraba Sukuk are in compliance with *Shari'ah* principles, such a pronouncement would not bind a Saudi Arabian court or judicial committee, including in the context of any insolvency or bankruptcy proceedings relating to the Bank, and any Saudi Arabian court or judicial committee will have the discretion to make its own determination about whether or not the Mudaraba Sukuk, the Transaction Documents and the related structure (or any part thereof) complies with the laws of the Kingdom and *Shari'ah* principles and therefore is enforceable. Accordingly, no person (including, without limitation, the Bank) makes any representation that the Mudaraba Sukuk, the Conditions and any other Transaction Documents comply with *Shari'ah* principles and in particular no representation is made regarding the Shari'ah pronouncement issued by the Bank's Shari'ah Committeeregarding the Mudaraba Sukuk, which pronouncement is subject to change and disagreement from other Shari'ah scholars. Accordingly, there is no assurance that the Mudaraba Sukuk will be considered to be Shari'ah compliant by any person other than the members of the Bank's Shari'ah Committee.

Governing law, jurisdiction and enforceability

The Mudaraba Sukuk are governed by, and are to be construed in accordance with, the laws of the Kingdom and in accordance with the rules of the *Shari'ah* as applied in the Kingdom. As per Condition 17 (*Governing Law and Jurisdiction*), the Kingdom's Committee for the Resolution of Securities Disputes shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Mudaraba Sukuk. Prospective Sukukholders should note that, to the best of the Bank's knowledge, no securities of a similar nature to the Mudaraba Sukuk have previously been the subject of adjudicatory interpretation or enforcement in the Kingdom. Accordingly, it is uncertain exactly how and to what extent the Mudaraba Sukuk, the Conditions and/or the Transaction Documents would be enforced by a Saudi Arabian court or the Committee for the Resolution of Securities Disputes.

4. TERMS AND CONDITIONS OF THE MUDARABA SUKUK

The following is the text of the Terms and Conditions of the Mudaraba Sukuk which (subject to completion and amendment, and save for the text in italics) will be attached and (subject to the provisions thereof) apply to the Global Sakk:

Introduction

Each of the mudaraba Sukuk due 2019 callable with step up in 2014 (the "**Mudaraba Sukuk**") represents an undivided beneficial ownership interest in the Mudaraba Assets (as defined below) and represents an interest in the Subordinated Payment Obligations (as defined below) in the manner described in Condition 4(b) (*Status; Limited Recourse; Agreement of Sukukholders*) and will at all times rank *pari passu* among themselves. The Mudaraba Assets will be held by Saudi Hollandi Bank (as *mudareb*) (the "**Issuer**") for the benefit of the registered holders of the Mudaraba Sukuk (as *raab al maal*) (the "**Sukukholders**") pursuant to a mudaraba agreement dated on or about the Closing Date (as defined below) between the Issuer and the Sukukholders' Agent on behalf of the Sukukholders (the "**Mudaraba Agreement**"). The obligations of the Issuer in respect of the Mudaraba Sukuk are not secured and are subordinated.

Pursuant to a declaration of agency (the "**Declaration of Agency**") to be entered into on or about the Closing Date by the Issuer and Saudi Hollandi Capital as Sukukholders' Agent (the "**Sukukholders' Agent**", which expression includes any successor Sukukholders' Agent in relation to the Mudaraba Sukuk), the Sukukholders' Agent will be appointed to act as agent for and on behalf of the Sukukholders.

In these Conditions, references to "**Mudaraba Sukuk**" shall be references to the Mudaraba Sukuk as represented by a Global Sakk as described in Condition 2 (*Form and Denomination*).

Payments relating to the Mudaraba Sukuk will be made pursuant to a payment administration agreement to be entered into on or about the Closing Date (the "**Payment Administration Agreement**") between the Sukukholders' Agent, the Issuer in its capacity as *mudareb* and the Issuer in its capacity as payment administrator (the "**Payment Administrator**").

Each initial Sukukholder, by acquiring and holding Mudaraba Sukuk, shall be deemed to authorise, ratify and approve the appointment of the Sukukholders' Agent as its agent and the entry by the Sukukholders' Agent into the Transaction Documents (as defined below) to which it is a party and to the terms of each of the Transaction Documents.

For the purpose of the guidelines issued by the Saudi Arabian Monetary Agency ("**SAMA**") to which the Issuer is subject, the Mudaraba Sukuk qualify as Lower Tier II capital, as referred to in such guidelines.

Certain provisions of these Conditions are summaries of the Transaction Documents and are subject to their detailed provisions. The Sukukholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them. Copies of the Transaction Documents are available for inspection from the Closing Date by Sukukholders during normal business hours at the specified offices of each of the Issuer and the Sukukholders' Agent, the specified offices of which are set out in the section entitled "*Parties and Advisers*" in the Prospectus.

1. **Definitions**

(a) In these Conditions, the following words and expressions shall have the following meaning:

"**Agency Fee**" means the on going fees and expenses (if any) payable to the Sukukholders' Agent for its services in connection with the Mudaraba Agreement as further described in the Declaration of Agency (among other things, the Sukukholders' Agent will be paid a flat fee of

SAR 100,000 (one hundred thousand Saudi Riyals) per year (or proportional part thereof if due for a period shorter than one year));

"**Business Day**" means a day on which commercial banks are open for general business in the Kingdom of Saudi Arabia;

"**Capital**" has the meaning given to it in Condition 5(a) (*Mudaraba*);

"**Closed Period**" has the meaning given to it in Condition 3(e) (*Register, Title and Transfers*);

"**Closing Date**" has the same meaning as set out in the Prospectus;

"**Conditions**" means these terms and conditions of the Mudaraba Sukuk;

"**Declaration of Agency**" has the meaning given to it above under "*Introduction*";

"**Event of Default**" has the meaning given to it in Condition 11 (*Events of Default*);

"**Event of Default Date**" has the meaning given to it in Condition 11 (*Events of Default*);

"**Event of Default Notice**" has the meaning given to it in Condition 11 (*Events of Default*);

"**Exercise Notice**" has the meaning given to it in Condition 11 (*Events of Default*);

"**Exercise Period**" has the meaning given to it in Condition 11 (*Events of Default*);

"**Expiry Date**" means the last Periodic Distribution Date falling on 31 December 2019;

"**Extraordinary Resolution**" means a resolution passed by the Sukukholders holding at least one-half of the aggregate face value of the Mudaraba Sukuk as are current as of the date of such resolution;

"**Global Sakk**" means the registered form global sakk representing the Mudaraba Sukuk;

"**Guarantee**" means, in relation to any Indebtedness of any person, any obligation of another person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised under any note purchase facility;

(ii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iii) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 90 days; and

(iv) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Investor Application Form**" means the form required to be submitted to the Joint Bookrunners & Joint Lead Managers before the end of the Investor Presentation Period by the persons wishing to invest in the Mudaraba Sukuk;

"**Investor Presentation Period**" means the investor presentation period for the Mudaraba Sukuk commencing on 27/12/1430H (corresponding to 14/12/2009G) and ending within 10 Business Days, unless extended by the Issuer and the Joint Bookrunners & Joint Lead Managers after approval from the CMA;

"**Islamic Business Portfolio**" means all Islamic banking and finance activities of the Issuer;

"**Issuer**" means Saudi Hollandi Bank in its capacity as issuer and *mudareb* of the Mudaraba Sukuk, as the context requires;

"**Joint Bookrunners & Lead Managers**" means Riyad Capital and Saudi Hollandi Capital acting as joint bookrunners and joint lead managers;

"**Late Payment Amount**" means an amount equal to 5 per cent. per annum of any overdue amount;

"**Margin**" means a percentage per annum for each Periodic Distribution Period until and including the Periodic Distribution Period ending on the Periodic Distribution Date falling on or nearest to 31 December 2014, as determined by the Issuer and the Joint Bookrunners & Joint Lead Managers and communicated to the Sukukholders on or about the Closing Date;

"**Mudaraba**" has the meaning given to it in Condition 5(a) (*Mudaraba*);

"**Mudaraba Assets**" has the meaning given to it in Condition 5(a) (*Mudaraba*);

"**Mudaraba Costs**" means the Agency Fee, the Payment Administrator Fee and all costs, charges, expenses (including legal and audit expenses) and liabilities properly incurred by the Issuer, the Sukukholders' Agent or the Payment Administrator in carrying out their functions under the Mudaraba Agreement or the Declaration of Agency, as the case may be;

"**Mudaraba Income**" has the meaning given to it in Condition 5(b) (*Mudaraba*);

"**Mudareb Profit**" has the meaning given to it in Condition 5(b) (*Mudaraba*);

"**Net Profit**" has the meaning given to it in Condition 5(b) (*Mudaraba*);

"**Optional Expiry Date**" has the meaning given to it in Condition 10(b) (*Dissolution of the Mudaraba Sukuk)*;

"**Partial Periodic Distribution Amount**" means, in relation to any day on which the Issuer is to redeem the Mudaraba Sukuk due to the occurrence of the Event of Default Date, the Optional Expiry Date or the Regulatory Dissolution Date, an amount equal to the Periodic Distribution Amount as would have been payable on the next Periodic Distribution Date if the Event of Default Date, the Optional Expiry Date or Regulatory Dissolution Date did not occur (*provided, however, that* for the purposes of calculating such Periodic Distribution Amount, "**P**" shall mean the aggregate face value of such Mudaraba Sukuk as are current on the Transfer Record Date immediately preceding the date of such redemption); *multiplied by* (i) the number of days between the immediately preceding Periodic Distribution Date and the date of such redemption; *divided by* (ii) the number of days between the immediately preceding Periodic Distribution Date and the next scheduled Periodic Distribution Date;

"**Payment Administration Agreement**" has the meaning given to it above under "*Introduction*";

"**Payment Administrator Fee**" means the on going fees and expenses (if any) payable to the Payment Administrator for its services in connection with the Mudaraba Agreement as further described in the Payment Administration Agreement (among other things, the Payment Administrator will be paid a flat fee of SAR 100,000 (one hundred thousand Saudi Riyals) per year (or proportional part thereof if due for a period shorter than one year));

"**Payment Administrator**" has the meaning given to it above under "*Introduction*";

"**Periodic Determination Date**" has the meaning given to it in Condition 7(b) (*Periodic Distributions*);

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7(a) (*Periodic Distributions*);

"**Periodic Distribution Date**" means the last day of each June and December in each year, commencing on 30 June 2010 and up to and including 31 December 2019; *provided, however, that* if any such day is not a Business Day, the Periodic Distribution Date will be the next following Business Day;

"**Periodic Distribution Period**" means the period from and including the Closing Date to but excluding the first Periodic Distribution Date, and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date;

"**person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Prospectus**" means this prospectus dated 24 October 2009 relating to the Mudaraba Sukuk;

"**Qualified Person**" means (a) a natural person who is a national of the Kingdom of Saudi Arabia or (b) another legal person with a permanent establishment in the Kingdom of Saudi Arabia holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in the case of either (a) or (b), maintains a bank account in the Kingdom of Saudi Arabia;

"**Redemption Amount**" means the aggregate face value of the Mudaraba Sukuk payable upon the redemption of the Mudaraba Sukuk by the Issuer upon the occurrence of the Expiry Date, the Optional Expiry Date, Regulatory Dissolution Date or the Event of Default Date, less any loss relating to the Mudaraba Assets not covered by the monies (if any) standing to the credit of the Reserve as specified in Condition 5(c)(ii) (*Mudaraba*). The obligation of the Issuer to pay the Redemption Amount is a Subordinated Payment Obligation of the Issuer;

"**Reference Banks**" means the principal Riyadh office of each of three major banks engaged in the Riyadh interbank market selected by or on behalf of the Payment Administrator, *provided that* once a Reference Bank has first been selected by the Payment Administrator or its duly appointed representative, such Reference Bank shall not be changed unless it ceases to be capable of acting as such;

"**Register**" means the registry system administered by the Registrar or any successor entity;

"**Registrar**" means Tadawul (and includes any successor registrar as may be appointed in accordance with the provisions of the Registry Agreement);

"**Registry Agreement**" means the registry and trading agreement to be entered into between the Issuer and the Registrar in relation to the Mudaraba Sukuk on or about the Closing Date;

"**Regulatory Dissolution Date**" has the meaning given to it in Condition 10(c) (*Dissolution of the Mudaraba Sukuk*);

"**Regulatory Dissolution Notice**" has the meaning given to it in Condition 10(c) (*Dissolution of the Mudaraba Sukuk*);

"**Representative Amount**" means the aggregate nominal amount of all the Mudaraba Sukuk outstanding;

"**Required Sukukholders**", as of any date, means the Sukukholders holding more than 50 per cent. of the aggregate face value of the Mudaraba Sukuk as are current on such date;

"**Reserve**" has the meaning given to it in Condition 5(b) (*Mudaraba*);

"**Screen Rate**" means the rate for six month deposits in Saudi Riyals which appears on the Reuters Screen SUAA Page across from the caption "**AVG**" or Bloomberg Screen SAIB6M Page (or such replacement page on that service or any successor service as may be nominated by the Payment Administrator, which displays the same information);

"**Shortfall**" has the meaning given to it in Condition 5(c) (*Mudaraba*);

"**SIBOR**" means, for each Periodic Distribution Period, Saudi Interbank Offered Rate for six month Saudi Riyals deposits determined in accordance with Condition 7(b) (*Periodic Distributions*);

"**Step up Margin**" means a percentage per annum higher than the Margin for each Periodic Distribution Period after the Periodic Distribution Period ending on the Periodic Distribution Date falling on or nearest to 31 December 2014, as determined by the Issuer and the Joint Bookrunners & Joint Lead Managers and communicated to the Sukukholders on or about the Closing Date. For clarity, the Step-up Margin will be used insead of the Margin starting from 31 December 2014 and until the Expiry Date which will fall on or nearest to 31 December 2019.

"**Subordinated Payment Obligations**" means all obligations of the Issuer to make payments to the Sukukholders of the Redemption Amount pursuant to the Mudaraba Agreement, which pursuant to their terms will be subordinate in right of payment upon the occurrence of any Winding Up Proceeding to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer, except, in each case, to those liabilities which by their terms rank equally in right of payment with or subordinate to the Subordinated Payment Obligations.

"**Sukukholders**" has the meaning given to it above under "*Introduction*";

"**Sukukholders' Agent**" has the meaning given to it above under "*Introduction*";

"**Transaction Documents**" means the Mudaraba Agreement, the Declaration of Agency, the Registry Agreement, the Payment Administration Agreement, the Mudaraba Sukuk, the Investor Application Form and any other agreements and documents delivered or executed in connection therewith;

"**Taxes**" means any present or future taxes, zakat, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Saudi Arabia or any political subdivision thereof or any authority therein or thereof having power to tax;

"**Transfer Record Date**" has the meaning given to it in Condition 3 (*Register, Title and Transfers*); and

"**Winding Up Proceeding**" has the meaning given to it in Condition 11(g) (*Events of Default*).

Without prejudice to its status for any other purpose, a Mudaraba Sakk shall be considered to be "**current**" unless it has been dissolved pursuant to Condition 10 (*Dissolution of the*

Mudaraba Sukuk), or purchased under Condition 8 (*Purchase of Mudaraba Sukuk*) or redeemed under Condition 11 (*Events of Default*) and in either case has been cancelled in accordance with Condition 8(b) (*Purchase of Mudaraba Sukuk*); *provided, however, that*, for the purposes of: (i) ascertaining the right to attend and vote at any meeting of Sukukholders; (ii) Condition 13(a) (*Meetings of Sukukholders; Modification*) and Schedule 2 of the Declaration of Agency (*Provisions for Meetings of Sukukholders*); (iii) determining the Required Sukukholders for the purposes of Condition 11 (*Events of Default*) and (iv) Condition 12 (*Enforcement and Exercise of Rights*), those Mudaraba Sukuk (if any) which are for the time being held by any person for the benefit of the Issuer shall (unless and until ceasing to be so held) be deemed not to be current.

(b) All references in these Conditions to an agreement, instrument or other document (including the Mudaraba Agreement, the Declaration of Agency, the Registry Agreement, the Payment Administration Agreement and the Mudaraba Sukuk) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated.

2. Form and Denomination

The Mudaraba Sukuk are issued in dematerialised registered form in denominations of SAR 100,000, subject to a minimum initial subscription amount of SAR 500,000. The Mudaraba Sukuk will be collectively represented by the Global Sakk which will be deposited with the Sukukholders' Agent. Individual Mudaraba Sukuk representing holdings of the Global Sakk will not be issued but Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Mudaraba Sukuk. The Global Sakk will represent all of the Mudaraba Sukuk that are current and the ownership by the Sukukholders of an undivided beneficial ownership interest in the Mudaraba Assets.

3. Register, Title and Transfers

(a) *Register*

The Registrar will maintain the Register in respect of the Mudaraba Sukuk in accordance with the provisions of the Registry Agreement. In these Conditions, the "**Sukukholder**" of Mudaraba Sukuk means the person in whose name such Mudaraba Sukuk is for the time being registered in the Register (or, in the case of a joint holding, the first named). Only Qualified Persons may be registered as Sukukholders.

(b) *Title*

The Sukukholder of each Mudaraba Sakk shall (except as otherwise required by law) be treated as the absolute owner of such Mudaraba Sukuk for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).

(c) *Transfers*

Subject to paragraphs (e) and (f) below, the Mudaraba Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar by delivering to the Registrar such information as such regulations and procedures shall require. The Mudaraba Sukuk may not be transferred unless the transferee is a Qualified Person.

(d) *Transfer Charges*

The transfer of Mudaraba Sukuk will be subject to a charge by the Registrar in accordance with its schedule of charges in force for its services and all such charges shall be borne solely by the transferring Sukukholder and the transferee in accordance with the Registrar's practice. For the avoidance of doubt, neither the Issuer nor the Sukukholders' Agent shall be liable to pay any such charges imposed by the Registrar.

(e) *Transfer Record Dates and Closed Periods*

Prior to the Closing Date, it will be announced publicly whether or not transfers of Mudaraba Sukuk effected during the period starting at the opening of business no less than seven Business Days prior to a due date for payment of any Periodic Distribution Amount, or any other principal or distribution in respect of the Mudaraba Sukuk or, if such a day is not a Business Day, on the next following Business Day (a "**Transfer Record Date**"), and ending on (and including) the applicable due date itself (each such period being a "**Closed Period**") may be registered in the usual way or whether they may only be registered after the expiry of the relevant Closed Period. If such transfers may be so registered in the usual way, then, notwithstanding such registration, all payments shall continue to be paid to such persons as are registered as Sukukholders of the Mudaraba Sukuk at the opening of business on the relevant Transfer Record Date. The Registrar may after the Closing Date modify these Conditions insofar as they relate to the registration of transfers effected during Closed Periods by notice to the Issuer and the Sukukholders.

(f) *Regulations Concerning Transfers and Registration*

All transfers of Mudaraba Sukuk and entries on the Register are subject to the regulations and procedures of the Registrar and the provisions of the Registry Agreement. The regulations may be changed by the Registrar at any time.

4. **Status; Limited Recourse; Agreement of Sukukholders**

(a) *Status*

The Mudaraba Sukuk constitute undivided beneficial ownership interests in the Mudaraba Assets and represent an interest in the Subordinated Payment Obligations (as defined herein) in the manner described in paragraph (b) below and will at all times rank *pari passu* among themselves. The obligations of the Issuer are not secured by any assets or security and are subordinated.

(b) *Subordination*

All payments by the Issuer to the Sukukholders of the Redemption Amount pursuant to the Mudaraba Agreement and all other amounts payable under each Transaction Document (collectively, the "**Subordinated Payment Obligations**") pursuant to their terms and as set out in the Mudaraba Agreement will be subordinate in right of payment upon the occurrence of any Winding Up Proceeding of the Issuer to the prior payment in full of all deposit liabilities and all other liabilities of the Issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or subordinate to the Subordinated Payment Obligations.

The Sukukholders and the Sukukholders' Agent (acting on behalf of the Sukukholders) irrevocably waive their rights to the extent necessary to give effect to the subordination provisions of the Subordinated Payment Obligations. In order to give effect to such subordination provisions, the Issuer, the Sukukholders and the Sukukholders' Agent (acting on behalf of the Sukukholders) agree in the Mudaraba Agreement that at the time when a Winding Up Proceeding of the Issuer shall have occurred and be continuing, any amounts that would be due and payable to them will be applied:

(i) first, to the payment in full of all claims of depositors and all other obligations of the Issuer ranking senior in the right of payment to the Subordinated Payment Obligations (including any amounts on such claims accruing after the date of commencement of such Winding Up Proceeding of the Issuer); and

(ii) thereafter, to the payment, equally and rateably, of amounts owing under the Subordinated Payment Obligations and all obligations of the Issuer ranking equally in right of payment with the Subordinated Payment Obligations.

No Sukukholder may exercise or claim any right of set off in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Payment Obligations and each Sukukholder shall, by virtue of its subscription, purchase or holding of any Mudaraba Sukuk, be deemed to have waived all such rights of set off to the fullest extent permitted by law.

As a consequence of these subordination provisions, if a Winding Up Proceeding of the Issuer should occur, the Sukukholders may recover less rateably than the holders of deposit liabilities or the holders of other unsubordinated liabilities of the Issuer.

(c) *Recourse to the Issuer*

The Issuer is obliged to make the payments under the relevant Transaction Documents to which it is a party directly to the Sukukholders (or in certain circumstances, the Sukukholders' Agent), and the Sukukholders or the Sukukholders' Agent (subject to it being indemnified to its satisfaction), as agent for and on behalf of the Sukukholders, will have direct recourse against the Issuer on a subordinated basis to recover payments due to the Sukukholders or the Sukukholders' Agent for the account of the Sukukholders, pursuant to such Transaction Documents.

5. Mudaraba

(a) *Mudaraba Assets*

Pursuant to the Mudaraba Agreement, the proceeds of the sale of the Mudaraba Sukuk will be applied as the capital (the "**Capital**") of the Mudaraba constituted by the Mudaraba Agreement (the "**Mudaraba**"). The Mudaraba will commence on the Closing Date and will end either: (i) on the later of the Expiry Date and the date on which the Mudaraba Sukuk are redeemed in full; or (ii) in the event that the Mudaraba Sukuk are redeemed in full prior to the Expiry Date, on the day immediately following such redemption.

The Capital of the Mudaraba is to be invested by the Issuer (acting as *mudareb*) in the Islamic Business Portfolio and the Capital, as invested in the Islamic Business Portfolio, will constitute the assets of the Mudaraba (the "**Mudaraba Assets**"). The Issuer shall be entitled to commingle its own assets with the Mudaraba Assets.

None of the Issuer, the Sukukholders' Agent and Joint Bookrunners & Joint Lead Managers are responsible for the performance or the profitability of the Mudaraba Assets or for the share and amount of the distributions (if any) made to the Sukukholders except in the event of a willful negligence.

(b) *Application of Proceeds – Mudaraba Income*

Pursuant to and in accordance with the terms of the Mudaraba Agreement, the Issuer holds the Mudaraba Assets for and on behalf of the Sukukholders. The Issuer shall accumulate the investments/financing and fee income from the Islamic Business Portfolio less total costs (consisting of direct costs and allocated costs of such activities) and less provisions for that year relating to the Islamic Business Portfolio (the "**Net Profit**").

The proportional shares of the Net Profit, after deduction of the Mudaraba Costs, of the Sukukholders and the Issuer shall be calculated using the following ratios:

Sukukholders: 90 per cent. of the Net Profit (the "**Mudaraba Income**"); and

Issuer: 10 per cent. of the Net Profit (the "**Mudareb Profit**").

If the Mudaraba Income in any Periodic Distribution Period exceeds the Periodic Distribution Amount, the amount of any surplus shall be retained by the Issuer as a reserve (the "**Reserve**"). The Reserve shall be recorded by the Issuer through a book entry notional account and will not be maintained in a separate defined bank account. The Issuer shall not have the right to use and invest the monies (if any) standing to the credit of the Reserve for its own account.

(c) *Application of Proceeds – Reserve*

The Issuer shall retain the Reserve and pay the monies (if any) standing to the credit of the Reserve as follows:

(i) Upon the occurrence of the Expiry Date, the Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, the Issuer shall pay the monies (if any) standing to the credit of the Reserve in the following order of priority:

(A) firstly, towards the aggregate amount of any shortfall between the amounts paid to Sukukholders on any previous Periodic Distribution Date(s) and the corresponding Periodic Distribution Amount(s) for such date(s) (each, a "**Shortfall**") to the extent these remain unpaid; and

(B) secondly, towards the amount of any Shortfall for the partial Periodic Distribution Period.

(ii) The balance of the monies (if any) standing to the credit of the Reserve shall be used to compensate the Sukukholders for any loss relating to the Mudaraba Assets as at the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, with the balance of the monies (if any) standing to the credit of the Reserve to be received by the Issuer as an incentive. For the purpose of calculating the loss relating to the Mudaraba Assets as at the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, within three Business Days of the occurrence of the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, the Issuer shall conduct an audit review of the Islamic Business Portfolio for the period starting on the Closing Date and ending on the date of occurrence of the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, as the case may be, and compare the value of the Mudaraba Assets as of the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, as the case may be, with the value of the Mudaraba assets as at the Closing Date in accordance with accounting standards applicable to the Issuer.

6. Covenants and Undertakings

The Issuer has covenanted in the Mudaraba Agreement that, *inter alia*, so long as any Mudaraba Sukuk remains outstanding, it shall not:

(i) create, issue, assume or otherwise incur any loan, debt, guarantee or other obligation which will be, or will purport to be, subordinated debt of the Issuer and which will, at the time it is created, issued, assumed or otherwise incurred or at any time thereafter, be considered to be, capital of the Issuer for any regulatory purposes unless such obligation ranks junior to or equal in right of payment with the Subordinated Payment Obligations in the case of any distribution of assets of the Issuer in any liquidation of the Issuer;

(ii) sell, transfer, assign, participate, exchange, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interest in the Mudaraba Assets except pursuant to the Transaction Documents;

(iii) use the proceeds of the issue of the Mudaraba Sukuk for any purpose other than as set out in this Prospectus; and

(iv) put to its directors or shareholders any resolution for or appoint any liquidator for its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it.

7. **Periodic Distributions**

(a) *Periodic Distribution Dates*

Subject to Condition 5(b) (*Mudaraba*) and Condition 9 (*Payments*), the the Payment Administrator, distribute to the Sukukholders pro rata a distribution in relation to the Mudaraba Sukuk on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount. If any Periodic Distribution Date is not a Business Day, it shall be postponed to the following Business Day.

In these Conditions:

"**Periodic Distribution Amount**" means, for each Periodic Distribution Period, an amount calculated as follows:

$$\frac{Px(S+M)xD}{360}$$

where:

P = the aggregate face value of such Mudaraba Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period;

D = the actual number of days in such Periodic Distribution Period;

S = the six month SIBOR for such Periodic Distribution Period; and

M = the Margin or the Step up Margin, as applicable.

(b) *Determination of six month SIBOR*

The six month SIBOR for each Periodic Distribution Period shall be determined by or on behalf of the Payment Administrator, in accordance with the following provisions:

(i) the Issuer shall determine the Screen Rate at approximately 11.00 a.m. (Riyadh time) on the second Business Day before the first day of each Periodic Distribution Period (the "**Periodic Determination Date**") and such Screen Rate shall be the value of the six month SIBOR for the forthcoming Periodic Distribution Period; or

(ii) if the Screen Rate is unavailable, the Payment Administrator shall:

(A) request the principal office in the Kingdom each of the Reference Banks or any substitute reference bank in the Saudi interbank market appointed by the Payment Administrator, to provide a quotation of the rate at which deposits in Saudi Riyals are offered by it in the Saudi interbank market at approximately 11.00 a.m. (Riyadh time) on the Periodic Determination Date to prime banks in the Saudi interbank market for a period equal to the relevant Periodic Distribution Period and for a Representative Amount and, so long as at least two of the Reference Banks provide such rates, the arithmetic mean of such rates (rounded if necessary to the fifth decimal place, with 0.000005 rounded upwards) as calculated by the Payment Administrator shall be the value of SIBOR for the forthcoming Periodic Distribution Period; and

(B) if SIBOR cannot be determined in accordance with the above provisions, the value of SIBOR for the forthcoming Periodic Distribution Period applicable to the Mudaraba Sukuk during such Periodic Distribution Period shall be as determined on the preceding Periodic Determination Date.

(c) *Publication*

The Payment Administrator shall cause the Screen Rate and the Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, to be notified to the Issuer and the Sukukholders' Agent and each stock exchange on which the Mudaraba Sukuk are then listed, if applicable, as soon as practicable after such determination but in any event not later than the first day of the relevant Periodic Distribution Period. Notice thereof shall also promptly be given to the Sukukholders. The Issuer shall be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Periodic Distribution Period.

(d) *Cessation of Accrual*

No further amounts shall be payable on any Mudaraba Sukuk from and including its due date for redemption unless, upon due presentation, payment in respect of the Mudaraba Sukuk is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event such amounts payable on the Mudaraba Sukuk shall continue to be due and payable and the Issuer shall have an obligation to pay the Late Payment Amount on such delayed payments to a charity chosen by the Sukukholders' Agent.

(e) *Calculation of Distribution in respect of Partial Periodic Distribution Amounts*

When a distribution is required to be calculated in respect of a period less than a full Periodic Distribution Period, it shall be calculated on the basis of the actual number of days elapsed in such period and an actual/360 basis.

(f) *Notifications*

All notifications, opinions, determinations, Sukuk, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Issuer shall (in the absence of wilful misconduct, fraud or manifest error) be binding on the Issuer, the Sukukholders' Agent and the Sukukholders and (subject as aforesaid) no liability to any such person will attach to the Issuer in connection with the exercise or non exercise by it of its powers, duties and discretions under this Condition.

(g) *Adjustment and set off*

All the Periodic Distribution Amounts and the Partial Periodic Distribution Amount, if any, shall be paid on the relevant dates on the basis of a constructive liquidation of the Mudaraba on the relevant Periodic Distribution Date or partial Periodic Distribution Date, based on the Issuer's management accounts for the relevant period.

Within three Business Days of the occurrence of the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, the Issuer shall conduct an audit review of the Islamic Business Portfolio for the period starting on the Closing Date and ending on the date of occurrence of the Expiry Date, Optional Expiry Date, the Regulatory Dissolution Date or the Event of Default Date, as the case may be. If, based on such audit review, the Issuer shall determine that any Periodic Distribution Amount or Partial

Distribution Amount relating to any relevant Periodic Distribution Period or partial Periodic Distribution Period, as the case may be, was greater than the Mudaraba Income for such period, then the Issuer shall have the right to deduct any such shortfall from the monies (if any) standing to the credit of the Reserve. If the monies (if any) standing to the credit of the Reserve are insufficient to cover such shortfall, the Issuer shall have the right to set off any such amounts due from the Sukukholders against the Redemption Amount to be paid to them by the Issuer pursuant to the Mudaraba Agreement.

8. **Purchase of Mudaraba Sukuk**

(a) *Purchase*

The Issuer may at any time purchase Mudaraba Sukuk in the open market or otherwise and at any price agreed between the Sukukholder and the Issuer, subject to the prior written approval from SAMA.

(b) *Cancellation*

All Mudaraba Sukuk, if any, so purchased by the Issuer shall be cancelled and may not be reissued or resold.

9. **Payments**

(a) *General*

Payments under the Mudaraba Sukuk shall be made by wire transfer to a Saudi Riyal account maintained by the payee with a bank in the Kingdom as notified in writing to the Registrar and the Issuer not later than 15 days before the date of the relevant payment.

(b) *Payments subject to Applicable Laws*

All payments in respect of the Mudaraba Sukuk are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment. No distributions or expenses shall be charged to the Sukukholders in respect of such payments.

(c) *Payments on Business Days*

Payment instructions shall be initiated for value on the due date, or, if the due date is not a Business Day, for value on the first following Business Day. A Sukukholder shall not be entitled to any distribution or other payment in respect of any delay in payment resulting from the due date for a payment not being a Business Day.

(d) *Transfer Record Date*

Each payment in respect of the Mudaraba Sukuk shall be made to the person shown as the Sukukholder in the Register at the opening of business in the place of the Registrar's specified office on the Transfer Record Date.

10. **Dissolution of Mudaraba Sukuk**

(a) *Scheduled Dissolution*

Unless previously redeemed, or purchased and cancelled, the Mudaraba Sukuk shall be redeemed on the Expiry Date and subject to Condition 4(b) (*Status; Limited Recourse; Agreement of Sukukholders*) and Condition 7(g) (*Periodic Distributions*), each Sukukholder shall receive his proportional share of the Redemption Amount.

(b) *Dissolution at the Option of the Issuer*

Subject to the value of the Mudaraba Assets not being below the aggregate face value of the Mudaraba Sukuk, after taking into consideration the monies (if any) standing to the credit of the Reserve as specified in Condition 5(c)(ii) (*Mudaraba*), the Issuer shall be entitled to redeem in whole, but not in part, subject to the prior written approval from SAMA, the Mudaraba Sukuk from the Sukukholders at the Redemption Amount, subject to Condition 7(g) (*Periodic Distributions*), at the end of the 5th year or at the end of each calendar year thereafter until the 9th year (the "**Optional Expiry Date**") upon the Issuer giving not less than 15 days' nor more than 30 days' notice to the Sukukholders (which notice shall be irrevocable).

(c) *Dissolution for Regulatory Capital Reasons*

The Mudaraba Sukuk may be redeemed at the option of the Issuer, subject to the prior written approval from SAMA, on any Periodic Distribution Date (the "**Regulatory Dissolution Date**") in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Regulatory Dissolution Notice**") to the Sukukholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable), and subject to Condition 4(b) (*Status; Limited Recourse; Agreement of Sukukholders*) and Condition 7(g) (*Periodic Distributions*), each Sukukholder shall receive his proportional share of the Redemption Amount if the Issuer determines and announces that, or as a result of a change in law or regulation or interpretation thereof, the Mudaraba Sukuk no longer qualify as Lower Tier II capital of the Issuer for regulatory capital and capital adequacy purposes.

Prior to the publication of any Regulatory Dissolution Notice, the Issuer shall deliver to the Sukukholders' Agent a certificate signed by two officers of the Issuer stating that the conditions precedent to the right of the Issuer to so redeem the Mudaraba Sukuk have occurred and cannot be avoided by the Issuer taking reasonable measures available to it. The Sukukholders' Agent shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above and shall not be required to make any further enquiry into such circumstances and shall not incur liability to any person (including any Sukukholder) as a result of relying on such certificate. Any such certificate shall be conclusive and binding on the Sukukholders.

On payment of all amounts due under the Transaction Documents in circumstances specified in paragraphs (a), (b) and (c) above, the Mudaraba shall be dissolved and the Mudaraba Sukuk redeemed by the Issuer cancelled.

11. Events of Default

The occurrence of any of the following events and circumstances shall constitute an "**Event of Default**":

(a) *Non payment of the Periodic Distribution Amount:* the Issuer fails on any Periodic Distribution Date to distribute to the Sukukholders the Periodic Distribution Amount and such shortfall or any part thereof remains unpaid in full three Business Days after its due date (except as a result of an administrative or technical error) and occurs as a direct result of the Issuer's default or negligence in performing its obligations under the Transaction Documents; or

(b) *Breach of Subordinated Payment Obligations*: the Issuer fails to fulfil its Subordinated Payment Obligations under the Mudaraba Agreement when due and payable and such default continue for a period of five Business Days; or

(c) *Breach of Other Obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Mudaraba Sukuk or the Transaction Documents and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by the Sukukholders' Agent has been delivered to the Issuer; or

(d) *Cross default of Issuer:*

(i) any Indebtedness of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes due and payable prior to its stated maturity as a result of an event of default or other acceleration event (howsoever described); or

(iii) the Issuer fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in paragraph (i) and/or paragraph (ii) above and/or the amount payable under any Guarantee referred to in paragraph (iii) above, individually or in the aggregate, exceeds SAR 100 million (or its equivalent in any other currency or currencies); or

(e) *Unsatisfied Judgment:* one or more judgment(s) or order(s) for the payment of an amount in excess of SAR 100 million (or its equivalent in any other currency or currencies), whether individually or in aggregate, is/are rendered against the Issuer and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(f) *Insolvency:* (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed over the whole or at least 25 per cent. of the undertaking, assets and revenues of the Issuer (or application for any such appointment is made) and such appointment is not discharged within 28 days, (iii) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Settlement to Avoid Bankruptcy Law) or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer ceases or threatens to cease to carry on all or at least 25 per cent. of its overall business (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring while solvent approved by an Extraordinary Resolution); or

(g) *Winding up of the Issuer:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring while solvent approved by an Extraordinary Resolution) (any such event, a "**Winding Up Proceeding**"); or

(h) *Analogous Event:* any event occurs under the laws, regulations or rules of the Kingdom of Saudi Arabia has an analogous effect to any of the events referred to in paragraphs (e) (*Unsatisfied Judgment*) to (g) (*Winding up of the Issuer*) above; or

(i) *Failure to Take Action:* failure to take, fulfil or do any action, condition or thing at any time required to be taken, fulfilled or done in order to: (i) enable the Issuer lawfully to enter into and exercise its rights and perform and comply with its obligations under and in respect of the Mudaraba Sukuk or the Transaction Documents; and (ii) ensure that those obligations are legal, valid, binding and enforceable; or

(j) *Unlawfulness:* it is or becomes unlawful for the Issuer to perform any or all of its obligations under or in respect of the Mudaraba Sukuk or the Transaction Documents; or

(k) *Non Effectiveness of Mudaraba Assets:* it is or becomes unlawful for the Issuer to perform any of its material obligations under the Mudaraba Assets or any documents relating to the

Mudaraba Assets, or any Mudaraba Assets or documents relating to the Mudaraba Assets are held by a court not to be legally effective, or the Issuer repudiates or evidences an intention to repudiate any document relating to the Mudaraba Assets.

If an Event of Default occurs and is continuing, the Sukukholders' Agent shall as soon as is reasonably practicable after it receives notice thereof give notice of the occurrence of such Event of Default to the Sukukholders requiring them to indicate within a period of up to five days, or such other date as is notified to Sukukholders by the Sukukholders' Agent (the "**Exercise Period**") whether they wish to exercise their rights pursuant to the Mudaraba Agreement to require the Issuer redeem the Mudaraba Sukuk from all Sukukholders by payment of the Redemption Amount. Any Sukukholder may then deliver a notice (an "**Event of Default Notice**") within such Exercise Period to the Sukukholders' Agent declaring the Mudaraba Sukuk held by it to be purchasable or declining to declare the Mudaraba Sukuk held by it to be purchasable.

The Mudaraba Sukuk in respect of which an Event of Default Notice is so delivered may not be transferred until after the expiry of the Exercise Period and only to the extent not purchased by the Issuer during such Exercise Period in accordance with these Conditions. If the Sukukholders' Agent receives an Event of Default Notice, the Sukukholders' Agent shall promptly give notice to the Issuer that such an Event of Default Notice has been received, specifying the Event of Default referred to therein (but so that such notice shall only be given in relation to the first Event of Default Notice received in respect of any Event of Default). Unless the Sukukholders' Agent receives Event of Default Notices from at least the Required Sukukholders within the Exercise Period and such Required Sukukholders decline to declare the Mudaraba Sukuk held by them to be purchasable, the Sukukholders' Agent shall, subject to the prior written approval from SAMA, promptly deliver to the Issuer an exercise notice (the "**Exercise Notice**") so notifying the Issuer (with a copy to the Sukukholders) and, *provided that* the Event of Default in respect of such Exercise Notice is continuing, the Issuer shall, pursuant to the Mudaraba Agreement, immediately thereafter redeem the Mudaraba Sukuk from all Sukukholders by payment of the Redemption Amount applicable to the Mudaraba Sukuk as of the date on which Event of Default Notices from the Sukukholders were first received (the "**Event of Default Date**"), together with payment of the Partial Periodic Distribution Amount, calculated as of the date of such redemption.

12. **Enforcement and Exercise of Rights**

(a) The Sukukholders' Agent may at any time, at its absolute discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Mudaraba Agreement or the Mudaraba Sukuk, and it shall not be bound in any circumstances to take any such action unless directed or requested to do so: (i) by an Extraordinary Resolution; or (ii) in writing by the Required Sukukholders and in either case then only if it shall be indemnified and/or secured to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

(b) No Sukukholder shall be entitled to proceed directly against the Issuer unless: (i) the Sukukholders' Agent, having become bound so to proceed, fails to do so within 60 days of becoming so bound and such failure is continuing; and (ii) the relevant Sukukholder (or such Sukukholder together with the other Sukukholders who propose to proceed directly against the Issuer) holds at least 25 per cent. of the aggregate face value of the Mudaraba Sukuk then current on such date. Under no circumstances shall the Sukukholders' Agent or any Sukukholders have any right to cause the sale or other disposition of any of the Mudaraba Assets except pursuant to the Mudaraba Agreement, and the sole right of the Sukukholders' Agent and Sukukholders against the Issuer shall be to enforce the obligation of the Issuer to pay the Periodic Distribution Amount, if due and payable.

13. Meetings of Sukukholders; Modification

(a) *Meetings of Sukukholders*

The Declaration of Agency contains provisions for convening meetings of Sukukholders to consider any matter affecting their interests, including the sanctioning by the Extraordinary Resolution of a modification of the Mudaraba Sukuk, these provisions or any relevant provision of the Declaration of Agency, subject to also obtaining the Issuer's approval. Such a meeting may be convened by the Issuer and shall be convened by the Issuer upon the request in writing of Sukukholders holding not less than one-third of the aggregate face value of the Mudaraba Sukuk as are current as of such date. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing at least half of the aggregate face value of such of the Mudaraba Sukuk as are current as of such date or, at any adjourned meeting, one quarter of the aggregate face value of such of the Mudaraba Sukuk as are current as of such date.

An Extraordinary Resolution requires the affirmative vote of at least one more than half of those represented in the relevant meeting in order for it to be passed. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all Sukukholders, whether present or not. The Declaration of Agency provides that a written resolution signed by or on behalf of the holders of not less than two-thirds of the aggregate face value of the Mudaraba Sukuk as are current as of such date shall be as valid and effective as a duly passed Extraordinary Resolution.

(b) *Modification*

The Declaration of Agency provides that the Sukukholders' Agent may agree, without the consent of the Sukukholders, to any modification (subject to certain exceptions as provided in the Declaration of Agency) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Agency, or may determine that an Event of Default, shall not be treated as such which in any such case, in the opinion of the Sukukholders' Agent, is not materially prejudicial to the interests of the Sukukholders or to any modification of any of these Conditions or any of the provisions of the Declaration of Agency which is (in the opinion of the Sukukholders' Agent) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Sukukholders and, unless the Sukukholders' Agent agrees otherwise, any such modification shall be notified to the Sukukholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

In connection with the exercise by it of any of its powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Sukukholders' Agent shall have regard to the interests of the Sukukholders as a class and, in particular, but without limitation, need not have regard to the consequences of such exercise for individual Sukukholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Sukukholders' Agent shall not be entitled to require, nor shall any Sukukholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Sukukholders.

14. Taxation

All payments or distributions in respect of the Mudaraba Sukuk by or on behalf of the Issuer shall be made subject to withholding or deduction for or on account of, any Taxes, as required by the Income Tax Regulation or any other tax law applicable in the Kingdom.

15. Indemnification and Liability of the Sukukholders' Agent

The Declaration of Agency contains provisions for the indemnification of the Sukukholders' Agent in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction, in particular, in connection with the exercise of any of its rights in respect of the Mudaraba Assets. The Sukukholders' Agent shall in no circumstances take any action unless directed to do so in accordance with Condition 12 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured to its satisfaction.

The Sukukholders' Agent makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer under any Transaction Document to which the Issuer is a party and shall not under any circumstances have any liability or be obliged to account to the Sukukholders in respect of any payment which should have been made by the Issuer or on its behalf, but is not so made, and shall not in any circumstances have any liability arising from the Mudaraba Assets other than as expressly provided in these Conditions or in the Declaration of Agency.

The Sukukholders' Agent is excepted from: (i) any liability in respect of any loss or theft of the Mudaraba Assets or any cash; (ii) any obligation to insure the Mudaraba Assets or any cash; and (iii) any claim arising from the fact that the Mudaraba Assets are or any cash is held by or on behalf of the Sukukholders' Agent or on deposit, unless such loss or theft arises as a result of default or misconduct of the Sukukholders' Agent.

16. Notices

All notices to the Sukukholders shall be valid if sent to them by registered mail to their respective addresses in the Register. Any such notice shall be deemed to have been given on the 5^{th} day after the date of mailing.

17. Governing Law and Jurisdiction

(a) *Governing Law*

The Transaction Documents and the Mudaraba Sukuk are governed by, and are to be construed in accordance with, the laws and regulations of the Kingdom in accordance with the rules of the *Shari'ah* as applied in the Kingdom.

(b) *Jurisdiction*

The Committee for the Resolution of Securities Disputes (the "**Committee**") shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Mudaraba Sukuk or the Transaction Documents and, for such purposes, all relevant parties (including the Issuer and the Sukukholders) irrevocably submit to the jurisdiction of the Committee. No suit, action or proceedings which may arise out of or in connection with the Mudaraba Sukuk or the Transaction Documents may be filed or brought outside the Kingdom and no court or any judicial authority outside the Kingdom shall have jurisdiction to hear any such claim.

5. USE OF PROCEEDS

The aggregate proceeds of the Mudaraba Sukuk to be issued will be determined by agreement between the Issuer and the Joint Bookrunners & Joint Lead Managers and announced following the end of the Investor Presentation Period (see the "*Subscription and Issuance*" section of this Prospectus). The proceeds of the offering of the Mudaraba Sukuk will be used by the Bank for strengthening its capital base as it is intended that the Mudaraba Sukuk will comprise Lower Tier II capital for Saudi Arabian regulatory purposes. The proceeds of the offering of the Mudaraba Sukuk will be applied as the Capital of the Mudaraba constituted by the Mudaraba Agreement, to be used by the Bank to grow its Islamic Business Portfolio.

6. CAPITALISATION AND INDEBTEDNESS

The table below sets out the capitalisation of the Bank as derived from the Bank's audited financial statements for the year ended 31 December 2008 and reviewed interim financial statements for the nine months ended 30 September 2009. This information should be read in conjunction with the management discussion and analysis in Section 9 (*Management Discussion and Analysis*) and the financial statements of the Bank, including the notes thereto, included in the Appendix 1 (*Financial Statements*).

The capitalisation of the Bank (SAR' 000)	**As of 30 September 2009 (Unaudited)**	**As of 30 September 2008 (Unaudited)**	**As of 31 December 2008 (Audited)**
Due to banks and other financial institutions	6,935,406	9,319,840	9,286,150
Customers' deposits	47,327,042	44,504,727	43,012,327
Other liabilities	1,369,732	1,530,315	1,947,555
Subordinated debt	1,475,000	700,000	1,475,000
Total liabilities	**57,107,180**	**56,054,882**	**55,721,032**
Share capital	3,307,500	2,646,000	2,646,000
Statutory reserve	1,915,000	1,609,000	1,915,000
General reserve	130,000	130,000	130,000
Other reserve	(3,230)	(95,837)	(45,411)
Retained earnings	689,155	1,055,840	825,329
Total shareholders' equity	**6,057,296**	**5,345,003**	**5,715,151**
Total capitalisation	**63,164,476**	**61,399,885**	**61,436,183**

Source: *The Bank.*

The Bank was incorporated in 1976 with a share capital of SAR 35 million. Since incorporation, a number of capitalisations have occurred. The authorised, issued and fully paid share capital of the Bank stands at 264.6 million shares as of 31 December 2008 of SAR 10 each.

Subsequent to the publication of the financial statements for the year ended 31 December 2006, at an Extraordinary General Meeting held on 01/03/1428H (corresponding to 20/03/2007G), the shareholders approved an increase in the share capital of the Bank from SAR 2,205 million to SAR 2,646 million by the issuance of one share for every five shares held funded by the transfer of SAR 441 million from the general reserve.

Subsequent to the publication of the financial statements for the year ended 31 December 2008, at an Extraordinary General Meeting held on 27/03/1430 H (corresponding to 24/03/2009 G), the shareholders approved an increase in the share capital of the Bank from SAR 2,646 million to SAR 3,307.5 million by the issuance of one share for every four shares held funded by the transfer of SAR 661.5 million from the retained earnings.

In accordance with Saudi Arabian Banking Control Law (the "**Banking Control Law**") and the By laws of the Bank (the "**By-laws**"), a minimum of 25 per cent. of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 306 million has been transferred from 2008 net profit, as compared with SAR 110 million in 2007. The statutory reserve is not available for distribution prior to liquidation of the Bank. In addition, the Ordinary General Meeting may based on a recommendation of the Board of Directors make an appropriation to a general reserve for purposes determined by the Ordinary General Meeting.

Currently, no share in the capital of the Bank or any of its subsidiaries is under option.

On 28 December 2004, the Bank issued SAR 700 million subordinated callable floating rate notes (the "**Notes**"), due in 2011. The Bank may at its option, but subject to the prior written approval of SAMA, redeem the Notes at their principal amount either on the special commission payment date falling on or after 28 December 2009 or in the event of certain changes affecting taxation and regulatory capital treatment of these notes. The Notes are junior in right of payment to the claims of depositors or any other unsubordinated payment obligations of the Bank and qualify for inclusion as Tier 2 capital for capital adequacy measurements.

On 24 December 2008, the Bank issued SAR 775 million Mudaraba certificates due 2018 callable with step up in 2013. The Bank may at its option, but subject to the prior written approval of SAMA, redeem the certificates at their principal amount either on the special commission payment date falling on or after 31 December 2013 or in the event of certain changes affecting taxation or regulatory capital treatment of the certificates. The certificates are junior in right of payment to the claims of depositors or any other unsubordinated payment obligations of the Bank and qualify for inclusion as Tier 2 capital for capital adequacy measurements.

The Bank does not have any other material contingent liabilities or guarantees as at the date hereof.

7. SAUDI ARABIAN BANKING SECTOR

7.1 Economic Background

During the last two years, the world economy has experienced one of its biggest challenges since the Great Depression. World growth declined from a positive growth rate of 2.7 per cent. in 2007 to an estimated negative growth rate of 1.3 per cent. for 2009. However, the international market has recovered from its low in mid-March 2009 after coordinated governmental intervention with unprecedented fiscal and monetary measures.

As oil sales account for approximately 90 per cent. of the Kingdom's revenues, the Saudi economy was affected by the decline in oil prices which fell from a high of $147 in July 2008 to near $30 in February 2009. However, the conservative policies of the Government of the Kingdom (the "**Government**") have resulted in a budgetary surplus for the last two years. This has enabled the Government to continue to stimulate the expansion of the Saudi economy. The banking industry was also little affected by the global crisis because of its small exposure to international lending under SAMA's guidelines. This has resulted in the Saudi economy being in a better condition when compared to the rest of the world.

The Kingdom's nominal GDP grew by 4.4 per cent. in 2008 to SAR 848.5 billion with growth seen across all economic activities. The Government is also committed to investing $400 million over five years on local projects. The Saudi stock market was down 56.5 per cent. by the end of 2008 but since then has partly recovered after the Government continued its fiscal expansion. As of 30 September 2009, the Tadawul index was 32 per cent. up since the beginning of the year at 6,322 points. With oil prices trading in the range of $ 65-75 in the second half of 2009 and OPEC statements that the OPEC member countries are satisfied with such prices and production size, oil is expected to stay in this range for some time until the global economies return to growth, which is anticipated in the second half of 2010 when the price of oil could increase.

The following table provides summary economic information regarding the Kingdom for the years indicated:

	2008	2007	2006	2005	2004
Economic performance					
Nominal GDP – Revised (SAR billion)	1,758	1,439	1,336	1,183	939
Nominal GDP Growth	22.1%	7.1%	12.9%	26.0%	16.7%
Real GDP (SAR billion)	849	813	786	762	722
Real GDP growth	4.4%	3.4%	3.1%	5.6%	5.3%
Population (millions)	28	24.2	23.7	23.1	22.7
Government finance					
Total revenues (SAR billion)	1,101	643	674	564	392
Total expenses (SAR billion)	520	466	393	347	285
Surplus / (deficit) (SAR billion)	581	177	280	218	107
Government revenues / GDP	62.6%	44.7%	50.4%	47.7%	41.8%
Assets of Investment Funds (SAR billion)	109.8	105.1	84.1	137.0	60.3
Money supply and inflation					
M1 (end period)	425	384	313	284	271
M2 (end period)	793	667	539	449	408
M3 (end period)	929	790	661	554	496
Average interbank rate (3M)	2.9%	4.8%	5.0%	3.8%	1.7%
Consumer price inflation	9.9%	4.1%	2.2%	0.7%	0.3%

Source: SAMA 45th annual report

7.2 The Banking Sector

Currently, there are 12 domiciled banks fully operational in the Kingdom, of which four[2] are banks with foreign partners owning at least 30 per cent. of the shares and 11 are listed on Tadawul. In

[2] Source: *The annual reports of each of the banks referred to above.*

addition a new bank, Al-Inma Bank was set up in 2008 and listed on Tadawul. Following the Kingdom's accession to the World Trade Organisation in 2005, the banking sector is less restricted to new foreign investment as foreign entities are now allowed to own up to 60 per cent. of the shares in a Saudi Arabian bank (this limitation was previously 40 per cent.) and SAMA granted licences to certain foreign banks to operate in the Kingdom. Some of these licensed foreign banks have opened branches in the Kingdom and have begun operations in accordance with regulations implemented in the Kingdom.

At 30 June 2009, there were 1,450 bank branches and 9,513 ATMs and 75,269 point of sale (POS) terminals in the Kingdom. The table below provides an overview of the domestic banks in the Kingdom:

Saudi banks	Total assets (SARm)	No. of branches(2)	No. of ATMs(2)	No. of POS terminals*
Saudi Hollandi Bank	69,022	42	216	5,656
Al Rajhi Bank	164,616	434	2,382	17,153
Arab National Bank	115,083	139	886	10,701
Bank Albilad	16,410	64	434	523
Bank Al Jazira	28,939	30	322	n.a.
Banque Saudi Fransi	122,822	76	303	6,052
National Commercial Bank	256,905	279	1,467	14,250
Riyadh Bank	172,767	203	2,258	8,670
Samba Financial Group	177,051	65	490	5,569
SABB	121,957	69	472	6,563
Saudi Investment Bank	50,731	39	259	132

Source: *Total assets are based on annual and half yearly reports of each of the banks while the number of branches, POS and ATM data is based on SAMA monthly/quarterly bulletin.*

The Corporate Banking Segment

The majority of banking assets in the Kingdom are loans to businesses, which constituted more than 50 per cent.[3] of total banking assets as at 31 December 2008. Corporate loans outstanding have grown at a CAGR of 29.43 per cent.[4] between 2001 and 2008. This has been driven by strong economic growth from the rise in oil prices and increased investment within the Kingdom in various sectors such as electricity, water and health services, building and construction, commerce and Government projects in oil and gas, infrastructure and education. The recent boom in the construction industry has contributed to substantial growth in corporate assets.

Though commercial mortgages are a lucrative business in developed countries, Saudi banks have not been very active in this product due to legal and operational hurdles. However, financing is provided for real estate development purposes, which does not fall under commercial mortgages.

The Saudi Credit Bureau ("**SIMAH**") provides consumer credit information and is considering introducing commercial credit information services for corporates. This will help the exchange of credit-related information among member banks, giving a broad coverage of the risk profiles of Saudi customers.

Investment banking activities have been growing rapidly in the Kingdom. The CMA has issued licences to more than 80[(6)] entities for new businesses to conduct securities business.

Project finance has been a strong growth area with several projects taking place during the last two years. This area is expected to continue to grow as a result of planned investments in infrastructure and basic industry.

[3] Source: *Bank's Annual Reports*
[4] Source: *SAMA*

The Personal Banking Segment

Consumer lending constituted 16 per cent.[5] of total banking assets in the Kingdom, or SAR 192.9 billion[7], at 31 December 2008 and is one of the fastest growing segments in the Saudi banking industry, with consumer loan balances growing at a CAGR of 24 per cent.[7] between 2001 and 2008. The strong growth in consumer finance has been driven by several factors, including:

- strong economic growth;
- product innovation and a rapidly expanding range of offerings;
- increased credit card penetration; and
- the creation of SIMAH, whose purpose is to assist in credit risk management.

The credit card market has been a strong growth area within personal banking with the value of the credit card loans growing at a CAGR of 23 per cent.[7] between 2001 and 2008. The value of the credit card loans market was SAR 9.452 billion[7] as at 31 December 2008. This credit card growth is expected to continue as a result of the increasing use of electronic forms of payment within the Kingdom.

The majority of personal lending is tied to electronic salary assignment, thereby enhancing asset quality and effectively reducing the risk associated with personal lending. Coupled with higher margins than in corporate lending, this has made personal finance a particularly attractive segment for the Saudi banks.

SIMAH offers consumer credit information services to respective members in the Kingdom. SIMAH was established by the commercial banks operating in the Kingdom within the context of the current banking act and regulations issued by SAMA. SIMAH aggregates credit-related information among participating members to provide credit providers with a more complete risk profile of customers.

Islamic Finance

Islamic finance has been a main growth area for the Saudi financial economy and has been one of the most significant developments in financial markets in recent years. The Kingdom is one of the largest and the fastest growing markets for Islamic banking in the world. The Islamic banking industry in the Kingdom encompasses a blend of institutions of different categories ranging from fully dedicated Islamic banks to conventional banks offering Islamic banking services through separate divisions/windows. Many banks in the Kingdom (including the Bank) have *Shari'ah* boards opining as to the application of *Shari'ah* principles in financing structures and approving all Islamic products.

Between 2003 to 2008, total assets of commercial banks in the Kingdom increased at a CAGR of 18.5 per cent. and at a CAGR of 2.7 per cent. in the first half of 2009. Islamic banking assets in the Kingdom, valued at over USD 60 billion and making up approximately 45 per cent. of the total banking assets, are projected to continue growing at healthy levels beyond the year 2010 as there is a strong, sustained and consumer driven demand for *Shari'ah* compliant banking products and services in the Kingdom.

Currently a wide range of *Shari'ah* compliant products are available in the market for corporate and personal banking segments covering credit, deposit, investment and treasury offerings.

The personal banking segment has experienced the strongest demand for Islamic banking products and services with consumer Islamic assets forming the bulk of total consumer assets. In addition to deposit products, Islamic financing solutions include personal finance, home finance and Islamic credit cards. With growing business activity in the real estate sector and a growing population,

[5] Source: *SAMA*

Shari'ah compliant home financing is expected to be a major driver of Islamic personal banking asset growth in future.

Credit demand from the corporate banking segment is rapidly growing following the launch of infrastructure projects and increasing interest in manufacturing. Main product offerings include Ijarah and Murabaha and are offered as bilateral facilities as well as through syndications. To cater to this market segment, Islamic banks have also introduced innovative *Shari'ah* compliant solutions. In the last two years, there have been several large size Islamic project finance transactions attracting participation from a large number of banks. This has placed the Islamic banking sector in a competitive position vis-à-vis its conventional counterpart. Corporates tapping the capital markets, both for debt and equity issues, find it difficult to raise funds if they have conventional financing on their balance sheets. This has led to many companies converting their conventional facilities to Islamic facilities.

The Kingdom has also witnessed rapid development of the Sukuk market with a number of new issues being oversubscribed and attracting large investments. Moreover, the Saudi Stock Exchange launched in June 2009 the new Sukuk and bonds market providing many services such as listing, order submission, trade execution, clearing and settlement, and prices information dissemination. The new market will enable investors to diversify their investments by buying and selling Sukuk and bonds through existing brokerage firms and by using the same portfolio that is used for trading securities. The Islamic banking segment is expected to continue to grow at the same pace with the anticipated credit demand from corporate and consumer segments. It is also expected to be accompanied by simultaneous increase of innovative Islamic product offerings and growing awareness and demand within the general public for sophisticated *Shari'ah* compliant solutions.

Treasury

The treasury activities of Saudi banks have increased over the past few years as the financial markets have become more sophisticated with the increased use of financial instruments. Some Saudi banks are able to offer their customers structured products that make use of derivatives and that are also *Shari'ah* compliant.

Investment Banking and Asset Management

The activity of investment banking and mutual fund services has seen a large growth during the past years. Brokerage services especially flourished during the 2003-2006 period, when Tadawul peaked to all-time highs. Following market corrections in 2006, trading volumes declined considerably, decreasing brokerage fees as a percentage of overall banking income noticeably during the second half of 2006. During the same period the market appetite for mutual fund investments showed a similar pattern.

In harmony with the Government's drive to develop an efficient capital market platform, a number of banks, including the Bank, embarked on providing corporate finance and equity and debt capital markets advisory services to companies. Since 2003, a number of initial public offerings have been effected, several of which were Government initiatives.

7.3 The Regulatory Framework

Government

A recent decline in the banking sector's exposure to the Government relates to the Government's reduced need to borrow funds, in light of the record budget surpluses that it has generated in the past few years. Furthermore, the Government has endeavoured to implement liberalisation and diversification strategies, one facet of which is to boost non oil private sector participation in the economy.

The Saudi Arabian Monetary Agency

The Saudi Arabian Monetary Agency ("**SAMA**") was established pursuant to Royal Decree No. 1046/1/4/30 dated 25/07/1372H (corresponding to 20/04/1952G). SAMA statutes were issued in accordance with Royal Decree No. 23 dated 23/05/1377H (corresponding to 15/12/1957G). Some of SAMA's major objectives are to:

- issue local currency and support its value inside and outside the Kingdom;
- act as the Government's own bank;
- control commercial banks and money exchange entities;
- manage the Kingdom's foreign exchange reserves;
- implement monetary policy for promoting price and exchange rate stability; and
- promote growth and ensure the soundness of the financial system.

The Banking Control Law was issued by Royal Decree No. M/5 dated 22/02/1386H (corresponding to 12/06/1966G). The law aims at protecting banks, customers' deposits and shareholders and securing adequate liquidity levels. The law prohibits banks from undertaking any activities that might cause damage to their shareholders and customers. In addition, the law prohibits individuals and companies from using the word "bank" or its synonyms in their names or conducting any banking activities without obtaining a licence from SAMA.

The CMA

The CMA was established by the Capital Market Law, issued by Royal Decree No. (M/30) dated 02/06/1424H (corresponding to 31/07/2003G). The CMA is a governmental organisation with financial, legal and administrative independence.

The CMA regulates the Kingdom's capital markets. It issues the required rules and regulations for the implementation of the provisions of Capital Market Law aimed at creating an appropriate investment environment. It has the authority to:

- regulate and develop the capital market;
- protect investors and the general public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading;
- achieve fairness, efficiency and transparency in securities transactions;
- develop measures to reduce the risks pertaining to securities transactions;
- develop, regulate and monitor the issuance of and trading in securities;
- regulate and monitor the activities of entities subject to the control of the CMA;
- regulate and monitor full disclosure of information related to securities and their issuers; and
- regulate proxy and purchase requests and public share offerings.

Capital Adequacy

Under the prudent supervision of SAMA, all of the domestic banks display adequate levels of capitalisation, particularly as there is limited access to long-term funding other than equity (*e.g*,. debt markets). Risk-adjusted ratios are particularly high due to the high proportion of Tier 1 capital and the high level of investments in zero weighted assets. As shown in the table below, Saudi banks are well capitalised compared with the regulatory minimum Tier 1 and total capital requirements of 4 per cent. and 8 per cent. respectively.

Capital adequacy of Saudi banks (as at 30 June 2009)	**Tier 1**	**Total capital**
Saudi Hollandi Bank	9.80%	13.67%
Al-Rajhi Bank	10.50%	12.60%
Arab National Bank	13.18%	14.38%
Bank Al-Bilad	22.30%	22.60%
Bank Al-Jazira	16.50%	17.40%
Bank Saudi Fransi	11.67%	15.04%
National Commercial Bank	17.25%	14.96%
Riyadh Bank	15.90%	17.40%
SAMBA Financial Group	12.30%	15.20%
SABB	11.78%	12.36%
Saudi Investment Bank	17.28%	17.79%

Source: *The annual reports of each of the banks referred to above.*

Credit Rating

The current ratings of Saudi banks are shown below:

Credit ratings of all Saudi banks	**Moody's***	**Fitch****	**Capital Intelligence***
Saudi Hollandi Bank	C-	A-	A-
Al Rajhi Bank	C	A+	A+
Arab National Bank	C	A	A+
Bank Albilad	not rated	not rated	not rated
Bank Al Jazira	D+	BBB+	not rated
Banque Saudi Fransi	C+	A	A
National Commercial Bank	C	A+	AA-
Riyadh Bank	C	A+	A+
Samba Financial Group	C+	A+	AA-
SABB	C+	A	A+
Saudi Investment Bank	C-	A-	A-

Source: *Bankscope, September 2009*
** Financial Strength by Moody's & Capital Intelligence*
*** IDR Long Term ratings by Fitch*

Loan Quality and Provisioning

Loan quality and provisioning comparison among Saudi banks are shown in the next two tables for the years indicated:

NPL / total loans and advances (as at 31 December)	**2008**	**2007**	**2006**
Saudi Hollandi Bank	2.73%	3.75%	2.51%
Al Rajhi Bank	2.28%	2.89%	2.04%
Arab National Bank	0.39%	0.51%	0.73%
Bank Albilad	1.21%	0.80%	0.36%
Bank Al Jazira	1.50%	1.95%	3.11%
Banque Saudi Fransi	0.93%	0.72%	1.16%
National Commercial Bank	2.39%	2.17%	2.07%
Riyadh Bank	2.39%	1.63%	1.56%
Samba Financial Group	1.82%	2.33%	2.19%
SABB	0.24%	0.31%	0.38%
Saudi Investment Bank	0.97%	1.24%	1.01%

Source: *The annual reports of each of the above banks.*

Loan Loss Provisions ("LLP") / NPL (as at 31 December)	**2008**	**2007**	**2006**
Saudi Hollandi Bank	107.8%	110.03%	113.64%
Al Rajhi Bank	79.66%	109.12%	147.24%
Arab National Bank	348.98%	354.00%	320.53%
Bank Albilad	90.56%	65.80%	60.09%.
Bank Al Jazira	163.86%	161.14%	172.65%
Banque Saudi Fransi	110.99%	189.55%	148.26%
National Commercial Bank	110.94%	140.80%	176.12%
Riyadh Bank	25.74%	41.31%	176.78%
Samba Financial Group	167.01%	159.58%	182.41%
SABB	325.04%	289.74%	301.45%
Saudi Investment Bank	251.94%	243.20%	357.68%

Source: *The annual reports of each of the banks referred to above.*

In general, Saudi banks are well provisioned and display high coverage ratios. Moreover, the impact of the current global financial crisis on the Saudi banking sector in the short term is likely to be limited. With almost 86 per cent. of total assets of the banking sector invested in domestic assets, the exposure of the Saudi banks to international assets is limited.[6] Saudi banks are relatively well positioned to weather the impact of the ongoing financial turmoil.

[6] Source: *Saudi Banking Sector Note: Weathering the Storm, EFG Hermes, 21 October 2008.*

8. THE BANK

8.1 **Overview**

Historical Outline and Introduction

The Bank is a Saudi joint stock company incorporated in the Kingdom formed pursuant to Royal Decree No. M/85 dated 29/12/1396H (corresponding to 20/12/1976G). It commenced business in 1977G when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom.

Founded in 1926 as the Netherlands Trading Society, it was the first bank in the Kingdom, originally established with one office in Jeddah to serve pilgrims from the Dutch East Indies (now Indonesia). For some time, as the only operating bank in the Kingdom, the Bank served as the Kingdom's Central Bank, maintaining the gold stock of the country, and processing the first oil-related transactions. In 1964 the Netherlands Trading Society became the Algemene Bank Nederland (or "**ABN**").

The Bank operates under commercial registration No. 1010064925 dated 06/06/1407H (corresponding to 04/02/1987G) through its 42 branches in the Kingdom, employing 1,477 permanent staff as at 31 August 2009. The Bank is regulated by SAMA and has a banking licence, entitling it to conduct all types of banking operations. The Bank's registered address is Al Dhabab Street, P.O. Box 1467, Riyadh 11431.

Throughout its rich history, the Bank has been an active player in the development of banking and banking products in the Kingdom. It financed the first oil tankers servicing the Kingdom, as well the first gold transports for the Government. This innovative spirit has continued until today, with the Bank, *inter alia*, being the first issuer of debt under the new Capital Market Law in 2004 and advising Yansab on the largest Islamic project finance in the Kingdom in 2006.

Following its bonus share issue in March 2009, the Bank has an issued share capital of SAR 3,307,500,000 consisting of 330,750,000 fully paid-up shares of SAR 10 each. The bonus issue was funded by the transfer of SAR 661.5 million from the Bank's retained earnings.

Under the prevailing SAMA regulations, it is mandatory for banks to transfer 25 per cent. of net profit to the statutory reserve until the statutory reserve equals the paid up capital. At 31 December 2008, the Bank's statutory reserve stood at SAR 1,915 million, representing approximately 72 per cent. of share capital.

The Bank is the eighth largest bank in the Kingdom by total assets and has a wide product offering for retail and corporate clients. While corporate banking has been the core of the Bank's franchise, it has in addition developed its personal banking business with a view to delivering growth in the coming years. Headquartered in Riyadh with regional headquarters in Jeddah and Al Khobar, the Bank is a domestic bank with no legal presence outside the Kingdom. The Bank's commercial banking operations are organised into a matrix structure and are segmented by business division (Corporate Banking, Treasury and Personal Banking) and by geographic region (Central, Western and Eastern). The Bank obtained on 08/07/1428H (corresponding to 22/07/2007G) a CMA licence for Saudi Hollandi Capital, a 95 per cent. subsidiary of the Bank, which will provide investment banking, brokerage and asset management services.

For the nine months ended 30 September 2009, the Bank has achieved a net profit of SAR 375 million and this has consequently improved its capital position. The Bank's main business activities are:

Corporate Banking: the Bank is the eighth largest provider of corporate banking services in the Kingdom, based on corporate assets as at 31 December 2008. Corporate lending is the primary activity and represents 58 per cent. of total assets. The Corporate Banking division generated in excess of 50 per cent. of the Bank's total operating income in 2008. In 2008, the corporate business has grown to nearly 42 per cent.

Personal Banking: the Bank is focusing on growing its wealth management and consumer finance activities, with net consumer loans of SAR 4.8 billion as at 31 December 2008. The Bank's Preferred Banking and Al Taqdeer wealth management services are integral to the Bank's consumer franchise. The Personal Banking division generated approximately 26 per cent. of the Bank's total operating income in 2008. Since then, the growth of Personal Banking has been very modest in comparison to Corporate Banking. However, Personal Banking plays a key role in deposit diversification. The revenues from investment services (share trading) were part of the Personal Banking division until the end of 2007. In line with regulatory requirement, all investment-related activities have been transferred to a separate subsidiary of the Bank. This resulted in lower income for the Personal Banking division during 2008 as compared to 2007.

Treasury: the Bank's Treasury department provides hedging and investment solutions to both corporate and consumer clients. Already a provider of foreign exchange cash products, the Treasury department is growing its (structured) derivatives businesses in foreign exchange and special commission rates. In addition to client related activities, the Treasury department oversees the overall short term and long term liquidity of the bank. As part of this oversight, the Treasury department manages the Bank's own investments, which stood at SAR 18 billion as at 31 December 2008. In the ordinary course of business, the Bank maintains deposits overseas. These are described in note 29 (Geographical Concentration) to the financial statements set out in Appendix 1 (*Financial Statements*).

The Bank's market position among banks in the Kingdom as at 31 December 2008 is shown in the table below:

SAR million	**Total assets**	**Corporate assets**	**Consumer assets**	**Other assets**
National Commercial Bank	221,802	73,563	45,697	102,542
Samba Financial Group	178,891	78,899	32,620	67,372
Al Rajhi Bank	164,930	54,870	63,950	46,111
Riyadh Bank	159,653	82,011	16,535	61,106
Banque Saudi Fransi	125,865	70,739	15,538	39,588
Arab National Bank	121,307	52,846	25,392	43,070
SABB	131,661	58,450	24,033	49,178
Saudi Hollandi Bank	61,436	35,523	4,798	21,115
Saudi Investment Bank	53,596	19,722	12,632	21,192
Bank Al Jazira	27,520	13,119	2,562	11,838
Bank Albilad	16,052	7,137	2,225	6,689

Source: *Bank annual reports*

The Bank is currently rated by Moody's, Fitch and Capital Intelligence with the following ratings:

	Moody's	**Fitch**	**Capital Intelligence**
Long term	A1/Prime 1	A-	A-
Short term	P 1	F2	A2
Outlook	Stable	Stable	Stable

Source: *Rating agencies' websites.*

8.2 Competitive Strengths

The Bank has a range of competitive strengths, including the following:

A long and proud history

Founded in 1926, the Bank was the first bank in the Kingdom. Its original business was to serve Hajj pilgrims coming from Indonesia. It has played an important role in developing the banking industry in the Kingdom, having served as the Kingdom's Central Bank for a period, maintaining the gold stock of the country, and processing the first oil related transactions. For some time it was the only operating bank in the Kingdom. As a result of its long history in the Kingdom, the Bank has built a loyal customer base and is well known by the public.

Experienced management team

The Bank's management team consists of highly experienced individuals, combining substantial industry expertise with significant knowledge of the Saudi market.

Established top-tier corporate banking relationships

The Bank has a well established core corporate banking franchise, which remains the Bank's primary business line. It has a longstanding client base with a track record in corporate lending and has banking relationships with a number of large corporates in the Kingdom. The majority of the Bank's large corporate clients have been with the Bank for more than five years.

Investment banking, brokerage and asset management capabilities

The Bank is one of the institutions in the Kingdom with a track record in investment banking, brokerage and asset management. As part of a restructuring of its investment banking and asset management businesses, the Bank obtained a licence and authorization to commence operations within a new subsidiary, Saudi Hollandi Capital, which provides investment banking, brokerage and asset management services. Saudi Hollandi Capital advises clients on capital market issues and provides a wide range of brokerage services enabling clients to perform domestic, regional and international securities trading. Saudi Hollandi Capital's e-trading platform allows clients to conveniently execute trades in the local market via the internet. Saudi Hollandi Capital also offers its brokerage services through a dedicated team of professionals, executing trade orders through telephone and at its Kingdom wide network of share trading lounges. Margin trading facilities are extended to experienced brokerage clients.

Saudi Hollandi Capital has an award winning asset management business, managing conventional and Islamic open end mutual funds, risk adjusted portfolios, discretionary portfolios and numerous structured investments for retail, private and institutional clients. The asset management business has won several performance based awards over the past three years, with funds attaining first and top three places in their respective categories. In 2004, the asset management business launched the first TASI linked capital guaranteed structured investment and in 2007 it launched a mutual fund to invest in Sukuk (Islamic fixed income securities).

A treasury business supported by its corporate banking business

Building on its corporate client relationships, the Bank has established itself as a provider of treasury solutions. Working closely with corporate relationship managers, experienced treasury advisory teams with Kingdom wide reach provide optimal coverage to the Bank's clients. Proximity to clients, depth of experience, breadth of the teams and range of product offering provide a competitive advantage.

Niche-oriented personal financial services business

The Bank is well positioned in the upper end of the personal banking market and, despite the current slow down in the consumer finance market, the Bank has been able to keep its retail lending receivables market share by providing an array of attractive financial products. The Bank plans to maintain its focus on its wealth management business. It has grown its wealth management customer base during the last two years. The launch of new product offerings, including credit cards, Islamic retail loans, mutual funds and preferred banking product offerings have helped to expand the Bank's retail franchise.

Islamic finance capabilities

The Bank offers a wide range of Islamic finance products for its consumer, corporate and institutional clients. The product range includes Tawarruq, Murabaha, Ijara and Musharaka financing as well as Islamic-based asset management products. The products and procedures are continuously streamlined to cater to changing market requirements. The Bank is focusing on new product development to expand the product range to offer innovative and sophisticated financing solutions in a *Shari'ah* compliant manner. Some of the latest product offerings include profit rate hedging solutions (*e.g.* knock out swaps), Islamic credit cards, Islamic home finance and current accounts.

The Bank has built an Islamic Finance Department comprising of a capable and experienced team at a time when Islamic banking resources are scarce. This in house resource availability ensures that the Bank is able to swiftly develop products and deliver *Shari'ah* compliant solutions to its ever increasing customer base.

In order to gain market share, there exists close cooperation between sales teams and the Islamic Finance Department, which helps to secure new mandates, enhances sales and provides the product development teams with valuable market input. This has also resulted in the Bank's Islamic financing and advances growth of more than 11 per cent. during the first nine months of 2009.

It is imperative that Bank staff is up to date with the latest trends and solutions pertaining to Islamic banking. For this purpose, the Bank regularly holds training sessions. Some of the initiatives include an Accreditation Programme and customised product training sessions for Bank personnel from all units.

Shari'ah compliance is the cornerstone of Islamic banking. To ensure that all the transactions and procedures are performed as per the *Shari'ah* requirements, routine audits are performed along with the engagement of members from the Bank's Shari'ah Committee.

Shari'ah Compliance

The Islamic business of the Bank is segregated from the rest of the Bank's operations. Transactions are booked into the Bank's core system with a unique category code allowing the Islamic transactions to be identified and accounted for separately. On a monthly basis, a separate Islamic balance sheet and profit and loss statement is produced which is reviewed and reported. The Islamic assets and liabilities are also reported on quarterly basis to SAMA.

The Bank has an experienced Islamic Banking team, which, in conjunction with the Bank's Audit and Compliance teams, ensures that all Islamic operations meet the highest *Shari'ah* standards. This is achieved through a number of ways. All new products are developed to ensure that they are *Shari'ah*-compliant and the structure and documentation is approved by the Bank's Shari'ah Committee before the product is launched. Once the product is launched, the Business Department is responsible for completing *Shari'ah*-compliance checklists which are reviewed by Audit and Compliance departments. The *Shari'ah* Compliance Manager of the Islamic Banking Department performs periodic *Shari'ah* audits in co-operation with the Internal Audit Department. The results, including action plans for resolution of non – compliance issues, are then discussed with the business management and reported to the Bank's Shari'ah Committee.

8.3 **Strategy**

The Bank will continue to evolve as a broader financial services provider in conjunction with its subsidiary, Saudi Hollandi Capital, which is responsible for providing the Group's services in investment banking and brokerage. Saudi Hollandi Capital supports the Bank's corporate banking activities and provides customers with a comprehensive range of financial solutions. The strong corporate banking business will be further developed through product innovation in cash management, trade and treasury products, with a view to winning more business from both new and existing clients.

The Bank will continue to evolve as a broader financial services provider in conjunction with its subsidiary, Saudi Hollandi Capital, which is spearheading the further development of the Group's investment banking and brokerage businesses. The expansion into investment banking will support the Bank's corporate banking activities and provide customers with a comprehensive range of financial solutions and increase fee earning business. The strong corporate banking business will be further developed through product innovation in cash management, trade and treasury products, with a view to winning more business from both new and existing clients.

The Bank has identified the personal banking segment as a key area of focus for future growth. To address the needs of its personal banking customers, the Bank aims to expand its wealth management product range through asset management products and investment in online channels, including online brokerage, and to continue its tradition of developing innovative financial products. The Bank will continue to position itself as a high-quality service provider for discerning customers. It is well positioned to exploit new opportunities, for example in home mortgage finance.

The Bank has established *Shari'ah* compliant finance credibility through its "AlYusr" brand, especially in the personal banking segment, which is becoming more fully Islamic for its product offerings. The range of Islamic products available for commercial clients will also be increased.

Quality of service will be one feature by which the Bank will seek to differentiate itself from the competition. A review of all "touch points" with customers has commenced, with a view to making enhancements right across the board in the levels of service which customers receive.

The Bank will continue to position itself as a premier financial services provider for both businesses and individuals in the Saudi market. Business growth will be driven by a disciplined approach to return on risk assets, with business lines reviewing profitability by market segment and product. Productivity and operational efficiency will be revisited in order to improve the cost-income ratio and average revenue per employee.

Significant investment is being made in identifying and developing future talent to ensure that the bank has high-quality managers for years to come. The Bank will introduce new initiatives aimed at ensuring high levels of employee engagement and will provide its staff with the best possible working environment.

8.4 Management Structure

The Bank's senior management team is responsible for the day to day management of operations under the supervision of the Board of Directors. Saudi Hollandi Capital has its own Board of Directors, consisting of the Managing Director of the Bank, the Chief Operating Officer of the Bank, the GM Corporate Banking, the Chief Executive Officer of Saudi Hollandi Capital and two external non executive directors.

Senior Management

The senior management of the Bank is composed of the following senior executives (the "**Senior Executives**"):

Name	Title	Nationality	Age
Bernd van Linder	Managing Director	Dutch	41
Steven Troop	Chief Operating Officer	British	53
Abdulelah Al Shaikh	General Manager of Corporate Banking	Saudi	51
Ehab Al Dabbagh	General Manager of Personal Banking	Saudi	38
David Warring	General Manager of Treasury	British	61
Mosaad Al Hammadi	General Manager of Central Area	Saudi	53
Thamer Jan	General Manager of Western Area	Saudi	43
Khalid Al Muammar	General Manager of Eastern Area	Saudi	40
Steve Clayton	Chief Risk Officer	British	51
Anantharaman Venkat	Chief Financial Officer	Indian	49
Farid Zaouk	General Manager, Legal and Company Secretary	Lebanese	56
Gabor Szamosi	Chief Internal Auditor	Hungarian	41
Saad Rajab	Head of Compliance	Saudi	47
Saad Al Arfaj	General Manager of Human Resources	Saudi	49
Rushdi Duqah	General Manager of Information Technology	Jordanian	41
Kamal M Amjed Mian	Head of Islamic Banking	Pakistani	40

As at 30 September 2009, the senior managers identified above did not hold any shares in the Bank except for Thamer Jan who owned 2,343 shares.

The business address of the members of the senior management of the Bank is Saudi Hollandi Bank, P.O. Box 1467, Riyadh 11431, Kingdom of Saudi Arabia. Set forth below are brief biographies of each member of the senior management of the Bank:

Dr. Bernd van Linder —Managing Director (Age 41)

Dr. van Linder (1968) was appointed as the Acting Managing Director of the Bank with effect from May 2009. The Board of Directors has appointed Dr. Bernd van Linder as Managing Director effective 17 November 2009. He is responsible for the overall operations of the Bank under the regulatory framework established by SAMA. He joined the Bank in November 2006 as the General Manager of Treasury responsible for the distribution and trading of all financial markets products (such as foreign exchange and special commission rate cash and derivative products), overseeing the Bank's short- term and long- term liquidity and managing the Bank's investment book. Prior to joining the Bank, Dr. van Linder held various senior management positions at ABN AMRO, including serving as Global Head of Funding & Liquidity Management for the ABN AMRO Group, Global Head of Product Development and Chief Operating Officer for Fixed Income Trading. Dr. van Linder holds a PhD from Utrecht University, The Netherlands, an MSc from Nijmegen University, the Netherlands, and an MBA from Bradford University, United Kingdom. Dr. van Linder has joined the Bank as a secondee from ABN AMRO but has since become an employee of the Bank, therefore severing any ties with ABN AMRO.

Steven Troop — Chief Operating Officer (Age 53)

Mr. Troop (1956) joined the Bank in November 2007 as Chief Operating Officer. In this function he is responsible for Operations, IT, Administration, Premises, Organisation & Methods, Service Quality, Safety & Security, Collections. Prior to joining the Bank, Mr. Troop was the General Manager and Head of Insurance at HSBC in the United Kingdom. Mr. Troop joined HSBC Group in 1979 and has international experience in retail and corporate banking, insurance and retirement services and expertise in strategically developing businesses, turn around, mergers and acquisitions and post acquisition integrations. From 1997 to 1998, Mr. Troop was the Deputy CEO of HSBC Seguros and then became Head of Group Operations of HSBC Brazil in 1998. In 2003 he became the Deputy CEO of HSBC Turkey and then in 2003 became the Group Head of Retirement Businesses and Deputy Head of the Insurance Group. Mr. Troop holds an MA in Law & Political Sciences from Cambridge University, United Kingdom.

Abdulelah Al Shaikh — General Manager of Corporate Banking (Age 51)

Mr. Al Shaikh (1959) joined the Bank in July 1998 as Regional Manager Central Areas and was subsequently appointed General Manager Corporate Banking in 2001. In this function he is responsible for overall corporate and financial institutions client management and product delivery including the development of the Bank's corporate lending, Islamic financing, trade finance, cash management and investment banking services. He is a member of several management and risk/control committees. Prior to joining the Bank, Mr. Al Shaikh worked for Banque Saudi Fransi, where he held several management positions, including Regional Corporate Banking Manager. Mr. Al Shaikh is a Board Member of Saudi Travelers Checks and Saudi Hollandi Capital and an Executive Board Member of the Saudi Credit Bureau. Mr. Al Shaikh holds an MBA from Eastern New Mexico University, USA.

Ehab Mohammed Al Dabbagh – General Manager Personal Banking (Age 38)

Mr. Al Dabbagh (1971) joined the Bank in 1994 as Management Trainee in Marketing and Product Support. He was appointed as Personal Banking GM in 2008. In this function he is responsible for the overall performance, strategy and development of the Personal Banking Group including the branch network. During his career with the Bank, he has gained experience in development and management of diverse products and services, specialised sales and marketing for Consumer Assets and Preferred Banking. He has held managerial positions in Product Development, Marketing and Personal Banking. Mr. Al Dabbagh is a member of several management, strategy and steering committees. Mr. Al Dabbagh holds a Bachelor's Degree in Marketing from King Fahad University, the Kingdom.

David Waring— General Manager of Treasury (Age 61)

David (1948) joined the Bank in February 1994. He moved to his existing role as General Manager of Treasury in May 2009. In this function he is responsible for the distribution and trading of all financial markets products (such as foreign exchange and special commission rate cash and derivative products), overseeing the Bank's short-term and long-term liquidity, and managing the Bank's investment book. He is the chairman of the Bank's Asset and Liability Committee ("**ALCO**") and the deputy chairman of the Committee of Treasurers of Saudi Banks. Prior to his current role, he has held various senior management positions at the Bank's treasury including Assistant General Manger, Market Risk Manager. Prior to joining the Bank, Mr. Waring worked at prestigious institutions like Munzer and Deihl, Texas Instruments, British Telecom etc. He holds a B.Sc (HONS) in Electrical Engineering from University of Aston in Birmingham

Mosaad Al Hammadi — General Manager of Central Area (Age 53)

Mr. Al Hammadi (1956) joined the Bank in 1984 as a management trainee. He was appointed as the Central Region GM in January 2001. In this function, he is responsible for the overall corporate and personal banking business of the Bank in the Central Area, including the region's financial performance, sales and client management. During his long career with the Bank, he has gained experience covering all fields of commercial, consumer, corporate, investment banking and asset management, both from a business development as well as a risk/control and managerial perspective. He has also held various managerial positions covering commercial credit, risk management and consumer business. He is a member of several management and risk/control committees. Mr. Al Hammadi holds a Bachelor's Degree in Liberal Arts from the University of Arizona, USA.

Thamer A. Jan — General Manager of Western Area (Age 43)

Mr. Jan (1966) joined the Bank in November 2007 as General Manager Strategy after which he was appointed as Western Region GM in April 2008. In this function he is responsible for the overall corporate and personal banking business of the Bank in the Western Area, including financial performance, sales and client management. Prior to joining the Bank, Mr. Jan was the Head of Commercial Banking at Saudi British Bank (SABB), where he was responsible for managing the bank's commercial and SME banking business throughout the Kingdom. Mr. Jan joined SABB as an Account Manager in Corporate Banking in 1996 before becoming the Manager for Credit and Risk (Eastern Province) in 1999. He then became the Senior Manager for Credit & Risk (Central Province) in 2002 before taking on his last role with SABB. Mr. Jan holds a Bachelor's Degree in Economics from King Saud University in Riyadh and a Master's Degree in Applied Economics from Southern Methodist University in Dallas, USA.

Khalid Nasser Al Muammar—General Manager of Eastern Area (Age 40)

Mr. Al Muammar (1969) joined the Bank in 2000 as Relationship Manager in Corporate Banking Group. He was appointed as Eastern Area GM in 2008. In this function he is responsible for the overall corporate and personal banking business of the Bank in the Eastern Area, including financial performance, sales and client management. Prior to joining the Bank, Mr. Al Muammar was senior auditor and consultant at Arthur Andersen in the Kingdom. Mr. Al Muammar previously worked at Saudi British Bank as Head of Corporate, Eastern Region and also at Saudi Fransi Bank, where he gained experience in finance, corporate development and client relationship management. During his career with the Bank, he held management positions in Corporate Group and gained experience in relationship management, marketing, client management and development. Mr. Al Muammar is a member of several management, control and development steering committees. Mr. Al Muammar holds a Bachelor's Degree in Accounting from King Fahad University, the Kingdom.

Steve Clayton —Chief Risk Officer (Age 51)

Mr. Clayton (1958) was appointed as the Bank's Chief Risk Officer in mid-2009. In this function he is responsible for all corporate, market, consumer and operational risk management functions of the Bank. He is Chairman of the Bank's Credit Committee, Basel II Steering Committee and Operational Risk Management Steering Committee and a member of several management and control committees and represents the Bank in the SAMA-supervised Chief Risk Officers Committee (CROC). Mr. Clayton started his banking career 29 years ago with HSBC Group and has held senior risk positions in London and Paris, as well as senior management positions in Saudi Arabia, USA, UK, UAE and Hong Kong.

Anantharaman Venkat—Chief Financial Officer (Age 49)

Mr. Ananth Venkat, (1960) is a chartered accountant from Chennai, India. He joined the Bank in April 2008. He started his career in 1984 with A.F. Ferguson Co, one of the largest audit and consulting firms in India. He led and managed many banking consultancy assignments in India. After a brief two year stint with PriceWaterHouse in Africa, he joined Barclays Africa and Middle East in 1992 where he has spent most of his career, and when he left Barclays in 2006, he was one of the top 100 leaders of Barclays Africa. Mr. Venkat held several senior positions during this period including directorship for two of the Barclays' largest subsidiaries in Africa. In addition to financial management, his expertise covers project management, corporate governance and risk management.

Farid Zaouk—General Manager, Legal and Company Secretary (Age 56)

Mr. Zaouk (1954) joined the Bank in May 1984, where he held senior positions in the legal and compliance departments as adviser, prior to being appointed General Manager, Legal and Company Secretary in 1990. In this function he is responsible for the Bank's legal matters and, as the Bank's Company Secretary, all regulatory reporting to SAMA, CMA and MoCI. Mr. Zaouk has gained broad experience in the Saudi banking legal, compliance and anti money laundering rules and procedures. He is a member of several management and risk/control committees. Prior to joining the Bank, Mr. Zaouk served as legal adviser to the Urban and Rural Development Co. and practised as a lawyer in Lebanon. Mr. Zaouk holds an LLM Degree from the Jean Moulin University in Lyon, France.

Gabor Szamosi —Chief Internal Auditor (Age 41)

Mr. Szamosi (1968) was appointed as the Bank's Chief Internal Auditor in July 2009. In this function he is responsible for internal audit functions within the Group. Prior to joining the Bank, Mr. Szamosi worked for Credit Lyonnais (4 years) and ABN AMRO Bank (9 years) in its offices in Budapest and Amsterdam. Over this 15-year period, Mr. Szamosi worked in various positions within audit, control, risk management, project management and compliance functions. Mr. Szamosi joined the Bank in May 2007 as a consultant, and he played an instrumental role in the creation and launch of Saudi Hollandi Capital (the investment arm of the Group) where he has been in the roles of Chief Operating Officer and Chief Compliance Officer. Mr. Szamosi is a Certified Accountant and holds a Masters degree in Business Administration from the Budapest University of Economics.

Saad Abdullah Rajab—Head of Compliance (Age 47)

Mr. Rajab (1962) joined the Bank in April 2001 and since November 2007 has served as its Head of Compliance. In this function he is responsible for managing and monitoring compliance throughout the Bank. Mr. Rajab has 13 years of banking experiences, 10 years of which within the Bank in the areas of consumer lending, recovery and regulatory risk. From 2003 to 2006, Mr. Rajab represented the Bank's personal banking business line as a core team member within its newly implemented banking system. Mr. Rajab holds a B.Sc. in Business Administration from University of Wisconsin, USA and is a member of International Compliance and the Society of Corporate Compliance and Ethics. Mr. Rajab is certified in operational risk management and consumer credit and is also a certified compliance officer and collection and recovery manager.

Saad Al Arfaj—General Manager of Human Resources (Age 49)

Mr. Al Arfaj (1961) joined the Bank in 2006 and was promoted to General Manager of Human Resources in 2008. In this function he is responsible for the Bank's HR strategy, administration, operations and human capital development through management of the Personnel, Government Relations, Recruitment and Training departments. Mr. Al Arfaj has 23 years of experience in the financial sector and HR gained with several Saudi banks and training institutions. Mr. Al Arfaj is a member of several management, strategy and steering committees. Mr. Al Arfaj holds a Master's Degree in Business from Wales University and Manchester Business School, United Kingdom.

Rushdi Duqah-General Manager of Information Technology (Age 41)

Rushdi Duqah (1968) joined the Bank in July 2009. After his education in Electrical Engineering from University of Jordan, he joined Accenture in Jordan (formerly known as Andersen Consulting). Mr. Duqah worked with Accenture for 11 year mostly with the Financial Services Group providing a wide range of consulting and system integration services to banks in the Middle East. After Accenture, Mr. Duqah joined Logica, initially as a senior project manager responsible for delivering projects to banks in the Middle East. Then he served as director of consulting services for Logica in the Middle East. During his career with both Accenture and Logica, Mr. Duqah worked with various financial services organizations (both Islamic and non-islamic) in the Kingdom, Jordan, UAE, Qatar and Kuwait.

Kamal M Amjad Mian – Head of Islamic Banking (Age 40)

Mr. Mian (1969) joined the Bank in September 2006. As head of Islamic Banking he is responsible for Islamic product and business development in all business areas. Mr. Mian has more than 10 years experience in dealing with various aspects of Islamic banking and finance business. Prior to joining the Bank, he was heading *Shari'ah* structuring and product development unit of HSBC Amanah, HSBC Bank, Dubai. Mr. Mian holds a Master of Laws degree specializing in corporate and international finance from Harvard Law School, Harvard University, Massachusetts, USA, a Bachelor of Laws degree specializing in Islamic law from International Islamic University, Islamabad, and a Bachelor of Science degree with major in Mathematics from Punjab University, Lahore, Pakistan. Mr. Mian has been active in development of Islamic banking and finance industry through participation in activities of industry think tanks, conducting training, speaking at seminars and writing on Islamic finance. Most recently he wrote a chapter on 'Shari'ah Screening & Islamic Equity Indexes' in Islamic Finance, a practical guide by Globe Law & Business, and an article on Sukuk in Euromoney's International Investment & Securities Review 2008.

8.5 Governance Structure

The Bank is in compliance with the provisions of the Banking Control Law, the Regulations for Companies issued under Royal Decree No. M/6, dated 22/03/1385H (corresponding to 20/07/1965G), as amended (the "**Companies Regulations**"), and the corporate governance regulations issued by the SAMA and the CMA. In particular, the Bank is abiding by the provisions of circular No. 1076/RH dated 29/11/2006G relating to corporate governance issued by the CMA, with the exception of the adoption at a Bank's General Meeting of the following policies and procedures:

- board membership criteria and election process; and
- remuneration and nomination committee selection procedure and its processes.

The above policies and procedures are under preparation.

The Board of Directors

The Bank has a single Board of Directors (the "**Board**") comprising 10 persons with one position being currently vacant. The Board meets four times per annum.

The Board is ultimately responsible for the policies and management of the Bank and approves strategic, accounting, organisational and financing policies adopted by the Bank. Board responsibilities include the supervision of senior management; approving loans for terms in excess of three years; buying, selling and mortgaging real estate; releasing the Bank's debtors from their obligations; and accepting arbitration.

The Board appoints from its members a Chairman and a Managing Director. The Chairman is a Saudi national. The By-laws of the Bank enable ABN AMRO Bank N.V., so long as it holds 40 per cent. of the shares of the Bank, to appoint four directors to the Board of Directors (Article 17 of the By-laws) and to have two directors on the Executive Committee (Article 26 of the By-laws). In addition, the Bank's Managing Director is selected from among the directors appointed by ABN AMRO Bank N.V. (Article 22 of the By-laws). Currently, there are three directors appointed to the Board of Directors by ABN AMRO Bank N.V. including Dr. Bernd van Linder, the current Managing Director. Dr.Bernd van Linder was appointed as Acting Managing Director in May 2009 and as Managing Director with effect from 17 November 2009. ABN AMRO Bank N.V.is in the process of nominating another person to fill the position of director currently vacant.

The Chairman is able to convene the Board to meet, to preside over its meetings and the General Meetings, and to represent Saudi Hollandi Bank before all authorities concerned.

The Board of the Bank currently consists of:

Director[1]	Title	Status	Nationality	Age	Number of Shares[2]
Mubarak Al Khafrah	Chairman	Independent Director	Saudi	62	6,250
Lubna Sulaiman Al Olayan[4]	Director	Non Executive Director	Saudi	54	2,625
Fahad Abdullah Al Mubarak	Director	Independent Director	Saudi	54	56,640
Abdulaziz Hamed Al Fahad	Director	Independent Director	Saudi	55	2,625
Abdulhadi Shayif	Director	Independent Director	Saudi	61	2,500
Eyad Al Husain[5]	Director	Non Executive Director	Saudi	30	1,012
Javier Maldonado[6]	Director	Non Executive Director	Spanish	47	1,250[3]
Jan Koopman[6]	Director	Non Executive Director	Dutch	61	1,250[3]
Bernd van Linder[6]	Managing Director	Executive Director	Dutch	41	1,250[3]

(1) All Directors' current terms expire on 31 December 2010.
(2) The number of Shares owned by each Director is as at 30 September 2009.
(3) Qualification Shares held by ABN AMRO Bank N.V. on behalf of the ABN AMRO Bank N.V. appointed Director in accordance with the Companies Regulations.
(4) Representing Saudi Olayan Investment Co. Ltd.
(5) Representing GOSI.
(6) Representing ABN AMRO Bank N.V.

The business address of the members of the Board of the Bank is Saudi Hollandi Bank, P.O. Box 1467, Riyadh 11431, Kingdom of Saudi Arabia. Set forth below are brief biographies of each member of the Board of the Bank:

Mubarak Al Khafrah — Chairman of the Board of Directors and Executive Committee (Age 62)

Mr. Al Khafrah *(1947)* was appointed to the Bank's Board in January 2008. Mr. Al Khafrah was for over two years the Acting Chairman and President of the Royal Commission of Jubail and Yanbu. From 1986 to 1997, Mr. Al Khafrah was the Deputy Minister for Industrial Affairs of the Ministry of Industry and Electricity. From 1977 to 1986 he held a position as the Secretary General of the Foreign Capital and Investment Committee of the Ministry of Industry and Electricity. Mr. Al Khafrah holds a B.Sc. in Industrial Engineering from the University of Michigan, USA and an Advanced Diploma in Management from, Canada

Lubna Sulaiman Al Olayan — Director and member of Executive Committee (Age 54)

Ms. Olayan (1954) was first appointed as a member of the Board in 2005. She is also a non-executive director of WPP plc. She sits on the boards of several Olayan Group affiliated companies. Ms. Olayan is also a board member of INSEAD University, Cornell University and a member of the advisory board of Effat College. She is a member of the Board of Trustees of the "Arab Thought Foundation" and a member of the International Business Council of the World Economic Forum. She is on the International Advisory Boards of the Council on Foreign Relations, Rolls Royce plc and Citigroup. Ms. Olayan started her career at J.P. Morgan in New York and later joined the Olayan Group in Riyadh in 1983. She holds a BA in Agriculture from Cornell University and an MBA from Indiana University, USA.

Dr. Fahad Abdullah Al Mubarak — Director and Chairman of Audit Committee (Age 54)

Dr. Al Mubarak (1955) was first appointed to the Bank's Board in January 2005. He is also the Chairman and CEO of Morgan Stanley Saudi Arabia and the Founder and Chairman of the Capital Group. He played a leading role in the privatization of Saudi Telecom, and assisted in preparing privatization studies on the Saudi Postal Services and the technical colleges in Jubail and Yanbu. Dr. Al Mubarak holds BS in Civil Engineering, Masters Degrees in Business Administration, Engineering Management, and Accountancy & Taxation from the University of Houston, USA. He also holds a Ph.D. in Business Administration from University of Houston, USA.

Dr. Abdulaziz Hamed Al Fahad — Director (Age 55)

Dr. Al Fahad (1954) was first appointed to the Bank's Board in 2005 is a certified legal advisor and owner of a law advisory firm in the Kingdom. He is currently a member of the International Trade Development Committee of the Council of the Saudi Chamber of Commerce, and a member of the Scientific Commission, Experts Committee of the Council of Ministers in the Kingdom. Dr. Al Fahad is a board member of a number of public and private companies in the Kingdom. He holds a PhD in Law from Yale University, USA, and is a fellow member of the Middle East Studies Center of Harvard University, USA.

Abdulhadi A. Shayif — Director and member of Executive Committee (Age 61)

Mr. Shayif (1948) was appointed to the Bank's Board in January 2008, was the Managing Director of the National Commercial Bank, Saudi Arabia from 1975 to 2005. Mr. Shayif holds a degree in Economics from the American University of Beirut, Lebanon. He also received the Grand Cordon of the Order of Al-Istiqlal (Independence) from King Abdullah the Second of the Hashemite Kingdom of Jordan.

Eyad Al Husain — Director (Age 30)

Mr. Al Husain (1979) was appointed to the Bank's Board in January 2008. He has also been the General Manager of Control at the General Organization for Social Insurance in Riyadh since 2000. Mr. Al Husain holds a Bachelors Degree in Accounting from King Saud University in Riyadh and a Master of Commerce in Applied Finance from the University of Adelaide, Australia.

Javier Maldonado — Director (Age 47)

Mr. Maldonado (1962) was appointed to the Bank's Board in January 2008. He is also a Managing Board Member for ABN Amro Bank, The Netherlands, where he is responsible for shared assets. Since 2004, he has also been Chief Executive of the Wealth Management Division of Abbey National plc, UK. Mr. Maldonado joined Abbey National from Banco Santander SA, Spain where he was Managing Director of Global M&A and Corporate Finance. Mr. Maldonado holds a degree in Law from the University of Madrid and a Juris Doctor degree from Northwestern University Law School in Chicago, USA.

Jan Koopman — Director (Age 61)

Mr. Koopman (1948) was first appointed to the Bank's Board 15 years ago and from May 2007 to September 2007 served as Acting Managing Director with responsibility for the overall operations of the Bank under the regulatory framework of SAMA. He is a member of the Nomination & Remuneration Committee. He has 30 years of international banking and management experience with ABN AMRO, most recently as a Senior Executive Vice President. During his career, he has been responsible for ABN AMRO's geographical focus on Europe, the Middle East, Africa and Central Asia, as well as professional focus/experience on such topics as: treasury, international finance, general (network) management, change management, strategy, acquisition, mergers, high-level government contacts, corporate clients, ultra high net worth private clients and compliance-related issues. Mr. Koopman has extensive experience as Chairman of the Supervisory Boards, audit committees and other committees of several ABN AMRO subsidiaries. Mr. Koopman holds a Law Degree from the University of Groningen, The Netherlands.

Bernd van Linder —Managing Director (Age 41) (for biography, see "*Management Structure*" above)

Board Committees

The Board of Directors has established three committees of the Board, the Executive Committee, the Audit Committee and the Nomination and Remuneration Committee.

Executive Committee

The Board appoints an Executive Committee which consists of the Managing Director and four other members of the Board. Currently two members are representatives of ABN AMRO Bank N.V. The Executive Committee meets every month in which a Board meeting has not taken place.

The Executive Committee assists the Managing Director in undertaking the responsibilities devolved to him under Article 26 of the Bank's Articles of Association and deals with all matters referred to it by the Board. The Executive Committee cannot alter any decisions made by the Board. The Executive Committee of the Bank currently consists of:

- Mr. Mubarak Al Khafrah (Chairman of the Executive Committee);
- Mrs. Lubna Olayan;
- Dr. Bernd van Linder;
- Mr. Javier Maldonado; and
- Mr. Abdulhadi Shayif.

Audit Committee

The Audit Committee is an integral part of the governance structure of the Bank. In accordance with SAMA guidelines, at least one member appointed to the committee must possess substantial financial accounting knowledge and at least two members must neither be board members nor employees of the Bank. The members of the Audit Committee are appointed by the Board of Directors. The Audit Committee currently consist of two members, *i.e.* Dr. Fahad Al Mubarak (Chairman) and Mr. Saleh Hussain (independent member). The position for third member is vacant for which a new member is being considered by the Chairman. It is expected that the third member would join the Audit Committee once approved by the Board. The Audit Committee currently consists of:

Dr. Fahad Al Mubarak (Chairman of the Audit Committee) (for his biography, see "*The Board of Directors*" above)

Saleh Hussain (independent member): Mr. Hussain has a Master Degree from Brunel University in the United Kingdom. He has over 35 years of experience in various fields of banking in the GCC Region as well as Asia Pacific. He started his career in Bahrain in 1970 with the British Bank of the Middle East (currently HSBC) and thereafter joined the Bank of Bahrain and Kuwait and then went on to join Grindlay Bank where he worked for almost nine years. In 1981, he joined The Saudi National Commercial Bank Group, first managing their affiliate Arab Asian Bank, Bahrain and then working as the General Manager of The Saudi National Commercial Bank till 2005 where he was involved in financing transactions with clients in several Asia Pacific countries, Europe, the Middle East and Gulf Region. Mr. Hussain served as Regional Head of The National Commercial Bank, Corporate Banking Group in Eastern Province based in Dammam, Kingdom of Saudi Arabia, from 2005 until 2007. Mr. Hussain has extensive experience of the GCC as well as Asia Pacific markets in the areas of retail banking, corporate financing and capital markets activities. He serves on boards of number of banks, financial institutions and companies. He is an author and regular speaker at conferences on the subject of corporate governance, management and leadership.

The Audit Committee reports to the Board and serves as its representative in monitoring compliance with the Bank's policies and applicable laws and regulations. The committee is responsible for the safeguarding of assets and dealing with external and internal auditors, financial reporting, internal control functions and supervisory examiners. The Chief Internal Auditor reports directly to the Audit Committee. The Audit Committee meets at least four times a year in accordance with SAMA requirements.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is made up of three to five members, including the Chairman of the Board of Directors and the Managing Director. The membership of this committee is to include individuals with experience in (i) human resources matters in the local and international banking sectors and (ii) remuneration and indemnity matters in respect of companies similar to the Bank.

The Nomination and Remuneration Committee is responsible for recommending to the Board of Directors candidates for appointment to the Board. It conducts annual reviews of the prerequisites for becoming a member of the Board and sets the prerequisites and qualifications for such membership. It also reviews the structure of the Board and recommends any changes thereto, as well as determines the strengths and weaknesses in the Board and makes recommendations thereon. It ensures on an annual basis the independence of the independent members of the Board and the absence of any conflicts of interest where a member of the Board of Directors of the Bank also acts as a member of the board of directors of another company. Finally, it prepares the policies regarding the indemnities and remuneration of Board members and senior executives.

The Nomination and Remuneration Committee of the Bank currently consists of:

- Mr. Mubarak Al Khafrah (*Chairman of the Nomination and Remuneration Committee*);
- Mrs. Lubna Olayan;
- Dr. Bernd van Linder;
- Mr. Eyad Al Hussain; and
- Mr. Jan Koopman.

Related party Interests of Directors and Senior Management

Other than as disclosed above, no other Directors, the secretary of the Issuer and members of the senior management and any of their relatives or affiliates own any shares and/or debt instruments of the Issuer.

8.6 Management Committees

The Bank has established a number of management committees, including:

Shari'ah Committee

To ensure that the Bank is able to offer *Shari'ah* compliant financing services, the Bank has requested the assistance of a number of highly qualified scholars who advise the Bank on compliance matters relating to Islamic finance products and structures. The Shari'ah Committee consists of Sheikh Abdullah Bin Sulaiman Al Manea, Sheikh Dr. Muhammad A. Elgari Bin Eid and Sheikh Dr. Abdullah Bin Abdulaziz Al Musleh and meets as requested by the Bank's management. For the biographies of the members of Shari'ah Committee, see Section 2 (*Shari'ah Committee Pronouncement*).

Credit Committees

The Bank's Credit Committees comprise the Head Office Credit Committee ("**HOCC**") and the Area Credit Committees ("**ACC**", one in each of the Bank's three geographic regions). The HOCC is chaired by the Chief Risk Officer and comprises the Managing Director and General Manager Legal/Corporate Secretary. Each regional ACC has authority to grant loans within limits set by the HOCC. Facilities above the ACC's limits are subject to approval by the HOCC.

Asset and Liability Committee ("***ALCO***")

ALCO is responsible for the management of the assets and liabilities on the Bank's balance sheet. As such, ALCO's mandate includes the management of the Bank's capital, special commission rate risk exposure and liquidity risk exposure. Chaired by General Manager Treasury, the ALCO comprises General Manager Corporate Banking, General Manager Personal Banking, Managing Director, Chief Operating Officer, Chief Financial Officer, and Chief Risk Officer as its voting members. ALCO meets on a scheduled monthly basis or on a more frequent basis as required.

Compliance Committee

The Bank's Compliance Committee comprises members of senior management. This committee has the ultimate authority within the Bank to direct Compliance Department to review specific compliance risks inherent in the Bank's business in order to define policies for elimination/mitigation of such risks, as well as to review, amend and approve policies proposed by Compliance Department, direct businesses/support areas to ensure implementation and oversee the application of the annual Compliance Plan to promote a compliant culture. The Compliance Committee has a mandate to review and approve the establishment of banking high risk relationships including politically exposed persons whether from a reputational risk, money laundering risk or general risk perspective. The Compliance Committee also focuses on continuing to improve the Bank's client acceptance procedures.

Contracts Committee

The Bank's Contracts Committee comprises several members of senior management and meets on a bi weekly basis to review all contracts above SAR 100,000. The Committee is chaired by General Manager Legal and Board Secretary.

Operational Risk Management Committee

The Bank's Operational Risk Management Committee meets on a periodic basis to review the Operational Risk events reported during the previous quarter and reviewing the subsequent analysis of such events. The Committee is chaired by Chief Risk Officer.

Technology Steering Committee

The Bank's Technology Steering Committee comprises most members of senior management and selected IT line managers and meets on a monthly basis to review and approve IT investments in the Bank's business as well as monitor on-going projects. The Committee is chaired by the General Manager of Information Technology.

8.7 Employees

As at 30 September 2009, the number of permanent employees and the Saudisation ratio for permanent staff by function was as shown below:

Functional area	**Non Saudis**	**Saudis**	**All**	**Saudisation ratio**
Personal banking	27	577	604	96%
Corporate banking	35	102	137	73%
Treasury	8	15	23	65%
Islamic Finance	4	6	10	60%
Others (Risk, IT, Operations etc.,)	117	555	672	83%
Total	191	1,255	1,446	87%

Source: *The Bank.*

The Bank is required by the Ministry of Labour to ensure that at least 75 per cent. of its staff are Saudi nationals. In addition, SAMA requires that banks have Saudi nationals making up 86 per cent. of their permanent staff. Currently, 87 per cent of the Bank's permanent employees are Saudi nationals.

The Bank's remuneration structure is based on a fixed annual salary and allowances and a discretionary performance driven bonus.

There are two main components of the Bank's pension and social security benefit scheme: the General Organisation for Social Insurance ("**GOSI**") contributions and an End of Service award, both of which are required pursuant to the laws of the Kingdom. Under the GOSI contributions, the Bank contributes: 11 per cent. of basic salary and housing allowance (9 per cent. pension and 2 per cent. work injury) for Saudi staff and 2 per cent. (work injury) only for non-Saudi staff. In addition, Saudi staff contributes 9 per cent. of their basic salary and housing allowance to GOSI. Non-Saudi staff do not make an equivalent contribution. The End of Service award is a one-off payment made by the Bank to terminating employees. The award consists of 50 per cent. of monthly gross salary for each of the first five years of service and one monthly gross salary for each year thereafter. Employees are entitled to part or the entire award depending on years of service, contract type and nature of termination. The Bank makes provisions for the End of Service award, based on independent actuarial valuation, which is carried out every two years.

In January 2008, the Bank launched an equity settled share-based payment plan (the "**Plan**") for eligible employees of the Bank and its subsidiaries. In accordance with the provision of the Plan, as approved by the Bank's Board of Directors in its meeting held on 10 Dhu-al-Qa'dah 1428 (corresponding 20 November 2007) and SAMA in its letter dated 26 Safar (corresponding 4 March 2008), such eligible employees will receive shares of the Bank if specific return on equity are achieved by the Bank.

Under the provisions of the Plan, the Bank at no point becomes the legal owner of the underlying shares. Until such time, vesting such shares will not carry voting rights. As per the Plan, Saudi Hollandi Capital manages the Staff Share Plan Fund (the "**Fund**") which operates in accordance with the terms and conditions as approved by the Bank's Board of Directors in their above referred meeting and by SAMA in its above referred letter. Any further modifications in terms and conditions require prior approval of SAMA. Due to restrictions regarding its operations as agreed with SAMA, the results, assets and liabilities of the Fund are not consolidated in the consolidated financial statements of the Bank. The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the remuneration committee.

8.8 **Banking Activities**

The Bank's activities are split into the following businesses: Corporate Banking, Personal Banking, and Treasury. These business functions are backed by key support functions, including Risk Management, Audit, Compliance, Human Resources, Finance, IT and Operations.

As at 31 December 2008, Islamic banking products made up 18.6 per cent. of the Bank's assets and 40 per cent. of its external liabilities. Currently, the majority of the Bank's revenue from Islamic products is derived from Corporate and Consumer Banking.

Corporate Banking

The Corporate Banking Group provides a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts and syndicated loans, trade finance services, treasury and derivatives, foreign exchange, working capital finance, structured finance and Islamic banking. Services provided to customers include internet banking and transactional banking services, including trade products and cash management.

Its services are offered via three Corporate Banking centres in Riyadh, Jeddah and Al Khobar, where the main relationship management tasks and corporate lending and depositary products are handled. At its head office in Riyadh, the Bank has established specialised product groups, namely Islamic Finance, Working Capital and Trade Finance, Financial Institutions and Investment Banking and Structured Finance.

(a) Clients

The Bank offers its corporate banking products to all corporate clients. The Bank has enjoyed long-standing relationships with many of its corporate clients.

(b) Products and Services

(i) Corporate Lending and Depositary Services

Corporate lending constitutes the largest part of the Bank's corporate activities. The Bank offers both conventional and Islamic loans. Corporate loans and advances represented approximately 80 per cent. of the Bank's total loans and advances at 31 December 2008.

The conventional product suite offered by the Bank includes working capital facilities, overdrafts, trade finance facilities, treasury facilities and short-term and long-term loans. The Bank is able to offer these in Saudi Riyals or any other convertible currency and at either fixed or floating rates in accordance with client requirements.

The loan portfolio of the Bank's corporate business is granted mainly on a short term basis with the average term of a corporate loan being less than one year on a straight-line basis. The majority of the Bank's corporate loans are denominated in Saudi Riyals and carry a floating commission rate.

The Bank has several depositary products ranging from current account services to time deposits and Islamic depositary services.

(ii) Transaction Banking and Trade Finance

Transaction Banking Group ("**TBG**"), which comprises Asset Finance, Cash Management and Trade Finance Divisions, has been a key growth driver of the Bank's corporate banking revenues, contributing approximately 20 per cent. of total Corporate Banking operating income as at 30 September 2009.

This department has a dedicated team of specialists who work with clients to provide solutions in Asset Finance, Cash Management and Trade Finance. Asset Finance offers structured products such as receivable financing (Auto, General and Government), supplier financing, leasing and sale lease-back. Cash Management services entail providing electronic business to business solutions, payroll, cash pick-up, cash delivery, installed point of sale and liquidity management. To complement the cash management business, the Bank also installed point of sale terminals for merchants. As at 30 September 2009, the Bank had installed 6,129 terminals, giving it a market share of approximately 8 per cent.

Trade Finance Division is responsible to promote and grow trade business by developing, managing and delivering trade products and services that meet customer needs from pre-shipment to post-shipment. Additionally, the Trade Finance provides advisory and consultancy services to clients on trade finance matters such as structuring trade deals, risk mitigation, product knowledge, etc.

Due to the importance of this range of products and to provide convenient and efficient service, TBG offers its products and services to clients through its offices in the Central, Western and Eastern regions.

(iii) Islamic Finance

The Bank has the strategic objective of growing its Islamic finance platform across all business lines. For corporate clients the Bank has a number of existing and proven

Islamic structures (Murabaha, Tawaruq and Ijara) for which it has standard documentation and approval processes. These structures are offered for working capital and trade finance products. Furthermore the Bank is capable of structuring tailor-made Islamic solutions for complex project finance and syndicated financings. It is expected that the Kingdom's debt capital market will be dominated by Sukuk issues and the Bank has the capabilities to advise its clients on *Shari'ah* compliant structures.

(iv) *Financial Institutions Group*

Correspondent banking activities of the Bank are handled by the Financial Institutions Group ("**FIG**"), located at the Head Office. The FIG is responsible for establishing and maintaining relationships with banks and financial institutions.

The FIG is very actively marketing and cross-selling all the Bank's products (Trade, Treasury, Corporate Banking, Islamic Banking, Consumer Banking, Vostro Accounts, etc.) to correspondent banks world-wide and to their clients for their business with counterparties in the Kingdom.

The FIG is maintaining close relationships with correspondent banks in over 40 countries that have been developed over many years of relationship-building.

The FIG is offering a package of all products and services to correspondent banks and to their clients working in the Kingdom. The FIG's continuous marketing efforts and competitive services enable it to maintain the position as one of the top Saudi banks in correspondent banking business.

(v) *Structured Finance & Syndication*

The Bank has established an Investment Banking and Structured Finance & Syndication department which has grown to become a key business unit within the Bank. The Investment Banking and Structured Finance & Syndication department offers debt and equity capital markets products and services (including initial public offerings, rights issues and Sukuks) and corporate finance advisory (including merger and acquisition and capital restructuring advisory). Upon the creation of Saudi Hollandi Capital, the Bank transferred the equity capital markets and services offered by this department to Saudi Hollandi Capital in accordance with CMA rules and regulations with the Structured Finance & Syndication remaining an integral part of the Bank.

The Structured Finance & Syndication team of the Bank has been able to arrange and syndicate large transactions involving major projects in the petrochemicals, telecommunications, water and power, infrastructure, and oil and gas industries.

With the Government's plans for significant investments in infrastructure during the next few years, the structured finance is expected to remain an important growth driver for the Bank.

(c) Loan Portfolio

As at 31 December 2008, the Bank's corporate loan portfolio comprised client exposures across the following industry sectors:

Industry segment	2008	2007
Government and quasi Government	4.1%	2.1%
Banks and other financial institutions	3.6%	1.8%
Agriculture and fishing	0.9%	1.1%
Manufacturing	19.8%	17.5%
Mining and quarrying	0.3%	0.1%
Electricity, water, gas and health services	3.0%	4.7%
Building and construction	14.7%	11.3%
Commerce	29.4%	24.7%
Transportation and communication	3.1%	2.5%
Services	3.6%	5.8%
Other	17.7%	28.4%

Source: T*he Bank.*

The Bank's corporate credit portfolio displays an acceptable level of client concentration with approximately 8 per cent. of the total exposure relating to its five largest clients and around 42 per cent. relating to the 50 largest clients. Further, there are currently only fifteen clients with whom the Bank has a total exposure in excess of SAR 500 million.

Personal Banking

The Personal Banking Group operates through a Kingdom-wide network of 42 branches, 219 automated teller machines ("**ATMs**"), a 24-hour telephone banking centre, 6,129 point of sale terminals and internet banking as of 30 September 2009. The Bank accepts customer deposits in various savings and deposit accounts and provides retail banking products and services, including personal loans, overdrafts and mutual funds through its subsidiary Saudi Hollandi Capital.

The map below shows the geographic distribution of the branches of the Bank:

(a) Client Base

The Bank's personal banking franchise leverages the Bank's longstanding relationships with large corporate and family owned businesses and, as a consequence, many of the Bank's personal banking clients are employees of the Bank's corporate clients. Approximately 60 to 70 per cent. of personal loan clients (by number) are Government employees with their salaries paid through the Bank. The Bank's personal banking client base is segmented as follows:

- Private Banking;
- Preferred Banking;
- Al Taqdeer;
- General Banking; and
- Express Banking.

Private Banking: In order to further improve upon its product / service offering to its most elite clients, the Bank offers Private Banking, which aims to provide the best services and customized management. Private Banking provides clients with a dedicated wealth management service and provides access to high-quality international financial products (available through Saudi Hollandi Capital.

Preferred Banking: This concept is an integral part of the Bank's services to its high net worth clients. The Bank offers its clients overall wealth management and investment advice, especially on asset allocation and wealth management strategies. Originally launched with ABN AMRO Bank N.V. and marketed under the "Van Gogh" brand, it is designed specifically to meet the needs of high net worth clients who require specialized banking and wealth management services. A cornerstone of the Preferred Banking concept is relationship banking which demands high-caliber financial services. The clients are offered investment products with higher earning potential, a choice of financial structured products (available through Saudi Hollandi Capital), access to various electronic banking channels and relationship reward points. Preferred Banking clients are serviced through 22 well-appointed lounges (including three mini-lounges) in locations in the Kingdom. In addition, Preferred Banking clients have access to a dedicated call centre service with a toll-free number.

Taqdeer Banking: Taqdeer Banking is offered to the Bank's mass affluent clients. Customers in this segment are offered the Bank's asset management products as well as dealing and brokerage services. The Taqdeer segment is key to the Bank's consumer franchise as it is viewed as a feeder channel for the Preferred Banking segment.

General Banking: The Bank offers retail banking products to its General Banking customer base. This segment forms a large part of the customer base of the Bank in terms of number of customers and is a vital link to the next level of banking services such as Taqdeer or Preferred Banking. The Bank provides a wide range of products and services to these clients through the branch network, ATMs, telephone banking and internet banking.

Express Banking: This forms the last layer of the bank's customer segmentation where "mass" customers (with salaries below a certain level and total relationship value) are serviced. Customers in this segment are directed to use electronic channels for their banking needs.

Ladies Banking: Appreciating the contribution and importance of women to the development of the Kingdom's economy and society, the Bank has recently introduced a women's segment which focuses on segment-specific women's banking products served by committed relationship managers through dedicated women's branches.

(b) Products and Services

The Bank offers conventional and Islamic products to its personal banking clients. Islamic finance is core to the Bank's personal banking product offering. It is intended that *Shari'ah* compliant products will be a key pillar of growth for the personal banking business and thus the Bank offers its retail clients *Shari'ah* compliant personal finance and investment products:

Deposit Products: The Bank offers a wide range of deposit products in local and foreign currencies, including savings accounts (commission-bearing and non-commission-bearing), current accounts, corporate salary accounts, call deposits and fixed deposits.

Islamic Shari'ah Compliant Products: The Bank offers a wide range of *Shari'ah* based products such as Murabaha based specific investment and current account and Mudarib based savings account.

Personal Finances: The Bank offers various *Shari'ah* compliant personal financing options to its customers. These financing options are based upon customers' needs along with other elements like salary, length of service, sector of employment, etc.

Credit Cards: The Bank offers wide range of credit cards – both conventional and Islamic. Credit cards are offered based upon customer requirements and repayment capabilities. Recently, the Bank introduced the Kingdom's first Murabaha based Platinum card.

The Bank's SMART credit cards were the first chip-enabled cards introduced in the Kingdom, offering the user greater protection and security when using the cards. The card comes with various features like a cash-on-demand service via the Bank's call centre, discount programs at various merchants, worldwide acceptance, etc. The Bank's *Tedallal* Reward Points Program builds loyalty by awarding points on every purchase. These points can then be redeemed against purchases at a large number of merchant partners including airlines, electronics stores, restaurants and fashion accessories outlets.

Preferred Banking clients have preferential access to certain products and services. These include:

- savings and structured investment products;
- Islamic structured products;
- credit facilities, overdrafts and margin trading;
- branded cheque books, debit card and credit card issued free of charge;
- discounted transactional banking services; and
- discounts on international transfers and investment products subscription fees.

(c) Distribution Channels

The Branch Network: As at 30 September 2009, the Bank had a network of 42 branches, including 10 dedicated women's branches covering all regions and all major cities within the Kingdom. The branches are the principal channel through which the Bank distributes its Personal Banking products and services. In addition to the branch network, the Bank has 22 dedicated preferred banking centres which include six women's centres.

Automated Teller Machines: As at 30 September 2009, the Bank had 219 ATMs installed across the Kingdom within the Bank's branches and in strategic locations. Traditional ATM services are available, including cash withdrawals and balance enquiries.

Telephone Banking: The Bank currently offers telephone banking services through an interactive voice response system. Services provided include balance enquiries, chequebook order requests, enquiries regarding the Bank's "reward points" system and product information. The Bank also maintains a call centre, which operates 24 hours a day, seven days a week, and is designed to support the Bank's branches and an alternative distribution channel, as well as providing direct servicing to customers. Call centre employees are well trained and equipped to answer all types of customer enquiries, from loan applications to product knowledge and technical assistance.

Internet Banking: The Bank offers internet banking services through "SHBonline". As at 30 September 2009, there were over 50,000 registered users. The e-brokerage channel, e-Tadawul is becoming increasingly popular.

Treasury

The Bank's Treasury department provides hedging and investment solutions to both corporate and consumer clients. The Treasury department combines decentralised sales and marketing with centralised trading and risk management. Three regional sales advisory desks in Riyadh (Central Area), Jeddah (Western Area) and Al Khobar (Eastern Area) provide for close proximity to the Bank's clients. Centralised trading in Head Office maximises revenues from trade and information flows, while facilitating risk monitoring and management.

(a) *Client Base*

The Treasury department directly services both the Bank's corporate client base and the Bank's high net worth clients. Consumer clients are offered Treasury products through the branch network.

(b) *Products and Services*

The Treasury department currently offers the following products to the Bank's clients:

Deposits Given/Taken

The Treasury department is a market maker in Saudi Riyal and USD deposits, and provides prices on deposits in all regional and major currencies.

Foreign Exchange Spot

The Treasury department is a provider of foreign exchange products in the Kingdom for domestic, GCC and G10 currencies.

Foreign Exchange Forward and Option Products

The Treasury department is a market maker in Saudi Riyal based foreign exchange forward products and provides client prices on all major and regional foreign exchange forward pairs as well as on first and second generation foreign exchange option products.

Special Commission Rate and Structured Derivatives

The Treasury department is involved in Saudi Riyal and USD currency and rate swaps and provides structured investment products to corporate and consumer clients.

Fixed Income

The Treasury department provides clients with prices for local, regional and global bonds. In addition, the Treasury department markets a wide range of structured investment products.

(c) *Business Description*

Currently, approximately half of the Treasury department's income is directly generated from client trades, while overall client flow generates approximately 65 per cent. of income (either directly or through positioning). Approximately 60 per cent. of both client margin and trading income is realised on foreign exchange related products, with the remainder being generated from profit rate trading and as accrual income in the banking books, the books containing the Bank's commercial assets and liabilities. Proprietary risk taking is largely restricted to the banking books, with the Value at Risk ("**VAR**"), a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities, of these books accounting for over 85 per cent. of the total.

Traditionally, the Treasury department has had a strong position in cash products, both loans and deposits as well as foreign exchange spot. Building on this strong foundation, the Treasury department has been increasingly successful in providing special commission rate hedging solutions (swaps and options) as well as foreign exchange hedging products (forwards and options) to the Bank's corporate client base. An important development is the delivery of a full range of *Shari'ah* compliant derivative products. These products have been approved by the Bank's Shari'ah Committee, and allow clients to hedge their foreign exchange and special commission rate exposures in a *Shari'ah* compliant manner. These derivative products are in line with developments in the Kingdom and the Gulf region as a whole, where an increasing shift towards *Shari'ah* compliant financial products can be seen.

The Treasury department's objective is to retain its strong client focus, while increasingly acting as a provider of sophisticated risk management and investment solutions to the Bank's clients. These solutions are typically expected to be structured foreign exchange and special commission rate derivatives (or combinations thereof), often in a *Shari'ah* compliant form.

Next to its core role as provider of solutions to the Bank's client base, the Treasury department manages the overall short-term and long-term liquidity of the Bank. Treasury department is guided by the overriding principle of prudent liquidity management, always putting the Bank's liquidity position first. The majority of the Bank's funding is provided by (corporate and consumer) customer deposits, using the interbank market for residual funding purposes only. The current liquidity position of the Bank is considered to be adequate. To mitigate future liquidity risks (*e.g.* associated with market events), the Treasury department maintains on behalf of the ALCO a liquidity buffer which is designed to be of a size sufficient to deal with all foreseeable liquidity events.

With its full range of *Shari'ah* compliant hedging products, the Bank has established itself at the forefront of the industry.

8.9 Risk Management

Overview

The Bank's risk management processes involve the assessment and management of credit, market and operational risks. The Bank's risk management systems have been modelled on the industry's practices and on SAMA guidelines. The Bank's risk management policies and systems are regularly reviewed and enhanced accordingly.

The basic principles of the Bank's risk management policy are to:

- ensure risk assessment and monitoring are strictly independent from the business lines;
- adhere to a strict definition of limits/restrictions on balance sheet items; and
- ensure risks are continually monitored.

Risk management policy, monitoring and control are conducted by a number of specialised units within the risk management function under the supervision of the Chief Risk Officer. In addition to the individual risk management units, credit committees play a key role in monitoring and managing risk.

The Bank's Credit Committees comprise the Head Office Credit Committee ("**HOCC**") and the Area Credit Committees ("**ACC**"), one in each of the Bank's three geographic regions. The HOCC is chaired by the Chief Risk Officer and comprises the Managing Director, General Manager Legal and Board Secretary. Each regional ACC has the authority to grant loans within limits set by the HOCC. Facilities above the ACC's limits are subject to approval by the HOCC.

Various Categories of Risks

Credit Risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by establishing internal policies, by maintaining credit risk exposure within accepted parameters, by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and limiting transactions with certain counterparties, and by constantly monitoring the creditworthiness of its customers.

The Bank structures the levels of credit risk it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower. Such risks are monitored and reviewed regularly. Lending limits for individual borrowers and any changes to those limits are set by the Credit Committee on the basis of collective decisions. Credit decisions include limits on the amount, a repayment schedule for each loan agreement and confirmation of the purpose of the loan. Such limits are updated at each periodical credit review. The Bank either confirms existing limits or contacts the customer if it is necessary to review the terms of the facilities. Risk Management monitors the Bank's credit business on a regular basis and notifies the Credit Committee periodically regarding the quality of the credit portfolio. The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for off balance sheet and contingent liabilities.

Credit risk for interbank operations mainly arises as a result of exposures from money market placements, although such exposures typically have relatively short-term maturities (which generally range from several hours up to several months). The Bank sets separate limits for counterparty banks based on its evaluation of the financial condition and on any available non financial information (such as the Bank's shareholders, customers, quality of management, market position, concentration of activity and growth rate). If the Bank determines a deterioration in the creditworthiness of a counterparty, credit lines are reviewed and may be suspended accordingly.

The Banking Control Law stipulates that no bank shall grant a loan, extend a credit facility, give a guarantee or incur any other financial liability with respect to any natural or juristic person for amounts exceeding in total more than 25 per cent. of the total reserves and paid up or invested capital. SAMA may increase such limit to 50 per cent. of the total reserves and paid up or invested capital if it is in the public interest.

Liquidity Risk

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

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

Special Commission Rate and Exchange Risk

The Bank is exposed to special commission rate risk principally as a result of mismatches in the amounts of assets and liabilities and off balance sheet instruments that mature or re price in a given period. Exchange rate risk is the risk of losses resulting from adverse movements in foreign currency exchange rates. Exchange rate risk results from the Bank having open positions in different currencies. The risk management process involves managing the Bank's exposure to fluctuations in special commission rates and foreign exchange to reduce its exposures to acceptable levels as determined by the Board of Directors. The Bank has established the level of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits. The Bank has also established levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. The asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce these gaps within established limits.

As part of its asset and liability management process, the Bank uses derivatives, forward exchange contracts and currency swaps for hedging purposes in order to adjust its own exposures. This is generally achieved by hedging specific transactions as well as strategic hedges against overall balance sheet exposures.

Operational Risk

The Bank's independent Audit Committee monitors the Bank's compliance with Saudi Arabian legislation and SAMA regulations, reviews reports of internal and external auditors and makes recommendations regarding the financial security and stability of the Bank and protection of its customers.

The Bank's Internal Audit Department (headed by General Manager Internal Audit and reporting to the Audit Committee) ensures that the Bank's policies conform to current legislation and regulation and professional norms and ethics. The system of internal controls includes operations, accounting practices, taxation, regulatory compliance, documentary compliance, risk management and IT systems. Internal Audit regularly inspects the integrity, reliability and legality of the operations conducted by the Bank's departments, analyses and reports on risks connected with the introduction of new services or products and also regularly reviews the reliability of the Bank's IT systems.

The Finance Department monitors the conformity of the Bank's accounting practices with International Financial Reporting Standards and Accounting Standards for Financial Institutions promulgated by SAMA, and checks the integrity of financial management reports.

The Bank has a separate compliance department that is responsible for implementation of 'know your customer' regulations and ensuring observance of policies and procedures introduced under the anti money laundering initiatives that have been enacted by SAMA. As part of this initiative, all customer account details were reviewed for updating with current and valid legal documentation (including resident permits and national identification). Any account not meeting the documentation requirements is frozen and operations suspended. Policies and procedures established centrally apply universally to the operations of all divisions and branches of the Bank.

Underwriting Risk

Underwriting risk arises from failure to distribute underwritten debt, equity or hybrid securities at acceptable price levels. The Bank acts as underwriter for syndicated loans and equity and debt capital markets issues. Underwriting commitments for syndicated loans are proposed and approved as per the Bank's risk management policies. Underwriting commitments for equity and debt capital markets issues are proposed and approved by HOCC including an advice from the Treasury department on the placing capacity in the market.

Equity and debt capital markets transactions are approved in accordance with HOCC policy. CMA regulations require initial public offerings to be fully underwritten for the offering period. Hence, based on the transaction and market information, HOCC will decide on the Bank's willingness to underwrite a capital markets issue prior to the commencement of the offering.

Legal Risk

Legal risk is the risk arising from faulty documentation, change of regulatory environment or enactment of new laws. The Bank manages legal risk by constantly reviewing and updating its business, introducing proper internal compliance policies and amending its legal documentation.

Reputational Risk

Reputational risk is the risk arising from the Bank engaging in activities that might be negatively perceived by the public. The Bank strives to address possible reputational risks at all times through the establishment of proper criteria for conducting its business. Moreover, the Bank favours sponsoring and supporting business ventures and projects with a social orientation.

9. MANAGEMENT DISCUSSION AND ANALYSIS

*The following discussion and analysis is based on, and should be read in conjunction with, the Bank's audited financial statements and related notes for the years ended 31 December 2008, 2007, and 2006 (the "**Audited Financial Statements**") and the Bank's reviewed interim financial statements for the nine months ending 30 September 2009 and for the nine months ending 30 September 2008 (collectively, the "**Interim Financial Statements**", and together with the Audited Financial Statements, the "**Financial Statements**"), all set out in Appendix 1 (Financial Statements). Unless otherwise specified, the financial information presented in this discussion has been derived from the Financial Statements.*

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the sections entitled "Risk Factors" and "Forward-Looking Statements".

9.1 Results of Operations

The following tables summarise the principal components of the Bank's net income and expenses for the periods indicated and certain balance sheet items as at the dates indicated:

	Nine months ended 30 September (Unaudited)		**Year ended 31 December (Audited)**		
P&L (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Net special commission income	1,178,636	1,077,085	1,445,059	1,200,449	1,179,792
Fee income from banking services, net	279,344	355,938	456,337	390,167	632,577
Other operating income*	172,752	160,095	209,778	185,541	134,091
Total Income	**1,630,732**	**1,593,118**	**2,111,174**	**1,776,157**	**1,946,460**
Salaries and Employee related costs	(372,300)	(372,046)	(452,516)	(465,315)	(368,798)
Rent and premises related expenses and depreciation	(109,705)	(101,958)	(137,002)	(119,130)	(108,078)
Other operating expenses*	(128,677)	(165,452)	(220,309)	(257,477)	(168,201)
Net income before provisions	**1,020,050**	**953,662**	**1,301,347**	**934,235**	**1,301,383**
Impairment charge for Credit loss, net	(414,676)	(38,860)	(25,485)	(495,666)	(348,589)
Impairment charge for Investment	(80,048)		(52,121)		
Net income	**525,326**	**914,802**	**1,223,741**	**438,569**	**952,794**

* These captions do not have the same meaning as ascribed to them in the Financial Statements.

B/S (SAR '000)	As at 30 September (Unaudited) 2009	2008	As at 31 December (Audited) 2008	2007	2006
Cash and balances with SAMA	7,912,458	4,659,185	2,790,716	3,509,047	2,672,687
Due from banks and other financial institutions	330,187	1,299,551	365,095	5,271,854	6,019,719
Investments, net	14,272,574	15,203,653	18,368,343	12,954,288	10,463,381
Loans and advances, net	38,949,076	38,909,692	38,017,101	27,554,619	26,479,849
Property and equipment, net	512,216	442,773	465,611	320,371	309,044
Other assets*	1,187,965	885,031	1,429,317	801,135	795,384
Total assets	**63,164,476**	**61,399,885**	**61,436,183**	**50,411,314**	**46,740,064**
Due to banks and other financial institutions	6,935,406	9,319,840	9,286,150	9,157,612	8,298,415
Customers' deposits	47,327,042	44,504,727	43,012,327	34,604,985	32,413,664
Other liabilities	1,369,732	1,530,315	1,947,555	1,401,923	1,070,242
Subordinated debt	1,475,000	700,000	1,475,000	700,000	700,000
Shareholders' equity	**6,057,296**	**5,345,003**	**5,715,151**	**4,546,794**	**4,257,743**
Total liabilities and shareholders' equity	**63,164,476**	**61,399,885**	**61,436,183**	**50,411,314**	**46,740,064**

* These captions do not have the same meaning as ascribed to them in the Financial Statements.

Net Income and Operating Profit

The net income for the nine months period ended 30 September 2009 amounted to SAR 525.3 million compared to SAR 914.8 million for the same period in 2008, representing a decrease of 42.6 per cent. For the interim period ended the 30 September 2009 the total income was higher by 2.36 per cent. and operating costs were lower by 5 per cent. resulting in net income before provisions being higher by 7 per cent. compared to the same period in 2008. Loan loss provisions at SAR 415 million, for 2009 interim period are higher by 967 per cent. compared to the same period in 2008 which has resulted in net income being lower. The loan loss provisions primarily relate to a limited number of large corporate exposures.

Net income in 2008 amounted to SAR 1,224 million, which was 179 per cent. higher than the net income in 2007 of SAR 439 million due to a combination of increase in total income, reduction in operating costs and reduction in impairment charge for credit losses. Net income before provisions for 2008 was SAR 1,301 million, a 39 per cent. increase over net income in 2007 amounting to SAR 934 million. The strong growth in the corporate loan book has contributed to higher operating income during 2008 through higher net special commission income and fee income both from on and off balance sheet activities.

Net income for 2007 amounted to SAR 439 million, which is 54 per cent. lower than the net income in 2006 of SAR 953 million, primarily because of lower revenues (9 per cent.) and significantly higher operating costs (30 per cent.) and loan loss provisions (42 per cent.).

All the above key components such as net special commission income, fee income, operating costs and provisioning are elaborated below for the nine month interim period ended September 2009 in comparison with the same period in 2008 and for the full years ended 2008 and 2007.

Net Special Commission Income

The following table shows net special commission income of the Bank for the periods indicated:

P&L (SAR '000)	Nine months ended 30 September (Unaudited) 2009	2008	Year ended 31 December (Audited) 2008	2007	2006
Special commission income	1,790,942	2,145,807	2,977,305	2,905,672	2,667,933
Special commission expense	(612,306)	(1,068,722)	(1,532,246)	(1,705,223)	(1,488,141)
Net special commission income	**1,178,636**	**1,077,085**	**1,445,059**	**1,200,449**	**1,179,792**

The net special commission income during the nine months period ended 30 September 2009 has grown by 9 per cent. compared to the same period in 2008. This is largely the result of the Bank's efforts in widening the margins towards end of 2008 and in early 2009. Also during 2009, the Bank has enjoyed a higher average loan book size compared to 2008, as its loan book had grown throughout 2008.

Net special commission income in 2008 was SAR 1,445 million, which was 20 per cent. higher than the net special commission income in 2007 amounting to SAR 1,200 million. This growth was mainly driven by an increase in special commission bearing assets principally in investments and the corporate loan book, which grew by 39 per cent. Also during this period the Bank managed to widen its margins by increasing yields, the combined effect of which resulted in the net special commission growing by 20 per cent.

Net Special commission income in 2007 was SAR 1,200 million, which was 1.7 per cent. higher than the net special commission income for the full year 2006. This growth was largely a result of the rise in interest rates.

Fees from Banking Services, Net

The following table shows net fee income from banking services of the Bank for the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
P&L (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Trade finance	120,174	128,714	162,658	117,018	112,182
Share trading and fund management, net	46,833	80,231	95,483	131,206	375,687
Corporate finance and advisory	26,083	51,884	53,340	55,363	65,751
Consumer documentation fees	14,080	10,654	14.161	9,890	14,336
Transfers and other commission	72,174	84,455	130,695	76,690	64,621
Fee income from banking services, net	**279,344**	**355,938**	**456,337**	**390,167**	**632,577**

2009 has experienced a slowdown in the global and local economic activity and as a consequence fee income, both on and off-balance sheet based, have seen declines. The biggest declines were seen in share trading commissions, corporate finance and advisory which declined by 42 per cent. and 50 per cent. respectively.

Fee income from banking services registered a strong growth of 17 per cent. during 2008 as a result of loan fees, foreign exchange transactions and other off-balance sheet transactions such as guarantees and performance bonds. This growth in fee income is directly as a result of the rapid credit growth as a result of the economic boom witnessed during the year.

2007 non interest income saw a decline of 38 per cent. compared to 2006. Share trading income was a key source of fee income till 2006. The Index ("**TASI**") remained depressed for the first nine months of 2007, only recovering in the last quarter. Average daily volume traded for 2007 was significantly lower compared to 2006. This impacted adversely on the fee income for 2007.

(2) Source: *Tadawul*

Other Operating Income

The following table shows other operating income of the Bank for the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
P&L (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Other operating income*	172,752	160,095	209,778	185,541	134,091

* The captions do not have the same meaning as ascribed to them in the Audited Financial Statements.

Other operating income consists of investment, trading as well as foreign exchange related income.

2009 interim period of nine months has seen continued positive trends established in 2008 and 2007. Other operating income for this period registered an 8 per cent. increase, which is a significant achievement given the difficult economic climate. Within the other operating income are the foreign exchange and investment gains income components. Foreign exchange income declined by 16 per cent., as expected as a result of reduced trade and flows. However, this was offset by stronger growth (38 per cent.) in investment and trading gains.

Other operating income grew by 13 per cent. to SAR 210 million for 2008, compared to SAR 186 million for 2007. Foreign exchange remained a very strong revenue generator for the Bank with income growing in 2008 on the back of higher trade finance activities. Income on international foreign exchange transactions showed a positive trend primarily owing to increased client business resulting from increased and more intensive client coverage. Trading and investment related income increased during 2008 from 2007 primarily as a result of higher sales for bonds and structured products.

Other operating income grew by 38 per cent. to SAR 186 million for 2007, compared to SAR 134 million for 2006. Foreign exchange remained a very strong revenue generator for the Bank with income growing in 2007 on the back of higher trade finance activities. Income on international foreign exchange transactions also showed a positive trend.

Staff related Costs

The following table shows staff related costs of the Bank for the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
P&L (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Basic salaries and others	291,167	308,674	377,600	370,139	302,164
Terminal benefits and other staff related	81,133	63,372	74,916	95,176	66,634
Salaries and Employee related expenses	**372,300**	**372,046**	**452,516**	**465,315**	**368,798**
Average number of FTEs	1,639	1,699	1,723	1,668	1,469

Staff related costs for the nine months period ended 30 September 2009 amounting to SAR 372 million are at same levels as in the corresponding period in 2008, despite inflation. The Bank has managed to achieve higher efficiencies through process improvements and this has enabled to restructure head count across its network. The full positive financial effect of the restructuring will be felt in the coming periods.

The staff related costs for 2008 were SAR 453 million, representing a decrease of 3 per cent. compared with the staff related costs of SAR 465 for 2007, primarily due to certain one-off end of service benefits costs that had to be absorbed in 2007. Acturial shortfalls had to be recognised in 2007.

Staff related costs for 2007 were SAR 465 million, representing an increase of 26 per cent. compared to the 2006 costs of SAR 369 million. This is a result of an increase in number of employees for the period. The average full-time equivalent employees increased by more than 12 per cent. Also the Bank had to recognize additional costs towards end of service benefits as a result of actuarial shortfalls.

__Rent and Premises-related Expenses, Depreciation costs__

The following table shows rent and premises related expenses and depreciation costs of the Bank for the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
P&L (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Rent and premises related expenses..........................	52,192	55,174	73,870	58,216	50,141
Depreciation..	57,513	46,784	63,132	60,914	57,937
Rent, premises related expenses and depreciation	109,705	101,958	137,002	119,130	108,078

Rent, premises related expenses and depreciation for nine months ended September 2009 increased by 7.6 per cent. as compared with the same period in 2008 mainly due to an increase in depreciation of several IT related investments. This increase was partially offset by reduction to rentals as the Bank exited leases of several properties that were surplus to its needs.

The increase in premises and depreciation costs in 2008 compared to 2009 is primarily the result of renewal of leases of several premises, renewals of which became due during 2008 when rentals were at high levels. Depreciation costs showed only a modest increase of 3.6 per cent. over 2007 and this is as a result of routine capital spend and replacements in IT infrastructure.

Rent and premises-related expenses increased to SAR 58 million for 2007, an increase of 16 per cent. on the 2006 expenses of SAR 50 million. This was mainly driven by the upgrade of the Bank's branch and ATM networks. Depreciation and amortisation increased 5 per cent. to SAR 61 million for 2007 from SAR 58 million for 2006 mainly because of routine capital spend both Information technology and branch related.

__Other administrative costs__

The following table shows other general and administrative expenses of the Bank for the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
P&L (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Other general and administrative expenses and other operating expenses..	128,677	165,452	220,309	257,477	168,201

Other general and administrative expenses comprise advertisement costs, consulting costs, stationery, communication and other general expenses.

General and administrative costs were 22 per cent. below last year same period. These reductions have come as a result of stringent cost controls.

The 2008 full year costs incurred towards general and administrative expenses decreased by 14 per cent. compared to 2007, with reductions occurring in many categories of costs, including communications and consultancy.

2007 saw an increase in general and administrative costs compared to 2006. This was primarily due to costs associated with investments in the Bank's information technology infrastructure.

Operating Efficiency Ratio

The following table shows operating efficiency ratios of the Bank for the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
	2009	**2008**	**2008**	**2007**	**2006**
Operating Efficiency Ratio	37.45%	40.14%	38.35%	47.40%	33.14%

The operating efficiency ratio is measured as the ratio of operating costs vs the total income.

The operating efficiency ratio improved from 47.4 per cent. in 2007 to 38.4 per cent. in 2008 and then further improved to 37.5 per cent. during the current interim period ended the 30 September. These improvements are the reflection of the Bank's drive to improve efficiency through growing revenues whilst controlling costs.

Impairment Charge for Credit Losses

The following table shows provisions for credit losses of the Bank for the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
Provision for Credit Losses (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Impairment charges for credit losses, net..........	414,676	38,860	25,485	495,666	348,589
Loan loss provisions in B/S	1,878,464	1,399,941	1,150,627	1,186,782	778,931
Loan loss provision to gross loans (%)	4.6%	3.4%	2.9%	4.1%	2.9%
Loan loss provision coverage (%).....................	132.8%	113.9%	108%	110%	114%

Source: *Management Accounts of the Bank*

The loan loss charge for the nine months period ended 30 September 2009 is SAR 415 million, representing an increase from SAR 39 million for the same period in 2008. This increase amounts to 964 per cent. and relates to a limited number of large exposures. This is the main reason for the reduction in total net income for the nine months ended 30 September 2009.

In 2008 the Bank did not experience any major credit losses.

In 2007 the provision for loan losses, net of recoveries was SAR 496 million and was 42 per cent. higher than the provision for 2006 of SAR 349 million. This was mainly a result of a conservative approach taken towards provisioning for specific corporate credits.

9.2 Balance Sheet

Cash and Balances with SAMA and Financial institutions

The following table shows cash and balances with SAMA and financial institutions of the Bank as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
B/S (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Cash and balances with SAMA	7,912,458	4,659,185	2,790,716	3,509,047	2,672,687
Due from banks and other financial institutions	330,187	1,299,551	365,095	5,271,854	6,019,719
Total...	**8,242,645**	**5,958,736**	**3,155,811**	**8,780,901**	**8,692,406**

The Bank places monies with SAMA and with other financial institutions as part of its overall short-term liquidity management and other regulatory cash reserve requirements.

The increase of balances as at September 2009 of 38 per cent. to SAR 8,242 million is as a result of surplus liquidity in the market.

The balances as at 31 December 2008 had reduced by 64 per cent. to SAR 3,156 million compared to SAR 8,781 million as at 31 December 2007. This reduction is primarily as a result of the reduction in statutory cash reserve requirement and investments in SAMA eligible liquid instruments (see comment below under investments).

There has not been any material change in 2007 figures over 2006.

Investments

The following table shows investments as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
B/S (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Investments, net	14,272,574	15,203,653	18,368,343	12,954,288	10,463,381

The Bank's investments are primarily (greater than 90 per cent.) in Saudi Arabian Government Bonds and Treasury Bills.

During the interim period 2009 several investments had matured which accounted for the reduction in investments portfolio.

The increase in investments during 2008 compared to 2007 is 42 per cent. owing to additional investments in sovereign bond. During 2008, the Bank reclassified some of its investments from available for sale portfolio to originated investments. The effects of these reclassifications have been explained in notes to the investments.

The increase in investments in 2007 to SAR 12,954 million from SAR 10,463 million as at 31 December 2006 was a result of investments in sovereign guaranteed local paper.

Loans and Advances

The following table shows loans and advances of the Bank as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
B/S (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Consumer loans	2,920,002	3,055,956	3,254,755	3,327,576	3,391,828
Credit Cards	197,535	195,157	200,326	178,353	148,230
Commercial loans	30,087,306	29,934,786	30,508,859	19,833,488	18,168,322
Overdrafts	5,744,233	5,723,793	4,053,161	4,215,202	4,771,469
Total Loans and Advances	**38,949,076**	**38,909,692**	**38,017,101**	**27,554,619**	**26,479,849**

The Bank's loan portfolio comprises of personal and corporate portfolios. The above amounts are stated net of specific and portfolio provisions.

During the interim period ended 30 September 2009, the loan book grew by 2.5 per cent. compared to 31 December 2008. The personal loan book which comprises of consumer loans and credit cards has reduced by 10 per cent. to SAR 3,117 million.

In 2008, the Bank experienced exceptional growth to its loan portfolio. Loan book grew by 38 per cent. to SAR 38,017 million from SAR 27,555 million in 2007. This growth had come largely through lending to corporate businesses. The Bank participated in and benefited from the rapid expansion of credit in the Kingdom.

The growth to loan book during 2007 was 4.06 per cent.

Property, Equipment and Other Assets

The following table shows property, equipment and other assets of the Bank as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
B/S (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Property, equipment and other assets	1,700,181	1,327,804	1,894,928	1,121,506	1,104,428

Source: *Management Accounts of the Bank*

Other assets represent fixed assets as well as receivables, pre-payments and other accruals. While fixed assets have only slightly increased, receivables, pre-payments and other accruals will fluctuate in line with the growth in Balance sheet.

Due to Banks and Other Financial Institutions

The following table shows borrowings due to banks and other financial institutions of the Bank as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
B/S (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Due to banks and other financial institutions	6,935,406	9,319,840	9,286,150	9,157,612	8,298,415

The Borrowings from other banks has decreased by 25 per cent. since December 2008.

The borrowings from banks have remained stable during the year ended 2007 and 2008.

Customers' Deposits

The following table shows customers' deposits of the Bank as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
B/S (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Time	32,514,546	32,062,874	30,200,521	23,524,194	20,824,772
Demand	14,077,893	11,614,172	12,067,091	10,330,918	10,674,137
Savings	313,529	284,557	263,457	256,269	251,526
Others	421,074	543,123	481,258	493,604	663,229
Total Customers' deposits	**47,327,042**	**44,504,727**	**43,012,327**	**34,604,985**	**32,413,664**

The interim period ended 30 September 2009 has witnessed a 10 per cent. growth compared to December 2008. This growth has come from both personal and corporate customers.

As a result of this growth in deposits, the Bank's loans to deposit ratio has improved to 82.3 per cent. from 88.4 per cent as at 31 December 2008.

The customer deposits growth during 2008 compared to 2007 was 24 per cent. Special commission bearing deposits (Time and Demand) were attracted during this period in line with the growth in loans and advances.

The deposit growth during 2007 compared to 2006 has been modest at 7 per cent.

Other Liabilities

The following table shows other liabilities of the Bank as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
B/S (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
Other liabilities	1,369,732	1,530,315	1,947,555	1,401,923	1,070,242

Other liabilities represent mainly sundry creditors, accruals and provisions. Like other assets they move in line with the Balance sheet size.

Subordinated Debt

Refer to note 14 of the financial statements for the year ended 31 December 2008.

Shareholder's Equity and Capital adequacy

The following table shows shareholder's equity of the Bank as at the dates indicated:

	As at 30 September (Unaudited)		As at 31 December (Audited)		
Shareholders' equity (SAR' 000)	**2009**	**2008**	**2008**	**2007**	**2006**
Share capital	3,307,500	2,646,000	2,646,000	2,646,000	2,205,000
Statutory reserve	1,915,000	1,609,000	1,915,000	1,609,000	1,499,000
General reserve	130,000	130,000	130,000	130,000	571,000
Other reserves	(3,320)	(95,837)	(45,411)	20,756	(42,592)
Retained earnings	689,155	1,055,840	825,329	141,038	25,335
Proposed dividends	-	-	233,450	-	-
Staff share plan reserve	18,871	-	10,783	-	-
Total shareholders' equity	**6,057,296**	**5,345,003**	**5,715,151**	**4,546,794**	**4,257,743**

The statements of changes to equity are explained in detail in the interim and final financial statements for the respective years. Capitalisation of profits have occurred during the period from 2007 to 2009, and these have been elaborated under Section 6 (*Capitalisation and Indebtedness*) of this Prospectus.

Capital adequacy

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

The table below sets out these ratios at the dates indicated:

Saudi Hollandi Bank Capital Adequacy	Basel II Basis As at 30 September 2009 (Unaudited)	As at 31 December 2008 (Audited)	As at 31 December 2007 (Audited)
(*SAR '000*)			
Type of capital			
Tier	5,513,098	5,470,916	4,546,794
Tier II	2,398,326	1,491,865	902,182
Total capital base	**7,911,424**	**6,962,781**	**5,448,976**
Risk weighted assets			
Balance sheet assets	42,097,698	41,097,733	31,463,859
Commitments and contingencies	7,340,163	8,908,846	9,507,329
Derivatives	446,558	610,683	
Market and operational risks	4,566,820	4,371,475	3,739,269
Total risk weighted assets	**54,451,239**	**54,988,737**	**44,710,457**
Capital adequacy ratios			
Tier 1 capital (minimum requirement 4%)	10.12%	9.95%	10.17%
Total Ratio	14.53%	12.66%	12.19%

Source: *The Bank*

As of early 2008, all banks in the Kingdom complied with the Basel II regulations. The capital adequacy ratios as of 31 December 2007 have been restated and disclosed under the new (Basel II) basis.

9.3 Off-Balance Sheet Arrangements

Off-balance sheet arrangements consist of credit-related commitments and contingencies. They are letters of credit, letters of guarantees, acceptances and irrevocable commitments to extend credit.

As at the end of the interim period ended 30 September 2009, the total of these commitments and contingencies stand at SAR 15.6 billion a reduction of 18 per cent. These reductions have come in all the above categories. These are set out in notes 6 to the interim financial statements for the Quarter ended 30 September 2009.

9.4 Cash Flows

The following table shows the increase or decrease in cash flows during the periods indicated:

	Nine months ended 30 September (Unaudited)		Year ended 31 December (Audited)		
P&L (SAR '000)	**2009**	**2008**	**2008**	**2007**	**2006**
From / (Used in) operating activities	563,050	(281,754)	281,778	2,573,214	3,756,970
From / (Used in) investing activities	4,147,532	(2,868,514)	(5,979,700)	(1,834,174)	(6,500)
From / (Used in) financing activities	(233,450)	-	762,370	(222,235)	(507,918)
Increase (decrease) in cash	4,477,133	(3,150,268)	(4,935,552)	516,805	3,242,552
Cash at beginning of period	1,387,726	6,323,278	6,323,278	5,806,473	2,563,921
Cash at end of period	5,864,859	3,173,010	1,387,726	6,323,278	5,806,473

During the nine months interim period for 2009 net cash inflows increased by SAR 4.5 billion. This is primarily as a result of maturing investments in excess of SAR 4 billion with other key balance sheet items such as loans and external liabilities to customers and banks remaining at same levels as December 2008.

During 2008, there was a net cash outflow of SAR 4.9 billion and this is primarily as a result of growth in loans and investments which reduced the liquid resources

2007 did not see any material change to the cash flows.

9.5 Recent Developments and Outlook

The Bank's reviewed interim financial statements for the nine months ended 30 September 2009 reveal a 43 per cent. decrease in net profits compared to the same period last year.

Costs have been reduced by 5 per cent. compared to the same period last year through stringent cost controls. Total income has improved by 2 per cent. against the same period last year. This has resulted in an improved cost to income ratio of 37 per cent. as at 30 September 2009 compared to 40 per cent. as at 30 September 2008. Operating income has as a result increased by 2.36 per cent. compared to the same period last year.

The Bank has successfully completed a phase of aggressive cost reductions leaving it operationally lean, stable and profitable. Income has grown faster than costs since 2007 and that positive trend is still continuing.

Provisions for loan impairments less recoveries and investment impairments amounted to SAR 495 million. Recent developments in the Kingdom have resulted in the Bank taking a pro-active stance with respect to its credit loss provisions and coverage and this will result in a decline in profitability in 2009 as compared to 2008.

With strong performance at operational level, continuously improving efficiency, a strong deposit and capital base and forecasted solid economic growth in the Kingdom, the Bank looks at its future with confidence.

10. SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The major shareholders of the Bank (owning more than 5 per cent. of the shares) are:

Shareholders with more than 5 per cent. stake	Shares held	Ownership
ABN AMRO Bank N.V.	105,840,000	40.00%
Saudi Olayan Investment Co. Ltd	68,924,994	20.84%
GOSI	25,610,278	9.67%

Source: *The Bank.*

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the Directors, these related-party transactions are performed on an arm's length basis and comply with all of the restrictions imposed on such transactions by the Banking Control Law and the rules and regulations issued by SAMA. These restrictions (among other things) prohibit the Bank from granting a credit facility to a related party which exceeds an amount equal to 10 per cent. of the shareholders' equity of the Bank and require related-party credit to be collateralised 100 per cent. by tangible security.

The balances at 31 December 2008 and 2007 resulting from such transactions are as follows:

	As at 31 December	
Shareholders and related-party transactions	**2008**	**2007**
ABN AMRO Bank N.V.:		
Due from banks and other financial institutions	23,300	617,144
Due to banks and other financial institutions	184,747	902,368
Derivatives (at fair value)	(20,605)	15,216
Commitments and contingencies	136,781	187,313
Directors, other major shareholders and their affiliates:		
Loans and advances	385,944	345,804
Customers' deposits	3,028,346	2,746,029
Subordinated debt	100,000	100,000
Commitments and contingencies	1,057	5,960
The Bank's mutual funds:		
Investments	26,499	52,013
Customers' deposits	339,468	409,299

Source: *The Bank.*

Mining Services Company Limited, a company owned by the Olayan Group, owns 5 per cent. of the issued share capital in Saudi Hollandi Capital, acting as a nominee for the Bank. It is expected that this 5 per cent. interest will be transferred to Saudi Hollandi Real Estate Company free of charge, as per an undertaking signed by Mining Services Company Limited, dated 20/01/1429H (corresponding to 29/01/2008G). Saudi Hollandi Capital owns 2 per cent. of Saudi Hollandi Real Estate and the remaining 98 per cent. is owned by the Bank. Please see Section 13.13 (*Material Subsidiaries*) for further information.

Other than the three major shareholders mentioned above, no shareholder of the Bank owns more than 5 per cent. of the Bank's issued share capital.

Income and expenses pertaining to transactions with related parties included in the financial statements were as follows for the periods indicated:

Shareholders and related-party transactions	Year ended 31 December 2008	2007
Special commission income	29,201	29,827
Special commission expense	145,889	175,598
Fees from banking services, net	28,187	35,175
General and administrative expenses	8,363	18,450
Directors' remuneration	2,671	2,603
Compensation paid to key management personnel (all short-term employee benefits)	70,756	42,741

Source: *The Bank.*

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

11. TAXATION AND ZAKAT

The following is a general description of certain Saudi Arabian zakat/tax considerations relating to the Mudaraba Sukuk. It does not purport to be a complete analysis of all zakat/tax considerations relating to the Mudaraba Sukuk nor does it address the considerations that are dependent on individual circumstances. Prospective purchasers of Mudaraba Sukuk should consult their own tax advisers to determine the zakat/tax consequences for them of acquiring, holding and disposing of any Mudaraba Sukuk and receiving distributions, payments of principal, profit and/or other amounts under the Mudaraba Sukuk and the consequences of such actions under the zakat/tax regulations of the Kingdom of Saudi Arabia. This summary is based upon the regulations in effect in the Kingdom of Saudi Arabia at the date of this Prospectus and is subject to any change in such regulations that may take effect after such date. Prospective purchasers should note that the Bank is not obliged to update this section for any subsequent changes or modification to the applicable zakat/tax regulations.

GCC Sukukholders resident in the Kingdom of Saudi Arabia

Sukukholders who are GCC persons resident in the Kingdom of Saudi Arabia (except for (a) a citizen of a GCC country other than the Kingdom of Saudi Arabia with a permanent establishment in the Kingdom of Saudi Arabia and (b) a legal entity established under the law of a GCC country other than the Kingdom of Saudi Arabia with a permanent establishment in the Kingdom of Saudi Arabia) are not subject to Saudi Arabian corporate income tax, whether by withholding or direct assessment, in respect of any payment or gain realized in respect of the Mudaraba Sukuk.

However, such a Sukukholder will be subject to zakat. This summary does not consider the extent to which a potential Sukukholder would be liable to zakat as a consequence of acquiring, holding or disposing of its Mudaraba Sukuk.

"**GCC person**" means (a) a citizen of any of the GCC Countries (namely, the Kingdom of Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait) and (b) any legal entity owned by GCC citizens and established under the laws of a GCC country.

Non-GCC persons resident in the Kingdom of Saudi Arabia.

Sukukholders who are non-GCC persons resident in the Kingdom of Saudi Arabia, as defined in Article 3 of the Income Tax Regulation issued under Royal Decree No. M/1 dated 15/01/1425H (the "**Income Tax Regulation**"), will be subject to Saudi Arabian tax.

Article 3 of the Income Tax Regulation defines Residency as follows:

(A) A natural person is considered a resident in the Kingdom of Saudi Arabia for a taxable year if he meets either of the two following conditions:

(1) He has a permanent place of residence in the Kingdom of Saudi Arabia and resides in the Kingdom of Saudi Arabia for a total of not less than thirty (30) days in the taxable year; or

(2) He resides in the Kingdom of Saudi Arabia for a period of not less than one hundred eighty three (183) days in the taxable year.

For the purposes of this paragraph, residence in the Kingdom of Saudi Arabia for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside the Kingdom of Saudi Arabia.

(B) A company is considered resident in the Kingdom of Saudi Arabia during the taxable year if it meets either of the following conditions:

(1) It is formed in accordance with the Companies Law; or

(2) Its central management is located in the Kingdom of Saudi Arabia.

Sukukholders who are not resident in the Kingdom of Saudi Arabia

Sukukholders who are not residents in the Kingdom of Saudi Arabia (whether such Sukukholders are Saudi Arabian nationals or not Saudi Arabian nationals including Sukukholders resident in GCC) will be subject to withholding tax at the rate of 5 per cent. on all payments in the nature of profit in respect of the Mudaraba Sukuk.

Sukukholders who are non-residents with a permanent establishment in the Kingdom of Saudi Arabia ("**PE**") (as defined in Article 4 of the Income Tax Regulation), will be subject to Saudi Arabian tax and may, pursuant to Article 5 of the Income Tax Regulation, also be subject to a withholding tax at the rate of 5 per cent. on all payments in the nature of profit in respect of the Mudaraba Sukuk.

A non-resident carrying out an activity in the Kingdom of Saudi Arabia through a licensed branch (as defined in Article 4(b)4 of the Income Tax Regulation) is considered to have a PE in the Kingdom of Saudi Arabia.

All payments in the nature of profit in respect of the Mudaraba Sukuk to a Sukukholder who has a PE in the Kingdom of Saudi Arabia, will be part of the Sukukholder's gross income that is subject to income tax at the rate of 20 per cent. further more transfer of profit to the head office is considered distribution of profit and is subject to 5 per cent. withholding tax.

A Sukukholder, whether such Sukukholder is resident in the Kingdom of Saudi Arabia (as defined in Article 3 of the Income Tax Regulation) or non-resident in the Kingdom of Saudi Arabia (as defined in Article 1(2)(b) of the Bylaws to the Income Tax Regulation and whether such a Sukukholder has or does not have a PE in the Kingdom of Saudi Arabia, will be subject to capital gains tax at the rate of 20 per cent. on any gain realized on the disposal or repurchase of its Mudaraba if such Mudaraba were not traded in accordance with the Capital Market Law of the Kingdom of Saudi Arabia and its implementing regulations.

General

Sukukholders who are natural persons with or without a PE in the Kingdom of Saudi Arabia at the time of their death will not be subject to inheritance or other taxes of a similar nature in the Kingdom of Saudi Arabia.

Sukukholders will not be deemed to be resident, domiciled or carrying on business in the Kingdom of Saudi Arabia solely by reason of holding any Mudaraba Sukuk.

Under the zakat regulations which are in effect as the date of this Prospectus in the Kingdom of Saudi Arabia, long-term investments in Mudaraba Sukuk are not deductible from the zakat base of the investor.

12. SUBSCRIPTION AND ISSUANCE

Subscription Agreement

The Joint Bookrunners & Joint Lead Managers will enter into a subscription agreement before the Closing Date (as the same may be amended, supplemented or novated, the "**Subscription Agreement**") with the Issuer relating to the placement of the Mudaraba Sukuk. Pursuant to the Subscription Agreement, the Joint Bookrunners & Joint Lead Managers will agree to solicit on a best effort basis on behalf of the Issuer offers for the investment in the Madaraba Sukuk and procure payment for the Mudaraba Sukuk by prospective Sukukholders. For clarity, no portion of the Mudaraba Sukuk issue will be underwritten or guaranteed except that once the Issuer has determined based on the book building process the Margin, the Step-up Margin and the aggregate face value of the Mudaraba Sukuk to be issued, then Riyad Capital shall have an obligation to purchase any Mudaraba Sukuk for which orders have been received from potential investors during the Investor Presentation Period but for which no monies have been received from such purchasers.

The Subscription Agreement will be subject to a number of conditions and may, in certain circumstances, be terminated by the Joint Bookrunners & Joint Lead Managers prior to payment of the net proceeds of the issue of the Mudaraba Sukuk to the Issuer. If the Subscription Agreement is terminated prior to the Closing Date, the offer of the Mudaraba Sukuk may also terminate and any proceeds received from prospective Sukukholders will be refunded.

Application by Potential Investors

The investor presentation period for the Mudaraba Sukuk commences on 27/12/1430H (corresponding to 14/12/2009G) and ends within 10 Business Days, unless extended by the Issuer and the Joint Bookrunners & Joint Lead Managers after approval from the CMA (the "**Investor Presentation Period**"). The Mudaraba Sukuk will be issued on a date (the "**Closing Date**") falling no later than 10 Business Days after the end of the Investor Presentation Period. During the Investor Presentation Period, the Joint Bookrunners & Joint Lead Managers may solicit expressions of interest from potential investors for acquiring the Mudaraba Sukuk, during which time the Issuer and the Joint Bookrunners & Joint Lead Managers shall consult and agree on the Margin.

Persons wishing to invest in the Mudaraba Sukuk will be required to submit a duly completed form (an "**Investor Application Form**") to the Joint Bookrunners & Joint Lead Managers before the end of the Investor Presentation Period and shall make payment for the Mudaraba Sukuk as per the instructions contained in the Application Form. Investor Application Forms will be available from the Joint Bookrunners & Joint Lead Managers.

Allocation of Mudaraba Sukuk will be at the discretion of the Issuer and the Joint Bookrunners & Joint Lead Managers and will be made following the end of the Investor Presentation Period. Once the allocation of Mudaraba Sukuk has been completed, the Issuer will cause the Margin and the Step-up Margin, and the aggregate face amount, together with the anticipated aggregate net proceeds, of the Mudaraba Sukuk, to be communicated to investors, including by publishing it on the website of the Issuer (***www.shb.com.sa***) and of the Joint Bookrunners & Joint Lead Managers (***www.shc.com.sa***) and (***www.riyadcapital.com***).

Only persons who are Qualified Persons as defined in Condition 1 (*Definitions*) may be registered as Sukukholders.

All potential investors must carefully read the Conditions prior to completing an application for the investment in the Mudaraba Sukuk since the execution of the Investor Application Form constitutes acceptance of, and agreement to, the Conditions.

General

Other than the application for listing of the Mudaraba Sukuk on the Official List maintained by the Authority in the Kingdom, no action has been or will be taken in any jurisdiction by the Issuer or the

Joint Bookrunners & Joint Lead Managers that would, or is intended to, permit an offering of the Mudaraba Sukuk, or possession or distribution of this Prospectus or any other offering material thereto, where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Bookrunners & Joint Lead Managers to comply with all applicable laws and regulations in relation to the purchase, offer, sale or delivery of the Mudaraba Sukuk, or have in their possession or distribute this Prospectus or any other offering material relating to the Mudaraba Sukuk, in all cases at their own expense.

Transfers and Payments

The Registrar will maintain the Register in respect of the Mudaraba Sukuk in accordance with the provisions of the Registry Agreement. Investors must either maintain an account directly with the Registrar or through a custodian or other intermediary in order to hold the Mudaraba Sukuk. All the transfers shall be effected as per Condition 3 (*Register, Title and Transfers*).

In addition, pursuant to Condition 9 (*Payments*), all payments under the Mudaraba Sukuk will be made to Saudi Riyal denominated accounts in the Kingdom as notified from time to time to the Registrar and the Payment Administrator. Accordingly, investors will need to make appropriate arrangements to receive payments under the Mudaraba Sukuk in such an account. Investors are required to consult with their own advisers as to the requirements of setting up the accounts referred to above and must take any necessary action in respect of opening such account themselves. Neither the Issuer nor the Joint Bookrunners & Joint Lead Managers shall have any responsibility for ensuring that investors comply with the correct process, regulations and requirements in relation to opening such accounts in order to hold Mudaraba Sukuk and receive payments and none of them accept any liability for any loss arising directly or indirectly as a consequence of any action or inaction in respect of setting up such accounts.

13. LEGAL INFORMATION

13.1 Material Contracts

Subordinated Callable Floating Rate Notes

On 28 December 2004 the Bank issued SAR 700,000,000 subordinated callable floating rate notes (the "**Notes**"). The Notes were originally due for redemption at their principal amount on 28 December 2011 but the Bank has decided to exercise its early redemption right and will be redeeming the Notes at their principal amount on 28 December 2009. The proceeds of the issue were used by the Bank for strengthening its capital base as it was intended that the Notes comprise Lower Tier II capital for Saudi Arabian regulatory purposes. The issue of the Notes also increased the maturity profile of the Bank's liabilities and improved the Bank's ability to satisfy growing demand for medium term lending to its customers.

Status

The Notes constitute direct, general, unconditional, unsecured and subordinated obligations of the Bank. The Notes, at all times, rank equally without any preference among themselves.

The claims of the Noteholders against the Bank are subordinated to the claims of depositors, unsubordinated claims with respect to the repayment of borrowed money and other unsubordinated claims.

In the event of the bankruptcy, reorganisation, dissolution, winding up, liquidation or arrangement with creditors of the Bank, the claims of the Noteholders will be junior in right of payment to the claims of the holders of unsecured and unsubordinated payment obligations of the Bank, but will rank equally with the holders of all other Lower Tier II claims of the Bank and in priority to the claims of shareholders of the Bank.

Commission

The Notes bear commission from 28 December 2004, payable on 28 March, 28 June, 28 September and 28 December in each year (each a "**Commission Payment Date**").

The Notes bear commission on 28 December at the rate of 0.85 per cent. per annum above SIBOR for three month Saudi Riyal deposits payable quarterly in arrear commencing on the Commission Payment Date falling on 28 March 2005. Any Notes outstanding after 28 December 2009 will bear enhanced commission from this date at a rate of 1.25 per cent. per annum above SIBOR for three month Saudi Riyal deposits payable quarterly in arrear commencing on the Commission Payment Date falling on 28 March 2010.

Redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed in their principal amount on the Commission Payment Date falling on 28 December 2011.

The Bank may, at its option, but subject to the prior written approval of SAMA, in whole but not in part:

(a) redeem the Notes at their principal amount on the Commission Payment Date falling on or after 28 December 2009; or

(b) redeem the Notes at the principal amount plus accrued commission, at any time in the event of certain changes affecting taxation and the regulatory capital treatment of the Notes.

Events of Default

Any Noteholder may, by written notice to the Bank, declare any Note to be due and payable at its principal amount together with commission if default is made for more than 30 days in the payment of principal or commission, the Bank fails to perform its obligations under the Notes, the Bank has filed a bankruptcy or insolvency petition or an order is made for the winding up or liquidation of the Bank.

Governing Law

The Notes are governed by the laws of the Kingdom. The Committee for the Resolution of Securities Disputes of the CMA in the Kingdom has exclusive jurisdiction to hear and determine any disputes.

Subordinated Callable Floating Rate Mudaraba Certificates

On 24 December 2008, the Bank issued 775 million Mudaraba certificates due 2018 callable with step up in 2013 on substantially the same terms as the terms of the Mudaraba certificates to which this Prospectus relates, except that the periodic distribution payments will be made on the last day of each June and December, in each year, commencing on 30 June 2009 and up to and including 31 December 2018, the margin has been setup at 200 bps, the step up margin (starting the periodic distribution date falling on or nearest to 31 December 2013) has been set up at 550 bps, the certificates shall be redeemed on the periodic distribution date falling on or nearest to 31 December 2018, the Bank shall be also entitled to redeemed them at the end of the 5th year or at the end of each calendar year thereafter until the 9th year, as well as in the event of certain changes affecting the tax treatment of the certificates, and the Bank shall have certain tax gross-up obligations in connection with payments pursuant to the certificates.

Bankers' Blanket Bond Insurance Policy

Scope

The Bank has entered into the Bankers' Blanket Bond Insurance Policy with Saudi Arabian Insurance Company ("**Insurer**") pursuant to which bankers' blanket bond, computer crime and professional indemnity interests of the Bank are insured worldwide.

Term and Termination

The term of the insurance under the Bankers' Blanket Bond Insurance Policy is from 1 July 2009 to 30 June 2010. The Bankers' Blanket Bond Insurance Policy is currently in the process of being renewed.

The Bankers' Blanket Bond Insurance Policy may be terminated in the following circumstances:

(a) Section 1 — Bankers' Blanket Bond: the insurance is subject to termination:

  (i) 30 days after the receipt by the Bank of a written notice from the Insurer to terminate the insurance; or

  (ii) upon receipt by the Insurer of a written request from the Bank to terminate the insurance.

(b) Section 2 — Computer Crime: the policy terminates:

  (i) immediately upon a change of control of the Bank, failure of the Bank to notify a change of assets or share ownership or refusal by the underwriter to continue coverage following a change in ownership or control; or

  (ii) 30 days after receipt by the Bank of written notice from the underwriter to terminate the insurance; or

  (iii) immediately upon receipt by the underwriter of a written notice from the Bank of its decision to terminate the policy; or

  (iv) on the expiration date or upon exhaustion of the aggregate limit of indemnity.

(c) Section 3 — Professional Indemnity: the policy shall terminate:

  (i) on a change of control event, merger or the purchase or sale of assets or shares in any other way; or

  (ii) upon receipt by the underwriter of a written request by the Bank to terminate the policy; or

  (iii) immediately upon exhaustion of the limit of indemnity.

Change of Control

Change in the ownership or control of the Bank may affect the insurance coverage under the Bankers' Blanket Bond Insurance Policy as follows:

(a) Section 1 — Bankers' Blanket Bond: The Bank must report any transaction which results in any change in its ownership or control. Failure to report such transaction may constitute an election by the Bank to terminate the insurance.

(b) Section 2 — Computer Crime: The Bank must immediately advise the underwriter of any consolidation or merger with another business entity or any purchase, assignment, transfer, pledge or sale of assets or shares occasioning any change in ownership or control of the Bank. Failure to do so is an election not to continue coverage under the insurance.

(c) Section 3 — Professional Indemnity: In the event of any change in the effective ownership or control of the Bank, whether by operation of law, merger, purchase or sale of assets or shares, then cover ceases unless the underwriter agrees to the continuation of the policy and then only on terms stipulated by the underwriter.

Governing Law and Disputes

The Bankers' Blanket Bond Insurance Policy is governed by the laws of the Kingdom. Any dispute arising in relation to the Bankers' Blanket Bond Insurance Policy shall be subject to the exclusive jurisdiction of the Courts of the Kingdom.

13.2 **Intellectual Property Rights**

The Bank does not have any intangible assets such as trade marks, patents, copyright or other intellectual property rights which are material in relation to its business or profitability, and the Bank is not dependent on such assets.

13.3 Insurance Policies

The Bank has obtained the following material insurance policies in connection with its operations:

Name of Insurer	Policy Type	Coverage Period
Saudi National Insurance Company	Bankers' Blanket Bond	From 01/07/2009 to 30/06/2010
Al Rajhi Company for Cooperative Insurance	Directors' & Officers' Liability	From 01/01/2009 to 31/12/2009
Saudi National Insurance Company	Motor Comprehensive	From 01/01/2009 to 31/12/2009
Saudi National Insurance Company	Property Terrorism	From 01/05/2009 to 30/04/2010
Saudi National Insurance Company	Property All Risks	From 01/01/2009 to 31/12/2009
Saudi National Insurance Company	Electronic Equipment	From 01/01/2009 to 31/12/2009
Saudi National Insurance Company	Comprehensive General Liability	From 01/01/2009 to 31/12/2009
Tawuniya	Staff Medical Insurance	From 01/07/2009 to 30/06/2010
Tawuniya	Staff Life Insurance	From 01/07/2009 to 30/06/2010
Tawuniya	Staff Housing Loan Life Insurance	From 01/07/2009 to 30/06/2010
Tawuniya	Executive Staff Life Insurance	From 01/07/2009 to 30/06/2010

13.4 Litigation

In the ordinary course of its business, the Bank may pursue debt collection and other litigation claims against third parties and may also have litigation claims filed against it. The Bank is involved in litigation in respect of two amounts owed to it, which may have a material effect on its business or financial position. To the extent that the Bank recovers any amounts already provided for this would have a positive effect on the Bank's financial position:

(a) The Bank is owed approximately SAR 400 million by a borrower that has defaulted on a loan. The Bank is seeking to recover this amount from the borrower and guarantor.

(b) The Bank is owed approximately SAR 270 million by a borrower that has defaulted on a loan. The Bank is seeking to recover this amount from the borrower.

In addition, the Bank has made adequate provisions in connection with certain debt collection matters in connection with which the Bank has not yet started any formal legal proceedings but which could potentially lead to litigation.

The Bank's external lawyers are also addressing an order by US judicial authorities to produce documents related to certain banking transactions in the past, the outcome of which cannot be determined.

Save as described in this Section 13.4, the Group is not involved in any litigation, arbitration or proceedings or subject to any claim (including a pending or threatened claim, litigation, arbitration or proceedings) which may have a material adverse effect on the Bank's business or financial position.

13.5 Working Capital

The Directors are of the opinion that the Bank and its subsidiaries will have sufficient working capital for the 12 months immediately following the date of publication of this Prospectus.

13.6 Financial or Trading Position

Save as disclosed in the financial statements of the Bank set out in Appendix 1 (*Financial Statements*), there has been no material adverse change in the financial or trading position of the Bank in the two financial years preceding the Offering and during the period from the end of the period covered in the external auditor's report (31 December 2008 up to and including the date of approval of this Prospectus) that is material in the context of the issue of the Mudaraba Sukuk and the Bank does not anticipate any events that could lead to a disruption of current trends with respect to its future financial and trading prospects for the balance of this financial year, but there can be no assurance that this will remain the case.

13.7 **Commissions**

The Directors and the management of the Bank confirm that no commissions, discounts, brokerages, or other non cash compensation has been granted within the two years immediately preceding the Offering in connection with the issue or sale of any securities by the Bank.

13.8 **No Shareholdings or Interests in the Issuer by the Experts**

As at the date of this Prospectus, none of the experts[7] identified in the "*Parties and Advisers*" section of this Prospectus or their relatives (as defined in the Glossary published by the Authority) have any shareholding or interest of any kind in the Issuer or any of its affiliates.

13.9 **Continuity of Business**

The Directors confirm that there has been no interruption in the business of the Bank which may have or has had a significant effect on its financial position in the last 12 months. As at the date of this Prospectus and save as described in this Prospectus, the Directors do not contemplate any material change in the nature of the Bank's business.

13.10 **Mortgage**

The Directors and management of the Bank confirm that there are no mortgages, rights or charges on the Group's properties.

13.11 **Restrictions of Board of Directors and Senior Executives**

Pursuant to the Companies Regulations and the By laws of the Bank, the Board of Directors and senior executives are subject to the following voting restrictions:

(a) a Director or a senior executive may not vote on any contract or proposal in which he has a material interest;

(b) a Director or a senior executive may not vote on the remuneration granted to him; and

(c) the Bank may not extend loans to its Directors or senior executives, or guarantee loans extended to a third party, except in accordance with the rules issued by SAMA in this regard described in Section 10 (*Shareholders and Related Party Transactions*).

13.12 **Declaration by the Board of Directors and Senior Executives**

The Directors, the Senior Executives and the secretary of the Bank confirm that:

(a) they have neither been declared bankrupt nor have they been subject to bankruptcy proceedings;

(b) except as reflected in Section 8 (*The Bank*) and Section 10 (*Shareholders and Related Party Transactions*) neither they nor their relatives and affiliates have direct or indirect interests in the shares or debt instruments of the Bank; and

(c) except as reflected elsewhere in this Prospectus neither they nor their relatives or affiliates have a material interest in any contract or arrangement in effect or in contemplation as at the date of this Prospectus which is significant in relation to the business of the Bank and there are no existing or proposed service contracts with the Directors or the CEO.

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[7] Only the auditors to the Issuer constitute experts for the purposes of the Listing Rules.

(d) they have complied with article 18 of the Corporate Governance Regulations and article 69 and 70 of the Companies Regulations.

13.13 **Material Subsidiaries**

Saudi Hollandi Capital

The Authorised Persons Regulations issued by the Board of the CMA pursuant to its resolution number 1 83 2005 ("**Authorised Persons Regulations**") require investment banking operations to be conducted through a separate legal entity.

In order to comply with this requirement, the Bank has established a new subsidiary, Saudi Hollandi Capital, which manages asset management, brokerage and corporate advisory businesses.

Saudi Hollandi Capital is a limited liability company headquartered in Riyadh with an authorised and issued capital of SAR 400,000,000. The Bank directly owns 95 per cent. of the issued share capital in Saudi Hollandi Capital. The remaining 5 per cent. of the issued capital in Saudi Hollandi Capital is owned by Mining Services Company Limited, a company owned by the Olayan Group, acting as a nominee for the Bank. It is expected that the 5 per cent. owned by Mining Services Company Limited will be transferred to Saudi Hollandi Real Estate, a 98 per cent. subsidiary of the Bank, as per the undertaking signed by Mining Services Company Limited, dated 20/01/1429H (corresponding to 29/01/2008G). Saudi Hollandi Capital owns the remaining 2 per cent. of Saudi Hollandi Real Estate. Please see the description of Saudi Hollandi Real Estate below.

The CMA, by resolution No (1 39 2007) dated 08/07/1428H (corresponding to 22/07/2007G), has licensed Saudi Hollandi Capital to engage as principal or as an agent in equity lead arrangements, equity management arrangements, advisory services and securities custody services. Saudi Hollandi Capital has satisfied all licensing conditions and received an authorisation from the CMA to commence its operations on 8 April 2008.

The licence is also subject to certain special conditions. In particular, the CMA has the ability to reconstitute Saudi Hollandi Capital as a joint stock company and then offer part of the Saudi Hollandi Capital's stock in an initial public offering on such terms and conditions as the CMA deems appropriate, in accordance with the CMA Law and its executive regulations.

Board of Directors

Saudi Hollandi Capital has a board of directors comprising of five members, four of whom are executives of the Bank whilst one is an independent member. The board of directors of Saudi Hollandi Capital currently comprises: Dr. Bernd van Linder (Managing Director of the Bank), Mr. Tahir Al Dabbagh (Chief Executive Officer of Saudi Hollandi Capital), Mr. Abdullah Al Sheikh (General Manager Corporate Banking of the Bank), Mr. Steven Troop (Chief Operating Officer of the Bank), and Mr. Sulaiman Al- Hamdan (independent member).

Senior Managers

The senior management team of Saudi Hollandi Capital consists of:

Name	Title	Nationality	Age
Tahir Al—Dabbagh	Chief Executive Officer	Saudi	52
Isam Abu Arja	Chief Operating Officer	Jordanian	53
Khalid Al-Misfer	Head of Risk	Saudi	41
Abdulaziz Al-Zamel	Head of Capital Markets	Saudi	44
Samer Tabbara	Head of Wealth Management	Saudi	34
Maher Al Bayyat	Head of Asset Management	Saudi	41
Ali Abdualrheem Faraj	Head of Brokerage	Saudi	33

Saudi Hollandi Real Estate

The Bank has established another subsidiary, Saudi Hollandi Real Estate, which is a limited liability company with an authorised and issued capital of SAR 500,000. Saudi Hollandi Real Estate is 98 per cent. owned by the Bank and 2 per cent. owned by Saudi Hollandi Capital. The Ministry of Commerce and Industry ("**MoCI**") and SAMA have authorised Saudi Hollandi Real Estate to undertake certain real estate related activities, including purchasing real estate for investment purposes in accordance with the restrictions imposed by the Banking Control Regulations, transferring real estate relating to financing products in accordance with the Banking Control Regulations, and registering real estate held by the Bank's real estate investment funds which Saudi Hollandi Real Estate and its management will offer. No members of the board of directors or senior management of Saudi Hollandi Real Estate have been appointed to date.

13.14 **Authorisation of Mudaraba Sukuk**

The creation and issue of the Mudaraba Sukuk and the Bank's entry into the Transaction Documents has been authorised by a resolution of the Board of Directors of the Bank passed at a meeting held on 05/08/1430H (corresponding to 27/07/2009G) pursuant to a resolution of the shareholders of the Bank approved at an Extraordinary General Meeting of the shareholders held on 13/11/1429H (corresponding to 11/11/2008G).

The Bank has obtained all necessary regulatory consents, approvals and authorisations (including an approval of the issue of the Mudaraba Sukuk by SAMA in a letter addressed to the Bank dated 22/9/1430H (corresponding to 12/9/2009G)) in connection with the issuance of the Mudaraba Sukuk and entry into of the Transaction Documents to which it is a party.

14. SUMMARY OF THE BANK'S BY LAWS

The following is a summary of the By-laws. In addition, to the rights specified in the By-laws, shareholders have certain rights and obligations under the Companies Regulations.

Name of the Bank

The name of the Bank shall be "SAUDI HOLLANDI BANK", a Saudi joint stock company.

Objectives of the Bank

The objective of the Bank shall be to conduct banking business in accordance with the laws and regulations of the Kingdom.

Head Office of the Bank

The Bank shall have its head office in Riyadh, Kingdom. The Board of Directors may subject to the laws in force establish branches, offices or agencies either in the Kingdom or abroad.

Duration of the Bank

The duration of the Bank shall be 99 Gregorian calendar years commencing on the date of the resolution of the Minister of Commerce and Industry announcing the incorporation of the Bank. The duration of the Bank may be extended by a resolution passed by the Extraordinary General Meeting at least one year before the end of the term.

Capital of the Bank

The share capital of the Bank is SAR 3,307,500,000 divided into 330,750,000 shares in cash of equal nominal value of SAR 10 each paid up in full.

Issue of New Shares

If the share capital of the Bank is increased through the issue of new shares, such shares shall be paid up in full. If a subscriber fails to pay up the shares in due course, the Board of Directors shall have the power to sell those shares by auction after asking the subscriber by registered mail to pay the amount due within 15 days. However, the subscriber has the right to pay up, until the date fixed for the auction, the amount due provided he pays at the same time the expenses incurred by the Bank. The Bank will deduct from the sale proceeds the amount payable to it and the remainder will be reimbursed to the subscriber. If the sale proceeds are not sufficient to repay such amount the Bank shall have the right to be reimbursed for the balance out of the subscriber's other property.

Shares

The shares shall be registered shares. They shall not be issued at less than their par value, but may be issued at a higher value, in such case the difference shall be added to the statutory reserves, even if such reserves have reached their maximum limit. A share shall be indivisible vis à vis the Bank. In the event that a share is owned by several people, they shall delegate one of them to exercise the rights pertaining to the share, and they shall be jointly liable for the obligations accruing from the shareholding.

Transfer of Shares

The shares shall be transferable.

Shareholders Register

The registered shares shall be transferred by recording them in the Shareholders Register provided by the Bank, which shall indicate the names of the shareholders, their nationalities, domiciles and professions, as well as the number of their shares and the amount paid thereof. The share certificates shall be endorsed with such recording. There shall be no valid transfer of ownership of a registered share vis à vis either the Bank or any third party except from the date of such recording. The subscription for or the ownership of shares shall entail the shareholder's compliance with the Articles of Association as well as with the resolutions duly passed by the General Meetings whether the shareholder was present or absent and whether the shareholder voted for the resolutions or against them.

Share Certificates

The share certificates shall be issued from a perforated book with counterfoils, shall have serial numbers, and shall be signed by two Directors and sealed by the Bank seal. The share certificates shall contain the number and date of the Royal Decree authorising the incorporation of the Bank, the number and date of the Ministerial resolution announcing its incorporation, its share capital, the number of shares into which it is divided as well as their particulars, the objectives of the Bank, its head office and its duration. Share certificates representing one or more shares may be issued. The Board of Directors shall specify the terms and conditions subject to which the Bank shall furnish the shareholders with a replacement share certificate for any share certificate that is lost or destroyed.

Increase in Share Capital

The Bank may, from time to time, by a resolution passed at an Extraordinary General Meeting, increase its share capital, *provided that* any previous increase of the share capital has been fully paid. The resolution shall determine the procedure for the increase of the share capital. The shareholders shall have a preferential right to subscribe for the new shares in cash.

The shareholders shall be advised of the resolutions pertaining to the increase of the share capital and their preferential right to subscription and its terms and conditions by a notice published in a daily newspaper. A shareholder shall declare his intention to exercise his preferential right within 15 days following the publication of the said notice.

The shares shall be allotted to the original shareholders who applied for subscription in proportion to their initial shares, *provided that* they do not acquire more new shares than they subscribe for. The remaining new shares shall be allotted to the original shareholders who have applied for more than their entitlement in proportion to their initial shares, *provided that* they do not acquire more new shares than they subscribed for. Any remaining shares shall be offered for public subscription.

If the share capital is increased through the issuance of new shares in cash, such issuance of shares shall in no way result in the shares held by non Saudis exceeding 40 per cent. of the share capital.

Decrease in Share Capital

The Bank may, by resolution passed in an Extraordinary General Meeting, reduce its share capital if it exceeds the Bank's requirements or the Bank incurs a loss, *provided that* the Bank's share capital is not less than the minimum of the capital prescribed by the Banking Control Law. A resolution reducing the Bank's share capital may only be passed after the reading of an auditor's report as to the reasons for the reduction, the Bank's liabilities and the repercussions of the reduction on such liabilities. The resolution shall determine the way in which such reduction shall be effected. If the reduction is due to the share capital being in excess of the Bank's requirements, the Bank's creditors shall be invited to object to the reduction within 60 days following the publication of the resolution of reduction in a daily newspaper circulated in the town where the Bank's head office is located. In the event that a creditor objects to the reduction within the prescribed timeframe, the Bank shall pay him his debt if it is due for payment and shall furnish him with sufficient collateral if it is deferred.

Non payment of Shares

The Bank may seize shares owned by any shareholder who is indebted to the Bank to secure the repayment of sums payable by him or the discharge of his obligations vis à vis the Bank. The Board of Directors, after giving 30 days' notice to such a shareholder, shall have the right to sell by auction such seized shares, recoup itself out of the sale proceeds, and reimburse the remainder of such sale proceeds, if any, to the shareholder. If the proceeds of any such sale are not sufficient to settle the debts and obligations of the shareholder to the Bank, the Bank shall have the right to claim the balance from the shareholder's other property.

Bonds

The Bank may, by a resolution passed in an Extraordinary General Meeting, issue for the loans it concludes negotiable and indivisible bonds of equal value.

Constitution of the Board of Directors

The Bank shall be managed by a Board of Directors composed of 10 Directors, six of whom shall represent the Saudi shareholders and be appointed by them in the Ordinary General Meeting for a term of three years. So long as ABN AMRO Bank N.V. holds 40 per cent. of the shares it shall have the right to appoint four Directors on the Board for a term of three years and to replace all or any of such four Directors. Such appointment shall be made by the Board of Directors of ABN AMRO Bank N.V. and communicated by its Board by a letter addressed to the Bank's Board. The Directors may be reappointed.

Qualification Shares

Each Director shall be the owner of shares of the Bank with a nominal value not less than SAR 10,000. Such shares shall be deposited, within 30 days from the date of his nomination, with one of the banks designated for this purpose by the Ministry of Commerce and Industry. Such shares shall be assigned to secure the Director's liability and shall remain non transferable until the lapse of the time fixed for the admissibility of the lawsuit provided for in Article 77 of the Companies Regulations or till such lawsuit is decided. ABN AMRO Bank N.V. shall provide the qualification shares of each of the Directors representing it in the Board. If a Director fails to provide such qualification shares within the required timeframe his membership shall be cancelled.

Vacancies

The office of a Director shall be vacated: (a) at the end of its term; (b) upon resignation of the Director; (c) in the General Meeting held in the year in which the Director attains the age of 72, unless the General Meeting decides otherwise; (d) if the Director becomes disqualified from holding office under any law in force in the Kingdom; or (e) if the Director is removed from office by a resolution passed by the General Meeting by: (i) a majority of two thirds if the removal is not requested by the Board of Directors; or (ii) a simple majority if the removal is requested by the Board of Directors. If a vacancy occurs in the Board of Directors during the Bank's financial year, such vacancy shall be filled up with due observance of the provision of Article 17 of the By laws and an ad hoc Director shall be nominated accordingly. Nomination of a new Director shall be submitted to the next General Meeting. The new Director shall complete the term of his predecessor.

Powers of the Board of Directors

With due observation to the powers conferred on the General Meeting, the Board of Directors shall be vested with the full powers to manage the business of the Bank, including entering into agreements, between the Bank and other parties. The Board of Directors is empowered to make loans for terms exceeding three years, to buy, sell and mortgage real estate, to release the Bank's debtors from their obligations, and to compromise and to accept arbitration. The Board may delegate any of such powers to the Chairman of the Board, the Managing Director, another Director or to any of the Bank's officers or employees. The Board may also from time to time delegate any specific power or powers to any other person for such period and subject to such conditions as the Board may think fit. However, the Board of Directors may not donate any of the Bank's money except within the limits provided for in the laws in force in the Kingdom of Saudi Arabia.

Remuneration of the Board of Directors

The remuneration and attendance fees of Board members shall be in accordance with the official decisions and instructions issued in this respect. The Directors shall also be paid all actual expenses they incur for attending Board meetings including travel, board and lodging expenses. The Board's Annual Report submitted to the Ordinary General Meeting shall contain a detailed statement of all the amounts paid to the Directors in that capacity during the Bank's financial year as remuneration, attendance fees, out of pocket expenses and any advantages in cash or in kind. The said report shall also state the amounts received by the Directors in their capacity as Bank's employees or officers, or received in return for technical, administrative or consultative services.

Chairman, Managing Director and Secretary

The Board shall designate from amongst its members a Chairman and a Managing Director. The Chairman shall be a Saudi national. He shall have the powers to convene the Board to meet, to preside over its meetings and those of the General Meetings, as well as to represent the Bank before all authorities, the judiciary and vis-à-vis any third party. The Chairman shall carry out all other duties entrusted to him by the Board. The Chairman also has the power to buy, sell or mortgage real estate. The Chairman shall have the right to appoint any attorney with specific or general powers. In case the Chairman is absent or unable to carry out his duties, the Board shall designate an ad hoc Chairman from amongst the other Saudi Directors who will carry out the Chairman's duties temporarily.

The Managing Director shall be the Chief Executive Officer and shall be entrusted with the Bank's day to day business.

The Board shall fix the special remuneration payable to the Chairman and the Managing Director in addition to the remuneration otherwise payable to the Directors.

The Board shall designate a Secretary either from amongst the Directors or otherwise who shall be entrusted with the writing of the proceedings and resolutions of the Board in minutes and recording them in the Special Register as well as with maintaining and keeping such register. The Board shall fix the remuneration payable to the Secretary.

Executive Committee

The Board of Directors shall appoint an Executive Committee that will consist of the Managing Director and four other members selected from among the Directors and the Board of Directors shall appoint a Chairman from amongst them. So long as ABN AMRO Bank N.V. holds 40 per cent. of the Bank's Share Capital, it shall always be represented by two members in the Executive Committee. The Executive Committee shall assist the Board of Directors within the powers determined for it by the Board, and deal with all matters referred to it by the Board. But the Committee shall have no power to alter any decision or rules or regulations taken or laid down by the Board.

No Executive Committee meeting shall be valid unless attended by at least four members either in person or by way of proxy, provided that three members at least be present personally. A member of the Executive Committee may delegate another member of the Executive Committee to attend and vote on his behalf at the Executive Committee Meetings.

The Resolutions of the Executive Committee shall be passed unanimously and, in case of any differences, by a majority of two thirds.

The Executive Committee shall meet at least six times a year or whenever it is convened by the Managing Director.

The proceedings and resolutions of the Executive Committee shall be written in minutes to be circulated among all Directors and signed by the Chairman of the Executive Committee. Such minutes shall be recorded in a Special Register.

Terms of Office

The term of office of the Chairman, the Managing Director, the members of the Executive Committee and the Secretary (if the Secretary is a Board member) shall not exceed the period set for their Directorships. The Chairman, the Managing Director and the Director performing the duties of the Secretary may be reappointed for additional term(s).

Board Meetings

The Board of Directors shall meet upon the request of the Chairman. Such request shall be made by registered mail or telex and dispatched to each Director at least three weeks before the date fixed for the meeting, and shall be accompanied by the agenda of the meeting. The Board of Directors shall decide only on matters stated in the agenda, unless all members are present and vote unanimously in favour of the proposed resolution. The Chairman shall convene the Board of Directors for a meeting if so requested by two Directors.

Quorum, Representation at Board Meetings and Resolutions

A Board meeting shall be valid only if it is attended by at least seven Directors, four of whom must attend in person. Resolutions of the Board are passed by consensus and in the event of disagreement by a two thirds majority of the Directors present in person or by proxy.

Minutes of Board Meetings

The proceedings and resolutions of the Board shall be established in minutes to be circulated among all Board members and signed by the Chairman and Secretary after having been approved by the Board. Such minutes shall be recorded in a special register and signed by both the Chairman and the Secretary.

General Meetings

The General Meeting duly held shall represent all shareholders and may not be held except in the city where the Bank's head office is located. Each shareholder holding title to at least 10 shares shall have the right to attend the Ordinary or Extraordinary General Meeting. A shareholder may delegate another shareholder who is not a Director to attend the General Meeting.

Ordinary General Meetings

Except for matters falling within the jurisdiction of the Extraordinary General Meeting, the Ordinary General Meeting shall have jurisdiction to deal with all matters that concern the Bank. The Ordinary General Meeting shall be held at least once a year within six months following the end of the Bank's financial year. Other Ordinary General Meetings may be convened whenever needed.

Extraordinary General Meetings

The General Meeting at which matters are approved by a majority of two thirds or three quarters of the Shares present or represented, depending on the nature of the matter presented for approval (the "**Extraordinary General Meeting**") shall have jurisdiction to alter the By laws except the provisions which may not be altered under the Companies Regulations. In addition, it shall have the jurisdiction to prolong the duration of the Bank or to shorten the duration and dissolve the Bank for any reason before its term. In addition, the Extraordinary General Meeting may pass resolutions on matters falling within the jurisdiction of the Ordinary General Meeting subject to the same conditions and the same manner prescribed for the latter.

Manner of Convening Ordinary General Meetings

Meetings of the Shareholders of the Bank in general assembly ("**General Meetings**") shall be convened at the Board of Directors' request. The Board of Directors shall convene the General Meeting at which matters may be approved by a majority of two thirds of Shares present or represented (the "**Ordinary General Meeting**") if requested to do so by the auditors or a number of shareholders representing at least 5 per cent of the share capital. A notice of the General Meeting shall be published in the official Gazette and in a daily newspaper distributed in the locality of the Bank's head office, at least 25 days prior to the date of the meeting and such notice may be sent to the shareholders by registered mail within the said period. A copy of the notice and the agenda shall also be sent to the Companies Department of the Ministry of Commerce & Industry within the publication period.

Quorum of Ordinary General Meeting

The Ordinary General Meeting shall be valid only if attended by shareholders representing at least two thirds of the share capital. If this quorum is not attained at the first meeting a notice shall be made for a second meeting to be held within 30 days of the first meeting. The second meeting shall be valid irrespective of the number of shares represented therein.

Quorum of Extraordinary General Meeting

The extraordinary General Meeting shall be valid only if attended by shareholders representing at least two thirds of the share capital. If this quorum is not attained in the first meeting, a notice shall be made for a second meeting to be held within 30 days of the first meeting. The second meeting shall be valid if attended by a number of shareholders representing at least one quarter of the share capital.

Voting Rights

Each share entitles the holder to one vote. Votes at a General Meeting or Extraordinary General Meeting shall be computed on the basis of one vote for each share represented at the meeting.

Voting Majorities

Resolutions of the Ordinary General Meeting shall be adopted by a majority of two thirds of the shares present or represented thereat. Resolutions of the Extraordinary General Meeting shall be adopted by a majority of two thirds of the shares present thereat. However, if the resolution to be adopted relates to an increase or reduction in the share capital, an extension to the Bank's duration, the dissolution of the Bank before its term, or an amalgamation of the Bank with another company or entity, then such resolution shall only be valid if adopted by a majority of three quarters of the shares present or represented.

Rights of Shareholders at the General Meeting

Each shareholder shall have the right to discuss the matters listed on the agenda of the General Meeting and to direct questions to the Directors and the auditors. The Directors and the auditors shall answer the shareholders' questions to the extent that it would not jeopardise the Bank's interest. If a shareholder feels that the answer to his question is unsatisfactory he may refer the matter to the General Meeting whose decision shall be final.

Proceedings at the General Meeting

The General Meeting shall be presided over by the Chairman of the Board of Directors, or in his absence, the Director nominated by him. The Chairman shall nominate a secretary for the meeting and two scrutineers from among those shareholders present at the General Meeting.

Appointment of Auditor

The Bank shall have two auditors to be appointed annually from among those authorised to practise auditing in the Kingdom. The General Meeting shall fix the auditors' remuneration and may reappoint or change them.

Access to Records

The auditors may, at any time, examine the Bank's books, files and other documents, require information and explanations and examine the Bank's assets and liabilities.

Auditor's Report

The auditors shall submit to the annual General Meeting a report in which they shall set forth the attitude of the Bank's management towards enabling them to get the information and explanations they required, any violations of the provisions of the Companies Regulations or the Articles of Association and their opinion as to the extent to which the Bank's accounts are in conformity with reality.

Financial Year

The Bank's financial year shall commence on 1 January and shall end on 31 December each Gregorian calendar year.

Annual Accounts

The Board of Directors shall prepare for each financial year and at least 60 days before the date of the General Meeting an inventory of the Bank's assets and liabilities at the end of the financial year as well as a balance sheet, a profit and loss account and a report on the Bank's activity and financial situation. Such report shall recommend the manner for distributing the net profit. The Board of Directors shall then place these documents at the disposal of the auditors at least 55 days before the date of the General Meeting. The Chairman of the Board of Directors shall sign these documents and copies thereof shall be placed at the disposal of the shareholders in the Bank's head office at least 25 days prior to the date of the General Meeting. The Chairman of the Board of Directors shall publish in at least one newspaper distributed in the locality where the head office of the Bank is domiciled the balance sheet, the profit and loss account, a summary of the Board of Directors' report and the full text of the auditor's report. The Board of Directors shall also send copies of these documents to the Companies General Administration at the Ministry of Commerce not less than 25 days before the date of the General Meeting.

Distribution of Annual Profits

The Bank's net annual profit after the deduction of all general expenses and other expenses and allocation of necessary provisions for doubtful debts and investment losses and contingencies, as may be deemed necessary by the Board of Directors and in line with the provisions of the Banking Control Law, shall be treated as follows:

(a) The amounts necessary for the payment of zakat payable by the Saudi shareholders and tax payable by the non Saudi shareholders shall be computed in accordance with the laws in force in the Kingdom. Such amounts shall be paid by the Bank to the competent authorities. Zakat paid on behalf of the Saudi shareholders shall be deducted from their share in the net profit and tax paid on behalf of the non Saudi shareholders shall be deducted from their share in the net profit.

(b) At least 25 per cent. of the remaining net profit after the deduction of zakat and tax, as mentioned in paragraph (a) above, shall be transferred to the statutory reserve until that reserve becomes at least equal to the paid up capital.

(c) Out of the remaining profits, after the deduction of the statutory reserve, zakat and tax, an amount not less than 5 per cent. of the paid up capital shall be allocated for distribution to Saudi and non Saudi shareholders. Such an allocation shall be distributed in proportion to the paid up value of shares as may be recommended by the Board of Directors and approved by the General Meeting. If the remaining percentage of profits due to any of the Saudi or non Saudi shareholders is not sufficient for paying dividends to the concerned shareholders, the shareholders shall not be entitled to claim its payment in the subsequent year or years. The General Meeting shall declare no percentage of dividend higher than that recommended by the Board of Directors.

(d) The remainder, after allocation of the amounts mentioned in paragraphs (a), (b) and (c) above, shall be unitised for distribution in such manner as may be recommended by the Board of Directors and decided on by the General Meeting.

(e) The shareholding percentage of the Saudis and the non Saudis shall be observed when calculating from net profit the required provisions for the statutory reserve and other reserves, after deduction of tax and zakat.

Both the two shareholding groups shall contribute to such reserves pro rata to their share capital percentage. Their contribution shall be deducted from their lots of net profit.

Distribution of Dividends

Dividends payable to shareholders shall be paid at the place and on the date determined by the Board of Directors. The Bank may retain any dividends payable to any shareholder and may apply the same in or towards satisfaction of his debts or liabilities to the Bank.

Litigation

Any shareholder shall have the right to file on behalf of the Bank a liability action against the Directors if they have committed a wrongful act which has caused particular damage to such shareholder, *provided that* the Bank's right to file such action is still in force. The shareholder shall inform the Bank of his intention to file such action.

Dissolution and Winding Up

If the Bank's losses total three quarters of the share capital, then the Board of Directors shall convene an Extraordinary General Meeting to consider whether the Bank shall continue to operate or be dissolved before the expiry of its term. If it is decided to dissolve the Bank before the expiry of its term, the extraordinary General Meeting shall, upon the suggestion of the Board of Directors, determine the mode of the winding up, appoint one or more liquidators and determine their powers and remuneration.

15. DOCUMENTS AVAILABLE FOR INSPECTION

For so long as any of the Mudaraba Sukuk are current, copies of the following documents are available for inspection at the Bank's head office at Al Dhabab Street, P.O. Box 1467, Riyadh 11431, the Kingdom of Saudi Arabia during the Investor Presentation Period between the hours of 9.00 a.m. and 5.00 p.m. on each weekday other than a Thursday, Friday or public holiday:

(i) Royal Decree No. M/85 dated 29/12/1396H (corresponding to 20/12/1976G) incorporating the Bank as a Saudi Joint Stock Bank;

(ii) the Bank's By laws;

(iii) the Bank's Banking Licence;

(iv) the Bank's Commercial Registration No. 1010064925;

(v) the audited financial statements for the years ended 31 December 2006, 2007 and 2008;

(vi) the Bank's reviewed interim financial statements for the nine months ended 30 September 2009 and 30 June 2008;

(vii) the Transaction Documents; and

(viii) SAMA Approval on the issuance of the Muadaraba Sukuk.

APPENDIX 1 — FINANCIAL STATEMENTS

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Saudi Hollandi Bank

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR '000

	Note	*September 30, 2009 (Unaudited)*	*December 31, 2008 (Audited)*	*September 30, 2008 (Unaudited)*
ASSETS				
Cash and balances with SAMA		**7,912,458**	2,790,716	4,659,185
Due from banks and other financial institutions		**330,187**	365,095	1,299,551
Investments, net	4	**14,272,574**	18,368,343	15,203,653
Loans and advances, net		**38,949,076**	38,017,101	38,909,692
Property and equipment, net		**512,216**	465,611	442,773
Other assets		**1,187,965**	1,429,317	885,031
Total assets		**63,164,476**	61,436,183	61,399,885
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		**6,935,406**	9,286,150	9,319,840
Customers' deposits		**47,327,042**	43,012,327	44,504,727
Other liabilities		**1,369,732**	1,947,555	1,530,315
Subordinated debt		**1,475,000**	1,475,000	700,000
Total liabilities		**57,107,180**	55,721,032	56,054,882
Shareholders' equity				
Share capital		**3,307,500**	2,646,000	2,646,000
Statutory reserve		**1,915,000**	1,915,000	1,609,000
General reserve		**130,000**	130,000	130,000
Other reserves		**(3,230)**	(45,411)	(95,837)
Retained earnings		**689,155**	825,329	1,055,840
Proposed dividends		**-**	233,450	-
Staff share plan reserve		**18,871**	10,783	-
Total shareholders' equity		**6,057,296**	5,715,151	5,345,003
Total liabilities and shareholders' equity		**63,164,476**	61,436,183	61,399,885

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Amounts in SAR '000 (Unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
Special commission income	**521,239**	750,271	**1,790,942**	2,145,807
Special commission expense	**145,524**	391,507	**612,306**	1,068,722
Net special commission income	**375,715**	358,764	**1,178,636**	1,077,085
Fees from banking services, net	**90,059**	117,636	**279,344**	355,938
Exchange income, net	**17,026**	24,073	**55,168**	65,527
Income from FVIS financial instruments, net	**347**	2,970	**2,483**	10,566
Trading Income, net	**32,809**	22,058	**114,941**	83,411
Gain on non -trading investment, net	**8**	978	**160**	591
Total operating income	**515,964**	526,479	**1,630,732**	1,593,118
Salaries and employee-related expenses	**111,315**	127,254	**372,300**	372,046
Rent and premises-related expenses	**19,748**	18,515	**52,192**	55,174
Depreciation	**20,047**	16,050	**57,513**	46,784
Other general and administrative expenses	**42,273**	52,718	**128,677**	165,452
Impairment charge for credit losses, net	**172,252**	5,785	**414,676**	38,860
Impairment charge for investments	**-**	-	**80,048**	-
Total operating expenses	**365,635**	220,322	**1,105,406**	678,316
Net income for the period	**150,329**	306,157	**525,326**	914,802
Earnings per share (expressed in SAR per share)	**0.45**	0.93	**1.59**	2.77

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SAR ‘000 (Unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2009	September 30, 2008	**September 30, 2009**	September 30, 2008
Net Income for the period	**150,329**	306,157	**525,326**	914,802
Other comprehensive income				
Available for sale investments				
Net change in fair value	**17,569**	(33,154)	**6,766**	(100,453)
Transferred to consolidated statement of income	**2,039**	-	**41,165**	946
	19,608	(33,154)	**47,931**	(99,507)
Cash flow hedges				
Net change in fair value	**(6,837)**	10,687	**(1,639)**	(5,902)
Transferred to consolidated statement of income	**(1,002)**	(20,568)	**(4,111)**	(11,184)
	(7,839)	(9,881)	**(5,750)**	(17,086)
Total comprehensive income for the period	**162,098**	263,122	**567,507**	798,209

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

2009	Share capital	Statutory reserve	General Reserve	Retained earnings	Available for sale investments	Cash flow hedges	Staff share plan reserve	Proposed dividends	Total
Balance at the beginning of the period	**2,646,000**	**1,915,000**	**130,000**	**825,329**	**(68,561)**	**23,150**	**10,783**	**233,450**	**5,715,151**
Bonus Issue	**661,500**	**-**	**-**	**(661,500)**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**-**	**-**	**525,326**	**47,931**	**(5,750)**	**-**	**-**	**567,507**
Staff share plan reserve	-	-	-	-	-	-	**8,088**		**8,088**
2008 dividend paid	-	-	-	-	-	-	-	**(233,450)**	**(233,450)**
Sub total	**661,500**	**-**	**-**	**(136,174)**	**47,931**	**(5,750)**	**8,088**	**(233,450)**	**342,145**
Balance at the end of the period	**3,307,500**	**1,915,000**	**130,000**	**689,155**	**(20,630)**	**17,400**	**18,871**	**-**	**6,057,296**
2008									
Balance at the beginning of the period	2,646,000	1,609,000	130,000	141,038	38	20,718	-	-	4,546,794
Total comprehensive income for the period	-	-	-	914,802	(99,507)	(17,086)	-	-	798,209
Sub total	-	-	-	914,802	(99,507)	(17,086)	-	-	798,209
Balance at the end of the period	2,646,000	1,609,000	130,000	1,055,840	(99,469)	3,632	-	-	5,345,003

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

	Note	September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)
OPERATING ACTIVITIES			
Net income for the period		**525,326**	914,802
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts and amortization of premium on non-trading investments, net		**(377,645)**	(121,361)
Gain on non-trading investments, net		**(160)**	(591)
Depreciation		**57,513**	46,784
Expenses for share based payments		**8,088**	-
Impairment charge for credit losses, net		**414,676**	38,860
Impairment charge for investments		**80,048**	-
		707,846	878,494
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA		**(608,376)**	1,208,091
Due from banks and other financial institutions maturing after 90 days of the acquisition date		**(1,325)**	(1,536,194)
Investments held at FVIS		**184,056**	472,409
Loans and advances		**(1,346,651)**	(11,393,934)
Other assets		**241,352**	(100,983)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,350,744)**	162,228
Customers' deposits		**4,314,715**	9,899,742
Other liabilities		**(577,823)**	128,393
Net cash from (used in) operating activities		**563,050**	(281,754)
INVESTING ACTIVITIES			
Proceeds from sales and maturity of non-trading investments		**5,802,187**	2,867,866
Purchase of non-trading investments		**(1,550,536)**	(5,567,195)
Purchase of property and equipment		**(104,118)**	(169,185)
Net cash from (used in) investing activities		**4,147,533**	(2,868,514)
FINANCING ACTIVITIES			
Dividends paid		**(233,450)**	-
Net cash (used in) financing activities		**(233,450)**	-
Net increase (decrease) in cash and cash equivalents		**4,477,133**	(3,150,268)
Cash and cash equivalents at beginning of the period		**1,387,726**	6,323,278
Cash and cash equivalents at end of the period	7	**5,864,859**	3,173,010
Special commission received during the period		**1,892,882**	2,142,761
Special commission paid during the period		**696,459**	888,329

	Note	***September 30, 2009 (Unaudited)***	*September 30, 2008 (Unaudited)*
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		**42,181**	(116,593)

The accompanying notes 1 to 11 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

1. General

Saudi Hollandi Bank (the Bank), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 20, 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to August 1, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumad Al Thani 1407H (corresponding to February 4, 1987) through its 41 branches (2008: 41 branches) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

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

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

The Bank has two subsidiaries. The details of these subsidiaries are set out below:

Saudi Hollandi Capital.

Saudi Hollandi Capital (SHC) is effectively wholly owned by the Bank through direct and beneficial shareholding.

Saudi Hollandi Real Estate Company (SHREC)

Saudi Hollandi Real Estate Company (SHREC) is effectively wholly owned by the Bank through direct and beneficial shareholding.

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standards (IAS) 34 – Interim Financial Reporting. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December, 2008.

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

Basis of consolidation

The interim condensed consolidated financial statements comprise the interim condensed financial statements of the Bank and its subsidiary, Saudi Hollandi Capital (collectively referred to as "the Group"). SHREC is not consolidated as management deems its results to be immaterial to that of the Group. The financial statements of the SHC are prepared for the same reporting period as that of the Bank, and changes have been made to the accounting policies of the subsidiary when necessary to align it with the accounting policies adopted by the Group.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

Basis of consolidation (continued)

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

Non controlling interests represent the portion of net income and of net, assets attributable to interests which are not owned, directly or indirectly, by the Bank in its subsidiaries. As of September 30, 2009 and September 30, 2008, non controlling interest is owned by representative shareholders on behalf of the Bank, hence it is not presented separately in the consolidated Statement of Income and Consolidated Statement of Financial position.

Balances between the Bank and its subsidiary, and any unrealised income and expenses arising from intra-group transactions, 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.

3. Significant accounting policies

Accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in the annual financial statements for the year ended 31 December 2008, except for the adoption of IFRS 8 Operating Segments and amendments to existing standards, as mentioned below. The Bank has adopted the following standard and amendments with retrospective effect which had no impact on the financial position and financial performance of the Group.

- IFRS 8 Operating Segments, which supersedes IAS 14 Segment Reporting, requires disclosure of information about the Groups operating segments;

- the revisions and amendments to IAS 1 Presentation of Financial statements;

- amendments to IFRS 2 'Share based payments' – vesting conditions; and cancellations and IAS 32 'Financial Instruments: Presentation

4. Investments, net

Investment securities are classified as follows:

	September 30, 2009 (Unaudited)	*December 31, 2008 (Audited)*	*September,30, 2008 (Unaudited)*
- Held as fair value through income statement (FVIS)	**179,260**	363,316	343,494
- Available for sale	**1,352,670**	1,724,202	2,866,819
- Other investments held at amortised cost	**11,995,919**	14,870,463	10,596,174
- Held to maturity	**744,725**	1,410,362	1,397,166
Total	**14,272,574**	18,368,343	15,203,653

Fair value through income statement consists of investments held for trading amounting SAR 107 million (December 31, 2008: SAR 291 million, September 30, 2008: SAR 171 million)

In accordance with the amendments made to IAS 39 and IFRS 7 “Reclassification of Financial Assets” on 13 October 2008, the Bank reclassified certain of its available for sale securities as other investments held at amortized cost, effective July 1, 2008.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

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

	Carrying value		*Fair value*	
	Sept 30, 2009 (Unaudited)	*Dec 31, 2008 (Audited)*	***Sept 30, 2009 (Unaudited)***	*Dec 31, 2008 (Audited)*
Available for sale securities reclassified to other investments held at amortised cost	**584,644**	608,842	**499,037**	481,788

Under IAS 39 (as amended) the reclassification was made at fair value at July 1, 2008. The following table summarises, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the reclassification had not occurred, and the loss, income and expense recognised in profit or loss relating to such reclassified investments.

	For the Three months ended Sept 30, 2009 (Unaudited) SAR '000	***For the Nine months ended Sept. 30, 2009 (Unaudited) SAR '000***
Amortisation of fair value loss relating to reclassified investments Included in other comprehensive income till reclassification date.	**(2,039)**	**(6,116)**
Had the reclassification not been made fair value gain /(loss) that would have been recognised on the reclassified investments in other comprehensive income	**30,657**	**(115,179)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

5. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments, which are included in other assets and other liabilities respectively. The respective notional amounts are also provided. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	September 30, 2009 (Unaudited)			*December31, 2008 (Audited)*			*September 30, 2008 (Unaudited)*		
	Positive fair value	***Negative fair value***	***Notional amount***	*Positive fair value*	*Negative fair value*	*Notional amount*	*Positive fair value*	*Negative fair value*	*Notional amount*
Held for trading									
Commission rate swaps	**177,223**	**163,376**	**22,198,726**	217,057	206,544	17,018,010	82,777	78,942	15,401,582
Forward exchange contracts	**39,305**	**24,941**	**29,924,287**	57,009	72,276	40,769,241	95,458	85,301	50,380,057
Currency options	**-**	**-**	**1,048,819**	20,710	20,828	6,836,935	13,834	14,429	903,721
Forward Rate Agreement	**665**	**820**	**1,850,000**	-	-	50,000	-	-	-
Held as fair value hedges									
Commission rate swaps	**8,382**	**33,865**	**2,076,591**	8,654	49,873	3,271,794	6,234	3,399	2,988,323
Held as cash flow hedges									
Commission rate swaps	**18,999**	**1,599**	**800,000**	23,150	-	750,000	5,139	1,508	881,541
Total	**244,574**	**224,601**	**57,898,423**	326,580	349,521	68,695,980	203,442	183,579	70,555,224

6. Credit related commitments and contingencies

The Group's credit related commitments and contingencies are as follows:

	September , 2009 (Unaudited)	*December, 2008 (Audited)*	*September , 2008 (Unaudited)*
Letters of credit	**2,316,434**	3,728,145	3,977,157
Letters of guarantee	**10,795,191**	11,298,899	11,203,283
Acceptances	**1,702,822**	2,152,544	3,037,094
Irrevocable commitments to extend credit	**799,223**	1,897,245	1,640,137
Total	**15,613,670**	19,076,833	19,857,671

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

7. Cash and cash equivalents

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

	September, 2009 (Unaudited)	*December, 2008 (Audited)*	*September, 2008 (Unaudited)*
Cash and balances with SAMA excluding statutory deposits	**5,536,785**	1,023,419	2,042,666
Due from banks and other financial institutions maturing within three months of the acquisition date	**328,074**	364,307	1,130,344
Total	**5,864,859**	1,387,726	3,173,010

8. Business segment

The Group has adopted IRFS 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 Group that are regularly reviewed by the chief decision makers in order to allocate resources to the segments and to assess its performance .Using a risk 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. . In contrast, the predecessor standard IAS 14 Segment Reporting required an entity to identify two sets of segments (business and geographical)

The Group's business is conducted in Saudi Arabia and for management purpose the Group is organised into business segments. A business segment is a group of operations that are engaged in providing products or services that are subject to risks and returns different from those of other segments. Transactions between the business segments are on terms approved by the management. There are however, no material items of income or expense between the business segments. Majority of the segment assets and liabilities comprise operating assets and liabilities. The Group has the following business segments:

Consumer banking

The consumer banking group operates through a national network of branches, ATMs and point-of-sale terminals, and on-line banking facilities and is supported by a 24-hour phone banking centre.

The Bank accepts customer deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts, credit cards, and personal financial planning products and services, to individuals and small-to-medium-sized enterprises.

Corporate banking

The corporate banking group offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts and syndicated loans, trade finance services, treasury and derivative products and foreign exchange. Services provided to customers also include internet banking and global transaction services.

Treasury

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

8. Business Segments (continued)

Investment banking and investment services

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

The Group's total assets and liabilities at September 30, 2009 and 2008 and its total operating income, operating expenses, and net income for the nine-months periods then ended, are as follows:

2009 (Unaudited)

	Consumer banking	*Corporate banking*	*Treasury banking*	*Investment banking and Investment services*	*Total*
Total assets	**4,676,868**	**37,437,204**	**21,048,368**	**2,036**	**63,164,476**
Total liabilities	**14,796,045**	**23,764,348**	**18,546,373**	**414**	**57,107,180**
Total operating income	**443,973**	**829,278**	**290,303**	**67,178**	**1,630,732**
Total operating expenses without impairment charges for credit losses and investments	**334,689**	**164,011**	**71,162**	**40,820**	**610,682**
Impairment charge for Investment	**-**	**-**	**80,048**	**-**	**80,048**
Impairment charge for credit losses/ recoveries , net	**42,577**	**372,099**	**-**	**-**	**414,676**
Net income for the period	**66,707**	**293,168**	**139,093**	**26,358**	**525,326**

2008 (Unaudited)

	Consumer banking	*Corporate banking*	*Treasury banking*	*Investment banking and Investment services*	*Total*
Total assets	**5,496,426**	**36,764,285**	**19,127,624**	**11,550**	**61,399,885**
Total liabilities	**13,861,003**	**22,334,673**	**19,858,329**	**877**	**56,054,882**
Total operating income	**439,158**	**730,361**	**311,770**	**111,829**	**1,593,118**
Total operating expenses without impairment charges for credit losses	**327,825**	**163,054**	**81,174**	67,403	**639,456**
Impairment charge for credit losses/ recoveries , net	**42,192**	**(3,332)**	**-**	**-**	**38,860**
Net income for the period	**69,141**	**570,639**	**230,596**	**44,426**	**914,802**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the nine months period ended September 30, 2009 and 2008

Amounts in SAR '000 (Unaudited)

9 Share capital and Earning per share

The Board of Directors has proposed a bonus issue of 66,150,000 share of SAR 10 each, which was approved in the shareholders' extra ordinary general assembly meeting held on March 24, 2009.

Basic earning per share for the period ended September, 2009 and September, 2008 is calculated by dividing the net income for the period attributable to the shareholders by 330.8 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue.

10. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the SAMA in supervising the Bank.

Capital Adequacy Ratio	***September, 2009 (Unaudited)***		*September, 2008 (Unaudited)*	
	Total capital ratio	***Tier 1 Capital ratio***	*Total capital ratio*	*Tier 1 Capital ratio*
	%		*%*	
Group level	***14.5***	***10.1***	*9.77*	*7.12*

11. Comparative figures

Certain prior period figures have been reclassified to conform to current period presentation.

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

KPMG Al Fozan & Al Sadhan

INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

KPMG
KPMG Al Fozan & Al Sadhan

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

Opinion

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

- present fairly, in all material respects, the financial position of the Bank as at December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Deloitte & Touche
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Bakr A. Abulkhair
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Kingdom of Saudi Arabia

Abdullah H. Al Fozan
Certified Public Accountant
Registration No. 348

Muharram 27, 1430 H
(January 24, 2009)

Saudi Hollandi Bank البنك السعودي الهولندي

BALANCE SHEET
As at 31 December 2008 and 2007
Amounts in SAR'000

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

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

Saudi Hollandi Bank البنك السعودي الهولندي

STATEMENT OF INCOME

For the years ended 31 December 2008 and 2007
Amounts in SAR'000

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

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

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

For the years ended 31 December 2008 and 2007
Amounts in SAR’000

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

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

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

Saudi Hollandi Bank البنك السعودي الهولندي

STATEMENT OF CASH FLOWS

For the years ended 31 December 2008 and 2007
Amounts in SAR'000

	Notes	2008U	2007U
OPERATING ACTIVITIES			
Net income for the year		**1,223,741**	438,569
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts and amortisation of premium on non trading investments, net		**(214,867)**	(59,990)
Gains on non-trading investments, net		**(591)**	(4,042)
Depreciation	8	**63,132**	60,914
Staff share plan expenses		**10,783**	-
Impairment charge for credit losses, net	7 (b)	**25,485**	495,666
Impairment charge for Investments		**52,121**	-
		1,159,804	931,117
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(358,869)**	(213,731)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**1,048,407**	642,041
Investments held at FVIS (including trading investments)		**452,601**	(661,204)
Loans and advances, net		**(10,487,967)**	(1,570,436)
Other assets		**(626,340)**	53,859
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**128,538**	859,197
Customer deposits		**8,407,342**	2,191,321
Other liabilities		**558,262**	341,050
Net cash from operating activities		**281,778**	2,573,214
INVESTING ACTIVITIES			
Proceeds from sales and maturity of non-trading investments, net		**3,047,309**	1,064,121
Purchase of non-trading investments		**(8,818,637)**	(2,826,054)
Purchase of property and equipment	8	**(208,372)**	(72,241)
Net cash used in investing activities		**(5,979,700)**	(1,834,174)
FINANCING ACTIVITIES			
Issue of subordinated debt		**775,000**	-
Dividends paid		**(12,630)**	(222,235)
Net cash from (used in) financing activities		**762,370**	(222,235)
(Decrease)/ Increase in cash and cash equivalents		**(4,935,552)**	516,805
Cash and cash equivalents at beginning of the year		**6,323,278**	5,806,473
Cash and cash equivalents at end of the year	26	**1,387,726**	6,323,278
Special commission received during the year		**2,975,566**	2,890,872
Special commission paid during the year		**1,344,819**	1,674,540

Supplemental non-cash information		
Net changes in fair value and transfer to consolidated statement of income	**(66,167)**	63,348

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

1. GENERAL

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

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

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

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

Saudi Hollandi Capital

Saudi Hollandi Capital (SHC) was formed in accordance with Capital Market Authority directive to takeover and manage the Bank's Investment Services and Asset Management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority. SHC is effectively wholly owned by the bank through direct and beneficial ownership and commenced its operations effective 1 Rabi'II 1429H (corresponding to April 07, 2008).

Saudi Hollandi Real Estate Company

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

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

c) <u>Critical accounting judgements and estimates</u>

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

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group.

(ii) Fair value of unquoted financial instruments

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

(iii) Impairment of available-for-sale equity investments

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

(iv) Classification of held-to-maturity investments

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

d) <u>Functional and presentation currency</u>

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

3. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

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

a) <u>Basis of consolidation</u>

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

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

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

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

b) Trade date accounting

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

c) Derivative financial instruments and hedge accounting.

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

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

i) Derivatives held for trading

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

ii) Derivatives held for hedging and hedge accounting

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

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

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

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

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

d) Foreign currencies

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

e) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

f) Revenue / expense recognition

i) <u>Special commission income/ expense</u>

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

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

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

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

ii) <u>Fees and commission</u>

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

iii) <u>Exchange income/loss</u>

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

iv) <u>Income from FVIS instruments and Trading income</u>

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

v) <u>Dividend income</u>

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

g) Sale and repurchase agreements

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

h) Investments

The investment securities are initially recognized on the trade date at which the Group becomes party to the contractual provisions of the investment securities. All investment securities are initially recognised at fair value, including transaction cost associated with the investment except for investments held as FVIS. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

Following the initial recognition, subsequent transfers between the four classes of investments as described below, are not ordinarily permissible except in accordance with the recent amendments made to IAS 39. These have been detailed in note 5. The subsequent period-end reporting values for each class of investment are determined as follows:

i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS. Investments classified in this category are acquired principally for the purpose of selling or repurchasing in short term or for trading. An investment is designated as FVIS, when doing so significantly reduces measurement inconsistencies that would arise if under pass through arrangement, the investments are carried at fair value and related deposits are held at amortized cost.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income received on investment securities held as FVIS are reflected as income from FVIS financial instruments in the consolidated statement of income.

ii) Available- for- sale

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

Investments which are classified as available-for-sale are subsequently measured at fair value except for un-quoted securities whose fair value can not be reliably measured are carried at cost. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in “Other reserves” under Shareholders’ equity. On de-recognition, any cumulative gain or loss previously recognized in Shareholder’s equity is included in the consolidated statement of income for the period.

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

iii) Held to maturity

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

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

iv) Other investments held at amortised cost

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

i) Loans and advances

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

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

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

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

j) Impairment of financial assets

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

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

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

i) delinquency in contractual payments of principal or commission

ii) cash flow difficulties experienced by the borrower

iii) breach of loan covenants or conditions

iv) initiation of bankruptcy proceedings

v) deterioration of borrowers' competitive position

vi) deterioration in the value of collateral

vii) downgrading below investment grade level.

viii) Significant or prolonged decline in fair value.

When a financial asset is uncollectible, it is written off against the related provision for impairment charge to through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

(i) Impairment of financial assets held at amortized cost

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

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

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

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

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

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

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

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

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

k) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of carrying amount and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

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

l) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortisation. Freehold land is not depreciated. The cost of other property and equipment is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

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

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

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

m) Financial liabilities

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

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

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

n) Guarantees

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

o) Provisions

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

p) Accounting for leases

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

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

q) Cash and cash equivalents

For the purpose of the statement of cash flows, "Cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months or less from the date of acquisition.

r) Derecognizing of financial instruments

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

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised 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 derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

s) End of service benefits

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

t) Zakat and income tax

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

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

u) Investment management services

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

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

v) Non-commission based banking products

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

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

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

(iii) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer.

The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

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

w) Share-based payments

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

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

4. CASH AND BALANCES WITH SAMA

	2008	2007
Cash in hand	**237,570**	362,431
Statutory deposit	**1,767,297**	1,408,428
Current accounts	**237,872**	224,356

Reverse repo with SAMA	**547,977**	1,513,832
Total	**2,790,716**	3,509,047

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

6. INVESTMENTS, NET

a) Investments securities are classified as follows:

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

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

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

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

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

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

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

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

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

	Domestic		International		Total	
	2008U	2007U	2008U	2007U	2008U	2007U
iii) Other investments held at amortised cost						
Fixed-rate securities	**8,867,999**	1,118,179	**-**	-	**8,867,999**	1,118,179
Floating-rate notes	**5,377,723**	5,839,584	**553,008**	-	**5,930,731**	5,839,584
Musharakah	**71,733**	198,209	**-**	-	**71,733**	198,209
Total	**14,317,455**	7,155,972	**553,008**	-	**14,870,463**	7,155,972
iv) Held to maturity						
Fixed-rate securities	1,020,063	1,523,568	**-**	56,247	**1,020,063**	1,579,815
Floating-rate notes	-	50,000	**390,299**	339,687	**390, 299**	389,687
Total	**1,020,063**	1,573,568	**390,299**	395,934	**1,410,362**	1,969,502
Total Investments, net	**17,031,279**	10,549,348	**1,337,064**	2,404,940	**18,368,343**	12,954,288
	========	========	========	========	========	=========

b) Quoted and unquoted securities

Investments comprise quoted and unquoted securities as follows:

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

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

c) Unrealised gains and losses and fair values

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

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

d) Counterparties

The analysis of investments by counterparty is as follows:

	U2008U	*U2007U*
Government and quasi-government	**16,713,759**	10,203,550
Corporate	**723,238**	762,284
Banks and other financial institutions	**901,231**	1,936,441
Other	**30,115**	52,013
Total	**18,368,343**	12,954,288

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

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

e) Credit risk exposures of Investments

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

7. LOANS AND ADVANCES, NET

a) Loans and receivables held at amortised cost

2008

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

2007

	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Performing loans and advances-gross	4,377,530	181,108	3,333,667	19,770,576	27,662,881
Non performing loans and advances, net	724,548	8,571	32,631	312,770	1,078,520
Total loans and advances	5,102,078	189,679	3,366,298	20,083,346	28,741,401
Total allowance for impairment	(886,876)	(11,326)	(38,722)	(249,858)	(1,186,782)
Loans and advances, net	4,215,202	178,353	3,327,576	19,833,488	27,554,619

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

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

Movements in Allowance for impairment

2008

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

2007

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

c) Credit quality of loans and advances

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

2008

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

2007

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

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

ii) Loans and advances neither past due nor impaired

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

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

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

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

2008

	Over draft	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Total**
Strong	1,658,498	177,370	3,057,686	18,550,087	23,443,641
Satisfactory	1,428,599	7,592	7,361	10,990,203	12,433,755
Watch	211,690	810	998	912,100	1,125,598
Total Loans & advances	**3,298,787**	**185,772**	**3,066,045**	**30,452,390**	**37,002,994**

2007

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

iii) Economic sector risk concentration

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

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

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

d) Collateral

The Bank, in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time - demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. The fair value of collateral held by the Bank against the loans and advances at December 31 2008 was SAR 7,064 million (2007: SAR 7,513 million)

e) Loans and advances renegotiated

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

8. PROPERTY AND EQUIPMENT, NET

	Land and Buildings	Leasehold Improvements	Computer hardware and software	Furniture & Fixtures	Motor Vehicles	Total
Cost:						
Balance at beginning of the year	135,988	248,721	394,534	110,683	3,207	893,133
Additions	3,538	101,186	98,612	4,849	187	208,372
Balance at end of the year	**139,526**	**349,907**	**493,146**	**115,532**	**3,394**	**1,101,505**
Accumulated depreciation:						
Balance at beginning of the year	44,164	160,918	279,127	86,847	1,706	572,762
Charge for the year	3,554	18,117	31,783	9,087	591	63,132
Balance at end of the year	**47,718**	**179,035**	**310,910**	**95,934**	**2,297**	**635,894**
Net book value:						
As at 31 December 2008	**91,808**	**170,872**	**182,236**	**19,598**	**1,097**	**465,611**
As at 31 December 2007	91,824	87,803	115,407	23,836	1,501	320,371

9. OTHER ASSETS

	U2008	***U2007U***
Accrued special commission receivable:		
Banks and other financial institutions	**28,841**	90,368
Investments	**59,339**	79,632
Loans and advances	**339,738**	288,617
Other	**126,344**	103,906
Total accrued special commission receivable	**554,262**	562,523
Accounts receivable	**347,928**	116,962
Positive fair value of derivatives (note 10)	**326,580**	110,925
Other real estate	**8,597**	8,598
Other	**191,950**	2,127
Total	**1,429,317**	801,135

10. DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

c) Forward-rate agreements

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

d) Options

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

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

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

As at 31 December 2008	Positive fair value	Negative fair value	***Notional*** amount Total	*Within three* Months	3-12 Months	1-5 Years	***Over -5 Years***	Monthly Average
Held for trading:								
Commission rate swaps	**217,057**	**206,544**	**17,018,010**	**580,480**	**3,247,214**	**11,151,788**	**2,038,528**	**12,171,230**
Forward foreign exchange contracts	57,009	72,276	40,769,241	21,498,405	19,041,209	229,627		44,234,571
Currency options	**20,710**	**20,828**	**6,836,935**	**757,455**	**6,079,480**			**2,232,464**
Forward rate agreements			**50,000**	**50,000**				**12,500**
Held as fair value hedges:								
Commission rate swaps	**8,654**	**49,873**	**3,271,794**	**170,000**	**1,875,000**	**1,191,794**	**35,000**	**2,238,816**
Held as cash flow hedges:								
Commission rate swaps	**23,150**	**-**	**750,000**	**-**	**300,000**	**450,000**	**-**	**1,388,521**
Total	**326,580**	**349,521**	**68,695,980**	**23,056,340**	**30,542,903**	**13,023,209**	**2,073,528**	
U*As at 31 December 2007*U								
Held for trading:								
Commission rate swaps	57,907	58,115	5,442,104	150,000	782,500	4,509,604		4,546,071
Forward foreign exchange contracts	21,615	50,617	26,339,406	13,995,998	12,045,796	297,612	-	33,639,130
Currency options	4,489	4,250	577,405	232,662	344,743	-	-	533,745
Equity options	-	-	-	-	-	-	-	33,731
Forward rate agreements	-	-	-	-	-	-	-	7,501
Commission rate futures and options	-	-	-	-	-	-	-	8,761
Held as fair value hedges:								
Commission rate swaps	5,501	4,344	773,373	-	248,000	525,373	-	1,053,367
Held as cash flow hedges:								
Commission rate swaps	21,413	696	2,336,243	-	400,000	1,936,243	-	2,651,189
Total	110,925	118,022	35,468,531	14,378,660	13,821,039	7,268,832	-	

The tables below show a summary of hedged items, the nature of the risk being hedged, the hedging instrument and it's Fair value.

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

As at 31 December 2007	***Fair*** value	Cost	Risk	***Hedging*** Instrument	***Positive*** fair value	***Negative fair value***
Fixed commission rate investments	772,216	773,373	Fair value	Commission rate swap	5,501	4,344
Floating commission rate investments	2,336,243	2,336,243	Cash flow	Commission rate swap	21,413	696

The positive fair value of derivatives amounting to SAR 326.58 mln (2007: SAR 110,925 mln) is reflected in other assets (note 9). The negative fair value of derivatives amounting to SAR 349.52 mln (2007: SAR 118,022 mln) is reflected in other liabilities (note 13).

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

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

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
Current accounts	**424,783**	1,200,406
Call/ Overnight	**500,975**	203
Repurchase bonds	**925,400**	-
Money market deposits	**7,434,992**	7,957,003
Total	**9,286,150**	9,157,612

12. CUSTOMERS' DEPOSITS

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

Included above in time deposits are balances held as FVIS of SAR 72.1 million (2007: SAR 525 Million)

Time deposits include borrowings under repurchase agreement with customers of SAR 6.443 million (2007: SAR 1,163 million) with agreements to repurchase the assets at fixed future dates.

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

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

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

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

b) The above includes foreign currency deposits as follows:

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

13. OTHER LIABILITIES

	2008	2007
Accrued special commission payable:		
Banks and other financial institutions	**78,474**	43,122
Customers' deposits	**247,595**	187,043
Subordinated debt	**604**	284
Other	**182,032**	90,829
Total accrued special commission payable	**508,705**	321,278
Accounts payable	**539,525**	633,242
Negative fair value of derivatives (note 10)	**349,521**	118,022
Other	**549,804**	329,381
Total	**1,947,555**	1,401,923

14. SUBORDINATED DEBT

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

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

15. SHARE CAPITAL

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

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

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

16. STATUTORY AND GENERAL RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 306 million has been transferred from 2008 net income (2007: SAR 110 million). The statutory reserve is not available for distribution.

17. OTHER RESERVES

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

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

18. STAFF SHARE PLAN

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

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

The further details of 2008 plan are as follows:

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

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

As per the plan, SHC manage the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Bank's Board of Directors in their above referred meeting and by SAMA in its above referred letter. Any further modifications in terms and conditions require prior approval of SAMA.

Due to restrictions regarding its operations as agreed vide agreement with SAMA the results and assets and liabilities of the Fund are not consolidated in these consolidated financial statements.

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

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

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

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

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

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

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

b) Capital commitments

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

c) Credit-related commitments and contingencies

Guarantee and stand-by letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

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

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

As at 31 December 2008	***Within 3 months***	***3-12*** months	***1-5*** years	***Over 5*** Years	Total
Letters of credit	**2,179,559**	**1,416,436**	**132,150**	**-**	**3,728,145**
Letters of guarantee	**1,686,367**	**4,350,379**	**5,215,939**	**46,214**	**11,298,899**
Acceptances	**1,462,548**	**641,483**	**48,513**	**-**	**2,152,544**
Irrevocable commitments to extend credit	**23,430**	**154,121**	**766,105**	**953.589**	**1,897,245**
Total	**5,351,904**	**6,562,419**	**6,162,707**	**999,803**	**19,076,833**
As at 31 December 2007					
Letters of credit	2,375,773	1,539,660	256,444	-	4,171,877
Letters of guarantee	1,906,747	3,488,043	4,996,904	46,833	10,438,527
Acceptances	1,496,322	666,835	106,438	-	2,269,595
Irrevocable commitments to extend credit	551,033	459,696	327,167	1,605,352	2,943,248
Total	6,329,875	6,154,234	5,686,953	1,652,185	19,823,247

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

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

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

e) Operating lease commitments

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

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

20. SPECIAL COMMISSION INCOME AND EXPENSE

Special commission income		
Investments:		
Available for sale	**127,223**	107,697
Held to maturity	**69,706**	67,595
Other investments held at amortised costs	**418,548**	374,940
	615,477	550,232
Due from banks and other financial institutions	**218,285**	407,021
Loans and advances	**2,143,543**	1,948,419
Total	**2,977,305**	2,905,672
Special commission expense		
Due to banks and other financial institutions	**348,710**	453,608
Subordinated debt	**35,730**	42,689
Customers' deposits	**1,147,806**	1,208,926
Total	**1,532,246**	1,705,223

21. FEES FROM BANKING SERVICES, NET

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

22. INCOME FROM FVIS FINANCIAL INSTRUMENTS, NET

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

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

23. TRADING INCOME, NET

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

24. EARNINGS PER SHARE

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

25. DIVIDENDS ZAKAT AND INCOME TAX

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

Zakat and income tax are paid as follows:

Saudi shareholders:

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

b) Non-Saudi shareholders

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

26. CASH AND CASH EQUIVALENTS

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

	2008	***2007***
Cash and balances with SAMA excluding statutory deposits (note 4)	**1,023,419**	2,100,619
Due from banks and other financial institutions maturing within 3 months or less from the date of acquisition	**364,307**	4,222,659
Total	**1,387,726**	6,323,278

27. BUSINESS SEGMENTS

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

The Bank is organised into the following main business segments:

Corporate banking

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

Consumer banking

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

Treasury

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

Investment banking and investment services

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

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

2008	Corporate Banking	Consumer Banking	Treasury	***Investment banking and investment services***	Total
Total assets	**35,523,172**	**4,797,722**	**21,115,289**	**-**	**61,436,183**
Total liabilities	**19,225,338**	**13,135,193**	**22,619,376**	**741,125**	**55,721,032**
Total operating income	**1,048,403**	**558,308**	**378,064**	**126,399**	**2,111,174**
Total operating expenses	**(190,806)**	**(430,101)**	**(168,581)**	**(97,945)**	**(887,433)**
Net income	**857,597**	**128,207**	**209,483**	**28,454**	**1,223,741**
2007					
Total assets	25,077,642	6,269,173	19,064,499	-	50,411,314
Total liabilities	18,970,924	12,352,670	13,810,511	730,416	45,864,521
Total operating income	789,588	545,375	259,193	182,001	1,776,157
Total operating expenses	(590,526)	(523,723)	(88,252)	(135,087)	(1,337,588)
Net income	199,062	21,652	170,941	46,914	438,569

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

As at 31 December 2008	Corporate Banking	Consumer Banking	Treasury	***Investment banking and investment services***	Total
Balance sheet assets	**33,250,463**	**4,437,792**	**19,062,284**	**-**	**56,750,539**
Commitments and contingencies	**10,054,031**	**-**	**-**	**-**	**10,054,031**
Derivatives	**-**	**-**	**1,353,434**	**-**	**1,353,434**
As at 31 December 2007					
Balance sheet assets	22,515,307	5,146,674	18,118,780	-	45,780,761

Commitments and contingencies	10,525,969	-	-	-	10,525,969
Derivatives	-	-	769,797	-	769,797

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

28. CREDIT RISK

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

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

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

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

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

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

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

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

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

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

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

29. GEOGRAPHICAL CONCENTRATION

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

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

As at 31 December 2007	Saudi Arabia	Other GCC & Middle East	Europe	America	Other countries	Total
Assets						
Cash and balances with SAMA	3,509,047	-	-	-	-	3,509,047

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

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

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

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

30. MARKET RISK

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

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

a) MARKET RISK-TRADING BOOK

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

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

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

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

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

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

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

	Foreign exchange rate risk	Special Commission rate risk	Foreign Exchange Forwards
VaR as at December 31	246	91	3,030
Average VaR for 2007	85	436	4,195

b) MARKET RISK – NON-TRADING OR BANKING BOOK

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

i) COMMISSION RATE RISK

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

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

December 31, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed below:

31-Dec-08

Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity			
			6 months or less	**6 to12 months**	**1-5 Yrs**	**Over 5Years**
USD	**+25**	**1,344**	**106**	**227**	**(430)**	**-**
EUR	**+25**	**(448)**	**-**	**60**	**(69)**	
SAR	**+25**	**10,405**	**(204)**	**(1,108)**	**744**	**2,425**
Others	**+25**	**202**	**-**	**-**	**-**	**-**

31-Dec-08

Currency	Decrease in basis points	**Sensitivity of commission income**	Sensitivity of equity			
			6 months or less	**6 to12 months**	**1-5 Yrs**	**Over 5Years**
USD	**-25**	**(1,344)**	**(106)**	**(228)**	**432**	**-**
EUR	**-25**	**448**	**-**	**(60)**	**69**	**-**
SAR	**-25**	**(10,405)**	**203**	**1,102**	**(757)**	**(3,050)**
Others	**-25**	**(202)**	**-**	**-**	**-**	**-**

31-Dec-07

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

31-Dec-07

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

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

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

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

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

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

As at 31 December 2007	Within 3 Months	3-12 months	1-5 years	Over 5 Years	*Non-* commission bearing	Total
Assets						
Cash and balances with SAMA	1,513,832	-	-	-	1,995,215	3,509,047
Due from banks and other financial Institutions	4,028,814	885,331	232,424	-	125,285	5,271,854
Investments, net	8,553,486	1,718,636	2,250,079	375,838	56,249	12,954,288
Loans and advances, net	15,363,796	7,890,943	3,925,021	373,416	1,443	27,554,619
Property and equipment, net	-	-	-	-	320,371	320,371
Other assets	-	-	-	-	801,135	801,135
Total	29,459,928	10,494,910	6,407,524	749,254	3,299,698	50,411,314

Liabilities and shareholders' equity

Due to banks and other financial institutions	6,918,097	1,747,179	238,174	-	254,162	9,157,612
Customers' deposits	20,252,663	3,692,587	396,699	-	10,263,036	34,604,985
Other liabilities	-	-	-	-	1,401,923	1,401,923
Subordinated debt	700,000	-	-	-	-	700,000
Shareholders' equity	-	-	-	-	4,546,794	4,546,794
Total	27,870,760	5,439,766	634,873	-	16,465,915	50,411,314
Commission rate sensitivity - On balance sheet Gap	1,589,168	5,055,144	5,772,651	749,254	(13,166,217)	-
Commission rate sensitivity - Off balance sheet Gap	(2,042,974)	233,829	1,791,145	18,000	-	-
Total commission rate sensitivity gap	(453,806)	5,288,973	7,563,796	767,254	(13,166,217)	-
Cumulative commission rate sensitivity gap	(453,806)	4,835,167	12,398,963	13,166,217	-	-

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

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

ii) CURRENCY RISK

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

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

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

Currency exposure As at Dec. 31, 2007	Change in Currency Rate (%)	Effect on Net Income
USD	+5	(457)
	-5	457
EUR	+5	3.240
	-5	(2,855)
GBP	+5	4,294
	-5	(4,218)
JPY	+5	(1,348)
	-5	1,672
Others	+3	6,959
	-3	(7,043)

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

	Long / (short)	
	2008	2007
US Dollar	**(163,603)**	(305,320)
Euro	**(22,565)**	18,264
Pound Sterling	**21,613**	2,798
Other	**5,846**	3,870

iii) EQUITY PRICE RISK

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

The Bank does not have any significant exposure to equities.

31. LIQUIDITY RISK

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

i) Maturity analysis of Assets and Liabilities

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

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

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

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

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

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

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

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

ii) Analysis of financial liabilities by remaining contractual maturities

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

	No fixed maturity	*Within 3* months	*3-12* months	*1-5* years	*Over 5* years	Total
2008						
SAR' 000						
Financial Liabilities						
Due to banks and other financial Institutions	925,758	6,416,770	2,020,862	80,506	-	9,443,896
Customer deposits	**13,377,620**	**23,804,079**	**6,090,656**	**200,574**	**-**	**43,472,929**
Subordinated debts	**-**	**12,992**	**32,445**	**950,828**	**959,621**	**1,955,886**
Derivatives.						
Contractual amounts payable	**-**	**9,818**	**10,042**	**103,581**	**1,320**	**124,761**
Contractual amounts receivable	**-**	**(6,492)**	**(22,766)**	**(328,172)**	**(1,250)**	**(358,680)**
Total undiscounted financial liabilities	14,303,378	30,237,167	8,131,239	1,007,317	959,691	54,638,792
2007						
SAR' 000						
Financial Liabilities						
Due to banks and other financial Institutions	1,200,609	6,449,434	1,593,964	41,291	-	9,285,298
Customer deposits	11,431,793	19,267,813	3,829,274	443,446	-	34,972,326
Subordinated debts	-	8,601	23,201	780,058	-	811,860
Derivatives.						
Contractual amounts payable	-	25,436	47,087	124,021	10,345	206,889
Contractual amounts receivable	-	(7,161)	(115,731)	(369,528)	(10,176)	(502,596)
Total undiscounted financial liabilities	12,632,402	25,744,123	5,377,795	1,019,288	169	44,773,777

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

33. RELATED PARTY TRANSACTIONS

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

The balances at 31 December resulting from such transactions are as follows:

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

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

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

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

	2008	2007
Special commission income	**29,201**	29,827
Special commission expense	**145,889**	175,598
Fees from banking services, net	**28,187**	35,175

General and administrative expenses	**8,363**	18,450
Directors' remuneration	**2,671**	2,463
Compensation paid to key management personnel (all short-term employee benefits)	70,756	42,741

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

34. CAPITAL ADEQUACY

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

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

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

35. INVESTMENT MANAGEMENT SERVICES

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

36. ADOPTION OF NEW AND REVISED STANDARDS

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

37. COMPARATIVE FIGURES

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

38. BOARD OF DIRECTORS' APPROVAL

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

39. BASEL II FRAMEWORK

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

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

AL JURAID & COMPANY
MEMBER FIRM OF
PRICEWATERHOUSECOOPERS

KPMG Al Fozan & Al Sadhan

INDEPENDENT AUDITORS' REPORT

To the Shareholders
Saudi Hollandi Bank

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Al Juraid & Company
Member Firm of
PricewaterhouseCoopers

KPMG
KPMG Al Fozan & Al Sadhan

Opinion

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

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

- Comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

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AL-JURAID & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
LICENCE No 25

9 Safar 1429H
(February 16, 2008)

KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

BALANCE SHEET
As at 31 December 2007 and 2006
Amounts in SAR'000

	Notes	*2007*	*2006*
ASSETS			
Cash and balances with SAMA	3	3,509,047	2,672,687
Due from banks and other financial institutions	4	5,271,854	6,019,719
Investments, net	5	12,954,288	10,463,381
Loans and advances, net	6	27,554,619	26,479,849
Property and equipment, net	7	320,371	309,044
Other assets	8	801,135	795,384
Total assets		**50,411,314**	**46,740,064**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	9,157,612	8,298,415
Customers' deposits	11	34,604,985	32,413,664
Other liabilities	12	1,401,923	1,070,242
Subordinated debt	13	700,000	700,000
Total liabilities		**45,864,520**	**42,482,321**
Shareholders' equity			
Share capital	14	2,646,000	2,205,000
Statutory reserve	15	1,609,000	1,499,000
General reserve	15	130,000	571,000
Other reserves	16	20,756	(42,592)
Retained earnings		141,038	25,335
Total shareholders' equity		**4,546,794**	**4,257,743**
Total liabilities and shareholders' equity		**50,411,314**	**46,740,064**

The accompanying notes 1 to 42 form an integral part of these financial statements.

STATEMENT OF INCOME

For the years ended 31 December 2007 and 2006
Amounts in SAR'000

	Notes	2007	2006
Special commission income	18	**2,905,672**	2,667,933
Special commission expense	18	**1,705,223**	1,488,141
Net special commission income		**1,200,449**	1,179,792
Fee income from banking services, net	19	**390,167**	632,577
Exchange income, net		**84,881**	49,967
Income from FVIS financial instruments, net	20	**30,454**	13,222
Trading income, net	21	**65,769**	69,687
Gains on non–trading investments	22	**4,042**	–
Other operating income	23	**395**	1,215
Total operating income		**1,776,157**	1,946,460
Salaries and employee–related expenses		**465,315**	368,798
Rent and premises–related expenses		**58,216**	50,141
Depreciation and amortisation	7	**60,914**	57,937
Other general and administrative expenses		**257,124**	165,922
Impairment charge for credit losses, net	6(b)	**495,666**	348,589
Other operating expenses	24	**353**	2,279
Total operating expenses		**1,337,588**	993,666
Net income for the year		**438,569**	952,794
Earnings per share (expressed in SAR per share)			
Basic and diluted EPS	25	**1.66**	3.60

The accompanying notes 1 to 42 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended 31 December 2007 and 2006
Amounts in SAR'000

2007	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
Balance at beginning of the year		**2,205,000**	**1,499,000**	**571,000**	**(42,592)**	**25,335**	**–**	**4,257,743**
Net changes in fair value of cash flow hedges	**16**	**–**	**–**	**–**	**39,339**	**–**	**–**	**39,339**
Net changes in fair value of available for sale investments	**16**	**–**	**–**	**–**	**7,780**	**–**	**–**	**7,780**
Transfer to statement of income	**16**	**–**	**–**	**–**	**16,229**	**–**	**–**	**16,229**
Net income recognized directly into equity					**63,348**	**–**		**63,348**
Net income for the year		**–**	**–**	**–**	**–**	**438,569**	**–**	**438,569**
Total recognized income for the year		**–**	**–**	**–**	**63,348**	**438,569**	**–**	**501,917**
Bonus share issue	**14**	**441,000**	**–**	**(441,000)**	**–**	**–**	**–**	**–**
Transfer to statutory reserve	**15**	**–**	**110,000**	**–**	**–**	**(110,000)**	**–**	**–**
2007 interim dividend paid	**26**	**–**	**–**	**–**	**–**	**(212,866)**	**–**	**(212,866)**
Balance at the end of the year		**2,646,000**	**1,609,000**	**130,000**	**20,756**	**141,038**	**–**	**4,546,794**

2006	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
Balance at beginning of the year		1,260,000	1,260,000	1,015,000	(75,460)	7,591	204,500	3,671,631
Net changes in fair value of cash flow hedges	16	–	–	–	9,395	–	–	9,395
Net changes in fair value of available for sale investments	16	–	–	–	(8,529)	–	–	(8,529)
Transfer to statement of income	16	–	–	–	32,002	–	–	32,002
Net income recognized directly into equity					32,868	–		32,868
Net income for the year		–	–	–	–	952,794	–	952,794
Total recognized income for the year		–	–	–	32,868	952,794	–	985,662
Bonus share issue	14	945,000	–	(945,000)	–	–	–	–
Transfer to statutory reserve	15	–	239,000	–	–	(239,000)	–	–
Transfer to general reserve	15	–	–	501,000	–	(501,000)	–	–
2005 final dividend paid		–	–	–	–	–	(204,500)	(204,500)
2006 interim dividend paid	26	–	–	–	–	(195,050)	–	(195,050)
Balance at end of the year		**2,205,000**	**1,499,000**	**571,000**	**(42,592)**	**25,335**	**–**	**4,257,743**

The accompanying notes 1 to 42 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the years ended 31 December 2007 and 2006
Amounts in SAR'000

	Notes	2007	2006
OPERATING ACTIVITIES			
Net income for the year		**438,569**	952,794
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts and amortisation of premium on investments, net		**(59,990)**	(75,854)
Gains on non–trading investments		**(4,042)**	–
Depreciation and amortisation	7	**60,914**	57,937
Impairment charge for credit losses, net	6(b)	**495,666**	348,589
		931,117	1,283,466
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**(213,731)**	(328,517)
Due from banks and other financial institutions maturing after ninety days of acquisition		**642,041**	(582,029)
Investments held at FVIS		**(661,204)**	40,475
Loans and advances, net		**(1,570,436)**	(3,051,892)
Other assets		**53,859**	91,447
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**859,197**	2,501,887
Customers' deposits		**2,191,321**	3,848,663
Other liabilities		**341,050**	(46,530)
Net cash from operating activities		**2,573,214**	3,756,970
INVESTING ACTIVITIES			
Proceeds from sales of and matured non–trading investments		**1,064,121**	815,834
Purchase of non–trading investments		**(2,826,054)**	(768,625)
Purchase of property and equipment	7	**(72,241)**	(53,709)
Net cash used in investing activities		**(1,834,174)**	(6,500)
FINANCING ACTIVITIES			
Dividends paid		**(222,235)**	(507,918)
Net cash used in financing activities		**(222,235)**	(507,918)
Net increase in cash and cash equivalents		**516,805**	3,242,552
Cash and cash equivalents at beginning of the year		**5,806,473**	2,563,921
Cash and cash equivalents at end of the year	27	**6,323,278**	5,806,473
Special commission received during the year		**2,890,872**	2,546,291
Special commission paid during the year		**1,674,540**	1,416,200
Supplemental non–cash information			
Net changes in fair value and cash flow hedges and transfer to statement of income		**63,348**	32,868

The accompanying notes 1 to 42 form an integral part of these financial statements.

1. GENERAL

Saudi Hollandi Bank (the Bank), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to 20 December 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to 1 August 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumad Al Thani 1407H (corresponding to 4 February 1987) through its 42 branches (2006: 41 branches) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

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

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

In accordance with new regulatory requirements in Saudi Arabia, all banks are required to spin-off asset management, brokerage and advisory services into a new entity (entities) to be licensed by the Capital Market Authority (CMA). The actual transfer of the activities, however, is expected to take place during 2008. In connection with this, the Bank had applied and obtained a license from the CMA for the formation of an entity with a capital of SR 400 million effectively wholly owned by the Bank. Subsequently in January of 2008, the Bank also obtained the commercial registration

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a) Basis of preparation

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

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

The Bank has adopted IFRS 7, financial Instruments: disclosures, amendments to IAS 1 Presentation of Financial Statements — Capital Disclosures and International Financial Reporting Interpretations Committee (IFRIC) 10 — Interim Financial Reporting and Impairment effective 1 January 2007 with retrospective effect, wherever applicable. IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of capital and how the Bank manages capital. IFRIC 10 requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

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

b) Trade date accounting

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

c) Critical accounting judgements and estimates

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

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. 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.

(ii) Fair value of unquoted financial instruments

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

(iii) Impairment of available-for-sale equity investments

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

(iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances — *e.g.* selling in an insignificant amount close to maturity — it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value and not amortized cost.

d) Derivative financial instruments and hedging

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

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

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

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

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

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

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other reserves under equity and the ineffective portion, if any, is recognised in the statement of income.

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

e) Foreign currencies

The financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank. Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at year end denominated in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income, except when deferred in equity as qualifying cash flow hedges.

f) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

g) Revenue recognition

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

The 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 recognised using the original effective commission rate applied to the new carrying amount.

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

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

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

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

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

h) Sale and repurchase agreements

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

i) Investments

All investment securities are initially recognised at fair value, including acquisition charges associated with the investment except for investments held as FVIS. Premiums are amortised and discounts accreted using the effective yield method and are taken to special commission income.

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the balance sheet date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

Following the initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined as follows:

i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS. Investments classified in this category are acquired principally for the purpose of selling or repurchasing in short term or for trading. An investment is designated as FVIS when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for such loans and advances to the customers or banks and debt securities in issue.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from FVIS financial instruments in the statement of income.

ii) Available- for- sale

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

Investments which are classified as available-for-sale are subsequently 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 recognised directly in "Other reserves" under Shareholders' equity. On de-recognition, any cumulative gain or loss previously recognized in equity is included in the statement of income for the period.

iii) Held to maturity

Investments with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of "Other investments held at amortised cost" are classified as "held to maturity". Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised 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 can not be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

iv) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market other than those purchased with the intent to be sold immediately or in the short term and that are not classified as available-for-sale, are classified as "Other investments held at amortised cost". Such investments, whose fair values have not been hedged, are stated at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss is recognised in the statement of income when the investment is derecognised 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 that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value including acquisition charges associated with the loans and advances.

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

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

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

i) delinquency in contractual payments of principal or commission

ii) cash flow difficulties experienced by the borrower

iii) breach of loan covenants or conditions

iv) initiation of bankruptcy proceedings

v) deterioration of borrowers' competitive position

vi) deterioration in the value of collateral

vii) downgrading below investment grade level.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to statement of income or through provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

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

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

(i) Impairment of financial assets held at amortized cost

A financial asset or group of 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 financial asset (a "loss event") or group of financial asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If a loan or held to maturity investment has a variable commission rate, the discount rate for measuring an impairment loss is the current effective commission rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

l) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of carrying amount and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate. Rental income from other real estate is recognised in the statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain/ loss on disposal. If the real estate is not disposed off within one year from the date of initial classification as held for sale, the Bank accounts for such real estate as investment property.

m) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortisation. Freehold land is not depreciated. The cost of other property and equipment is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

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

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

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

n) Financial liabilities

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

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

o) Guarantees

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

p) Provisions

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

q) Accounting for leases

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

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

r) Cash and cash equivalents

For the purpose of the statement of cash flows, "Cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months or less from the date of acquisition.

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 derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised 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 derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

t) End of service benefits

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

u) Zakat and income tax

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

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

Amounts in SAR'000

v) Investment management services

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

w) Non-interest based banking products

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

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

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

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

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

3. CASH AND BALANCES WITH SAMA

	2007	2006
Cash in hand	**362,431**	356,878
Statutory deposit	**1,408,428**	1,194,697
Current accounts	**224,356**	167,357
Reverse repo with SAMA	**1,513,832**	953,755
Total	**3,509,047**	2,672,687

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

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007	2006
Current accounts	**127,478**	475,113
Money market placements	**5,144,376**	5,544,606
Total	**5,271,854**	6,019,719

Amounts in SAR'000

5. Investments, NET

a) Investments are classified as follows:

	Domestic		International		Total	
	2007	2006	2007	2006	2007	2006
i) Held as FVIS						
Fixed rate securities	–	–	**102,102**	–	**102,102**	–
Floating–rate notes	–	502	**188,649**	154,198	**188,649**	154,700
Index linked securities	–	–	**525,153**	–	**525,153**	–
Total	–	502	**815,904**	154,198	**815,904**	154,700

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

	Domestic		International		Total	
	2007	2006	2007	2006	2007	2006
ii) Available-for-sale						
Fixed–rate securities	**821,217**	336,355	**35,875**	128,618	**857,092**	464,973
Floating–rate notes	**942,342**	723,026	**1,157,227**	395,261	**2,099,569**	1,118,287
Equities	**4,236**	4,236	–	–	**4,236**	4,236
Mutual funds	**52,013**	37,536	–	–	**52,013**	37,536
Total	**1,819,808**	1,101,153	**1,193,102**	523,879	**3,012,910**	1,625,032
iii) Other investments held at amortised cost						
Fixed–rate securities	**1,118,179**	1,213,923	–	–	**1,118,179**	1,213,923
Floating–rate notes	**5,839,584**	5,839,768	–	–	**5,839,584**	5,839,768
Musharakah	**198,209**	288,038	–	–	**198,209**	288,038
Total	**7,155,972**	7,341,729	–	–	**7,155,972**	7,341,729
iv) Held to maturity						
Fixed–rate securities	**1,523,568**	1,229,400	**56,247**	112,520	**1,579,815**	1,341,920
Floating–rate notes	**50,000**	–	**339,687**	–	**389,687**	–
Total	**1,573,568**	1,229,400	**395,934**	112,520	**1,969,502**	1,341,920
Investments, net	**10,549,348**	9,672,784	**2,404,940**	790,597	**12,954,288**	10,463,381

Amounts in SAR'000

5. INVESTMENTS, NET (continued)

b) Quoted and unquoted securities

Investments comprise quoted and unquoted securities as follows:

	2007			2006		
	Quoted	***Unquoted***	***Total***	*Quoted*	*Unquoted*	*Total*
Fixed–rate securities	**194,223**	**3,462,965**	**3,657,188**	241,138	2,779,678	3,020,816
Floating–rate notes	**1,685,563**	**6,831,926**	**8,517,489**	549,957	6,562,798	7,112,755
Musharakah	**–**	**198,209**	**198,209**	–	288,038	288,038
Mutual funds	**52,013**	**–**	**52,013**	37,536	–	37,536
Equities	**–**	**4,236**	**4,236**	–	4,236	4,236
Others	**525,153**	**–**	**525,153**	–	–	–
Total	**2,456,952**	**10,497,336**	**12,954,288**	828,631	9,634,750	10,463,381

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

c) Unrealised gains and losses and fair values

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

	2007				2006			
	Carrying value	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	**Carrying value**	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**
Other investments held at amortised cost								
Fixed–rate securities	**1,118,179**	**57,880**	**1,897**	**1,174,162**	1,213,923	50,198	6,851	1,257,270
Musharakah	**198,209**	**–**	**–**	**198,209**	288,038	–	–	288,038
Total	**1,316,388**	**57,880**	**1,897**	**1,372,371**	1,501,961	50,198	6,851	1,545,308
Held to maturity								
Fixed–rate securities	**1,579,815**	**25,953**	**–**	**1,605,768**	1,341,920	8,027	230	1,349,717
Total	**1,579,815**	**25,953**	**–**	**1,605,768**	1,341,920	8,027	230	1,349,717

Amounts in SAR'000

5. INVESTMENTS, NET (continued)

d) Counterparties

The analysis of investments by counterparty is as follows:

	2007	2006
Government and quasi–government	**10,203,550**	9,459,888
Corporates	**762,284**	386,434
Banks and other financial institutions	**1,936,441**	579,523
Other	**52,013**	37,536
Total	**12,954,288**	10,463,381

Other investments held at amortized cost comprise of Musharaka investments for SAR 198 million (2006: SAR 288 million) that are carried at amortised cost. The fair values of these Musharaka investments are not significantly different from their carrying values.

Equities reported under available-for-sale investments include unquoted shares for SAR 4 million (2006: SAR 4 million) that are carried at cost. In the opinion of the Management their fair value approximates the carrying value.

Investments include SAR 2,253 million (2006: SAR 1,625 million) which has been pledged under repurchase agreements with customers (refer note 17(d)). The market value of these investments is SAR 2,377 million (2006: SAR 1,639 million).

6. LOANS AND ADVANCES, NET

a) Loans and receivables held at amortised cost

2007

	Overdraft	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Total**
Performing loans and advances–gross	4,377,530	181,108	3,333,667	19,770,576	27,662,881
Non performing loans and advances, net	724,548	8,571	32,631	312,770	1,078,520
Total loans and advances	5,102,078	189,679	3,366,298	20,083,346	28,741,401
Allowance for impairment of credit losses	(886,876)	(11,326)	(38,722)	(249,858)	(1,186,782)
Loans and advances, net	4,215,202	178,353	3,327,576	19,833,488	27,554,619

2006

	Overdraft	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Total**
Performing loans and advances–gross	4,808,192	149,233	3,404,274	18,211,621	26,573,320
Non performing loans and advances, net	545,733	10,323	26,276	103,128	685,460
Total loans and advances	5,353,925	159,556	3,430,550	18,314,749	27,258,780
Allowance for impairment of credit losses	(582,456)	(11,326)	(38,722)	(146,427)	(778,931)
Loans and advances, net	4,771,469	148,230	3,391,828	18,168,322	26,479,849

Amounts in SAR'000

6. LOANS AND ADVANCES, NET (continued)

The performing loans and advances include 986 millions (2006: SAR 543 millions) of loans and advances that are past due but not impaired.

Loans and advances above include non-commission based Islamic banking products which are stated at amortized cost of SAR 7,026 million (2006: SAR 6,100 million).

b) Movements in provision for credit losses

2007

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

2006

	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Balance at beginning of the year	292,252	–	52,745	131,030	476,027
Provided during the year	315,393	11,932	14,057	17,283	358,665
Bad debts written off	–	(7,321)	(38,356)	(8)	(45,685)
Recoveries of amounts previously provided	(6,688)	(1,489)	(21)	(1,878)	(10,076)
Transfers	(18,501)	8,204	10,297	–	–
Balance at the end of the year	582,456	11,326	38,722	146,427	778,931

c) Credit quality of loans and advances

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

2007

	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Less than one year	114,290	48,001	156,137	398,113	716,541
More than one year	202,804	–	–	–	202,804
Total	317,094	48,001	156,137	398,113	919,345

2006

	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Less than one year	194,320	24,824	138,670	1,309	359,123
More than one year	66,885	-	-	-	66,885
Total	261,205	24,824	138,670	1,309	426,008

Amounts in SAR'000

6. LOANS AND ADVANCES, NET (continued)

Out of the past due loans for 2007, SAR 346 million loan is fully secured by collateral (2006: SAR 67 million)

iii) Loans and advances neither past due or impaired

For presentation purposes, the Bank has categorized its portfolio of loans and advances that are neither past due nor impaired into two sub categories *i.e.* standard and special mention, as required by SAMA.

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

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

Grades:	**2007**	**2006**
Standard	**25,440,290**	24,908,171
Special Mention	**1,303,246**	1,239,141
Total	**26,743,536**	26,147,312

iii) Economic sector risk concentration

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

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

Amounts in SAR'000

6. LOANS AND ADVANCES, NET (continued)

As at 31 December 2006	Performing	Non performing	Allowance for impairment	Loans and advances, net
Government and quasi-government	1,967,332	-	-	1,967,332
Banks and other financial institutions	623,912	13,665	-	637,577
Agriculture and fishing	165,626	23,310	(227)	188,709
Manufacturing	3,163,001	71,864	(50,831)	3,184,034
Mining and quarrying	47,762	-	-	47,762
Electricity, water, gas and health services	647,694	-	-	647,694
Building and construction	2,519,518	58,978	(53,683)	2,524,813
Commerce	7,216,467	133,499	(84,825)	7,265,141
Transportation and communication	491,668	10,484	(10,484)	491,668
Services	1,841,698	317,524	(311,264)	1,847,958
Consumer loans and credit cards	3,553,507	36,599	-	3,590,106
Other	4,335,135	19,537	(19,429)	4,335,243
	26,573,320	685,460	(530,743)	26,728,037
Portfolio provision	-	-	(248,188)	(248,188)
Total, net	**26,573,320**	**685,460**	**(778,931)**	**26,479,849**

d) Collateral

The Banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. The fair value of collateral held by the Bank against the loans and advances at 31 December 2007 was SAR 7,513 million (2006: SAR 4,959 million)

e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Renegotiated loans that would otherwise be past due or impaired totalled SAR 285 million (2006: SAR 40 million)

7. PROPERTY AND EQUIPMENT, NET

	Land and Buildings	Leasehold improvements	Furniture, equipment and vehicles	Total
Cost:				
Balance at beginning of the year	135,684	224,566	460,642	820,892
Additions	304	4,803	67,134	72,241
Balance at end of the year	**135,988**	**229,369**	**527,776**	**893,133**

Amounts in SAR'000

Accumulated depreciation:				
Balance at beginning of the year	40,626	143,791	327,431	511,848
Charge for the year...............................	3,538	17,127	40,249	60,914
Balance at end of the year	**44,164**	**160,918**	**367,680**	**572,762**
Net book value:				
As at 31 December 2007	**91,824**	**68,451**	**160,096**	**320,371**
As at 31 December 2006.......................	95,058	80,775	133,211	309,044

Furniture, equipment and vehicles include information technology related assets.

8. OTHER ASSETS

	2007	2006
Accrued special commission receivable:		
Banks and other financial institutions	**90,368**	73,028
Investments	**79,632**	92,825
Loans and advances	**288,617**	265,181
Other	**103,906**	116,689
Total accrued special commission receivable	**562,523**	547,723
Accounts receivable	**116,962**	100,128
Positive fair value of derivatives (note 9)	**110,925**	136,096
Other real estate	**8,598**	8,951
Other	**2,127**	2,486
Total	**801,135**	795,384

9. DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

c) Forward-rate agreements

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

d) Options

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

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

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

Amounts in SAR'000

			Notional amounts by term to maturity				
As at 31 December 2007	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within three months**	**3-12 months**	**1-5 years**	**Monthly average**
Held for trading:							
Commission rate swaps	57,907	58,115	5,442,104	150,000	782,500	4,509,604	4,546,071
Forward foreign exchange contracts	21,615	50,617	26,339,406	13,995,998	12,045,796	297,612	33,639,130
Currency options	4,489	4,250	577,405	232,662	344,743	–	533,745
Equity options	–	–	–	–	–	–	33,731
Forward rate agreements	–	–	–	–	–	–	7,501
Commission rate futures and Options	–	–	–	–	–	–	8,761
Held as fair value hedges:							
Commission rate swaps	5,501	4,344	773,373	–	248,000	525,373	1,053,367
Held as cash flow hedges:							
Commission rate swaps	21,413	696	2,336,243	–	400,000	1,936,243	2,651,189
Total	**110,925**	**118,022**	**35,468,531**	**14,378,660**	**13,821,039**	**7,268,832**	
As at 31 December 2006							
Held for trading:							
Commission rate swaps	70,992	72,267	4,688,884	534,972	100,000	4,053,912	4,447,958
Forward foreign exchange contracts	49,075	37,089	26,560,886	18,026,770	8,395,044	139,072	27,036,890
Currency options	3,963	3,963	219,278	120,368	98,910	–	256,165
Equity options	5,549	5,549	105,019	–	60,011	45,008	60,009
Forward rate agreements	23	67	30,005	–	30,005	–	22,503
Commission rate futures and Options	15	22	784,754	764,972	19,782	–	5,797,846
Held as fair value hedges:							
Commission rate swaps	3,975	151	1,457,889	581,355	487,534	389,000	787,604
Held as cash flow hedges:							
Commission rate swaps	2,504	41,396	3,176,274	–	915,000	2,261,274	3,358,453
Total	**136,096**	**160,504**	**37,022,989**	**20,028,437**	**10,106,286**	**6,888,266**	

Amounts in SAR'000

9. DERIVATIVES (continued)

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

Description of hedged items	Fair value	Risk	Hedging Instrument	Positive fair value	Negative fair value
As at 31 December 2007					
Fixed commission rate investments	**772,216**	Fair value	Commission rate swap	**5,501**	**4,344**
Floating commission rate investment	**2,336,243**	Cash flow	Commission rate swap	**21,413**	**696**
Fixed commission rate investments	1,454,065	Fair value	Commission rate swap	3,975	151
Floating commission rate investment	3,176,274	Cash flow	Commission rate swap	2,504	41,396

The positive fair value of derivatives amounting to SAR 110,925 (2006: SAR 136,096) is reflected in other assets (note 8). The negative fair value of derivatives amounting to SAR 118,022 (2006: SAR 160,504) is reflected in other liabilities (note 12).

For cash flow hedges, the amount shown as balance of reserves as at 31 December 2007 is expected to affect the profit and loss in the coming two to three years.

Approximately 54% (2006: 61%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 16% (2006: 28%) of the positive fair value contracts are with any single counterparty at the balance sheet date. Derivative activities are mainly carried out by the Bank's treasury banking segment.

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007	2006
Current accounts	**1,200,609**	2,892,031
Money market deposits	**7,957,003**	5,406,384
Total	**9,157,612**	8,298,415

11. CUSTOMERS' DEPOSITS

	2007	2006
Time	**23,524,194**	20,824,772
Demand	**10,330,918**	10,674,137
Savings	**256,269**	251,526
Other	**493,604**	663,229
Total	**34,604,985**	32,413,664

Included above in time deposits are balances held as FVIS of SAR 525 million (2006: SAR NIL)

The difference between the carrying values of deposits held as FVIS and the amount, which the Bank is contractually required to pay at maturity, amounted to SAR 1 million (2006: SAR NIL).

Amounts in SAR'000

Time deposits include borrowings under repurchase agreement with customers of SAR 1,163 million (2006: SAR 816 million) with agreements to repurchase the same at fixed future dates. Total deposit includes non commission based deposits of SAR 10,263 million (2006: SAR 10,778 million). Time deposit includes Islamic deposits of SAR 6,657 million (2006: SAR 5,921 million).

Other customer deposits include SAR 454 million (2006: SAR 521 million) of margins held for irrevocable commitments.

The above includes foreign currency deposits as follows:

	2007	**2006**
Time	**6,300,106**	9,062,332
Demand	**882,309**	946,839
Saving	**30,325**	28,291
Other	**30,584**	36,131
Total	**7,243,324**	10,073,593

12. OTHER LIABILITIES

	2007	**2006**
Accrued special commission payable:		
Banks and other financial institutions	**43,122**	37,485
Customers' deposits	**187,043**	169,212
Subordinated debt	**284**	564
Other	**90,829**	83,334
Total accrued special commission payable	**321,278**	290,595
Accounts payable	**633,242**	378,737
Negative fair value of derivatives (note 9)	**118,022**	160,504
Other	**329,381**	240,406
Total	**1,401,923**	1,070,242

13. SUBORDINATED DEBT

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

The notes are junior in right of payment to the claims of depositors or any other unsubordinated payment obligations of the Bank and qualify for inclusion as Tier 2 capital for capital adequacy measurements.

14. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Bank consists of 264.6 million (2006: 220.5 million) shares of SAR 10 (2006: SAR 10) each.

Amounts in SAR'000

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

	2007	2006
Saudi shareholders	**1,587,600**	1,323,000
ABN AMRO Bank N.V. (The Netherlands)	**1,058,400**	882,000
Total	**2,646,000**	2,205,000

At an extraordinary general meeting held on 1 Rabia Awal 1428H (corresponding to 20 March 2007) the shareholders approved an increase in the share capital of the Bank from SAR 2,205 million to SAR 2,646 million by the issuance of one share for every five shares held funded by the transfer of SAR 441 million from the general reserve. This effectively increased the number of shares from 220.5 million at 31st December 2006 to 264.6 million at the end of 31st December 2007.

At an extraordinary general meeting held on 28 Safar 1427H (corresponding 28 March 2006) the shareholders approved an increase in the share capital of the Bank from SAR 1,260 million to SAR 2,205 million by the issuance of three shares for every four shares held funded by the transfer of SAR 945 million from the general reserve.

15. STATUTORY AND GENERAL RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25 per cent. 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 110 million has been transferred from 2007 net income (2006: SAR 239 million). The statutory reserve is not currently available for distribution.

In addition, the Bank makes an appropriation to a reserve for general banking risks.

16. OTHER RESERVES

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

2006	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	(80,289)	4,829	(75,460)
Net change in fair value	9,395	(8,529)	866
Transfer to statement of income	32,002	–	32,002
Balance at end of the year	**(38,892)**	**(3,700)**	**(42,592)**

Amounts in SAR'000

17. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2007 and 2006 there were certain legal proceedings in the normal course of business outstanding against the Bank. No provision has been made as professional legal advice indicates that it is not probable that any significant loss will arise. Subsequently, in January 2008, the Bank's external lawyers are addressing an order by US judicial authorities to produce documents related to certain banking transactions in the past, the outcome of which cannot be determined.

b) Capital commitments

As at 31 December 2007 the Bank had capital commitments of SAR 34.5 million (2006: SAR 25.7 million) in respect of leasehold improvements 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 stand-by letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

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

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

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

Amounts in SAR'000

17. COMMITMENTS AND CONTINGENCIES (continued)

As at 31 December 2006	Within 3 months	3-12 months	1-5 years	Over 5 Years	Total
Letters of credit	1,445,613	1,459,885	354,255	–	3,259,753
Letters of guarantee	1,689,615	3,531,762	2,295,971	54,084	7,571,432
Acceptances	1,499,241	539,102	90,597	–	2,128,940
Irrevocable commitments to extend credit	13,651	525,095	276,452	107,987	923,185
Total	**4,648,120**	**6,055,844**	**3,017,275**	**162,071**	**13,883,310**

The outstanding unused portion of commitments which can be revoked unilaterally at any time by the Bank as at 31 December 2007 amounts to SAR 16,900 million (2006: SAR 9,787 million).

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

	2007	2006
Government and quasi-government	**916,839**	72,647
Corporate	**14,901,053**	11,095,995
Banks and other financial institutions	**3,460,371**	2,318,935
Other	**544,984**	395,733
Total	**19,823,247**	13,883,310

d) Assets pledged

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

	2007		2006	
	Assets	Related liabilities	Assets	Related liabilities
Available for sale	**100,415**	**83,493**	125,863	47,637
Other investments held at amortised cost	**2,152,582**	**1,079,128**	1,499,205	768,852
Total (Note 5(d))	**2,252,997**	**1,162,621**	**1,625,068**	**816,489**

Amounts in SAR'000

17. COMMITMENTS AND CONTINGENCIES (continued)

e) Operating lease commitments

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

	2007	2006
Less than 1 year	**40,167**	36,008
1 to 5 years	**99,298**	101,393
Over 5 years	**134,297**	129,008
Total	**273,762**	266,409

18. SPECIAL COMMISSION INCOME AND EXPENSE

	2007	2006
Special commission income		
Investments:		
Other investments held at amortised costs	**374,940**	385,754
Held to maturity	**67,595**	69,980
Available for sale	**107,697**	63,900
	550,232	519,634
Due from banks and other financial institutions	**407,021**	222,388
Loans and advances	**1,948,419**	1,925,911
Total	**2,905,672**	2,667,933

	2007	2006
Special commission expense		
Due to banks and other financial institutions	**453,608**	270,316
Subordinated debt	**42,689**	43,115
Customers' deposits	**1,208,926**	1,174,710
Total	**1,705,223**	1,488,141

19. FEES FROM BANKING SERVICES, NET

	2007	2006
Fee income:		
Share trading and fund management, net	**131,206**	375,687
Trade finance	**117,018**	112,182
Corporate finance and advisory	**55,363**	65,751
Other banking services	**117,750**	109,003

Amounts in SAR'000

	2007	2006
Total fee income	**421,337**	662,623
Fee expenses:		
Credit cards	**18,197**	15,004
Custodial service	**110**	307
Other banking services	**12,863**	14,735
Total fee expenses	**31,170**	30,046
Fees from banking services, net	**390,167**	632,577

20. INCOME FROM FVIS FINANCIAL INSTRUMENTS

	2007	2006
Fair value change on investments held as FVIS	**7,742**	419
Special commission income on FVIS financial instruments	**22,712**	12,803
Total	**30,454**	13,222

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

21. TRADING INCOME, NET

	2007	2006
Foreign exchange	**46,476**	53,145
Debt securities	**18,940**	9,483
Derivatives	**353**	7,059
Total	**65,769**	69,687

22. GAINS ON NON-TRADING INVESTMENTS

	2007	2006
Gains on available for sale investments	**4,042**	–
Total	**4,042**	–

23. OTHER OPERATING INCOME

	2007	2006
Gains on disposal of other real estate	–	553
Others	**395**	662

Amounts in SAR'000

	2007	2006
Total	**395**	1,215

24. OTHER OPERATING EXPENSES

	2007	2006
Unrealised revaluation loss on other real estate	**353**	2,279
Total	**353**	2,279

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2007 and 2006 is calculated by dividing the net income for the year attributable to the equity holders by 264.6 million shares to give a retrospective effect of change in the number of shares increased as a result of bonus shares on 20 March 2007 (see note 14).

26. DIVIDEND, ZAKAT AND INCOME TAX

The Bank declared a gross dividend for the year 2007 of SAR 212.9 million (2006: SAR 195.1 million).

Zakat and income tax are paid as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 15 million (2006: SAR 15 million) which will be deducted from their share of current / future dividends, resulting in a net dividend to Saudi Shareholders of SAR 0.71 per share (2006: SAR 0.85 per share).

b) Non-Saudi shareholders

Income tax payable on the current year's share of income is approximately SAR 42.0 million (2006: SAR 77.4 million). This amount will be deducted from their share of future dividend.

27. CASH AND CASH EQUIVALENTS

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

	2007	2006
Cash and balances with SAMA excluding statutory deposits (note 3)	**2,100,619**	1,477,990
Due from banks and other financial institutions maturing within 3 months or less from the date of acquisition	**4,222,659**	4,328,483
Total	**6,323,278**	5,806,473

28. BUSINESS SEGMENTS

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

The Bank is organised into the following main business segments:

Corporate banking

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

Consumer banking

The consumer banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre.

Amounts in SAR'000

28. BUSINESS SEGMENTS (continued)

The Bank accepts customer deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts, credit cards, mutual funds and personal financial planning products, to individuals and small-to-medium-sized enterprises.

Treasury

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

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

2007	Corporate Banking	Consumer Banking	Treasury	Total
Total assets	**24,312,679**	**5,781,806**	**20,316,829**	**50,411,314**
Total liabilities	**19,037,986**	**13,841,176**	**12,985,358**	**45,864,520**
Total operating income	**804,298**	**712,666**	**259,193**	**1,776,157**
Total operating expenses	**(590,526)**	**(658,810)**	**(88,252)**	**(1,337,588)**
Net income	**213,772**	**53,856**	**170,941**	**438,569**
2006				
Total assets	23,515,911	5,321,620	17,902,533	46,740,064
Total liabilities	16,949,718	13,514,039	12,018,564	42,482,321
Total operating income	862,277	918,441	165,742	1,946,460
Total operating expenses	(485,989)	(442,818)	(64,859)	(993,666)
Net income	376,288	475,623	100,883	952,794

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

As at 31 December 2007	Corporate Banking	Consumer Banking	Treasury	Total
Balance sheet assets	**22,515,307**	**5,146,674**	**18,118,780**	**45,780,761**
Credit related commitments and contingencies	**10,081,423**	–	–	**10,081,423**
Derivatives	–	–	**466,928**	**466,928**
As at 31 December 2006				
Balance sheet assets	22,110,131	4,649,343	16,203,475	42,962,949
Credit related commitments and contingencies	7,198,184	–	–	7,198,184
Derivatives	–	–	535,123	535,123

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

29. CREDIT RISK

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

Amounts in SAR'000

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

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

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

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

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

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

The debt securities included in investment portfolio are mainly sovereign risk. Analysis of investments by class of counter party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 9 and on commitments and contingencies in note 17.

Maximum exposure to credit risk to the Bank at 31 December 2007 and 2006, without taking into account of any collateral held or credit enhancements attached is reflected below:

	2007	**2006**
Due from banks and other financial institutions	**5,271,854**	6,019,719
Investments, net	**12,954,288**	10,463,381
Loans and advances, net	**27,554,619**	26,479,849
Derivatives	**110,925**	136,096
Credit related commitments and contingencies	**19,823,247**	13,883,310
Total	**65,714,933**	56,982,355

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

Amounts in SAR'000

30. GEOGRAPHICAL CONCENTRATION

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

As at 31 December 2007	Saudi Arabia	Other GCC & Middle East	Europe	America	Other countries	Total
Assets						
Cash and balances with SAMA	**3,509,047**	—	—	—	—	**3,509,047**
Due from banks and other Financial institutions	**1,987,398**	**1,286,260**	**928,319**	**108,418**	**961,459**	**5,271,854**
Investments, net	**10,549,348**	**1,012,141**	**678,839**	**713,960**	—	**12,954,288**
Loans and advances, net	**27,538,284**	**13,101**	**3,221**	—	**13**	**27,554,619**
Total	**43,584,077**	**2,311,502**	**1,610,379**	**822,378**	**961,472**	**49,289,808**
Liabilities						
Due to banks and other Financial institutions	**3,780,895**	**3,840,163**	**433,260**	**692,653**	**410,641**	**9,157,612**
Customers' deposits	**34,393,922**	**190,563**	**7,243**	**1,992**	**11,265**	**34,604,985**
Subordinated debt	**700,000**	—	—	—	—	**700,000**
Total	**38,874,817**	**4,030,726**	**440,503**	**694,645**	**421,906**	**44,462,597**
Credit-related commitments and contingencies	**17,541,892**	**795,955**	**677,964**	**56,670**	**750,766**	**19,823,247**
Credit exposure (stated at credit equivalent amounts)						
Commitments and contingencies	**8,921,204**	**404,795**	**344,789**	**28,820**	**381,815**	**10,081,423**
Derivatives	**277,146**	**25,198**	**159,607**	**4,977**	—	**466,928**
As at 31 December 2006						
Assets						
Cash and balances with SAMA	2,672,687	—	—	—	—	2,672,687
Due from banks and other Financial institutions	1,648,474	660,687	3,016,070	351,126	343,362	6,019,719
Investments, net	9,672,784	345,123	352,126	93,348	—	10,463,381
Loans and advances, net	26,466,184	13,665	—	—	—	26,479,849
Total	40,460,129	1,019,475	3,368,196	444,474	343,362	45,635,636
Liabilities						
Due to banks and other Financial institutions	4,593,538	2,296,508	90,282	1,000,144	317,943	8,298,415
Customers' deposits	32,308,237	100,347	266	725	4,089	32,413,664
Subordinated debt	700,000	—	—	—	—	700,000
Total	37,601,775	2,396,855	90,548	1,000,869	322,032	41,412,079
Credit-related commitments and contingencies	12,515,977	242,676	547,894	40,500	536,263	13,883,310
Credit exposure (stated at credit equivalent amounts)						
Commitments and contingencies	6,489,253	125,822	284,071	20,998	278,040	7,198,184
Derivatives	164,446	4,828	362,668	3,094	87	535,123

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

The distribution by geographical concentration of impaired loans and advances and provision for credit losses are as follows:

Amounts in SAR'000

	2007		2006	
	Non performing loans and advances, net	**Allowance for credit losses**	**Non performing loans and advances, net**	**Allowance for credit losses**
Saudi Arabia	**1,078,520**	**(1,186,782)**	671,795	(778,931)
GCC and Middle East	**—**	**—**	13,665	—
Total	**1,078,520**	**(1,186,782)**	685,460	(778,931)

31. MARKET RISK

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

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

a) MARKET RISK-TRADING BOOK

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

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

The VAR that the Bank measures is an estimate, using a confidence level of 99 per cent. 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 per cent. confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

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

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

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

Amounts in SAR'000

2007 (VaR)	Foreign exchange	Commission rate	Foreign exchange forwards and money market book	Total
VAR as at 31 December	246	91	3,030	3,367
Average VAR for 2007	85	436	4,195	4,716

2006 (VaR)	Foreign exchange	Commission rate	Foreign exchange forwards and money market book	Total
VAR as at 31 December	19	456	5,428	5,903
Average VAR for 2006	142	347	4,566	5,055

b) MARKET RISK — NON-TRADING OR BANKING BOOK

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

i) COMMISSION RATE RISK

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

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

All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed below:

Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity			
31-Dec-07			6 months or less	6 to 12 months	1-5 Yrs	Over 5 Years
USD	+25	(10,191)	(8)	—	—	25,081
EUR	+25	111	—	—	—	—
SAR	+25	15,728	(17)	(1,235)	(900)	(879)
Others	+25	454	—	—	—	—

31-Dec-07

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

Amounts in SAR'000

31-Dec-06

Currency	Increase in basis points	Sensitivity of commission income	Sensitivity of equity			
			6 months or less	6 to 12 months	1-5 Yrs	Over 5 Years
USD	+25	(463)	—	—	(15)	4,751
EUR	+25	105	—	—	—	—
SAR	+25	3,924	(17)	(14)	(787)	(925)
Others	+25	380	—	—	—	—

31-Dec-06

Currency	Decrease in basis points	Sensitivity of commission income	Sensitivity of equity			
			6 months or less	6 to 12 months	1-5 Yrs	Over 5 Years
USD	-25	463	—	—	165	8,464
EUR	-25	(105)	—	—	—	—
SAR	-25	(3,924)	17	14	793	949
Others	-25	(380)	—	—	—	—

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

Currency exposure as at 31st December 2007	Change in Currency Rate (%)	Effect on Net Income	Effect on Equity
USD	+5	(457)	(33)
	-5	457	33
EUR	+5	3,240	3,047
	-5	(2,855)	(3,047)
GBP	+5	4,294	4,256
	-5	(4,218)	(4,256)
JPY	+5	(1,348)	(1,438)
	-5	1,672	1,590
Others	+3	6,959	6,888
	-3	(7,043)	(7,114)

Amounts in SAR'000

Currency exposure as at 31st December 2006	Change in Currency Rate (%)	Effect on Net Income	Effect on Equity
	+5	—	(4)
USD	-5	—	4
	+5	8,097	8,074
EUR	-5	(8,097)	(8,074)
	+5	7,294	7,293
GBP	-5	(7,291)	(7,293)
	+5	2,901	2,867
JPY	-5	(3,210)	(3,169)
	+3	1,475	1,468
Others	-3	(1,520)	(1,512)

iii) EQUITY PRICE RISK

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

The Bank does not have any significant exposure to Equities.

32. FOREIGN CURRENCY RISK

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

	Long/(short)	
	2007	**2006**
US Dollar	**(305,320)**	(13,384)
Euro	**18,264**	23,801
Pound Sterling	**2,798**	2,134
Other	**3,870**	13,038

33. COMMISSION RATE RISK

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

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

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

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

Amounts in SAR'000

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

As at 31 December 2006	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-commission bearing**	**Total**
Assets						
Cash and balances with SAMA	953,755	—	—	—	1,718,932	2,672,687
Due from banks and other financial Institutions	4,046,569	1,691,236	—	—	281,914	6,019,719
Investments, net	7,607,226	753,968	1,749,744	310,670	41,773	10,463,381
Loans and advances, net	16,372,118	5,375,691	4,456,590	118,162	157,288	26,479,849
Property and equipment, net	—	—	—	—	309,044	309,044
Other assets	—	—	—	—	795,384	795,384
Total	28,979,668	7,820,895	6,206,334	428,832	3,304,335	46,740,064
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,140,632	1,000,422	—	—	157,361	8,298,415
Customers' deposits	18,563,249	2,826,770	399,526	—	10,624,119	32,413,664
Other liabilities	—	—	—	—	1,070,242	1,070,242
Subordinated debt	700,000	—	—	—	—	700,000
Shareholders' equity	—	—	—	—	4,257,743	4,257,743
Total	26,403,881	3,827,192	399,526	—	16,109,465	46,740,064
On balance sheet gap	2,575,787	3,993,703	5,806,808	428,832	(12,805,130)	
Off balance sheet gap	(3,066,959)	928,371	2,096,478	42,110	—	
Total commission rate sensitivity gap	(491,172)	4,922,074	7,903,286	470,942	(12,805,130)	
Cumulative commission rate sensitivity gap	(491,172)	4,430,902	12,334,188	12,805,130	—	

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

34. LIQUIDITY RISK

i) Maturity analysis of Assets and Liabilities

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

Amounts in SAR'000

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

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

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

The Bank may also raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75 per cent. of the nominal value of bonds held.

The maturity profile of the assets, liabilities and shareholders' equity is as follows. No fixed maturity represents assets and liabilities which are available on demand.

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

Amounts in SAR'000

34. LIQUIDITY RISK (continued)

As at 31 December 2006	No fixed maturity	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with SAMA	1,194,697	1,477,990	—	—	—	2,672,687
Due from banks and other financial Institutions	—	4,328,483	1,691,236	—	—	6,019,719
Investments, net	41,772	577,134	671,310	7,029,871	2,143,294	10,463,381
Loans and advances, net	4,714,721	3,942,214	8,375,254	9,329,498	118,162	26,479,849
Property and equipment, net	309,044	—	—	—	—	309,044
Other assets	795,384	—	—	—	—	795,384
Total	7,055,618	10,325,821	10,737,800	16,359,369	2,261,456	46,740,064
Liabilities and shareholders' equity						
Due to banks and other financial institutions	—	7,297,993	1,000,422	—	—	8,298,415
Customers' deposits	11,767,640	17,419,728	2,826,770	399,526	—	32,413,664
Other liabilities	1,070,242	—	—	—	—	1,070,242
Subordinated debt	—	—	—	700,000	—	700,000
Shareholders' equity	4,257,743	—	—	—	—	4,257,743
Total	17,095,625	24,717,721	3,827,192	1,099,526	—	46,740,064

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturity of commitments & contingencies is given in note 17(c)(i) of the financial statements.

ii) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the balance sheet. The contractual maturities of liabilities have been determined based on the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history. No fixed maturity includes demand deposits amounting to SAR 11,432 million (2006: SAR 11,768 million)

	No fixed maturity	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2007	**12,833,716**	**26,984,309**	**5,424,844**	**1,254,558**	**—**	**49,497,427**
2006	12,837,882	25,013,595	3,981,542	1,323,258	—	43,156,277

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

The fair values of on-balance sheet financial instruments, except for those held to maturity, other investments held at amortised costs and customers' deposits which are carried at amortised cost are not significantly different from the carrying values included in the financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5. The fair value of loans and advances held at amortised cost and commission-bearing customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates. The fair values of due from banks and other financial institutions and due to financial institutions are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with commission rates re-priced every three months.

Amounts in SAR'000

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices wherever available or by using the appropriate valuation models. The total amount of the changes in fair value recognised in the statement of income, which was estimated using valuation technique, is SAR 17 million (2006: SAR 42 million).

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

36. RELATED PARTY TRANSACTIONS

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

The balances at 31 December resulting from such transactions are as follows:

	2007	2006
ABN AMRO Bank N.V.:		
Due from banks and other financial institutions	**617,144**	321,219
Due to banks and other financial institutions	**902,368**	133,820
Derivatives (at fair value)	**15,216**	48,807
Commitments and contingencies	**187,313**	152,276
Directors, other major shareholders and their affiliates:		
Loans and advances	**345,804**	679,839
Customers' deposits	**2,746,029**	2,935,214
Subordinated debt	**100,000**	100,000
Commitments and contingencies	**5,960**	337,812
The Bank's mutual funds:		
Investments	**52,013**	37,536
Customers' deposits	**409,299**	428,408

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

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

	2007	2006
Special commission income	**29,827**	38,839
Special commission expense	**175,598**	191,639
Fees from banking services, net	**35,175**	71,170
General and administrative expenses	**18,450**	1,581
Directors' remuneration	**2,603**	1,407
Compensation paid to key management personnel (all short-term employee benefits)	**42,741**	27,189

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

Amounts in SAR'000

37. CAPITAL ADEQUACY

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

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

	2007		2006	
Capital adequacy ratios	**Capital**	**Ratio**	**Capital**	**Ratio**
Tier 1	**4,546,794**	**12%**	4,257,743	12%
Tier 1 + Tier 2	**5,448,976**	**15%**	5,065,931	15%

	2007			2006		
Risk weighted assets	**Carrying/ notional value**	**Credit equivalent**	**Risk weighted assets**	**Carrying/ notional value**	**Credit equivalent**	**Risk weighted assets**
Balance sheet assets						
0%	**13,800,246**	—	—	12,729,282	—	—
20%	**7,685,935**	—	**1,537,187**	6,241,451	—	1,248,290
100%	**28,925,133**	—	**28,925,133**	27,769,331	—	27,769,331
	50,411,314	—	**30,462,320**	46,740,064	—	29,017,621
Commitments and contingencies						
0%	**2,943,247**	**1,471,624**	—	923,185	461,593	—
20%	**3,438,695**	**2,344,499**	**468,899**	2,312,668	1,707,532	341,506
100%	**13,441,305**	**6,265,300**	**6,265,300**	10,647,457	5,029,059	5,029,059
	19,823,247	**10,081,423**	**6,734,199**	13,883,310	7,198,184	5,370,565
Derivatives						
0%	**3,988,836**	—	—	5,376,190	105,423	—
20%	**29,552,598**	**421,021**	**84,204**	29,363,918	382,884	76,577
50%	**1,927,097**	**45,907**	**22,954**	2,282,881	46,816	23,408
	35,468,531	**466,928**	**107,158**	37,022,989	535,123	99,985
Total			**37,303,677**			34,488,171

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

38. INVESTMENT MANAGEMENT SERVICES

The Bank offers investment management services to its customers, which include the management of certain investment funds in consultation with professional investment advisors, with assets totalling of SAR 3.1 billion (2006: SAR 2.9 billion). The financial statements of these funds are not consolidated with the financial statements of the Bank. The Bank's share of these funds is included in investments available for sale. Fees earned for management services provided are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in the financial statements.

39. BASEL II FRAMEWORK

Effective 1 January 2008 as approved by SAMA, the Bank plans to implement new Basel framework on capital adequacy, commonly known as Basel II Framework issued by the Basel Committee on banking supervision. This might change the capital adequacy ratios depicted in note 37

40. ADOPTION OF NEW AND REVISED STANDARDS

The Bank has chosen not to early adopt IFRS 8, Operating segments which have been published and is mandatory for compliance for the Bank's accounting year beginning 1 January 2009.

41. COMPARATIVE FIGURES

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

42. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 6 Muharram 1429H (corresponding to 15 January 2008).

APPENDIX 2

SHARI'AH COMMITTEE PRONOUNCEMENT (FATWA) ON THE MUDARABA SUKUK

بسم الله الرحمن الرحيم

الحمد لله رب العالمين والصلاة والسلام على أشرف الأنبياء والمرسلين نبينا محمد وعلى آله وصحبه أجمعين .. وبعد..

أطلعت الهيئة الشرعية للبنك السعودي الهولندي على الهيكل الموصوف أدناه لاصدار صكوك المضاربة لتوفير سيولة نقدية لتوسيع وزيادة العمل المصرفي الإسلامي في البنك السعودي الهولندي، و بعد الدراسة و التأمل و إجراء التعديلات اللازمة قررت الهيئة الشرعية الموافقة على هذا الهيكل بالصيغة التي أجازتها و وقعت عليها وفق الإجراءات التالية:

تقوم صكوك المضاربة للبنك السعودي الهولندي على الخطوات التالية :

١. يصدر البنك السعودي الهولندي صكوك المضاربة للأعمال المصرفية الإسلامية بقيمة ٧٢٥ مليون ريال سعودي لمدة ١٠ سنوات بحيث يكون البنك هو المضارب وحملة الصكوك هم أرباب المال.

٢. يجري تقويم موجودات قطاع المصرفية الإسلامية وتحديد نسبة حصيلة بيع الصكوك الى حصيلة تقويم هذه الأصول عند إصدار الصكوك نظرا لرغبة المضارب في المشاركة مع حملة الصكوك.

٣. يجري اقتسام الأرباح في نهاية كل ٦ أشهر بين المضارب وحملة الصكوك طوال مدة الصكوك بحسب النسب المتفق عليها مسبقاً؛ على سبيل التنضيض الحكمي بحيث يكون نصيب حملة الصكوك ما يساوي [%   ] من الأرباح و نصيب المضارب هو [%   ].ثم تتجدد المضاربة حكميا في بداية كل ستة أشهر حتى نهاية العشر سنوات.

٤. في حال مشاركة البنك في وعاء المضاربة فإنه سيحصل على نصيبه من الربح باعتباره رب مال.

٥. في نهاية كل ٦ أشهر يتسلم حملة الصكوك العائد لتلك الفترة حيث يتم احتساب قسمة الربح بين المضارب وأرباب المال فإذا جاء ربح أرباب المال أكثر من سيبور زائدا (... %) فإن مازاد عن ذلك يرصد في حساب احتياطي لصالح حملة الصكوك لتحقيق الاستقرار في العائد المشار اليه (سيبور + %) وتختلف نسبة مايضاف الى السيبور في السنوات الخمس الاولى عنها في السنوات الخمس الاخيرة بحيث تكون (سيبور + %). وفي حال نقص العائد المستحق لحملة الصكوك عن مؤشر سيبور + النسبة المتفق عليها يغطى النقص من الحساب الاحتياطي تغطية كاملة أو جزئية وفيما عدا ذلك ليس لحملة الصكوك إلا ماتحقق وفي نهاية العشر سنوات يتنازل حملة الصكوك عن رصيد الحساب الاحتياطي للمضارب على سبيل الحافز.

٦. بعد مرور ٥ سنوات من اصدار هذه الصكوك فإن للمضارب الحق في تصفية المضاربة التصفية النهائية ورد قيمة الصكوك الى أصحابها ابتداء من السنة الخامسة و حتى السنة التاسعة ، و في حال لم يمارس المضارب هذا الحق فسيتم تصفية المضاربة التصفية النهائية في نهاية السنة العاشرة.

٧. وحيث إن موجودات هذه الصكوك من النقود والديون ليست مقصودة لذاتها وإنما المقصود كامل موجودات هذه الصكوك،فسوف تدرج هذه الصكوك في تداول حيث يمكن للمستثمرين بيعها و شراءها.

والله ولي التوفيق..

رئيس الهيئة

فضيلة الشيخ / عبدالله بن سليمان المنيع .

الشيخ الدكتور/ محمد القري (عضو) الشيخ الدكتور/عبدالله المصلح (عضو)

٢٠٠٩/١٠/٢